

**FOURTH QUARTER 2005 CONFERENCE CALL  
PREPARED REMARKS AND QUESTION & ANSWER SESSION  
WEDNESDAY, January 25, 2006**

*Set forth below is a transcript of the NOVA Chemical's conference call on Wednesday, January 25, 2006 relating to our fourth quarter 2005 earnings. This transcript has been edited for the purpose of increasing clarity and readability. However, management does not believe any of these changes, individually or in the aggregate, represent a material change from the information presented during the conference call itself. We will send you a copy of the unedited transcript, without charge, upon request to NOVA Chemicals Corporation, 1550 Coraopolis Heights Road, Moon Township, PA, Attn: Investor Relations, or via e-mail [Invest@novachem.com](mailto:Invest@novachem.com).*

**Chris Bezaire, Vice President of Investor Relations:**

Thank you operator. Good morning everyone. Welcome to the conference call for NOVA Chemicals' fourth quarter 2005 results. Today Jeff Lipton, our President and CEO, will take us through our business results and Larry MacDonald, our Chief Financial Officer, will review our financial position. After these remarks, we will open the phone lines to analysts and investors for a question and answer session. Chris Pappas, President of our Styrenics business and Dale Spiess, President of our Olefins and Polyolefins business, will be available to answer questions.

I advise you that this conference is being recorded for replay through our conference call provider and is being broadcast live through an internet web cast system. You will note that in addition to our earnings press release, we've emailed analysts a set of panels and posted them in the investor relations section of our company web site. Jeff and Larry will refer to these panels during their comments.

The comments and answers to your question will contain forward-looking information. This information, by its nature, is subject to risks and uncertainties. Please refer to page 8 of our fourth quarter earnings release and page 43 of our 2004 annual report for more information. Now I'll turn the call over to Jeff.

**Jeff Lipton, President and CEO:**

Thanks Chris and good morning everyone, and thank you for joining us. As we were in the throes of our second and third quarter electrical outage and tornado problems, it was very hard to think about how things could get worse. But as we've described in our quarterly report, somehow they did. I'm sure that when the Corunna flexi cracker outage is well behind us, we will be glad to have the 15% energy efficiency gains and expanded throughput rate that will save us \$20-25 million per year, at a site that is already in the best quartile of North America heavy feed crackers.

Today we are fighting our way out of what I can only call a disaster. The delays we had during the maintenance portion of the shutdown now look small compared to the impact of the compressor issues on earnings, cash flow and our share price. It's important to say that we have not let Corunna get in the way of the work we have to do to continuously improve our company, and I think we have some very positive things to discuss with you about that. But let's review the Corunna story first.

As part of our modernization project, we installed three new turbine-driven rotating compressors and other new equipment and control systems at the plant. The largest compressor, and the one we've had the most problems with, is the propylene compressor shown in Panel 1. The compressor was designed and manufactured by a long-established company with a very large market position in our industry with this type of equipment. The same company supplied our very successful installations in Joffre and the old compressors we replaced at Corunna. We've had a series of issues with the turbines and compressors, but the most serious has been with the compressor seals. There are 10 dry gas mechanical seals in the three compressor systems.

The first problem we had was that the inboard seal of the propylene compressor catastrophically failed when we started it up for the first time. When we investigated we found that the other seals were contaminated with debris, apparently when they were field tested prior to shipment to our plant.

The second problem we encountered was related to a design flaw in the system that controls the pressure of the gas around the seals. We had to redesign and reconfigure all of the controls. The third problem was another inboard seal failure and it forced us to redesign the first seal on the propylene compressor. As you can see in Panel 2, the seals themselves are small, very carefully constructed devices that are not hugely expensive or complex. The key is in designing a seal system for a particular set of turbine and processor process conditions. Seals can be modified in days. The big delays are generally from start-up cycles that require long and careful heat-ups and long cool-downs that are required if something fails, and of course the analysis and redesign work required if something doesn't perform as required.

We have utilized consultants from all parts of the world in addition to the technical people from the compressor vendor and a very well-known mechanical seal supplier. We even had two technical experts from our industry who work for the company that is the largest operator of this type of equipment in the world. They were with us as we prepared for the current restart with a redesigned seal.

At this point, I can state that we have fully tested the seals under start-up and operating conditions and they are all working as they are supposed to. Now as you might guess, we will aggressively seek compensation for our losses in this debacle. When we finalize our understanding of the damages we will take aggressive action, but for now we are focused on getting the flexi-cracker back to full production. Today I am very pleased to be able to report that we now have all three compressors operating at normal rates. We are making on-specification ethylene at about 75% of capacity, and could be delivering the full range of Corunna products within days.

Of course, we still have other new equipment that we have to be sure we get the bugs out of to get to full operating rates, so we're not counting on perfection from this point but we've made a very big step forward. We will lift the force majeure restrictions on Corunna products and polyethylene made in the Sarnia area as soon as we can build minimum inventories required to allow reliable service to our customers. We will of course keep everyone informed of our progress and hopefully get our organization back to breathing, sleeping and working normally again some time very soon.

Now let's look at Panel 3. It shows a summary of the maintenance work we undertook in 2005, and the two outages we have planned for 2006 and 2007. This year and next, we have one ethylene cracker turnaround at Joffre. Since we are able to build ethylene inventory in preparation for these turnarounds, we don't expect any significant earnings impact. We remain confident in our decision to accelerate our maintenance work into 2005, from 2006 and 2007. All our other maintenance outages - seven in total - have been successfully completed. Our plants will be online and ready to run hard for the entire duration of the strong market conditions we see ahead.

Well that's the first of four messages I have for you today. I ask you now to turn to Panel 4. The other three are also very important to investors, we believe, and they are these: First, the market outlook looks outstanding to us in the near-term because of extraordinarily low inventories. We also see very strong markets for a number of years because demand for our products has been proven to be tied directly to economic expansion. Forecasters are relatively bullish about global GDP growth and if they're even close to correct, our industry will not be able to keep up with commodity polymer demand growth.

The third key point is we are taking aggressive action in Styrenics. We remain committed to this business and will take the steps necessary to ensure that the business is successful, even if the market does not strengthen as quickly as we expect it will.

And the fourth point is that Performance Products exceeded our EBITDA targets in 2005 despite our operating problems and will have a transforming impact on our Styrenics business and our company over the coming years.

Now let's review last quarter's operational performance. We reported a net loss of \$68 million or 82 cents per share. We did not have a big impact from the mark to market accounting of our long-term compensation programs this quarter. Larry will cover what we have done to take a significant variable out

of our financial results. Since you do not see significant compensation variations in our peers' statements, I think the program will help investors effectively compare our company's performance with others in our industry. Incidentally, it will also take a considerable number of shares out of the market for up to three years, which we expect will be an important period for our shareholders.

The Olefins and Polyolefins business reported net income of \$45 million, up from \$39 million last quarter as a result of stronger market conditions and better margins, despite the enormous volume reduction we saw due to Corunna.

In the fourth quarter the differential between Henry Hub and Alberta natural gas prices averaged \$2.86 per million BTUs. However, ethane prices on the Gulf Coast fell sharply compared to NYMEX natural gas due to relatively strong supply and sharply reduced demand related to hurricane outages. Ethane average 94% of gas for the quarter compared to historic norms of 120% to 130% of natural gas. Despite this unprecedented anomaly, we still realized an Alberta advantage of 3 cents per pound of ethylene cash costs in the fourth quarter, due mainly to Joffre's scale and energy efficiency. As of this week, ethane prices are up to about 111% of NYMEX gas prices and gas differentials remain quite strong at about \$1.30 per million BTUs.

Now let's look at polyethylene in more detail. Industry inventory, which moved down sharply after the hurricanes, remained extremely low when compared to historical levels. I'd like to show you some pictures that tell a very important story. As you can see in Panel 5, the American Plastics Council reports that producer inventories had a modest build last month and ended at 46 days of December sales, versus an historical average of 45 days. NOVA, by the way, closed the year out with polyethylene inventories of 22 days of sales. When you look at this chart, please remember that this measure is based on seasonally soft December sales.

Now Panel 6 and 7 allow you to see the historical seasonal softness in demand for both polyethylene and polystyrene in North America. The past year was not much different than the typical pattern we've seen over the past six years. So let's take seasonality sales differences out of the equation and look directly at polyethylene inventories.

Panel 8 shows cumulative changes in pounds of inventory as reported by the American Plastics Council. You can see that producer stocks have recovered in the fourth quarter but remain at a five-year low, except for the period immediately after the 2005 hurricane.

In Panel 9, we show another part of the story. We have actually set aside our NOVA hopper car panel this quarter, since the impact of Corunna distorts the overall picture. As you might guess we have a lot of empty hopper cars in Ontario right now. However, as we search for information, we found that CMAI tracks inventory as well. They provide a regular analysis of changes in converter inventory, which is very interesting. The dark line in Panel 9 is the CMAI estimate of the cumulative change in converter inventory since January 2001. Our senior analysts have a lot of faith in the CMAI work and state that it very accurately reflects the trends over a long period of time. And by the way, if any of you would like details on this work, please contact Chris Bezaire.

Panel 10 really tells the whole story. We've added together the cumulative changes in producer inventory and converter inventory to portray just how much inventory has been taken out of the first two steps in the polyethylene supply chain in North America. We now easily see the impact of the producer and converter inventory in the third and fourth quarter of 2004. Obviously the rest of the supply chain built inventory as well. We paid for all of that in the second quarter of 2005.

Today in North America we have 3 billion pounds less polyethylene in inventory than at the end of last year in the first two steps of the supply chain, and I'm sure the rest of the chain is also very low as there hasn't been much material around to buy. We need 2 billion pounds to get back to the five-year average level. That's about a year's operation of three new, world-scale polyethylene plants and about 5% of the North American polyethylene capacity. Plus we know that we're going to be short of ethylene in the first half of the year due to unplanned and scheduled outages.

To me, the short-term picture in North America looks great. Inventory movements are very important short-term indicators and can significantly impact annual demand growth. Our customers share information globally and trends we see in North America are similar, barring things like hurricanes, all over the world. So today we believe inventory pictures like the one we've just shown you for polyethylene are the same for other major markets and for other major polymers. We don't have the same data for every product in every market, but the data we do have backs up this thesis strongly.

I'll run through the examples quickly but I believe the data is compelling. In Panel 11, we see producer and converter polyethylene inventories in the EU, and they are down sharply to five-year lows while the economy is showing positive signs of recovery. European capacity is almost 20% smaller than North American polyethylene capacity, so the 800 million pound shortfall from average levels is significant. In Panel 12, we see the polypropylene producer and converter inventory changes in the North American market. This is a 20 billion pound-per-year market, down about 800 million pounds or about 4% of capacity from last January.

In Panel 13, we show polypropylene in Europe. Same story - a 22 billion capacity market is down about 4% of capacity from a year ago. In Panel 14, we show European PVC, again the same picture, even more dramatic in a 14 billion pound capacity market. I'm sorry but we don't have US PVC data, if we did we'd show it to you. Finally in Panel 15, North America producer and converter polystyrene inventory. Remember this market is much smaller than polyethylene or polypropylene at about 5 billion pounds per year, so this inventory decline is a very significant 4.5% of capacity and about 5.5% of domestic demand versus the five-year average inventory.

As we see it, the global energy dynamics and the similarity of customer attitudes and actions leads to a conclusion that very low inventories are going to lead to a surge in short-term buying. And that surge will be reinforced in all commodity polymers and in all markets, and will most likely be felt as North America and Europe come out of the weak season for both of our products - remember what we showed you about seasonality in Panels 6 and 7 - and the Chinese come out of their lunar New Year holiday that starts this weekend.

From significant studies over a long period of time, it's clear to us that fundamental demand for commodity plastics is driven by global GDP growth. We expect global GDP to be at or above the 3% we use in our long-term supply demand studies for 2006 and 2007. In fact, the last projection I read was generated by Goldman Sachs at 4.2% global growth for 2006.

Our view of the long-term is very bullish. We are starting with huge inventory deficits and we feel no matter what individual analyst projections are about Middle East or Asian plants, we are at the beginning of a very long, strong period for NOVA and our commodity polymer peers. The new facilities won't be sufficient at 3% GDP global growth levels, and will leave us way behind anything stronger than that.

Well now let's look more closely at Styrenics. The results are not meaningfully different from the third quarter. We reported a loss of \$65 million in the fourth quarter compared to a loss of \$59 million in the third. Prices and margins are not nearly as strong in Styrenics as they have been for other commodity chains. After benzene prices fell back to the low end of the historic ratios for crude oil, ethylene took off as a result of the hurricanes. The supply demand balance, given the typical and very pronounced seasonal decline in November and December, was not sufficient to improve margins in the fourth quarter and our business stayed in the pits, with Europe being particularly weak. On top of that, NOVA took \$50 million of charges related to plant closures in Chesapeake, Virginia and Europe.

There's no denying the Styrenics business has been dreadful, particularly polymers in Europe. We suffered from many problems in 2005 which we already covered, and in all EBITDA was a negative \$147 million. Given the inventory picture I showed you, there should be improvement in the first quarter for Styrenics and we are seeing some already. In North America, solid polystyrene orders for NOVA are up about 20% in January compared to the same time in December, and expandable polystyrene orders are up about 50% versus the same time last month.

Now if you look at the last five years as shown on panel 16, the 2005 results take the average EBITDA loss to about \$57 million per year for this business. About half of EBITDA losses come from our European polymer business, which last October 1 we put into a joint venture, and our current partner by the way is Ineos. The JV expects to reduce costs by more than \$60 million per year, so NOVA's portion will be \$30 million per year.

The JV started immediately in October, announcing the closure of their Berre France and Carrington U.K. EPS facilities. We expect there will be more aggressive action soon. Now as I've described before we are also a billion pounds long in styrene monomer as a result of two supply contracts that came with acquisitions. Over the past five years, these contracts have forced us to sell purchased styrene monomer into the weak spot markets and cut back on our own low cost production. This has cost us about \$30 million per year. One of those contracts expires at the end of this year, the other at the end of 2007.

Last week we announced the closure of the Chesapeake, Virginia site and \$15 million of cost reduction per year that should largely be in place by the end of the second quarter of this year. Now as we show in Panel 17, Chesapeake savings, the European joint venture savings and the more balanced styrene monomer position will get us to positive EBITDA numbers in markets similar to the ones we've seen in the last five years.

We keep hoping for the economic improvement in Europe that people are now talking about and the return to the normal price of benzene, which to us looks to be firmly in place, to give this business some real lift. As we go forward, you should expect more cost reduction actions in the near-term and you should also expect us to deliver on our targets for Performance Products. We exceeded our Performance Products EBITDA for both polyethylene and Styrenics in 2005, even with all the problems we had with operations and the weak Styrenics market. I'll talk about the transformational impact these products will have after Larry MacDonald reviews some financial details for you. Larry.

**Larry MacDonald, Chief Financial Officer:**

Thank you Jeff. If you would turn to panel 18, I'll first review the Q3 to Q4 causal analysis with you. This is the same analysis outlined on page 14 of the Q4 earnings release. During Q3 of 2005, the feedstock prices on average climbed, while in Q4 the price of benzene and crude oil feedstock fell.

In Q3, NOVA had FIFO-based earnings \$13 million higher than if we used LIFO-based accounting. In Q4, our FIFO-based earnings were \$17 million lower than had we used LIFO. So the Q3 to Q4 delta is approximately \$30 million negative. The LIFO-based margin expansion of \$83 million versus Q3 shown in the chart assumes that the Corunna facility operated throughout the quarter. We presented it in this fashion in order to highlight the \$56 million negative impact quarter over quarter of the Corunna outage. We estimate the lost income due to Corunna was \$14 million in Q3 and \$70 million in Q4.

Q3 results were impacted by a \$75 million non-cash charge primarily related to the closure of two European Styrenics sites shortly after the start up of the Styrenics joint venture. A week ago we announced the closure of the Chesapeake, Virginia polystyrene facility, and have booked a non-cash Q4 2005 charge of \$46 million after tax. Accounting rules are such that we could not accrue the actual plant closure in employee severance costs as at September 31. We will accrue approximately \$10 million after tax in Q1 of 2006.

We incurred European JV restructuring costs of \$4 million in Q4 related to additional cost reduction actions, to bring the total Q4 restructuring charges to \$50 million. I'll mention that we expect significant additional JV cost reduction initiatives as we move through 2006.

Page 11 of our quarterly release describes the stock-based compensation hedge we put in place last November. As many of you know, we have seen significant quarterly earnings volatility over the past two years as we have marked the stock based compensation programs to quarterly market values. As part of the program, two financial institutions have purchased 3.6 million NOVA common shares. We would

expect that on a going forward basis their holdings would continue to match the number of shares NOVA has hedged under this program.

On October 31, NOVA issued a \$400 million eight-year senior floating rate note. This facility was upsized from \$300 million because it was significantly over-subscribed. The primary purpose of the facility was to pre-fund the \$300 million bond redemption that is due in May. We were able to issue the \$400 million with an investment grade package.

The expanded Corunna outage has obviously put an unexpected strain on our liquidity. As we have always done, NOVA has been aggressive in maintaining a strong liquidity position. Cash flow cycle time remained below 30 days at the end of Q4, and we finished 2005 with approximately \$550 million in available liquidity. Last week we put in place a \$100 million, five-year unsecured revolving credit facility with one of our core banks.

Unexpected events of 2005 have consumed significant amounts of cash, but the organization is focused on taking early action to protect cash flow and we have been able to maintain our liquidity base in the middle of our \$450-650 million target, despite all of our problems. As we wrap up the Corunna cracker, we expect to improve our liquidity position as we move through the quarter.

**Jeff Lipton:**

Thanks Larry. We continue to gain more and more confidence in our Performance Products every day. I also believe investors are beginning to understand the potential impact of these innovations and will soon start assigning real value to our accomplishments.

Let's take a look at Panel 19. In 2005, AST performance polyethylene product volumes increased by 50% to 438 million pounds and accounted for 52% of the plant's 850 million pound per year capacity. We doubled sales of performance film products and thin-wall injection molding products. Both segments earn margins 7-10 cents per pound above standard polyethylene resins. We have introduced the best rotomolding resins in the world and have developed a unique approach to marketing in this 1 billion pound per year global market.

We started with a strong position in this segment. Our standard polyethylene rotomolding grades earn a 4 cent per pound premium and we have much more limited competition than exists in other segments. We expect AST rotomolding products to earn some of the highest margins in our portfolio and to see a rapid expansion of volume in this segment in 2006.

We had a polyethylene performance product EBITDA target of \$10-20 million in 2005. We delivered \$25 million despite the tornado that limited Joffre production. Panel 20 shows our expected Styrenics performance product capacity through 2008, with ARCEL up to 225 million pounds per year.

In the fourth quarter of 2005 in the midst of a horrible Styrenics market, ARCEL realized margins of more than one dollar per pound. DYLARK and ZYLAR margins were 26 cents per pound and 16 cents per pound better than standard high-impact polystyrene products. Our ARCEL business remains essentially sold out. Expansions and process throughput increases are coming fast, and we keep on picking up large blocks of new business. This week our team informed us that Panasonic has specified ARCEL packaging for the North American business in 14 different plasma screen TV models for 2006 start-up. In addition, our IImage polystyrene cups and containers business began production in the fourth quarter. We built 900 EPS based homes in Chile in 2005, and we are also off to a very good start in an exploding Mexican housing market with our JV partner Grupo Idesa.

In the Styrenics market trough, we target \$0-8 million of net performance EBITDA contribution. We delivered \$10 million after all of our research and market development expenditures, with a strong ramp through the year. We are going to pleasantly surprise a lot of people who have written off NOVA Styrenics' value and we will start delivering big changes in 2006.

Now please have a look with me at Panel 21. Our company's reported EBITDA is at the bottom of the chart from 2003 to 2005. We show the negative impact of our turnarounds, bad breaks, styrene monomer contract issues and other unusual items in red and add them back, then subtract Performance Products EBITDA to get an underlying normal business and standard product EBITDA of \$694 million for 2005.

For 2006, 2007 and 2008 we show the EBITDA improvements from our announced Styrenics actions and add in our company-wide Performance Products targets, all assuming no basic market improvement. That provides a base of what we call potential underlying EBITDA going forward for 2006 to 2008.

So despite our severe problems in 2005, we remain focused and excited about our future. Panel 22 restates our views. We're ready to run full out from here. The market looks like it will be very strong in the first half of 2006 and beyond. We are taking aggressive cost reduction actions and we will do more, and finally Performance Products will have a tremendous impact on our company.

Using a sporting phrase, I'd say at today's equity market values and given our industry strongest leverage to the ethylene/polyethylene and Styrenics markets, we are a very good horse for the course we expect in the coming years and beyond. Current market conditions, a combination of steady growth and the inventory gap I described for you create a lot of short-term excitement for us and I hope for you. Thank you operator. We're now ready to answer any questions.

The first question is from **Sam Kanes from Scotia Capital**. Please go ahead.

**Q:** Last run rate at Corunna for Q4, for us to try to sort out what we should be using for Q1, was of course \$70 million. Is there any reason to think that that run rate as a proportion to January would be any different, subject to maybe a few pounds here in the next few days I guess?

**Jeff Lipton:**

We are making a few pounds and you'll be able to see what the market really bears in terms of margins for our co-products, which change every day as you know. So it's hard for us to project. I'd say more likely we will offset that a little bit. We did move a significant amount of ethylene down the Cochin pipeline. We're going to be able to make polyethylene from that and costs are relatively low in Alberta. So we're able to make ethylene there, move it down the Cochin and deliver it to the east for less than what we think it will cost us to make ethylene at our Corunna cracker. This is true for the first time in a long time, since gas prices have moved down sharply in Alberta relative to naphtha prices. So our guess is the net impact from Corunna in the first quarter will be slightly less per day than it was in the fourth quarter.

**Q:** Thanks Jeff. One follow-up if I'm allowed. You say aggressively pursue damages. Are you contractually limited to the size of the invoice for the compressors with respect to your relationship with your contractor and sub-contractor? I understand there's roughly a third of the initial \$210-200 million-type expenditure expected at Corunna?

**Jeff Lipton:**

My lawyer is sitting across the table from me - he's looking at me very carefully in how I answer this. So I would say every supplier writes contracts in attempts to cover any potential problems - we do the same. The issue is gross negligence, negligence beyond anything contemplated in any agreement and that's what we're going to be focused on.

**Operator:**

Thank you. The next question is from **David Silver from JP Morgan Securities**. Please go ahead.

**Q:** I had a question about your export strategy going forward. So we're talking about high grading the product mix over several years. We're also in markets where the domestic selling prices seem to be significantly higher than those available in your traditional Asian markets. I was wondering if you could maybe comment on how export sales may change or what role they play looking ahead to 2006, 2007?

**Jeff Lipton:**

That's a good question. I would say a couple of things. We have traditionally sold standard products at low net cost to us in China and a considerable amount of them. Of course, as we develop a different portfolio we are marketing globally four particular applications. Rotomolding polyethylene is one in particular where we see significant high value opportunities in India and China and other parts of the developing world. They use quite a bit of rotomolding materials and we think we have tremendous advantages in that segment that will have value everywhere.

We also are selling some of our new AST products in Europe where we find segments that have particularly high value. We are exporting ARCEL to Chinese manufacturers and the price in China today is about 40 cents per pound higher than we charge in North America. The Chinese are paying about \$2.40 a pound for ARCEL. So we're looking for value and we're looking for good margin netbacks and we think we're going to find lots of opportunities for our products around the world. Now I hope that answers your question.

**Q:** Yes, that's very helpful. If I could just ask Larry a question regarding one aspect of the stock-based compensation program. I apologize if you covered this, but I was a little uncertain about the comment regarding the change in NOVA's share price as a result of your hedging program. Can you maybe put that in perspective and what kind of share count number do we need to be using going forward?

**Larry MacDonald:**

On our stock-based compensation program there was about 3.6 million stock related units outstanding that we mark to market on a quarterly basis, based on the change in the stock price. So each dollar change in the stock price was either a positive or a negative earnings hit of \$2.2 million after tax. So as the stock price rose we would take an earnings hit of \$2.2 million.

This hedge is put in place in order to offset that earnings hit. So as the stock price goes up, we would take an earnings hit under the stock-based compensation, but that would be offset by the hedge we put in place by an equal amount. So the amount of the hedge is equal to about 3.6 million NOVA shares, which is the amount of the stock-based compensation units outstanding.

**Q:** So what does that do to the diluted share count or the share count numbers that we'll be using?

**Larry MacDonald:**

The diluted share count would stay the same, but in effect while the banks hold the shares there's 3.6 million shares effectively out of circulation. But for the formal stock EPS calculation, those shares are still in the calculation. It's just that they're not currently in circulation.

**Operator:**

Thank you. The next question is from **Bill Young of Credit Suisse**. Please go ahead.

**Q:** Hi Jeff. Given what you said about producer and converter inventories with polyethylene, why do we seem to be getting some slippage in polyethylene prices here in the first quarter? It seems to us based on our calculation, the slippage is little bit more than the reduction in raw materials, particularly if you look at say Gulf Coast there might be a 2 or 3c margin compression in Q1 versus Q4. Why do you think this is happening or maybe you don't agree it is happening?

**Jeff Lipton:**

Well I think we have seen some pricing degradation. I'm going to ask Dale to tell you about it. It's because of the seasonal weakness that if you follow those charts we generally start seeing volume strength coming back at the end of January and into February. This year we expect that that will be the case. Converters are continuing to run down inventories, in our view in an attempt to beat back prices. There's also been a recent announcement by one of our competitors of a price increase. So let me ask Dale to tell you about that.

**Dale Spiess, President, Olefins & Polyolefins:**

OK. I think as you know we saw about 36c in price increases during last year 2005. We've probably seen slippage in the 6-8c range depending on the market area over the last month and a half. As Jeff mentioned, there is an announcement out we understand on a price increase, but I think this is all about shifts in inventory and business as plants came out from the outages that they saw in the Gulf Coast in late third, early fourth quarter. So we're seeing demand right now that I would call rather steady, not spectacular yet, but we would anticipate as we come out of this normal seasonal slowness that we're going to see the solid rates that we saw last year.

**Jeff Lipton:**

And apparently one of our major competitors agrees with us. We haven't seen the price increase ourselves so we don't want to quote what it is, but our customers report - at least two of them have reported - they have gotten a letter. So we would expect that to be full knowledge within the marketplace within 24 hours or so.

**Q:** And secondly in the Styrenics area. What kind of things are being contemplated for your North American Styrenics business besides what you've done in Chesapeake and that type kind of thing? What's the realm of possibilities that are out there that we can see some action to restructure as the year unfolds?

**Jeff Lipton:**

I would tell you that given the state of our business, we would be interested in anything that we could do to strengthen the commodity section of our business, as long as it didn't restrict our ability to get full value out of our Performance Products in Styrenics, which are the jewel of everything we're thinking about. So we're looking for low cost position, we're looking for synergistic opportunities. I can tell you honestly we have explored and will continue to explore every possible alternative and hopefully we'll find a positive pathway to do something significant.

If anything, I think our action around Chesapeake makes it more interesting and viable for people we're talking with, because that particular plant was relatively high cost. The plant was not fully utilized and had logistical problems that tied up a significant amount of working capital. We needed to get Performance Products shifted out of other plants to be able to take up the slack - that's why it took us a while. As soon as we got Belpre up and running those Performance Products, we were able to make an easy call for us economically - a difficult one people-wise - but an easy call for us economically, to shut down the Chesapeake site. And I think that helps things going forward for all kinds of potential activities.

**Operator:**

Thank you. The next question is from **Edlain Rodriguez from Goldman Sachs**. Please go ahead.

**Q:** Good morning guys. Quick question for you. How do you see the arbitrage opportunity that exists in the polyethylene market playing out? Do prices have much give or do you see Asian prices going up to close the gap?

**Jeff Lipton:**

Well after the moderation in polyethylene prices and a fall back from the extremely small margins we had in the fourth quarter, I think we've seen the price movement in North America, I would tell you at the same time we're seeing strength in Asia and believe that Chinese inventories are quite low. We monitor the inventories of incoming material on a weekly basis and our count of inventories moving into China is quite low.

We expect after the lunar New Year holiday that Chinese prices will move up, and that the arbitrage difference will become very small if there is any at all. And we're also confident that if China continues the kind of growth that everyone's projecting for them this year and we move into the kind of markets we're

expecting, that China will wind up being the highest priced polyethylene market in the world, because they still are importing half or more of all the polyethylene they need and they're going to have to buy it away from other markets. So that will be the key, when you see polyethylene prices in China higher than they are in North America and Europe you can assume that the global market is extremely tight.

**Operator:**

The next question is from **Kevin McCarthy from Banc of America Securities**. Please go ahead.

**Q:** This is Michael Leon standing in place for Kevin. Just a quick question. One with regard to capital expenditure plans in the upcoming years, and maybe a quick comment on tax rate?

**Jeff Lipton:**

I'll let Larry comment about tax rate, I'll make a general comment. In 2006, our capital expenditures will be down significantly from 2005. We obviously have only one turnaround. We don't have any major projects on the horizon. We still will be spending some money to finish off the Corunna cracker work. We have two furnaces to add and we have to count up all the capital dollars we're spending in the first quarter on Corunna. So our guess is we'll be in the \$250 million range in 2006 and moving down from there in 2007. If you recall our depreciation charges are slightly more than \$300 million per year and we expect our commodity product ranges and plants to average about 50% of those charges year in and year out, with expenditures above that level for Performance Products and very high return projects. So that's basically where we are.

**Larry MacDonald:**

On tax rates, if you use 34% you're going to be pretty close.

**Jeff Lipton:**

The hope is beyond that 34% number, that when we begin making profits in Europe and start making significant profits on our shipments to other parts of the world, our tax rate for those activities will be a much more modest 10%. As a Canadian company, if we pay 10% taxes somewhere in the world we take that to our bottom line as opposed to a US company which has to net the difference and pay the US tax rate. So we're anxiously looking forward to making money in Europe and making significant returns on our exports.

**Operator:**

Thank you. The next question is from **Sergey Vasnetsov from Lehman Brothers**. Please go ahead.

**Q:** I have a couple of questions on inventory data. You showed the trends and they're pretty clear, quite low right now but at the same time along with the volatility for the past five years, there's a pretty clear established trend downward with low lows and low highs through this period of time. So while measuring the gap between today's level and average levels is a simple straightforward answer, it has some value, I'm not sure if the inventory will have to increase for the five-year average value and therefore two questions. One, what do you expect ethylene inventory pick up this year to be in terms of potential growth contribution, and secondly purchasing people typically are not gambling kind of folk because if they win they get a small bonus and if they lose they're going to lose their job. So the market essentially collectively with a low inventory so prices are coming down. Why do you think they are wrong?

**Jeff Lipton:**

I believe that they're trying very hard to have an impact on pricing and that they have a fundamental concern about putting too much product into inventory with high energy prices driving up prices, if not absolute margins. So our view is that converters work on very small margins. They don't have a lot of leeway. If they make 4 or 5 cents a pound, they feel good about taking one of our resins and converting it into a package for somebody.

And so they work very hard on trying to impact pricing and they use inventories and a lot of pressure on sales reps, and as a consequence we've taken all pricing power away from sales reps. I wish everybody in the industry would do the same, but that's not been the case.

But take a look at Panel 9. Panel 9 shows what converter inventory was relative to January 2001. It was down to about 1.5 billion pounds below the January 2001 level and January 2004. And then as we went through the year, they got concerned that product would be tight and prices would be moving up. Look at the delta in inventory in converter hands between the beginning of 2004 and the end of 2004 and into February. And then they felt prices were too high, there would be ready supplies. We weren't in a tight supply demand picture and they sold off inventory at pretty rapid rates. I think they are now at levels that are much, much too low for their comfort and as they get concerned about the general state of inventories in our industry and a belief that they could get caught without material, they're going to start buying at a pretty rapid rate.

So I think inventory swings in our business are very volatile. We need to watch those swings. I do not argue for a second that people have learned how to operate with lower inventory. But I think the volatility is significant and you can see what's happened at converter levels and producer levels as you look at Panels 9 and 10. I think it tells a very clear story. The trend is down over time but the volatility can have a very significant impact.

The Chinese have been doing this for many, many years. You've heard people talk about the markets in China where they essentially go on a buying strike and then somehow everybody gets the same sense and they start buying again. What's going on now is customers are paying a lot of attention to global markets. They're paying a lot of attention to our markets, a lot of comments from analysts. I talk to customers that read your work. And as a consequence they're looking to take intelligent action to try to work on that little nickel they're making on the conversion process. So I think you're going to see that going forward. And when the markets get tight, everybody's going to keep on buying as much as they can for a relatively long time, and if they stay tight we don't get excess supply. I think we're going to see the same kind of impact we've seen over the past years and the cycle will respond. That's our view.

**Operator:**

Thank you. The next question is from **Greg Goodnight from UBS**. Please go ahead.

**Q:** Good morning Jeff. With respect to the ethylene seal problems, would you state your case for contending that your problems are absolutely finally behind you and you have very good confidence that this is it?

**Jeff Lipton:**

Well I can say this. Having restarted the plant, fully tested those seals at start-up, which is the most critical time, and then going through a bit of a wobble you get as you try to bring a great big plant up to equilibrium and not seeing any variation in performance of those seals, we come away saying that the design change we've made has been successful. We've had nothing to indicate any of those 10 seals is doing anything but a full job in a wide range of conditions as we start this thing up. So the fact that they've handled the bumps and the changes in flows, the changes in pressures quite well gives us a lot of confidence. Can we say we're 100% sure? No. But generally once you get to equilibrium and these seals have worked, there's little pressure on them and they stay in place for quite a long time, so it's getting the design right that's really the issue.

**Q:** OK, second question. I'm sorry if I am rephrasing some of the prior questions, but what is going to get the converters to re-inventory? The current prices are extremely high, the export market has been shut off by this east west arbitrage difference. What's the catalyst that's going to cause people to re-inventory at these high prices, is it the economy, what is it?

**Jeff Lipton:**

Well the fundamental demand keeps on moving, if they believe that the markets are going to be snug and they start seeing price increases. If you look at what happened in June and July of last year, inventories came down, price increases started to move and everybody started buying. I think you're going to see the same kind of thing. They know their inventories are low, we know their inventories are low, we know distributors are very short so they are coming to us looking for new material and I think the pressures are there. We have not seen a decline in their customer demand and I think we're going to see a sharp movement up.

If we were to have a fall in oil prices, I would tell you that I think they will run with their shopping carts to buy as much material as they can on any real break in energy prices, because they want to stock up without risk. Right now if they stock up with high energy prices they have significant risk. The other point I would make is I think the export window is opening. If you look at the oil to gas ratios today, at Henry Hub prices, the crude to gas ratio is 7.8. Ethane-based producers on the Gulf Coast do have export opportunities against all of the naphtha users around the world. The AECO crude to gas ratio as of January 23 was 9.3 to 1. We have lots of opportunity to export profitably and compete with heavy-based feed users around the world. So I don't think we're going to be in a situation where we don't have the opportunities to see this market strengthen quickly.

**Operator:**

Thank you. The last question is from **Winfred Fruehauf from National Bank Financial**. Please go ahead.

**Q:** Thank you. My question is about operating rates for your North American polystyrene plants. Where are you now, where would you like to be and when do you expect to get there? And I won't ask you what you're going to do because you answered that already.

**Chris Pappas, President, Styrenics:**

The closure of Chesapeake when we redistribute those pounds, the reactor pounds to other facilities, which we will do very quickly, will take us to, at today's kind of demand levels, to somewhere over 85% utilization in our Styrenics assets, which would put us, at least in our view, right at or slightly above industry operating rates. That was one of our primary goals in terms of taking out that asset. We're below that now but as we move through the first part of this year, we will get to those kinds of operating rates again, at or above industry average, and that will not include any general lift from restocking or economic growth.

**Q:** When you spoke about Styrenics industry rates, did you mean to say styrene monomer and polystyrene or polystyrene only?

**Chris Pappas:**

Polystyrene only.

**Q:** And the follow-up question if I may is also still on Styrenics. You mentioned that your first long-term contract will expire at the end of this year. What will happen to this material, it's not going to disappear from the market, how and where will it reappear?

**Jeff Lipton:**

Well that's hard for us to predict, but all we can tell you is our strategic desire is to move to a more balanced styrene position relative to our polymer assets and to lower our costs and our polymer assets with consolidation such as Chesapeake and other cost reductions and change our mix dramatically with Performance Products. Those are the three things that we're focusing on in our business, and what others chose to do with styrene monomer pounds that are available from any changes we make to our strategy, it's kind of hard to predict. But the North American market for styrene will remain an export-based market, so in all likelihood those pounds will be placed in an export environment.

Can I just make two additions to Chris's comment. The first is, you rightfully pointed out the difference between Styrenic polymer capacity utilization and styrene capacity utilization. Our view is that lower benzene prices are going to allow Styrenic material consumers, and by the way it's a lot more than polystyrene, to price their products so that they will return to normal rates of growth and demand for those products, because high benzene prices have impacted all of the styrene chain. Now that benzene's back to normal levels, or in fact at the low end of the normal range, we think Styrenic materials are going to return to reasonable competitiveness and resume historic growth rates, which based on all of our views, gets the global styrene capacity into a very strong supply demand balance in relatively short order. So that's one point.

Second, which Chris related and I'd like to close on. We are a narrowly focused company. We are focused on two chains. We're very big and strong we believe in those two chains, but we're tightly focused. We have a tremendous amount of leverage to both of those chains, both up and down. And one of the strategic directions we have as a company with the advent of the importance of Performance Products and the stability of the EBITDA generated from those Performance Products, is to become a company with a different risk-reward profile.

And going to a balanced styrene position, even though we believe styrene is going to correct itself in the market and get to be a profitable product, further puts us at a strong reward, lower risk position. And the combination of Performance Products and a more balanced styrene portfolio we believe will help investors see the risk-reward balance on NOVA differently than for some other commodity producers. Our hope is that as they're thinking about peak values we get a stronger ratio than some of the other models available in the commodity chemical business. And that's what we're all about - trying to change the fundamental risk-reward balance for our company. We're always going to have high reward because of our tight focus, but we want to change the downside risk and hopefully get higher multiples.

**Q:** But Jeff if the export market for styrene monomer does not open up as was suggested, then you getting rid of your problem means that somebody else will inherit your problems and there will still be an overhang of styrene monomer in North America.

**Jeff Lipton:**

No argument on that based on your assumptions. However, we're going to put ourselves in the position if that does happen, if we don't get improvement in the market, we're going to get this business to where it generates cash even at the bottom of the cycle and generates very strong earnings at the top with Performance Products which do not depend on the cycle. And so we're looking to strengthen the fundamentals of this business, not just pray for the eventual recovery of the styrene supply demand balance.

Thanks very much.

**Jeff Lipton:**

Thank you Winfred and thank you operator and thank you all for sitting in on our call.