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# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# Form 10-Q

**(Mark One)**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2003**

**OR**

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

**For the transition period from to**

**Commission file number 333-85141**

# HUNTSMAN INTERNATIONAL LLC

(Exact name of registrant as specified in its charter)

| **Delaware** | **87-0630358** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No. |

**500 Huntsman Way**
**Salt Lake City, Utah 84108**
**(801) 584-5700**
(Address of principal executive offices and telephone number)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES ☒ NO ☐

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).
YES ☐ NO ☒

On August 14, 2003, 1,000 member equity units of Huntsman International LLC were outstanding. There is no established trading market for Registrant's units of membership interest. All of Registrant's units of membership interest are held by an affiliate.

**HUNTSMAN INTERNATIONAL LLC**
**FORM 10-Q FOR THE QUARTERLY PERIOD**
**ENDED JUNE 30, 2003**

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## PART I. FINANCIAL INFORMATION

### ITEM 1. Financial Statements

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

**(Dollars in Millions)**

| | June 30, 2003 | December 31, 2002 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 86.4 | $ 75.4 |
| Accounts and notes receivable (net of allowance for doubtful accounts of $18.3 and $14.5, respectively) | 542.7 | 467.9 |
| Inventories | 625.7 | 561.3 |
| Prepaid expenses | 17.2 | 22.0 |
| Deferred income taxes | 31.2 | 31.2 |
| Other current assets | 76.1 | 75.4 |
| **Total current assets** | 1,379.3 | 1,233.2 |
| Property, plant and equipment, net | 3,119.3 | 3,071.1 |
| Investment in unconsolidated affiliates | 139.6 | 133.9 |
| Intangible assets, net | 290.4 | 302.8 |
| Other noncurrent assets | 353.2 | 338.8 |
| **Total assets** | $ 5,281.8 | $ 5,079.8 |
| **LIABILITIES AND EQUITY** | | |
| **Current liabilities:** | | |
| Accounts payable (includes overdraft facility of $21.5 as of June 30, 2003) | $ 345.4 | $ 314.8 |
| Accrued liabilities | 553.3 | 523.8 |
| Current portion of long-term debt | 1.3 | 43.9 |
| Other current liabilities | 23.9 | 28.7 |
| **Total current liabilities** | 923.9 | 911.2 |
| Long-term debt | 2,924.7 | 2,729.9 |
| Deferred income taxes | 218.4 | 215.1 |
| Other noncurrent liabilities | 155.7 | 158.4 |
| **Total liabilities** | 4,222.7 | 4,014.6 |
| **Minority interests** | 2.8 | — |
| **Commitments and contingencies (Notes 15 and 16)** | | |
| **Equity:** | | |

| | | |
|---|---|---|
| Member's equity, 1,000 units | 1,026.1 | 1,026.1 |
| Retained earnings | 101.9 | 186.5 |
| Accumulated other comprehensive loss | (71.7) | (147.4) |
| **Total equity** | 1,056.3 | 1,065.2 |
| **Total liabilities and equity** | $ 5,281.8 | $ 5,079.8 |

See accompanying notes to consolidated financial statements.



**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**AND COMPREHENSIVE LOSS (UNAUDITED)**

**(Dollars in Millions)**

| | Three Months Ended June 30, 2003 | Three Months Ended June 30, 2002 | Six Months Ended June 30, 2003 | Six Months Ended June 30, 2002 |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Trade sales and services | $ 1,238.6 | $ 1,084.4 | $ 2,435.8 | $ 2,006.0 |
| Related party sales | 68.8 | 90.6 | 169.3 | 166.9 |
| **Total revenues** | 1,307.4 | 1,175.0 | 2,605.1 | 2,172.9 |
| **Cost of goods sold** | 1,153.0 | 1,017.4 | 2,315.3 | 1,889.8 |
| **Gross profit** | 154.4 | 157.6 | 289.8 | 283.1 |
| **Expenses:** | | | | |
| Selling, general and administrative | 91.4 | 81.7 | 179.5 | 159.4 |
| Research and development | 12.4 | 13.7 | 24.6 | 26.0 |
| Other operating income | (8.2) | (23.2) | (7.7) | (15.6) |
| Restructuring, plant closing costs and asset impairment charges | 21.5 | — | 38.6 | — |
| Total expenses | 117.1 | 72.2 | 235.0 | 169.8 |
| **Operating income** | 37.3 | 85.4 | 54.8 | 113.3 |
| Interest expense | (64.1) | (61.8) | (128.3) | (115.2) |
| Interest income | — | 0.3 | 0.6 | 0.5 |
| Gain (loss) on sale of accounts receivable | (8.5) | 3.5 | (18.1) | (0.1) |
| Other expense | (0.1) | (0.4) | (2.3) | — |
| **Income (loss) before income taxes** | (35.4) | 27.0 | (93.3) | (1.5) |
| Income tax benefit (expense) | 0.8 | (28.2) | 8.7 | 3.2 |
| Minority interests in subsidiaries' income | — | 1.0 | — | 0.2 |
| **Net income (loss)** | (34.6) | (0.2) | (84.6) | 1.9 |
| Other comprehensive income | 70.6 | 103.5 | 75.7 | 82.6 |
| **Comprehensive income (loss)** | $ 36.0 | $ 103.3 | $ (8.9) | $ 84.5 |

See accompanying notes to consolidated financial statements.

## HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)

**(Dollars in Millions)**

| | Member's Equity | | Retained Earnings | Accumulated Other Compre-hensive Loss | Total |
|---|---|---|---|---|---|
| | Shares/ Units | Amount | | | |
| Balance, January 1, 2003 | 1,000 | $ 1,026.1 | $ 186.5 | $ (147.4) | $ 1,065.2 |
| Net loss | | — | (84.6) | — | (84.6) |
| Other comprehensive income | | — | — | 75.7 | 75.7 |
| Balance, June 30, 2003 | 1,000 | $ 1,026.1 | $ 101.9 | $ (71.7) | $ 1,056.3 |

See accompanying notes to consolidated financial statements.



## HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

**(Dollars in Millions)**

| | Six Months Ended June 30, 2003 | Six Months Ended June 30, 2002 |
|---|---|---|
| **Cash Flows From Operating Activities:** | | |
| Net income (loss) | $ (84.6) | $ 1.9 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Equity in earnings of investment in unconsolidated affiliates | (0.1) | (0.1) |
| Depreciation and amortization | 137.7 | 118.9 |
| Noncash restructuring, plant closing and asset impairment charges | 11.4 | — |
| Noncash interest expense | 7.8 | 7.0 |
| Deferred income taxes | (12.2) | (10.1) |
| Gain on foreign currency transactions | (18.7) | (24.5) |
| Minority interests in subsidiaries | — | (0.2) |
| Changes in operating assets and liabilities: | | |
| Accounts and notes receivable | (20.5) | (55.5) |
| Inventories | (36.5) | 67.3 |
| Prepaid expenses | 5.6 | (2.1) |
| Other current assets | (20.8) | (0.3) |
| Other noncurrent assets | (5.6) | 4.2 |
| Accounts payable | 0.9 | 33.3 |
| Accrued liabilities | 5.1 | (56.3) |
| Other current liabilities | (4.7) | (3.6) |
| Other noncurrent liabilities | (12.8) | 0.3 |
| **Net cash provided by (used in) operating activities** | (48.0) | 80.2 |
| **Investing Activities:** | | |
| Acquisitions of minority interest | — | (9.0) |
| Capital expenditures | (54.0) | (94.8) |
| Net cash received from unconsolidated affiliates | 0.7 | 2.2 |
| Advances to unconsolidated affiliates | (1.5) | (1.6) |
| **Net cash used in investing activities** | (54.8) | (103.2) |
| **Financing Activities:** | | |
| Net borrowings under revolving loan facilities | 138.2 | 121.1 |
| Issuance of senior notes | 157.9 | 300.0 |

| | | |
|---|---|---|
| Repayment of long-term debt | (195.3) | (410.5) |
| Shares of subsidiary issued to minorities for cash | 2.8 | — |
| Debt issuance costs | — | (10.3) |
| **Net cash provided by financing activities** | 103.6 | 0.3 |
| Effect of exchange rate changes on cash | 10.2 | 5.1 |
| Increase (decrease) in cash and cash equivalents | 11.0 | (17.6) |
| Cash and cash equivalents at beginning of period | 75.4 | 83.9 |
| Cash and cash equivalents at end of period | $ 86.4 | $ 66.3 |
| **Supplemental cash flow information:** | | |
| Cash paid for interest | 104.1 | 103.3 |
| Cash paid for income taxes | 7.9 | 3.8 |

See accompanying notes to consolidated financial statements.



**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

## 1. General

*Description of Business*

Huntsman International LLC and its subsidiaries (collectively, the "Company") are global manufacturers and marketers of differentiated and commodity chemicals. The Company is a Delaware limited liability company and all of its membership interests are owned by Huntsman International Holdings LLC ("HIH"). HIH is a Delaware limited liability company and its membership interests are owned 100%, directly and indirectly, by HMP Equity Holdings Corporation ("HMP").

HMP is a Delaware corporation and is owned 100% by Huntsman Group Inc., a Delaware corporation. Huntsman Group Inc. is owned 100% by Huntsman Holdings, LLC ("Huntsman Holdings"), a Delaware limited liability company. The voting membership interests of Huntsman Holdings are owned by the Huntsman family, MatlinPatterson Global Opportunities Partners, L.P. ("GOP"), Consolidated Press (Finance) Limited ("CPH") and certain members of the Company's senior management. In addition, Huntsman Holdings has issued certain non-voting preferred units to Huntsman Holdings Preferred Member LLC, which, in turn, is owned by GOP (indirectly), CPH, the Huntsman Cancer Foundation, certain members of the Company's senior management and certain members of the Huntsman family. The Huntsman family has board and operational control of the Company.

The Company operates through four principal operating segments: Polyurethanes, Performance Products, Pigments and Base Chemicals.

*Interim Financial Statements*

The accompanying consolidated financial statements of the Company are unaudited. However, in management's opinion, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of results of operations, financial position and cash flows for the periods shown, have been made. Results for interim periods are not necessarily indicative of those to be expected for the full year. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes to consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

## 2. Recently Adopted Financial Accounting Standards

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, "*Accounting for Asset Retirement Obligations*." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived assets. As required by SFAS No. 143, the Company adopted this new accounting standard on January 1, 2003. The Company believes this statement's impact will not be significant; however, standard-setters continue to debate the statement's applicability to assets where the timing of any ultimate obligation is indefinite.

In April 2002, the FASB issued SFAS No. 145, "*Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Other Technical Corrections*." In addition to amending or rescinding pronouncements to make various technical corrections, clarify meanings or describe applicability, SFAS No. 145 precludes companies from recording gains or losses from extinguishment of

debt as an extraordinary item. The Company was required to adopt this statement as of January 1, 2003. The adoption of SFAS No. 145 did not have a material effect on the Company's consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, "*Accounting for Costs Associated With Exit or Disposal Activities* ." SFAS No. 146 requires recording costs associated with exit or disposal activities at their fair values when a liability has been incurred. Under previous guidance, certain exit costs were accrued upon management's commitment to an exit plan, which is generally before an actual liability has been incurred. The Company adopted this pronouncement in the first quarter of 2003. The adoption of SFAS No. 146 on January 1, 2003 did not have a material effect on the Company's consolidated financial statements.

In January 2003, the FASB issued Financial Interpretation ("FIN") No. 45, "*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others*." FIN No. 45 requires recognition of a liability for the obligation undertaken upon issuing a guarantee. This liability would be recorded at the inception date of the guarantee and would be measured at fair value. The disclosure provisions of the interpretation are effective for the financial statements as of December 31, 2002. The liability recognition provisions apply prospectively to any guarantees issued or modified after December 31, 2002. The adoption of FIN No. 45 did not have a material effect on the Company's consolidated financial statements.

In January 2003, the FASB issued FIN No. 46, *"Consolidation of Variable Interest Entities."* FIN No. 46 addresses the requirements for business enterprises to consolidate related entities, for which they do not have controlling interests through voting or other rights, if they are determined to be the primary beneficiary as a result of variable economic interests. FIN No. 46 provides guidance for determining the primary beneficiary for entities with multiple economic entities with multiple economic interests. Transfers to a qualifying special purpose entity are not subject to this interpretation. FIN No. 46 is effective at the time of investment for interests obtained in a variable economic entity after January 31, 2003. The adoption of FIN No. 46 is not expected to have a material impact on the Company's consolidated earnings, financial position, or cash flows.

In May 2003, FASB issued SFAS No. 149, "*Amendment of Statement 133 on Derivative Instruments and Hedging Activities."* SFAS No. 149 amends and clarifies accounting for derivative instruments and hedging activities under SFAS No. 133. This statement is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003, with this guidance applied prospectively. This statement had no impact on the Company's results of operations or financial position at June 30, 2003 and the Company does not expect this statement to have a material impact on its consolidated financial statements.



**3. Inventories**

Inventories as of June 30, 2003 and December 31, 2002 consisted of the following (dollars in millions):

| | June 30 2003 | December 31, 2002 |
|---|---|---|
| Raw materials and supplies | $ 142.1 | $ 149.6 |
| Work in progress | 17.9 | 25.9 |
| Finished goods | 465.7 | 385.8 |
| **Total** | $ 625.7 | $ 561.3 |

**4. Property, Plant and Equipment**

The cost and accumulated depreciation of property, plant and equipment are as follows (dollars in millions):

| | June 30 2003 | December 31, 2002 |
|---|---|---|
| Land | $ 45.1 | $ 42.9 |
| Buildings | 184.0 | 157.7 |
| Plant and equipment | 3,599.8 | 3,446.3 |
| Construction in progress | 202.6 | 172.7 |
| **Total** | 4,031.5 | 3,819.6 |
| Less accumulated depreciation | (912.2) | (748.5) |
| **Net** | $ 3,119.3 | $ 3,071.1 |

**5. Investments in Unconsolidated Affiliates**

The Company's ownership percentage and investments in unconsolidated affiliates, primarily manufacturing joint ventures, are as follows (in millions):

| | June 30, 2003 | December 31, 2002 |
|---|---|---|
| Louisiana Pigment Company, L.P. (50%) | $ 130.7 | $ 131.4 |
| Rubicon, Inc. (50%) | 1.4 | 1.3 |
| BASF Huntsman Shanghai Isocyanate Investment BV (50%) | 6.1 | — |
| Others | 1.4 | 1.2 |
| **Total** | $ 139.6 | $ 133.9 |



## 6. Intangible Assets

The gross carrying amount and accumulated amortization of intangible assets as of June 30, 2003 were as follows (dollars in millions):

| | June 30, 2003 | | | December 31, 2002 | | |
|---|---|---|---|---|---|---|
| | Carrying Amount | Accumulated Amortization | Net | Carrying Amount | Accumulated Amortization | Net |
| Patents, trademarks, and technology | $ 351.0 | $ 101.8 | $ 249.2 | $ 348.7 | $ 89.9 | $ 258.8 |
| Non-compete agreements | 49.4 | 34.7 | 14.7 | 49.1 | 30.9 | 18.2 |
| Other intangibles | 30.6 | 4.1 | 26.5 | 28.9 | 3.1 | 25.8 |
| **Total** | $ 431.0 | $ 140.6 | $ 290.4 | $ 426.7 | $ 123.9 | $ 302.8 |

## 7. Other Noncurrent Assets

Other noncurrent assets consist of the following (in millions):

| | June 30, 2003 | December 31, 2002 |
|---|---|---|
| Prepaid pension assets | $ 156.4 | $ 146.2 |
| Debt issuance costs | 59.0 | 60.7 |
| Capitalized turnaround expense | 49.2 | 47.6 |
| Receivables from affiliates | 16.5 | 18.6 |
| Spare parts inventory | 52.4 | 46.2 |
| Other noncurrent assets | 19.7 | 19.5 |
| **Total** | $ 353.2 | $ 338.8 |

## 8. Accrued Liabilities

Accrued liabilities consist of the following (in millions):

| | June 30, 2003 | December 31, 2002 |
|---|---|---|
| Raw materials and services | $ 202.0 | $ 217.7 |
| Interest | 78.8 | 61.3 |
| Taxes (income, property and VAT) | 40.4 | 41.4 |
| Payroll, severance and related costs | 82.6 | 67.4 |
| Volume and rebates accruals | 44.8 | 52.5 |
| Restructuring and plant closing costs | 22.9 | 7.1 |
| Other miscellaneous accruals | 81.8 | 76.4 |
| **Total** | $ 553.3 | $ 523.8 |



## 9. Other Noncurrent Liabilities

Other noncurrent liabilities consist of the following (in millions):

| | June 30, 2003 | December 31, 2002 |
|---|---|---|
| Pension liabilities | $ 89.0 | $ 82.3 |
| Other postretirement benefits | 11.8 | 10.8 |
| Environmental accruals | 9.0 | 19.3 |
| Payable to affiliate | 38.3 | 37.9 |
| Other noncurrent liabilities | 7.6 | 8.1 |
| **Total** | $ 155.7 | $ 158.4 |

## 10. Restructuring, Plant Closing and Asset Impairment Charges

As of December 31, 2002, the Company had a reserve for restructuring and plant closing costs related to the closure of the Polyurethanes Shepton Mallet, U.K. manufacturing facility of $7.1 million recorded in accrued liabilities. The entire amount was related to workforce reductions. During the first half of 2003, the Company made cash payments of $3.4 million relating to this charge.

On March 11, 2003, the Company announced that, in its Polyurethanes segment, it is integrating its global flexible products division into its global derivatives division, and it recorded a charge of $17.1 million in the first quarter 2003. In June 2003, the Polyurethanes segment announced a further restructuring at its Rozenburg, Netherlands site. This charge represents severance costs and is estimated to total approximately $10.4 million, which will be recorded through December 2005. During the three months ended June 30, 2003, $1.4 million was recorded as a restructuring charge. These Polyurethanes segment charges represent severance and are included in accrued liabilities. Also in June 2003, the Company announced that its Performance Products segment would close a number of plants at the Company's Whitehaven, UK facility and recorded a charge of $20.1 million in the second quarter 2003. This charge represents $11.4 million relating to an impairment of assets at Whitehaven (in connection with the plant shutdowns) and $8.7 million of severance costs. These charges are part of an overall corporate cost reduction program that is expected to be implemented and recorded from 2003 to 2005.

As of June 30, 2003, accrued restructuring and plant closing costs consist of the following (dollars in millions):

| | Accrued Liabilities as of December 31, 2002 | 2003 Charge | Non-cash Portion | Cash Payments | Accrued Liabilities as of June 30, 2003 |
|---|---|---|---|---|---|
| Property, plant and equipment | $ — | $ 11.4 | $ (11.4) | $ — | $ — |
| Workforce reductions | 7.1 | 27.2 | — | (11.4) | 22.9 |
| **Total** | $ 7.1 | $ 38.6 | $ (11.4) | $ (11.4) | $ 22.9 |



## 11. Long-term Debt

Long-term debt outstanding as of June 30, 2003 and December 31, 2002 is as follows (dollars in millions):

| | June 30, 2003 | December 31, 2002 |
|---|---|---|
| Senior Secured Credit Facilities: | | |
| Revolving loan facility | $ 137.2 | $ 67.0 |
| Term A dollar loan | 61.8 | 109.7 |
| Term A euro loan (in U.S. dollar equivalent) | 85.1 | 138.5 |
| Term B loan | 517.5 | 526.3 |
| Term C loan | 517.5 | 526.3 |
| Senior Unsecured Notes | 450.0 | 300.0 |
| Senior Subordinated Notes | 1,126.8 | 1,076.8 |
| Other long-term debt | 30.1 | 29.2 |
| Subtotal | 2,926.0 | 2,773.8 |
| Less current portion | (1.3) | (43.9) |
| **Total** | $ 2,924.7 | $ 2,729.9 |

*HI Credit Facilities*

The Company has senior secured credit facilities (the "HI Credit Facilities") which consist of a revolving loan facility of up to $400 million that matures on June 30, 2005, term A dollar loan and term A Euro loan facilities that mature on June 30, 2005 (with the next semi-annual payment due in the fourth quarter 2004), a term B loan facility that matures on June 30, 2007, and a term C loan facility that matures on June 30, 2008. The term B and term C loan facilities require payments in annual installments of $5.5 million each, with the next payments occurring in the second quarter 2005 and the remaining unpaid balances due on final maturity.

Interest rates for the HI Credit Facilities are based upon, at the Company's option, either a eurocurrency rate (LIBOR) or a base rate (prime) plus the applicable spread. The applicable spreads vary based on a pricing grid, in the case of eurocurrency based loans, from 1.50% to 4.50% per annum depending on the loan facility and whether specified conditions have been satisfied, and, in the case of base rate loans, from 0.25% to 3.25% per annum. As of June 30, 2003 and December 31, 2002, the average interest rates on the HI Credit Facilities were 5.3% and 5.8%, respectively, excluding the impact of interest rate hedges.

The obligations under the HI Credit Facilities are supported by guarantees of the Company's domestic and certain foreign subsidiaries (collectively the "Guarantors") and HIH, as well as pledges of substantially all their assets, including 65% of the voting stock of certain non-U.S. subsidiaries.

The HI Credit Facilities contain covenants relating to incurrence of debt, purchase and sale of assets, limitations on investments, affiliate transactions, change in control provisions and maintenance of certain financial ratios. The financial covenants include a leverage ratio, interest coverage ratio, minimum consolidated net worth level and a limit on capital expenditures. The HI Credit Facilities also limit the payment of dividends generally to the amount required by the members to pay income taxes. Management believes that the Company is in compliance with the covenants of the HI Credit Facilities as of June 30, 2003.



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*Senior Unsecured Notes and Senior Subordinated Notes*

In March 2002, the Company issued $300 million 9.875% Senior Notes (collectively with the 2003 Senior Notes, the "Senior Notes"). Interest on the Senior Notes is payable semi-annually and the Senior Notes mature on March 1, 2009. The Senior Notes are fully and unconditionally guaranteed on a joint and several basis by the Guarantors. The Senior Notes may be redeemed, in whole or in part, at any time by the Company prior to March 1, 2006 at 100% of the face value plus a "make whole" premium, as defined in the applicable indenture. After March 1, 2006, the Senior Notes may be redeemed, in whole or in part, at a redemption price that declines from 104.937% to 100% after March 1, 2008.

On April 11, 2003, the Company sold an additional $150 million in aggregate principal amount of 9.875% Senior Notes due 2009 (the "2003 Senior Notes") in a transaction exempt from the registration requirements of the Securities Act of 1933. The offering was priced at 105.25% plus accrued interest from March 1, 2003. The Company used approximately $26 million of the net proceeds to repay part of the revolving portion of the HI Credit Facilities. The balance of the net proceeds was used primarily to prepay the next 16 months of scheduled amortization due under the term portion of the HI Credit Facilities. In connection with the Company's contractual obligation to register the 2003 Senior Notes, on June 25, 2003 the Company filed a registration statement on Form S-4 with the Securities and Exchange Commission.

The Company also has outstanding $600 million and €450 million 10.125% Senior Subordinated Notes (the "Subordinated Notes"). Interest on the Subordinated Notes is payable semi-annually and the Subordinated Notes mature on July 1, 2009. The Subordinated Notes are fully and unconditionally guaranteed on a joint and several basis by the Guarantors. The Subordinated Notes are redeemable

- on or after July 1, 2004 at 105.063% of the principal amount thereof, declining ratably to par on and after July 1, 2007, and
- prior to July 1, 2004 at 105.063% of the principal amount thereof, discounted to the redemption date using the treasury rate (for the dollar denominated notes) or the bond rate (for the Euro denominated notes) plus 0.50%, plus, in each case, accrued and unpaid interest to the date of redemption.

The Senior Notes and the Subordinated Notes contain covenants relating to the incurrence of debt, limitations on distributions, asset sales and affiliate transactions, among other things. They also contain a change of control provision requiring the Company to offer to repurchase the Senior Notes and the Subordinated Notes upon a change of control. Management believes that the Company is in compliance with the covenants of the Senior Notes and the Subordinated Notes as of June 30, 2003.

**12. Derivatives and Hedging Activities**

*Interest Rate Hedging*

Interest rate contracts with a fair value of $17.9 million and $23.4 million were recorded as a component of other current liabilities as of June 30, 2003 and December 31, 2002, respectively. The fair value of the cash flow hedges and the interest rate contracts not designated as hedges are $12.0 million and $5.9 million as of June 30, 2003 and $15.6 million and $7.8 million as of December 31, 2002. The changes in fair value of the cash flow hedges resulted in a $0.2 million and a $2.7 million decrease in interest expense and a $3.4 million increase and a $1.6 million decrease in other comprehensive income (loss) for the six months ended June 30, 2003 and 2002, respectively. The changes in fair value of the

interest rate contracts not designated as hedges resulted in a $2.0 million and a $0.8 million decrease in interest expense for the six months ended June 30, 2003 and 2002, respectively.

*Commodity Price Hedging*

As of June 30, 2003, the fair value of cash flow commodity price hedging contracts recorded in other current assets and other comprehensive income is $0.4 million. As of December 31, 2002, the fair value of cash flow commodity price hedging contracts was not material.

As of June 30, 2003 commodity price hedging contracts designated as fair value hedges are included in the balance sheet as an increase of $0.2 million to other current liabilities, an increase to inventory of $0.5 million, and an increase to other comprehensive income (loss) of $0.3 million. As of December 31, 2002 commodity price hedging contracts designated as fair value hedges are included in the balance sheet as an increase of $0.8 to other current liabilities and an increase to inventory of $0.8 million.

Commodity price contracts not designated as hedges as defined by SFAS No. 133 are reflected in the balance sheet as $0.1 million and $0.6 million in other current assets and liabilities, respectively, as of June 30, 2003 and, $0.8 million and $0.2 million other current assets and liabilities, respectively, as of December 31, 2002.

During the six months ended June 30, 2003 and 2002, the Company recorded a decrease of $2.5 million and an increase of $0.4 million in cost of goods sold related to net gains and losses from settled contracts, net gains and losses in fair value price hedges, and the change in fair value on commodity price hedging contracts not designated as hedges as defined in SFAS No. 133.

*Foreign Currency Rate Hedging*

As of June 30, 2003 and December 31, 2002 and for the six months ended June 30, 2003 and 2002, the fair value, change in fair value, and realized gains (losses) of outstanding foreign currency rate hedging contracts is not material. During the six months ended June 30, 2003, a $0.9 increase was recorded to other comprehensive income (loss) as a result of hedging transactions.

*Net Investment Hedging*

Currency effects of net investment hedges produced losses of approximately $48.8 million and $76.8 million in other comprehensive loss (foreign currency translation adjustments) for the six months ended June 30, 2003 and 2002, respectively. As of June 30, 2003 and December 31, 2002, there was a cumulative net loss of approximately $81.5 million and $32.7 million, respectively.

**13. Securitization of Accounts Receivable**

On December 21, 2000, the Company initiated a five-year revolving securitization program under which certain trade receivables were and will be transferred to an off balance sheet special purpose entity at a discount. Under the terms of the agreements, the Company and its subsidiaries continue to service the receivables in exchange for a 1% fee of the outstanding receivables, and the Company is subject to recourse provisions. At June 30, 2003, the special purpose entity had outstanding $188.3 million in medium-term notes ("MTNs") and $121.5 million in commercial paper.

The Company's retained interest in receivables (including servicing assets) subject to the program was approximately $107 million and $112 million as of June 30, 2003 and December 31, 2002, respectively. The value of the retained interest is subject to credit and interest rate risk. For the six



months ended June 30, 2003 and 2002, new sales totaled approximately $2,055 million and $1,415 million, respectively, and cash collections reinvested totaled approximately $1,912 million and $1,221 million, respectively. Servicing fees received during the first six months of 2003 and 2002 were approximately $2.4 million and $1.6 million, respectively, and are recorded as a reduction in the loss on sale of accounts receivable in the statements of operations.

The key economic assumptions used in valuing the residual interest at June 30, 2003 are presented below:

| | |
|---|---|
| Weighted average life (in months) | 2 |
| Credit losses (annual rate) | Less than 1% |
| Discount rate (annual rate) | 5% |

A 10% and 20% adverse change in any of the key economic assumptions would not have a material impact on the fair value of the retained interest. Total receivables over 60 days past due as of June 30, 2003 and December 31, 2002 were $13.8 million and $11.2 million, respectively.

**14. Other Comprehensive Income (Loss)**

The components of other comprehensive income (loss) are as follows (in millions):

| | June 30, 2003 | | December 31, 2002 | |
|---|---|---|---|---|
| | Accumulated | Income | Accumulated | Income |

| | income (loss) | (loss) | income (loss) | (loss) |
|---|---|---|---|---|
| Foreign currency translation adjustments | $ 27.4 | $ 65.9 | $ (38.5) | $ 147.2 |
| Additional minimum pension liability | (85.6) | 2.5 | (88.1) | (88.1) |
| Additional minimum pension liability—unconsolidated affiliate | (5.4) | — | (5.4) | (5.4) |
| Unrealized loss on securities | — | 2.7 | (2.7) | (2.7) |
| Net unrealized loss on derivative instruments | (7.0) | 4.6 | (11.6) | 2.4 |
| Cumulative effect of accounting change | (1.1) | — | (1.1) | — |
| Total | $ (71.7) | $ 75.7 | $ (147.4) | $ 53.4 |

**15. Commitments and Contingencies**

The Company has various purchase commitments for materials and supplies entered into in the ordinary course of business. These agreements extend up to ten years and the purchase price is generally based on market prices subject to certain minimum price provisions.

The Company is involved in litigation from time to time in the ordinary course of its business. In management's opinion, after consideration of indemnification arrangements, none of such litigation is material to the Company's financial condition or results of operations.

**16. Environmental Matters**

*General*

The Company's operations are subject to extensive environmental laws and regulations concerning emissions to the air, discharges to surface and subsurface waters, and the generation, handling, storage, transportation, treatment and disposal of waste materials, as adopted by various governmental



authorities in the jurisdictions in which the Company operates. The Company makes every reasonable effort to remain in full compliance with existing governmental regulations. Accordingly, the Company may incur costs for capital improvements and general compliance under environmental laws, including costs to acquire, maintain and repair pollution control equipment. The Company cannot provide assurances that material capital expenditures beyond those currently anticipated will not be required under environmental laws.

Capital expenditures are currently planned under national legislation implementing the European Union ("EU") Directive on Integrated Pollution Prevention and Control. Under this directive the majority of the Company's European plants will, over the next few years, be required to obtain governmental authorizations which will regulate air and water discharges, waste management and other matters relating to the impact of operations on the environment, and to conduct site assessments to evaluate environmental conditions. Although the implementing legislation in most Member States is not yet in effect, it is likely that additional expenditures may be necessary in some cases to meet the requirements of authorizations under this directive. In particular, the Company believes that related expenditures to upgrade its wastewater treatment facilities at several sites may be necessary and associated costs may be material. Wastewater treatment upgrades unrelated to this initiative also are planned at certain facilities. In addition, the Company may also incur material expenditures, beyond currently anticipated expenditures, in complying with EU Directives, including the Directive on Hazardous Waste Incineration, the Seveso II Directive, which governs major accident hazards, as well as the Water Framework Directive. It is also possible that additional expenditures to reduce air emissions at two of the Company's U.K. facilities may be material. Capital expenditures and, to a lesser extent, costs and operating expenses relating to environmental matters will be subject to evolving regulatory requirements and will depend on the timing of the promulgation and enforcement of specific standards which impose requirements on the Company's operations. Therefore, the Company cannot provide assurances that material capital expenditures beyond those currently anticipated will not be required under environmental laws.

The Company has established financial reserves relating to environmental restoration and remediation programs, which the Company believes are sufficient for known requirements. In connection with various acquisitions, the acquisition agreements generally provide for indemnification for environmental pollution existing on the date of acquisition. Liabilities are recorded when site restoration and environmental remediation and clean-up obligations are either known or considered probable and can be reasonably estimated. Liabilities are based upon all available facts, existing technology, past experience and cost-sharing and indemnification arrangements (as to which, the Company considers the viability of other parties).

A total of $23.2 million has been accrued related to environmental matters as of June 30, 2003. Estimates of ultimate future environmental restoration and remediation costs are inherently imprecise due to currently unknown factors such as the magnitude of possible contamination, the timing and extent of such restoration and remediation, the determination of the Company's liability in proportion to other parties, the extent to which such costs are recoverable from insurance, and the extent to which environmental laws and regulations may change in the future. However, it is not anticipated that any future costs, in excess of those that have been accrued by the Company, will be material to the Company's results of operations or financial position as a result of compliance with current environmental laws and regulations.

*Potential Liabilities*

Given the nature of the Company's business, violations of environmental laws may result in restrictions imposed on its operating activities, substantial fines, penalties, damages or other costs, any of which could have a material adverse effect on its business, financial condition, results of operations or cash flows. The Company is aware of the following matters:

Huntsman Petrochemical Corporation and the Texas Commission on Environmental Quality (the "TCEQ," formerly the Texas Natural Resource Conservation Commission or TNRCC) settled outstanding allegations of environmental regulatory violations at the Company's Port Neches, Texas, facilities on May 29, 2003. The settlement imposes penalties totaling $352,250 and requires that the Company apply for an air emissions permit for the joint wastewater treatment plant that services all of the Port Neches facilities. Less than $100,000 of the aforementioned penalties are allocable to the Company. Although management does not anticipate it, it is possible that the terms of a joint wastewater treatment plant air permit may cause it to incur substantial costs that could be material.

On October 6, 2002, a leak of sulphuric acid from two tanks located near the Company's Whitehaven, U.K. plant was discovered. About 342 to 347 tonnes of acid were released onto the ground and into the soil near the tanks. Although the Company took immediate steps to contain the spillage and recover acid, a quantity of acid reached a nearby beach via a geological fault. The Company believes that it did not own the tanks; however, it did own the acid in the tanks. The U.K. Environmental Authority ("EA") and the Health and Safety Executive (the "HSE") are investigating the incident, and the HSE has issued three Improvement Notices requiring corrective action. Although the Company can give no assurances, based on currently available information and its understanding of similar investigations and penalties in the past, the Company believes that, if any charges are brought or additional corrective action orders issued and the Company is ultimately found to be legally responsible, the probable penalties would not be material to its financial position or results of operations.

The Company's subsidiary, Tioxide Europe S.L. ("Tioxide"), is in the process of voluntarily removing filter salts from a property previously operated by Almagrera in Spain. Almagrera supplied sulphuric acid to Tioxide. Under an agreement with Almagrera, Tioxide had for some time supplied filter salts to Almagrera to be used in the manufacture of sulphuric acid. When Almagrera filed for bankruptcy and closed its plant by the end of 2001, a large pile of stored filter salts was found on its premises. Tioxide estimates the cost of removal and disposal of the filter salts will total €1.7 million. As of June 30, 2003, Tioxide had spent €0.5 million. Another €1.2 million will likely be spent during the balance of 2003. The Company does not believe expenditures in connection with this matter will be material.

The Company is aware that there is or may be soil or groundwater contamination at some of its facilities resulting from past operations. Based on available information and the indemnification rights (including indemnities provided by Huntsman Specialty Chemicals Corporation ("Huntsman Specialty"), ICI, Rhodia S.A. and The Dow Chemical Company, for the facilities that each of them transferred to the Company), the Company believes that the costs to investigate and remediate known contamination will not have a material adverse effect on its financial condition, results of operations or cash flows; however, it cannot give any assurance that such indemnities will fully cover the costs of investigation and remediation, that it will not be required to contribute to such costs or that such costs will not be material.

By letter dated March 6, 2003, the Company's subsidiary, Huntsman Ethyleneamines Ltd., was notified by the TCEQ of a probable enforcement action arising out of the inspection of the Freeport,



Texas facility on December 16-19, 2002. Seven types of violations relating to Texas Clean Air Act requirements were cited. No penalty demand has yet been made by the TCEQ, although penalties are expected.

*MTBE Developments*

The presence of MTBE in some groundwater supplies in California and other states (primarily due to gasoline leaking from underground storage tanks) and in surface water (primarily from recreational watercraft) has led to public concern about MTBE's potential to contaminate drinking water supplies. Heightened public awareness regarding this issue has resulted in state, federal and foreign initiatives to rescind the federal oxygenate requirements for reformulated gasoline or restrict or prohibit the use of MTBE in particular. For example, the California Air Resources Board adopted regulations that would prohibit the addition of MTBE to gasoline as of January 1, 2004. Certain other states have also taken actions to restrict or eliminate the future use of MTBE. In connection with the proposed ban, the State of California requested that the U.S. Environmental Protection Agency (the "EPA") waive the federal oxygenated fuels requirements of the federal Clean Air Act for gasoline sold in California. The EPA denied the State's request on June 12, 2001. Certain of the state bans have been challenged in court as unconstitutional (in light of the Clean Air Act); to date, these challenges have not been successful. The Company is unable to predict what the short- and long-term effects of these matters will be.

Bills have been introduced in the U.S. Congress to accomplish similar goals of curtailing or eliminating the oxygenated fuels requirements in the Clean Air Act, or of curtailing MTBE use. To date, no such legislation has become law. Whether a ban or substantial restrictions on MTBE use will become federal law in the future is unknown at this time.

In addition, on March 20, 2000, the EPA announced its intention, through an advanced notice of proposed rulemaking, to phase out the use of MTBE under authority of the federal Toxic Substances Control Act. In its notice, the EPA also called on the U.S. Congress to restrict the use of MTBE under the Clean Air Act. Any phase-out of or future regulation of MTBE in California (in which a significant amount of MTBE is consumed), in other states, or nationally may result in a significant reduction in demand for MTBE and may result in a material loss in revenues or material costs or expenditures.

In Europe, the EU issued a final risk assessment report on MTBE on September 20, 2002. While no ban of MTBE was recommended, several risk reduction measures relating to storage and handling of MTBE-containing fuel were recommended. Separate from EU action,

Denmark entered into a voluntary agreement with refiners to reduce the sale of MTBE in Denmark. Under the agreement, use of MTBE in 92- and 95-octane gasoline in Denmark ceased by May 1, 2002; however, MTBE will still be an additive in a limited amount of 98-octane gasoline sold in about 100 selected service stations in Denmark.

In the event that there should be a phase-out of MTBE in the United States, the Company believes it will be able to export MTBE to Europe or elsewhere or use its co-product tertiary butyl alcohol ("TBA") to produce saleable products other than MTBE. The Company believes that its low production costs at its PO/MTBE facility will put it in a favorable position relative to other higher cost sources (primarily, on-purpose manufacturing). If the Company opts to produce products other than MTBE, necessary modifications to its facilities may require significant capital expenditures and the sale of the other products may produce a materially lower level of cash flow than the sale of MTBE.

In addition, while there has been litigation concerning the environmental effects of MTBE, the Company is not a defendant in any pending MTBE case, and the Company believes that it would have valid defenses in the event such a case were brought against it. However, the Company cannot give any



assurance that it will not be named in litigation relating to the environmental effects of MTBE or that such litigation will not have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

**17. Operating Segment Information**

The Company derives its revenues, earnings and cash flows from the manufacture and sale of a wide variety of differentiated and commodity chemical products. The Company has four reportable operating segments: Polyurethanes, Performance Products, Pigments and Base Chemicals.

The major products of each reportable operating segment are as follows:

| Segment | Products |
|---|---|
| Polyurethanes | MDI, TDI, TPU, polyols, aniline, PO and MTBE |
| Performance Products | Surfactants, ethyleneamines and other performance chemicals |
| Pigments | Titanium dioxide |
| Base Chemicals | Ethylene, propylene, benzene, cyclohexane and paraxylene |

Sales between segments are generally recognized at external market prices.

The Company uses EBITDA to measure the financial performance of its global business units and for reporting the results of its operating segments. This measure includes all operating items relating to the businesses. The EBITDA of operating segments excludes items that principally apply to the Company as a whole. The Company believes that EBITDA is useful in helping investors assess the



results of its business operations. The net sales, operating income and EBITDA for each of the Company's reportable operating segments are as follows (dollars in millions):

| | Three Months Ended June 30, 2003 | Three Months Ended June 30, 2002 | Six Months Ended June 30, 2003 | Six Months Ended June 30, 2002 |
|---|---|---|---|---|
| | (In Millions) | | | |
| Net sales | | | | |
| Polyurethanes | $ 565.8 | $ 547.0 | $ 1,120.7 | $ 1,011.4 |
| Performance Products | 164.5 | 147.8 | 325.6 | 283.5 |
| Pigments | 255.4 | 234.5 | 501.5 | 436.7 |
| Base Chemicals | 357.7 | 274.1 | 729.9 | 487.7 |
| Eliminations | (36.0) | (28.4) | (72.6) | (46.4) |
| Total | $ 1,307.4 | $ 1,175.0 | $ 2,605.1 | $ 2,172.9 |
| Operating income (loss) | | | | |
| Polyurethanes | $ 11.9 | $ 78.1 | $ 16.2 | $ 132.2 |
| Performance Products | (24.1) | 9.7 | (24.7) | 14.5 |
| Pigments | 14.2 | 2.5 | 27.3 | 2.7 |

| | | | | |
|---|---|---|---|---|
| Base Chemicals | 25.2 | (19.2) | 39.7 | (38.0) |
| Unallocated and other | 10.1 | 14.3 | (3.7) | 1.9 |
| Total | $ 37.3 | $ 85.4 | $ 54.8 | $ 113.3 |
| Total | $ 74.6 | $ 170.8 | $ 109.6 | $ 226.6 |
| Segment EBITDA(1) | | | | |
| Polyurethanes | $ 48.1 | $ 111.0 | $ 88.2 | $ 198.2 |
| Performance Products | (21.6) | 12.4 | (19.2) | 19.3 |
| Pigments | 30.9 | 13.2 | 59.8 | 24.1 |
| Base Chemicals | 37.4 | (7.7) | 63.8 | (15.2) |
| Unallocated and other(2) | 2.7 | 20.3 | (20.5) | 5.9 |
| Total EBITDA | $ 97.5 | $ 149.2 | $ 172.1 | $ 232.3 |
| Net interest expense | (64.1) | (61.5) | (127.7) | (114.7) |
| Income tax benefit | 0.8 | (28.2) | 8.7 | 3.2 |
| Depreciation and amortization | (68.8) | (59.7) | (137.7) | (118.9) |
| Net Income (Loss) | $ (34.6) | $ (0.2) | $ (84.6) | $ 1.9 |

(1) EBITDA is defined as earnings from continuing operations before interest, depreciation and amortization and taxes.

(2) EBITDA from unallocated and other items includes unallocated corporate overhead, loss on sale of accounts receivable, foreign exchange gains or losses and other non-operating income (expense).

**18. Recent Events**

*Purchase of HIH Membership Interests*

On May 9, 2003, HMP issued senior discount notes (the "HMP Senior Discount Notes"), with warrants to purchase 12% of HMP's fully diluted common stock as of such date. HMP used the proceeds to exercise an option that it held and purchased the 30% membership interest in HIH held indirectly by ICI. In addition, HMP used a portion of the HMP Senior Discount Notes and warrants to purchase approximately 9% of the HIH membership interests held by institutional investors. HMP also used the proceeds to complete the purchase of the senior subordinated reset discount notes due 2009 of HIH that were originally issued to ICI (the "B Notes"). Accordingly, HMP directly and indirectly



owns 100% of the membership interests of HIH and the B Notes. The B Notes held by HMP will remain outstanding obligations of HIH.

Huntsman Specialty, the indirect subsidiary of HMP that holds 60% of the membership interests in HIH, has pledged its 60% interest in HIH as collateral under the Huntsman LLC senior secured credit facilities. HMP has separately pledged certain of its assets, including the remaining 40% membership interests in HIH, the B Notes and the 100% interest in Huntsman LLC, as collateral under the HMP Senior Discount Notes. In addition, Huntsman Group Inc. has pledged its 100% equity interest in HMP as collateral for its guarantee of the HMP Senior Discount Notes.

*Completion of the Vantico Restructuring and Business Combination*

On June 30, 2003, GOP, HMP and Huntsman Holdings, completed a restructuring and business combination involving Vantico Group S.A. and its subsidiaries (collectively, "Vantico"). Vantico is a leading European-based global epoxy resin producer providing solutions in the fields of innovative coatings, structural composites, adhesives, tooling materials, and electric and electronic insulation. In conjunction with the business combination, Huntsman Advanced Materials Investments LLC, Huntsman Advanced Materials Holdings LLC and Huntsman Advanced Materials LLC (collectively with Vantico, "Advanced Materials"), were formed to hold the Vantico business.

The Company does not own any Advanced Materials securities, and there are no cross-company guarantees between the Company and Advanced Materials. In addition, the Company will not be required to make any cash contributions to Advanced Materials. The Company has entered into contractual arrangements with Advanced Materials regarding management, technology and commercial matters, and certain of the current employees of the Company have assumed senior positions at Advanced Materials. Management believes that these transactions have been made on terms which are no less favorable to the Company than would be expected from an unaffiliated third-party.

*Chinese MDI Joint Venture*

In January 2003, the Company entered into joint venture agreements to build MDI production facilities near Shanghai, China with BASF and three Chinese chemical companies. A feasibility study for the project has been approved by the appropriate Chinese authorities, preliminary engineering work has commenced and a business license was issued on March 7, 2003. The joint venture expects to obtain secured financing for the construction of the production facilities in the third quarter 2003. The financing will be non-recourse to the Company, but will be guaranteed during the construction phase by affiliates of the joint venture, including Huntsman Holdings. The

Company anticipates that its investment in the joint venture and other related capital costs will approximate $75 million.

### 19. Consolidating Condensed Financial Statements

The following consolidating condensed financial statements present, in separate columns, financial information for the following: Huntsman International LLC (on a parent only basis), with its investment in subsidiaries recorded under the equity method; the guarantors, under the Company's indenture, on a combined, or where appropriate, consolidated basis, with its investment in the non-guarantors recorded under the equity method; and the non-guarantors on a consolidated basis. Additional columns present eliminating adjustments and consolidated totals as of June 30, 2003 and December 31, 2002 and for the periods ended June 30, 2003 and 2002. There are no contractual restrictions limiting transfers of cash from guarantor and non-guarantor subsidiaries to the Company. The combined guarantors are wholly-owned subsidiaries of the Company and have fully and unconditionally guaranteed the senior notes and the senior subordinated notes on a joint and several basis. The Company has not presented separate financial statements and other disclosures for each of the guarantors because management believes that such information is not material to investors.



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**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**CONSOLIDATING CONDENSED BALANCE SHEETS**

**JUNE 30, 2003 (UNAUDITED)**

**(Dollars in Millions)**

| | Parent Only Huntsman International | Guarantors | Non-Guarantors | Eliminations | Consolidated Huntsman International |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current Assets:** | | | | | |
| Cash and cash equivalents | $ 28.6 | $ 0.2 | $ 57.6 | $ — | $ 86.4 |
| Accounts and notes receivable, net | 64.6 | 100.1 | 461.1 | (83.1) | 542.7 |
| Inventories | 63.6 | 101.7 | 460.4 | — | 625.7 |
| Prepaid expenses | 2.1 | — | 15.1 | — | 17.2 |
| Deferred income taxes | — | — | 31.2 | — | 31.2 |
| Other current assets | 99.2 | 273.5 | 74.0 | (370.6) | 76.1 |
| **Total current assets** | 258.1 | 475.5 | 1,099.4 | (453.7) | 1,379.3 |
| Property, plant and equipment, net | 546.1 | 331.5 | 2,241.7 | — | 3,119.3 |
| Investment in unconsolidated affiliates | 3,304.9 | 728.7 | 7.6 | (3,901.6) | 139.6 |
| Intangible assets, net | 274.5 | 5.4 | 10.5 | — | 290.4 |
| Other noncurrent assets | 85.8 | 1,774.8 | 261.2 | (1,768.6) | 353.2 |
| **Total assets** | $ 4,469.4 | $ 3,315.9 | $ 3,620.4 | $ (6,123.9) | $ 5,281.8 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Current liabilities:** | | | | | |
| Accounts payable | $ 76.3 | $ 84.1 | $ 268.1 | $ (83.1) | $ 345.4 |
| Accrued liabilities | 116.4 | 26.0 | 452.1 | (41.2) | 553.3 |
| Current portion of long-term debt | 1.2 | — | 0.1 | — | 1.3 |
| Other current liabilities | 241.5 | 4.9 | 107.0 | (329.5) | 23.9 |
| **Total current liabilities** | 435.4 | 115.0 | 827.3 | (453.8) | 923.9 |
| Long-term debt | 2,934.8 | — | 1,758.4 | (1,768.5) | 2,924.7 |
| Deferred income taxes | (7.4) | — | 225.8 | — | 218.4 |
| Other noncurrent liabilities | 50.3 | — | 105.4 | — | 155.7 |
| **Total liabilities** | 3,413.1 | 115.0 | 2,916.9 | (2,222.3) | 4,222.7 |
| **Minority interests** | — | — | 2.8 | — | 2.8 |
| **Equity:** | | | | | |
| Member's equity | 1,026.1 | — | — | — | 1,026.1 |
| Subsidiary equity | — | 2,423.4 | 784.5 | (3,207.9) | — |

| | | | | | |
|---|---|---|---|---|---|
| Retained earnings | 101.9 | 756.9 | 15.5 | (772.4) | 101.9 |
| Accumulated other comprehensive income (loss) | (71.7) | 20.6 | (99.3) | 78.7 | (71.7) |
| **Total equity** | 1,056.3 | 3,200.9 | 700.7 | (3,901.6) | 1,056.3 |
| **Total liabilities and equity** | $ 4,469.4 | $ 3,315.9 | $ 3,620.4 | $ (6,123.9) | $ 5,281.8 |



**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**CONSOLIDATING CONDENSED BALANCE SHEETS**

**DECEMBER 31, 2002 (UNAUDITED)**

**(Dollars in Millions)**

| | Parent Only Huntsman International | Guarantors | Non-Guarantors | Eliminations | Consolidated Huntsman International |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current Assets:** | | | | | |
| Cash and cash equivalents | $ 19.0 | $ 0.3 | $ 56.1 | $ — | $ 75.4 |
| Accounts and notes receivable, net | 91.3 | 113.8 | 378.2 | (115.4) | 467.9 |
| Inventories | 53.2 | 63.4 | 444.7 | — | 561.3 |
| Prepaid expenses | 4.3 | 1.9 | 15.8 | — | 22.0 |
| Deferred income taxes | — | — | 31.2 | — | 31.2 |
| Other current assets | 74.5 | 245.5 | 99.5 | (344.1) | 75.4 |
| **Total current assets** | 242.3 | 424.9 | 1,025.5 | (459.5) | 1,233.2 |
| Property, plant and equipment, net | 562.3 | 339.3 | 2,169.5 | — | 3,071.1 |
| Investment in unconsolidated affiliates | 3,098.0 | 717.4 | 1.5 | (3,683.0) | 133.9 |
| Intangible assets, net | 289.4 | 6.3 | 7.1 | — | 302.8 |
| Other noncurrent assets | 87.9 | 1,599.0 | 245.0 | (1,593.1) | 338.8 |
| **Total assets** | $ 4,279.9 | $ 3,086.9 | $ 3,448.6 | $ (5,735.6) | $ 5,079.8 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Current liabilities:** | | | | | |
| Accounts payable | $ 52.1 | $ 59.7 | $ 318.4 | $ (115.4) | $ 314.8 |
| Accrued liabilities | 100.0 | 26.3 | 428.2 | (30.7) | 523.8 |
| Current portion of long-term debt | 43.2 | — | 0.7 | — | 43.9 |
| Other current liabilities | 229.9 | 11.7 | 100.5 | (313.4) | 28.7 |
| **Total current liabilities** | 425.2 | 97.7 | 847.8 | (459.5) | 911.2 |
| Long-term debt | 2,741.2 | — | 1,581.8 | (1,593.1) | 2,729.9 |
| Deferred income taxes | — | — | 215.1 | — | 215.1 |
| Other noncurrent liabilities | 48.3 | 3.8 | 106.3 | — | 158.4 |
| **Total liabilities** | 3,214.7 | 101.5 | 2,751.0 | (2,052.6) | 4,014.6 |
| **Equity:** | | | | | |
| Member's equity | 1,026.1 | — | — | — | 1,026.1 |
| Subsidiary equity | — | 2,408.8 | 772.8 | (3,181.6) | — |
| Retained earnings | 186.5 | 675.7 | 34.9 | (710.6) | 186.5 |
| Accumulated other comprehensive loss | (147.4) | (99.1) | (110.1) | 209.2 | (147.4) |
| **Total equity** | 1,065.2 | 2,985.4 | 697.6 | (3,683.0) | 1,065.2 |
| **Total liabilities and equity** | $ 4,279.9 | $ 3,086.9 | $ 3,448.6 | $ (5,735.6) | $ 5,079.8 |

HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF OPERATIONS AND

COMPREHENSIVE INCOME (LOSS)

THREE MONTHS ENDED JUNE 30, 2003 (UNAUDITED)

(Dollars in Millions)

| | Parent Only Huntsman International | Guarantors | Non-Guarantors | Eliminations | Consolidated Huntsman International |
|---|---|---|---|---|---|
| **Revenues:** | | | | | |
| Trade sales and services | $ 173.0 | $ 165.6 | $ 900.0 | $ — | $ 1,238.6 |
| Related party sales | 32.4 | 24.3 | 76.5 | (64.4) | 68.8 |
| **Total revenue** | 205.4 | 189.9 | 976.5 | (64.4) | 1,307.4 |
| **Cost of goods sold** | 168.5 | 180.2 | 868.7 | (64.4) | 1,153.0 |
| **Gross profit** | 36.9 | 9.7 | 107.8 | — | 154.4 |
| **Expenses:** | | | | | |
| Selling, general and administrative | 31.3 | 3.7 | 56.4 | — | 91.4 |
| Research and development | 9.6 | 0.2 | 2.6 | — | 12.4 |
| Other operating (income) expense | 7.3 | (7.1) | (8.4) | — | (8.2) |
| Restructuring, plant closing costs and asset impairment charges | — | — | 21.5 | — | 21.5 |
| **Total expenses** | 48.2 | (3.2) | 72.1 | — | 117.1 |
| **Operating income** | (11.3) | 12.9 | 35.7 | — | 37.3 |
| Interest (expense) income, net | (63.8) | 38.3 | (38.6) | — | (64.1) |
| Loss on sale of accounts receivable | (5.7) | (0.6) | (2.2) | — | (8.5) |
| Equity in earnings (losses) of unconsolidated affiliates | 46.3 | (4.8) | — | (41.5) | — |
| Other expense | (0.1) | — | — | — | (0.1) |
| **Income (loss) before income taxes** | (34.6) | 45.8 | (5.1) | (41.5) | (35.4) |
| Income tax benefit | — | — | 0.8 | — | 0.8 |
| **Net income (loss)** | (34.6) | 45.8 | (4.3) | (41.5) | (34.6) |
| **Other comprehensive income (loss)** | 70.6 | 100.6 | 24.3 | (124.9) | 70.6 |
| **Comprehensive income (loss)** | $ 36.0 | $ 146.4 | $ 20.0 | $ (166.4) | $ 36.0 |



HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF OPERATIONS AND

COMPREHENSIVE INCOME (LOSS)

THREE MONTHS ENDED JUNE 30, 2002 (UNAUDITED)

(Dollars in Millions)

| | Parent Only Huntsman International | Guarantors | Non-Guarantors | Eliminations | Consolidated Huntsman International |
|---|---|---|---|---|---|

| | Parent Only Huntsman International | Guarantors | Non-Guarantors | Eliminations | Consolidated Huntsman International |
|---|---|---|---|---|---|
| **Revenues:** | | | | | |
| Trade sales and services | $ 177.3 | $ 167.8 | $ 739.3 | $ — | $ 1,084.4 |
| Related party sales | 32.8 | 32.2 | 90.4 | (64.8) | 90.6 |
| **Total revenue** | 210.1 | 200.0 | 829.7 | (64.8) | 1,175.0 |
| **Cost of goods sold** | 138.6 | 159.2 | 784.4 | (64.8) | 1,017.4 |
| **Gross profit** | 71.5 | 40.8 | 45.3 | — | 157.6 |
| **Expenses:** | | | | | |
| Selling, general and administrative | 32.6 | 3.4 | 45.7 | — | 81.7 |
| Research and development | 9.4 | 0.7 | 3.6 | — | 13.7 |
| Other operating (income) expense | 2.6 | (7.2) | (18.6) | — | (23.2) |
| **Total expenses** | 44.6 | (3.1) | 30.7 | — | 72.2 |
| **Operating income** | 26.9 | 43.9 | 14.6 | — | 85.4 |
| Interest (expense) income, net | (63.0) | 28.6 | (27.1) | — | (61.5) |
| Gain (loss) on sale of accounts receivable | 0.5 | (0.8) | 3.8 | — | 3.5 |
| Equity in earnings (losses) of unconsolidated affiliates | 35.8 | (42.3) | — | 6.5 | — |
| Other income (expense) | (0.4) | 0.4 | (0.4) | — | (0.4) |
| **Income (loss) before income taxes** | (0.2) | 29.8 | (9.1) | 6.5 | 27.0 |
| Income tax expense | — | — | (28.2) | — | (28.2) |
| Minority interests in subsidiaries' income | — | — | 1.0 | — | 1.0 |
| **Net income (loss)** | (0.2) | 29.8 | (36.3) | 6.5 | (0.2) |
| **Other comprehensive income (loss)** | 103.5 | 160.4 | 37.5 | (197.9) | 103.5 |
| **Comprehensive income (loss)** | $ 103.3 | $ 190.2 | $ 1.2 | $ (191.4) | $ 103.3 |



**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**CONSOLIDATING STATEMENTS OF OPERATIONS AND**

**COMPREHENSIVE INCOME (LOSS)**

**SIX MONTHS ENDED JUNE 30, 2003 (UNAUDITED)**

**(Dollars in Millions)**

| | Parent Only Huntsman International | Guarantors | Non-Guarantors | Eliminations | Consolidated Huntsman International |
|---|---|---|---|---|---|
| **Revenues:** | | | | | |
| Trade sales and services | $ 344.5 | $ 337.0 | $ 1,754.3 | $ — | $ 2,435.8 |
| Related party sales | 62.0 | 52.9 | 171.3 | (116.9) | 169.3 |
| **Total revenue** | 406.5 | 389.9 | 1,925.6 | (116.9) | 2,605.1 |
| **Cost of goods sold** | 338.2 | 358.0 | 1,736.0 | (116.9) | 2,315.3 |
| **Gross profit** | 68.3 | 31.9 | 189.6 | — | 289.8 |
| **Expenses:** | | | | | |
| Selling, general and administrative | 63.0 | 7.6 | 108.9 | — | 179.5 |
| Research and development | 19.2 | 0.7 | 4.7 | — | 24.6 |
| Other operating (income) expense | 11.1 | (7.8) | (11.0) | — | (7.7) |
| Restructuring, plant closing costs asset impairment charges | — | — | 38.6 | — | 38.6 |
| **Total expenses** | 93.3 | 0.5 | 141.2 | — | 235.0 |
| **Operating income** | (25.0) | 31.4 | 48.4 | — | 54.8 |

| | | | | | |
|---|---|---|---|---|---|
| Interest (expense) income, net | (128.2) | 72.8 | (72.3) | — | (127.7) |
| Loss on sale of accounts receivable | (12.7) | (1.2) | (4.2) | — | (18.1) |
| Equity in earnings (losses) of unconsolidated affiliates | 83.6 | (21.8) | — | (61.8) | — |
| Other expense | (2.3) | — | — | — | (2.3) |
| **Income (loss) before income taxes** | (84.6) | 81.2 | (28.1) | (61.8) | (93.3) |
| Income tax benefit | — | — | 8.7 | — | 8.7 |
| **Net income (loss)** | (84.6) | 81.2 | (19.4) | (61.8) | (84.6) |
| **Other comprehensive income (loss)** | 75.7 | 119.7 | 10.8 | (130.5) | 75.7 |
| **Comprehensive income (loss)** | $ (8.9) | $ 200.9 | $ (8.6) | $ (192.3) | $ (8.9) |



**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**CONSOLIDATING STATEMENTS OF OPERATIONS AND**

**COMPREHENSIVE INCOME (LOSS)**

**SIX MONTHS ENDED JUNE 30, 2002 (UNAUDITED)**

**(Dollars in Millions)**

| | Parent Only Huntsman International | Guarantors | Non-Guarantors | Eliminations | Consolidated Huntsman International |
|---|---|---|---|---|---|
| **Revenues:** | | | | | |
| Trade sales and services | $ 326.2 | $ 309.1 | $ 1,370.7 | $ — | $ 2,006.0 |
| Related party sales | 59.3 | 59.7 | 170.1 | (122.2) | 166.9 |
| **Total revenue** | 385.5 | 368.8 | 1,540.8 | (122.2) | 2,172.9 |
| **Cost of goods sold** | 263.9 | 296.6 | 1,451.5 | (122.2) | 1,889.8 |
| **Gross profit** | 121.6 | 72.2 | 89.3 | — | 283.1 |
| **Expenses:** | | | | | |
| Selling, general and administrative | 62.8 | 7.4 | 89.2 | — | 159.4 |
| Research and development | 17.4 | 0.9 | 7.7 | — | 26.0 |
| Other operating (income) expense | 3.8 | (5.9) | (13.5) | — | (15.6) |
| **Total expenses** | 84.0 | 2.4 | 83.4 | — | 169.8 |
| **Operating income** | 37.6 | 69.8 | 5.9 | — | 113.3 |
| Interest (expense) income, net | (117.4) | 56.0 | (53.3) | — | (114.7) |
| Gain (loss) on sale of accounts receivable | (1.3) | (1.5) | 2.7 | — | (0.1) |
| Equity in earnings (losses) of unconsolidated affiliates | 82.9 | (50.6) | — | (32.3) | — |
| Other income (expense) | 0.1 | 0.5 | (0.6) | — | — |
| **Income (loss) before income taxes** | 1.9 | 74.2 | (45.3) | (32.3) | (1.5) |
| Income tax benefit | — | — | 3.2 | — | 3.2 |
| Minority interests in subsidiaries' income | — | — | 0.2 | — | 0.2 |
| **Net income (loss)** | 1.9 | 74.2 | (41.9) | (32.3) | 1.9 |
| **Other comprehensive income (loss)** | 82.6 | 133.3 | 13.0 | (146.3) | 82.6 |
| **Comprehensive income (loss)** | $ 84.5 | $ 207.5 | $ (28.9) | $ (178.6) | $ 84.5 |



**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOW

SIX MONTHS ENDED JUNE 30, 2003 (UNAUDITED)

(Dollars in Millions)

| | Parent Only Huntsman International | Guarantors | Non-Guarantors | Eliminations | Consolidated Huntsman International |
|---|---|---|---|---|---|
| **Net cash provided by (used in) operating activities** | $ (123.5) | $ 101.2 | $ (25.7) | $ — | $ (48.0) |
| **Investing activities:** | | | | | |
| Capital expenditures | (3.7) | (2.7) | (47.6) | — | (54.0) |
| Net cash received from unconsolidated affiliates | | 0.7 | | | 0.7 |
| Advances to unconsolidated affiliates | (1.5) | — | — | — | (1.5) |
| **Net cash used in investing activities** | (5.2) | (2.0) | (47.6) | — | (54.8) |
| **Financing activities:** | | | | | |
| Net borrowings under revolving loan facilities | 138.2 | — | — | — | 138.2 |
| Issuance of senior notes | 157.9 | — | — | — | 157.9 |
| Repayment of long term debt | (194.0) | — | (1.3) | — | (195.3) |
| Cash contributions by parent | — | 146.4 | 2,057.3 | (2,203.7) | — |
| Cash distributions from subsidiaries | 2,200.2 | — | — | (2,200.2) | — |
| Cash distributions to parent | | (131.8) | (2,068.4) | 2,200.2 | — |
| Cash distributions to subsidiaries | (2,203.7) | — | — | 2,203.7 | — |
| Shares of subsidiary issued to minorities for cash | — | — | 2.8 | — | 2.8 |
| Intercompany advances—net of repayments | 32.2 | (113.8) | 81.6 | — | — |
| **Net cash provided by (used in) financing activities** | 130.8 | (99.2) | 72.0 | — | 103.6 |
| Effect of exchange rate changes on cash | 7.5 | — | 2.7 | — | 10.2 |
| Increase in cash and cash equivalents | 9.6 | — | 1.4 | — | 11.0 |
| Cash and cash equivalents at beginning of period | 19.0 | 0.3 | 56.1 | — | 75.4 |
| Cash and cash equivalents at end of period | $ 28.6 | $ 0.3 | $ 57.5 | $ — | $ 86.4 |



HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOW

SIX MONTHS ENDED JUNE 30, 2002 (UNAUDITED)

(Dollars in Millions)

| | Parent Only Huntsman International | Guarantors | Non-Guarantors | Eliminations | Consolidated Huntsman International |
|---|---|---|---|---|---|
| **Net cash provided by (used in) operating activities** | $ (26.2) | $ 107.0 | $ (0.6) | $ — | $ 80.2 |
| **Investing activities:** | | | | | |
| Acquisition of minority interest | — | — | (9.0) | — | (9.0) |
| Capital expenditures | (6.3) | (1.2) | (87.3) | — | (94.8) |
| Net cash received from unconsolidated affiliates | — | 2.2 | — | — | 2.2 |
| Advances to unconsolidated affiliates | (1.6) | — | — | — | (1.6) |

| | | | | | |
|---|---|---|---|---|---|
| **Net cash provided by (used in) investing activities** | (7.9) | 1.0 | (96.3) | — | (103.2) |
| **Financing activities:** | | | | | |
| Borrowings under credit facilities | 115.1 | — | 6.0 | — | 121.1 |
| Repayment of credit facilities | (406.1) | — | (4.4) | — | (410.5) |
| Issuance of senior subordinated notes | 300.0 | | | | 300.0 |
| Debt issuance costs | (10.3) | — | — | — | (10.3) |
| Cash contributions by parent | — | 110.0 | 1,406.0 | (1,516.0) | — |
| Cash distributions from subsidiaries | 1,559.2 | — | — | (1,559.2) | — |
| Cash distributions to parent | — | (156.8) | (1,402.4) | 1,559.2 | — |
| Cash distributions to subsidiaries | (1,516.0) | — | — | 1,516.0 | — |
| Intercompany advances—net of repayments | (18.0) | (69.7) | 87.7 | — | — |
| **Net cash provided by (used in) financing activities** | 23.9 | (116.5) | 92.9 | 0.0 | 0.3 |
| Effect of exchange rate changes on cash | (0.4) | 6.0 | (0.5) | — | 5.1 |
| Decrease in cash and cash equivalents | (10.6) | (2.5) | (4.5) | — | (17.6) |
| Cash and cash equivalents at beginning of period | 21.0 | 2.8 | 60.1 | — | 83.9 |
| Cash and cash equivalents at end of period | $ 10.4 | $ 0.3 | $ 55.6 | $ — | $ 66.3 |



**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

***Forward-looking Statements***

Some of the statements contained in this report are forward-looking in nature. In some cases, you can identify forward-looking statements by terminology such as "believes," "expects," "may," "will," "should," "anticipates" or "intends" or the negative of such terms or other comparable terminology, or by discussions of strategy. You are cautioned that our business and operations are subject to a variety of risks and uncertainties, and, consequently, our actual results may materially differ from those projected by any forward-looking statements. Some of the risks and uncertainties are discussed below in "—Cautionary Statement for Forward Looking Information" and elsewhere in this report. We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances after the date any such statement is made.

***General***

Our company, Huntsman International LLC, formerly known as Huntsman ICI Chemicals LLC, is a Delaware limited liability company. For convenience in this report, the terms "Company," "our," "us" or "we" may be used to refer to Huntsman International LLC and, unless the context otherwise requires, its subsidiaries.

All of our membership interests are owned by Huntsman International Holdings LLC ("HIH"). HIH is a Delaware limited liability company and all of its membership interests are owned directly and indirectly by HMP Equity Holdings Corporation ("HMP"). See "—Recent Events—Purchase of HIH Membership Interests" for a discussion of HMP's purchase of the 30% interest in HIH previously owned indirectly by Imperial Chemical Industries PLC ("ICI") and the purchase by HMP of the approximately 9% interest in HIH previously owned by institutional investors.

HMP is a Delaware corporation and is owned 100% by Huntsman Group Inc., a Delaware corporation. Huntsman Group Inc. is owned 100% by Huntsman Holdings, LLC ("Huntsman Holdings"), a Delaware limited liability company. The voting membership interests of Huntsman Holdings are owned by the Huntsman family, MatlinPatterson Global Opportunities Partners, L.P. ("GOP"), Consolidated Press (Finance) Limited ("CPH") and certain members of our senior management. In addition, Huntsman Holdings has issued certain non-voting preferred units to Huntsman Holdings Preferred Member LLC, which, in turn, is owned by GOP (indirectly), CPH, the Huntsman Cancer Foundation, certain members of our senior management and certain members of the Huntsman family. The Huntsman family has board and operational control of our Company.

We derive our revenues, earnings and cash flow from the sale of a wide variety of differentiated and commodity chemicals. We manage our operations through our four principal operating segments: Polyurethanes, Performance Products, Pigments and Base Chemicals. We manufacture products at facilities located in North America, Europe, Asia, Australia and Africa, and our products are sold throughout the world. The major products of each reportable operating segment are as follows:

| Segment | Products |
|---|---|
| Polyurethanes | MDI, TDI, TPU, polyols, aniline, PO and MTBE |

| | |
|---|---|
| Performance Products | Surfactants, ethyleneamines and other performance chemicals |
| Pigments | Titanium dioxide |
| Base Chemicals | Ethylene, propylene, benzene, cyclohexane and paraxylene |

Our products are divided into two broad categories—differentiated and commodity chemicals. Our Polyurethanes and Performance Products businesses mainly produce differentiated products and our Pigments and Base Chemicals businesses mainly produce commodity chemicals. Among our commodity products, our Pigments business, while cyclical, tends to follow different trends and is not influenced by



the same factors as our petrochemical-based commodity products. In addition, there are a limited number of significant competitors in our Pigments business, relatively high barriers to entry and strong customer loyalty. Each of our four operating segments is impacted to varying degrees by economic conditions, prices of raw materials and global supply and demand pressures.

Historically, the demand for many of the products which we produce in our Polyurethanes segment has been relatively resistant to changes in global economic conditions as industry growth in product demand has been strongly influenced by continuing product substitution, innovation and new product development. The stability of demand has also benefited from the wide variety of end markets for our Polyurethanes products. However, in the past year, volatile feedstock pricing has impacted overall margins. Historically, sales volumes of MDI products have grown at rates in excess of global GDP growth. The global PO market is influenced by supply and demand imbalances. PO demand is largely driven by growth in the polyurethane industry, and, as a result, growth rates for PO have generally exceeded GDP growth rates. As a co-product of our PO manufacturing process, we also produce MTBE. MTBE is an oxygenate that is blended with gasoline to reduce harmful vehicle emissions and to enhance the octane rating of gasoline. See "—Liquidity and Capital Resources—Environmental Matters—MTBE Developments" below for more information on the legal and regulatory developments that may curtail or eliminate the use of MTBE in gasoline in the future.

In comparison to commodity businesses, the demand for many of the products we produce in our Performance Products segment historically has also been relatively resistant to changes in global economic conditions. Like our Polyurethanes segment, Performance Products growth in general is strongly influenced by product substitution, innovation and new product development. Also, demand stability benefits from a broad range of end markets. A significant portion of our Performance Products are sold into consumer end use applications including household detergents, personal care products and cosmetics. As such, historically, demand for these products has been relatively stable and tends to be less susceptible to changes in global economic conditions.

Historically, growth in demand for $TiO_2$ pigments has generally been in line with GDP growth rates. Pigment prices have historically reflected industry-wide operating rates but have typically lagged behind movements in these rates by up to twelve months due to the effects of product stocking and destocking by customers and suppliers, contract arrangements and cyclicality. The industry experiences some seasonality in its sales because sales of paints in Europe and North America, the largest end use for $TiO_2$, are generally highest in the spring and summer months in those regions. This results in greater sales volumes in the first half of the year because the proportion of our $TiO_2$ products sold in Europe and North America is greater than that sold in Asia and the rest of the world.

Many of the markets for the Base Chemicals products, particularly ethylene, propylene, paraxylene and cyclohexane, are cyclical and sensitive to changes in the balance between supply and demand, the price of raw materials, and the level of general economic activity. Historically, these markets have experienced alternating periods of tight supply and rising prices and profit margins, followed by periods of capacity additions resulting in over-capacity and falling prices and profit margins. Demand for the majority of our Base Chemicals has generally grown at rates that are approximately equal to or slightly greater than GDP growth. Market conditions during recent years have been characterized by a general weakening in demand and overcapacity. We believe that weak economic conditions have resulted in a contraction in production capacity. If this contraction in industry capacity is sustained and if demand growth returns to the rates which have been achieved historically, we believe that industry profitability will improve.



***Recent Events***

*Purchase of HIH Membership Interests*

On May 9, 2003, HMP issued senior discount notes (the "HMP Senior Discount Notes"), with warrants to purchase 12% of HMP's fully diluted common stock as of such date. HMP used the proceeds to exercise an option that it held and purchased the 30% membership interest in HIH held indirectly by ICI. In addition, HMP used a portion of the HMP Senior Discount Notes and warrants to purchase approximately 9% of the HIH membership interests held by institutional investors. HMP also used the proceeds to complete the purchase of the senior subordinated reset discount notes due 2009 of HIH that were originally issued to ICI (the "B Notes"). Accordingly, HMP directly and indirectly owns 100% of the membership interests of HIH and the B Notes. The B Notes held by HMP will remain outstanding obligations of HIH.

Huntsman Specialty, the indirect subsidiary of HMP that holds 60% of the membership interests in HIH, has pledged its 60% interest in HIH as collateral under the Huntsman LLC senior secured credit facilities. HMP has separately pledged certain of its assets, including the remaining 40% membership interests in HIH, the B Notes and the 100% interest in Huntsman LLC, as collateral under the HMP Senior Discount Notes. In addition, Huntsman Group Inc. has pledged its 100% equity interest in HMP as collateral for its guarantee of the HMP Senior Discount Notes.

*Completion of the Vantico Restructuring and Business Combination*

On June 30, 2003, GOP, HMP and Huntsman Holdings, completed a restructuring and business combination involving Vantico Group S.A. and its subsidiaries (collectively, "Vantico"). Vantico is a leading European-based global epoxy resin producer providing solutions in the fields of innovative coatings, structural composites, adhesives, tooling materials, and electric and electronic insulation. In conjunction with the business combination, Huntsman Advanced Materials Investments LLC, Huntsman Advanced Materials Holdings LLC and Huntsman Advanced Materials LLC (collectively with Vantico, "Advanced Materials"), were formed to hold the Vantico business.

We do not own any Advanced Materials securities, and there are no cross-company guarantees between us and Advanced Materials. In addition, we will not be required to make any cash contributions to Advanced Materials. We have entered into contractual arrangements with Advanced Materials regarding management, technology and commercial matters, and certain of our current employees have assumed senior positions at Advanced Materials. We believe that these transactions have been made on terms which are no less favorable to us than would be expected from an unaffiliated third-party.

*Chinese MDI Joint Venture*

In January 2003, we entered into joint venture agreements to build MDI production facilities near Shanghai, China with BASF and three Chinese chemical companies. A feasibility study for the project has been approved by the appropriate Chinese authorities, preliminary engineering work has commenced and a business license was issued on March 7, 2003. The joint venture expects to obtain secured financing for the construction of the production facilities in the third quarter 2003. The financing will be non-recourse to our Company, but will be guaranteed during the construction phase by affiliates of the joint venture, including Huntsman Holdings. We anticipate that our investment in the joint venture and other related capital costs will approximate $75 million.



***Results of Operations***

**Three and Six Months Ended June 30, 2003 Compared to Three and Six Months Ended June 30, 2002 (Unaudited) (Dollars in Millions)**

| | Three Months Ended June 30, 2003 | Three Months Ended June 30, 2002 | Six Months Ended June 30, 2003 | Six Months Ended June 30, 2002 |
|---|---|---|---|---|
| **Revenues** | $ 1,307.4 | $ 1,175.0 | $ 2,605.1 | $ 2,172.9 |
| **Cost of goods sold** | 1,153.0 | 1,017.4 | 2,315.3 | 1,889.8 |
| **Gross profit** | 154.4 | 157.6 | 289.8 | 283.1 |
| Expenses of selling, general, andcadministrative, research and development and other operating costs | 95.6 | 72.2 | 196.4 | 169.8 |
| Restructuring and plant closing costs | 21.5 | — | 38.6 | — |
| **Operating income** | 37.3 | 85.4 | 54.8 | 113.3 |
| Interest expense, net | (64.1) | (61.5) | (127.7) | (114.7) |
| Gain (loss) on sale of accounts receivable | (8.5) | 3.5 | (18.1) | (0.1) |
| Other expense | (0.1) | (0.4) | (2.3) | — |
| **Income (loss) before income taxes** | (35.4) | 27.0 | (93.3) | (1.5) |
| Income tax benefit (expense) | 0.8 | (28.2) | 8.7 | 3.2 |
| Minority interests in subsidiaries' income | — | 1.0 | — | 0.2 |
| **Net income (loss)** | $ (34.6) | $ (0.2) | $ (84.6) | $ 1.9 |
| Interest expense, net | 64.1 | 61.5 | 127.7 | 114.7 |
| Income tax benefit (expense) | (0.8) | 28.2 | (8.7) | (3.2) |
| Depreciation and amortization | 68.8 | 59.7 | 137.7 | 118.9 |
| **EBITDA(1)** | $ 97.5 | $ 149.2 | $ 172.1 | $ 232.3 |

(1) EBITDA is defined as earnings from continuing operations before interest, depreciation and amortization, and taxes. EBITDA is included in this report because it is a basis on which we assess our financial performance and debt service capabilities, and because certain covenants in our borrowing arrangements are tied to similar measures. However, EBITDA should not be considered in isolation or viewed as a substitute for cash flow from operations, net income or other measures of performance as defined by accounting principles generally accepted in the United States or as a measure of a company's profitability or liquidity. We understand that while EBITDA is frequently used by security analysts, lenders and others in their evaluation of companies, EBITDA as used herein is not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the method of calculation. See "Note 17—Operating Segment Information" of the consolidated financial statements.

Included in EBITDA are the following items of income (expense):

| | Three Months Ended June 30, 2003 | Three Months Ended June 30, 2002 | Six Months Ended June 30, 2003 | Six Months Ended June 30, 2002 |
|---|---|---|---|---|
| Foreign exchange gains—unallocated | $ 19.6 | $ 29.2 | $ 16.6 | $ 24.9 |
| Gain (loss) on sale of accounts receivable | (8.5) | 3.5 | (18.1) | (0.1) |
| Asset write-down | — | — | (2.8) | — |
| Restructuring and reorganization: | | | | |
| Polyurethanes | (1.4) | — | (18.5) | — |
| Performance Products | (20.1) | — | (20.1) | — |
| Total restructuring and reorganization | (21.5) | — | (38.6) | — |

**Three Months Ended June 30, 2003 Compared to Three Months Ended June 30, 2002**

For the three months ended June 30, 2003, we had a net loss of $34.6 million on revenues of $1,307.4 million, compared to a net loss of $0.2 million on revenues of $1,175.0 million for the same period in 2002. The decrease of $34.4 million in net income was the result of the following items:

- Revenues for the three months ended June 30, 2003 increased by $132.4 million, or 11%, to $1,307.4 million from $1,175.0 million during the same period in 2002. Revenues increased in all segments due to higher average selling prices, which were partially offset by lower sales volumes in all segments. Average selling prices increased primarily in response to increased underlying raw material prices, but also benefited from an improved product portfolio mix in our Polyurethanes segment and the strong supply and demand conditions that existed in the periods leading up to the second quarter 2003 in our Pigments segment. Revenues also were higher due to the effects of the stronger Euro and GBP Sterling versus the U.S. dollar.

- Gross profit for the three months ended June 30, 2003 decreased by $3.2 million, to $154.4 million from $157.6 million in the same period in 2002. This decrease was mainly the result of higher overall raw material prices, lower overall volumes and increased pension and insurance costs in the second quarter 2003 as compared to the same period of 2002, partially offset by increased average selling prices. The increase in pension costs is primarily due to the combination of poor global capital market performance over the past three years and a simultaneous decrease in the discount (interest) rates used to measure pension liabilities. Insurance costs increased in our 2002/2003 insurance renewal, which we completed in July 2002. This renewal followed a three year period for which premiums had last been set in 1999. Insurance rates have escalated significantly over the applicable period.

- Selling, administrative, research and development ("SG&A") and other operating costs for the three months ended June 30, 2003 increased by $23.4 million, to $95.6 million, from $72.2 million in the same period in 2002. Lower costs resulting from our cost reduction efforts were offset by the effects of foreign currency movements, increased pension and insurance costs, and increased depreciation charges.

- During the second quarter of 2003, we recorded a restructuring and plant closing charge of $21.5 million. This charge was the result of a $1.4 million cost recognized in our Polyurethanes segment associated with cost reduction efforts at our Rozenburg, Netherlands site and a



$20.1 million cost recorded in our Performance Products segment relating to the closure of certain production units at our Whitehaven, UK facility. These charges are part of an overall corporate cost reduction program that is expected to be implemented and recorded from 2003 to 2005.

- Net interest expense for the three months ended June 30, 2003 increased by $2.6 million to $64.1 million from $61.5 million for the same period in 2002. The increase was primarily due to additional debt in the second quarter 2003, a portion of which represents additional fixed rate senior notes issued in April 2003, partially offset by lower average interest rates under our senior secured credit facilities (the "HI Credit Facilities").

- Loss on sale of accounts receivable increased $12.0 million to a loss of $8.5 million for the three months ended June 30, 2003 as compared to income of $3.5 million for the same period in 2002. This increase is mainly attributable to movements in foreign currencies, in addition to an increase in the size of our securitization program effective October 2002.

- Income tax benefit increased by $29.0 million to a $0.8 million benefit for the three months ended June 30, 2003 as

compared to a charge of $28.2 million for the same period in 2002. Our tax obligations are affected by the tax regimes of the jurisdictions in which we operate. Increased tax benefits were due primarily to a change in the mix of income (loss) earned in these various jurisdictions.

The following table sets forth the sales and operating income for each of our operating segments:

| | Three Months Ended June 30, 2003 | Three Months Ended June 30, 2002 |
|---|---|---|
| **Revenues** | | |
| Polyurethanes | $ 565.8 | $ 547.0 |
| Performance Products | 164.5 | 147.8 |
| Pigments | 255.4 | 234.5 |
| Base Chemicals | 357.7 | 274.1 |
| Eliminations | (36.0) | (28.4) |
| **Total** | $ 1,307.4 | $ 1,175.0 |
| **Operating income** | | |
| Polyurethanes | $ 11.9 | $ 78.1 |
| Performance Products | (24.1) | 9.7 |
| Pigments | 14.2 | 2.5 |
| Base Chemicals | 25.2 | (19.2) |
| Unallocated and other | 10.1 | 14.3 |
| **Total** | $ 37.3 | $ 85.4 |

**Polyurethanes**

For the three months ended June 30, 2003, Polyurethanes revenues increased by $18.8 million, or 3%, to $565.8 million from $547.0 million for the same period in 2002. MDI sales revenue increased by 5% as lower sales volumes were offset by increased average selling prices. MDI sales volumes decreased by 10%, with volumes down in Asia, the Americas and Europe. While our derivatives volumes are in line with last year, our rigids division returned lower volumes mainly due to reduced sales in 2003 to other producers combined with the remaining effects of the Asian SARS crisis. MDI average selling prices increased in all regions with a worldwide average increase of 16% resulting from our continued efforts to increase sales prices as raw material prices increased. Polyols sales revenue



increased by 4%, as a 12% increase in average selling prices was partially offset by a 7% decrease in sales volumes. PO revenue decreased by 15% mainly due to the conversion of certain sales to a tolling arrangement, having an effect on revenues, but minimal impact on gross margin. MTBE sales revenue increased by 3% compared with the same period in 2002 as a result of a 3% increase in sales volumes, while average selling prices remained relatively flat.

For the three months ended June 30, 2003, Polyurethanes segment operating income decreased by $66.2 million to $11.9 million from $78.1 million for the same period in 2002. Decreased segment income resulted mainly from higher feedstock prices, lower sales volumes and a $1.4 million restructuring charge that was recorded in June 2003. The restructuring charge relates to cost reduction efforts at our Rozenburg, Netherlands site and is part of an overall corporate cost reduction program that is expected to be implemented and recorded from 2003 to 2005. These decreases in segment operating income were partly offset by increased average selling prices. SG&A costs increased $4.7 million due to increased pension costs, adverse foreign currency movements and increased amortization cost associated with various SAP projects.

**Performance Products**

For the three months ended June 30, 2003, Performance Products revenues increased by $16.7 million, or 11%, to $164.5 million from $147.8 million for the same period in 2002. Revenues increased as the result of increased average selling prices. Surfactants average selling prices increased by 18% over the same period in 2002 in U.S. dollar equivalents primarily due to a stronger Euro; however, average selling prices in local currencies fell overall by 4% due mainly to product mix and more intense competition. Surfactants sales volumes fell by 9% primarily due to softer European demand in addition to less export business as a result of the stronger Euro. Ethyleneamines revenues increased 27% primarily due to increased average selling prices and favorable foreign currency movements, while sales volumes remained relatively flat as compared to the comparable period of 2002.

For the three months ended June 30, 2003, Performance Products segment operating income decreased by $33.8 million from $9.7 million for the three months ended June 30, 2002 to a loss of $24.1 million. Decreased segment operating income is largely the result of a $20.1 million restructuring charge recorded in the second quarter of 2003. In June 2003, we announced the closure of certain production units at our Whitehaven, UK facility as part of a continuing review of our European operations. The charge consists of $8.7 million of severance costs and $11.4 million of asset write downs. Segment operating income also decreased due to higher raw

material costs, as well as increased manufacturing and SG&A costs resulting from higher insurance costs and adverse foreign currency movements.

**Pigments**

For the three months ended June 30, 2003, Pigments revenues increased by $20.9 million, or 9%, to $255.4 million from $234.5 million in 2002. Sales volumes decreased by 7% and average selling prices increased by 18%, of which 11% was due to favorable foreign currency movements. The reduction in sales volume was felt in all major markets resulting from reduced end use demand for titanium dioxide due to lower industrial activity. Underlying average selling prices increased by 7%, 9% and 6% in Europe, Asia and North America, respectively, due to the favorable industry supply-demand balance that existed in the periods leading up to the second quarter of 2003.

For the three months ended June 30, 2003, Pigments segment operating income increased by $11.7 million to $14.2 million from $2.5 million for the same period in 2002. Increased segment operating income is mainly due to higher average selling prices, which were partially offset by lower sales volumes. Manufacturing costs increased mainly due to foreign currency movements, higher depreciation following the commissioning of the Greatham, UK facility expansion in late 2002 and



higher pension and insurance charges. SG&A costs increased mainly due to the depreciation of our new SAP software system, increased pension costs and foreign currency movements.

**Base Chemicals**

For the three months ended June 30, 2003, Base Chemicals revenues increased by $83.6 million, or 30%, to $357.7 million from $274.1 million for the same period in 2002. The increase in revenues is primarily due to higher average selling prices of ethylene, propylene, benzene, paraxylene and cyclohexane. Average selling prices were higher across all main products primarily as a result of quarterly price settlements made at the start of the quarter when feedstock costs were relatively high due to hostilities in Iraq. Sales volumes of propylene and cyclohexane were higher by 44% and 34%, respectively. Sales volumes of ethylene, benzene and paraxylene were lower by 5%, 34% and 16%, respectively. The reduction in benzene sales volume was due to increased internal consumption in our production of cyclohexane.

For the three months ended June 30, 2003, Base Chemicals segment operating income increased by $44.4 million from a loss of $19.2 million for the three months ended June 30, 2002 to income of $25.2 million. Margins in both the aromatics and olefins markets were stronger for the three months ended June 30, 2003 than in the second quarter of 2002. Overall Base Chemicals' margins improved as raw material prices decreased in response to the cessation of major hostilities in Iraq, while average selling prices remained relatively stable due to contract pricing arrangements. SG&A and other operating costs increased primarily due to adverse currency movements. In addition, operating income also improved due to a turnaround at our Wilton, UK olefins unit in the second quarter of 2002 that negatively impacted operating income for that period.

**Unallocated and Other**

Unallocated and other items includes unallocated corporate overhead and unallocated foreign exchange gains and losses. For the three months ended June 30, 2003, operating income from unallocated and other items decreased by $4.2 million to $10.1 million from $14.3 million for the same period in 2002. Unallocated foreign exchange gains were $9.6 million lower, with $19.6 million in gains in the second quarter 2003 as compared to $29.2 million of gains in the second quarter 2002. This decrease in foreign exchange gains was partially offset by lower corporate overhead costs. Exchange gains and losses reported under unallocated items may be offset by foreign exchange movements in the operating results of individual segments.

**Six months Ended June 30, 2003 Compared to Six months Ended June 30, 2002**

For the six months ended June 30, 2003, we had a net loss of $84.6 million on revenues of $2,605.1 million, compared to net income of $1.9 million on revenues of $2,172.9 million for the same period in 2002. The decrease of $86.5 million in net income was the result of the following items:

- Revenues for the six months ended June 30, 2003 increased by $432.2 million, or 20%, to $2,605.1 million from $2,172.9 million during the same period in 2002. Revenues increased in all segments due primarily to higher average selling prices that were partially offset by lower sales volumes in all segments. Average selling prices increased primarily in response to increased underlying raw material prices, but also benefited from an improved product portfolio mix in our Polyurethanes segment and the strong supply and demand conditions that existed in the periods leading up to the second quarter 2003 in our Pigments segment. Revenues also were higher due to the effects of the stronger Euro and GBP Sterling versus the U.S. dollar.

- Gross profit for the six months ended June 30, 2003 increased by $6.7, to $289.8 million from $283.1 million in the same period in 2002. This increase was mainly the result of increased average selling prices, which more than offset higher overall raw material prices and lower

overall volumes in the six months ended June 30, 2003 as compared to the same period of 2002. The increase in gross profit was also partially offset by increased pension and insurance costs. The increase in pension costs is primarily due to the combination of poor global capital market performance over the past three years and a simultaneous decrease in the discount (interest) rates used to measure pension liabilities. Insurance costs increased in our 2002/2003 insurance renewal, which we completed in July 2002. This renewal followed a three year period for which premiums had last been set in 1999. Insurance rates have escalated significantly over the applicable period.

- SG&A and other operating costs for the six months ended June 30, 2003 increased by $26.6 million, to $196.4 million from $169.8 million in the same period in 2002. Lower costs resulting from our cost reduction efforts were offset by the effects of foreign currency movements, increased pension and insurance costs, and increased depreciation charges.

- Restructuring and plant closing costs increased by $38.6 million. Our Polyurethanes segment recorded restructuring charges of $17.1 million in the first quarter and $1.4 million in the second quarter 2003 in connection with the integration of our global flexible products division into our global derivatives division and various cost initiatives at our Rozenburg, Netherlands manufacturing site. Our Performance Products segment recorded a restructuring charge of $20.1 million in the second quarter 2003 relating to the closure of certain production units at our Whitehaven, UK facility. These charges are part of an overall corporate cost reduction program that is expected to be implemented and recorded from 2003 to 2005.

- Net interest expense for the six months ended June 30, 2003 increased by $13.0 million to $127.7 million from $114.7 million for the same period in 2002. The increase was primarily due to additional debt in the six months ended June 30, 2003, a portion of which represents additional fixed rate senior notes issued in March 2002 and April 2003, partially offset by lower average interest rates under the HI Credit Facilities.

- Loss on sale of accounts receivable increased $18.0 million to $18.1 million for the six months ended June 30, 2003 as compared to $0.1 million for the same period in 2002. This increase is mainly attributable to movements in foreign currencies in addition to an increase in the securitization program size effective October 2002.

- Income tax benefit increased by $5.5 million to $8.7 million for the six months ended June 30, 2003 as compared to $3.2 million for the same period in 2002. Our tax obligations are affected by the tax regimes of the jurisdictions in which we operate. Decreased tax benefits were due primarily to a change in the mix of income (loss) earned in these various jurisdictions.



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The following table sets forth the sales and operating income for each of our operating segments.

| | Six Months Ended June 30, 2003 | Six Months Ended June 30, 2002 |
|---|---|---|
| **Revenues** | | |
| Polyurethanes | $ 1,120.7 | $ 1,011.4 |
| Performance Products | 325.6 | 283.5 |
| Pigments | 501.5 | 436.7 |
| Base Chemicals | 729.9 | 487.7 |
| Eliminations | (72.6) | (46.4) |
| **Total** | $ 2,605.1 | $ 2,172.9 |
| **Operating income** | | |
| Polyurethanes | $ 16.2 | $ 132.2 |
| Performance Products | (24.7) | 14.5 |
| Pigments | 27.3 | 2.7 |
| Base Chemicals | 39.7 | (38.0) |
| Unallocated and other | (3.7) | 1.9 |
| **Total** | $ 54.8 | $ 113.3 |



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**Polyurethanes**

For the six months ended June 30, 2003, Polyurethanes revenues increased by $109.3 million, or 11%, to $1,120.7 million from $1,011.4 million for the same period in 2002. MDI sales revenue increased by 9% as lower sales volumes were offset by higher average selling prices. MDI sales volumes decreased by 3%, with volumes down in Asia and Europe, and up in the Americas. Volumes in Asia and Europe were lower primarily due to a combination of decreased sales under co-producer arrangements, the Asian SARS crisis and the slowdown in the European rigids market in the first quarter 2003. MDI overall average selling prices increased 14%, with increases in all

regions, resulting in part from our continued efforts to increase sales prices as raw material prices increased. Polyols sales revenue increased by 11% as sales volumes remained relatively flat and average selling prices increased by 11%. PO revenue decreased by 13% mainly due to the conversion of certain sales to a tolling arrangement, having an effect on revenues, but very little impact on gross margin. MTBE sales revenue increased 19% compared to the same period in 2002 mainly as a result of a 3% increase in sales volumes in the six months ended June 30, 2003 and increased selling prices in the first quarter 2003 which resulted primarily from higher crude oil and gasoline prices.

For the six months ended June 30, 2003, Polyurethanes segment operating income decreased by $116.0 million to $16.2 million from $132.2 million for the same period in 2002. Decreased segment income resulted mainly from higher feedstock prices and a $27.5 million restructuring charge that was recorded in the first half of 2003, partly offset by increased average selling prices. The restructuring charges are in connection with the integration of our global flexible products division into our global derivatives division and are part of an overall corporate cost reduction program that is expected to be implemented and recorded from 2003 to 2005. SG&A costs increased $9.3 million due to increased pension costs, adverse foreign currency movements and increased depreciation on information technology assets.

**Performance Products**

For the six months ended June 30, 2003, Performance Products revenues increased by $42.1 million, or 15%, to $325.6 million from $283.5 million for the same period in 2002. Revenues increased primarily as the result of increased average selling prices. Surfactants average selling prices increased by 17% as compared with the same period in 2002 in U.S. dollar equivalents; however, average selling prices in local currency fell by 5% due mainly to product mix and more intense competition. Surfactants sales volumes fell by 4% primarily due to weaker European demand in addition to less export business as a result of a stronger Euro. Ethyleneamines revenue increased 16% due to increased average selling prices and favorable foreign currency movements. Ethyleneamines sales volumes remained relatively flat as compared to the comparable period of 2002.

For the six months ended June 30, 2003, Performance Products segment operating income decreased by $39.2 million from $14.5 million for the six months ended June 30, 2002 to a loss of $24.7 million. Decreased segment operating income is largely the result of a $20.1 million restructuring charge recorded in the second quarter of 2003. In June 2003, we announced the closure of certain production units at our Whitehaven, UK facility as part of a continuing review of our European operations. The charge consists of $8.7 million of severance costs and $11.4 million of asset write downs. Segment operating income also decreased due to higher raw material costs, as well as increased manufacturing and SG&A costs resulting from higher insurance costs and adverse foreign currency movements.

**Pigments**

For the six months ended June 30, 2003, Pigments revenues increased by $64.8 million, or 15%, to $501.5 million from $436.7 million in 2002. Sales volume decreased by 3% and average selling prices



increased by 18%, of which 12% was due to favorable currency movements. Sales volumes in Europe and North America decreased compared to the same period in 2002 and sales volumes in Asia increased compared to the same period in 2002. Underlying average selling prices increased by 8%, 8% and 5% in Europe, Asia and North America, respectively, due to the favorable industry supply-demand balance that existed in the periods leading up to the second quarter 2003.

For the six months ended June 30, 2003, Pigments operating income increased by $24.6 million, to $27.3 million from $2.7 million for the same period in 2002. Increased segment operating income is due primarily to higher average selling prices which were partially offset by lower sales volumes. Manufacturing costs increased mainly due to foreign currency movements, higher depreciation following the commissioning of our Greatham, UK facility expansion in late 2002 and higher pension and insurance charges. SG&A costs increased mainly due to the depreciation of our new SAP software system, increased pension costs and foreign currency movements.

**Base Chemicals**

For the six months ended June 30, 2003, Base Chemicals revenues increased by $242.2 million, or 50%, to $729.9 million from $487.7 million for the same period in 2002. Increased revenues were mainly due to increased average selling prices of ethylene, propylene, benzene, paraxylene and cyclohexane. Average selling prices were higher largely due to higher underlying feedstock prices. Sales volumes of ethylene, propylene and cyclohexane were higher by 5%, 26% and 22%, respectively. Sales volumes of benzene and paraxylene were lower by 25% and 5%, respectively. The reduction in benzene sales volumes was due to increased internal consumption to produce cyclohexane.

For the six months ended June 30, 2003, Base Chemicals operating income increased by $77.7 million from a loss of $38.0 million to income of $39.7 million. Margins in both the aromatics and olefins markets were stronger for the six months ended June 30, 2003 than in the first half of 2002. The price of our main feedstock, naphtha, increased by 35% in the first half of 2003 compared with the same period in 2002; however, this increase was more than offset by increased average selling prices. Operating costs decreased mainly due to the sale of precious metals extracted from catalysts, producing a benefit of approximately $3 million. In addition, operating income also improved due to a turnaround at our Wilton, UK olefins unit in the second quarter 2002 that negatively impacted operating income for that period.

**Unallocated and Other**

Unallocated and other items includes unallocated corporate overhead and unallocated foreign exchange gains and losses. For the six months ended June 30, 2003, operating income from unallocated items decreased by $5.6 million to a loss of $3.7 million from income of $1.9 million for the same period in 2002.

Unallocated foreign exchange gains were $8.3 million lower, with $16.6 million in the six months ended June 30, 2003 as compared to $24.9 million in the six months ended June 30, 2002. This decrease in foreign exchange gains was partially offset by lower corporate overhead costs. Exchange gains and losses reported under unallocated items may be offset in part by foreign exchange movements in the operating results of individual segments.

***Liquidity and Capital Resources***

**Cash**

Net cash used in operating activities for the six months ended June 30, 2003 was $48.0 million, as compared to $80.2 million provided from operating activities for the same period in 2002. The variance is primarily attributable to reduced operating income as explained above in addition to a larger



investment in net working capital in the 2003 period. The increase in net working capital resulted mainly from increases in average selling prices, higher underlying feedstock and raw material prices, and higher inventory levels in certain segments during the six months ended June 30, 2003.

Net cash used in investing activities for the six months ended June 30, 2003 was $54.8 million as compared to $103.2 million for the same period in 2002. The decrease in cash used in the 2003 period was largely attributable to increased spending in the six months ended June 30, 2002 in connection with the ICON modernization and expansion of our titanium dioxide manufacturing facility at Greatham, U.K. and the SAP project within our Pigments segment, both of which were completed in 2002.

Net cash provided by financing activities for the six months ended June 30, 2003 was $103.5 million, as compared to $0.3 million for the same period in 2002. The increase in cash provided by financing activities is mainly a result of increased revolver borrowings to fund operating cash needs as explained above.

**Debt and Liquidity**

As of June 30, 2003, we had $137.2 million of outstanding borrowings and approximately $5 million of outstanding letters of credit under our $400.0 million revolving credit facility which matures in June 2005, and we had $86.4 million in cash balances. We also maintain $25.0 million of short-term overdraft facilities, of which approximately $4 million was available at June 30, 2003. Total liquidity of as of June 30, 2003 was approximately $348 million.

On April 11, 2003, we sold $150 million in aggregate principal amount of 9.875% Senior Notes due 2009 (the "2003 Senior Notes") in a transaction exempt from the registration requirements of the Securities Act of 1933. The offering was priced at 105.25% plus accrued interest from March 1, 2003. We used approximately $26 million of the net proceeds to repay part of the revolving portion of the HI Credit Facilities. The balance of the net proceeds was used primarily to prepay the next 16 months of scheduled amortization due under the term portion of the HI Credit Facilities.

As of June 30, 2003, we had outstanding variable rate borrowings of approximately $1.3 billion and the weighted average interest rate of these borrowings was approximately 5.3%. These rates do not consider the effects of interest rate hedging activities.

We depend upon our revolving credit facility and securitization program to provide liquidity for our operations and working capital needs. If difficult market conditions persist in our business segments because of a continuing weak global economic environment, we may need to seek amendments to certain covenants contained in the HI Credit Facilities. If necessary, we are confident, as in the past, that we will be able to amend such covenants to acceptable levels.

As a result of our prepayment of term debt with the proceeds from the 2003 Senior Notes offering, we do not have scheduled term debt maturities under the HI Credit Facilities until the fourth quarter 2004. The amount due in the fourth quarter 2004 is approximately $73 million. In 2005, our scheduled term debt maturities under the HI Credit Facilities are approximately $84 million.

We believe our current liquidity, together with funds generated by our businesses, is sufficient to meet the short-term and long-term needs of our businesses, including funding operations, making capital expenditures and servicing our debt obligations in the ordinary course. We believe that we are currently in compliance with the covenants contained in the agreements governing all of our debt obligations. We review our financial covenants on a regular basis and will seek amendments to such covenants if necessary.



**Contractual Obligations and Commercial Commitments**

We have various purchase commitments for materials and supplies entered into in the ordinary course of business. Those commitments extend up to ten years and the purchase price is generally based on market prices subject to certain minimum price provisions.

**Restructuring, Plant Closing and Asset Impairment Charges**

As of December 31, 2002, we had a reserve for restructuring and plant closing costs related to the closure of our Polyurethanes' Shepton Mallet, U.K. manufacturing facility of $7.1 million recorded in accrued liabilities. The entire amount was related to workforce reductions. During the first half of 2003, we made cash payments of $3.4 million relating to this charge.

On March 11, 2003, we announced that, in our Polyurethanes segment, we were integrating our global flexible products division into our global derivatives division, and we recorded a charge of $17.1 million in the first quarter 2003. In June 2003, the Polyurethanes segment announced a further restructuring at its Rozenburg, Netherlands site. This charge represents severance costs and is estimated to total approximately $10.4 million, which will be recorded through December 2005. During the three months ended June 30, 2003, $1.4 million was recorded as a restructuring charge. These Polyurethanes segment charges represent severance and are included in accrued liabilities. Also in June 2003, we announced that our Performance Products segment would close a number of plants at our Whitehaven, UK facility and recorded a charge of $20.1 million in the second quarter 2003. This charge represents $11.4 million relating to an impairment of assets at Whitehaven (in connection with the plant shutdowns) and $8.7 million of severance costs. These charges are part of an overall corporate cost reduction program that is expected to be implemented and recorded from 2003 to 2005.

As of June 30, 2003, accrued restructuring and plant closing costs consist of the following (dollars in millions):

| | Accrued Liabilities as of December 31, 2002 | 2003 Charge | Non-cash Portion | Cash Payments | Accrued Liabilities as of June 30, 2003 |
|---|---|---|---|---|---|
| Property, plant and equipment | $ — | $ 11.4 | $ (11.4) | $ — | $ — |
| Workforce reductions | 7.1 | 27.2 | — | (11.4) | 22.9 |
| Total | $ 7.1 | $ 38.6 | $ (11.4) | $ (11.4) | $ 22.9 |

**Off-Balance Sheet Arrangements**

We maintain a securitization program arranged by JP Morgan which commenced on December 21, 2000, under which certain trade receivables are transferred to a qualified special-purpose off-balance-sheet entity through December 2005. This entity is not an affiliate of our Company. The acquisitions of these receivables by the entity are financed through the issuance of commercial paper and/or medium term notes ("MTNs"). The securitization program is an important source of liquidity to our Company.

A portion of the MTNs is denominated in euros and is subject to fluctuation in currency rates against the U.S. dollar. The total outstanding balance of MTNs is approximately $188 million as of June 30, 2003. In addition to MTNs, the special purpose vehicle also maintains an annual commitment to issue commercial paper of up to $125 million. Subject to the annual seasonality of our accounts receivable, we estimate that the total net proceeds from the facility may approach up to $310 million at certain periods during 2003. As of June 30, 2003, the special-purpose entity had total assets (consisting of cash and accounts receivable) of approximately $425 million, and $188 million of MTNs and $122 million of commercial paper outstanding. The weighted average interest rates on the MTNs and commercial paper was 2.4% as of June 30, 2003.



During the six months ended June 30, 2003, we sold approximately $2,055 million in receivables and received $2,074 in proceeds. We recorded $18.1 million as a loss on receivables for the six months ended June 30, 2003. A substantial portion of the loss resulted from losses in foreign exchange on foreign receivables as well as from foreign exchange contracts associated with the program. In accordance with the agreements governing the securitization program, an unconsolidated special purpose entity enters into certain foreign exchange forward contracts for periods aligned with the average maturity of receivables sold into the program. In addition to foreign exchange gains and losses on foreign receivables sold into the program, the periodic gains and losses associated with such contracts are also recorded by our Company as part of the gain or loss on sale of receivables.

The HI Credit Facilities require a mandatory prepayment to the extent that proceeds from the securitization facility exceed $310 million. To date, proceeds from the securitization program have not exceeded this limit.

**Investing Activities**

Capital expenditures for the six months ended June 30, 2003 were $54.0 million, a decrease of approximately $40.8 million as compared to $94.8 million for the same period in 2002. The decrease was largely attributable to expenditures in connection with the ICON 2 modernization and expansion of our titanium dioxide manufacturing facility at Greatham, U.K. and the SAP project in our Pigments segment, both of which were completed in 2002. We expect to spend up to approximately $180 million during 2003 on capital projects and investments, including our investments in our Chinese MDI joint ventures.

In connection with our agreements with our Rubicon and Louisiana Pigment joint ventures, we are obligated to fund our proportionate share of capital expenditures. During the six months ended June 30, 2003 and 2002, we invested $1.5 million and $1.6 million, respectively, in Rubicon. During the six months ended June 30, 2003 and 2002, we received $0.7 million and $2.2 million, respectively, from Louisiana Pigment.

**Environmental Matters**

*General*

Our operations are subject to extensive environmental laws and regulations concerning emissions to the air, discharges to surface and subsurface waters, and the generation, handling, storage, transportation, treatment and disposal of waste materials, as adopted by various governmental authorities in the jurisdictions in which we operate. We make every reasonable effort to remain in full compliance with existing governmental regulations. Accordingly, we may incur costs for capital improvements and general compliance under environmental laws, including costs to acquire, maintain and repair pollution control equipment. We cannot provide assurances that material capital expenditures beyond those currently anticipated will not be required under environmental laws.

Capital expenditures are currently planned under national legislation implementing the European Union ("EU") Directive on Integrated Pollution Prevention and Control. Under this directive the majority of our European plants will, over the next few years, be required to obtain governmental authorizations which will regulate air and water discharges, waste management and other matters relating to the impact of operations on the environment, and to conduct site assessments to evaluate environmental conditions. Although the implementing legislation in most Member States is not yet in effect, it is likely that additional expenditures may be necessary in some cases to meet the requirements of authorizations under this directive. In particular, we believe that related expenditures to upgrade our wastewater treatment facilities at several sites may be necessary and associated costs may be material. Wastewater treatment upgrades unrelated to this initiative also are planned at certain facilities. In addition, we may also incur material expenditures, beyond currently anticipated expenditures, in



complying with EU Directives, including the Directive on Hazardous Waste Incineration, the Seveso II Directive, which governs major accident hazards, as well as the Water Framework Directive. It is also possible that additional expenditures to reduce air emissions at two of our U.K. facilities may be material. Capital expenditures and, to a lesser extent, costs and operating expenses relating to environmental matters will be subject to evolving regulatory requirements and will depend on the timing of the promulgation and enforcement of specific standards which impose requirements on our operations. Therefore, we cannot provide assurances that material capital expenditures beyond those currently anticipated will not be required under environmental laws.

We have established financial reserves relating to environmental restoration and remediation programs, which we believe are sufficient for known requirements. In connection with various acquisitions, the acquisition agreements generally provide for indemnification for environmental pollution existing on the date of acquisition. Liabilities are recorded when site restoration and environmental remediation and clean-up obligations are either known or considered probable and can be reasonably estimated. Liabilities are based upon all available facts, existing technology, past experience and cost-sharing and indemnification arrangements (as to which, we consider the viability of other parties).

A total of $23.2 million has been accrued related to environmental matters as of June 30, 2003. Estimates of ultimate future environmental restoration and remediation costs are inherently imprecise due to currently unknown factors such as the magnitude of possible contamination, the timing and extent of such restoration and remediation, the determination of our liability in proportion to other parties, the extent to which such costs are recoverable from insurance, and the extent to which environmental laws and regulations may change in the future. However, it is not anticipated that any future costs, in excess of those that have been accrued by us, will be material to our results of operations or financial position as a result of compliance with current environmental laws and regulations.

*Potential Liabilities*

Given the nature of our business, violations of environmental laws may result in restrictions imposed on our operating activities, substantial fines, penalties, damages or other costs, any of which could have a material adverse effect on our business, financial condition, results of operations or cash flows. We are aware of the following matters:

Huntsman Petrochemical Corporation and the Texas Commission on Environmental Quality (the "TCEQ," formerly the Texas Natural Resource Conservation Commission or TNRCC) settled outstanding allegations of environmental regulatory violations at our Port Neches, Texas, facilities on May 29, 2003. The settlement imposes penalties totaling $352,250 and requires that we apply for an air emissions permit for the joint wastewater treatment plant that services all of the Port Neches facilities. Less than $100,000 of the aforementioned penalties are allocable to our Company. Although management does not anticipate it, it is possible that the terms of a joint wastewater treatment plant air permit may cause it to incur substantial costs that could be material.

On October 6, 2002, a leak of sulphuric acid from two tanks located near our Whitehaven, U.K. plant was discovered. About 342 to 347 tonnes of acid were released onto the ground and into the soil near the tanks. Although we took immediate steps to contain the spillage and recover acid, a quantity of acid reached a nearby beach via a geological fault. We believe that we did not own the tanks; however, we did own the acid in the tanks. The U.K. Environmental Authority ("EA") and the Health and Safety Executive (the "HSE") are investigating the incident, and the HSE has issued three Improvement Notices requiring corrective action. Although we can give no assurances, based on currently available information and our understanding of similar investigations and penalties in the past, we believe that, if any charges are brought or additional corrective action orders issued and we



are ultimately found to be legally responsible, the probable penalties would not be material to our financial position or results of operations.

Our subsidiary, Tioxide Europe S.L. ("Tioxide"), is in the process of voluntarily removing filter salts from a property previously operated by Almagrera in Spain. Almagrera supplied sulphuric acid to Tioxide. Under an agreement with Almagrera, Tioxide had for some time supplied filter salts to Almagrera to be used in the manufacture of sulphuric acid. When Almagrera filed for bankruptcy and closed its plant by the end of 2001, a large pile of stored filter salts was found on its premises. Tioxide estimates the cost of removal and disposal of the filter salts will total €1.7 million. As of June 30, 2003, Tioxide had spent €0.5 million. Another €1.2 million will likely be spent during the balance of 2003. We do not believe expenditures in connection with this matter will be material.

We are aware that there is or may be soil or groundwater contamination at some of our facilities resulting from past operations. Based on available information and the indemnification rights (including indemnities provided by Huntsman Specialty Chemicals Corporation ("Huntsman Specialty"), ICI, Rhodia S.A. and The Dow Chemical Company, for the facilities that each of them transferred to us), we believe that the costs to investigate and remediate known contamination will not have a material adverse effect on our financial condition, results of operations or cash flows; however, we cannot give any assurance that such indemnities will fully cover the costs of investigation and remediation, that we will not be required to contribute to such costs or that such costs will not be material.

By letter dated March 6, 2003, our subsidiary, Huntsman Ethyleneamines Ltd., was notified by the TCEQ of a probable enforcement action arising out of the inspection of our Freeport, Texas facility on December 16-19, 2002. Seven types of violations relating to Texas Clean Air Act requirements were cited. No penalty demand has yet been made by the TCEQ, although penalties are expected.

*MTBE Developments*

The presence of MTBE in some groundwater supplies in California and other states (primarily due to gasoline leaking from underground storage tanks) and in surface water (primarily from recreational watercraft) has led to public concern about MTBE's potential to contaminate drinking water supplies. Heightened public awareness regarding this issue has resulted in state, federal and foreign initiatives to rescind the federal oxygenate requirements for reformulated gasoline or restrict or prohibit the use of MTBE in particular. For example, the California Air Resources Board adopted regulations that would prohibit the addition of MTBE to gasoline as of January 1, 2004. Certain other states have also taken actions to restrict or eliminate the future use of MTBE. In connection with the proposed ban, the State of California requested that the U.S. Environmental Protection Agency (the "EPA") waive the federal oxygenated fuels requirements of the federal Clean Air Act for gasoline sold in California. The EPA denied the State's request on June 12, 2001. Certain of the state bans have been challenged in court as unconstitutional (in light of the Clean Air Act); to date, these challenges have not been successful. We are unable to predict what the short- and long-term effects of these matters will be.

Bills have been introduced in the U.S. Congress to accomplish similar goals of curtailing or eliminating the oxygenated fuels requirements in the Clean Air Act, or of curtailing MTBE use. To date, no such legislation has become law. Whether a ban or substantial restrictions on MTBE use will become federal law in the future is unknown at this time.

In addition, on March 20, 2000, the EPA announced its intention, through an advanced notice of proposed rulemaking, to phase out the use of MTBE under authority of the federal Toxic Substances Control Act. In its notice, the EPA also called on the U.S. Congress to restrict the use of MTBE under the Clean Air Act. Any phase-out of or future regulation of MTBE in California (in which a significant amount of MTBE is consumed), in other states, or nationally may result in a significant reduction in demand for MTBE and may result in a material loss in revenues or material costs or expenditures.



In Europe, the EU issued a final risk assessment report on MTBE on September 20, 2002. While no ban of MTBE was recommended, several risk reduction measures relating to storage and handling of MTBE-containing fuel were recommended. Separate from EU action, Denmark entered into a voluntary agreement with refiners to reduce the sale of MTBE in Denmark. Under the agreement, use of MTBE in 92- and 95-octane gasoline in Denmark ceased by May 1, 2002; however, MTBE will still be an additive in a limited amount of 98-octane gasoline sold in about 100 selected service stations in Denmark.

In the event that there should be a phase-out of MTBE in the United States, we believe that we will be able to export MTBE to Europe or elsewhere or use its co-product tertiary butyl alcohol ("TBA") to produce saleable products other than MTBE. We believe that the low production costs at our PO/MTBE facility will put us in a favorable position relative to other higher cost sources (primarily, on-purpose manufacturing). If we opt to produce products other than MTBE, necessary modifications to our facilities may require significant capital expenditures and the sale of the other products may produce a materially lower level of cash flow than the sale of MTBE.

In addition, while there has been litigation concerning the environmental effects of MTBE, we are not a defendant in any pending MTBE case, and we believe that we would have valid defenses in the event such a case were brought against us. However, we cannot give any assurance that we will not be named in litigation relating to the environmental effects of MTBE or that such litigation will not have a material adverse effect on our business, financial condition, results of operations or cash flows.

**Recent Financial Accounting Standards**

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, "*Accounting for Asset Retirement Obligations*." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived assets. As required by SFAS No. 143, we adopted this new accounting standard on January 1, 2003. We believe this statement's impact will not be significant; however, standard-setters continue to debate the statement's applicability to assets where the timing of any ultimate obligation is indefinite.

In April 2002, the FASB issued SFAS No. 145, "*Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Other Technical Corrections*." In addition to amending or rescinding pronouncements to make various technical corrections, clarify meanings or describe applicability, SFAS No. 145 precludes companies from recording gains or losses from extinguishment of debt as an extraordinary item. We were required to adopt this statement as of January 1, 2003. The adoption of SFAS No. 145 did not have a material effect on our consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, "*Accounting for Costs Associated With Exit or Disposal Activities*." SFAS No. 146 requires recording costs associated with exit or disposal activities at their fair values when a liability has been incurred. Under previous guidance, certain exit costs were accrued upon management's commitment to an exit plan, which is generally before an actual liability has been incurred. We adopted this pronouncement in the first quarter of 2003. The adoption of SFAS No. 146 on January 1, 2003 did not have a material effect on our consolidated financial statements.

In January 2003, the FASB issued Financial Interpretation ("FIN") No. 45, "*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others*." FIN No. 45 requires recognition of a liability for the obligation undertaken upon issuing a guarantee. This liability would be recorded at the inception date of the guarantee and would be measured at fair value. The disclosure provisions of the interpretation are effective for the financial statements as of December 31, 2002. The liability recognition provisions apply prospectively to any guarantees issued or



modified after December 31, 2002. The adoption of FIN No. 45 did not have a material effect on our consolidated financial statements.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." FIN No. 46 addresses the requirements for business enterprises to consolidate related entities, for which they do not have controlling interests through voting or other rights, if they are determined to be the primary beneficiary as a result of variable economic interests. FIN No. 46 provides guidance for determining the primary beneficiary for entities with multiple economic entities with multiple economic interests. Transfers to a qualifying special purpose entity are not subject to this interpretation. FIN No. 46 is effective at the time of investment for interests obtained in a variable economic entity after January 31, 2003. The adoption of FIN No. 46 is not expected to have a material impact on our consolidated earnings, financial position, or cash flows.

In May 2003, FASB issued SFAS No. 149, "*Amendment of Statement 133 on Derivative Instruments and Hedging Activities.*" SFAS No. 149 amends and clarifies accounting for derivative instruments and hedging activities under SFAS No. 133. This statement is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003, with this guidance applied prospectively. This statement had no impact on our results of operations or financial position at June 30, 2003 and we do not expect this statement to have a material impact on its consolidated financial statements.

***Critical Accounting Policies***

Information about our critical accounting policies for the six months ended June 30, 2003 does not differ materially from that discussed in our Annual Report on Form 10-K for 2002.

***Changes in Financial Condition***

The following information summarizes our working capital position as of June 30, 2003 and December 31, 2002 (dollars in millions):

| | June 30, 2003 | December 31, 2002 | Difference |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and cash equivalents | $ 86.4 | $ 75.4 | $ 11.0 |
| Accounts and notes receivable | 542.7 | 467.9 | 74.8 |
| Inventories | 625.7 | 561.3 | 64.4 |
| Prepaid expenses | 17.2 | 22.0 | (4.8) |
| Deferred income taxes | 31.2 | 31.2 | — |
| Other current assets | 76.1 | 75.4 | 0.7 |
| Total current assets | 1,379.3 | 1,233.2 | 146.1 |
| **Current liabilities:** | | | |
| Accounts payable | 345.4 | 314.8 | 30.6 |
| Accrued liabilities | 553.3 | 523.8 | 29.5 |
| Current portion of long-term debt | 1.3 | 43.9 | (42.6) |
| Other current liabilities | 23.9 | 28.7 | (4.8) |
| Total current liabilities | 923.9 | 911.2 | 12.7 |
| **Working capital** | $ 455.4 | $ 322.0 | $ 133.4 |

As of June 30, 2003, our working capital increased by $133.4 million as a result of the net impact of the following significant changes:

- The increase in cash balances of $11.0 million results from the matters identified in the Consolidated Statement of Cash Flows set out in our consolidated financial statements.
- The increase in accounts receivable of $74.8 million is due primarily to higher average selling prices, resulting partly from increased underlying feedstock and raw material prices and a stronger Euro.
- The increase in inventories of $64.4 million is mainly due to an increase in feedstock and raw material prices, an increase in inventory levels (largely due to seasonality), and foreign currency movements.
- Accounts payable increased $30.6 million mainly due to a $21.5 million increase in borrowings under our overdraft facility, in addition to an increase in feedstock and raw material prices.
- The increase in accrued liabilities of $29.5 million results primarily from restructuring accruals made during the first six months of 2003 totaling $38.6 million and which relate to restructuring efforts in our Polyurethanes and Performance Products segments. These charges are part of an overall corporate cost reduction program that is expected to be implemented and recorded from 2003 to 2005.
- The decrease in current portion of long-term debt of $42.6 million is due to the prepayment of scheduled debt payments on the term portion of the HI Credit Facilities with the proceeds of the 2003 Senior Notes issued on April 11, 2003.

***Cautionary Statement for Forward-Looking Information***

Certain information set forth in this report contains "forward-looking statements" within the meaning of the federal securities laws. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions and other information that is not historical information. In some cases, forward-looking statements can be identified by terminology such as "believes," "expects," "may," "will," "should," or "anticipates," or the negative of such terms or other comparable terminology, or by discussions of strategy. We may also make additional forward-looking statements from time to time. All such subsequent forward-looking statements, whether written or oral, by us or on our behalf, are also expressly qualified by these cautionary statements.

All forward-looking statements, including without limitation, management's examination of historical operating trends, are based upon our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them, but there can be no assurance that management's expectations, beliefs and projections will result or be achieved. All forward-looking statements apply only as of the date made. We undertake no obligation to publicly update or revise forward-looking statements to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in or contemplated by this report. The following are among the factors that could cause actual results to differ materially from the forward-looking statements. There may be other factors, including those discussed elsewhere in this report, that may cause our actual results to differ materially from the forward-looking statements. Any forward-looking statements should be considered in light of the risk factors specified in our 2002 annual report on Form 10-K, some of which are summarized below.



- Demand for some of our products is cyclical and we may experience prolonged depressed market conditions for our products.
- We have substantial debt that we may be unable to service and that restricts our activities, which could adversely affect our ability to meet our obligations.
- Certain events affecting HMP and Huntsman LLC could result in a "change of control" under the agreements and instruments governing our debt.
- If our subsidiaries do not make sufficient distributions to us, then we will not be able to make required payments on our debt.
- The significant price volatility of many of our raw materials may result in increased costs.
- The industries in which we compete are highly competitive and we may not be able to compete effectively with our competitors that are larger and have greater resources.

- If we are unable to integrate successfully the businesses that we acquire, then our ability to meet our debt service obligations may be impaired.
- Our ability to repay our debt may be adversely affected if our joint venture partners do not perform their obligations or we have disagreements with them.
- Pending or future litigation or legislative initiatives related to MTBE may subject us to products or environmental liability or materially adversely affect our sales.
- If we are unable to efficiently obtain raw materials on reasonable terms, our business could be materially adversely affected.
- If we are unable to maintain our relationships with Huntsman LLC then we may not be able to replace on favorable terms our contracts with them or the services and facilities that they provide, if at all.
- We are subject to many environmental and safety regulations that may result in unanticipated costs or liabilities.
- Huntsman LLC may have conflicts of interest with us, and these conflicts could adversely affect our business.
- Our business may be adversely affected by international operations and fluctuations in currency exchange rates.
- Our business is dependent on our intellectual property. If our patents are declared invalid or our trade secrets become known to our competitors, our ability to compete may be adversely affected.
- Terrorist attacks, such as the attacks that occurred on September 11, 2001, instability in Venezuela and the Middle East and other attacks or acts of war may adversely affect the markets in which we operate, our operations and our profitability.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, including changes in interest rates, currency exchange rates and certain commodity prices. Our exposure to foreign currency market risk is somewhat limited since our sales prices are typically denominated in euros or U.S. dollars. From time to time, we may enter into foreign currency derivative instruments to minimize the short-term impact of movements in foreign currency rates. Our exposure to changing commodity prices is somewhat limited since the majority of our raw materials are acquired at posted or market related prices, and sales prices for finished products are generally at market related prices which are set on a quarterly basis in line with industry practice.



To manage the volatility relating to these exposures, from time to time, we enter into various derivative transactions. We hold and issue derivative financial instruments for economic hedging purposes only.

Our cash flows and earnings are subject to fluctuations due to exchange rate variation. Short-term exposures to changing foreign currency exchange rates at certain foreign subsidiaries are generally first netted with exposures of other subsidiaries and the remaining exposures then, from time to time, may be managed through financial market transactions, principally through the purchase of forward foreign exchange contracts (with maturities of nine months or less) with various financial institutions, to reflect the currency denomination of our cash flows. We do not hedge our currency exposures in a manner that would entirely eliminate the effect of changes in exchange rates on our cash flows and earnings. As of June 30, 2003, we had no outstanding forward foreign exchange contracts. Predominantly, our hedging activity is to sell forward the majority of our surplus non-dollar receivables for U.S. dollars.

Under the terms of the HI Credit Facilities, we are required to hedge a significant portion of our floating rate debt. As of June 30, 2003, we had entered into approximately $357 million notional amount of interest rate swap, cap and collar transactions, which have remaining terms ranging from approximately one to fifteen months. The majority of these transactions hedge against movements in U.S. dollar interest rates. The U.S. dollar swap transactions obligate us to pay fixed amounts ranging from approximately 5.84% to approximately 6.91%. The U.S. dollar collar transactions carry floors ranging from 5.0% to 6.25% and caps ranging from 6.25% to 7.25%. We have also entered into a euro-denominated swap transaction that obligates us to pay a fixed rate of approximately 4.32%. We do not hedge our interest rate exposure in a manner that would entirely eliminate the effects of changes in market interest rates on our cash flow and earnings. Assuming a 1.0% (100 basis point) increase in interest rates, without giving effect to interest rate hedges, the effect on the annual interest expense would be an increase of approximately $13 million. This increase would be reduced by approximately $3.6 million, on an annualized basis, as a result of the effects of the interest rate swap, cap and collar transactions described above.

In order to reduce our overall raw material costs, we enter into various commodity contracts to hedge our purchase of commodity products. We do not hedge our commodity exposure in a manner that would entirely eliminate the effects of changes in commodity prices on our cash flows and earnings. At June 30, 2003, we had forward purchase contracts for 30,000 tonnes of naphtha and 54,000 tonnes of other hydrocarbons, which do not qualify for hedge accounting. Assuming a 10% increase or a 10% decrease in the price per ton of naphtha, the change would result in losses and gains of approximately $0.7 million, respectively.

## ITEM 4. CONTROLS AND PROCEDURES

(a) Based on the evaluation of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) required by paragraph (b) of Rules 13a-15 or 15d-15, our chief executive officer and our chief financial officer, have concluded that, as of June 30, 2003, our disclosure controls and procedures were effective.

(b) There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



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## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are a party to various proceedings instituted by private plaintiffs, governmental authorities and others arising under provisions of applicable laws, including various environmental, products liability and other laws. Except as otherwise disclosed in this report, and based in part on the indemnities provided to us in connection with the transfer of businesses to us and our insurance coverage, we do not believe that the outcome of any of these matters will have a material adverse effect on our financial condition or results of operations. See "Part I—Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations—Environmental Matters" for a discussion of environmental proceedings.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

10.1+ Supply Agreement, dated June 30, 2003, between Huntsman Holland BV and Huntsman Advanced Materials LLC

10.2+ Service Level Agreement, dated June 30, 2003, among Huntsman International LLC, Huntsman (Europe) BVBA, and Huntsman Advanced Materials LLC

10.3+ Supply Agreement, dated June 30, 2003, between Huntsman Holland BV and Huntsman Advanced Materials LLC

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**+ Certain confidential portions of this exhibit were omitted by means of redacting a portion of the text. This exhibit, with the omitted information, has been filed separately with the Secretary of the Commission pursuant to our Company's Application for Confidential Treatment under Rule 24b-2 under the Securities Exchange Act of 1934.**

(b) Reports Submitted on Form 8-K:

We filed current reports on Form 8-K on the following dates:

April 2, 2003, with respect to Item 9;

April 11, 2003, with respect to Item 9;

April 28, 2003, with respect to Items 9 and 12; and

July 29, 2003, with respect to Item 12.



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## SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HUNTSMAN INTERNATIONAL LLC

/s/ J. KIMO ESPLIN

J. Kimo Esplin
*Executive Vice President and Chief Financial Officer*
(Authorized Signatory and Principal Financial and Accounting Officer)

Date: August 14, 2003

**Exhibit Index**

| | |
|---|---|
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**CONFIDENTIAL TREATMENT REQUESTED**

*** Certain portions of this exhibit were omitted and marked with "***". Copies of this exhibit containing the omitted information have been filed separately with the Securities and Exchange Commission pursuant to the Company's Application for Confidential Treatment under Rule 24b-2 under the Securities Exchange Act of 1934.

**Exhibit 10.1**

**SUPPLY AGREEMENT**

This agreement is entered into on June 30, 2003, between:

***HUNTSMAN HOLLAND BV*** (hereinafter referred to as "Huntsman"), having its registered office at Merseyweg 10, NL-3197 KG Botlek RT, Rozenburg, The Netherlands; and

***HAM LLC*** (hereinafter referred to as "Customer"), having its registered office at 500 Huntsman Way, Salt Lake City, UT 84108

**Conditions Precedent:** this agreement will only become effective upon the consummation of the proposed acquisition of the Vantico Group of Companies by Matlin Patterson.

Huntsman and Customer have agreed subject to the Conditions Precedent above on the following terms and conditions for the sale and supply of certain products by Huntsman (seller) to Customer (buyer).

**Products:** JEFFAMINES® including those listed in the Price/Price Review clause of this agreement.

**Material Safety Data Sheets (MSDS):** Attached hereto in Annex 1.

**Specifications:** As attached hereto in Annex 2.

**Duration:** From the date of consummation of the proposed acquisition of the Vantico Group of Companies by Matlin Patterson until *** ("Initial Duration"). Thereafter this Agreement shall automatically continue for successive periods of one calendar year, unless either party terminates this Agreement by giving at least six (6) months written notice prior to the end of the Initial Duration or, thereafter, prior to the end of the then current calendar year.

*** Portions of this paragraph have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

**Quantity—Huntsman's Maximum Supply Obligation:** *** te per calendar year in total for the various grades listed in the Price/Price Review clause of this agreement. Quantities for the remaining part of 2003 after the start date of the Initial Duration shall be calculated from this on a pro-rata basis.

*** Portions of this paragraph have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

**Quantity—Customer's Minimum Purchase Obligation:** *** te per calendar year in total for the various grades listed in the Price/Price Review clause of this agreement. Quantities for the remaining part of 2003 after the start date of the Initial Duration shall be calculated from this on a pro-rata basis. In the event that Customer's total annual requirement for Product falls below the minimum obligation to purchase, Customer will not be obligated to purchase from Huntsman quantities in excess of those required.

*** Portions of this paragraph have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

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**Forecasting**:

Annual Forecast: For the year 2003, Customer expects its requirements for the products to be *** te in total for the various grades listed in the Price/Price Review clause of this agreement. Requirements for the remaining part of 2003 after the start date of the Initial Duration shall be calculated from this on a pro-rata basis. Customer will provide to Huntsman an annual forecast for each calendar year following 2003 during the fourth quarter of the preceding calendar year.

*** Portions of this paragraph have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

Rolling Forecast: The Customer shall provide Huntsman with a rolling three month forecast of the quantities required by Customer location and grade. The first month of this forecast shall be regarded as a binding commitment.

**Quality:** Huntsman warrants that the products supplied to Customer hereunder shall meet the attached specifications. Otherwise, Huntsman makes no other warranty, whether express or implied, including warranties of merchantability or fitness for any particular purpose or otherwise.

**Price/Price Review:** Prices for the year 2003 are as follows and subject to the price matching clause below:

Drum pricing is also valid for grouped products.

| GRADE | | PRICE (EURO/TE) |
|---|---|---|
| D 230 | Bulk (min 24-25 T) | *** DDP European Locations |
| | IBC full truck delivered | *** |
| **DRUMS** | | |
| D 230 | Min. 10 T lots | *** |
| | Min. 5 T lots | *** |
| D 400 | Min. 10 T lots | *** |
| | Min. 5 T lots | *** |
| D 2000 | Min. 10 T lots | *** |
| | Min. 5 T lots | *** |
| T 403 | Min. 10 T lots | *** |
| | Min. 5 T lots | *** |
| Acc. 399 | Min. 10 T lots | *** |
| | Min. 5 T lots | *** |

*** Portions of this table have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

For each subsequent calendar year, the price will be mutually agreed during the fourth quarter of the preceding calendar year.

**Payment Term:** End of the month of invoice.

| GRADE | VOLUME (LBS) | PRICE (USD/LB) |
|---|---|---|
| RUBINATE 1820 | *** | *** |
| RUBINATE 2020 | *** | *** |
| RUBINATE 3050 | *** | *** |
| RUBINATE 5005 | *** | *** |

*** Portions of this table have been omitted pursuant to a request for confidential treatment filed separately with the Commission.



For each subsequent calendar year, prices will be mutually agreed during the fourth quarter of the preceding calendar year.

**Payment Term:** End of the month of invoice.

**Delivery Terms:** Delivered Duty Paid (DDP—Incoterms 2000) to any customer site.

**Shipment—Minimum Packaging**:

Parties shall from time to time separately agree on required transportation, product handling and ordering procedures.

**Other Terms:** Other ordering, quality control, transportation, product handling and other supply chain formalities will be separately agreed between the parties from time to time. In addition, Huntsman's General Terms and Conditions of Sale ("GT&C") shall apply. In case of deviation between these GT&C and the terms of this Agreement, the latter shall prevail.

**Applicable Law—Jurisdiction:** Dutch law—Courts of Rotterdam, The Netherlands.

The parties have caused this Agreement to be executed in two (2) originals by their duly authorized and empowered representatives and each party acknowledges having receiving its original.

**Huntsman Holland BV**

by: /s/ M.J. VAN DE MEER

Name: MJ van de Meer
Title: Managing Director
Date: 30 June 2003

**Huntsman Advanced Materials LLC**

by: /s/ JOHN R. HESKETT

Name: John R. Heskett
Title: Vice President
Date: June 30, 2003

*Annex 1:* Material Safety Data Sheets

*Annex 2:* Specifications of Products

QuickLinks

Exhibit 10.1

QuickLinks -- Click here to rapidly navigate through this document

**CONFIDENTIAL TREATMENT REQUESTED**

*** Certain portions of this exhibit were omitted and marked with "***". Copies of this exhibit containing the omitted information have been filed separately with the Securities and Exchange Commission pursuant to the Company's Application for Confidential Treatment under Rule 24b-2 under the Securities Exchange Act of 1934.

**Exhibit 10.2**

**SERVICE LEVEL AGREEMENT**

This Agreement is entered into between Huntsman International LLC, a company organised and existing under the laws of Delaware, USA and Huntsman (Europe) BVBA, a company organized and existing under the laws of Belgium (together with their subsidiaries, hereinafter called "Huntsman"), and Huntsman Advanced Materials LLC and each of its subsidiaries (collectively ("HAM").

WHEREAS, Huntsman and HAM constitute an international group of enterprises controlled by Huntsman Holdings LLC and Huntsman Group, Inc.;

WHEREAS, HAM has a need for advice and assistance in the areas of, among others, planning and asset management, human resources and labor relations ("HR"), environmental, health and safety ("EHS"), finance, legal matters, tax and treasury, information technology ("IT"), purchasing accommodations, communications and public affairs (collectively the "Services");

WHEREAS, Huntsman is staffed with highly experienced personnel and has therefore been selected to provide and coordinate Services to HAM, by drawing on its own resources as well as on those available from third parties;

WHEREAS, HAM is staffed with highly experienced personnel and may be in the future selected to provide Services to Huntsman, by drawing on its own resources as well as those available from third parties;

WHEREAS, this Agreement is being entered into for the benefit of both Huntsman and HAM;

WHEREAS, Huntsman is willing to render Services to HAM and HAM desires to use such Services;

WHEREAS, HAM is willing to render Services to Huntsman and Huntsman may desire to use such Services;

WHEREAS, Huntsman and HAM desire to share in both the costs and benefits of any such Services rendered;

NOW THEREFORE, in consideration of the premises and mutual covenants hereinafter contained, the parties hereby mutually agree as follows:

1. *Engagement*

1.1. As of the effective date of this Agreement, HAM engages Huntsman to render Services as described more fully in Section 2. below to commence as soon as practicable and to continue as required by HAM throughout the term of this Agreement. HAM hereby requests Huntsman to perform these Services on a continuing basis without any further specific request.

1.2. Huntsman shall provide to HAM, at a time consistent with the budget process of the parties hereto, a budget of costs proposed to be incurred pursuant to this Agreement for that calendar year.

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2. *Services*

During the term of this Agreement, subject to the terms and conditions stated herein, Huntsman will perform, or cause to be performed by qualified and authorized advisors, the following services for the benefit of HAM.

2.1. In the area of planning and asset management, Huntsman will provide:

a) industry economic analysis;

b) advice and assistance in the analysis of viability and financial alternatives for acquisition and other business development opportunities;

c) information and assistance in evaluating potential acquisition candidates;

d) information and assistance in the development of acquisition criteria;

e) assistance in negotiation of acquisitions and divestitures;

f) information and assistance in developing joint venture opportunities; and

g) information and assistance in developing normal plant security.

2.2. In the area of human resources and labor relations, Huntsman will provide:

a) supervision and assistance in development of benefit programs, administering expatriate employee programs and other personnel matters;

b) advice and assistance in human resources activities including succession planning, senior staffing, out-placement counseling, processing of grievances, suggestion awards, management awards, management training and development, organizational development, consultation on total quality management, implementation of ISO-9000 standards performance management, employee relations, change management and employee communications; and

c) advice and assistance concerning pension plans, welfare benefit plans, plans relating to health care, life insurance and disability, compensation plans, fringe benefits, labor evaluation systems, local human resource policy, severance, retirement and relocation costs.

2.3. In the areas of tax, treasury and internal audit Huntsman will provide:

a) advice and assistance in establishing and maintaining short and long term credit facilities;

b) advice and assistance in maintaining and supporting foreign exchange management capability;

c) review of cash management practices to ensure optimum utilization of funds, including support in dealing with local banking establishments;

d) purchase, allocation and coordination of claims under global insurance policies;

e) advice and assistance in connection with loss prevention, risk management, legal risk, insurance matters, trends and changes in policies;

f) advice and assistance concerning taxation matters including development of tax planning opportunities, compliance with local country tax filing responsibilities, and general consultations;

g) technical assistance in accounting issues and inventory management;

h) review of investment decisions and financial policies;



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i) advice and assistance in issuing accounting policies and procedures;

j) advice and assistance in financial control systems auditing including preparation of reports and results, discussion of results with business group management; and

k) reviews of administrative and internal controls in the accounting, financial and operating areas, reports of findings and recommendations to improve the quality of control systems and the integrity of the financial information reported, based on the following guidelines and objectives:

    i) to verify that accounting and administrative procedures are in place to ensure the physical custody and safety of corporate assets and the integrity of financial transactions and reporting;

    ii) to ensure that corporate resources are utilized with economy, efficiency and timeliness;

    iii) to determine compliance with laws and regulations and company policies and procedures;

    iv) to ensure that the activities of the organization are consistent with the established goals and objectives of the board of directors; and

    v) to identify potential areas of risk and exposure to the organization.

2.4. In the area of legal matters, Huntsman will provide advice and assistance concerning legal matters, including preparation and review of legal documents, applications, renewals and compliance with local legal requirements for patents, trademarks, licenses, technology exchange agreements, litigation matters, legal or business structure changes, general consultations, sale or purchase of assets, acquisition, reorganization and mergers.

2.5. In the area of communications and public affairs, Huntsman will undertake internal and external communication on behalf of HAM and its management team, will support HAM by managing the content on its intranet and internet service, provide regular news service, letters from senior manager, advice on ongoing communications, sourcing external suppliers, change management communications support, marketing communications report, public affairs and financial communications support, customer and supplier communication support and media relations. Huntsman will also supply communications training, crisis communications training and media training. Huntsman will also assist the HAM management ream in creating a culture of open and honest communication throughout the business, in line with that adopted by Huntsman's business.

2.6. In the area of finance, accounting and IT matters Huntsman will:

a) Advise and plan the development and design of efficient cost effective management information systems, including planning, hardware and software, communication procedures and organisation. Manage the implementation and operation of management information systems, including timetables, data content and formats, monitoring and control. Provide management information systems to the business community, including development, training and support. Manage the development and cost efficient running of the ERP system, data warehouse, the WAN and the office environment.

b) Provide the development and design of new finance and IT organisation and processes to deliver a more cost effective organisation. Manage the implementation and operation of new structures, including single entity operation in Europe, leveraging the use of existing HAM and Huntsman structures and resources worldwide, management of major contracts.



c) Provide internal Huntsman corporate reporting, including operation of the TM1 database.

d) Provide and operate the HAM global financial consolidation system, including preparation of SEC filings, setting timetables, data format and content, issuing of accounting policies and procedures, monitoring and control processes.

e) Operate forecasting and budgeting procedures, provide cost control.

f) Operate transfer pricing policies and processes.

g) Manage HAM's finance and IT compliance with relevant external and corporate standards and policies, including requirements of the Sarbanes Oxley Act.

h) Assist line management of HAM's finance and IT organisation in support of the above. Manage HR related issues, organisational development, people/career development, succession planning, recruitment, etc. Leadership of HAM's IT strategies, tactics and policies.

2.7. In the area of EHS matters Huntsman will provide:

a) Supervision and assistance in development of EHS programs, administering implementation of global EHS standards, the development and execution of compliance auditing processes, and management/resolution of EHS audit findings.

b) Advice and assistance in EHS activities including crisis management planning, EHS statistics reporting and incident notification, administration of security of sites and personnel, risk management processes, EHS management training and development, EHS organizational development, consultation on development of Responsible Care Management Systems, and

c) Advice and assistance concerning HAM's merger and acquisition due-diligence activities, regulatory advocacy, medical/industrial hygiene program development, review of EHS/risk management capital expenditures, transportation/distribution incident response systems, and product stewardship processes and associated training.

2.8. In the area of purchasing, Huntsman will:

a) provide purchasing strategies, tactics and policies;

b) oversee operational (site based) purchasing organizations;

c) oversee/control all spend through Huntsman's organisation;

d) negotiate all major spend items/contracts;

e) provide the annual purchasing and logistics budget for all variable and fixed costs as support to the business budget processes;

f) provide monthly/quarterly forecast at all agreed levels to the business and the corporate requirements;

g) provide the development of procurement processes, procedures and systems support in order to manage and control HAM's spend at all levels in the organisation; and

h) oversee HAM's purchasing and logistics' organisation compliance with corporate standards and policies.

2.9. In addition to the above Services, Huntsman agrees that Paul Hulme, Peter Bentley, Christophe Struyvelt and Mark Adams (or their successors) shall dedicate substantially all of



their working time to supporting HAM (the "Additional Support"). HAM agrees to reimburse Huntsman for all salaries, benefits, and out-of-pocket expenses associated with these people.

3. *Additional Services*

3.1. From time to time, HAM may request additional Services hereunder, or Huntsman may request HAM to provide Services to Huntsman. Any such Services will be provided in accordance with the terms hereof, including section 4 hereof.

4. *Service Fee*

4.1. In consideration of the Services rendered hereunder, each party utilizing service agrees and undertakes to reimburse the other party by payment of a service fee which will be agreed between the parties for each calendar year.

4.2. The service fee shall reflect all direct costs, and a fair and equitable allocation of all indirect costs, incurred in rendering Services, including:

(i) all cost of personnel, including salaries, wages and fringe benefits, and all out-of-pocket travel, living or other expenses incurred in connection with the services and other related costs of personnel engaged in rendering the services;

(ii) cost of equipment; and

(iii) all overhead expenses.

4.3. For 2003, the annualized indirect cost component of the service fee and the direct cost component of the Additional Support are set out in attachment A hereto.

4.4. Both parties acknowledge that the first six months after the effective date will coincide with the transition period of HAM becoming a member of the Huntsman Holdings LLC group of businesses, and that the fee set out in this Clause may require adjustment after six months, subject to the agreement of both parties.

4.5. There shall be no profit mark-up added to the costs included in the service fee.

4.6. If the service fee is subject to withholding tax, VAT, or other levy imposed on an allocated cost, all parties will use their best efforts to minimize such taxes or to enable HAM to obtain a refund or credit for any such tax in accordance with any relevant law or treaty.

5. *Payment*

5.1. All service fees hereunder will be payable in twelve (12) monthly installments.

5.2. Within 15 working days after the end of each calendar month, the provider of Services hereunder shall send an invoice to the other party with payment due 30 days after date of the invoice.

5.3. All sums due under this Agreement shall be paid by an adjustment to the appropriate intercompany account, unless otherwise agreed. All sums shall be paid in United States dollars, converted on the date of payment at the rate of exchange published by The Financial Times.

6. *Records and Documentation of Cost*

6.1. In order to facilitate the determination of the amount of any service fees hereunder, each party hereto shall keep its books and records in sufficient detail to ascertain the costs related to rendering the Services specified under Section 2. above. Each party's books and records shall be kept in accordance with generally accepted accounting principles and audited annually by a certified international independent public accountant. Each party shall preserve such



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books and records for a ten (10) year period after the calendar year to which such books and records relate.

6.2. Either party shall be entitled to engage an independent certified public accountant to review the accounting records of the other party for purposes of verifying amounts due for Services hereunder, and the parties shall allow access to its records for this purpose provided that such audits shall not be conducted more than once in any calendar year.

7. *Warranty*

7.1. Either party's liability for a breach of this Agreement shall be limited to cases where the breach is directly attributable to the gross negligence or intentional misconduct of such party or any of its employees.

7.2. Either party's liability for torts committed by itself or its employees shall be limited to cases where such party's or its employee's intentional misconduct or gross negligence is the direct cause of the loss or damage. Either party's liability for torts committed by third parties which such party has engaged to help render services shall be limited to that amount of damages that such party can recover from the third party.

7.3. In no case shall either party's liability hereunder exceed the amount of service fees paid by the other party for the 12 month period directly preceding the occurrence of the events upon which the claim is based, and in no case shall either party be liable for indirect, consequential, special, or punitive damages, including without limitation lost profits.

8. *Term and Termination*

8.1. This Agreement shall be effective as of 1 July 2003.

8.2. This Agreement shall continue in full force and effect for a period of at least seven years, unless terminated according to the provisions set out below.

8.3. This Agreement shall remain effective after the lapse of the aforementioned period of time, unless and until it is terminated by either party with 12 months written notice.

8.4. If either party shall materially breach any of the terms of this Agreement and, if the breach is capable of being remedied, fail to remedy the breach within thirty (30) days of a written demand to remedy the same, the other party may terminate this Agreement with immediate effect. The fact that one party ceases to be directly or indirectly controlled by Huntsman Group Inc. shall be deemed to constitute a material breach not capable of remedy.

8.5. In the event of a change of control of either party, the other party shall have the right to terminate this Agreement with 30 days notice.

9. *Amendments*

9.1. The parties acknowledge that circumstances may change over time, and if at any time they should agree that this Agreement no longer provides for a fair balance between the interests of all parties, they will make a good faith effort to implement such changes to this Agreement as they may deem appropriate.

9.2. No modification, amendment or waiver of this Agreement or any provision hereof shall be binding upon any party unless mutually agreed to, made in writing or confirmed in writing by their duly authorized representatives.



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10. *Law*

This Agreement and the rights and obligations of the parties hereto shall be governed by and construed in accordance with the laws of the State of Utah without regard or giving effect to its principles of conflict of laws.

11. *Partial Invalidity*

In the event that any term or condition of this Agreement shall be declared invalid or otherwise unenforceable for any reason the validity of the remaining provisions shall not be affected thereby and shall remain in full force and effect.

12. *Notices*

Any payment, notice or communication ("Notice") required or permitted to be given under this Agreement shall be deemed to have been given when sent first class mail, telex or telefax or by any other method of delivery capable of providing reasonable proof of receipt thereof and, addressed as follows:

If to Huntsman:

500 Huntsman Way
Salt Lake City, Utah 84108
Attention: Chief Financial Officer

If to HAM:

Everslaan 45
3078 Everberg
Belgium
Attention: Finance Director

or to such other address as a party shall furnish in writing to the other party.

13. *Assignability*

Neither party may assign this Agreement or any right or obligation arising hereunder without the prior written consent of the other.

14. *Entire Agreement*

This Agreement constitutes the entire agreement between the parties relating to its subject matter and there are no agreements or understandings between the parties other than those contained herein.

15. *Waiver*

Any waiver by either party of any term or condition or default of this Agreement must be express and in writing. No such waiver shall constitute a waiver or any other or subsequent default, term, or condition.



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IN WITNESS WHEREOF, the parties hereto have executed this Agreement this 30th day of June 2003.

HUNTSMAN ADVANCED MATERIALS LLC

By: /s/ JOHN R. HESKETT

Name: John R. Heskett
Title: Vice President

HUNTSMAN (EUROPE) BVBA

By: /s/ ARJEN VERMEER

Name: Arjen Vermeer
Title: Director

HUNTSMAN (EUROPE) BVBA

By: /s/ LODE DE MAESSCHALCK

Name: L. De Maesschalck
Title:

HUNTSMAN INTERNATIONAL LLC

By: /s/ CURTIS C. DOWD

Name: Curtis C. Dowd
Title: Vice President



**Attachment A to the Service Level Agreement**

**Service Fee**

The below will constitute the Service Fee as set out under Article 4.1 of the Agreement for the calendar year 2003:

| | |
|---|---|
| EHS | $*** |
| Purchasing | $*** |
| Finance | $*** |
| IT | $*** |
| Treasury | $*** |
| Communications | $*** |
| Legal | $*** |
| Tax | $*** |

*** Portions of this page have been omitted pursuant to a request for confidential treatment filed separately with the Commission.



QuickLinks

Exhibit 10.2

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**CONFIDENTIAL TREATMENT REQUESTED**

*** Certain portions of this exhibit were omitted and marked with "***". Copies of this exhibit containing the omitted information have been filed separately with the Securities and Exchange Commission pursuant to the Company's Application for Confidential Treatment under Rule 24b-2 under the Securities Exchange Act of 1934.

**Exhibit 10.3**

**SUPPLY AGREEMENT**

This agreement is entered into on June 30, 2003, between:

***HUNTSMAN HOLLAND BV*** (hereinafter referred to as "Huntsman"), having its registered office at Merseyweg 10, NL-3197 KG Botlek RT, Rozenburg, The Netherlands; and

***HUNTSMAN ADVANCED MATERIALS LLC*** (hereinafter referred to as "Customer"), having its registered office at 500 Huntsman Way, Salt Lake City, UT 84108.

**Conditions Precedent:** this agreement will only become effective upon the consummation of the proposed acquisition of the Vantico Group of Companies by Matlin Patterson.

Huntsman and Customer have agreed subject to the Conditions Precedent above on the following terms and conditions for the sale and supply of certain products by Huntsman (seller) to Customer (buyer).

**Products:** Polymeric MDI, Low Functionality MDI Variants and Mid Functionality MDI Variants including those listed in the Price/Price Review clause of this agreement.

**Material Safety Data Sheets (MSDS):** Attached hereto in Annex 1.

**Specifications:** As attached hereto in Annex 2.

**Duration:** From the date of consummation of the proposed acquisition of Vantico by Matlin Patterson until *** ("Initial Duration"). Thereafter this Agreement shall automatically continue for successive periods of one calendar year, unless either party terminates this Agreement by giving at least six (6) months written notice prior to the end of the Initial Duration or, thereafter, prior to the end of the then current calendar year.

*** Portions of this paragraph have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

**Quantity—Huntsman's Maximum Supply Obligation:** *** te per calendar year in total for the various grades listed in the Price/Price Review clause of this agreement. Quantities for the remaining part of 2003 after the start date of the Initial Duration shall be calculated from this on a pro-rata basis.

*** Portions of this paragraph have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

**Quantity—Customer's Maximum Supply Obligation:** *** te per calendar year in total for the various grades listed in the Price/Price Review clause of this agreement. Quantities for the remaining part of 2003 after the start date of the Initial Duration shall be calculated from this on a pro-rata basis. In the event that Customer's total annual requirement for Product falls below the minimum obligation to purchase, Customer will not be obligated to purchase from Huntsman quantities in excess of those required.

*** Portions of this paragraph have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

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**Forecasting**:

Annual: For the year 2003, Customer expects its requirement for the products to be *** te in total for the various grades listed in the Price/Price Review clause of this agreement. Requirements for the remaining part of 2003 after the start date of the Initial Duration shall be calculated from this on a pro-rata basis. Customer will provide to Huntsman an annual forecast for each calendar year following 2003 during the fourth quarter of the preceding calendar year.

*** Portions of this paragraph have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

Rolling Forecast: The Customer shall provide Huntsman with a rolling three month forecast of the quantities required by Customer location and grade. The first month of this forecast shall be regarded as a binding commitment.

**Quality:** Huntsman warrants that the products supplied to Customer hereunder shall meet the attached specifications. Otherwise, Huntsman makes no other warranty, whether express or implied, including warranties of merchantability or fitness for any particular purpose or otherwise.

**Price/Price Review:** Prices for the year 2003 are as follows:

*EUROPE*

| GRADE | PRICE (EURO/TE) |
|---|---|
| SUPRASEC 2020 | *** |
| SUPRASEC 2085 | *** |
| SUPRASEC 2086 | *** |
| SUPRASEC 2496 | *** |
| SUPRASEC 2647 | *** |
| SUPRASEC 3050 | *** |
| SUPRASEC 3051 | *** |
| SUPRASEC 5005 | *** |
| SUPRASEC 5025 | *** |

*** Portions of this table have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

*US*—for truck load quantities delivered packaged in drums

| GRADE | VOLUME (LBS) | PRICE (USD/LB) |
|---|---|---|
| RUBINATE 1820 | *** | *** |
| RUBINATE 2020 | *** | *** |
| RUBINATE 3050 | *** | *** |
| RUBINATE 5005 | *** | *** |

*** Portions of this table have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

For each subsequent calendar year, prices will be mutually agreed during the fourth quarter of the preceding calendar year.

**Payment Term:** End of the month of invoice.

**Delivery Terms:** Delivered Duty Paid (DDP—Incoterms 2000) to any customer site.



**Shipment—Minimum Packaging**:

Parties shall from time to time separately agree on required transportation, product handling and ordering procedures.

**Other Terms:** Other ordering, quality control, transportation, product handling and other supply chain formalities will be separately agreed between the parties from time to time. In addition, Huntsman's General Terms and Conditions of Sale ("GT&C") shall apply. In case of deviation between these GT&C and the terms of this Agreement, the latter shall prevail.

**Applicable Law—Jurisdiction:** Dutch law—Courts of Rotterdam, The Netherlands.

The parties have caused this Agreement to be executed in two (2) originals by their duly authorized and empowered representatives and each party acknowledges having received its original.

**Huntsman Holland BV**

by: /s/ MJ VAN DE MEER

Name: MJ van de Meer
Title: Managing Director
Date: 30 June 2003

**Huntsman Advanced Materials LLC**

by: /s/ JOHN R. HESKETT

Name: John R. Heskett
Title: Vice President
Date: June 30, 2003

*Annex 1:* Material Safety Data Sheets

*Annex 2:* Specifications of Products

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Exhibit 10.3

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**Exhibit 31.1**

**CERTIFICATION**

I, Peter R. Huntsman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Huntsman International LLC;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2003

/s/ Peter R. Huntsman

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Peter R. Huntsman
*Chief Executive Officer*

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Exhibit 31.1

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**Exhibit 31.2**

**CERTIFICATION**

I, J. Kimo Esplin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Huntsman International LLC;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2003

/s/ J. Kimo Esplin

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J. Kimo Esplin
*Chief Financial Officer*

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Exhibit 31.2

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**Exhibit 32.1**

**CERTIFICATION PURSUANT TO<br>18 U.S.C. SECTION 1350,<br>AS ADOPTED PURSUANT TO<br>SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Huntsman International LLC (the "Company") for the period ended June 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter R. Huntsman, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ PETER R. HUNTSMAN

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Peter R. Huntsman
*Chief Executive Officer*
August 14, 2003

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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**Exhibit 32.2**

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Huntsman International LLC (the "Company") for the period ended June 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Kimo Esplin, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ J. KIMO ESPLIN

J. Kimo Esplin
*Chief Financial Officer*
August 14, 2003

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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QuickLinks

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002