Huntsman CORP
Form 10-Q
November 06, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

OR

o **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	Exact Name of Registrant as Specified in its Charter, Principal Office Address and Telephone Number	State of Incorporation	I.R.S. Employer Identification No.
001-32427	Huntsman Corporation 500 Huntsman Way Salt Lake City, Utah 84108 (801) 584-5700	Delaware	42-1648585
333-85141	Huntsman International LLC 500 Huntsman Way Salt Lake City, Utah 84108 (801) 584-5700	Delaware	87-0630358

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.

Huntsman Corporation	YES ý	NO o
Huntsman International LLC	YES ý	NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Huntsman Corporation	Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
Huntsman International LLC	Large accelerated filer o	Accelerated filer o	Non-accelerated filer ý	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Huntsman Corporation	YES o	NO ý
Huntsman International LLC	YES o	NO ý

On November 3, 2008, 234,430,785 shares of common stock of Huntsman Corporation were outstanding and 2,728 units of membership interests of Huntsman International LLC were outstanding. There is no established trading market for Huntsman International LLC's units of membership interests. All of Huntsman International LLC's units of membership interests are held by Huntsman Corporation.

This Quarterly Report on Form 10-Q presents information for two registrants: Huntsman Corporation and Huntsman International LLC. Huntsman International LLC is a wholly owned subsidiary of Huntsman Corporation and is the principal operating company of Huntsman Corporation. The information reflected in this Quarterly Report on Form 10-Q is equally applicable to both Huntsman Corporation and Huntsman International LLC, except where otherwise indicated. Huntsman International LLC meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and, to the extent applicable, is therefore filing this form with a reduced disclosure format.

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HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

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ENDED SEPTEMBER 30, 2008

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HUNTSMAN CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In Millions, Except Share and Per Share Amounts)

	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 107.2	$ 154.0
Restricted cash	5.9	
Accounts and notes receivables (net of allowance for doubtful accounts of $42.4 and $43.3, respectively)	1,285.1	1,253.3
Accounts receivable from affiliates	18.8	9.4
Inventories, net	1,541.1	1,451.9
Prepaid expenses	54.3	37.4
Deferred income taxes	72.2	72.6
Other current assets	94.3	116.6
Total current assets	3,178.9	3,095.2
Property, plant and equipment, net	3,784.3	3,762.6
Investment in unconsolidated affiliates	266.4	227.8
Intangible assets, net	160.0	173.2
Goodwill	92.5	92.5
Deferred income taxes	359.3	349.5
Notes receivable from affiliates	8.7	8.4
Other noncurrent assets	560.6	456.4
Total assets	$ 8,410.7	$ 8,165.6
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 993.3	$ 1,005.4
Accounts payable to affiliates	11.8	13.0
Accrued liabilities	876.9	885.2
Deferred income taxes	3.2	3.2
Current portion of long-term debt	451.1	68.5
Total current liabilities	2,336.3	1,975.3
Long-term debt	3,506.9	3,500.3
Deferred income taxes	186.8	154.4
Notes payable to affiliates	4.4	4.7
Other noncurrent liabilities	611.5	677.8
Total liabilities	6,645.9	6,312.5

Minority interests in common stock of consolidated subsidiaries	33.5	26.5
Commitments and contingencies (Notes 16 and 17)		
Stockholders' equity:		
Common stock $0.01 par value, 1,200,000,000 shares authorized, 234,430,334 and 222,012,474 issued and 233,553,515 and 221,036,190 outstanding in 2008 and 2007, respectively	2.4	2.2
Mandatory convertible preferred stock $0.01 par value, 100,000,000 shares authorized, 5,750,000 issued and outstanding at December 31, 2007		287.5
Additional paid-in capital	3,139.5	2,831.9
Unearned stock-based compensation	(15.0)	(11.3)
Accumulated deficit	(1,606.7)	(1,540.1)
Accumulated other comprehensive income	211.1	256.4
Total stockholders' equity	1,731.3	1,826.6
Total liabilities and stockholders' equity	$ 8,410.7	$ 8,165.6

See accompanying notes to condensed consolidated financial statements (unaudited).

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HUNTSMAN CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS (UNAUDITED)

(In Millions, Except Per Share Amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Revenues:				
Trade sales, services and fees	$ 2,702.3	$ 2,380.7	$ 8,084.3	$ 7,004.2
Related party sales	28.2	43.1	82.3	142.7
Total revenues	2,730.5	2,423.8	8,166.6	7,146.9
Cost of goods sold	2,379.7	2,023.1	7,067.4	5,967.6
Gross profit	350.8	400.7	1,099.2	1,179.3
Operating expenses:				
Selling, general and administrative	231.4	214.2	692.6	639.5
Research and development	38.8	35.4	118.3	104.9
Other operating (income) expense	(15.9)	9.9	(4.1)	18.2
Restructuring, impairment and plant closing costs	3.6	9.1	8.6	33.5
Total expenses	257.9	268.6	815.4	796.1
Operating income	92.9	132.1	283.8	383.2
Interest expense, net	(68.2)	(71.5)	(198.5)	(215.3)
Loss on accounts receivable securitization program	(6.2)	(7.1)	(15.7)	(16.0)
Equity in income of investment in unconsolidated affiliates	2.9	1.6	9.6	8.9
Expenses associated with the Merger	(25.8)	(205.0)	(34.8)	(205.0)
Other (expense) income		(2.4)	0.7	(4.5)
(Loss) income from continuing operations before income taxes and minority interest	(4.4)	(152.3)	45.1	(48.7)
Income tax (expense) benefit	(17.7)	13.1	(42.3)	8.7
Minority interest in subsidiaries' (income) loss	(0.5)	2.9	(7.0)	13.6
Loss from continuing operations	(22.6)	(136.3)	(4.2)	(26.4)
Income (loss) from discontinued operations, net of tax	0.8	(13.7)	4.6	(141.4)
(Loss) income before extraordinary gain (loss)	(21.8)	(150.0)	0.4	(167.8)
Extraordinary gain (loss) on the acquisition of a business, net of tax of nil	1.6		10.4	(6.5)
Net (loss) income	$ (20.2)	$ (150.0)	$ 10.8	$ (174.3)
Net (loss) income	$ (20.2)	$ (150.0)	$ 10.8	$ (174.3)
Other comprehensive (loss) income	(162.8)	62.9	(45.3)	105.8
Comprehensive loss	$ (183.0)	$ (87.1)	$ (34.5)	$ (68.5)
Basic (loss) income per share:				
Loss from continuing operations	$ (0.10)	$ (0.62)	$ (0.02)	$ (0.12)
(Loss) income from discontinued operations, net of tax		(0.06)	0.02	(0.64)
Extraordinary gain (loss) on the acquisition of a business, net of tax of nil	0.01		0.05	(0.03)
Net (loss) income	$ (0.09)	$ (0.68)	$ 0.05	$ (0.79)

Weighted average shares	233.6	221.0	231.4	220.9
Diluted (loss) income per share:				
Loss from continuing operations	$ (0.10)	$ (0.62)	$ (0.02)	$ (0.12)
(Loss) income from discontinued operations, net of tax		(0.06)	0.02	(0.64)
Extraordinary gain (loss) on the acquisition of a business, net of tax of nil	0.01		0.05	(0.03)
Net (loss) income	$ (0.09)	$ (0.68)	$ 0.05	$ (0.79)
Weighted average shares	233.6	221.0	231.4	220.9
Dividends per share	$ 0.10	$ 0.10	$ 0.30	$ 0.30

See accompanying notes to condensed consolidated financial statements (unaudited).

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HUNTSMAN CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in Millions)

	Nine months ended September 30,	
	2008	**2007**
Operating Activities:		
Net income (loss)	$ 10.8	$ (174.3)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Extraordinary (gain) loss on the acquisition of a business, net of tax	(10.4)	6.5
Equity in income of investment in unconsolidated affiliates	(9.6)	(8.9)
Dividends received from unconsolidated affiliate	11.0	
Depreciation and amortization	290.1	313.3
Provision for losses on accounts receivable	3.4	3.4
Loss on disposal of discontinued operations		228.9
Loss (gain) on disposal of assets	4.3	(1.4)
Loss on early extinguishment of debt		1.8
Noncash interest expense	2.4	2.6
Noncash restructuring, impairment and plant closing costs	3.4	12.6
Deferred income taxes	15.0	(109.8)
Net unrealized loss (gain) on foreign currency transactions	16.2	(3.2)
Stock-based compensation	15.7	18.5
Minority interest in subsidiaries' income (loss)	7.0	(13.6)
Other, net	1.7	(0.8)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(53.1)	(14.0)
Inventories, net	(98.1)	(49.5)
Prepaid expenses	(16.7)	(2.9)
Other current assets	20.9	51.3
Other noncurrent assets	(125.1)	(74.0)
Accounts payable	(3.4)	(49.9)
Accrued liabilities	20.3	(97.4)
Other noncurrent liabilities	(59.5)	4.1
Net cash provided by operating activities	46.3	43.3
Investing Activities:		
Capital expenditures	(325.3)	(466.7)
Acquisition of business, net of cash acquired and post-closing adjustments		12.9
Proceeds from sale of assets, net of adjustments	(26.0)	364.3
Investment in unconsolidated affiliates, net	(36.8)	(12.0)
Proceeds from government securities, restricted as to use	3.6	10.8
Acquisition of intangible assets	(9.5)	
Change in restricted cash	(7.1)	
Other, net	0.6	
Net cash used in investing activities	(400.5)	(90.7)

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HUNTSMAN CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Continued)

(Dollars in Millions)

	Nine months ended September 30,	
	2008	**2007**
Financing Activities:		
Net borrowings under revolving loan facilities	$ 370.0	$ 43.5
Net (repayments) borrowings from overdraft facilities and other short-term debt	(3.0)	9.0
Repayments of long-term debt	(6.6)	(318.9)
Proceeds from long-term debt	23.6	266.1
Repayments on notes payable	(35.3)	(49.4)
Proceeds from notes payable	40.2	57.6
Dividends paid to common stockholders	(70.2)	(66.3)
Dividends paid to preferred stockholders	(3.6)	(10.8)
Repurchase and cancellation of stock awards	(3.8)	
Call premiums related to early extinguishment of debt		(1.2)
Debt issuance costs paid	(2.2)	(4.6)
Other, net	(0.4)	1.0
Net cash provided by (used in) financing activities	308.7	(74.0)
Effect of exchange rate changes on cash	(1.3)	8.9
Decrease in cash and cash equivalents	(46.8)	(112.5)
Cash and cash equivalents at beginning of period	154.0	263.2
Cash and cash equivalents at end of period	$ 107.2	$ 150.7
Supplemental cash flow information:		
Cash paid for interest	$ 186.1	$ 217.6
Cash paid for income taxes	21.2	52.9

During the nine months ended September 30, 2008 and 2007, the amount of capital expenditures in accounts payable increased by $2.2 million and $43.5 million, respectively. The fair value of nonvested share awards that vested during the nine months ended September 30, 2008 and 2007 was $13.2 million and $8.7 million, respectively.

See accompanying notes to condensed consolidated financial statements (unaudited).

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HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in Millions)

	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 107.1	$ 153.9
Restricted cash	5.9	
Accounts and notes receivables (net of allowance for doubtful accounts of $42.4 and $43.3, respectively)	1,285.1	1,253.3
Accounts receivable from affiliates	293.2	193.1
Inventories, net	1,541.1	1,451.9
Prepaid expenses	53.3	37.1
Deferred income taxes	74.1	74.4
Other current assets	93.9	112.7
Total current assets	3,453.7	3,276.4
Property, plant and equipment, net	3,595.7	3,556.3
Investment in unconsolidated affiliates	266.4	227.8
Intangible assets, net	163.6	177.4
Goodwill	92.5	92.5
Deferred income taxes	308.3	300.0
Notes receivable from affiliates	8.7	8.4
Other noncurrent assets	560.6	456.3
Total assets	$ 8,449.5	$ 8,095.1
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Accounts payable	$ 975.6	$ 1,005.4
Accounts payable to affiliates	13.6	15.0
Accrued liabilities	775.7	781.0
Deferred income taxes	3.2	3.2
Current portion of long-term debt	451.1	68.5
Total current liabilities	2,219.2	1,873.1
Long-term debt	3,506.9	3,500.3
Deferred income taxes	161.4	124.3
Notes payable to affiliates	4.4	4.7
Other noncurrent liabilities	611.1	676.8
Total liabilities	6,503.0	6,179.2
Minority interests in common stock of consolidated subsidiaries	33.5	26.5
Commitments and contingencies (Notes 16 and 17)		
Members' equity:		
Members' equity, 2,728 units issued and outstanding	2,861.0	2,845.4
Accumulated deficit	(1,093.3)	(1,142.9)
Accumulated other comprehensive income	145.3	186.9

Total members' equity		1,913.0		1,889.4
Total liabilities and members' equity	$	8,449.5	$	8,095.1

See accompanying notes to condensed consolidated financial statements (unaudited).

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HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME (UNAUDITED)

(Dollars in Millions)

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Revenues:				
Trade sales, services and fees	$2,702.3	$2,380.7	$8,084.3	$7,004.2
Related party sales	28.2	43.1	82.3	142.7
Total revenues	2,730.5	2,423.8	8,166.6	7,146.9
Cost of goods sold	2,375.5	2,019.0	7,054.8	5,955.4
Gross profit	355.0	404.8	1,111.8	1,191.5
Operating expenses:				
Selling, general and administrative	230.5	214.0	692.7	639.2
Research and development	38.8	35.4	118.3	104.9
Other operating (income) expense	(15.9)	9.9	(4.1)	18.2
Restructuring, impairment and plant closing costs	3.6	9.1	8.6	33.5
Total expenses	257.0	268.4	815.5	795.8
Operating income	98.0	136.4	296.3	395.7
Interest expense, net	(68.3)	(71.8)	(198.8)	(216.2)
Loss on accounts receivable securitization program	(6.2)	(7.1)	(15.7)	(16.0)
Equity in income of investment in unconsolidated affiliates	2.9	1.6	9.6	8.9
Other (expense) income		(2.4)	0.7	(4.9)
Income from continuing operations before income taxes and minority interest	26.4	56.7	92.1	167.5
Income tax (expense) benefit	(18.8)	1.9	(47.0)	(40.2)
Minority interest in subsidiaries' (income) loss	(0.5)	2.9	(7.0)	13.6
Income from continuing operations	7.1	61.5	38.1	140.9
Income (loss) from discontinued operations, net of tax	0.8	(13.7)	4.6	(141.4)
Income (loss) before extraordinary gain (loss)	7.9	47.8	42.7	(0.5)
Extraordinary gain (loss) on the acquisition of a business, net of tax of nil	1.6		10.4	(6.5)
Net income (loss)	$ 9.5	$ 47.8	$ 53.1	$ (7.0)
Net income (loss)	$ 9.5	$ 47.8	$ 53.1	$ (7.0)
Other comprehensive (loss) income	(161.7)	63.4	(41.6)	108.7
Comprehensive (loss) income	$ (152.2)	$ 111.2	$ 11.5	$ 101.7

See accompanying notes to condensed consolidated financial statements (unaudited).

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HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in Millions)

	Nine months ended September 30,	
	2008	**2007**
Operating Activities:		
Net income (loss)	$ 53.1	$ (7.0)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Extraordinary (gain) loss on the acquisition of a business, net of tax	(10.4)	6.5
Equity in income of investment in unconsolidated affiliates	(9.6)	(8.9)
Dividends received from unconsolidated affiliate	11.0	
Depreciation and amortization	272.9	296.2
Provision for losses on accounts receivable	3.4	3.4
Loss on disposal of discontinued operations		228.9
Loss (gain) on disposal of assets	4.3	(1.4)
Loss on early extinguishment of debt		2.2
Noncash interest expense	2.4	2.8
Noncash restructuring, impairment and plant closing costs	3.4	12.6
Deferred income taxes	19.7	(60.9)
Net unrealized loss (gain) on foreign currency transactions	16.2	(3.2)
Noncash compensation	15.7	18.5
Minority interest in subsidiaries' income (loss)	7.0	(13.6)
Other, net	1.7	(0.7)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(53.1)	(14.0)
Inventories, net	(98.1)	(49.5)
Prepaid expenses	(16.0)	(2.2)
Other current assets	17.3	44.3
Other noncurrent assets	(125.1)	(77.5)
Accounts payable	(21.5)	(50.0)
Accrued liabilities	23.4	(191.1)
Other noncurrent liabilities	(54.9)	13.1
Net cash provided by operating activities	62.8	148.5
Investing Activities:		
Capital expenditures	(325.3)	(466.7)
Acquisition of business, net of cash acquired and post-closing adjustments		12.9
Proceeds from sale of assets, net of adjustments	(26.0)	364.3
Receivable from affiliate	(90.6)	(151.4)
Investment in unconsolidated affiliates, net	(36.8)	(12.0)
Acquisition of intangible assets	(9.5)	
Change in restricted cash	(7.1)	
Other, net	0.6	
Net cash used in investing activities	(494.7)	(252.9)

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HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Continued)

(Dollars in Millions)

	Nine months ended September 30,	
	2008	**2007**
Financing Activities:		
Net borrowings under revolving loan facilities	$ 370.0	$ 43.5
Net (repayments) borrowings from overdraft facilities and other short-term debt	(3.0)	9.0
Repayments of long-term debt	(6.6)	(318.9)
Proceeds from long-term debt	23.6	266.1
Repayments on notes payable	(35.3)	(47.5)
Proceeds from notes payable	40.2	54.9
Call premiums related to early extinguishment of debt		(1.2)
Debt issuance costs paid	(2.2)	(4.6)
Other, net	(0.3)	(1.2)
Net cash provided by financing activities	386.4	0.1
Effect of exchange rate changes on cash	(1.3)	8.9
Decrease in cash and cash equivalents	(46.8)	(95.4)
Cash and cash equivalents at beginning of period	153.9	246.0
Cash and cash equivalents at end of period	$ 107.1	$ 150.6
Supplemental cash flow information:		
Cash paid for interest	$ 186.4	$ 218.5
Cash paid for income taxes	21.2	52.9

During the nine months ended September 30, 2008 and 2007, the amount of capital expenditures in accounts payable increased by $2.2 million and $43.5 million, respectively. During the nine months ended September 30, 2008 and 2007, Huntsman Corporation contributed $15.7 million and $18.5 million, respectively, to Huntsman International related to stock-based compensation.

See accompanying notes to condensed consolidated financial statements (unaudited).

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HUNTSMAN CORPORATION AND SUBSIDIARIES

HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. GENERAL

CERTAIN DEFINITIONS

For convenience in this report, the terms "Company," "our," "us," or "we" may be used to refer to Huntsman Corporation and, unless the context otherwise requires, its subsidiaries and predecessors. Any references to our "Company," "we," "us" or "our" as of a date prior to October 19, 2004 (the date of our formation) are to Huntsman Holdings, LLC and its subsidiaries (including their respective predecessors). In this report, "Huntsman International Holdings" refers to Huntsman International Holdings LLC (our 100% owned subsidiary that merged into Huntsman International LLC on August 16, 2005) and, unless the context otherwise requires, its subsidiaries; "Huntsman International" refers to Huntsman International LLC (our 100% owned subsidiary) and, unless the context otherwise requires, its subsidiaries; "Huntsman Advanced Materials" refers to Huntsman Advanced Materials Holdings LLC (our 100% owned indirect subsidiary, the membership interests of which we contributed to Huntsman International on December 20, 2005) and, unless the context otherwise requires, its subsidiaries; "Huntsman LLC" refers to Huntsman LLC (our 100% owned subsidiary that merged into Huntsman International on August 16, 2005); "HPS" refers to Huntsman Polyurethanes Shanghai Ltd. (our consolidated splitting joint venture with Shanghai Chlor-Alkali Chemical Company, Ltd); "SLIC" refers to Shanghai Liengheng Isocyanate Investment BV (our unconsolidated manufacturing joint venture with BASF AG and three Chinese chemical companies); "HMP" refers to HMP Equity Holdings Corporation (our 100% owned subsidiary that merged into us on March 17, 2005); "HMP Equity Trust" refers to HMP Equity Trust (the holder of approximately 20% of our common stock); and "Hexion" refers to Hexion Specialty Chemicals, Inc., an entity owned by an affiliate of Apollo Management, L.P.

In this report, we may use, without definition, the common names of competitors or other industry participants. We may also use the common names or abbreviations for certain chemicals or products.

DESCRIPTION OF BUSINESS

We are a global manufacturer of differentiated organic chemical products and of inorganic chemical products. Our products comprise a broad range of chemicals and formulations, which we market globally to a diversified group of consumer and industrial customers.

COMPANY

Our Company, a Delaware corporation, was formed in 2004 to hold the Huntsman businesses. Jon M. Huntsman founded the predecessor to our Company in the early 1970s as a small packaging company. Since then, we have grown through a series of significant acquisitions and now own a global portfolio of businesses. In February 2005, we completed an initial public offering of common stock and mandatory convertible preferred stock.

We operate all of our businesses through Huntsman International, our 100% owned subsidiary. Huntsman International is a Delaware limited liability company and was formed in 1999. Substantially all of our debt obligations are obligations of Huntsman International and/or its subsidiaries.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

1. GENERAL (Continued)

In 2006 and 2007, we completed a series of transactions pursuant to which we disposed of our former commodity chemicals businesses:

On November 5, 2007, we completed the sale of our U.S. base chemicals business to Flint Hills Resources, a wholly owned subsidiary of Koch, (the "U.S. Base Chemicals Disposition") and, on August 1, 2007, we closed on the sale of our North American polymers business assets to Flint Hills Resources (the "North American Polymers Disposition" and together with the U.S. Base Chemicals Disposition, the "U.S. Petrochemicals Disposition"). For more information, see "Note 3. Discontinued Operations" below.

On December 29, 2006, we sold all of the outstanding equity interests of Huntsman Petrochemicals (UK) Limited to SABIC (the "U.K. Petrochemicals Disposition"). For more information, see "Note 3. Discontinued Operations European Base Chemicals and Polymers Business" below.

MERGER AGREEMENT AND RELATED LITIGATION

On July 12, 2007, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Hexion and its subsidiary, Nimbus Merger Sub Inc. ("Nimbus"), pursuant to which Hexion agreed to acquire all of our outstanding common stock for $28.00 per share in cash (the "Merger"). Under the terms of the Merger Agreement, the $28.00 per share cash price to be paid by Hexion increases at the rate of 8% per annum (inclusive of any dividends paid) beginning April 6, 2008 and continuing through the closing date of the Merger. On October 16, 2007, stockholders holding a majority of shares of our common stock entitled to vote thereon approved a proposal to adopt the Merger Agreement.

On June 18, 2008, Hexion, its private equity sponsor Apollo Management, L.P. ("Apollo") and certain of their affiliates ("Plaintiffs") filed an action for declaratory judgment against us in Delaware Chancery Court. Through that action, Plaintiffs sought to avoid their obligations under the Merger Agreement. The action sought declarations from the court that:

Hexion was not obligated to consummate the Merger if the combined company would be insolvent following the consummation of the Merger and that Hexion's liability for failure to consummate the Merger in such a circumstance would be limited to $325 million.

Since execution of the Merger Agreement, our Company had suffered a material adverse effect in its business, and that, if the conditions to closing were measured at the time that Hexion filed its lawsuit, Hexion would have no obligation to make any payment to our Company in connection with the Merger.

Neither Apollo nor any of its current or former partners, stockholders, managers, employees, representatives, members, affiliates or agents have any obligation or liability of any type whatsoever, whether in contract, tort or otherwise, to our Company under or in connection with the negotiation, execution or performance of the Merger Agreement or any of the transactions contemplated thereunder.

On June 23, 2008, we sued Apollo and its founding partners, Leon Black and Joshua Harris, in the District Court of Montgomery County, Texas, for tortiously interfering with our previously executed merger agreement (the "Basell Merger Agreement") with Basell AF ("Basell") and one of its

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1. GENERAL (Continued)

subsidiaries. Our original petition alleges, among other things, that Apollo and Messrs. Black and Harris wrongfully caused us to terminate our agreement with Basell by offering a counterproposal at a purchase price that they never intended to pay. Our original petition seeks damages from Apollo equal to the difference between the price per share at which Basell had agreed to acquire us ($25.25 per share) less the decline in our stock price caused by Hexion's attempt to scuttle the Merger Agreement.

On July 4, 2008, we exercised our right under the Merger Agreement to extend the termination date of the Merger by 90 days from July 4, 2008 to October 2, 2008. Beginning on the termination date, if the Merger has not yet been consummated, the Merger Agreement may be terminated by either party at any time, unless such party's failure to fulfill any material covenant or agreement in the Merger Agreement has been the cause or resulted in the failure of the Merger to be consummated.

On September 8, 2008, trial began before Vice Chancellor Stephen P. Lamb in the Court of Chancery of the State of Delaware. At trial, the issues before the Court were limited to whether a material adverse effect had occurred; whether any damages that might later be awarded to us should be limited to the $325 million reverse termination fee stipulated in the Merger Agreement; and whether we had invalidly extended the Merger Agreement's termination date. Trial continued through September 16, 2008. Following trial, parties submitted post-trial briefs. The matter was fully briefed and before the Court on September 19, 2008. On September 29, 2008, Vice Chancellor Lamb issued an Opinion and an Order and Final Partial Judgment. A copy of the Opinion and Order are attached to our current report on Form 8-K filed on September 30, 2008.

Among other things, Vice Chancellor Lamb ruled that we had not suffered a material adverse effect in our business, that Hexion knowingly and intentionally breached numerous of its covenants under the Merger Agreement (as a result of which Hexion's damages for failing to consummate the Merger would not be limited to $325 million) and that we had properly extended the Merger Agreement. Vice Chancellor Lamb ordered Hexion to specifically perform its covenants under the Merger Agreement, including its covenants to (i) use reasonable best efforts to consummate the merger and financing provided under the commitment letter provided to Hexion (the "Commitment Letter") by affiliates of Credit Suisse and Deutsche Bank A.G. (the "Lenders"), (ii) refrain from taking any further action that could reasonably be expected to materially impair, delay, or prevent consummation of the financing contemplated by the Commitment Letter or any alternate financing (as that term is defined by the Merger Agreement), and (iii) take all actions necessary to obtain antitrust approval for the Merger by October 2, 2008. Vice Chancellor Lamb reserved ruling on the remaining issues in the parties' pleadings, including whether Plaintiffs' breaches have caused Huntsman damage in excess of the $325 million termination fee. On October 28, 2008, Hexion filed a notice of appeal of Vice Chancellor Lamb's judgment with the Delaware Supreme Court.

On September 30, 2008, we filed suit in the 9th Judicial District Court in Montgomery County, Texas against the Lenders alleging, among other things, that these institutions had conspired with Apollo to tortiously interfere with the Basell Merger Agreement. Trial is scheduled to begin on February 9, 2009.

During the Delaware trial, a group of our stockholders consisting of affiliates of D.E. Shaw, Citadel and MatlinPatterson, along with certain members of the Huntsman family and entities controlled by them, proposed to commit to providing us with cash payments contingent on and in

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1. GENERAL (Continued)

connection with the closing of the Merger in an aggregate amount of approximately $416.5 million. These same stockholders had offered to purchase from Hexion contingent value rights ("CVRs") in the combined Hexion/Huntsman entity but Hexion rejected their offer. The cash payments offered by these stockholders and the Huntsman family stockholders were intended to "backstop" the CVR proposal in the event Hexion continued to reject the CVRs or other financing proposals. We accepted these "backstop commitments" on September 11, 2008. Subsequently, other shareholders made similar backstop commitments of $63.6 million in the aggregate. On October 9, 2008, Hexion issued a press release announcing that affiliates of Apollo had agreed to make a capital contribution of $540 million to Hexion to assist it in closing the Merger. Hexion also announced that Apollo had agreed to waive its transaction fee, estimated at approximately $100 million, in connection with the Merger and suspend for three years its ongoing monitoring fees from Hexion. Apollo's fee waivers and equity commitment were conditioned upon the consummation of the Merger.

On October 26, 2008, affiliates of D.E. Shaw, Citadel and MatlinPatterson agreed to amend their backstop commitments to increase the closing date cash payment by them by approximately $216.5 million, contingent on the consummation of the Merger and a further commitment by Apollo to increase its equity commitment from $540 million to $750 million. Hexion announced on October 27, 2008 that Apollo had agreed to increase its equity commitment to $750 million. All of the backstop commitments expired on November 2, 2008 in accordance with their terms because the Merger was not consummated.

On October 8, 2008, Hexion announced that Nimbus is offering to purchase for cash any and all outstanding notes of Huntsman International on the terms and subject to the conditions set forth in the Offer to Purchase and Consent Solicitation Statement dated October 8, 2008 and the accompanying Letter of Transmittal and Consent (the "Nimbus Offering Documents"). Nimbus is also seeking consents to eliminate most of the restrictive covenants and liens in the indentures under which the notes were issued. The tender offers are subject to a number of customary conditions set forth in the Nimbus Offering Documents, including the consummation of the Merger and the receipt of requisite consents. The tender offers were originally set to expire on November 5, 2008, but have been extended by Nimbus until November 17, 2008. Nimbus may further extend or early terminate the tender offers in its sole discretion. This report is not an offer to purchase, a solicitation of an offer to sell or a solicitation of consents with respect to the notes.

Following the Delaware action, Hexion and our Company agreed to schedule the closing of the Merger Agreement for October 28, 2008.

The Commitment Letter requires that the Lenders be provided, at closing, with either (i) a solvency opinion of a reputable valuation firm, (ii) a solvency certificate signed by the chief financial officer of Hexion or (iii) a solvency certificate signed by our chief financial officer. This closing condition could be satisfied if any one of the opinions/certificates described in the preceding sentence was delivered and was in a form customary for transactions involving portfolio companies of Apollo.

On September 12, 2008, we announced that we had engaged a reputable valuation firm, American Appraisal Associates, Inc. ("American Appraisal"), to provide an opinion that the combined Hexion/Huntsman entity was solvent based on traditional solvency tests. On October 23, 2008, five days prior to the anticipated closing, American Appraisal provided us with a solvency opinion that the combined

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1. GENERAL (Continued)

entity was solvent. On October 28, 2008, American Appraisal issued an additional opinion that the combined entity was solvent, and our chief financial officer, J. Kimo Esplin, executed a certificate, in his capacity as our chief financial officer, that the combined entity was solvent. However, very late on the evening of October 27, 2008, the Lenders sent a letter to Hexion stating that the Lenders did not believe that the solvency opinion and certificate proposed to be provided met the condition of the Commitment Letter and effectively said that, as a result, the Lenders would not fund the proposed closing of the Merger scheduled for October 28, 2008.

Hexion sent the Lenders a reply letter disputing the Lenders' position and noting that both the American Appraisal opinion and the certificate of our chief financial officer were in forms customary for transactions involving Apollo portfolio companies. Because the Lenders continued to refuse to fund, Hexion brought suit against the Lenders in the Supreme Court of the State of New York, New York County on October 29, 2008 seeking specific performance of the Lenders' commitment under the Commitment Letter. Hexion also sought an order temporarily restraining the Lenders from terminating the Commitment Letter. On October 31, 2008, the court refused to grant Hexion a preliminary injunction preventing termination of the Commitment Letter. A trial is scheduled for January 8, 2009 to determine whether the Lenders will be required to specifically perform their obligations under the Commitment Letter.

We intend to continue to zealously pursue our multi-billion dollar actions against Hexion and Apollo in Delaware and against Apollo, Leon Black, Josh Harris and the Lenders in Texas.

HUNTSMAN CORPORATION AND HUNTSMAN INTERNATIONAL FINANCIAL STATEMENTS

Except where otherwise indicated, these notes relate to the condensed consolidated financial statements (unaudited) for each of our Company and Huntsman International. The differences between our financial statements and Huntsman International's financial statements relate primarily to the following:

- expenses and deferred liabilities associated with the Merger;
- purchase accounting recorded at our Company for the step-acquisition of Huntsman International in May 2003; and
- different capital structures.

PRINCIPLES OF CONSOLIDATION

Our condensed consolidated financial statements (unaudited) and Huntsman International's condensed consolidated financial statements (unaudited) include the accounts of our wholly-owned and majority-owned subsidiaries and any variable interest entities for which we are the primary beneficiary. All intercompany accounts and transactions have been eliminated, except for intercompany sales between discontinued and continuing operations.

INTERIM FINANCIAL STATEMENTS

Our interim condensed consolidated financial statements (unaudited) and Huntsman International's interim condensed consolidated financial statements (unaudited) were prepared in

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

1. GENERAL (Continued)

accordance with accounting principles generally accepted in the United States of America ("GAAP" or "U.S. GAAP") and in management's opinion, reflect 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 presented. Results for interim periods are not necessarily indicative of those to be expected for the full year. These condensed consolidated financial statements (unaudited) should be read in conjunction with the audited consolidated financial statements and notes to consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2007 for our Company and Huntsman International.

USE OF ESTIMATES

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

RECLASSIFICATIONS

Certain amounts in the consolidated financial statements for prior periods have been reclassified to conform with the current presentation. The most significant of these reclassifications was to reclassify the results of operations of our former U.S. base chemicals business to discontinued operations. See "Note 3. Discontinued Operations." In addition, effective in the fourth quarter of 2007, the results of our former U.S. butadiene and MTBE business were reported in Corporate and Other. All segment information for prior periods has been reclassified to reflect these transfers.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2008, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States (the GAAP hierarchy). We will apply this statement upon its effective date of November 15, 2008. The effective date was stated as 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles,* and that approval occurred on September 16, 2008.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement 133*. SFAS No. 161 requires enhanced disclosures regarding the effect of an entity's derivative instruments and related hedging activities on its financial position, financial performance and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Early application is encouraged. We are evaluating SFAS No. 161 to determine the impact of this statement on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (R), *Business Combinations*, which replaced SFAS No. 141, *Business Combinations*. In December 2007, the FASB also issued SFAS No. 160,

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2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (Continued)

Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. These statements significantly change the accounting for business combinations and noncontrolling interests. Among other things, these statements will require more assets acquired and liabilities assumed to be measured at fair value as of the acquisition date, liabilities related to contingent consideration to be remeasured to fair value each subsequent reporting period, an acquirer in preacquisition periods to expense all acquisition-related costs, and noncontrolling interests in subsidiaries initially to be measured at fair value and classified as a separate component of equity. These statements are to be applied prospectively for fiscal years beginning after December 15, 2008, except for the presentation and disclosure requirements of SFAS No. 160 which are retrospective for all periods. We are evaluating SFAS No. 141 (R) and SFAS No. 160 to determine the impact of these statements on our consolidated financial statements.

We adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*, on January 1, 2008. SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value, with changes in fair value reflected in earnings. We have not elected the fair value option for any existing or any new instruments that were not previously accounted for at fair value.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. Beginning with our fiscal year ended December 31, 2008, SFAS No. 158 requires that the assumptions used to measure our benefit obligations and annual expense be determined as of the balance sheet date and all plan assets be reported as of that date. Accordingly, our Company and Huntsman International recorded a charge to retained earnings, net of tax, of $2.9 million and $3.2 million, respectively, as of January 1, 2008. For more information, see "Note 12. Employee Benefit Plans."

We adopted SFAS No. 157, *Fair Value Measurements*, on January 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Positions ("FSP") No. FAS 157-1: *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, which removes certain leasing transactions from the scope of SFAS No. 157, and No. FAS 157-2: *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. See "Note 11. Fair Value Measurements."

3. DISCONTINUED OPERATIONS

U.S. BASE CHEMICALS BUSINESS

On November 5, 2007, we completed the U.S. Base Chemicals Disposition. This disposition included our former olefins manufacturing assets located at Port Arthur, Texas. The captive ethylene unit at the retained Port Neches, Texas site of our Performance Products segment operations was not

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3. DISCONTINUED OPERATIONS (Continued)

included in the sale. This asset, along with a long-term post-closing arrangement for the supply of ethylene and propylene from Flint Hills Resources to us, will continue to provide feedstock for our downstream derivative units.

The following results of our former U.S base chemicals business have been presented as discontinued operations in the accompanying condensed consolidated statements of operations (unaudited) (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Revenues	$	$ 56.2	$	$ 137.6
Costs and expenses		(72.7)		(162.4)
Adjustment to loss on disposal	1.3		4.0	
Operating income (loss)	1.3	(16.5)	4.0	(24.8)
Income tax expense	(0.5)	0.4	(1.5)	0.4
Income (loss) from discontinued operations, net of tax	$ 0.8	$ (16.1)	$ 2.5	$ (24.4)

In connection with the U.S. Base Chemicals Disposition, we recognized an adjustment to the loss on disposal of $1.3 million and $4.0 million during the three and nine months ended September 30, 2008, respectively, related to sales and use tax settlements and post-closing adjustments. The final sales price is subject to post-closing adjustment regarding certain expenditures related to the rebuild of our former Port Arthur, Texas facility. As of September 30, 2008, we estimate that our remaining payment related to certain expenditures for the rebuild of our former Port Arthur, Texas facility (which have been substantially completed) was $6.4 million, for which we have accrued a liability. We expect to settle this obligation during the remainder of 2008. Finalization of this estimate will likely result in an adjustment to the loss on disposal during the fourth quarter of 2008.

The EBITDA of our former U.S. base chemicals business is reported in our Base Chemicals segment.

NORTH AMERICAN POLYMERS BUSINESS

On August 1, 2007 we completed the North American Polymers Disposition. The disposition included our polymers manufacturing assets located at four U.S. sites: Odessa and Longview, Texas; Peru, Illinois; and Marysville, Michigan. In accordance with the amended and restated asset purchase agreement with Flint Hills Resources, we also shut down our Mansonville, Quebec expandable polystyrene manufacturing facility in June 2007.

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3. DISCONTINUED OPERATIONS (Continued)

The following results of our former North American polymers business have been presented as discontinued operations in the accompanying condensed consolidated statements of operations (unaudited) (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Revenues	$	$ 134.4	$	$ 880.4
Costs and expenses		(137.9)		(874.2)
Gain (loss) on disposal		11.1		(228.9)
Adjustment to loss on disposal			3.9	
Operating income (loss)		7.6	3.9	(222.7)
Income tax (expense) benefit		(3.6)	(1.5)	72.3
Income (loss) from discontinued operations, net of tax	$	$ 4.0	$ 2.4	$ (150.4)

During the nine months ended September 30, 2008, we recorded an adjustment to the loss on disposal in connection with the North American Polymers Disposition of $3.9 million primarily related to property tax settlements and post-closing adjustments.

In connection with the U.S. Petrochemicals Disposition, we agreed to indemnify Flint Hills Resources with respect to any losses resulting from (i) the breach of representations and warranties contained in the amended and restated asset purchase agreement, (ii) any pre-sale liabilities related to certain assets not assumed by Flint Hills Resources, and (iii) any unknown environmental liability related to the pre-sale operations of the assets sold. We are not required to pay under these indemnification obligations until claims against us, on a cumulative basis, exceed $10 million. Upon exceeding this $10 million threshold, we generally are obligated to provide indemnification for any losses up to a limit of $150 million. We believe that the possibility that we will be required to pay any significant amounts under the indemnity provision is remote.

The EBITDA of our former North American polymers business is reported in our Polymers segment.

EUROPEAN BASE CHEMICALS AND POLYMERS BUSINESS

On December 29, 2006, we completed the U.K. Petrochemicals Disposition. This transaction involved the sale of the outstanding equity interests of Huntsman Petrochemicals (UK) Limited. The final sales price was subject to adjustments relating to working capital, investment in the LDPE plant in Wilton, U.K. and unfunded pension liabilities.

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3. DISCONTINUED OPERATIONS (Continued)

The following results of our European base chemicals and polymers business have been presented as discontinued operations in the accompanying condensed consolidated statements of operations (unaudited) (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Adjustment to loss on disposal	$	$(1.6)	$(0.3)	$34.0
Operating (loss) income		(1.6)	(0.3)	34.0
Income tax expense				
(Loss) income from discontinued operations, net of tax	$	$(1.6)	$(0.3)	$34.0

During the nine months ended September 30, 2008, we recorded an adjustment to increase the loss on disposal of $0.3 million related primarily to a pension levy. During the three and nine months ended September 30, 2007, we recorded an adjustment to (increase) decrease the loss on disposal of $(1.6) million and $34.0 million, respectively, related primarily to a pension funding accrual and post-closing working capital adjustments.

In connection with the sale, we agreed to indemnify the buyer with respect to any losses resulting from any environmental liability related to the pre-sale operations of the assets sold. These indemnities have various payment thresholds and time limits depending on the site and type of claim. Generally, we are not required to pay under these indemnification obligations until claims against us exceed £0.1 million (approximately $0.2 million) individually or £1.0 million (approximately $2.0 million) in the aggregate. We also agreed to indemnify the buyer with respect to certain tax liabilities. Our maximum exposure generally shall not exceed $600 million in the aggregate. We believe that the possibility that we will be required to pay any significant amounts under any of the indemnity provisions is remote.

The EBITDA of our former European base chemicals business is reported in our Base Chemicals segment.

TDI BUSINESS

On July 6, 2005, we sold our TDI business. The sale involved the transfer of our TDI customer list and sales contracts. We discontinued the use of our remaining TDI assets. Our former TDI business has been accounted for as a discontinued operation and was reported in our Polyurethanes segment.

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3. DISCONTINUED OPERATIONS (Continued)

Accordingly, the following results of TDI have been presented as discontinued operations in the accompanying condensed consolidated statements of operations (unaudited) (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Costs and expenses	$	$	$	$ (1.0)
Operating loss				(1.0)
Income tax benefit				0.4
Loss from discontinued operations, net of tax	$	$	$	$ (0.6)

4. BUSINESS COMBINATIONS

PENDING METROCHEM ACQUISITION

On June 29, 2007, we signed an agreement to acquire the Baroda division of Metrochem Industries Ltd ("Baroda") a manufacturer of textile dyes and intermediates in India. Under the terms of the agreement, either party may terminate the agreement since the transaction was not consummated by April 30, 2008. If neither party exercises its right to terminate the agreement, the remaining conditions to closing are to be satisfied and the transaction is to close under its current terms. We estimate the purchase price, including certain working capital and capital expenditures incurred pre-closing, would be approximately $51 million (U.S. dollar equivalents), of which €6.24 million (approximately $9 million) would represent deferred purchase price that would be paid 18 months following the acquisition date upon the completion of certain conditions by the seller. This purchase price would exclude from working capital the receivables existing on the closing date due to Baroda from our affiliates, which would be settled at or prior to closing. As of September 30, 2008, this agreement has not been terminated. There can be no assurance that the transaction will be consummated or, if consummated, that it will be consummated on the terms set forth in the agreement.

TEXTILE EFFECTS ACQUISITION

On June 30, 2006, we acquired Ciba's textile effects business (the "Textile Effects Acquisition"). The operating results of the textile effects business have been consolidated with our operating results beginning on July 1, 2006 and are reported with our advanced materials operations as part of our Materials and Effects segment.

We accounted for the Textile Effects Acquisition using the purchase method in accordance with SFAS No. 141, *Business Combinations.* As such, we analyzed the fair value of tangible and intangible assets acquired and liabilities assumed, and we determined the excess of fair value of net assets acquired over cost. Because the fair value of the acquired assets and liabilities assumed exceeded the acquisition price, the valuation of the long-lived assets acquired was reduced to zero in accordance with SFAS No. 141. Accordingly, no basis was assigned to property, plant and equipment or any other non-current non-financial assets and the remaining excess was recorded as an extraordinary gain, net of taxes (which were not applicable because the gain was recorded in purchase accounting). During the

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

4. BUSINESS COMBINATIONS (Continued)

three and nine months ended September 30, 2008, we recorded an additional extraordinary gain on the acquisition of $1.6 million and $10.4 million, respectively, related to the reversal of accruals for certain employee termination costs recorded in connection with the Textile Effects Acquisition and a reimbursement by Ciba of certain restructuring costs associated with the acquisition. During the nine months ended September 30, 2007, we adjusted the preliminary purchase price allocation for, among other things, the finalization of restructuring plans, estimates of asset retirement obligations, the determination of related deferred taxes and finalization of the post-closing working capital adjustments, resulting in a reduction to the extraordinary gain on the acquisition of $6.5 million.

5. INVENTORIES

Inventories consisted of the following (dollars in millions):

	September 30, 2008	December 31, 2007
Raw materials and supplies	$ 295.0	$ 260.8
Work in progress	89.4	94.1
Finished goods	1,231.5	1,163.6
Total	1,615.9	1,518.5
LIFO reserves	(74.8)	(66.6)
Net	$ 1,541.1	$ 1,451.9

As of September 30, 2008 and December 31, 2007, approximately 8% and 9% of inventories were recorded using the last-in, first-out cost method, respectively.

In the normal course of operations, at times, we exchange raw materials with other companies for the purpose of reducing transportation costs. The net open exchange positions are valued at our cost. The amount included in inventory under open exchange agreements payable by us at September 30, 2008 was $22.2 million (25.8 million pounds of feedstock and products). The amount included in inventory under open exchange agreements payable by us at December 31, 2007 was $26.6 million (53.5 million pounds of feedstock and products).

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

6. RESTRUCTURING, IMPAIRMENT AND PLANT CLOSING COSTS

As of September 30, 2008 and December 31, 2007, accrued restructuring costs by type of cost and initiative consisted of the following (dollars in millions):

	Workforce reductions(1)	Demolition and decommissioning	Non-cancelable lease costs	Other restructuring costs	Total(2)
Accrued liabilities as of January 1, 2008	$ 64.8	$ 12.2	$ 5.1	$ 13.7	$ 95.8
Adjustment to Textile Effects opening balance sheet liabilities	(9.9)				(9.9)
2008 charges for 2004 initiatives	0.4		1.1		1.5
2008 charges for 2006 initiatives	0.1				0.1
2008 charges for 2008 initiatives	3.3	0.1		0.8	4.2
Reversal of reserves no longer required	(0.6)				(0.6)
2008 payments for 2003 initiatives	(1.8)		(0.5)	(0.2)	(2.5)
2008 payments for 2004 initiatives	(3.0)		(0.6)		(3.6)
2008 payments for 2006 initiatives	(15.6)	(7.1)		(0.5)	(23.2)
2008 payments for 2007 initiatives	(0.1)				(0.1)
2008 payments for 2008 initiatives	(1.2)			(0.8)	(2.0)
Net activity of discontinued operations	(0.4)				(0.4)
Foreign currency effect on reserve balance	3.0	0.8	(0.1)	0.1	3.8
Accrued liabilities as of September 30, 2008	$ 39.0	$ 6.0	$ 5.0	$ 13.1	$ 63.1

(1) Accrued liabilities classified as workforce reductions consist primarily of restructuring programs recorded in connection with business combinations in accordance with EITF 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*, and are expected to be paid through 2009. The total workforce reduction reserves of $39.0 million relate to 286 positions that have not been terminated as of September 30, 2008.

(2) Accrued liabilities by initiatives were as follows (dollars in millions):

	September 30, 2008	December 31, 2007
2001 initiatives	$ 1.4	$ 1.4
2003 initiatives	8.5	11.2
2004 initiatives	7.0	9.5
2006 initiatives	37.4	70.4
2007 initiatives	0.3	0.8
2008 initiatives	2.2	
Foreign currency effect on reserve balance	6.3	2.5
Total	$ 63.1	$ 95.8

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6. RESTRUCTURING, IMPAIRMENT AND PLANT CLOSING COSTS (Continued)

Details with respect to our restructuring reserves by segment and initiative are provided below (dollars in millions):

	Polyurethanes	Materials and Effects	Performance Products	Pigments	Discontinued Operations	Corporate & Other	Total
Accrued liabilities as of January 1, 2008	$ 4.5	$ 81.3	$ 2.0	$ 7.6	$ 0.4	$	$ 95.8
Adjustment to Textile Effects opening balance sheet liabilities		(9.9)					(9.9)
2008 charges for 2004 initiatives			0.1	1.4			1.5
2008 charges for 2006 initiatives		0.1					0.1
2008 charges for 2008 initiatives		2.8		0.5		0.9	4.2
Reversal of reserves no longer required				(0.6)			(0.6)
2008 payments for 2003 initiatives	(1.3)	(0.4)	(0.2)	(0.6)			(2.5)
2008 payments for 2004 initiatives	(0.4)		(0.6)	(2.6)			(3.6)
2008 payments for 2006 initiatives		(23.2)					(23.2)
2008 payments for 2007 initiatives		(0.1)					(0.1)
2008 payments for 2008 initiatives		(1.5)				(0.5)	(2.0)
Net activity of discontinued operations					(0.4)		(0.4)
Foreign currency effect on reserve balance	0.1	3.9	(0.1)	(0.1)			3.8
Accrued liabilities as of September 30, 2008	$ 2.9	$ 53.0	$ 1.2	$ 5.6	$	$ 0.4	$ 63.1
Current portion of restructuring reserve	$ 1.4	$ 51.3	$ 1.2	$ 3.9	$	$ 0.4	$ 58.2
Long-term portion of restructuring reserve	1.5	1.7		1.7			4.9

Details with respect to cash and non-cash restructuring charges by initiative are provided below (dollars in millions):

	Nine months ended September 30, 2008
Cash charges:	
2008 charges for 2004 initiatives	$ 1.5
2008 charges for 2006 initiatives	0.1
2008 charges for 2008 initiatives	4.2
Reversals of reserves no longer required	(0.6)
Non-cash charges	3.4

Total Restructuring, Impairment and Plant Closing Costs	$	8.6

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6. RESTRUCTURING, IMPAIRMENT AND PLANT CLOSING COSTS (Continued)

	Nine months ended September 30, 2007
Cash charges:	
2007 charges for 2003 initiatives	$ 0.3
2007 charges for 2004 initiatives	4.6
2007 charges for 2005 initiatives	0.3
2007 charges for 2007 initiatives	18.7
Reversals of reserves no longer required	(3.0)
Non-cash charges	12.6
Total Restructuring, Impairment and Plant Closing Costs	$ 33.5

During the nine months ended September 30, 2008, our Materials and Effects segment recorded charges of $2.9 million related to decommissioning and other costs associated with plant closures in France and Switzerland, supply chain integration and employee termination costs, and reversed accruals of $9.9 million for certain employee termination costs recorded in connection with the Textile Effects Acquisition.

During the nine months ended September 30, 2008, our Pigments segment recorded charges of $1.9 million primarily related to lease termination costs associated with our London, England office and workforce reduction costs related to a reorganization of engineering support. Also during the nine months ended September 30, 2008, our Pigments segment reversed accruals of $0.6 million for certain employee termination costs no longer required.

During the nine months ended September 30, 2008, we recorded a non-cash impairment charge of $3.4 million in Corporate and Other related to the impairment of capital expenditures and turnaround costs associated with our Australian styrenics business. The long-lived assets of our Australian styrenics business were previously determined to be impaired in accordance with SFAS No. 144. Capital expenditures and turnaround costs in this business, which are necessary to maintain operations, are also considered to be impaired immediately after they are incurred. We also recorded charges of $0.9 million primarily related to cost savings programs in our corporate group.

7. INVESTMENT IN UNCONSOLIDATED AFFILIATES

Summarized applicable financial information of our unconsolidated affiliate Sasol-Huntsman GmbH and Co. KG. for the three and nine months ended September 30, 2008 and 2007 is presented below (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Revenues	$32.5	$26.8	$99.1	$76.7
Gross profit	3.9	6.9	20.8	23.9
Net income	1.5	1.9	9.8	9.6

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

7. INVESTMENT IN UNCONSOLIDATED AFFILIATES (Continued)

During the nine months ended September 30, 2008, we contributed $43.5 million as our 50% equity contribution to our ethyleneamines manufacturing joint venture in Jubail Industrial City, Saudi Arabia with Zamil Group. This joint venture's funding requirements will be satisfied through a combination of debt and equity, with the equity already provided on a 50/50 basis by us and Zamil Group. The joint venture obtained various loan commitments in the aggregate amount of approximately $195 million in U.S. dollar equivalents, of which nothing was drawn as of September 30, 2008. We have provided certain guarantees of approximately $14 million for these commitments which will cease to exist upon completion of the project and satisfaction of certain conditions. We have estimated that the fair value of these guarantees was nil as of the closing date of this transaction and, accordingly, no amounts have been recorded. This joint venture is accounted for under the equity method.

8. DEBT

Outstanding debt consisted of the following (dollars in millions):

	September 30, 2008	December 31, 2007
Senior Credit Facilities:		
Revolving Facility	$ 353.7	$
Term Loans	1,540.0	1,540.0
Secured Notes	294.8	294.4
Senior Notes	198.0	198.0
Subordinated Notes	1,308.6	1,310.5
Australian Credit Facilities	54.0	50.0
HPS (China) debt	127.0	106.8
Other	81.9	69.1
Total debt	$ 3,958.0	$ 3,568.8
Current portion	$ 451.1	$ 68.5
Long-term portion	3,506.9	3,500.3
Total debt	$ 3,958.0	$ 3,568.8

TRANSACTIONS AFFECTING OUR SENIOR CREDIT FACILITIES

As of September 30, 2008, our senior secured credit facilities ("Senior Credit Facilities") consisted of (i) a $650.0 million revolving facility (the "Revolving Facility") and (ii) a $1,540.0 million term loan B facility (the "Dollar Term Loan"). As of September 30, 2008, there were $353.7 million borrowings outstanding under our Revolving Facility, which is classified as current in the condensed consolidated balance sheets (unaudited), and we had approximately $34.4 million in U.S. dollar equivalents of letters of credit and bank guarantees issued and outstanding under our Revolving Facility. The Revolving Facility matures in the third quarter of 2010 and the Dollar Term Loan matures in 2014; provided however, that the maturities of each will accelerate if we do not repay all but

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

8. DEBT (Continued)

$100 million of our outstanding debt securities on or before three months prior to the maturity dates of such securities. The next maturity date of such securities is in October of 2010.

As of September 30, 2008, borrowings under the Revolving Facility and Dollar Term Loan bore interest at LIBOR plus 1.75%. The applicable interest rate of the Dollar Term Loan is currently set at LIBOR plus 1.75%, subject to a reduction to LIBOR plus 1.50% upon achieving certain secured leverage ratio thresholds defined in our credit agreements. The credit agreements governing our Senior Credit Facilities contain one financial covenant, which is applicable only to the Revolving Facility, and this covenant is only in effect when loans or letters of credit are outstanding under the Revolving Facility. Our Senior Credit Facilities agreements provide for, among other things, customary restrictions and limitations on our ability to incur liens, incur additional debt, merge or sell assets, make certain restricted payments, prepay other indebtedness, make investments or engage in transactions with affiliates, and also contain other customary default provisions.

OTHER TRANSACTIONS AFFECTING OUR DEBT

HPS, our splitting joint venture with Shanghai Chlor-Alkali Chemical Company, Ltd, maintains a working capital line as part of its overall secured credit facilities. In February 2008, HPS borrowed an additional RMB 122.8 million ($18.0 million) to fund its working capital and operating requirements. As of September 30, 2008, HPS had $26.0 million and RMB 688.6 million ($101.0 million) outstanding under its credit facilities.

On June 30, 2008, our subsidiary, Huntsman (UK) Limited, entered into a $125.0 million short term committed revolving credit facility maturing on June 28, 2009 (the "Short Term Revolving Facility"), of which nothing was drawn as of September 30, 2008. The Short Term Revolving Facility is secured, pursuant to the terms of a debenture governed by English law, by all existing and after acquired personal property of Huntsman Holdings (UK) Limited, including certain intercompany notes, some of which are secured in nature. The Short Term Revolving Facility is supported by an unsecured parent company guarantee provided by Huntsman International. At our option, the Short Term Revolving Facility may bear interest at a rate equal to (i) a LIBOR-based eurocurrency rate plus an applicable margin ranging between 3.00% and 4.00%, or with respect to euro denominated loans a EURIBOR- based rate plus an applicable margin ranging between 3.00% and 4.00% or (ii) a prime-based rate plus an applicable margin ranging between 2.00% or 3.00%, depending on the level of borrowings under the facility. The Short Term Revolving Facility contains two financial covenants, including a leverage covenant which is consistent with the Senior Credit Facilities and a minimum tangible net worth covenant. Our Short Term Revolving Facility agreement provides for, among other things, customary restrictions and limitations on our ability to incur liens, incur additional debt, merge or sell assets, prepay other indebtedness, make investments or engage in transactions with affiliates, and also contains other customary default provisions.

During the third quarter of 2008, our other debt increased mainly due to the financing of our insurance premiums in connection with our annual renewal in July 2008. As of September 30, 2008, the amount of the financed insurance premiums was $27.4 million, all of which was classified as current. The insurance premium financing is secured by the unearned insurance premiums.

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8. DEBT (Continued)

The Merger Agreement provides certain restrictions and limitations concerning the amendment of debt agreements, the extension, repayment and refinancing of certain debt, in addition to the incurrence of new debt.

COMPLIANCE WITH COVENANTS

Our management believes that we are in compliance with the financial covenants contained in the agreements governing the Senior Credit Facilities, the Short Term Revolving Facility, the credit facilities maintained by our Australian subsidiaries (the "Australian Credit Facilities"), the A/R Securitization Program (as defined in "Note 10. Securitization of Accounts Receivable") and the indentures governing our notes.

9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We may enter into foreign currency derivative instruments to minimize the short-term impact of movements in foreign currency rates. On January 15, 2008, we entered into a series of forward foreign currency contracts in our Pigments segment to partially hedge the impact, for up to one year, of movements in foreign currency rates associated with the purchases of raw materials and sales of pigment in non-functional currencies. As of September 30, 2008, these contracts had a notional amount of approximately $38 million and are designated as cash flow hedges. As of September 30, 2008, these contracts had a fair value of $1.1 million and were recorded in accrued liabilities on the accompanying condensed consolidated balance sheet (unaudited). For the three months ended September 30, 2008, the effective portion of the changes in the fair value of $3.8 million was recorded as expense in other comprehensive income, with ineffectiveness of $0.3 million recorded as a reduction in sales, $0.5 million recorded as a reduction in cost of goods sold and a foreign currency loss of $0.5 million. For the nine months ended September 30, 2008, the effective portion of the changes in the fair value of $0.9 million was recorded as expense in other comprehensive income, with ineffectiveness of $0.1 million recorded as an increase in sales, $1.9 million recorded as a reduction in cost of goods sold and a foreign currency gain of $0.8 million.

As of and for the three and nine months ended September 30, 2008, the fair value and realized gains (losses) of our other outstanding foreign currency rate hedging contracts were not significant.

We have a cross currency interest rate swap pursuant to which we have agreed to swap $152.6 million of LIBOR floating rate debt payments for €115.9 million of EURIBOR floating rate debt payments. During the life of this swap, we will receive floating rate interest (LIBOR) in dollars and we will pay floating rate interest (EURIBOR) in euros. This swap is currently not designated as a hedge for financial reporting purposes. As of September 30, 2008, the fair value of this swap was $13.4 million, net of accrued interest, and was recorded in other noncurrent liabilities in our condensed consolidated balance sheet (unaudited). For the three and nine months ended September 30, 2008, we recorded an unrealized foreign currency gain on this swap of $19.3 million and $6.1 million, respectively, in the condensed consolidated statement of operations (unaudited). On October 24, 2008, we terminated this swap and will recognize a cash benefit of $0.4 million during the fourth quarter of 2008.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

We also have a cross currency interest rate swap pursuant to which we have agreed to swap $95.8 million of LIBOR floating rate debt payments for €70.7 million of EURIBOR floating rate debt payments. During the life of this swap, we will receive floating rate interest (LIBOR) in dollars and we will pay floating rate interest (EURIBOR) in euros. This swap was designated as a hedge of a net investment for financial reporting purposes. As of September 30, 2008, the fair value of this swap was $4.6 million, net of accrued interest, and was recorded in other noncurrent liabilities in our condensed consolidated balance sheet (unaudited). For the three and nine months ended September 30, 2008, the effective portion of the changes in the fair value of $12.1 million and $4.7 million, respectively, was recorded as income in other comprehensive income, with ineffectiveness of $0.6 million and $0.9 million, respectively, recorded in interest expense in the condensed consolidated statement of operations (unaudited). On October 24, 2008, we terminated this swap and will recognize a cash benefit of $3.1 million during the fourth quarter of 2008.

From time to time, we review our non-U.S. dollar-denominated debt and swaps to determine the appropriate amounts designated as hedges. As of September 30, 2008, we have designated approximately €390.7 million of debt and swaps as net investment hedges. As of September 30, 2008, we had approximately €1,073.2 million in net euro-denominated assets.

10. SECURITIZATION OF ACCOUNTS RECEIVABLE

Under our accounts receivable securitization program ("A/R Securitization Program"), we grant an undivided interest in certain of our trade receivables to a qualified off-balance sheet entity (the "Receivables Trust") at a discount. This undivided interest serves as security for the issuance by the Receivables Trust of commercial paper. The A/R Securitization Program currently provides for financing through a commercial paper conduit program (in both U.S. dollars and euros). The A/R Securitization Program consists of a commercial paper conduit program with a committed amount of approximately $500 million U.S. dollar equivalents. The A/R Securitization Program matures on April 1, 2009.

As of September 30, 2008, the Receivables Trust had $422.0 million in U.S. dollar equivalents (comprised of $143.0 million and €191.0 million ($279.0 million)) in commercial paper outstanding.

11. FAIR VALUE MEASUREMENTS

We adopted SFAS No. 157 on January 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In February 2008, the FASB issued FSP No. FAS 157-1 and FAS 157-2, which delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years and removes certain leasing transactions from the scope of SFAS No. 157.

Our derivative instruments, available-for-sale securities and retained interests in securitized receivables are the only assets and liabilities that we record at fair value and that are currently subject

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

11. FAIR VALUE MEASUREMENTS (Continued)

to SFAS No. 157. We remeasure the fair value of these instruments on a recurring basis as follows (dollars in millions):

		Fair Value Amounts Using		
Description	**September 30, 2008**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets:				
Available-for-sale securities(2)	$ 12.6	$ 12.6	$	$
Retained interest in securitized receivables(3)	143.9			143.9
Total assets	$ 156.5	$ 12.6	$	$ 143.9
Liabilities:				
Derivatives(1)	$ 20.3	$	$ 20.3	$

(1) We use the income approach to calculate the fair value of these instruments. Fair value represents the present value of estimated future cash flows calculated using relevant interest rates, exchange rates and yield curves at stated intervals.

(2) Using the market approach, the fair value of these securities represents the quoted market price multiplied by the quantity held.

(3) The income approach is used to value these assets. Fair value is based on the present value of expected cash flows, calculated using management's best estimates of key assumptions including credit losses and discount rates commensurate with the risks involved.

Fair Value Measurements Using Level 3	**Three months ended September 30, 2008**	**Nine months ended September 30, 2008**
Balance at beginning of period	$ 171.9	$ 136.4
Total net losses (realized/unrealized) included in earnings	(17.2)	(22.8)
Purchases, issuances and settlements	(10.8)	30.3
Balance at end of period	$ 143.9	$ 143.9
	$ (11.2)	$ (7.2)

The amount of total losses for the period included in earnings attributable to the changes in unrealized gains or losses relating to assets still held at September 30, 2008	

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11. FAIR VALUE MEASUREMENTS (Continued)

Gains and losses (realized and unrealized) included in earnings for the three and nine months ended September 30, 2008 are reported in loss on accounts receivable program and other income (expense) as follows (dollars in millions):

	Loss on accounts receivable securitization program		Other income (expense)	
	Three months ended	Nine months ended	Three months ended	Nine months ended
	September 30, 2008		September 30, 2008	
Total net losses (realized/unrealized) included in earnings	$ (7.8)	$ (20.6)	$ (9.4)	$ (2.2)
Changes in unrealized losses relating to assets still held at September 30, 2008	$ (1.8)	$ (5.0)	$ (9.4)	$ (2.2)

12. EMPLOYEE BENEFIT PLANS

We adopted certain provisions of SFAS No. 158 on January 1, 2008. Beginning with our fiscal year ended December 31, 2008, SFAS No. 158 requires that the assumptions used to measure our benefit obligations and annual expenses be determined as of the balance sheet date and all plan assets be reported as of that date. We used the second approach as described in paragraph 19 of SFAS No. 158 to transition our measurement date from November 30 to December 31. Under this approach, our Company and Huntsman International recorded a charge to beginning retained earnings, net of tax, of $2.9 million and $3.2 million, respectively, as of January 1, 2008.

Components of the net periodic benefit costs for the three and nine months ended September 30, 2008 and 2007 were as follows (dollars in millions):

Huntsman Corporation

	Defined Benefit Plans Three months ended September 30,		Other Postretirement Benefit Plans Three months ended September 30,	
	2008	2007	2008	2007
Service cost	$ 17.9	$ 19.8	$ 0.5	$ 1.0
Interest cost	38.6	35.0	2.2	2.1
Expected return on assets	(47.8)	(44.6)		
Amortization of transition obligation	0.4	0.2		
Amortization of prior service cost	(1.4)	(1.8)	(0.5)	(0.7)
Amortization of actuarial loss	0.8	3.6	0.6	0.6
Curtailment gain		(11.1)		(2.3)
Net periodic benefit cost	8.5	1.1	2.8	0.7
Less discontinued operations		10.5		1.4
Net periodic benefit cost from continuing operations	$ 8.5	$ 11.6	$ 2.8	$ 2.1

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

12. EMPLOYEE BENEFIT PLANS (Continued)

	Defined Benefit Plans Nine months ended September 30,		Other Postretirement Benefit Plans Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Service cost	$ 55.5	$ 61.4	$ 2.3	$ 3.2
Interest cost	116.3	103.2	6.5	6.9
Expected return on assets	(144.4)	(131.8)		
Amortization of transition obligation	1.1	1.2		
Amortization of prior service cost	(4.2)	(5.2)	(1.7)	(2.1)
Amortization of actuarial loss	2.9	10.0	1.4	2.4
Curtailment gain		(11.1)		(2.3)
Net periodic benefit cost	27.2	27.7	8.5	8.1
Less discontinued operations		7.7		(0.3)
Net periodic benefit cost from continuing operations	$ 27.2	$ 35.4	$ 8.5	$ 7.8

Huntsman International

	Defined Benefit Plans Three months ended September 30,		Other Postretirement Benefit Plans Three months ended September 30,	
	2008	**2007**	**2008**	**2007**
Service cost	$ 17.9	$ 19.8	$ 0.5	$ 1.0
Interest cost	38.6	35.0	2.2	2.1
Expected return on assets	(47.8)	(44.6)		
Amortization of transition obligation	0.4	0.2		
Amortization of prior service cost	(1.4)	(1.8)	(0.5)	(0.7)
Amortization of actuarial loss	2.3	5.1	0.6	0.6
Curtailment gain		(11.1)		(2.3)
Net periodic benefit cost	10.0	2.6	2.8	0.7
Less discontinued operations		10.5		1.4
Net periodic benefit cost from continuing operations	$ 10.0	$ 13.1	$ 2.8	$ 2.1

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12. EMPLOYEE BENEFIT PLANS (Continued)

	Defined Benefit Plans Nine months ended September 30,		Other Postretirement Benefit Plans Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Service cost	$ 55.5	$ 61.4	$ 2.3	$ 3.2
Interest cost	116.3	103.2	6.5	6.9
Expected return on assets	(144.4)	(131.8)		
Amortization of transition obligation	1.1	1.2		
Amortization of prior service cost	(4.2)	(5.2)	(1.7)	(2.1)
Amortization of actuarial loss	7.5	14.9	1.4	2.4
Curtailment gain		(11.1)		(2.3)
Net periodic benefit cost	31.8	32.6	8.5	8.1
Less discontinued operations		7.7		(0.3)
Net periodic benefit cost from continuing operations	$ 31.8	$ 40.3	$ 8.5	$ 7.8

During the nine months ended September 30, 2008 and 2007, we made contributions to our pension and postretirement benefit plans of $84.2 million and $125.6 million, respectively. During the remainder of 2008, we expect to contribute an additional amount of approximately $26 million to these plans.

13. STOCKHOLDERS' EQUITY

5% MANDATORY CONVERTIBLE PREFERRED STOCK

In connection with the initial public offering of our 5% mandatory convertible preferred stock on February 16, 2005, we declared all dividends that will be payable on such preferred stock from the issuance through the mandatory conversion date, which was February 16, 2008. Accordingly, we recorded dividends payable of $43.1 million and a corresponding charge to net loss available to common stockholders during the year ended December 31, 2005. We paid the final dividend in cash on February 16, 2008. Also on February 16, 2008, the mandatory convertible preferred stock converted, pursuant to its terms, into 12,082,475 shares of our common stock.

COMMON STOCK DIVIDENDS

On March 31, 2008, June 30, 2008, and September 30, 2008 we paid dividends of $23.4 million each, or $0.10 per share each, to common stockholders of record as of March 14, 2008, June 16, 2008 and September 15, 2008, respectively. On March 30, 2007, June 29, 2007 and September 28, 2007, we paid cash dividends of $22.1 million each, or $0.10 per share each, to common stockholders of record as of March 15, 2007, June 15, 2007 and September 15, 2007, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

14. OTHER COMPREHENSIVE INCOME (LOSS)

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

Huntsman Corporation

	Accumulated other comprehensive income (loss)		Other comprehensive (loss) income			
			Three months ended September 30,		Nine months ended September 30,	
	September 30, 2008	December 31, 2007	2008	2007	2008	2007
Foreign currency translation adjustments, net of tax of $(3.7) and $4.9 as of September 30, 2008 and December 31, 2007, respectively	$ 336.4	$ 378.6	$ (161.4)	$ 55.9	$ (42.2)	$ 92.3
Employee benefit related adjustments, net of tax of $18.7 and $18.5 as of September 30, 2008 and December 31, 2007, respectively	(144.0)	(143.6)	0.5	7.6	(0.4)	12.1
Other comprehensive income (loss) of unconsolidated affiliates	9.1	9.3	(0.3)		(0.2)	2.0
Other	9.6	12.1	(1.6)	(0.6)	(2.5)	(0.6)
Total	$ 211.1	$ 256.4	$ (162.8)	$ 62.9	$ (45.3)	$ 105.8

Huntsman International

	Accumulated other comprehensive income (loss)		Other comprehensive (loss) income			
			Three months ended September 30,		Nine months ended September 30,	
	September 30, 2008	December 31, 2007	2008	2007	2008	2007
Foreign currency translation adjustments, net of tax of $(17.0) and $(8.4) as of September 30, 2008 and December 31, 2007, respectively	$ 335.1	$ 377.5	$ (161.7)	$ 55.3	$ (42.4)	$ 91.6
Employee benefit related adjustments, net of tax of $53.4 and $54.5 as of September 30, 2008 and December 31, 2007, respectively	(203.1)	(206.5)	1.8	8.8	3.4	15.7
Other comprehensive income (loss) of unconsolidated affiliates	9.1	9.3	(0.3)		(0.2)	2.0
Other	4.2	6.6	(1.5)	(0.7)	(2.4)	(0.6)
Total	$ 145.3	$ 186.9	$ (161.7)	$ 63.4	$ (41.6)	$ 108.7

HUNTSMAN CORPORATION AND SUBSIDIARIES

HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

14. OTHER COMPREHENSIVE INCOME (LOSS) (Continued)

Items of other comprehensive income (loss) of our Company and our unconsolidated affiliates have been recorded net of tax, with the exception of the foreign currency translation adjustments related to subsidiaries with earnings permanently reinvested. The tax effect is determined based upon the jurisdiction where the income or loss was recognized and is net of valuation allowances that have been recorded.

15. EXPENSES ASSOCIATED WITH THE MERGER

Total expenses associated with the Merger were as follows (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Basell Termination Fee	$	$ 200.0	$	$ 200.0
Professional fees and other	25.8	5.0	34.8	5.0
Total	$ 25.8	$ 205.0	$ 34.8	$ 205.0

Expenses associated with the Merger incurred during the three and nine months ended September 30, 2008 were $25.8 million and $34.8 million, respectively, related primarily to professional fees as well as bonuses of $1.8 million to certain members of our board of directors for services related to the Merger. During each of the three and nine months ended September 30, 2007, we recorded $205.0 million related primarily to the Basell termination fee and professional fees.

Prior to entering into the Merger Agreement, we terminated an Agreement and Plan of Merger (the "Basell Agreement") dated June 26, 2007 with Basell and paid Basell a $200 million termination fee required under the terms of the Basell Agreement (the "Basell Termination Fee") during the third quarter of 2007. One-half of the Basell Termination Fee, or $100 million, was reimbursed by Hexion. The $100 million funded by Hexion has been deferred and is recorded in accrued liabilities in the accompanying condensed consolidated balance sheets (unaudited). For more information regarding the Merger, see "Note 1. General Merger Agreement and Related Litigation."

Other costs associated with the Merger Agreement would be payable upon consummation of the Merger and we will recognize these costs if and when the business combination is consummated. The following is a discussion of these costs.

TRANSACTION AND RETENTION BONUSES

Upon consummation of the Merger (the "Closing Date"), certain employees will receive transaction bonuses. A retention bonus has also been offered to certain employees payable upon the earlier of (i) the date that is 12 months following the Closing Date, or (ii) with respect to an employee that is involuntarily terminated prior to the payment of the retention bonus, the date of such employee's termination of employment. With both bonuses, the employee must work until the date the bonus is payable. If paid, these bonuses will total $19.5 million. If the eligible employee terminates employment with our Company voluntarily prior to that date, the bonuses will be forfeited. Furthermore, if the Merger is not consummated, we are not obligated to pay such bonuses.

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15. EXPENSES ASSOCIATED WITH THE MERGER (Continued)

For more information regarding the effect of the Merger on stock-based incentive awards, see "Note 18. Stock-Based Compensation Plans" below.

INVESTMENT BANKING FEES

In connection with the Merger, we have agreed to pay Merrill Lynch a fee of $25 million for its investment banking services, all of which is contingent upon and would be payable upon consummation of the Merger. If, at any time during Merrill Lynch's engagement or the two years thereafter, we receive a break-up fee upon termination of an agreement for the sale of our Company, we will pay Merrill Lynch 5% of any such fee, including any reverse break-up fee payable in connection with the termination of the Merger Agreement.

VOTING AGREEMENT FEES

As of the date of the Merger Agreement, MatlinPatterson was one of our significant shareholders and an affiliate of two of our former directors. Pursuant to a voting agreement in connection with the Merger, we agreed to reimburse MatlinPatterson for up to $13.0 million in additional investment banking fees payable to UBS if the Merger is consummated. If the Merger is not consummated, no such fees will be paid.

16. COMMITMENTS AND CONTINGENCIES

LEGAL MATTERS

Litigation Relating to our Merger with Hexion

For information regarding the Merger and related litigation, see also "Note 1. General Merger Agreement and Related Litigation."

Discoloration Claims

Certain claims have been filed against us relating to discoloration of unplasticized polyvinyl chloride products allegedly caused by our titanium dioxide ("Discoloration Claims"). Substantially all of the titanium dioxide that is the subject of these claims was manufactured prior to our acquisition of the titanium dioxide business from ICI in 1999. Net of amounts we have received from insurers and pursuant to contracts of indemnity, we have paid an aggregate of approximately $16 million in costs and settlement amounts for Discoloration Claims through September 30, 2008.

During each of the nine months ended September 30, 2008 and September 30, 2007, we did not settle any Discoloration Claims. The two Discoloration Claims unresolved as of September 30, 2008 asserted aggregate damages of €37.7 million ($55.0 million). An appropriate liability has been accrued for these claims. Based on our understanding of the merits of these claims and our rights under contracts of indemnity and insurance, we do not believe that the net impact on our financial condition, results of operations or liquidity will be material.

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16. COMMITMENTS AND CONTINGENCIES (Continued)

While additional Discoloration Claims may be made in the future, we cannot reasonably estimate the amount of loss related to such claims. Although we may incur additional costs as a result of future claims (including settlement costs), based on our history with Discoloration Claims to date, the fact that substantially all of the titanium dioxide that has been the subject of these Discoloration Claims was manufactured and sold more than nine years ago, and the fact that we have rights under contract to indemnity, including from ICI, we do not believe that any unasserted Discoloration Claims will have a material impact on our financial condition, results of operations or liquidity. Based on this conclusion and our inability to reasonably estimate our expected costs with respect to these unasserted claims, we have made no accruals in our financial statements as of September 30, 2008 for costs associated with unasserted Discoloration Claims.

Asbestos Litigation

We have been named as a "premises defendant" in a number of asbestos exposure cases, typically claims by non-employees of exposure to asbestos while at a facility. In the past, these cases typically have involved multiple plaintiffs bringing actions against multiple defendants, and the complaints have not indicated which plaintiffs were making claims against which defendants, where or how the alleged injuries occurred or what injuries each plaintiff claimed. These facts, which would be central to any estimate of probable loss, generally have been learned only through discovery.

Where a claimant's alleged exposure occurred prior to our ownership of the relevant "premises," the prior owners generally have contractually agreed to retain liability for, and to indemnify us against, asbestos exposure claims. This indemnification is not subject to any time or dollar amount limitations. Upon service of a complaint in one of these cases, we tender it to the prior owner. None of the complaints in these cases state the amount of damages being sought. The prior owner accepts responsibility for the conduct of the defense of the cases and payment of any amounts due to the claimants. In our fourteen-year experience with tendering these cases, we have not made any payment with respect to any tendered asbestos cases. We believe that the prior owners have the intention and ability to continue to honor their indemnity obligations, although we cannot assure you that they will continue to do so or that we will not be liable for these cases if they do not.

The following table presents for the periods indicated certain information about cases for which service has been received that we have tendered to the prior owner, all of which have been accepted.

	Nine Months Ended September 30,	
	2008	**2007**
Unresolved at beginning of period	1,192	1,367
Tendered during period	18	20
Resolved during period(1)	66	180
Unresolved at end of period	1,144	1,207

(1) Although the indemnifying party informs us when tendered cases have been resolved, it generally does not inform us of the settlement amounts relating to such cases, if any. The indemnifying party has informed us that it typically manages our defense together with

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

16. COMMITMENTS AND CONTINGENCIES (Continued)

the defense of other entities in such cases and resolves claims involving multiple defendants simultaneously, and that it considers the allocation of settlement amounts, if any, among defendants to be confidential and proprietary. Consequently, we are not able to provide the number of cases resolved with payment by the indemnifying party or the amount of such payments.

We have never made any payments with respect to these cases. As of September 30, 2008, we had an accrued liability of $16.4 million relating to these cases and a corresponding receivable of $16.4 million relating to our indemnity protection with respect to these cases. We cannot assure you that our liability will not exceed our accruals or that our liability associated with these cases would not be material to our financial condition, results of operations or liquidity; however, we are not able to estimate the amount or range of loss in excess of our accruals. Additional asbestos exposure claims may be made against us in the future, and such claims could be material. However, because we are not able to estimate the amount or range of losses associated with such claims, we have made no accruals with respect to unasserted asbestos exposure claims as of September 30, 2008.

Certain cases in which we are a "premises defendant" are not subject to indemnification by prior owners or operators. The following table presents for the periods indicated certain information about these cases. Cases include all cases for which service has been received by us, other than a number of cases that were erroneously filed against us due to a clerical error. The cases filed in error have been dismissed.

	Nine Months Ended September 30,	
	2008	2007
Unresolved at beginning of period	39	42
Filed during period	4	52
Resolved during period	1	53
Unresolved at end of period	42	41

We paid gross settlement costs for asbestos exposure cases that are not subject to indemnification of nil and $2.6 million during the nine months ended September 30, 2008 and 2007, respectively. We cannot assure you that our liability will not exceed our accruals or that our liability associated with these cases would not be material to our financial condition, results of operations or liquidity; however, we are not able to estimate the amount or range of loss in excess of our accruals. Additional asbestos exposure claims may be made against us in the future, and such claims could be material. However, because we are not able to estimate the amount or range of losses associated with such claims, we have made no accruals with respect to unasserted asbestos exposure claims as of September 30, 2008.

Antitrust Matters

We have been named as a defendant in civil antitrust suits alleging a conspiracy to fix prices in the MDI, TDI, and polyether polyols industries that are now consolidated as the "Polyether Polyols" cases in multidistrict litigation known as In re Urethane Antitrust Litigation, MDL No. 1616, Civil No. 2:04-md-01616-JWL-DJW, United States District Court, District of Kansas, initial order

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

16. COMMITMENTS AND CONTINGENCIES (Continued)

transferring and consolidating cases filed August 23, 2004. Other defendants named in the Polyether Polyols cases are Bayer, BASF, Dow and Lyondell. These cases purport to be brought on behalf of a nationwide class of purchasers of MDI, TDI and polyether polyols. Bayer entered into a classwide settlement agreement with the plaintiffs that was approved by the court. The plaintiffs' motion for class certification was granted on July 28, 2008. Merits discovery is underway and trial has been set for May 3, 2011.

We have also been named as a defendant in putative class action antitrust suits alleging a conspiracy to fix prices in the MDI, TDI and polyether polyols industries filed in the Superior Court of Justice, Ontario, Canada on May 5, 2006 and in Superior Court, Quebec, Canada on May 17, 2006. The other defendants named above in the Polyether Polyols cases are also defendants in these Canadian cases.

We also have been named as a defendant in a putative class action antitrust suit pending in the Superior Court of California, County of San Francisco, filed on February 15, 2005 that alleges a conspiracy to fix prices of certain rubber and urethane products in California. The other defendants named in the Polyether Polyols cases are also defendants in this case. The California action has been stayed pending disposition of the Polyether Polyols cases.

We have also been named as a defendant in a proposed third amended complaint in a putative class action antitrust suit pending in federal district court in Massachusetts that alleges a conspiracy to fix prices of certain rubber and urethane products. Other proposed new defendants are also defendants in the Polyether Polyols cases. The Massachusetts action has been stayed pending settlement of previously asserted claims against previously named parties. We have filed papers opposing the motion for leave to file a third amended complaint in that action.

The pleadings of the plaintiffs in these antitrust suits provide few specifics about any alleged illegal conduct of the defendants, and we are not aware of any evidence of illegal conduct by us or any of our employees. For these reasons, we cannot estimate the possibility of loss or range of loss relating to these claims, and therefore we have not accrued a liability for these claims. Nevertheless, we could incur losses due to these claims in the future and those losses could be material.

In addition, on February 16, 2006, the Antitrust Division of the U.S. Department of Justice served us with a grand jury subpoena requesting production of documents relating to the businesses of TDI, MDI, polyether polyols and related systems. The other defendants in the Polyether Polyols cases have confirmed that they were also served with subpoenas in this matter. We cooperated fully with the investigation, and by letter dated December 16, 2007, the U.S. Department of Justice notified us that its investigation of possible antitrust violations by manufacturers of TDI, MDI and polyether polyols has been closed.

MTBE Litigation

We have been named as a defendant in 11 lawsuits pending in multidistrict litigation in the U.S. District Court for the Southern District of New York alleging liability related to MTBE contamination in groundwater. Four of these cases were filed on March 23, 2007, one was filed on March 28, 2007, three were filed on April 5, 2007, one was filed on January 11, 2008 and two were filed on September 4, 2008. Numerous other companies, including refiners, manufacturers and sellers of

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

16. COMMITMENTS AND CONTINGENCIES (Continued)

gasoline, as well as manufacturers of MTBE, have been named as defendants in these and many other cases currently pending in U.S. courts. The plaintiffs in the eleven cases in which we have been named are municipal water districts and a regional water supply authority that claim that defendants' conduct has caused MTBE contamination of their groundwater. The plaintiffs seek injunctive relief, such as monitoring and abatement, compensatory damages, punitive damages and attorney fees. At this time, we have insufficient information to meaningfully assess our potential exposure in these cases and therefore we have not accrued a liability for these claims. We believe that our liability in these cases, if any, would likely be covered, at least in part, by insurance and/or by indemnity agreements with prior owners.

Shareholder Litigation Relating to the Pending Sale of Our Company

From July 5 to July 13, 2007, four shareholder class action complaints were filed against our Company and our directors alleging breaches of fiduciary duty in connection with our then-proposed sale to Basell and the receipt of a superior proposal from Hexion. Three actions were filed in Delaware: Cohen v. Archibald, et al., No. 3070, in the Court of Chancery for the State of Delaware (filed July 5, 2007); Augenstein v. Archibald, et al., No. 3076, in the Court of Chancery for the State of Delaware (filed July 9, 2007); and Murphy v. Huntsman, et al., No. 3094, in the Court of Chancery for the State of Delaware (filed July 13, 2007). Another action was filed in Texas: Schwoegler v. Huntsman Corporation, et al., Cause No. 07-07-06993-CV, in the 9th Judicial District Court of Montgomery County, Texas (filed July 6, 2007). As subsequently amended, these lawsuits together allege that we and our directors breached fiduciary duties to the stockholders by, among other things, engaging in an unfair sales process, approving an unfair price per share for the Merger with Hexion, and making inadequate disclosures to stockholders, and that Basell, Hexion and MatlinPatterson entities aided and abetted these breaches of fiduciary duty. The lawsuits sought to enjoin the stockholder vote on the Merger.

On September 20, 2007, the parties entered into a Memorandum of Understanding with plaintiffs' counsel in the Delaware and Texas actions to settle these four lawsuits. As part of the proposed settlement, the defendants deny all allegations of wrongdoing, but we agreed to make certain additional disclosures in the final proxy statement that was mailed to our stockholders on or about September 14, 2007. In connection with the settlement, the parties also reached an agreement with respect to any application that the plaintiffs' counsel will make for an award of customary attorneys' fees and expenses to be paid following the completion of the Merger. The settlement is subject to customary conditions, including court approval of the terms of the settlement following notice to members of the proposed settlement class. If finally approved by the court, the settlement will resolve all claims that were brought on behalf of the proposed settlement class in connection with the Merger, the Merger Agreement, the adequacy of the merger consideration, the negotiations preceding the Merger Agreement, the adequacy and completeness of the disclosures made in connection with the Merger, and any actions of the individual defendants in the events listed above, including any alleged breach of fiduciary duties by any of the defendants, or the aiding and abetting thereof. The settlement will not affect stockholders' appraisal rights, if available, pursuant to Section 262 of the General Corporation Law of the State of Delaware.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

16. COMMITMENTS AND CONTINGENCIES (Continued)

The Memorandum of Understanding will be null and void and of no force and effect if the Merger is not consummated, the Delaware actions are not dismissed or the Texas court does not give final approval of the settlement and dismiss the Texas action with prejudice for any reason.

The settlement will not affect the timing of the Merger or the amount of the merger consideration to be paid in the Merger. Under the terms of the Memorandum of Understanding, the terms of the proposed settlement will not be presented to the court for approval until the Merger is consummated.

Port Arthur Plant Fire Insurance Litigation

On August 31, 2007, an action was brought against our Company and International Risk Insurance Company ("IRIC"), our captive insurer, in the United States District Court for the Southern District of Texas, by seventeen reinsurance companies (the "Reinsurers") that reinsure risks under the property insurance policy issued by IRIC to our Company (the "Policy") for the period covering the April 29, 2006 fire at our manufacturing facility in Port Arthur, Texas. The action seeks to compel our Company and IRIC to arbitrate with the Reinsurers to resolve disputes related to the claim for losses caused by the fire or, in the alternative, to declare judgment in favor of the Reinsurers. On September 26, 2008, the court denied motions to dismiss filed by our Company and IRIC, ordering the parties to engage in a short period of discovery on the issue of arbitrability. In a second and related action filed by our Company against IRIC in state court in Jefferson County, Texas, IRIC filed a third party petition against the Reinsurers, who then removed that action to the United States District Court for the Eastern District of Texas. Some of the Reinsurers filed answers and motions to compel arbitration, to stay these proceedings, and to change venue to the United States District Court for the Southern District of Texas in order to consolidate the two actions. Our Company filed a motion to remand that action to the state court and opposition to the Reinsurers' motions in that action. On April 23, 2008, the United States District Court for the Eastern District of Texas transferred the case to the United States District Court for the Southern District of Texas. On September 26, 2008, the court denied our Company's motion to remand that suit to the state court in which it was filed. Our Company has paid its deductible on the claim of $60 million and has been advanced $325.0 million to date (of which $20.0 million was advanced during the nine months ended September 30, 2008) by the Reinsurers. Our Company has claimed an additional approximately $275 million as presently due and owing and unpaid under the Policy for losses caused by the fire, and anticipates filing additional claims. For more information, see "Note 19. Casualty Losses and Insurance Recoveries Port Arthur, Texas Plant Fire."

Other Proceedings

We are a party to various other 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, we do not believe that the outcome of any of these matters will have a material adverse effect on our financial condition, results of operations or liquidity.

GUARANTEES

In January 2003, Huntsman International entered into two related joint venture agreements to build MDI production facilities near Shanghai, China. SLIC, our manufacturing joint venture with

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

16. COMMITMENTS AND CONTINGENCIES (Continued)

BASF AG and three Chinese chemical companies, operates three plants that manufacture MNB, aniline and crude MDI. We indirectly own 35% of SLIC and it is an unconsolidated affiliate.

On September 19, 2003, SLIC obtained secured financing for the construction of production facilities. SLIC obtained various committed loans in the aggregate amount of approximately $230 million in U.S. dollar equivalents. As of September 30, 2008, there were $74.5 million and RMB 921.4 million ($135.1 million) in outstanding borrowings under these facilities. The interest rate on these facilities is LIBOR plus 0.48% for U.S. dollar borrowings and 90% of the Peoples Bank of China rate for RMB borrowings. The loans are secured by substantially all the assets of SLIC and will be paid in 16 semiannual installments (of which 13 installments remain), which began on June 30, 2007. We unconditionally guarantee 35% of any amounts due and unpaid by SLIC under the loans described above (except for the VAT facility which is not guaranteed). Our guarantee remains in effect until SLIC has met certain conditions. The conditions outstanding include completion of the building and equipment mortgage registrations, which are progressing as planned, and maintaining a debt service coverage ratio of at least 1:1 at the time such registrations are completed. We have estimated that the fair value of this guarantee was nil as of the closing of the transaction and, accordingly, no amounts have been recorded.

17. ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

GENERAL

We are subject to extensive federal, state, local and foreign laws, regulations, rules and ordinances relating to safety, pollution, protection of the environment and the generation, storage, handling, transportation, treatment, disposal and remediation of hazardous substances and waste materials. In the ordinary course of business, we are subject to frequent environmental or safety inspections and monitoring and occasional investigations by governmental enforcement authorities. In addition, our production facilities require operating permits that are subject to renewal, modification and, in certain circumstances, revocation. Actual or alleged violations of safety laws, environmental laws or permit requirements could result in restrictions or prohibitions on plant operations, substantial civil or criminal sanctions, as well as, under some environmental laws, the assessment of strict liability and/or joint and several liabilities. Moreover, changes in environmental or safety regulations could inhibit or interrupt our operations, or require us to modify our facilities or operations. Accordingly, environmental or other regulatory requirements may cause us to incur significant unanticipated losses, costs or liabilities.

ENVIRONMENTAL, HEALTH AND SAFETY SYSTEMS

We are committed to achieving and maintaining compliance with all applicable environmental, health and safety ("EHS") legal requirements, and we have developed policies and management systems that are intended to identify the multitude of EHS legal requirements applicable to our operations, enhance compliance with applicable legal requirements, ensure the safety of our employees, contractors, community neighbors and customers and minimize the production and emission of wastes and other pollutants. Although EHS legal requirements are constantly changing and are frequently difficult to comply with, these EHS management systems are designed to assist us in our compliance goals while also fostering efficiency and improvement and minimizing overall risk to us.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

17. ENVIRONMENTAL, HEALTH AND SAFETY MATTERS (Continued)

EHS CAPITAL EXPENDITURES

We may incur future costs for capital improvements and general compliance under EHS laws, including costs to acquire, maintain and repair pollution control equipment. For the nine months ended September 30, 2008 and 2007, our capital expenditures for EHS matters totaled $38.7 million and $42.2 million, respectively. Since capital expenditures for these matters are subject to evolving regulatory requirements and depend, in part, on the timing, promulgation and enforcement of specific requirements, we cannot provide assurance that our recent expenditures will be indicative of future amounts required under EHS laws.

REMEDIATION LIABILITIES

We have incurred, and we may in the future incur, liability to investigate and clean up waste or contamination at our current or former facilities or facilities operated by third parties at which we may have disposed of waste or other materials. Similarly, we may incur costs for the cleanup of wastes that were disposed of prior to the purchase of our businesses. Under some circumstances, the scope of our liability may extend to damages to natural resources.

Under the U.S. Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), and similar state laws, a current or former owner or operator of real property may be liable for remediation costs regardless of whether the release or disposal of hazardous substances was in compliance with law at the time it occurred, and a current owner or operator may be liable regardless of whether it owned or operated the facility at the time of the release. We have been notified by third parties of claims against us for cleanup liabilities at 11 former facilities or third party sites, including, but not limited to, sites listed under CERCLA. Based on current information and past experiences at other CERCLA sites, we do not expect any of these third party claims to result in material liability to us. Recently, Huntsman Advanced Materials received notice from the U.S. Department of Agriculture that the North Maybe Canyon Superfund site near Soda Springs, Idaho (a Huntsman Polymers Corporation legacy site) will require a Remedial Investigation/Feasibility Study ("RI/FS"). The current lease holders of the site have been doing a site investigation since 2004. We have initiated settlement negotiations on a RI/FS with the Department of Agriculture regarding the limited part of the North Maybe Mine in which our predecessor in interest was involved. We continue to believe, based on known facts, that our liability at the site will not be material. We also recently received a Notice of Liability and De Minimis Settlement Offer from the U.S. Environmental Protection Agency concerning the Malone Service Company Superfund site, Texas City, Texas. Based upon the settlement offer, it appears that our liability at that site will not be material.

In addition, under the U.S. Resource Conservation and Recovery Act of 1976, as amended ("RCRA"), and similar state laws, we may be required to remediate contamination originating from our properties as a condition to our hazardous waste permit. Some of our manufacturing sites have an extended history of industrial chemical manufacturing and use, including on-site waste disposal. We are aware of soil, groundwater or surface contamination from past operations at some of our sites, and we may find contamination at other sites in the future. For example, our Port Neches, Texas and Geismar, Louisiana facilities are the subject of ongoing remediation requirements under RCRA authority.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

17. ENVIRONMENTAL, HEALTH AND SAFETY MATTERS (Continued)

In June of 2006, an agreement was reached between the local regulatory authorities and our Advanced Materials site in Pamplona, Spain to relocate our manufacturing operations in order to facilitate new urban development desired by the city. Subsequently, as required by the authorities, soil and groundwater sampling was performed and followed by a quantitative risk assessment. Although unresolved at this time, some level of remediation of site contamination may be required in the future, but the estimated cost is unknown because the remediation approach and timing has not been determined.

By letter dated March 7, 2006, our Base Chemicals and Polymers facility in West Footscray, Australia was issued a clean-up notice by the Australian (Victorian) EPA. The agency was concerned about soil and groundwater contamination emanating from the site. Although we fulfilled all initial requirements under the clean-up notice, the agency revoked the original clean-up notice on September 4, 2007 and issued a revised clean-up notice granting an extension due to "the complexity of contamination issues" at the site. The revised clean-up notice reflects a more detailed program, with a deadline for the submission of a detailed site remediation action plan by March 31, 2009.

In many cases, our potential liability arising from historical contamination is based on operations and other events occurring prior to our ownership of a business or specific facility. In these situations, we frequently obtained an indemnity agreement from the prior owner addressing remediation liabilities arising from pre-closing conditions. We have successfully exercised our rights under these contractual covenants for a number of sites and, where applicable, mitigated our ultimate remediation liability. We cannot assure you, however, that all of such matters will be subject to indemnity, that the prior owner will honor its indemnity or that our existing indemnities will be sufficient to cover our liabilities for such matters.

Based on available information and the indemnification rights we believe are likely to be available, 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, if such indemnities are unavailable or do not fully cover the costs of investigation and remediation or we are required to contribute to such costs, and if such costs are material, then such expenditures may have a material adverse effect on our financial condition, results of operations or cash flows. At the current time, we are unable to estimate the full cost, exclusive of indemnification benefits, to remediate any of the known contamination sites.

ENVIRONMENTAL RESERVES

We have accrued liabilities relating to anticipated environmental cleanup obligations, site reclamation and closure costs and known penalties. Liabilities are recorded when potential liabilities are either known or considered probable and can be reasonably estimated. Our liability estimates are based upon available facts, existing technology and past experience and are discounted when supported by applicable accounting principles. The environmental liabilities do not include amounts recorded as asset retirement obligations. We have accrued $7.9 million and $7.2 million for environmental liabilities as of September 30, 2008 and December 31, 2007, respectively. Of these amounts, $4.3 million and $4.6 million are classified as accrued liabilities in our condensed consolidated balance sheets (unaudited) as of September 30, 2008 and December 31, 2007, respectively, and $3.6 million and $2.6 million are classified as other noncurrent liabilities in our condensed consolidated balance sheets

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17. ENVIRONMENTAL, HEALTH AND SAFETY MATTERS (Continued)

(unaudited) as of September 30, 2008 and December 31, 2007, respectively. In certain cases, our remediation liabilities are payable over periods of up to 30 years. We may incur losses for environmental remediation in excess of the amounts accrued; however, we are not able to estimate the amount or range of such potential excess.

REGULATORY DEVELOPMENTS

Under the EU's integrated pollution prevention and control directive ("IPPC"), EU member governments are to adopt rules and implement a cross media (air, water and waste) environmental permitting program for individual facilities. While the EU countries are at varying stages in their respective implementation of the IPPC permit program, we have submitted all necessary IPPC permit applications required to date and in some cases received completed permits from the applicable government agency. We expect to submit all other IPPC applications and related documents on a timely basis as the various countries implement the IPPC permit program. Although we do not know with certainty what each IPPC permit will require, we believe, based upon our experience with the permits received to date, that the costs of compliance with the IPPC permit program will not be material to our financial condition, results of operations or cash flows.

In December 2006, the EU parliament and EU council approved a new EU regulatory framework for chemicals called "REACH" (Registration, Evaluation and Authorization of Chemicals). REACH took effect on June 1, 2007, and the program it establishes will be phased in over 11 years. Under the regulation, companies that manufacture or import more than one ton of a chemical substance per year will be required to register such chemical substances and isolated intermediates in a central database. Use authorizations will be granted for a specific chemical if the applicants can show that any risk in using the chemical can be adequately controlled or, where there are no suitable alternatives available, if the applicant can demonstrate that the social and economic benefits of using the chemical outweigh the risks. In addition, specified uses of some hazardous substances may be restricted. Furthermore, all applicants will have to study the availability of alternative chemicals. If an alternative is available, an applicant will have to submit a "substitution" plan to the regulatory agency. The regulatory agency will only authorize persistent bio-accumulative and toxic substances if an alternative chemical is not available. The registration, evaluation and authorization phases of the program will require expenditures and resource commitments in order to, for example, develop information technology tools, generate data, prepare and submit dossiers for substance registration, participate in consortia, obtain legal advice and reformulate products, if necessary. We have established a cross-business European REACH team that is working closely with our businesses to identify and list all substances purchased, manufactured or imported by or for us into the EU. Our pre-registration REACH compliance began on June 1, 2008, utilizing internal resources at nominal expense. This process must be completed by November 30, 2008. By the deadline, all chemical substances either manufactured or imported into Europe must be pre-registered or removed from the marketplace. At September 30, 2008, 95% of all our raw materials were confirmed to be pre-registered by suppliers and 49% of all our products had been pre-registered. The process of pre-registering all products that we manufacture or import into Europe is currently on schedule for completion by the November 30 deadline. Although the total long-term cost for REACH compliance is not estimable at this time, we spent approximately $3 million on REACH compliance in 2007 and approximately $2 million during the nine months ended September 30, 2008.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

17. ENVIRONMENTAL, HEALTH AND SAFETY MATTERS (Continued)

GREENHOUSE GAS REGULATION

In the EU and other jurisdictions committed to compliance with the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the "Convention"), there is an increasing likelihood that our manufacturing sites will be affected in some way over the next few years by regulation or taxation of greenhouse gas ("GHG") emissions. In addition, although the U.S. is not a signatory to the Convention, several states, including California, are implementing their own GHG regulatory programs and a federal program in the U.S. is a possibility for the future. Several of our sites are subject to existing GHG legislation, but few have experienced or anticipate significant cost increases as a result, although it is likely that GHG emission restrictions will increase over time. Potential consequences of such restrictions include capital requirements to modify assets used to meet GHG restriction and/or increases in energy costs above the level of general inflation, as well as direct compliance costs. Currently, however, it is not possible to estimate the likely financial impact of potential future regulation on any of our sites.

CHEMICAL FACILITY ANTI-TERRORISM RULEMAKING

As required by the Homeland Security Appropriations Act of 2006, on April 9, 2007, the Department of Homeland Security (the "DHS") issued the Chemical Facility Anti-Terrorism Standards or "CFATS", an interim final rule establishing risk-based performance standards for the chemical industry. The majority of the standards went into effect on June 8, 2007 and require security vulnerability assessments ("SVAs") and site security plans for facilities qualifying as high risk.

Since 2003, we have conducted SVAs at our higher risk manufacturing facilities in the U.S. using American Chemical Council protocols. Those assessments led to changes in our operations in certain instances in an effort to ensure greater security. However, not all of our facilities, including some of our recently acquired sites, have been assessed. A second round of SVAs under the CFATS regime will be based on the DHS list of "Chemicals of Interest" ("Appendix A") released on November 2, 2007 and will consider the volume of on-site chemicals, proximity of neighbors to a facility and other factors. Three of our operating locations with Appendix A chemicals that met the volume thresholds have completed SVAs to date. We are scheduled to conduct the two remaining DHS-required SVAs before the end of 2008. We believe that the cost to perform the SVAs will be nominal, and that the anticipated cost to implement any recommendations will not be material.

MTBE DEVELOPMENTS

We produce MTBE, an oxygenate that is blended with gasoline to reduce vehicle air emissions and to enhance the octane rating of gasoline. Litigation or legislative initiatives restricting the use of MTBE in gasoline may subject us or our products to environmental liability or materially adversely affect our sales and costs. Because MTBE has contaminated some water supplies, its use has become controversial in the U.S. and elsewhere, and its use has been effectively eliminated in the U.S. market. We currently market MTBE, either directly or through third parties, to gasoline additive customers located outside the U.S., although there are additional costs associated with such outside-U.S. sales which may result in decreased profitability compared to historical sales in the U.S. We may also elect to use all or a portion of our precursor tertiary butyl alcohol to produce saleable products other than MTBE. If we opt to produce products other than MTBE, necessary modifications to our facilities will

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17. ENVIRONMENTAL, HEALTH AND SAFETY MATTERS (Continued)

require significant capital expenditures and the sale of such other products may produce a lower level of cash flow than that historically produced from the sale of MTBE.

Numerous companies, including refiners, manufacturers and sellers of gasoline, as well as manufacturers of MTBE, have been named as defendants in approximately 150 cases currently pending in U.S. courts that allege MTBE contamination in groundwater. We have been named as a defendant in eleven of those lawsuits. For more information, see "Note 16. Commitment and Contingencies Legal Matters MTBE Litigation." The plaintiffs in the MTBE groundwater contamination cases generally seek compensatory damages, punitive damages, injunctive relief, such as monitoring and abatement, and attorney fees. We currently have insufficient information to meaningfully assess our potential exposure in these cases. We believe that some of our liability in these cases, if any, is likely covered by insurance and/or indemnity agreements with prior owners. It is possible that we could be named as a defendant in additional existing or future MTBE contamination cases. We cannot provide assurances that adverse results against us in existing or future MTBE contamination cases will not have a material adverse effect on our business, results of operations and financial position.

18. STOCK-BASED COMPENSATION PLANS

Under the Huntsman Stock Incentive Plan (the "Stock Incentive Plan"), a plan approved by stockholders, we may grant non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, phantom stock, performance awards and other stock-based awards to our employees and directors and to employees and directors of our subsidiaries, provided that incentive stock options may be granted solely to employees. The terms of the grants are fixed at the grant date. As of September 30, 2008, we were authorized to grant up to 21,590,909 shares under the Stock Incentive Plan. Option awards have a maximum contractual term of 10 years and generally must have an exercise price at least equal to the market price of our common stock on the date the option award is granted. Stock-based awards generally vest ratably over a three-year period.

Under the Merger Agreement, we have agreed, among other things, that we will not grant or issue any capital stock or equity interests, other than (i) the issuance of common stock upon the exercise of stock options granted under the Stock Incentive Plan and outstanding on the date of the Merger Agreement, (ii) upon the expiration of any restrictions on any restricted stock granted under the Stock Incentive Plan and outstanding on the date of the Merger Agreement or issued in compliance with the Merger Agreement, and (iii) issuances of restricted stock or phantom stock granted after February 15, 2008 under the Stock Incentive Plan to employees and directors in amounts consistent with past practice or pursuant to action taken by our board of directors (or a committee thereof) and in aggregate not covering more than 600,000 shares of common stock, 50% of which will become fully vested and convert into the right to receive the merger consideration upon the effective time of the Merger and 50% of which will become fully vested and convert into the right to receive the merger consideration six months following the consummation of the Merger. If the Merger is not consummated, the restricted stock and phantom stock granted during 2008 will vest ratably over a three-year period from the grant date.

Upon consummation of the Merger, the restrictions applicable to each share of restricted common stock (including common stock underlying restricted stock units and phantom stock) issued or granted pursuant to the Stock Incentive Plan shall immediately lapse, and, at the effective time of the Merger,

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18. STOCK-BASED COMPENSATION PLANS (Continued)

each share of such common stock, restricted stock units and phantom stock will be converted into the right to receive the merger consideration. All options to acquire shares of common stock outstanding under the Stock Incentive Plan will vest immediately prior to the effective time of the Merger, and holders of such options will be entitled to receive an amount in cash equal to the excess, if any, of the merger consideration over the exercise price per share of common stock for each option. Any incremental compensation cost that may result from the acceleration of vesting of stock-based awards in connection with the Merger will be recognized when the Merger is consummated.

The compensation cost from continuing operations for the Stock Incentive Plan was $4.5 million and $6.1 million for the three months ended September 30, 2008 and 2007, respectively, and $15.7 million and $17.4 million for the nine months ended September 30, 2008 and 2007, respectively. The total income tax benefit recognized in the statement of operations for stock-based compensation arrangements was $4.9 million and $5.4 million for the nine months ended September 30, 2008 and 2007, respectively.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes valuation model that uses the assumptions noted in the following table. Because we became a publicly-held company in February 2005, expected volatilities are based on implied volatilities from the stock of comparable companies and other factors. The expected term of options granted is estimated based on the contractual term of the instruments and employees' expected exercise and post-vesting employment termination behavior. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Dividend yield	NA	NA	NA	1.9%
Expected volatility	NA	NA	NA	20.8%
Risk-free interest rate	NA	NA	NA	4.7%
Expected life of stock options granted during the period	NA	NA	NA	6.6 years

During the three and nine months ended September 30, 2008 and the three months ended September 30, 2007, no stock options were granted.

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18. STOCK-BASED COMPENSATION PLANS (Continued)

STOCK OPTIONS

A summary of stock option activity under the Stock Incentive Plan as of September 30, 2008 and changes during the nine months then ended is presented below:

Option Awards	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2008	6,327	$ 21.32		
Granted				
Exercised				
Forfeited	(141)	20.86		
Outstanding at September 30, 2008	6,186	21.33	7.4	$
Exercisable at September 30, 2008	4,176	21.72	7.1	

As of September 30, 2008, there was $6.8 million of total unrecognized compensation cost related to nonvested stock option arrangements granted under the Stock Incentive Plan. That cost is expected to be recognized over a weighted-average period of approximately 0.9 years.

NONVESTED SHARES

Nonvested shares granted under the Stock Incentive Plan consist of restricted stock, which is accounted for as an equity award, and phantom stock, which is accounted for as a liability award because it can be settled in either stock or cash. A summary of the status of our nonvested shares as of September 30, 2008 and changes during the nine months then ended is presented below:

	Equity Awards		Liability Awards	
	Shares (in thousands)	Weighted Average Grant Date Fair Value	Shares (in thousands)	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2008	1,007	$ 21.12	145	$ 20.76
Granted	492	24.56	108	24.56
Vested	(537)(1)	21.59	(58)	21.03
Forfeited	(32)	22.37	(18)	22.50
Nonvested at September 30, 2008	930	22.62	177	22.82

(1) During the nine months ended September 30, 2008, 10,278 restricted stock units vested. Vested restricted stock units are not reflected as vested shares in this table because, in accordance with the restricted stock unit agreements, shares of common stock are not issued for vested restricted stock units until termination of employment.

As of September 30, 2008, there was $16.7 million of total unrecognized compensation cost related to nonvested share compensation arrangements granted under the Stock Incentive Plan. That cost is

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18. STOCK-BASED COMPENSATION PLANS (Continued)

expected to be recognized over a weighted-average period of approximately 1.8 years. The total fair value of shares that vested during the nine months ended September 30, 2008 and 2007 was $13.2 million and $8.7 million, respectively.

19. CASUALTY LOSSES AND INSURANCE RECOVERIES

PORT ARTHUR, TEXAS PLANT FIRE

On April 29, 2006, our Port Arthur, Texas olefins manufacturing plant (which we sold in November 2007) experienced a major fire. With the exception of cyclohexane operations at the site, which were restarted in June 2006, the operations at the site were shutdown until the fourth quarter of 2007. The Port Arthur manufacturing plant is covered by property damage and business interruption insurance. With respect to coverage for this outage, the deductible for property damage is $10.0 million and business interruption coverage does not apply for the first 60 days, subject to a combined deductible for property damage and business interruption of $60.0 million.

Through September 30, 2008, we have received partial recovery advances totaling $325.0 million. We have recorded $190.2 million of repair and maintenance costs and fixed costs incurred during the business interruption period against the $325.0 million of partial recovery advances resulting in a deferred insurance recovery gain of $134.8 million. We have claimed an additional approximately $275 million as presently due and owing and unpaid under the insurance policy for losses caused by the fire, and anticipate filing additional claims. The Reinsurers have failed to process additional requests for interim claim recovery advances pending their further review and adjusting of the overall claim. On August 31, 2007, the Reinsurers filed suit against us and IRIC, our captive insurance company, in the United States District Court for the Southern District of Texas seeking to compel arbitration of certain disputed claims or alternatively seeking a declaratory judgment on disputed claims. See "Note 16. Commitment and Contingencies Legal Matters Port Arthur Plant Fire Insurance Litigation."

During the nine months ended September 30, 2008, we incurred expenditures related to the fire of $2.4 million that were charged to the deferred recovery gain. As of September 30, 2008, the deferred insurance recovery gain was included in accrued liabilities on the accompanying condensed consolidated balance sheet (unaudited).

Future insurance recovery advances, if any, in excess of accrued fixed costs and other expenses relating to the damaged facilities will be recorded as a deferred gain, and any remaining deferred gains associated with this event will not be recognized in our consolidated statements of operations until final settlement is reached with our insurance carriers.

2005 U.S. GULF COAST STORMS

On September 22, 2005, we sustained property damage at our Port Neches and Port Arthur, Texas facilities as a result of a hurricane. We maintain customary insurance coverage for property damage and business interruption. With respect to coverage of these losses, the deductible for property damage was $10.0 million per site, while business interruption coverage does not apply for the first 60 days.

During 2006 and 2007, we recorded insurance recoveries of $37.5 million related to the Gulf Coast storms. We and our insurers are working to reach a settlement on the remainder of the insurance claim, and we can provide no assurance with respect to the ultimate resolution of this matter. Any future collections will represent income for us upon final settlement.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

20. INCOME TAXES

We use the asset and liability method of accounting for income taxes. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial and tax reporting purposes. We evaluate deferred tax assets to determine whether it is more likely than not that they will be realized. Valuation allowances are reviewed each period on a tax jurisdiction by jurisdiction basis to analyze whether there is sufficient positive or negative evidence to support a change in judgment about the realizability of the related deferred tax assets.

On April 12, 2007, we received a Revenue Agent Report from the Internal Revenue Service ("IRS") related to the examination of our federal income tax returns for the years 2002 through 2004. The IRS initially proposed a decrease to our net operating losses of approximately $387 million related to transactions completed in 2002. However, on January 5, 2008, we were notified by the IRS that no adjustment would be made to our net operating loss for this disputed item. As a result of the settlement of this audit cycle and the effective settlement of two uncertain tax positions in other countries, during the nine months ended September 30, 2008, we recorded a decrease in unrecognized tax benefits and a corresponding income tax benefit of $18.4 million.

We believe it is reasonably possible that certain of our non-U.S. audits could be resolved within 12 months of September 30, 2008. If such resolutions were to occur, our unrecognized tax benefits could decrease by up to $45 million with a corresponding benefit to our income tax expense of up to $38 million, dependent upon the nature of the resolutions and the interactions with other corporate events including the potential need for the establishment of valuation allowances. None of these resolutions to our non-U.S. audits would result in any immediate cash benefits to our Company.

Huntsman Corporation

We recorded income tax expense of $42.3 million for the nine months ended September 30, 2008 and income tax benefit of $8.7 million for the nine months ended September 30, 2007.

Merger-related costs of $34.8 million are included in income from continuing operations before income taxes for financial reporting purposes for the nine months ended September 30, 2008. The Merger-related costs do not receive a tax benefit because such costs are not deductible for income tax purposes. See "Note 15. Expenses Associated with the Merger."

Excluding the Merger-related costs, our effective income tax rate was 53% for the nine months ended September 30, 2008, which is higher than the U.S. statutory rate of 35% primarily due to our mix of earnings including income in tax jurisdictions with higher statutory rates and losses in tax jurisdictions which do not record tax benefits due to valuation allowances, partially offset by the benefit for the decrease in unrecognized tax benefits during the year. Our effective income tax rate was 18% for the nine months ended September 30, 2007 and excluding items specific to that period (net non-recurring benefits related to changes in tax rates, the release of certain valuation allowances and the reversal of certain tax contingencies) would have been 26%, which is lower than the U.S. statutory rate of 35% primarily due to our mix of earnings in tax jurisdictions where no tax expense is provided due to the release of valuation allowances, losses in tax jurisdictions where we recognize tax benefits, and earnings in tax jurisdictions with lower statutory rates. Our effective tax rate increased largely due to our mix of earnings including losses in jurisdictions where we have valuation allowances and do not record a tax benefit.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

20. INCOME TAXES (Continued)

Huntsman International

Huntsman International recorded income tax expense of $47.0 million and $40.2 million for the nine months ended September 30, 2008 and 2007, respectively.

Huntsman International's effective income tax rate was 51% for the nine months ended September 30, 2008, which is higher than the U.S. statutory rate of 35% primarily due to its mix of earnings including income in tax jurisdictions with higher statutory rates and losses in tax jurisdictions which do not record tax benefits due to valuation allowances, partially offset by the benefit for the decrease in unrecognized tax benefits during the year. Huntsman International's effective income tax rate was 24% for the nine months ended September 30, 2007 and excluding items specific to that period (net non-recurring benefits related to changes in tax rates, the release of certain valuation allowances and the reversal of certain tax contingencies) would have been 32%, which is lower than the U.S. statutory rate of 35% primarily due to our mix of earnings in tax jurisdictions with lower statutory rates and losses in tax jurisdictions where we recognize tax benefits. Huntsman International's effective tax rate increased largely due to our mix of earnings including losses in jurisdictions where we have valuation allowances and do not record a tax benefit.

21. NET INCOME (LOSS) PER SHARE

Basic income (loss) per share excludes dilution and is computed by dividing net income (loss) available to common stockholders by the weighted average number of shares outstanding during the period. Diluted income per share reflects potential dilution and is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding during the period, increased by the number of additional shares that would have been outstanding if the potential dilutive units had been exercised or converted. On February 16, 2008, the mandatory convertible preferred stock converted into 12,082,475 shares of our common stock.

Basic and diluted income (loss) weighted average shares are determined as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Weighted average shares outstanding	233,553,196	221,032,365	231,434,937	220,918,940
Dilutive securities:				
Stock-based awards				
Preferred stock conversion				
Total dilutive shares outstanding assuming conversion	233,553,196	221,032,365	231,434,937	220,918,940

Additional stock-based awards of 7,379,152 and 7,482,943 weighted average equivalent shares of stock were outstanding during the three months ended September 30, 2008 and 2007, respectively, and additional stock-based awards of 7,420,795 and 7,050,310 weighted average equivalent shares of stock were outstanding during the nine months ended September 30, 2008 and 2007, respectively. In addition, the preferred stock would have had a weighted average effect of 2,035,875 shares of common stock for the nine months ended September 30, 2008, and it would have converted into 11,072,967 shares of common stock for the three and nine months ended September 30, 2007. However, these stock-based

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

21. NET INCOME (LOSS) PER SHARE (Continued)

awards and the potential effects of the preferred stock conversion were not included in the computation of diluted earnings per share because the effect would be anti-dilutive.

22. OPERATING SEGMENT INFORMATION

We report our operations in six segments: Polyurethanes, Materials and Effects, Performance Products, Pigments, Polymers and Base Chemicals.

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

Segment	Products
Polyurethanes	MDI, PO, polyols, PG, TPU, aniline and MTBE
Materials and Effects	epoxy resin compounds and formulations; cross-linking, matting and curing agents; epoxy, acrylic and polyurethane-based adhesives, tooling resin formulations, textile chemicals and dyes, and APAO
Performance Products	amines, surfactants, LAB, maleic anhydride, other performance chemicals, EG, olefins and technology licenses
Pigments	titanium dioxide
Polymers(1)	LDPE and LLDPE, polypropylene, and EPS
Base Chemicals(1)(2)	olefins and cyclohexane
Corporate and Other(2)	styrene

(1) In a series of transactions completed in 2006 and 2007, we sold substantially all of our Polymers and Base Chemicals operations. For more information, see "Note 3. Discontinued Operations."

(2) Effective in the fourth quarter of 2007, the results of our former U.S. butadiene and MTBE business were reported in Corporate and Other. These results were previously reported in our Base Chemicals segment. All segment information has been reclassified to reflect this transfer.

Sales between segments are generally recognized at external market prices and are eliminated in consolidation. We use EBITDA to measure the financial performance of our global business units and for reporting the results of our operating segments. This measure includes all operating items relating to the businesses. The EBITDA of operating segments excludes items that principally apply to our

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

22. OPERATING SEGMENT INFORMATION (Continued)

Company as a whole. The revenues and EBITDA for each of our reportable operating segments are as follows (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Net Sales:				
Polyurethanes	$1,096.0	$ 974.4	$3,258.6	$2,824.6
Materials and Effects	614.0	594.9	1,925.2	1,806.0
Performance Products	740.7	590.2	2,097.1	1,690.5
Pigments	279.8	271.1	885.7	834.5
Corporate and Other(2)	43.6	40.2	126.5	112.8
Eliminations	(43.6)	(47.0)	(126.5)	(121.5)
Total	$2,730.5	$2,423.8	$8,166.6	$7,146.9
Huntsman Corporation:				
Segment EBITDA(1):				
Polyurethanes	$ 89.3	$ 172.8	$ 368.8	$ 449.7
Materials and Effects	46.2	48.6	135.3	158.2
Performance Products	81.0	48.0	184.5	153.3
Pigments	15.2	(0.4)	32.9	45.0
Corporate and Other(2)	(68.0)	(258.7)	(184.4)	(358.9)
Subtotal	163.7	10.3	537.1	447.3
Polymers(3)		12.0	3.9	(194.5)
Base Chemicals(3)	1.3	(14.4)	3.7	19.7
Total	165.0	7.9	544.7	272.5
Interest expense, net	(68.2)	(71.5)	(198.5)	(215.3)
Income tax (expense) benefit continuing operations	(17.7)	13.1	(42.3)	8.7
Income tax (expense) benefit discontinued operations	(0.5)	(3.2)	(3.0)	73.1
Depreciation and amortization	(98.8)	(96.3)	(290.1)	(313.3)
Net (loss) income	$ (20.2)	$ (150.0)	$ 10.8	$ (174.3)
Huntsman International:				
Segment EBITDA(1):				
Polyurethanes	$ 89.3	$ 172.8	$ 368.8	$ 449.7
Materials and Effects	46.2	48.6	135.3	158.2
Performance Products	81.0	48.0	184.5	153.3
Pigments	15.2	(0.4)	32.9	45.0
Corporate and Other(2)	(43.0)	(55.1)	(154.3)	(158.9)
Subtotal	188.7	213.9	567.2	647.3
Polymers(3)		12.0	3.9	(194.5)

Base Chemicals(3)	1.3	(14.4)	3.7	19.7
Total	190.0	211.5	574.8	472.5
Interest expense, net	(68.3)	(71.8)	(198.8)	(216.2)
Income tax (expense) benefit continuing operations	(18.8)	1.9	(47.0)	(40.2)
Income tax (expense) benefit discontinued operations	(0.5)	(3.2)	(3.0)	73.1
Depreciation and amortization	(92.9)	(90.6)	(272.9)	(296.2)
Net income (loss)	$ 9.5	$ 47.8	$ 53.1	$ (7.0)

(1) Segment EBITDA is defined as net income (loss) before interest, income tax, depreciation and amortization, and certain Corporate and Other items.

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22. OPERATING SEGMENT INFORMATION (Continued)

(2) Corporate and Other includes unallocated corporate overhead, loss on sale of accounts receivable, foreign exchange gains or losses, step accounting impacts, our Australian styrenics business, results of our former U.S. butadiene and MTBE business and other non-operating income (expense).

(3) The operating results of our polymers and base chemicals businesses are classified as discontinued operations, and, accordingly, the revenues of these businesses are excluded for all periods presented. The EBITDA of our polymers business is included in the Polymers segment EBITDA and the EBITDA of our base chemicals business is included in the Base Chemicals segment EBITDA for all periods presented. For more information, see "Note 3. Discontinued Operations."

23. CONDENSED CONSOLIDATING FINANCIAL INFORMATION OF HUNTSMAN INTERNATIONAL LLC (UNAUDITED)

The following condensed consolidating financial information (unaudited) of Huntsman International presents, in separate columns, financial information for the following: Huntsman International (on a parent only basis), with its investment in subsidiaries recorded under the equity method; the guarantors of Huntsman International's debt on a combined, and where appropriate, consolidated basis; and non-guarantor subsidiaries on a combined, and where appropriate, consolidated basis. Additional columns present eliminating adjustments and consolidated totals as of September 30, 2008 and December 31, 2007 and for the three and nine months ended September 30, 2008 and 2007. There are no contractual restrictions limiting transfers of cash from Huntsman International's guarantors to Huntsman International. Each Huntsman International guarantor is 100% owned by Huntsman International and has fully and unconditionally guaranteed Huntsman International's debt on a joint and several basis.

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HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEETS (UNAUDITED)

AS OF SEPTEMBER 30, 2008

(Dollars in Millions)

	Parent Company	Guarantors	Nonguarantors	Eliminations	Consolidated Huntsman International LLC
ASSETS					
Current assets:					
Cash and cash equivalents	$ 0.8	$ 2.0	$ 104.3	$	$ 107.1
Restricted cash			5.9		5.9
Accounts and notes receivables, net	31.6	181.3	1,072.1	0.1	1,285.1
Accounts receivable from affiliates	656.9	1,869.8	105.3	(2,338.8)	293.2
Inventories, net	93.4	217.7	1,237.5	(7.5)	1,541.1
Prepaid expenses	14.9	37.9	25.9	(25.4)	53.3
Deferred income taxes	7.1	47.7	17.8	1.5	74.1
Other current assets	0.3	0.8	92.8		93.9
Total current assets	805.0	2,357.2	2,661.6	(2,370.1)	3,453.7
Property, plant and equipment, net	470.3	914.3	2,208.5	2.6	3,595.7
Investment in affiliates	5,491.6	1,479.9	114.4	(6,819.5)	266.4
Intangible assets, net	109.2	0.2	54.2		163.6
Goodwill		87.1	9.5	(4.1)	92.5
Deferred income taxes	125.1	14.5	206.0	(37.3)	308.3
Notes receivables from affiliates	542.3	1,920.3	8.7	(2,462.6)	8.7
Other noncurrent assets	54.0	148.7	357.9		560.6
Total assets	$ 7,597.5	$ 6,922.2	$ 5,620.8	$ (11,691.0)	$ 8,449.5
LIABILITIES AND MEMBERS' EQUITY					
Current liabilities:					
Accounts payable	$ 28.0	$ 191.3	$ 756.3	$	$ 975.6
Accounts payable to affiliates	1,671.6	259.6	421.2	(2,338.8)	13.6
Accrued liabilities	108.5	227.6	465.0	(25.4)	775.7
Deferred income taxes					