

**JEFFREY M. LIPTON**  
President and Chief Executive Officer

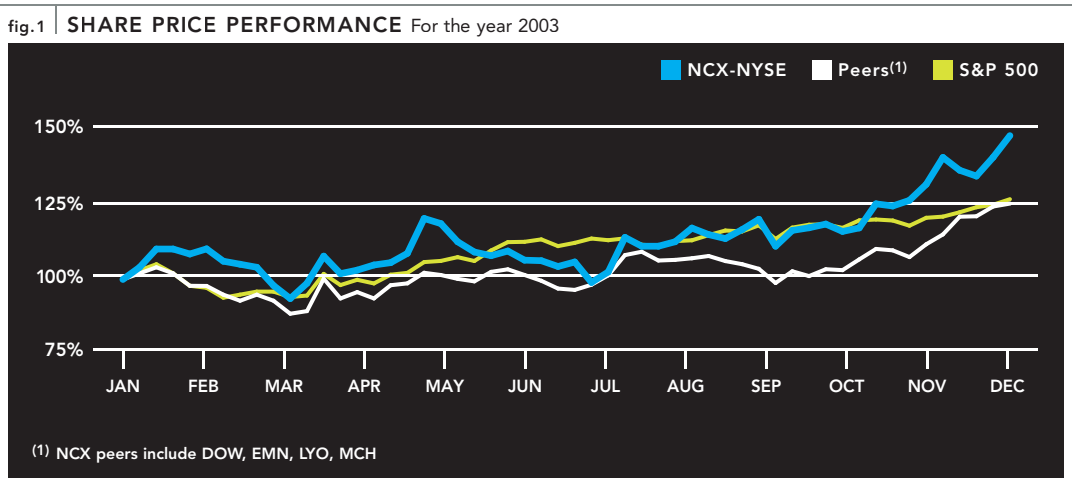
## Fellow Shareholders,

We have just completed the third year of what has been the longest and deepest trough the chemical industry has experienced in my forty-year career. NOVA Chemicals has been battered by continued weak demand and the resultant excess capacity in petrochemicals and plastic resins. In addition, highly volatile energy prices and a lack of confidence in future demand growth have led our customers to reduce inventories to record low levels. The result has been a third year of losses for NOVA Chemicals and most others in the same segments of our industry.

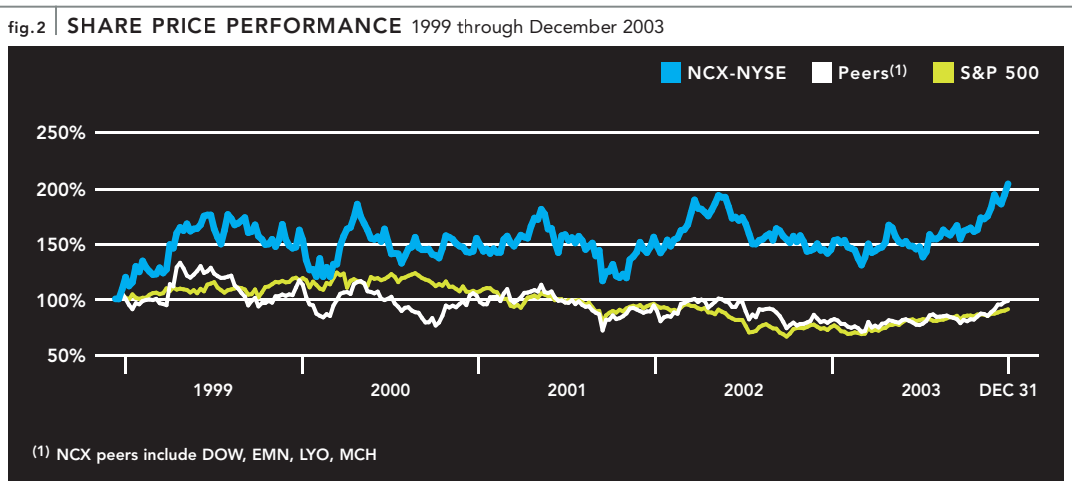
We showed some improvement in 2003. Net losses before unusual items were reduced from \$148 million in 2002 to \$118 million, or \$1.36 loss per share. We delivered on our commitments and sold non-strategic assets for good prices. This reduced our loss per share after unusual items from \$1.30 in 2002 to \$.02 in 2003.

Despite a very difficult operating environment, NOVA Chemicals' shareholder returns were quite good.

I believe the best way to measure our relative performance is in U.S. dollars. Our feedstocks and our products are priced in \$U.S.; our peers are all U.S. based companies; and about one-third of our shares are now traded on the New York Stock Exchange (NYSE). The chart below (fig. 1) shows that our common stock significantly outperformed peers' equity on the NYSE and the S&P Chemical Index in 2003. Our stock was up 47% on the NYSE and up 21% on the Toronto Stock Exchange (TSX) as the Canadian dollar strengthened considerably during the year.



This next chart (fig. 2), shows our relative performance since 1999, our first full year of operation as an independent chemical company. NOVA Chemicals outperformed our peers and the indices by a wide margin. I'm pleased that our preferred shares and bonds have also responded quite positively during this difficult period.



Given our continuous, relatively large losses, it's important to try to understand why experienced investors have given NOVA Chemicals this vote of confidence.

In my view, investors have responded to the continued improvement in the risk/reward balance for our company. We have delivered on our commitments to reduce risk in a very difficult period and have enhanced our potential to take advantage of the developing global economic recovery.

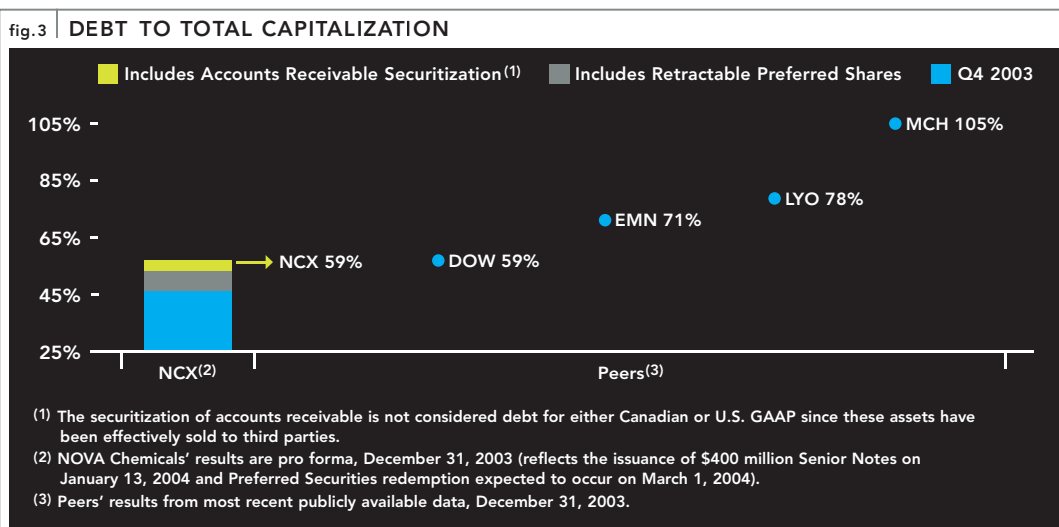
## REDUCING RISK

We committed ourselves to improve our balance sheet. In 2003, we limited the impact of strengthening currencies by reducing operating costs per unit of capacity by another 3% in local currencies. We managed working capital by improving work processes and keeping Cash Flow Cycle Time in the 25 to 30 day range we are committed to.

On the capital side, we set clear corporate-wide priorities and limited net capital expenditures to \$119 million, or 40% of depreciation. Because we believe return on capital employed is the best indicator of operating performance, we intend to keep capital expenditures to an average of about 50% of depreciation from 2003 to 2007, roughly \$155 million per year, for the funding of Responsible Care, maintenance and high-return growth projects.

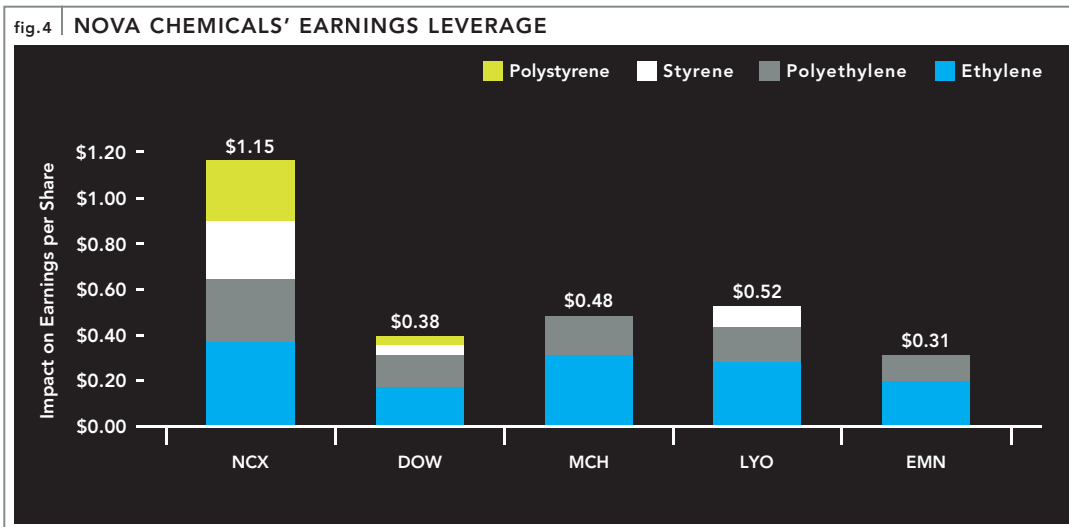
We said we would sell non-strategic assets in 2003 and we had two well-executed transactions. We sold our entire position in Methanex for net proceeds of \$441 million, selling shares to both Methanex and the public without a negative impact on its value. We sold our share of an ethylene storage facility in Alberta for net proceeds of \$123 million, or 11 times EBITDA. We did this by taking advantage of a very strong Canadian royalty trust market for hard assets with relatively fixed returns.

Consequently, we were able to pay down \$114 million of debt in 2003 — finishing the year with \$212 million of cash and a renegotiated \$300 million line of credit that is currently being used only for operating letters of credit. By shifting a portion of our debt to floating rates, issuing \$400 million of 6.50% bonds to retire our Canadian-originated preferred securities, and paying down debt — we expect to reduce finance costs by approximately \$25 million per year by March 1, 2004. The chart below (fig. 3) shows that our debt to total capitalization ratio of 59% will compare quite well to our peers after the preferred share transaction.



## INCREASING REWARD

The reward side of the NOVA Chemicals' investor "equation" has also continued to improve. We shut down another high-cost production line in 2003, but retained the industry's highest leverage to the expected recovery in both of our businesses. Figure 4, below, shows our earnings per share leverage to Ethylene and Polyethylene and Styrene and Styrenic Polymers — the best in our industry. A 1¢ per pound margin improvement in each of our four major product areas for a year will generate \$1.15 per share of earnings. Since all four product areas are expected to strengthen at about the same time, the potential reward for investors is sizeable.



A major upgrade in our product mix is underway. NOVA Chemicals is one of only a few companies in our industry that has increased its research and development investment in the last three years. Our annual expenditure has increased 55% since our start-up in 1998.

We focused on areas where we have strong technical leads and a high probability of commercial success. We have very talented people, good coordination between our technical, manufacturing and marketing staffs, and excellent relationships with key potential customers. These factors and some good luck have put NOVA Chemicals in an enviable position. We have a range of products in both of our businesses that could have a very positive impact on our profitability and future earnings within the next few years. We are targeting to have 30% of our volume in 2005 from these higher-margin products.

This report features some of those new products. They have a number of important things in common. All have enough value to customers and enough differentiation to generate relatively high margins. In some cases our products are protected by patents; in other cases by closely held trade secrets; and in others, by specialized production assets. In all cases, we expect a relatively long period before we see direct competition.

We have focused on these products because we can make them on existing equipment or can modify current facilities with small capital investments. In addition, we sell these products to existing customers, for use on their existing equipment, to serve the same markets they are currently involved in. Our new products will do an equal or better job for end-users than the current products customers are buying, and will cost our customers less or save their customers a lot of money. In a number of cases, our products will increase the operating capacity of our customers' equipment without new capital.

We have had successful customer trials of every product we are counting on and our production capacity for two products is already sold out for 2004. We have capacity expansion plans underway for all of them.

Everyone at NOVA Chemicals is excited about these products. Some of our customers are as well. I doubt that analysts or investors are as excited yet. They have heard too many commodity chemical companies' similar "product superiority" claims to invest in our stock merely for the potential improvement in our product portfolio. However, some companies have built outstanding businesses on product developments like these. For NOVA Chemicals' investors, our new higher-margin products will be icing on our cake or a free option on our success.

#### **LOOKING FORWARD**

As I write this letter, economists, investors, the media and even some leaders in the chemical industry are starting to get optimistic about a global economic recovery and a sharp rebound in North American industrial production. Demand for our products in Asia and North America improved, relative to seasonal expectations, in every month of the fourth quarter of 2003. Even Europe and Japan look to be coming out of the doldrums.

NOVA Chemicals set polyethylene sales volume records for the fourth quarter. Price increases are in the works in every major region of the world for almost all of our products. We could be seeing the end of our trough soon and the beginning of the strong markets we have been expecting.

Having said that, there are still concerns. Some analysts and investors believe that even if demand improves, high and volatile energy prices will preclude NOVA Chemicals and its peers from earning strong returns. I'm more confident than they are, for a number of reasons:

- Customers and producers have worked inventories down to very low levels. An economic recovery will require more inventory just to keep supply chains functioning and we will see a "multiplier" effect from both basic demand and unit inventory growth. On top of that, greater confidence will lead our customers to take on more days of inventory, particularly if energy prices stabilize at reasonable levels. If that happens, we could see order demand grow much faster than economic growth.
- I see no reason to believe that polyethylene and polystyrene are going to lose their relative competitiveness if energy prices stay high. Other plastics will see the same high feedstock costs. Steel, aluminum, glass and paper are all energy-intensive alternatives and we have

already seen a surge in the prices of many basic commodities. We will generate attractive margins with today's high energy prices when the supply/demand balance is in our favor.

- We have made poor returns with low energy prices and we've realized excellent returns with high energy prices. So, while we'd like to see lower and stable energy prices, I expect they would only lead to an early surge in inventory rebuilding. Profitability in our industry has been, and will continue to be, determined by the supply/demand balance for our products, not the cost of our feedstocks.

There is a silver lining to the very poor business conditions we've experienced. Industry leaders, whether they work for well-financed major oil companies or weakened independent chemical companies, have made very few plans for expansion. It will take a while for confidence, corporate priorities and balance sheet strength to come together to allow major new investments in capacity. Even Middle East companies have been slowed down by political and military risks.

Because it takes 3 to 5 years to site and build a petrochemical/plastic resin complex, there will be very little new capacity brought onstream in our industry for quite some time. If the economic recovery is as strong as economists are now forecasting, we could see a relatively long and strong recovery in our segment of the chemical industry.

All NOVA Chemicals' employees have worked hard to build the right risk/reward balance for our shareholders. We are more excited about our company's future each day and we are certainly ready for the recovery. However, we will not forget how necessary it is for a commodity chemical company to manage the risks and volatility inherent in our business. We will not allow our enthusiasm to get ahead of reality, and we must be ready to deal with a continuation of difficult conditions if that is what comes our way in 2004.

I know we would not be in the position we are in today without the ongoing support of our customers, suppliers, Board of Directors, bankers and investors. We truly appreciate how important they are to our company and understand that difficult conditions require as much from them as they do from each of us.

We look forward to the rewards associated with the strong recovery, whenever it comes. We are committed to continue to improve our company under any economic condition and to deliver on our outstanding potential.

Sincerely,



**JEFFREY M. LIPTON**  
President and Chief Executive Officer

February 2, 2004