

# NCX

A COMMODITY CHEMICAL COMPANY

## NOVA Chemicals' Financial Highlights

(MILLIONS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS AND RATIOS)	2003	2002	2001
Revenue	\$3,949	\$ 3,091	\$3,194
Net loss to common shareholders before unusual items <sup>(1)</sup>	\$ (118)	\$ (148)	\$ (161)
Net loss to common shareholders <sup>(1)</sup>	\$ (1)	\$ (112)	\$ (161)
Loss per common share before unusual items <sup>(1)(2)</sup>			
Basic and diluted	\$ (1.36)	\$ (1.72)	\$ (1.88)
Loss per common share after unusual items <sup>(1)(2)</sup>			
Basic and diluted	\$ (0.02)	\$ (1.30)	\$ (1.88)
Cash from operations	\$ 15	\$ 359	\$ 278
Plant, property and equipment additions	\$ 130	\$ 71	\$ 168
Total assets	\$4,413	\$ 4,154	\$4,359
Net debt to total capitalization	32.0%	43.5%	48.4%
Loss on average common equity <sup>(3)</sup>	(9.8)%	(14.5)%	(13.2)%
Closing share price			
— NYSE (\$U.S.)	\$26.95	\$ 18.30	\$19.27
— TSX (\$Cdn)	\$35.04	\$ 28.89	\$30.75

(1) Unusual items contributed positively and were \$117 million in 2003, \$36 million 2002, \$nil in 2001 (see page 41 for a complete listing).

(2) 87 million weighted-average common shares outstanding in 2003; 86 million in 2002; 85 million in 2001.

(3) Net loss to common shareholders before unusual items divided by average common equity (excluding preferred securities and retractable preferred shares).

## Summarized Quarterly Financial Information

THREE MONTHS ENDED (UNAUDITED; MILLIONS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS)	2003				2002			
	MAR 31	JUNE 30	SEPT 30	DEC 31	MAR 31	JUNE 30	SEPT 30	DEC 31
Revenue	\$ 977	964	967	1,041	\$ 662	777	806	846
Operating income (loss)	\$ 14	(36)	(56)	3	\$ (53)	1	(1)	(18)
Net income (loss)	\$ 12	82	(58)	(8)	\$ (23)	(14)	(5)	(39)
Net income (loss) per share								
— Basic	\$0.05	0.86	(0.75)	(0.18)	\$(0.35)	(0.25)	(0.14)	(0.56)
— Diluted	\$0.05	0.79	(0.75)	(0.18)	\$(0.35)	(0.25)	(0.14)	(0.56)
Weighted-average common shares outstanding (millions)								
— Basic	86.7	86.8	86.8	87.0	86.0	86.3	86.4	86.5
— Diluted	87.4	96.0	86.8	87.0	86.0	86.3	86.4	86.5

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## **NOVA Chemicals**

**HIGHLY FOCUSED AND CONTINUALLY IMPROVING**

AS A COMMODITY CHEMICAL COMPANY, WE FOCUS ON THE AREAS THAT ARE WITHIN OUR CONTROL.

### **FIRST, WE MUST KEEP OUR COSTS DOWN.**

IN A CAPITAL-INTENSIVE AND CYCLICAL COMMODITY CHEMICAL BUSINESS, A LOW-COST POSITION IS ESSENTIAL. WE HAVE INVESTED IN LOW-COST, WORLD-SCALE ASSETS AND WE HAVE CREATED A CULTURE THAT MAKES COST REDUCTION AN EVERYDAY ACTIVITY.

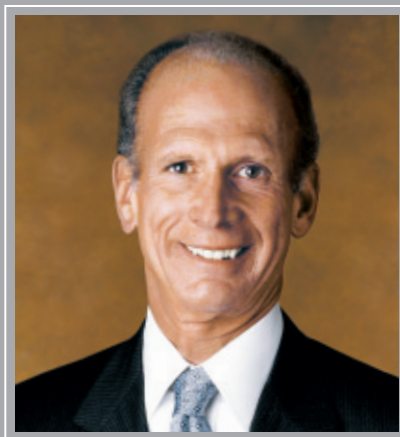
### **SECOND, WE MUST MAINTAIN THE APPROPRIATE RISK/REWARD BALANCE FOR OUR SHAREHOLDERS.**

THROUGHOUT THIS PROLONGED CHEMICAL INDUSTRY TROUGH, REDUCING RISK HAS BEEN A PRIORITY. WE IMPROVED OUR BALANCE SHEET BY SELLING NON-STRATEGIC ASSETS, REDUCING DEBT AND KEEPING TIGHT CONTROL OF CAPITAL EXPENDITURES. THE RESULT IS A STRONGER COMPANY WITH THE INDUSTRY'S GREATEST LEVERAGE TO THE EXPECTED RECOVERY IN OUR FOUR MAJOR PRODUCT LINES.

BUT REDUCING RISK IS ONLY HALF THE EQUATION. TO INCREASE THE REWARD TO OUR SHAREHOLDERS, WE ARE LEVERAGING TRADITIONAL TECHNOLOGIES AND UTILIZING EXISTING ASSETS TO DEVELOP A UNIQUE PORTFOLIO OF HIGHER-VALUE PRODUCTS. THESE NEW PRODUCTS HAVE PERFORMANCE ADVANTAGES THAT DELIVER INCREASED VALUE TO OUR CUSTOMERS — RESULTING IN HIGHER MARGINS FOR US.

## **NOVA Chemicals**

**LEVERAGING OUR EXPERIENCE, DELIVERING ON OUR COMMITMENTS, AND BUILDING ON THE STRENGTH OF OUR ASSETS AND TECHNOLOGIES.**



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

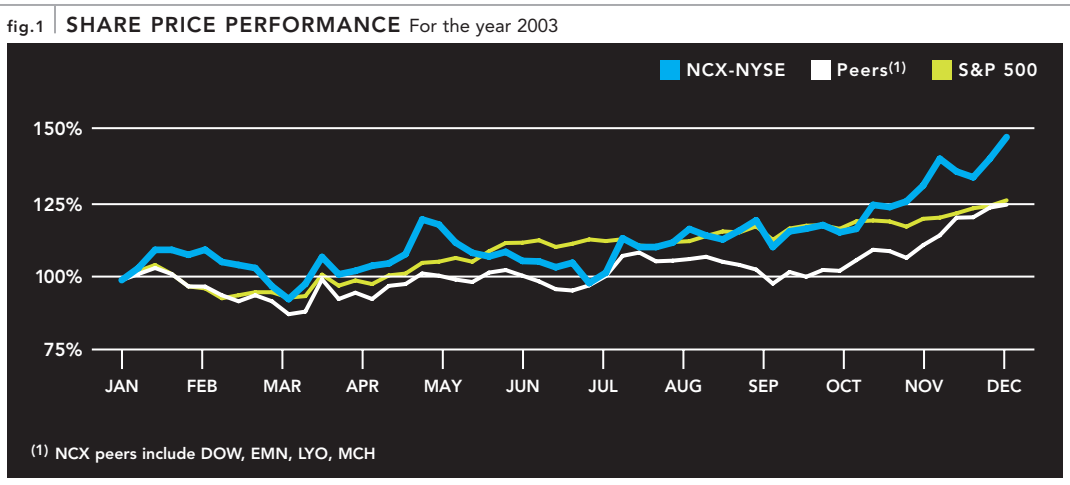
## Fellow Shareholders,

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.

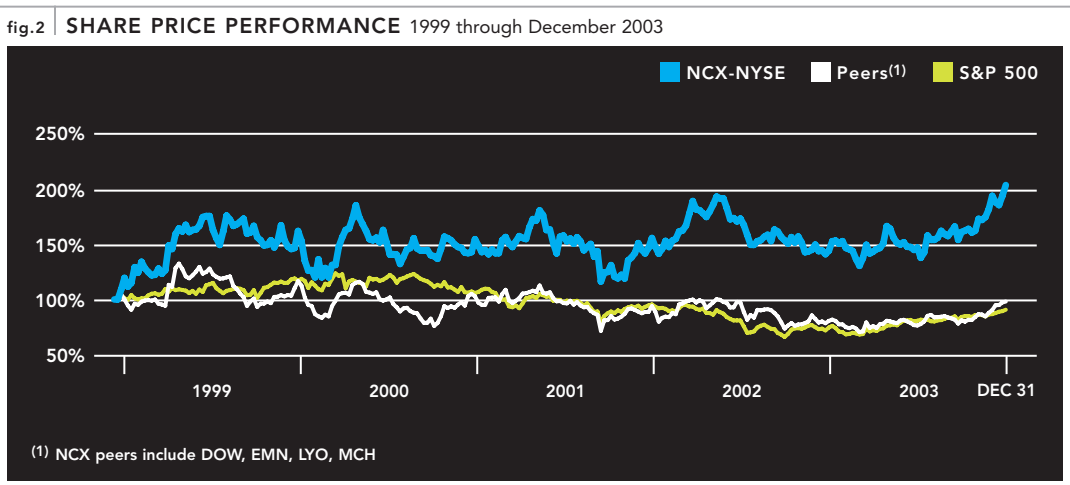
We showed some improvement in 2003. Net losses before unusual items were reduced from \$148 million in 2002 to \$118 million, or \$1.36 loss per share. We delivered on our commitments and sold non-strategic assets for good prices. This reduced our loss per share after unusual items from \$1.30 in 2002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

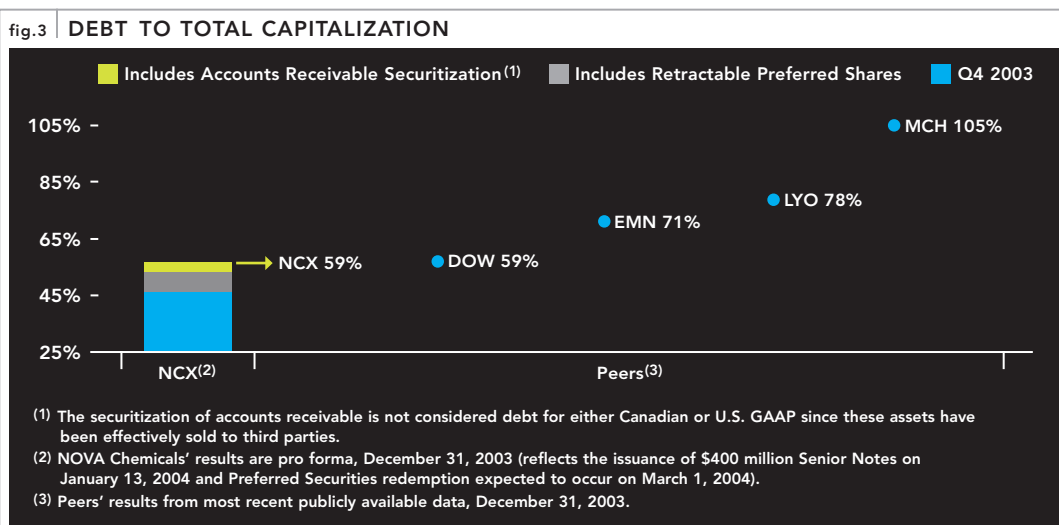
## REDUCING RISK

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.

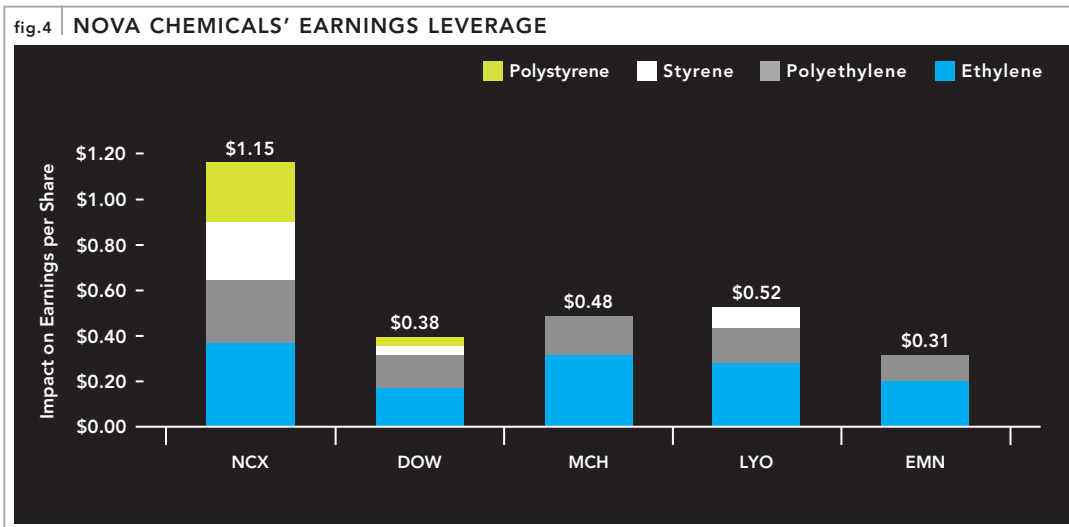
We said we would sell non-strategic assets in 2003 and we had two well-executed transactions. We sold our entire position in Methanex for net proceeds of \$441 million, selling shares to both Methanex and the public without a negative impact on its value. We sold our share of an ethylene storage facility 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 1c 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

## 2003 Summary of Achievements

BASED ON NOVA CHEMICALS' FIVE-POINT BUSINESS STRATEGY

### FOCUS ON COMMODITY CHEMICALS

- We sold two non-strategic assets. The sale of our entire 37% equity position in Methanex Corporation, for net proceeds of \$441 million, took advantage of a high point in the Methanex share price and a favorable Canadian dollar. We also sold our Fort Saskatchewan Ethylene Storage Facility for net proceeds of \$123 million. The facility is important to our operations, but not strategic for us to own. A long-term contract provides us with necessary access to the facility. The price we received was about 11 times EBITDA, considerably more than the asset was worth to NOVA Chemicals.

### BE THE LOW-COST PROVIDER

- We reduced overall fixed costs by 3% in local currencies.
- We ended the year with cash flow cycle time at 28 days, well within our goal of 25 to 30 days.
- We reduced debt by \$114 million in 2003 and have reduced debt by roughly \$500 million since the middle of 2001. We built cash reserves of about \$200 million.

### INVEST ONLY FOR HIGH RETURNS

- We maintained capital spending at \$119 million (net of project advances) and continued to fund only those projects that met our Responsible Care needs or were expected to generate in excess of our target of 16% after-tax return on investment.

### BUILD UPON AND ADD TO OUR SUSTAINABLE COMPETITIVE ADVANTAGE

- We increased our Advanced SCLAIRTECH resin sales by almost 50% and launched four high-performance polyethylene film grades.
- We had record sales of ARCEL, our high-performance foam packaging material, that were 64% higher than last year. In 2003, we put plans in place to increase ARCEL production capacity five fold.
- We accelerated work on our high-margin Styrenics product portfolio. We had two successful, large-scale trial-production runs of our ZYLAR EX resins — designed for extrusion applications requiring superior clarity. Our new microwavable food-packaging resin, DYLARK FG, had five successful customer trials. And we introduced STYROSUN weather-resistant polymers, from our Breda, the Netherlands facility, into the North American market.

### BE AN INDUSTRY CONSOLIDATOR

- We now have agreements in place that ensure we can make styrenic polymers in Europe with styrene monomer at local producer cost levels.
- We announced the shutdown of our highest-cost polyethylene line at St. Clair River Site, Corunna, Ontario, removing 275 million pounds of capacity. High-value product sales will be moved to more competitive polyethylene lines.

# 2003 Business Discussion

## NOVA Chemicals

REDUCING RISK, INCREASING REWARD

NOVA CHEMICALS HAS TWO PRODUCT LINES: OUR OLEFINS/POLYOLEFINS BUSINESS MANUFACTURES ETHYLENE, ASSOCIATED PETROCHEMICALS AND POLYETHYLENE; OUR STYRENICS BUSINESS MANUFACTURES STYRENE MONOMER AND STYRENIC POLYMERS. OUR POLYMERS (PLASTIC RESINS) ARE USED TO MANUFACTURE PRODUCTS RANGING FROM TOYS AND KAYAKS, TO PACKAGING MATERIALS AND FOAM INSULATION. OUR BUSINESSES ARE HIGHLY CYCLICAL AND RESULTS VARY WITH THE SUPPLY AND DEMAND FOR OUR PRODUCTS, NOT NECESSARILY WITH THE COST OF OUR FEEDSTOCKS. LOW INDUSTRY OPERATING RATES RESULT IN POOR RETURNS, WHILE HIGH INDUSTRY OPERATING RATES HISTORICALLY RESULT IN STRONG RETURNS.

NOVA CHEMICALS IS POSITIONED TO TAKE ADVANTAGE OF AN IMPROVING ECONOMY AND THE EXPECTED CORRESPONDING IMPROVEMENT IN THE SUPPLY/DEMAND BALANCE OF OUR PRODUCTS:

- WE FOCUSED AGGRESSIVELY ON CASH GENERATION AND REDUCED DEBT BY ROUGHLY \$500 MILLION SINCE THE MIDDLE OF 2001. AS A RESULT, WE HAVE A STRONG BALANCE SHEET AND FINANCIAL FLEXIBILITY WITH ABOUT \$200 MILLION OF CASH.
- OUR OLEFINS/POLYOLEFINS BUSINESS HAS STRUCTURAL, LOW-COST PRODUCTION ADVANTAGES.
- WE ARE BUILDING A PORTFOLIO OF HIGHER-MARGIN, DIFFERENTIATED POLYMERS FOR BOTH OF OUR BUSINESSES.
- WE HAVE SIGNIFICANT OPERATING LEVERAGE TO BOTH OF OUR PRODUCT CHAINS, WHICH WE BELIEVE WILL PEAK AT ABOUT THE SAME TIME.

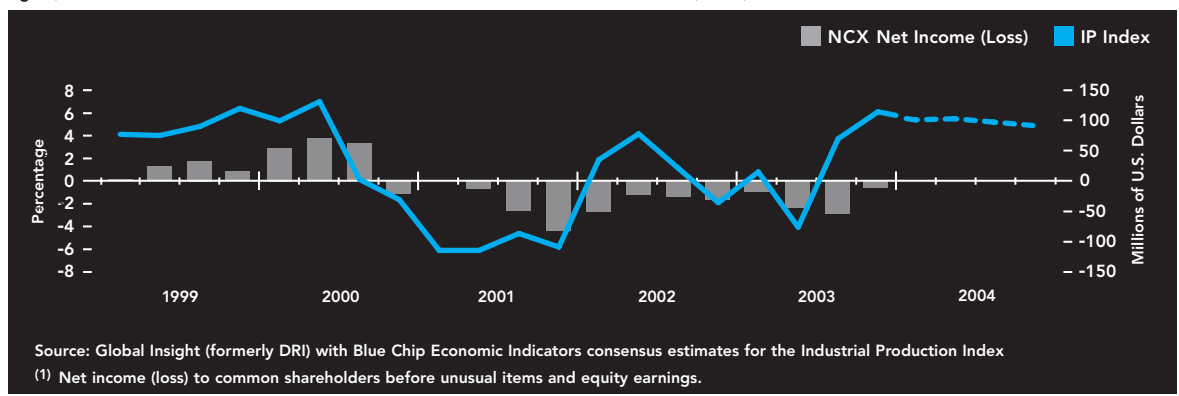
OUR FOCUS IS, AND WILL REMAIN, THE EFFECTIVE STEWARDSHIP OF SHAREHOLDER VALUE. IN 2003, THAT MEANT REDUCING RISK THROUGH DISCIPLINED CASH MANAGEMENT AND INCREASING POTENTIAL SHAREHOLDER RETURN THROUGH HIGHER-MARGIN PRODUCT DEVELOPMENT.

## Managing the Downturn

PREPARING FOR THE UPTURN

NOVA Chemicals' earnings have historically tracked the U.S. Industrial Production Index (IP Index), as shown below. We recognized in 2001, early in the trough, that we needed to act quickly to manage the effects of a potential extended economic downturn. We focused on strengthening our balance sheet and maintaining solid liquidity. The charts on the following pages show exactly how we did that.

fig.1 INDUSTRIAL PRODUCTION INDEX AND NOVA CHEMICALS' NET INCOME (LOSS)<sup>(1)</sup>



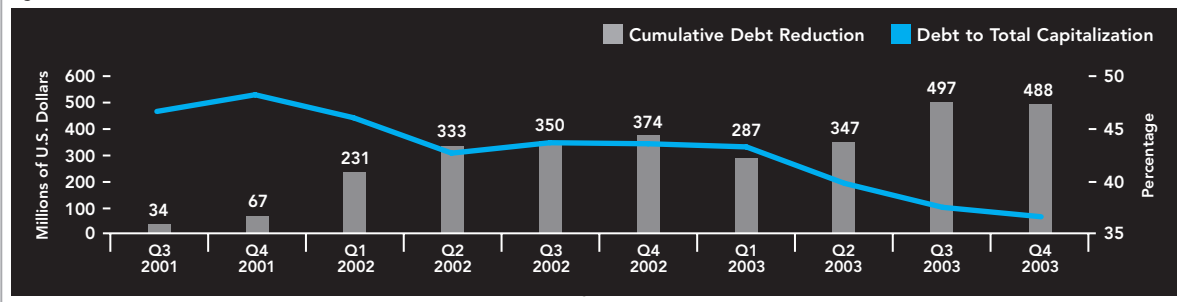
## Controlling The Controllables

RECOGNIZE WHAT TO DO EARLY AND ACT QUICKLY

### — DEBT REDUCTION —

We ended 2003 with \$212 million in cash, \$247 million available under our \$300 million revolving credit line and debt to total capitalization of 37%. In June 2003, we sold our stake in Methanex for net proceeds of \$441 million and our share of the Fort Saskatchewan Ethylene Storage Facility for net proceeds of \$123 million. We used a portion of the proceeds to repay \$150 million of bonds in August and to pay down our revolving credit line.

fig.2 | CUMULATIVE DEBT REDUCTION



### — FIXED-COST REDUCTION —

NOVA Chemicals is driven to reduce fixed costs. In 2003, the increasing value of the Canadian dollar and European currencies negatively impacted fixed costs when measured in U.S. dollars. We ended the year with fixed costs per pound of capacity up by 5%. In local currencies, we reduced fixed costs by 3%.

In 2004, our goal is to again reduce fixed costs by 5%, net of inflation. The second quarter closure of the 275 million pound polyethylene line at our St. Clair River, Ontario site will contribute to that goal by reducing fixed costs by \$5 million to \$10 million per year.

fig.3 | FIXED-COST REDUCTION

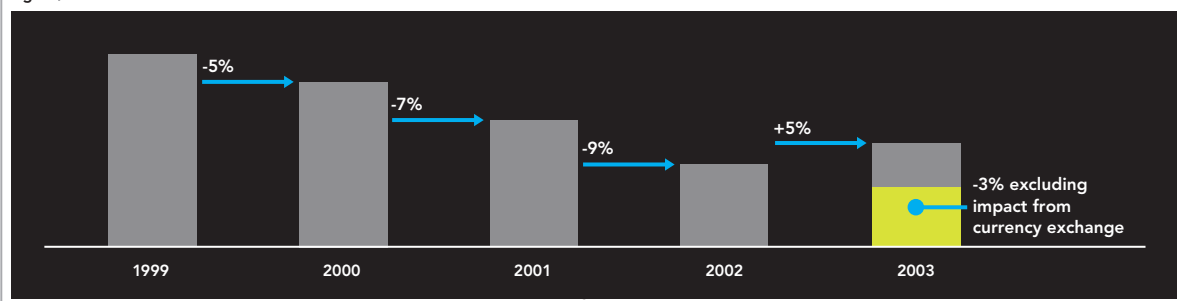


fig.4 | CASH FLOW CYCLE TIME



### — CASH FLOW CYCLE TIME (CFCT) —

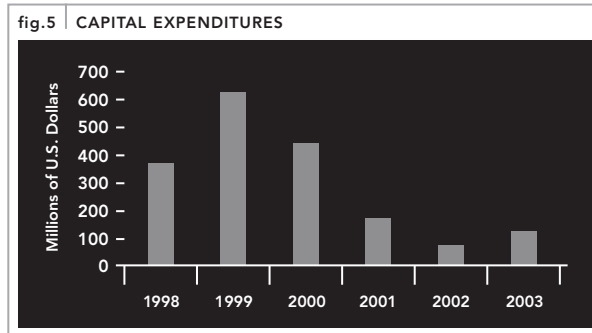
CFCT measures process improvement and working capital management. It is measured on a days-of-sales basis as:

$$\frac{\text{Inventory} + \text{Accounts Receivable} - \text{Accounts Payable}}{\text{Average Sales}}$$

At the end of 2000, our CFCT was very competitive at 60 days. We focused our attention on improving work processes and leveraging information technology, allowing us to finish 2002 at 20 days. In 2003, we continued to focus on CFCT and we finished the year at 28 days, well within our goal of maintaining CFCT between 25 and 30 days.

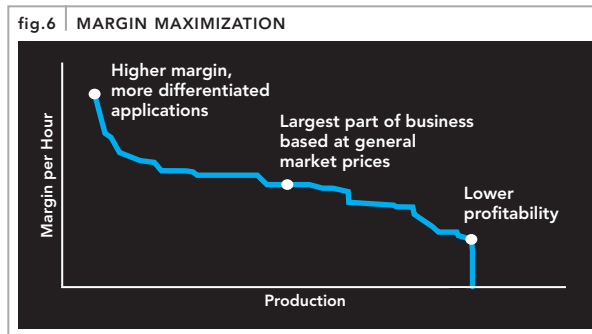
— CAPITAL EXPENDITURES —

In 2003, we controlled capital expenditures to \$119 million (net of project advances). From 2003 to 2007, our capital expenditures should average about \$155 million per year, or approximately 50% of depreciation charges. This includes maintenance, Responsible Care, cost reduction and growth projects.



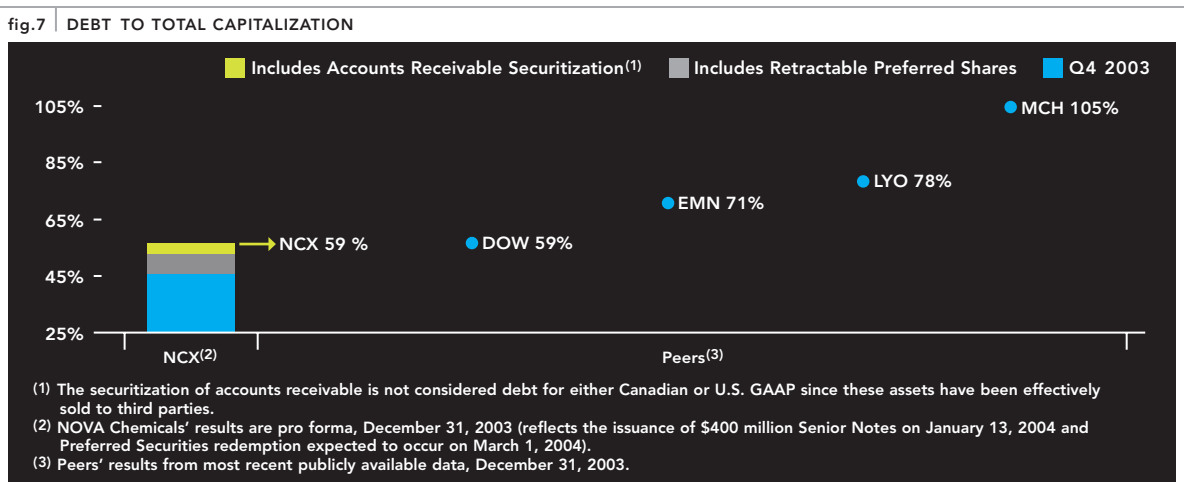
— MARGIN MAXIMIZATION —

NOVA Chemicals developed a margin maximization tool that takes advantage of information from our SAP system and analyzes margin for each commercial transaction. This tool helps us to maximize margins and manage our product mix. In 2003, we realized an extra \$33 million in after-tax operating earnings by using our Margin Model.



The question is: HAVE WE DONE MORE THAN OUR PEERS?

The answer is **IN THE NUMBERS**. Our debt to total capitalization ended 2003 at 37%. Subsequent to year end, we issued \$400 million of 6.50% Senior Notes for the purpose of redeeming the 9.04% and 9.50% Preferred Securities. Including these transactions, our pro forma debt to total capitalization would be 50%. If we also included our retractable preferred shares, our debt to total capitalization would be 56%. Taking the most conservative view, and including our accounts receivable securitization programs as debt, our debt to total capitalization is 59%, still better than or equal to our peers, without their accounts receivable securitization programs.



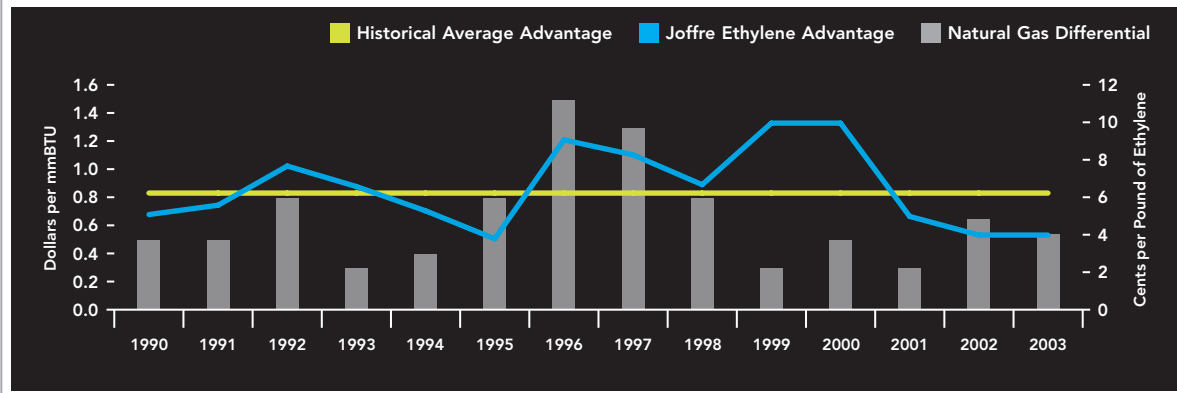
## Asset Advantage

### WORLD-CLASS FACILITIES

#### — LIGHT FEED CRACKERS —

Our Joffre, Alberta site has two major competitive advantages: feedstock cost and scale. The feedstock portion of the advantage is based on the natural gas transportation differential between western Canada and the U.S. Gulf Coast (USGC) to major markets. The scale portion of the advantage includes the operating and energy efficiency of these world scale assets. During the last 14 years, our Joffre ethylene advantage has averaged 6¢ per pound, ranging from 4¢ per pound to over 10¢ per pound. In 2003, USGC ethane supply remained greater than demand, so our advantage averaged about 4¢ per pound. As the USGC ethane supply/demand balance tightens, and ethane prices rise, our advantage is likely to return to historical levels.

fig.8 | JOFFRE ETHYLENE ADVANTAGE



**Scale.** Our Joffre ethylene and polyethylene complex is the largest in the world. At 6.2 billion pounds, Joffre's ethylene capacity is more than 3 times the size of the average ethylene complex in North America. The newest ethylene cracker, E3, is 2.8 billion pounds of capacity — nearly 2.5 times the size of the average North American ethylene cracker.

**Efficiency.** Joffre's ethylene assets are so much larger and more energy efficient than the average USGC ethane/propane crackers, that we actually see an increase in our relative cost advantage as energy prices go up. Our average advantage is 2¢ per pound of ethylene at \$2 natural gas prices, almost 3¢ per pound at \$5 gas prices.

fig.9 | AVERAGE NORTH AMERICAN ETHYLENE CRACKER SIZE

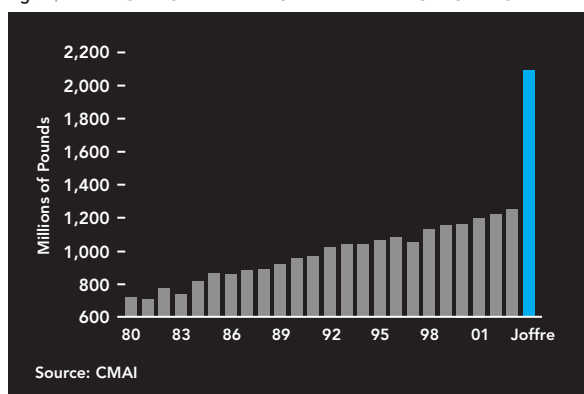
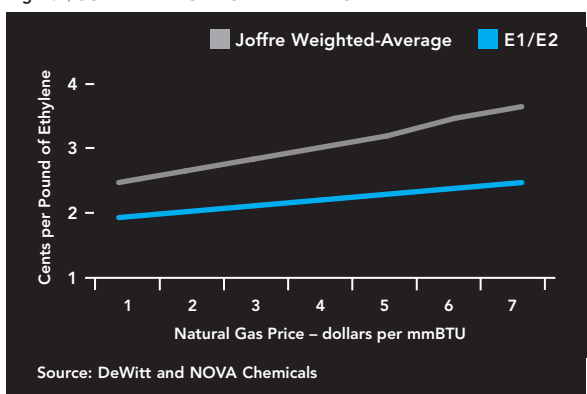


fig.10 | JOFFRE EFFICIENCY ADVANTAGE



**Flexi-Cracker.** Our Corunna, Ontario ethylene facility is one of the most flexible of its kind. It can switch from using 100% heavy-based (crude oil and condensates) feedstocks to using a balance of both heavy- and light-based (natural gas) feedstocks, which makes it more flexible than most U.S. flexi-crackers. Unlike our USGC peers, we purchase crude oil and condensates to produce naphtha. Heavy naphtha typically trades at a higher price than crude oil and in 2003 averaged 110% of crude.

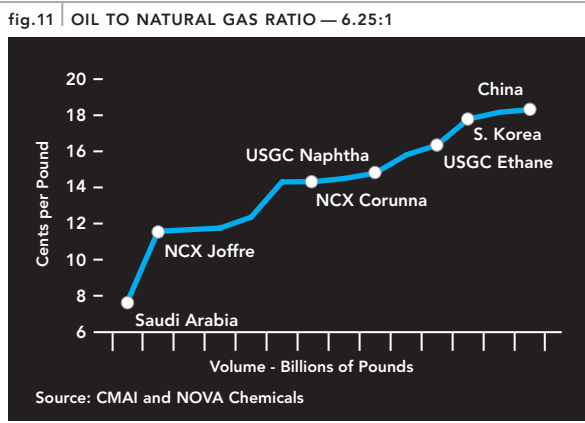
## Cost Always Matters

WE ARE LOW-COST UNDER ALMOST ANY SET OF CONDITIONS

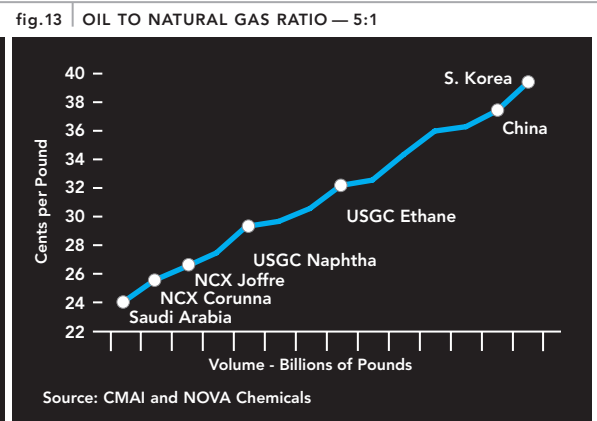
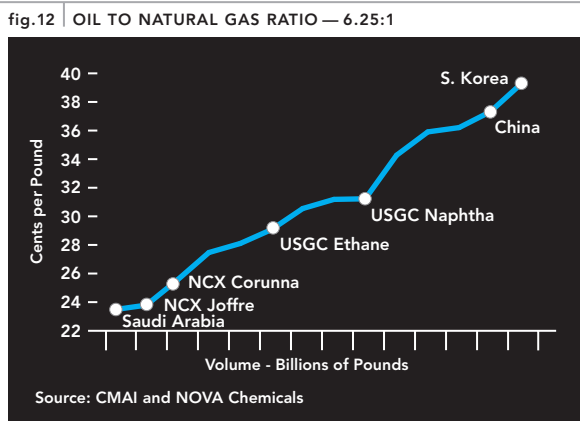
A barrel of crude oil has about 6 times the equivalent energy value of 1 million BTU's of natural gas. At a price ratio above 6:1, natural gas is advantaged over crude oil. Below 6:1, crude oil, as a feedstock for petrochemicals, is lower-cost. The following cost curves examine the impact of various crude oil to natural gas ratios on ethylene cash costs and delivered polyethylene cash costs to Chicago, Illinois, the major U.S. market region.

### — ETHYLENE CASH COSTS —

At a 6.25:1 ratio, which closely resembled the relationship between natural gas and crude oil during 2003, NOVA Chemicals' Joffre plant is one of the lowest-cost ethylene assets in the world, second only to facilities in the Middle East. Our Corunna ethylene plant is also advantaged over USGC naphtha and ethane crackers.



### — DELIVERED POLYETHYLENE TO CHICAGO —



EVEN AT AN OIL TO NATURAL GAS PRICE RATIO OF 5:1, WHICH IS HISTORICALLY QUITE RARE, NOVA CHEMICALS HAS ADVANTAGED COSTS OVER THE AVERAGE USGC ETHYLENE PRODUCER. MIDDLE EASTERN PRODUCERS MANUFACTURE A NARROW RANGE OF PRODUCT GRADES AND SHIP IN PACKAGED QUANTITIES. NORTH AMERICAN CUSTOMERS REQUIRE CUSTOMIZED GRADES SHIPPED IN BULK QUANTITIES. AS A RESULT, MIDDLE EASTERN PRODUCERS CAN BE EXPECTED TO SHIP POLYETHYLENE TO EUROPE AND ASIA WHERE THEY INCUR LOWER TRANSPORTATION COSTS, MARKETS ARE PACKAGED RATHER THAN BULK, AND CUSTOMER NEEDS ARE A BETTER FIT FOR THEIR PRODUCT OFFERING.

## Cycle Dynamics

### SUPPLY AND DEMAND

#### — SUPPLY —

The relationship between supply and demand is the main driver of profitability in commodity chemicals. The chemical industry's cyclical nature is driven by the size and timing of new capacity additions, since demand for a large portion of our product mix continues to grow regardless of general economic conditions. It takes 3 to 5 years to site, permit and build a new monomer or polymer facility.

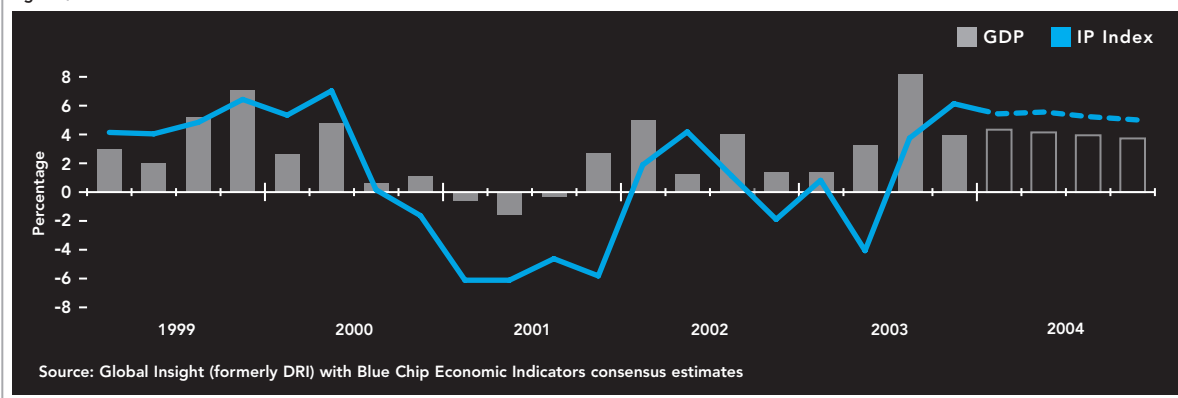
Today, as a result of industry consolidation and prolonged difficult economic conditions, few new North American ethylene/polyethylene and styrene monomer facilities have been constructed or announced. During the next three to five years, we expect relatively little new additional capacity to be added for our products.

#### — DEMAND —

Demand for our products is the more uncertain piece of the equation. Demand growth is related to Gross Domestic Product (GDP). Market demand for polyethylene and polystyrene has typically grown at 1–2 times GDP depending on the region of the world.

GDP growth continued to be weak in 2003, although signs of strengthening conditions emerged in the second half of the year. For 2004, economists' consensus estimates are predicting faster economic growth in most parts of the world.

fig.14 | IP INDEX AND GDP



## The Key Is Operating Rates

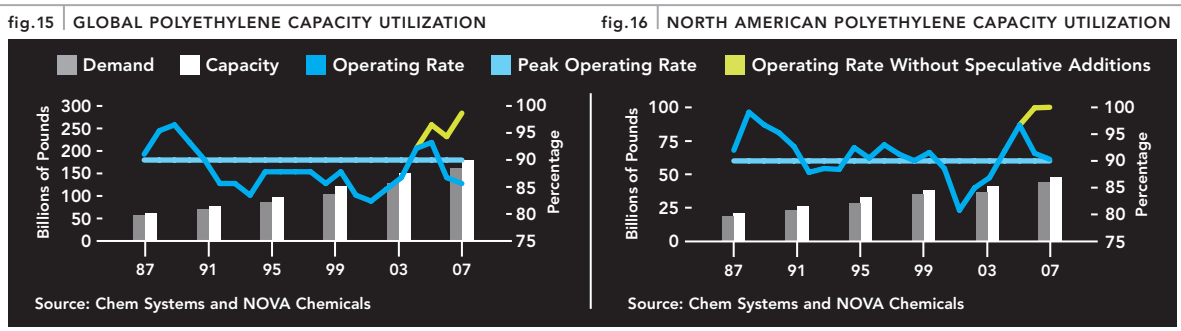
### INDUSTRY DYNAMICS

#### — OLEFINS/POLYOLEFINS —

Polyethylene supply is the bottleneck in the ethylene/polyethylene chain — because there is less polyethylene capacity than ethylene capacity. In addition, ethylene is a regionally traded commodity, so supply dislocations occur. Peak conditions generally develop for polyethylene when operating rates exceed 90% of capacity utilization. For the next few years, global demand growth is expected to exceed supply growth and many of the forecasted 2004 and 2005 plant start-ups in the Middle East have already been delayed. As a result, we expect to see global operating rates climb through the 90% threshold starting in 2004 and remain at high levels for an extended period of time.

The North American picture is even better. With the current trough so long and so deep, there is no new polyethylene capacity planned for North America. In fact, since 1995, industry consolidation has cut the number of producers in half, leaving fewer companies to increase capacity.

In both charts, the blue line represents Chem Systems' expected operating rate, including all planned and speculative capacity additions. The green line excludes Chem Systems' estimate of currently unannounced, speculative capacity.

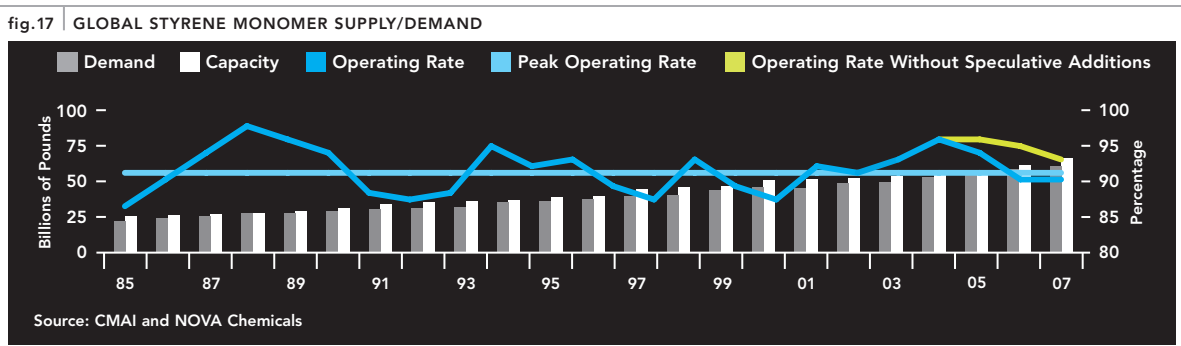


#### — STYRENICS —

Styrene monomer supply is the bottleneck in our Styrenics business. With 20% less styrene monomer capacity than derivative capacity, it is the link that drives profitability. Peak conditions generally develop for styrene monomer when operating rates are sustained above 92% of capacity utilization.

Styrene monomer supply grew very fast in the early 1990's when Propylene Oxide/Styrene Monomer (POSM) plants were built to keep up with propylene oxide demand. The POSM process makes 2 pounds of styrene monomer for every 1 pound of propylene oxide. This caused more styrene monomer to come to market than was needed. Today, new technologies are being developed to produce propylene oxide without styrene monomer as a co-product. Consequently, there are very few new POSM plants planned — slowing the growth of future styrene monomer supply.

Styrene monomer demand has grown at multiples of GDP and IP equating to a 4.5% global growth rate from 1985 to 2003. Using forecasted GDP and IP estimates by Global Insight, styrene monomer demand is expected to grow at a 6.7% rate through 2005. We chose a more conservative 5.7% growth rate in our models. As a result, styrene monomer operating rates are forecast to rise above the 92% threshold starting in 2004 and could stay above that level for some time.



## A Path To A Peak

### ADDITIONAL UPSIDE POTENTIAL

The profile of the next peak is based on the pace of global demand growth, and the pace and timing of supply additions. The next two pages explain how the profile of the coming peak could be higher and longer than any previous peak.

#### — THE SUPPLY SIDE —

**Less capital is being spent.** The vast amounts of capital spending and large increments of petrochemical capacity installed in the U.S. during the mid 1990's peaked in 1997 at \$14 billion, and fell by 65% to \$8.5 billion by 2002. Most producers, like NOVA Chemicals, cut capital expenditures sharply. Therefore, very little North American capacity was added in olefins/polyolefins or styrenics.

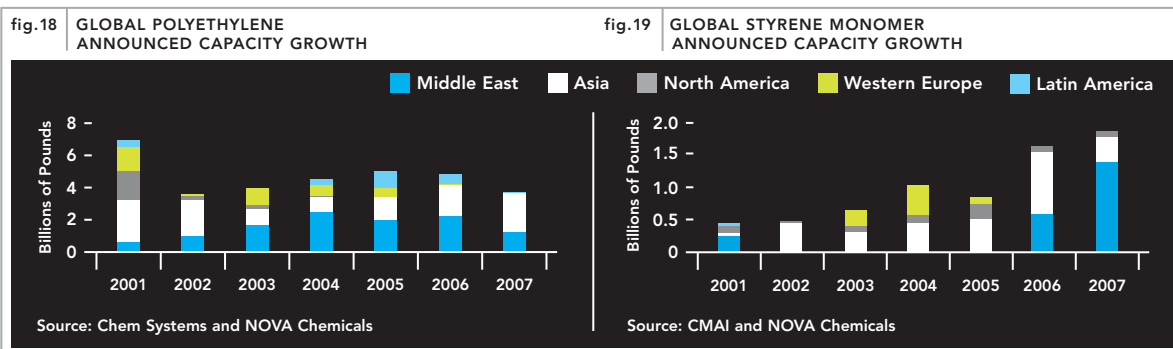
**More capacity eliminated in this cycle.** Not only has limited capacity expansion occurred in North America, producers are idling, or eliminating, high-cost production sites. During the last three years, 3.8% of North American ethylene capacity and 5.1% of polyethylene capacity was permanently shut down. Similarly, 7.3% of North American styrenic polymer capacity and 8.4% of European capacity was also eliminated. We, alone, have removed over 2% of global polystyrene capacity since 1999.

#### North American Permanent Capacity Reductions Since 2000

MILLIONS OF POUNDS	ETHYLENE	POLYETHYLENE
Basell	0	500
BP Solvay	0	260
Chevron Phillips	400	300
Dow	2,474	0
Equistar	0	730
ExxonMobil	0	100
NOVA Chemicals	0	275
<b>Total</b>	<b>2,874</b>	<b>2,165</b>
<b>% of Total North American Supply</b>	<b>3.8%</b>	<b>5.1%</b>

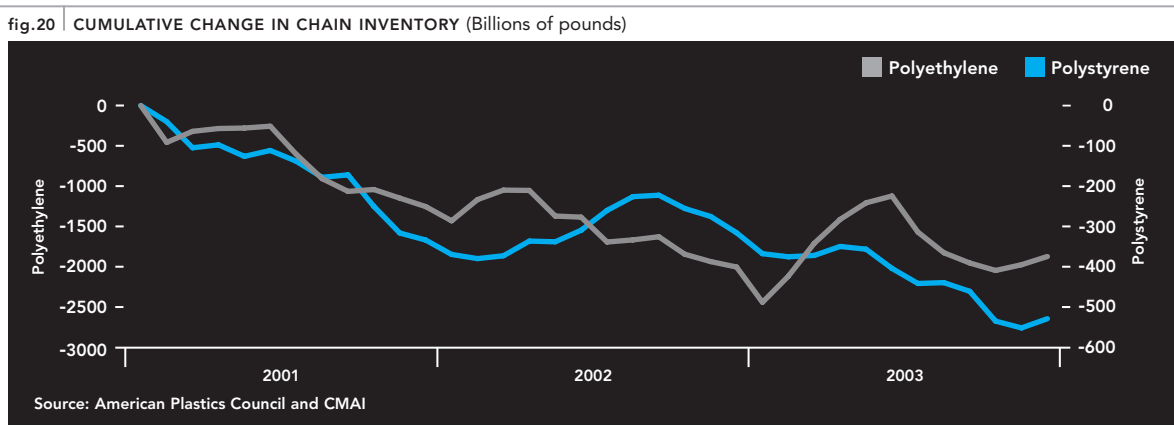
Source: CMAI and public information obtained by NOVA Chemicals.

**Geographic shifts to regions in turmoil.** Between 2004 and 2007, 39% of polyethylene and 32% of styrene monomer capacity growth was announced for start-up in the Middle East, mostly in Saudi Arabia and Iran. A few companies have already announced expansion delays.

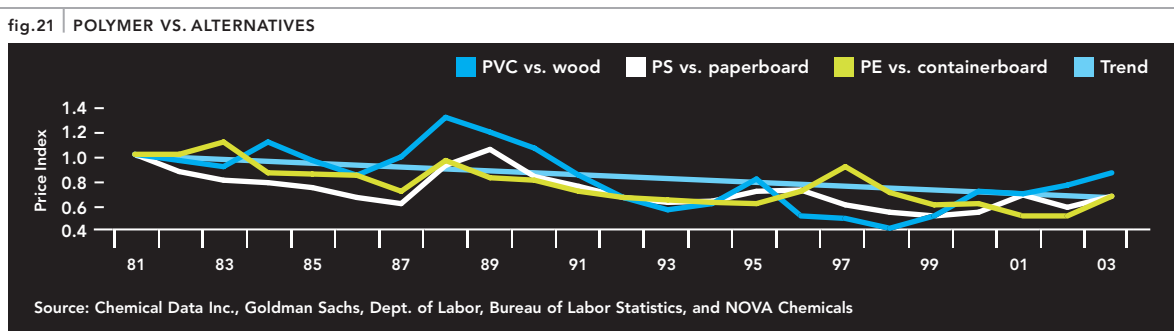


— THE DEMAND SIDE —

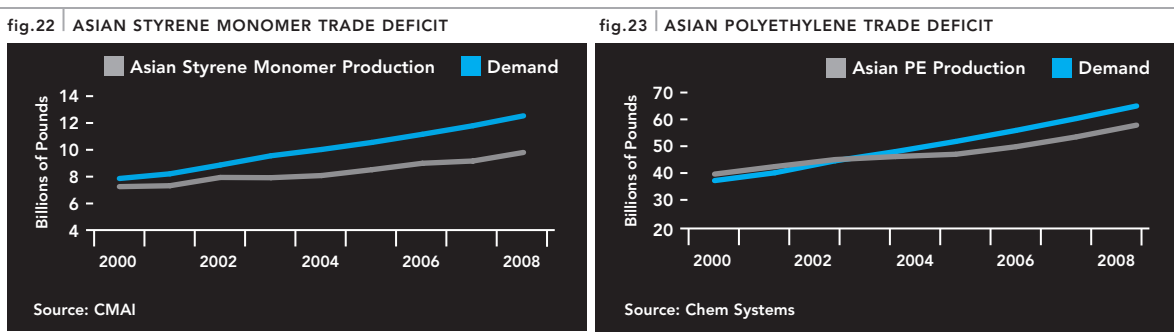
**Inventories are very low:** Throughout North America, inventories have been reduced to extremely low levels during the last three years. In order to replenish inventories to 2001 levels—four new world-scale polyethylene facilities and two new world-scale polystyrene facilities would need to be built, and operated at 100% capacity for a full year.



**Product substitution driving growth:** Starting in the 1980's, there was a high demand for plastic products because they offered increased value vs. other non-polymer alternatives. Polymers remain less expensive today, even with the sharp increases in energy and feedstock costs during 2003. With new product development and innovation, the pace of substitution should continue to contribute to increased plastic demand.



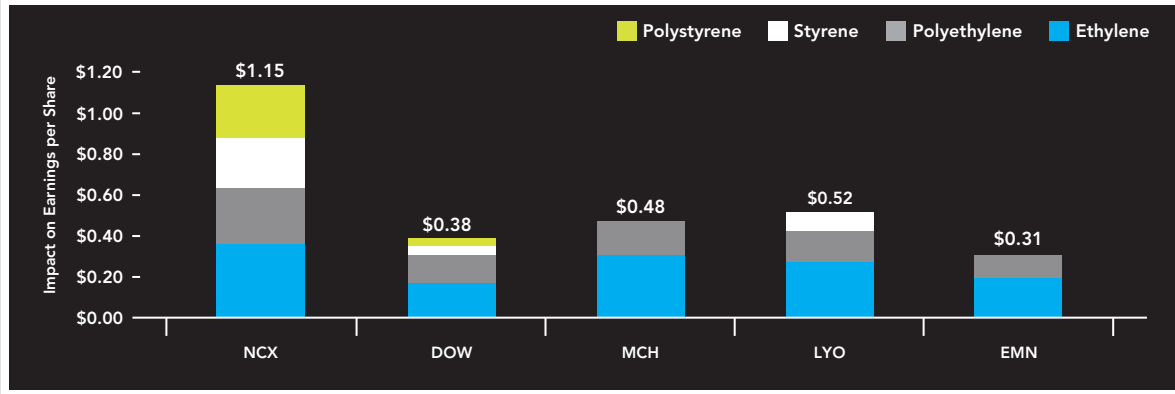
**Asian demand is strong:** Asian GDP growth averaged 5.7% in 2003 and is forecast to continue to grow at rates of 6–7% for the next two years. Capacity limitations and high feedstock costs in Asia will likely require an increase of imported materials from other regions of the world. By 2008, Asia is expected to be 3 billion pounds short of styrene monomer production and 7 billion pounds short of polyethylene production to meet internal demand.



## Leverage

A PENNY IS SIGNIFICANT

fig.24 NOVA CHEMICALS' EARNINGS LEVERAGE



NOVA Chemicals' leverage to the Ethylene/Polyethylene and Styrenics product chains is greater than any other chemical company in North America. The chart above illustrates a simultaneous 1¢ per pound change in margin for each of ethylene, polyethylene, styrene monomer, and polystyrene on the after-tax earnings per share for NOVA Chemicals and our peers.

Over the course of the last eight years, NOVA Chemicals' capacity has more than doubled, while our common shares outstanding have remained relatively flat. Dow Chemical's capacity nearly doubled however, their share count tripled, mainly from the acquisition of Union Carbide. Millennium's, Lyondell's and Eastman's capacities and common share counts have all remained relatively stable over the same period. As a result, NOVA Chemicals' leverage to these four product lines has increased 264%, while our peers have similar or less leverage than they had in the last cycle.

The last petrochemical peak occurred in 1995. At that time, NOVA Chemicals earned \$3.85 per share. By simply applying the same level of margin achieved in 1995 to our current capacity and contractual arrangements, and assuming that both of our product chains, with their current product mix, peak at the same time, NOVA Chemicals could see earnings of \$10.00 per share from the additional leverage to our four major product lines.

The chart above illustrates the maximum potential sensitivity to margin change for the products indicated based solely on NOVA Chemicals' relative leverage to ethylene, polyethylene, styrene and polystyrene.

Does not take into account a number of other factors, any one of which may influence the actual outcome.

Assumes a simultaneous 1¢ change in margin in each of our four major product lines for a period of one year.

References to NOVA Chemicals' peers include the following companies: The Dow Chemical Company (DOW), Millennium Chemicals Inc. (MCH) (Quantum Chemicals in 1995), Lyondell Chemical Company (LYO), and Eastman Chemical Company (EMN).

The referenced peers have other products that impact their earnings sensitivities.

The chart illustrates sensitivity for only those products NOVA Chemicals and the referenced peers may compete in.

Net earnings in 1995 represent the results of NOVA Chemicals Ltd, which accounted for approximately 99% of the ongoing operation of NOVA Chemicals Corporation. Earnings per share calculation is based on the 92 million shares outstanding on July 1, 1998, the date NOVA Chemicals Corporation became a publicly traded company. Current earnings leverage calculation is based on 87 million shares outstanding.

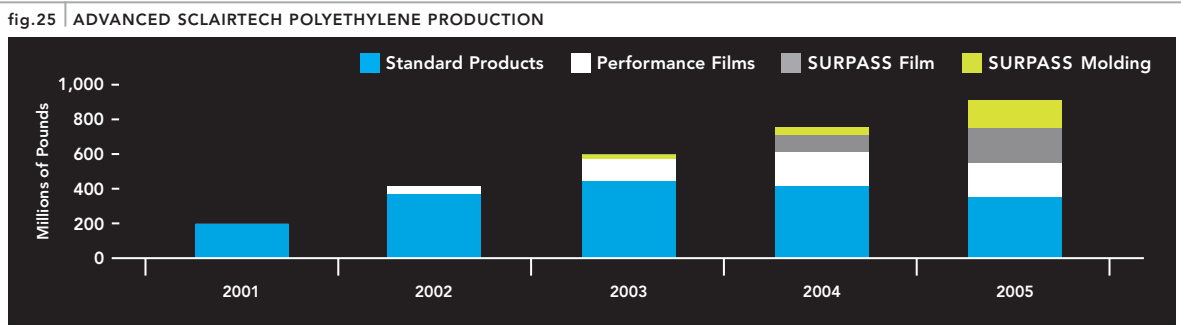
## Beyond Leverage

### HIGH-VALUE PRODUCTS

Since our start-up in 1998, NOVA Chemicals has increased annual research and development spending by 55%. In 2001, we started up our Joffre, Alberta, Advanced SCLAIRTECH plant, which utilizes our proprietary single-site catalysts for producing SURPASS resins. In addition, we are developing a portfolio of higher-margin, differentiated styrenic polymers, which are based on enhancements to our existing assets. Our goal is to increase volumes for these product areas so that by 2005, 30% of our total polymer sales volume will be from higher-margin grades.

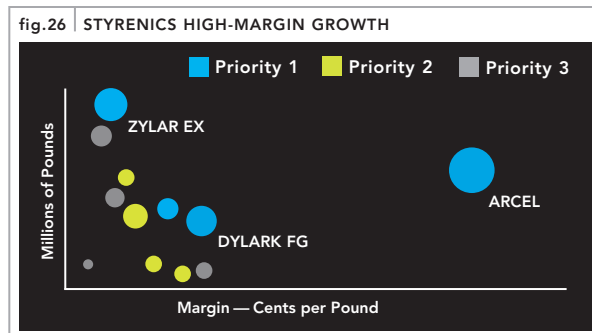
#### — ADVANCED SCLAIRTECH POLYETHYLENE —

In 2003, we sold 600 million pounds of Advanced SCLAIRTECH polyethylene resins. This is up 46% from 2002 when we sold 410 million pounds. More importantly, we are improving our product mix by selling greater volumes of higher-performing products like SURPASS resins, produced utilizing our proprietary single-site catalysts. Our goal is to sell 750 million pounds of Advanced SCLAIRTECH polyethylene in 2004.



#### — STYRENICS HIGH-MARGIN GROWTH —

We prioritize new product development into three levels. The highest-priority products have a senior business manager, focused technology resources, and dedicated project teams. The 2nd and 3rd level priority products are managed via the normal streams of commercial and technical business leaders. All priority products will provide our current customers with enhanced polymer performance attributes, and the ability to run the new resins on their existing equipment. Each product is expected to increase margins for NOVA Chemicals, while increasing value to our customers. In the chart below, the size of each bubble is the expected change in margin and volume from 2003 to 2006.



#### WHY DO WE BELIEVE WE WILL BE SUCCESSFUL?

- We have unique technologies, some of which are patented; some have barriers to entry.
- Some projects will require minor amounts of capital, while others will require no investment.
- Customers will be able to use the majority of our new and differentiated commodity products in their existing equipment and should enjoy lower operating costs with increased production rates.
- We are being deliberate with our time and resources. We have dedicated people to develop and market the most promising of our products.
- The financial impacts are significant — they are full-step changes in margin generation.

## Building on existing polymers . . .

**NOVA Chemicals** has two polymer businesses: Polyethylene and Styrenic polymers. Both product lines are established, high-volume plastic materials used to manufacture a multitude of basic consumer and industrial applications. Descriptions of these core products are found below. The facing page describes our approach to bringing value-added products to market, and behind the overlap you will find a sampling of these products.

### HIGH-DENSITY POLYETHYLENE

High-density polyethylene (HDPE) is the most widely used PE resin in the world. It is the strongest, most rigid form of PE and is a versatile resin for a multitude of consumer and industrial products. You will find HDPE in common applications ranging from toys, beverage containers, medical packaging and detergent bottles — to shipping containers and industrial drums.



### SOLID POLYSTYRENE

Solid Polystyrene (SPS) was the first bead-form plastic ever made — today, it is one of the most versatile and widely used plastics in the world. SPS comes in two forms, crystal and impact, and its end-use products are part of our daily lives. You will find SPS in disposable foodservice items and food packaging, appliance parts, toys, office accessories and cosmetics packaging.

### LOW-DENSITY POLYETHYLENE

The first low-density polyethylene (LDPE) was used in 1939 and has been a kitchen staple ever since. Typical LDPE applications include, grocery sacks, frozen food bags, squeezable bottles and bubble pack. Linear low-density PE (LLDPE) was introduced in 1977 and expanded the polyethylene marketplace. Today, LLDPE resins rank 2nd in overall PE consumption and are used in products like shrink film, stretch wrap, heavy-duty bags, liquid packaging and barrier films.



### EXPANDABLE POLYSTYRENE

Our Beaver Valley site was the first facility in North America to manufacture Expandable Polystyrene (EPS). EPS resins are small beads that expand under increased temperature and pressure. When expanded, these beads deliver superior thermal insulation properties and excellent cushioning protection. End-use products include construction materials, electronics and appliance protective packaging, produce boxes and coolers.

## with a new portfolio of higher-value products.

By leveraging our existing assets and technologies, we are creating value for both our customers and shareholders. The following five product descriptions provide an overview of our plans for the future of our commodity polymers. By 2005, we expect 30% of our polymer volume will be from higher-margin, differentiated commodity products, such as those featured below.

### DYLARK FG

Convenience food packaging is one of the fastest growing polymer markets — expanding at a rate of 2 times GDP in North America. DYLARK FG is a new styrene maleic anhydride copolymer that competes with specialty polypropylene in microwavable food packaging markets. Unlike polypropylene, DYLARK FG runs on our customers' existing equipment, allowing them to compete in a new high-value market with no additional capital investment.

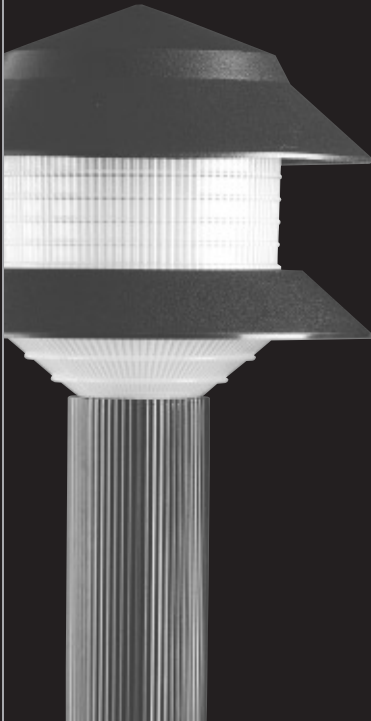


### ARCEL

ARCEL resins are a one-of-a-kind, "inter-polymer" combining the best features of polyethylene and polystyrene. ARCEL is the only resilient foam product that can run in traditional EPS equipment. The fastest growing market segment for ARCEL is the protective packaging market, where ARCEL delivers both higher performance and lower total costs. To learn more about ARCEL see page 22.

### STYROSUN

STYROSUN U.V.-resistant polymers are currently produced at our Breda, the Netherlands facility and were recently introduced in North America. The weatherability of this resin has made it a successful and well-established polymer for many applications, such as patio lights. With the extension into North America, sales of STYROSUN resins are expected to more than double by 2005.



### ZYLAR EX

This next-generation resin extends our existing and proven ZYLAR acrylic copolymer technology into extrusion/thermoforming markets. Customers can run ZYLAR EX on their existing equipment and potentially reduce capacity expansion costs by 25%. Additionally, they can produce more parts per pound than with competitive resins. The exceptional cold temperature impact properties of ZYLAR EX make it an excellent material for clear frozen food packaging, a rapidly growing market.

### SURPASS

SURPASS polyethylene is manufactured using our Advanced SCLAIRTECH technology and utilizes our proprietary single-site catalysts. SURPASS resins deliver a unique combination of processability, puncture resistance and clarity that is not found in traditional metallocene resins. Following the successful launch of film resins in 2003, SURPASS molding resins are being commercialized in 2004. To learn more about SURPASS film see page 23.



to meet the needs of growing markets.

#### DIFFERENTIATED COMMODITY POLYMERS *from* TRADITIONAL TECHNOLOGIES

NOVA CHEMICALS IS BUILDING ON OUR KNOWLEDGE OF COMMODITY CHEMICALS TO DEVELOP A PORTFOLIO OF HIGHER-VALUE POLYMERS THAT COMPLEMENT OUR EXISTING PRODUCT LINE. ON THE NEXT FEW PAGES, YOU WILL FIND A SUMMARY OF OUR STRATEGY, A SAMPLING OF OUR NEWEST POLYMERS AND PROFILES OF TWO PRODUCTS THAT HAVE DEMONSTRATED SUCCESS. THESE UNIQUE PRODUCTS OFFER GREATER VALUE TO OUR CUSTOMERS WHILE CONTRIBUTING TO HIGHER MARGINS FOR NOVA CHEMICALS.

WE HAVE A SIMPLE AND FOCUSED STRATEGY:

- **STAY WITH WHAT WE KNOW.** The new products are based on our existing technologies and assets, and they are sold to our current customers for use in their existing equipment. Small changes to our core products can deliver big results for our customers, with little or no additional capital.
- **TAKE A PORTFOLIO APPROACH.** We focus our efforts on the areas most likely to succeed. We target applications that are growing the fastest, in markets that are the easiest to penetrate. This approach ensures higher success rates and greater returns.
- **INCREASE VALUE FOR OUR CUSTOMERS AND SHAREHOLDERS.** Our new products offer improved performance and processing advantages — allowing our customers to compete in an ever-changing, more-demanding marketplace. At the same time, we designed a low-risk approach for developing higher-margin products with little capital investment — decreasing risk and increasing reward for our investors.

← TURN

## ARCEL moldable foam

**Market:** Protective Packaging

**Market Potential:** 2 billion lbs. globally

**Market Growth:** 2 times GDP



ARCEL is NOVA Chemicals' fastest growing resin and one of our highest-margin products. The resin is a polystyrene/polyethylene inter-polymer, which means it combines the best attributes of our two traditional polymers — the toughness of polyethylene and the processability of polystyrene. The key growth market for ARCEL is protective packaging — specifically for high-end electronics and computer equipment.

The value proposition for traditional protective packaging is rapidly changing due to growing online and catalog sales. In turn, there is an increase in direct, business-to-consumer deliveries, or 'uncontrolled shipping.' As a result, major electronics and computer manufacturers are experiencing more product damage than ever before and their replacement costs are rising. Consequently, our customers require a higher-performing resin to meet these more stringent conditions for protective packaging. ARCEL stands alone in delivering performance for both original equipment manufacturers and our customers.

For our customers, ARCEL runs faster and is the only high-performance durable foam that can run in standard EPS molding equipment — delivering more parts per pound and capital cost savings. When using ARCEL protective packaging, major equipment manufacturers are receiving fewer complaints and product returns from consumers. ARCEL resins offer unmatched value throughout the chain.



**SURPASS film**

**Market:** Specialty Film for Food Packaging  
**Market Potential:** 500 million lbs. globally  
**Market Growth:** 2 times GDP

**NOVA Chemicals' SURPASS family of resins sets a new performance standard for the polyethylene film market.** For the highly innovative food packaging market, our customers can make products that are stronger and thinner, with both improved clarity and better puncture performance. In most cases, SURPASS film resins run faster than competitive resins and also run on existing equipment, which translates into increased operating efficiency with no capital outlay for our customers.

Mohawk Northern Plastics was one of our first customers to enjoy the full benefits of SURPASS resins. Mohawk is an extruder/converter that produces a variety of produce and food packaging under the APEX 2000 and APEX 3000 trademarks, respected brand names in food packaging. Mohawk specifies SURPASS resins in a wide range of demanding packaging applications including stand-up and pillow-pack pouches, shrink film and heavy-duty shipping sacks.

SURPASS resins leverage our single-site catalyst technology and are manufactured at our world-scale Joffre, Alberta facility. The combination of our proprietary technology and highly efficient manufacturing allows NOVA Chemicals to compete profitably in specialty films, one of the fastest-growing, highest-value polyethylene packaging segments. In turn, customers such as Mohawk choose SURPASS resins for their exceptional clarity, strength and processing characteristics, which command premium pricing in their market.

## Supplying the Market

### WHAT WE MAKE AND WHERE

#### OLEFINS/POLYOLEFINS BUSINESS

Our four Canadian manufacturing sites have the capability of producing 6.6 billion pounds of ethylene and 3.7 billion pounds of polyethylene resins per year. The Joffre, Alberta facility is the largest, and one of the lowest-cost ethylene/polyethylene production facilities in the world. The capacities below include a combination of: High-Density (HDPE); Low-Density (LDPE); Linear Low-Density (LLDPE); and Very Low-Density (VLDPE) polyethylene resins.

##### Ethylene

Corunna, Ontario . . . . 1,600  
Joffre, Alberta . . . . 4,950

##### Polyethylene

Corunna, Ontario<sup>(1)</sup> . . . . 670  
Joffre, Alberta . . . . 2,160  
Mooretown, Ontario . . . . 830

#### STYRENICS BUSINESS

Our eleven manufacturing sites throughout Europe and North America produce over 3.4 billion pounds of styrenic polymers annually — including solid polystyrene; expandable polystyrene and high-performance styrenic polymers. Additionally, three other sites produce over 2.6 billion pounds of styrene monomer per year.

##### Styrene Monomer

Bayport, Texas . . . . 1,250  
Channelview, Texas<sup>(2)</sup> . . . . 400  
Sarnia, Ontario . . . . 950

##### Expandable Polystyrene (EPS)

Berre, France . . . . 140  
Breda, the Netherlands . . . . 200  
Carrington, England . . . . 165  
Monaca, Pennsylvania . . . . 285  
Painesville, Ohio . . . . 85  
Ribécourt, France . . . . 200

##### Solid Polystyrene (SPS) and High Performance Styrenics (HPS)

Belpre, Ohio . . . . 480  
Breda, the Netherlands<sup>(3)</sup> . . . . 210  
Carrington, England . . . . 390  
Chesapeake, Virginia<sup>(3)</sup> . . . . 300  
Decatur, Alabama . . . . 425  
Monaca, Pennsylvania<sup>(3)</sup> . . . . 125  
Montréal, Québec . . . . 130  
Springfield, Massachusetts<sup>(3)</sup> . . . . 330

(1) In October 2003, NOVA Chemicals announced the Q2 2004 shutdown of the A-Line at this facility, reducing LLDPE production by 275 million pounds per year.

(2) This represents our equity position in the Lyondell Chemical Company facility and does not include a shorter-term tolling arrangement for an additional 400 million pounds.

(3) These facilities also manufacture certain HPS products — marketed under names such as: ARCEL®, DYLARK®, NAS®, STYROSUN®, ULTRA LOW™, ZYLAR®, ZYNTAR®.

NOTE: All capacities are shown in millions of pounds.

## 2003 Financial Section

### — DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS —

The information in this Annual Report contains forward-looking statements with respect to NOVA Chemicals Corporation (NOVA Chemicals), its subsidiaries and affiliated companies. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements. The words "believe," "expect," "plan," "intend," "estimate," or "anticipate" and similar expressions, as well as future or conditional verbs such as "will," "should," "would," and "could" often identify forward-looking statements. Specific forward-looking statements contained in this Annual Report include, among others, statements regarding: our expected financial performance in future periods; cyclical changes in the demand for our products; changes in pricing policies by us or our competitors; our competitive advantages and ability to compete successfully; our estimates of the present value of our future net cash flows; changes in the costs of energy and raw materials; our methods of raising capital; our levels of debt; and general economic conditions. With respect to forward-looking statements contained in this Annual Report, we have made assumptions regarding, among other things: future oil, natural gas and benzene prices; our ability to obtain raw materials; our ability to market products successfully to our anticipated customers; the impact of increasing competition; and our ability to obtain financing on acceptable terms. Some of the risks that could affect our future results and could cause results to differ materially from those expressed in our forward-looking statements include: commodity chemicals price levels (which depend, among other things, on supply and demand for these products, capacity utilization and substitution rates between these products and competing products); feedstock availability and prices; operating costs; terms and availability of financing; technology developments; currency exchange rate fluctuations; starting-up and operating facilities using new technology; realizing synergy and cost-savings targets; meeting time and budget targets for significant capital investments; avoiding unplanned facility shutdowns; safety, health, and environmental risks associated with the operation of chemical plants and marketing of chemical products, including transportation of these products; public perception of chemicals and chemical end-use products; the impact of competition; changes in customer demand; changes in, or the introduction of, new laws and regulations relating to our business, including environmental, competition and employment laws; loss of the services of any of our executive officers; and uncertainties associated with the North American, European and Asian economies; and other risks detailed from time-to-time in the publicly filed disclosure documents and securities commission reports of NOVA Chemicals and its subsidiaries or affiliated companies. The forward-looking statements are expressly modified in their entirety by this cautionary statement. The forward-looking statements are only made as of the date of this Annual Report. NOVA Chemicals undertakes no obligation to publicly update these forward-looking statements to reflect new information, subsequent events or otherwise.

## Management's Discussion and Analysis

Management's Discussion and Analysis includes reports on Olefins/Polyolefins, Styrenics and Corporate activities up to and including page 47. This discussion should be read in conjunction with information contained in the consolidated financial statements and the notes thereto starting on page 50. The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). References to ' and net income (loss) to common shareholders before unusual items should be read in conjunction with the discussion of Supplemental Measures on page 40. This Management's Discussion and Analysis is prepared as of February 12, 2004.

### The Business of Commodity Chemicals

NOVA Chemicals operates two commodity chemical businesses, Olefins/Polyolefins and Styrenics. In both product chains, earnings are driven by three basic elements: price, sales volume and cost. These three factors are the main determinants of the margin that we receive for our products and consequently are the most important components influencing earnings and cash flow generation.

#### — MARGINS —

The supply/demand balance of our products, not necessarily the cost of feedstocks, is the primary driver of margins in our industry. Margin, on a unit basis, is defined as the difference between the selling price of our products and the direct cost to produce and sell them. During peak conditions, when operating rates are high and products are in short supply, margins may increase rapidly as customers attempt to secure scarce supply for their own production. Conversely, in trough conditions, when operating rates are low, producers often must compete for volume and market share by reducing prices. In the trough portion of our cycle, margins can fall to the point where they may or may not cover the cash costs of operating the business. As a result, margin, rather than price, is the better indicator of profitability.

During downturns, companies are reluctant to add capacity. Recently, relatively little new capacity has been added in our product categories and demand is now absorbing excess supply. Sustained operating rates, in excess of 90% in polyethylene and 92% in styrene monomer, are typical inflection points at which margins may begin to expand.

#### — PRICE —

The prices for our commodity polymer products are based on what customers are willing to pay when they compare the price of our products to the price of similar products. Prices can change quickly as a result of fluctuations in the supply/demand balance and feedstock costs. Volatile feedstock costs over the last two years made it essential that we shorten the time it takes to realize price increases. While thirty-day price notification terms remain in place, we are working hard to eliminate the past practice of providing extended price protection to our customers beyond that notification period.

#### — COSTS —

**Variable costs** are the single largest component of total cost, and account for more than three quarters of the total cost of our products. Feedstock costs account for the majority of our total variable costs.

**Fixed costs** consist of plant operating costs, selling, general and administrative costs, and research and development costs that do not vary with production; they are the key controllable piece of our operating cost structure. In order to be the low-cost producer of the products we make, we set aggressive fixed-cost reduction targets each year, and we continually look to improve processes that facilitate the reduction of fixed costs.

#### — VOLUME —

Our commodity sales volumes are most heavily influenced by customer demand and price, while our higher-value product sales volumes are most heavily influenced by product quality and service. Our share of industry demand is the result of the performance properties and price of our products versus our competitors. Our objective is to compete on the basis of product performance. However, we sell primarily commodity products, so being able to earn good returns while we price our products at competitive levels is essential. A low-cost position is critical to successfully compete in commodity chemicals, even with a strong portfolio of higher-margin products.

The following table illustrates how changes in various factors would increase our profitability, assuming all other factors were held constant. Changes in the opposite direction would have the opposite effect.

POTENTIAL IMPACT TO NOVA CHEMICALS' PROFITABILITY OF:	ESTIMATED (MILLIONS OF \$)		(BILLIONS OF LBS.)
	ANNUAL BEFORE-TAX INCOME INCREASE	ANNUAL AFTER-TAX INCOME INCREASE <sup>(1)</sup>	ANNUAL PRODUCTION CAPACITY <sup>(2)</sup>
Increase of U.S. 1¢ per pound in profit margin			
Ethylene <sup>(3)</sup>	\$48	\$32	4.8
Polyethylene <sup>(4)</sup>	35	23	3.5
Styrene <sup>(5)</sup>	33	22	3.3
Styrenic polymers — North America <sup>(6)</sup>	22	15	2.2
Styrenic polymers — Europe <sup>(6)</sup>	13	9	1.3
Propylene	10	7	1.0
Decrease in cost of natural gas by U.S. 10¢ per mmBTU	11	7	—
Decrease in cost of benzene by U.S. 5¢ per gallon	17	11	—
Decrease in Canadian dollar of 1¢ vs. U.S. dollar	7	5	—

(1) Based on an assumed tax rate of 34%.

(2) Estimate based on current production capacity assuming utilization of 100%. On average in 2003, our ethylene plants operated at 83% of capacity, our polyethylene plants operated at 83% of capacity, our styrene plants operated at 69% of capacity, and our styrenic polymer plants operated at 70% of capacity.

(3) Excludes cost-of-service third-party sales.

(4) Assumes a 275 million pound polyethylene line at our St. Clair River facility will be shut down as planned on May 31, 2004.

(5) Includes long-term purchase agreements.

(6) Includes solid polystyrene and expandable polystyrene.

### NOVA Chemicals' Highlights

(MILLIONS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS AND WHERE NOTED)	2003	2002	2001
Net income (loss) before unusual items			
Olefins/Polyolefins	\$ 14	\$ (5)	\$ (2)
Styrenics	(130)	(102)	(181)
Corporate	(10)	(15)	44
Methanex	37	5	11
Net loss before preferred securities dividends and distributions and unusual items	(89)	(117)	(128)
Preferred securities dividends and distributions	(29)	(31)	(33)
Net loss to common shareholders before unusual items	(118)	(148)	(161)
Unusual items (after-tax) <sup>(1)</sup>			
Gains on sales of assets	125	36	—
Bayport charge	(8)	—	—
	117	36	—
Net loss to common shareholders	\$ (1)	\$ (112)	\$ (161)
Loss per share before unusual items			
— Basic and diluted	\$(1.36)	\$(1.72)	\$(1.88)
Loss per share			
— Basic and diluted	\$(0.02)	\$(1.30)	\$(1.88)
Weighted-average common shares outstanding (millions) <sup>(2)</sup>	87	86	85

(1) Effective March 28, 2003, new Securities and Exchange Commission (SEC) rules in the U.S. came into effect with respect to non-GAAP financial measures, and accordingly, certain information in prior periods has been restated. Unusual items have been limited to those items or events, which do not occur with any frequency and are outside of normal operations. The sale of our interests in non-strategic assets and the explosion and fire at our Bayport, Texas, styrene monomer production facility have no ongoing impact on operations. See Supplemental Measures on page 41 for a complete listing of unusual items.

(2) Common shares outstanding at February 12, 2004 were 87,242,653 million.

**Changes in NOVA Chemicals' Net Loss**

(MILLIONS OF U.S. DOLLARS)	2003 vs. 2002	2002 vs. 2001
Higher net unit margins	\$ 5	\$ 65
Higher sales volumes	34	65
Higher gross margins	39 <sup>(1)</sup>	130 <sup>(1)</sup>
Lower (higher) SG&A and R&D	(16)	23
Lower restructuring charges	5	7
Higher depreciation and amortization	(32)	(36)
Lower (higher) interest expense	(2)	1
Lower tax recovery before unusual items	—	(47)
Other gains	—	(58)
Higher (lower) equity earnings in Methanex	34	(9)
Decrease in net loss before preferred securities dividends and distributions and unusual items	28	11
Unusual items (after-tax) <sup>(2)</sup>	81	36
Lower preferred securities dividends and distributions	2	2
<b>Decrease in net loss to common shareholders</b>	<b>\$111</b>	<b>\$ 49</b>

(1) Calculated as revenue less feedstock and operating costs.

(2) Unusual items in 2003 included \$125 million in after-tax gains from non-strategic asset sales and an \$8 million after-tax charge related to the explosion and fire at our Bayport, Texas styrene monomer production facility. Unusual items in 2002 were limited to the \$36 million after-tax gain on the sale of our interest in the Cochin Pipeline.

**Our Results**

Our financial performance in 2003 continued to reflect trough conditions that began late in 2000.

This trough has been longer than usual and we have experienced losses in each of the last three years. During this period, we have taken action to ensure that our liquidity and financial position remain strong. We have sold non-strategic assets, reduced working capital to minimal levels and restricted capital spending. As a result of these actions, at the end of 2003, we had \$459 million of cash and available credit facility and a net debt to total capitalization ratio of 32%.

The U.S. economy began to show signs of recovery late in 2003, which resulted in slightly improved margins in the fourth quarter. Revenues increased \$858 million, or 28%, from \$3,091 million in 2002 to \$3,949 million in 2003. Higher volumes, particularly in styrene monomer and Advanced SCLAIRTECH resins, accounted for the majority of our revenue and margin improvement. Higher average selling prices across all of our products were partially offset by increased feedstock and utility costs. As a result, EBITDA improved only marginally to \$223 million in 2003, from \$195 million in 2002. Our net loss to common shareholders before unusual items improved to \$118 million in 2003, compared with a loss of \$148 million in 2002. Our net loss to common shareholders after unusual items improved to a loss of \$1 million in 2003 from a loss of \$112 million in 2002, primarily from the sale of our investments in Methanex Corporation and the Fort Saskatchewan Ethylene Storage Facility in 2003. These sales resulted in \$125 million in gains in 2003, as compared to the \$36 million gain we realized on the Cochin Pipeline sale in 2002. For a discussion of EBITDA and unusual items, see Supplemental Measures on page 40.

Our financial performance in 2002 improved over 2001, but conditions remained challenging due to continued excess supply in our Olefins/Polyolefins and Styrenics businesses. While lower average prices led to lower revenues during 2002, overall demand for our products increased, which led to higher sales volumes and slightly higher margins. Although revenue decreased from \$3,194 million in 2001 to \$3,091 million in 2002, lower average feedstock prices, combined with improved volumes,

resulted in our EBITDA increasing by \$160 million from \$35 million in 2001 to \$195 million in 2002. As a result, our net loss to common shareholders improved to \$112 million in 2002 from a \$161 million loss in 2001. Similarly, our net loss to common shareholders before unusual items improved to a \$148 million loss in 2002 from a \$161 million loss in 2001. For a discussion of EBITDA and unusual items, see Supplemental Measures on page 40.

## Olefins/Polyolefins Business

### — PETROCHEMICAL AND FEEDSTOCK ECONOMICS —

Our largest volume product is ethylene, which is central to the production of both polyethylene and styrene monomer. Seventy-five percent of our ethylene is produced at our Joffre, Alberta site; the remaining 25% is manufactured at our Corunna, Ontario plant in a flexi-cracker.

All ethylene plants at Joffre use ethane as their primary feedstock. We purchase natural gas to replace the energy value of the ethane extracted from the gas stream. Ethane is extracted and delivered under medium- to long-term contracts with natural gas liquids extraction and fractionation plants located in Alberta. We manage our ethane balance through our inventories and short-term spot purchases. We also have the capability to use propane for up to 10% of our feedstock requirements in Joffre. In 2003, propane represented 3% of Joffre's ethylene feedstock. We use propane when the economics of cracking propane versus ethane are favorable. All of our Joffre polyethylene products are manufactured from internally produced ethylene.

We enjoy a cost advantage on the ethylene produced at our Joffre site versus ethylene produced from ethane/propane on the United States Gulf Coast (USGC). Our Joffre site is the largest ethylene complex in the world and has, on average, a lower cost of production than similar plants in North America. In 2003 and 2002, this advantage was approximately 4¢ per pound, down from about 5¢ per pound in 2001, and down from a 14-year historical average of 6¢ per pound. In 2002 and for most of 2003, excess supply reduced the price for ethane relative to natural gas on the USGC and caused our cost advantage to decline. However, during the fourth quarter of 2003, demand for ethane improved on the USGC, which caused our ethylene advantage to increase to 5¢ per pound for the quarter and 6¢ per pound in December. While Joffre's ethylene advantage will continue to fluctuate from year-to-year, we expect that the structural advantages associated with lower-cost natural gas and the efficiency gained from our large-scale facilities will enable us to maintain the historical average cost advantage of 6¢ per pound over the long-term.

We sell a portion of our Joffre ethylene production to third parties via contracts that allow us to flow through feedstock costs to customers. As a result, NOVA Chemicals' consumption of ethylene for our own production of polyethylene is approximately 40% of our total ethylene capacity at Joffre.

Our Corunna, Ontario ethylene plant has the flexibility to switch part of its feedstock slate between natural gas liquids and crude oil derivatives, depending on market conditions. Feedstock decisions are made by using a model that calculates the most profitable mix of end products that can be produced from the optimal feedstock slate.

Feedstocks for our Corunna olefins facility are obtained from a wide variety of sources. The majority of the feedstocks are crude oil and crude oil derivatives and condensates, with the remainder being propane, butane, and ethane. The crude oil and derivatives are supplied from western Canada, the United States and from overseas. Condensate, a lighter feedstock than crude oil, yields a higher proportion of olefins feedstocks than heavier crude oil products and is sourced primarily from outside North America. Propane, butane and ethane are sourced from western Canada, local producers and U.S. sources. All of the polyethylene produced in eastern Canada is manufactured from internally produced ethylene.

## — POLYETHYLENE ECONOMICS —

Financial results in our Olefins/Polyolefins business are driven in large part by the supply/demand balance for polyethylene. Polyethylene is a globally traded commodity with established merchant markets. When the polyethylene supply/demand balance tightens, operating rates increase and margins can be expected to expand. Peak market conditions for polyethylene margins typically exist when nameplate operating rates for polyethylene are at, or above, 90% for a sustained period of time. On average in 2003, our polyethylene plants operated at 83% of capacity.

**Olefins/Polyolefins Financial Highlights**

(MILLIONS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS AND WHERE NOTED)	2003	2002	2001
Revenue <sup>(1)</sup>	\$2,559	\$1,930	\$2,014
Operating income	\$ 92	\$ 67	\$ 57
Depreciation and amortization	187	166	132
Segment EBITDA <sup>(2)</sup>	\$ 279	\$ 233	\$ 189
Net income (loss) <sup>(3)</sup>	\$ 14	\$ (5)	\$ (2)
Average capital employed <sup>(4)</sup>	\$1,898	\$1,764	\$1,689
After-tax return on capital employed <sup>(5)</sup>	2.5%	1.6%	1.6%

(1) Before intersegment eliminations.

(2) See Supplemental Measures on page 40 for the definition of segment EBITDA.

(3) Before distributions and dividends on preferred securities.

(4) Average capital employed equals cash expended on plant, property and equipment (less accumulated depreciation and amortization) and working capital and excludes assets under construction. Amounts are converted to U.S. dollars using current exchange rates. Average capital employed increased \$223 million in 2003 as a result of exchange rate fluctuation.

(5) Equals net income (loss) plus after-tax interest expense divided by average capital employed.

## — OLEFINS/POLYOLEFINS OPERATING RESULTS, 2003 VERSUS 2002 —

Our results improved in 2003 with net income of \$14 million compared with a \$5 million loss in 2002. Despite a significant increase in feedstock costs during 2003, prices for our polyethylene and ethylene products increased at a slightly faster pace. Polyethylene volumes were up 6%, while ethylene volumes were down slightly. Most of the increase in polyethylene volumes came from our Advanced SCLAIRTECH resins, which were up 46% to 600 million pounds. In 2004, these volumes are expected to increase to roughly 750 million pounds.

Natural gas and crude oil costs rose rapidly in the first quarter of 2003. NYMEX natural gas rose 67%, averaging \$5.44 per mmbTU in 2003 compared with \$3.25 per mmbTU in 2002, while WTI crude oil prices rose 19%, from \$26.08 per barrel to \$31.04 per barrel. We implemented product surcharges in polyethylene to mitigate the impact of these rising costs. Price increases implemented throughout 2003, coupled with strong chemical and energy co-product pricing from the Corunna ethylene flexi-cracker, helped to offset some of the negative impact of increasing costs. Feedstock and operating costs increased \$575 million, or approximately 36%, from \$1,596 million in 2002 to \$2,171 million in 2003.

Higher feedstock costs and increased demand in late 2003 and early 2004 caused us to announce further price increases. We announced a 4¢ per pound polyethylene price increase effective December 1, 2003 and a 5¢ per pound increase effective February 1, 2004. Implementation of announced price increases depends on many factors, including market conditions, the supply/demand balance for each particular product and feedstock costs. Price increases have varying degrees of success. They are typically phased in and can differ by product or market. Benchmark price indices sometimes lag behind price increase announcements due to the timing of publication.

## Operating Highlights

(U.S. DOLLARS PER POUND EXCEPT WHERE NOTED)	2003				ANNUAL		
	Q1	Q2	Q3	Q4	2003	2002	2001
<b>Benchmark Principal Product Prices</b>							
<b>(per pound)<sup>(1)</sup>:</b>							
Ethylene <sup>(2)</sup>	\$ 0.28	\$ 0.30	\$ 0.27	\$ 0.28	\$ 0.29	\$ 0.22	\$ 0.26
Polyethylene (weighted-average) <sup>(3)</sup>	\$ 0.46	\$ 0.51	\$ 0.48	\$ 0.50	\$ 0.49	\$ 0.38	\$ 0.39
<b>Benchmark Raw Material Prices:</b>							
NYMEX Natural Gas (per mmBTU) <sup>(4)</sup>	\$ 6.60	\$ 5.49	\$ 5.10	\$ 4.58	\$ 5.44	\$ 3.25	\$ 4.38
WTI Crude Oil (per barrel)	\$33.86	\$28.91	\$30.20	\$31.18	\$31.04	\$26.08	\$25.97

(1) Average benchmark prices are not intended to be actual prices realized by NOVA Chemicals or any other petrochemical company.

(2) Source: Chemical Market Associates, Inc. (CMAI)-USGC Net Transaction Price.

(3) Benchmark prices weighted according to NOVA Chemicals' sales volume mix in North America.

Source for benchmark prices: Townsend Polymers Services Information.

(4) Source: NYMEX Henry Hub 3-Day Average Close.

## Polyethylene Sales Volumes

(MILLIONS OF POUNDS)	2003	2002	2001
<b>NOVAPOL<sup>®</sup> Resins</b>			
Joffre LLDPE	1,256	1,229	1,129
Moore LDPE	261	265	265
Moore HDPE	392	349	381
SCLAIR <sup>®</sup> Resins	500	592	617
Advanced SCLAIRTECH <sup>™</sup> Resins	600	410	188
<b>Total</b>	<b>3,009</b>	<b>2,845</b>	<b>2,580</b>

An August power disruption, impacting the midwestern and northeastern United States and Ontario, reduced earnings in 2003 by approximately \$9 million.

Segment EBITDA, or operating income before depreciation and amortization, increased \$46 million, or 20%, to \$279 million in 2003 from \$233 million in 2002. This margin improvement was mainly due to prices rising faster than feedstock costs.

In 2003, we announced the permanent shutdown of A-Line, one of our polyethylene production lines at the St. Clair River Site, in Corunna, Ontario. The A-Line shutdown is scheduled to occur during the second quarter of 2004 and will reduce linear low-density polyethylene capacity by 275 million pounds per year. Approximately 80% of the highest-margin A-Line products will be moved to lower-cost production lines, including about 30% to the Advanced SCLAIRTECH polyethylene plant in Joffre, Alberta. The shutdown will eliminate 8% of our polyethylene capacity and about 0.6% of total North American polyethylene capacity. This initiative will also impact 60 positions and reduce fixed costs by \$5 million to \$10 million per year.

— OLEFINS/POLYOLEFINS OPERATING RESULTS, 2002 VERSUS 2001 —

Our Olefins/Polyolefins business reported a net loss of \$5 million in 2002, compared to a net loss of \$2 million in 2001. The 2002 results were impacted by higher depreciation costs due to the full-year operation of our new Advanced SCLAIRTECH polyethylene plant. Segment EBITDA increased by \$44 million, or 23%, from \$189 million in 2001 to \$233 million in 2002. The increase resulted from higher sales volumes. Polyethylene volumes were up 10%, or 265 million pounds, over 2001 with the majority of this increase coming from Advanced SCLAIRTECH resin sales in the United States. Volume gains were mainly offset by lower prices for most polyethylene grades. While average margins were similar in both 2001 and 2002, the trends were quite different. During 2001, margins deteriorated through the year, bottoming out in the fourth quarter. In 2002, margins generally increased through the first three quarters of the year, but fell off somewhat in the fourth quarter.

Feedstock and operating costs decreased \$119 million, or approximately 7%, from \$1,715 million in 2001 to \$1,596 million in 2002. Average prices for natural gas and crude oil were flat to down versus 2001 levels. Despite additional costs for the Advanced SCLAIRTECH polyethylene plant, our fixed costs declined due to other cost reduction efforts.

### Styrenics Business

— PETROCHEMICAL AND FEEDSTOCK ECONOMICS —

Styrene is produced from benzene and ethylene. All of the ethylene and a significant portion of the benzene requirements for our Sarnia styrene facility are supplied from our Corunna, Ontario olefins facility. The balance of the benzene feedstock is competitively purchased from nearby petroleum refineries. Except for approximately 30% obtained through swaps, the balance of ethylene and the entire benzene requirement for the Bayport and Channelview facilities is purchased from external sources.

Our global styrenic polymer feedstock requirements are currently satisfied through internal styrene monomer production and long-term supply arrangements. To acquire styrene monomer in Europe, we use a series of trans-Atlantic arrangements with other producers, at local-producer economics.

Three separate acquisitions of styrenics assets from ARCO Chemical Company, Huntsman Corporation and The Shell Petroleum Company Limited (Shell) in 1996, 1998 and 2000, respectively, resulted in us being net sellers of styrene monomer. Our current styrene monomer production capacity, together with long-term supply contracts, exceeds our annual requirements for styrenic polymer production by approximately 1 billion pounds. In a tight market, our long styrene position secures styrene for maximum styrenic polymer sales. It also allows us to sell scarce monomer at high prices in the spot market. In contrast, when demand for styrene and polystyrene weakens, we are forced to sell excess styrene monomer at low spot prices, which negatively impacts our profit margins.

— STYRENE MONOMER INDUSTRY DYNAMICS —

Financial results in our Styrenics business are driven in large part by the supply/demand balance for styrene monomer, since there is less capacity to make styrene than there is to consume it. Styrene monomer is a globally traded commodity with an established merchant market. When the global styrene monomer supply/demand balance tightens, operating rates increase and margins can be expected to expand once rates reach peak conditions. Peak market conditions for styrene monomer margins typically exist when nameplate operating rates for styrene monomer are at or above 92% for a sustained period of time. In peak conditions, a long styrene monomer position provides a source of earnings leverage.

**Styrenics Financial Highlights**

(MILLIONS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS AND WHERE NOTED)	2003	2002	2001
Revenue <sup>(1)</sup>	\$1,579	\$1,305	\$1,314
Operating loss	\$ (152)	\$ (118)	\$ (225)
Depreciation and amortization	111	100	98
Segment EBITDA <sup>(2)</sup>	\$ (41)	\$ (18)	\$ (127)
Net loss <sup>(3)</sup>	\$ (130)	\$ (102)	\$ (181)
Average capital employed <sup>(4)</sup>	\$1,323	\$1,248	\$1,392
After-tax return on capital employed <sup>(5)</sup>	(7.1)%	(5.5)%	(10.6)%

(1) Before intersegment eliminations.

(2) See Supplemental Measures on page 40 for the definition of segment EBITDA.

(3) Before distributions and dividends on preferred securities.

(4) Average capital employed equals cash expended on plant, property and equipment (less accumulated depreciation and amortization) and working capital and excludes assets under construction. Average capital employed increased \$80 million in 2003 as a result of exchange rate fluctuation.

(5) Equals net loss plus after-tax interest expense divided by average capital employed.

— STYRENICS OPERATING RESULTS, 2003 VERSUS 2002 —

Styrenics business results declined in 2003, bringing our net loss to \$130 million from a \$102 million loss in 2002. Price increases implemented throughout 2003 kept pace with rapidly rising feedstock costs but were more than offset by higher natural gas-based utilities and distribution costs, as well as the negative impact of the outage on our Bayport styrene monomer facility. As feedstock costs rose in late 2003, and continue to rise in early 2004, we announced further price increases. These price increases were announced for styrene monomer and our full slate of styrenic polymers in both North America and Europe. The price increases were 3¢ to 6¢ per pound, with effective dates between December 2003 and March 2004. Implementation of announced price increases depends on many factors, including market conditions, the supply/demand balance for each particular product and feedstock costs. Price increases have varying degrees of success. They are typically phased in and can differ by product or market. Benchmark price indices sometimes lag behind price increase announcements due to the timing of publication.

Revenues increased \$274 million, or 21%, from \$1,305 million in 2002 to \$1,579 million in 2003 due to pricing improvement and strong styrene monomer sales.

Feedstock and operating costs increased \$290 million, or approximately 24%, from \$1,215 million in 2002 to \$1,505 million in 2003. Average benzene marker prices in North America rose 29% from \$1.19 per gallon in 2002 to an average of \$1.54 per gallon in 2003. Average benchmark prices for ethylene increased from \$0.22 in 2002 to \$0.29 in 2003.

On June 11, 2003, we had an explosion, which resulted in a fire, in the ethylbenzene manufacturing unit at our Bayport, Texas, styrene monomer production facility. The fire was extinguished with no personal injuries and minimal environmental impact. We fully supplied all global styrene monomer and polymer contract customers for the duration of the outage. Styrene monomer production resumed at Bayport at reduced rates on August 18, 2003, using shipments of ethylbenzene from our Sarnia, Ontario production facility and supplemental purchases of ethylbenzene. Ethylbenzene unit repairs have been completed at the Bayport facility, which became fully operational on January 18, 2004. This outage reduced our 2003 earnings by approximately \$10 million (after-tax) due to the higher costs from purchasing and shipping ethylbenzene, lower operating rates and costs not covered by insurance. Our styrene monomer plants operated at 69% of capacity, somewhat lower than industry rates due to the outage at Bayport.

As a result of the damage, and subsequent repair of the ethylbenzene unit, we are delaying our previously announced debottleneck of the Bayport plant. Originally scheduled to be complete in the fourth quarter of 2004, the debottleneck and turnaround will be delayed by approximately six months. The delay will not have an impact on the previously announced long-term styrene monomer supply contract with BASF Corporation (BASF). We are able to supply BASF from existing production.

Styrene monomer benchmark contract prices in North America rose 8¢ per pound in 2003 from 33¢ per pound in 2002. Weighted-average solid polystyrene prices rose 9¢ during the same period due to higher feedstock costs.

### Operating Highlights

(U.S. DOLLARS PER POUND EXCEPT WHERE NOTED)	2003				ANNUAL		
	Q1	Q2	Q3	Q4	2003	2002	2001
<b>Benchmark Principal Product Prices (per pound)<sup>(1)</sup>:</b>							
Styrene monomer <sup>(2)</sup>	\$0.43	\$0.41	\$0.40	\$0.40	\$0.41	\$0.33	\$0.31
Polystyrene (weighted-average) <sup>(3)</sup>	\$0.55	\$0.60	\$0.52	\$0.56	\$0.56	\$0.47	\$0.44
<b>Benchmark Raw Material Prices:</b>							
Benzene (per gallon) <sup>(2)</sup>	\$1.78	\$1.48	\$1.41	\$1.49	\$1.54	\$1.19	\$1.02

(1) Average benchmark prices are not intended to be actual prices realized by NOVA Chemicals or any other petrochemical company.

(2) Source: CMAI Contract Market.

(3) Benchmark prices weighted according to NOVA Chemicals' polystyrene sales volume mix in North America and Europe. Includes solid and expandable polystyrene, but excludes high performance styrenic polymers, DYLARK and other styrenic co-polymers. Source for benchmark prices: CMAI. CMAI's published North American low-range contract/market high-heat crystal benchmark polystyrene prices received a one-time downward, non-market adjustment of 6¢ per pound beginning in June 2003. Months prior to June 2003 were not restated by CMAI.

Styrenic polymer volumes declined 3%, to 2,375 million pounds in 2003, from 2,461 million pounds in 2002, mainly as a result of lower demand. Styrene monomer volumes increased 4% as a result of stronger demand.

### Styrenic Sales Volumes

(MILLIONS OF POUNDS)	2003	2002	2001
Styrene monomer <sup>(1)</sup>	1,305	1,257	1,014
Polystyrene	2,110	2,180	2,282
High performance styrenics including DYLARK	265	281	314
Total	3,680	3,718	3,610

(1) Third-party sales only.

Our Styrenics business segment EBITDA in 2003 was a loss of \$41 million compared to a loss of \$18 million in 2002. The decline over 2002 was mainly due to lower margins.

— STYRENICS OPERATING RESULTS, 2002 VERSUS 2001 —

Our Styrenics business reported a net loss of \$102 million in 2002, compared to a net loss of \$181 million in 2001. Margins improved in 2002, as feedstock costs were lower than 2001. Segment EBITDA in 2002 was a loss of \$18 million versus a loss of \$127 million in 2001. The improvement over 2001 was mainly due to higher margins resulting from higher industry capacity utilization rates and lower average feedstock costs. In addition to better margins, our Styrenics business improved its performance by implementing several cost-cutting initiatives, including asset rationalization and restructurings.

Due to higher industry utilization rates, 2002 was a stronger year for styrene monomer. In 2001, market conditions for styrene monomer were weak, and we were forced to reduce our own styrene monomer production to meet minimum purchase obligations. This resulted in higher fixed-costs per pound on our produced styrene monomer. In addition, we sold higher-cost purchased monomer into a weak styrene monomer market. The negative impact on margins was approximately \$65 million in 2001. In 2002, we did not reduce monomer production rates in our plants to meet minimum supply obligations, so the impact of our long styrene monomer position was neutral.

In addition, we also achieved \$9 million (after-tax) in synergies related to Shell's European solid polystyrene and expandable polystyrene businesses acquired in 2000.

## Corporate and Other Items

— ASSET SALES —

**Methanex Investment.** In June 2003, we sold our investment in Methanex Corporation for net proceeds of \$441 million. This resulted in a before-tax gain of \$29 million and an after-tax gain of \$61 million. During the period we held our investment, we recorded tax expense on equity earnings from Methanex. The recorded tax liability at the time of sale was \$32 million. The sale was completed with no cash taxes payable, and accordingly, the previously recorded future income tax provision of \$32 million was not required and was taken into income at the time of the sale.

Our share of Methanex's earnings in 2003, up to the date of sale, was \$37 million after-tax, compared with \$5 million for the year 2002 and \$11 million in 2001. These results included restructuring charges and asset writedowns of \$27 million in 2002 and \$3 million in 2001. Global methanol prices improved throughout 2002 and into 2003 due to supply limitations and a recovery in demand.

**Fort Saskatchewan Ethylene Storage Facility.** We sold our interest in the Fort Saskatchewan Ethylene Storage Facility in 2003 for net proceeds of \$123 million, which resulted in a before-tax gain of \$76 million and an after-tax gain of \$64 million. The total gain on this transaction was \$114 million before-tax, of which \$38 million has been deferred and will be amortized over the 20-year term of the storage contract. The deferral will partially offset our annual costs associated with this new Fort Saskatchewan ethylene storage contract.

**Cochin Pipeline.** We realized a gain in 2002 of \$59 million before-tax (\$36 million after-tax) from the sale of our interest in the Cochin Pipeline.

— OTHER OPERATING EXPENSES —

Depreciation and amortization expense increased by \$32 million, or 12%, from \$266 million in 2002 to \$298 million in 2003. The increase in 2003 was primarily due to higher Canadian dollar and euro denominated asset values when translated into U.S. dollars. Depreciation and amortization also increased in 2002 over 2001 by \$36 million. The increase in 2002 was primarily the result of additional depreciation associated with the full year operation of our Advanced SCLAIRTECH polyethylene plant and related infrastructure. In June 2004, the cost-of-service contract for our second ethylene cracker (E2) in Joffre, Alberta will expire. As a result, depreciation and amortization will be reduced by approximately \$30 million annually as this facility will be fully depreciated at that time.

Research and development spending increased \$6 million, or 15%, from \$39 million in 2002, to \$45 million in 2003, and increased \$5 million over 2001. This increase in spending reflects our continued investment and focus on Advanced SCLAIRTECH and Styrenics higher-margin growth products.

Selling, general and administrative (SG&A) expenses increased \$10 million, or 6%, from \$169 million in 2002, to \$179 million in 2003 due to the higher Canadian dollar and euro. Continued cost reduction and streamlining efforts offset some of this currency related increase.

#### — RESTRUCTURING CHARGES —

In 2003, a restructuring charge of \$15 million (\$10 million after-tax) was related to the announced shutdown of one of our polyethylene production lines at our St. Clair River Site, in Corunna, Ontario. This charge was comprised mainly of asset writedown and severance costs. In 2002, a charge of \$20 million (\$15 million after-tax) was related to streamlining our operations in many areas of our company and was primarily severance related. In 2001, we had a charge of \$27 million (\$17 million after-tax), which related to employee severance, as well as project and other asset writedown costs.

#### — INTEREST EXPENSE —

Net interest expense in 2003 remained essentially flat at \$89 million as compared to \$87 million in 2002. In 2001, interest costs were \$88 million, however, we capitalized \$18 million of interest costs relating to the Joffre expansion in 2001.

#### — INCOME TAXES —

Income tax recoveries increased significantly in 2003 to \$61 million from \$13 million in 2002, and declined slightly from \$83 million in 2001. The increase in 2003 was primarily the result of reversing previously recorded income tax provisions, which were no longer required as a result of non-strategic asset sales and other matters. The decline from \$83 million in 2001 to \$13 million in 2002 was due to reduced losses in 2002, as well as additional tax benefits from unusual items in 2001.

#### — NET LOSS TO COMMON SHAREHOLDERS —

For 2003, we reported a net loss to common shareholders of \$1 million compared to a net loss to common shareholders of \$112 million in 2002 and a net loss to common shareholders of \$161 million in 2001. Our performance improved in 2003, over 2002 and 2001, as demand recovered slightly over the period and price increases kept ahead of volatile feedstock costs. In addition, the sale of our interest in Methanex and the Fort Saskatchewan Ethylene Storage Facility resulted in gains of \$125 million after-tax in 2003.

### Liquidity and Cash Flow

Our principal sources of liquidity in 2003 were cash flows from asset sales, operations, accounts receivable securitization programs and borrowings under our revolving credit facility. Our principal uses of cash were capital expenditures, debt reduction and debt service.

#### — CASH FLOW —

Increasing total cash flow from the business was our top priority in 2003. We sold non-strategic assets, which allowed us to reduce debt by \$114 million and increase our cash and cash equivalents on hand to \$212 million. We also invested in working capital during the year, primarily due to higher Cash Flow Cycle Time of 28 days versus an unsustainably low 20 days at the end of 2002. This is in contrast to 2002, when we significantly reduced working capital.

A summary of the cash inflows and outflows which contributed to our debt reduction is shown below:

(MILLIONS OF DOLLARS)	2003	2002	2001
<b>Inflows</b>			
Funds generated from operations	\$ 140	\$ 153	\$ 94
Reduction (increase) in operating working capital	(125)	206	184
Cash generated from operations	15	359	278
Asset sale proceeds	564	82	—
Foreign exchange and other	—	12	14
Total inflows	579	453	292
<b>Outflows</b>			
Capital expenditures (net of project advances)	(119)	(70)	(168)
Turnaround costs, long-term investments and other assets	(57)	(18)	(156)
Dividends and distributions	(54)	(54)	(56)
Foreign exchange and other	(37)	—	—
Total outflows	(267)	(142)	(380)
Reduction (increase) in cash	(198)	(4)	17
<b>Debt Reduction (Addition)</b>	<b>\$ 114</b>	<b>\$ 307</b>	<b>\$ (71)</b>

**Inflows of Cash.** Funds from operations were \$140 million in 2003, down from \$153 million in 2002 and up from \$94 million in 2001. Working capital increased by \$125 million in 2003, due to higher-priced inventories and accounts receivables. We continued our focus on Cash Flow Cycle Time (CFCT), which is measured as operating working capital divided by average sales. In 2002 we reduced our investment in working capital to a very low 20 days. We ended 2003 with 28 days CFCT. We believe we can sustain CFCT between 25 and 30 days of sales, over the long-term, which will allow us sufficient working capital to meet growing demand. In total, we generated \$15 million in cash from operations versus \$359 million in 2002 and \$278 million in 2001.

Asset sales contributed the most significant amount of cash in 2003. The sale of our interest in Methanex Corporation generated net cash of \$441 million; and the Fort Saskatchewan Ethylene Storage Facility sale contributed an additional \$123 million.

**Outflows of Cash.** We increased our capital spending program to \$119 million, (net of project advances) in 2003 compared to the \$70 million spent in 2002. Capital spending was \$168 million in 2001. From 2003 to 2007, our capital expenditures, net of project advances, are expected to average about \$155 million per year, or approximately 50% of depreciation charges. During 2003, we received \$11 million in cash in the form of project advances, (2002—\$1 million and 2001—\$nil), which reduced the cash required for capital expenditures.

We also spent \$29 million in 2003 for scheduled maintenance of facilities, known as turnarounds. We expect to spend approximately \$6 million on scheduled turnarounds in 2004.

#### — COMMITMENTS —

We have various commercial commitments, including operating leases for office space and railcars and unconditional purchase obligations related to minimum amounts of feedstock and other raw material purchases pursuant to agreements entered into to secure short- and long-term supply. Prices are typically based on market or a cost-plus basis, and fluctuate with changes in the underlying raw material indices. Obligations have been calculated using current pricing for purposes of the chart below.

**Contractual Cash Obligations**

AS AT DECEMBER 31, 2003 (MILLIONS OF DOLLARS)	PAYMENTS DUE BY PERIOD				
	TOTAL	2004	2005–2006	2007–2008	AFTER 2008
Long-term debt <sup>(1)</sup>	\$1,101	\$ —	\$ 405	\$ 4	\$ 692
Capital leases	—	—	—	—	—
Operating leases <sup>(2)</sup>	594	48	83	68	395
Unconditional purchase obligations <sup>(3)</sup>	7,734	2,124	2,236	1,502	1,872
<b>Total contractual cash obligations</b>	<b>\$9,429</b>	<b>\$2,172</b>	<b>\$2,724</b>	<b>\$1,574</b>	<b>\$2,959</b>

(1) Includes current portion and bank loans.

(2) Includes property, railcar and other equipment leasing commitments.

(3) We could mitigate the impact of excess quantities of raw materials and feedstock commodities resulting from fixed purchase commitments by reselling these products at market prices.

**— LIQUIDITY —**

We meet our short-term liquidity needs through the generation of funds from operations, cash-on-hand, our accounts receivable securitization programs, and borrowing capacity under our revolving credit facility. In addition, we continue to consider the sale of certain non-strategic assets.

**Senior Notes Offering.** On January 13, 2004, we issued \$400 million of 6.50% Senior Notes due 2012. These Senior Notes were issued with investment-grade covenants and are identical in all material respects to the covenants on our existing bonds. Net proceeds of the offering will be used to redeem, on March 1, 2004, the 9.04% preferred securities due 2048 and the 9.50% preferred securities due 2047. The two issues of preferred securities total \$382.5 million. The balance of the proceeds will be used for general corporate purposes. These transactions will reduce annual financing costs by approximately \$10 million.

**Credit Facility.** As of December 31, 2003, we had no borrowings under our \$300 million secured credit facility, except for operating letters of credit of \$53 million. In conjunction with the Senior Notes offering described above, we amended the credit facility to extend its expiration date to April 1, 2007, relaxed the Minimum Cash Flow to Interest Expense covenant for the first and second quarters of 2004, and adjusted the definition of debt to consolidated debt, which will include all cash with the exception of any restricted cash. The covenants related to this revised facility are as follows:

COVENANT	REQUIREMENT	DECEMBER 31, 2003	
		ACTUAL	PRO FORMA <sup>(4)</sup>
Minimum Cash Flow to Interest Expense <sup>(1)</sup> :			
12 months ending December 31, 2003	1.25 : 1.0	1.82	1.96
12 months ending March 31, 2004	1.50 : 1.0	—	—
12 months ending June 30, 2004	1.75 : 1.0	—	—
12 months ending September 30, 2004, and thereafter	2.00 : 1.0	—	—
Maximum Net Debt to Total Capitalization <sup>(2)</sup> :	55%	36.1%	49.1%
Minimum Shareholders' Equity <sup>(3)</sup> :	\$1.0 billion plus 50% of positive earnings	\$1.9 billion	\$1.5 billion

(1) As defined in the revolving credit facility, cash flow equals consolidated net income (loss), in accordance with Canadian GAAP, adding back interest expense, income taxes, depreciation and amortization, extraordinary gains or losses (including gains and losses on sales of assets) and other non-cash items. Interest expense includes preferred securities dividends and distributions.

(2) As defined in the revolving credit facility, net debt includes items not in accordance with Canadian GAAP, such as obligations under operating leases (if in excess of a specified percentage of consolidated assets) and amounts outstanding under the accounts receivable securitization program. The definition also provides for debt to be offset by cash, other than restricted cash, in arriving at net debt for purposes of this covenant.

(3) Shareholders' Equity is defined in accordance with Canadian GAAP and includes changes in the cumulative translation adjustment account (CTA). Previously, the calculation excluded changes in CTA after December 31, 2002.

(4) Pro forma calculations assume that the issuance of \$400 million of Senior Notes and the redemption of preferred securities as described above occurred on December 31, 2003, with respect to net debt to total capitalization and shareholders' equity, and on January 1, 2003 with respect to cash flow to interest expense.

We are in compliance with the amended covenants under the revolving credit facility.

**Off-Balance-Sheet Arrangements — Accounts Receivable Securitization.** Our off-balance-sheet financing activities are limited to participation in accounts receivable securitization programs. We have been engaged in the current programs since 1999 to obtain lower financing rates than those available to us from other sources. During 2003, the programs were renewed until July 12, 2004. We expect the programs will be renewed prior to July 12, 2004. In the event they are not renewed, we expect we would have sufficient cash and available credit facilities to repay any amounts outstanding. We sell trade accounts receivable to third parties, on a revolving basis, to a maximum of \$195 million (see Note 3 to the Consolidated Financial Statements). At December 31, 2003, \$177 million in receivables were sold under the programs. Of this amount, \$117 million was sold via a special purpose entity (SPE) that is 100% owned by NOVA Chemicals. The SPE isolates the sold receivables and the related cash collections for the exclusive benefit of the purchasers. We have no right to any cash collected from these receivables; therefore, neither the receivables nor any obligation to the purchasers is reflected in our financial statements. We conduct no other business through SPE's.

**Total Return Swap.** In connection with the acquisition of styrenics assets from Huntsman Corporation in 1998, our subsidiary, NOVA Chemicals Inc., issued retractable preferred shares with a liquidation preference of \$198 million as partial consideration. Holders of the retractable preferred shares have the right to exchange the shares (a retraction) for NOVA Chemicals' common shares (plus preferred shares if the market value of such common shares is less than \$198 million).

During 2001, 2002, and 2003, certain changes were made to the terms of the retractable preferred shares and related stockholder agreements. These changes provide us with the right to call the retractable preferred shares on or after December 15, 2001 and repurchase the retractable preferred shares prior to any retraction into NOVA Chemicals common shares. If we do not exercise our repurchase rights prior to March 15, 2005, the market-based exchange rate at which the retractable preferred shares may be retracted into NOVA Chemicals common shares (and, accordingly, the effective price at which the common shares would be issued) will be fixed on that date. The number of NOVA Chemicals common shares issuable upon a retraction remains limited to a maximum of 8.5 million shares with the balance of the obligation, if any, met through the issuance of NOVA Chemicals preferred shares. The dividend rate on the retractable preferred shares is 2% per year.

We also entered into a total return swap, which terminates on March 15, 2005, with respect to the retractable preferred shares. Under the terms of the total return swap: (i) the counterparty pays us an amount equal to the fixed dividend on the retractable preferred shares; (ii) we pay the counterparty LIBOR plus a spread; (iii) we are obligated under the swap to provide initial margin (cash, government securities or a letter of credit) equal to 20% of the original notional amount of \$191 million, which is currently satisfied by a letter of credit issued by a third-party for which we pay a fee; (iv) we are also required to provide maintenance margin in the form of restricted cash for any negative changes in the equity value of the retractable preferred shares; and (v) the counterparty pays us for any positive changes in the equity value of the retractable preferred shares.

We have provided \$65 million of restricted cash to reduce the notional amount of the swap from \$191 million to \$126 million. As a result, prior to March 15, 2005, we can redeem the potentially dilutive security for an additional \$126 million.

Beginning in 2004, changes in the equity value of the retractable preferred shares during the term of the swap will be determined based on changes in the average price of the outstanding 7% Senior Notes due 2005 and 7% Medium-Term Notes due 2006 issued by NOVA Chemicals (see Note 8 to the Consolidated Financial Statements).

If we default on other debt with an aggregate principal amount of \$25 million or more, or the closing price of NOVA Chemicals common shares is \$12.00 U.S. or less, and upon certain other credit events, the counterparty will have the right to sell the retractable preferred shares to a third-party and terminate the swap. We would then owe the counterparty the difference between the actual sale price received by the counterparty and the most recent adjusted notional equity value of the retractable preferred shares (in the event the difference was negative).

**Capitalization.** At the end of 2003 our net debt to total capitalization ratio was at 32%, after deducting cash and cash equivalents from total debt. In August 2003, we redeemed at par our \$150 million of 7% debentures due August 15, 2026, from available cash. We have no current debt outstanding at December 31, 2003. Our next long-term debt maturity occurs in 2005 for \$100 million.

#### Financial Ratios

DECEMBER 31 (MILLIONS OF DOLLARS, EXCEPT AS NOTED)	2003	2002	2001
Long-term debt <sup>(1)</sup>	\$1,101	\$1,215	\$1,522
Less: cash and cash equivalents	(212)	(14)	(10)
Total debt net of cash and cash equivalents	889	1,201	1,512
Shareholders' equity	1,890	1,561	1,614
Total capitalization <sup>(2)</sup>	\$2,779	\$2,762	\$3,126
Net debt to total capitalization <sup>(3)</sup>	32.0%	43.5%	48.4%
Interest coverage (deficiency) on long-term debt <sup>(4)</sup>	0.9x	(0.1)x	(1.7)x

<sup>(1)</sup> Includes current portion and bank loans.

<sup>(2)</sup> Total capitalization reflects shareholders' equity and total debt net of cash and cash equivalents. (See Supplemental Measures below).

<sup>(3)</sup> If cash and cash equivalents are not netted against long-term debt, the debt to total capitalization ratio would be 37%.

<sup>(4)</sup> Interest coverage (deficiency) on long-term debt is equal to net income (loss) before interest expense on long-term debt and income taxes divided by annual interest requirements on long-term debt.

**Credit Ratings.** Our current senior unsecured debt ratings are as follows: DBRS — BBB (low) (stable); Standard & Poor's — BB+ (negative); and Moody's — Ba2 (stable). In January 2004, Standard & Poor's lowered our outlook from stable to negative coincident with the private placement of \$400 million aggregate principal amount of 6.50% Senior Notes due 2012.

#### — SUPPLEMENTAL MEASURES —

In addition to providing measures in accordance with Canadian GAAP, we present certain supplemental measures. These are EBITDA (defined below) and net income (loss) to common shareholders before unusual items. We also define total capitalization to be net of cash and cash equivalents in accordance with the debt covenants for our \$300 million revolving credit facility. These measures do not have any standardized meaning prescribed by Canadian GAAP and are, therefore, unlikely to be comparable to similar measures presented by other companies.

Due to new U.S. SEC rules, certain items are no longer excluded when presenting non-GAAP financial measures. EBITDA no longer excludes restructuring charges and net income or loss to common shareholders before unusual items also does not exclude restructuring charges, and certain other items previously considered unusual in nature. Prior periods have been restated to reflect these new determinations.

**EBITDA.** This measure is provided to assist investors in determining our ability to generate cash from operations. Under the Corporation's definition, EBITDA can be determined from the consolidated statements of income (loss) by adding back income taxes, interest expense, other gains and losses, equity in the earnings (losses) of affiliate, and depreciation and amortization to net income (loss).

	2003	2002	2001
Net income (loss)	\$ 28	\$ (81)	\$(128)
Income tax recovery	(61)	(13)	(83)
Other (gains) and losses	(92)	(59)	(58)
Equity in earnings of affiliate	(39)	(5)	(14)
Interest expense (net)	89	87	88
Depreciation and amortization	298	266	230
<b>EBITDA</b>	<b>\$223</b>	\$195	\$ 35

Segment EBITDA is determined as segment operating income or loss before depreciation and amortization.

**Net Loss to Common Shareholders Before Unusual Items.** This measure is provided to assist investors in assessing earnings performance from ongoing operations. Certain items such as gains and losses from sales of assets are excluded if they are not considered to be in the ordinary course of business. A listing of unusual items (after-tax) for the periods presented is as follows:

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Net loss to common shareholders before unusual items	\$(118)	\$(148)	\$(161)
Unusual items:			
Gain on sale of Methanex Corporation	61	—	—
Gain on sale of Fort Saskatchewan Ethylene Storage Facility	64	—	—
Gain on sale of Cochin Pipeline	—	36	—
Bayport charge	(8)	—	—
Total unusual items	\$ 117	\$ 36	\$ —
Net loss to common shareholders after unusual items	\$ (1)	\$(112)	\$(161)

Effective March 28, 2003, new SEC rules in the U.S. came into effect with respect to non-GAAP financial measures, and accordingly, certain information in prior periods has been restated. Unusual items have been limited to those items or events which do not occur with any frequency and are outside of normal operations. The sale of our interests in non-strategic assets, and the explosion and fire at our Bayport, Texas styrene monomer production facility have no ongoing impact on operations.

#### — DIVIDENDS AND DISTRIBUTIONS —

**Common Share Dividends.** We have paid dividends on our common shares at the current rate of \$0.10 Canadian dollars per quarter. In 2003, we paid \$25 million in dividends on our common shares. There are currently no material contractual restrictions on our ability to declare and pay dividends on our common shares. The declaration and payment of dividends is at the discretion of our Board of Directors, who will consider earnings, capital requirements, our financial condition and other relevant factors. It is, however, our intention to retain most of our earnings to support current operations, further reduce debt and continue to pay dividends at historic levels.

**Preferred Securities Distributions.** We pay distributions on our preferred securities on a quarterly basis, at an annual rate of 9.50% on \$210 million of preferred securities due 2047 and 9.04% on \$172.5 million of preferred securities due 2048. On March 1, 2004, we will redeem the preferred securities from the net proceeds of a Senior Notes offering described on page 38.

**Retractable Preferred Share Dividends.** We pay 2% annual dividends on the \$198 million retractable preferred shares. These dividends are deducted from income when determining diluted earnings per share. Holders of the retractable preferred shares have the right to exchange the shares (retraction) for our common shares (plus our preferred shares if the market value of such common shares is less than \$198 million).

If the retractable shares are not retired or the conversion date extended, the market-based exchange rate at which the retractable preferred shares may be retracted into our common shares (and accordingly the effective price at which the common shares would be issued) would be determined on March 15, 2005.

— APPLICATION OF CRITICAL ACCOUNTING ESTIMATES —

We believe the following represent the estimates most critical to the application of our accounting policies. Management has discussed the development and selection of these critical accounting estimates with the Audit, Finance and Risk Committee of our Board of Directors and the Audit, Finance and Risk Committee has reviewed our disclosure relating to such estimates in this Management's Discussion and Analysis.

**Plant, Property and Equipment (PP&E).** Judgmental aspects of accounting for PP&E involve estimates of the life of the assets, the selection of an appropriate method of depreciation over the life of the assets and determining whether an impairment of our assets exists. These assessments are critical due to their potential impact on our earnings.

Canadian and U.S. GAAP require that if the sum of the future net cash flows, together with the residual value expected to result from a company's assets, undiscounted and without interest charges, is less than the reported value of the asset, asset impairment must be recognized in the financial statements by a charge to earnings.

Our Olefins/Polyolefins business has an established long-term record of profitability and, based on current asset carrying values and expected future cash flows, we have concluded the carrying value of its assets is appropriate. In 2003, we announced the shutdown of a single polyethylene line at our St. Clair River facility in Corunna, Ontario. As a result, we wrote off the remaining assets, resulting in a \$6 million (after-tax) charge to earnings in the third quarter of 2003.

Our Styrenics business has not been as profitable, and in recent years has reduced production capacity due to poor market conditions. In 2002, we temporarily idled EPS units at our Carrington, United Kingdom plant and shut down several reactors in Europe and North America. Despite these actions we have determined that the undiscounted sum of the expected future cash flows from all of our Styrenics plants exceed the recorded value of those plants and, as a result, there is no impairment under Canadian or U.S. GAAP.

Our estimate of future cash flows is based on historical operating performance and the assumption that the business cycle pattern will continue in the future. Historically, there have been peaks in earnings performance, characterized by a tight supply/demand balance and improving margins, followed by trough periods when supply exceeds demand and lower margins result. We have assumed that we will earn margins in the future that are similar to margins earned in the past and that we will have a similar cost structure.

In addition, we are able to choose from alternative methods of depreciation. We have chosen the straight-line method rather than other methods, such as unit of production, because the straight-line method is more conservative, requires less estimation and judgment, and is a systematic and rational basis reflecting the period over which the assets' benefit is recognized.

**Environmental Liabilities.** Canadian GAAP requires companies to record liabilities associated with future plant decommissioning and site restoration costs on both active and inactive plants at their fair value based on a discounted value of the expected costs to be paid when the assets are retired.

At December 31, 2003, we had \$31 million of accumulated reserve for these activities. This accumulated reserve is comprised of approximately \$12 million anticipated to be required for the decommissioning and site restoration of plant sites that have been divested or are no longer in use and approximately \$19 million for currently operating plant sites.

For currently operating plant sites, we have undertaken an evaluation of the costs to conduct decommissioning and site restoration required to satisfy our projected obligations under applicable environmental requirements upon termination of operations at these sites. Canadian GAAP requires that we record the present value of inflation-adjusted decommissioning and site restoration costs as increases to the carrying values of the assets and depreciate this amount over the estimated remaining lives of the assets. We have determined a further \$112 million, in today's dollars, may be required to decommission and restore operating plant sites. This amount does not include any deduction for salvage or land value that may be realized, however, these will be taken into consideration as the assets are depreciated. Since these plants may be in operation in excess of 40 years, significant uncertainty exists concerning the nature of the decommissioning and site restoration activities that may be required. Furthermore, significant judgment is involved in the estimation process, since the value of salvage, degree of natural attenuation, evolution of new technologies and potential future land uses may mitigate future environmental liabilities and potential costs.

The amount of \$112 million is approximately \$225 million to \$250 million after adjusting for inflation as is required by Canadian GAAP. The present value of this future amount (using a credit-adjusted risk-free rate of 10.5% to discount the estimated future cash flows) is approximately \$19 million, which has been accrued in anticipation of these activities. This estimated liability of \$19 million will increase, or accrete, each year over the lives of the active plants, until it reaches the \$225 million to \$250 million expected to be incurred on closure of the plants. The resulting expense is referred to as accretion expense and is included in operating expenses.

**Pensions.** Canadian GAAP requires that actuarial gains and losses be recognized in our income using a systematic and consistent methodology. We have chosen to amortize such gains and losses over the estimated remaining service lifetime of the employee group to the extent these gains or losses exceed 10% of the greater of the accrued benefit obligation or market value of assets. We chose this alternative because it avoids recognizing into income large unrealized gains or losses in individual years. Immediate recognition of such gains and losses would introduce significant volatility into our earnings. Cumulative unrealized actuarial gains and losses have ranged from a \$61 million gain at December 31, 1999, to a \$118 million loss at December 31, 2003.

We also make assumptions concerning factors such as mortality, termination, retirement and other rates as well as the expected return on plan assets, rate of increase in future compensation and discount rate. These assumptions can impact our pension obligations and pension expense. We use the latest published mortality rate tables and select other assumptions in line with our actual experience, always choosing the conservative end of the range. The expected return on plan assets reflects our estimate of asset returns over the life of the pension plans, not our actual return in any given year. Changes in these assumptions would need to be dramatic to cause a material impact to our pension obligation or pension expense amounts. For example, a 1% change in the expected return on plan assets would only impact earnings by approximately \$3 million after-tax, and a 1% change in our discount rate would impact earnings by approximately \$8 million after-tax.

We contributed \$17 million to all of our defined benefit pension plans in 2003. The contributions were based on the most recently filed valuations with pension regulators in various countries. Funding for our pension plans is largely driven by the North American pension plans, as they constitute the significant portion of our pension plan assets and obligations. For 2004, funding is expected to rise to \$27 million for all of our plans as employees accrue additional pension benefits and special payments are made to cover the shortfall between assets and liabilities. Further increases in contributions are anticipated in 2005, when the next valuation is done on the Canadian defined benefit plan.

## — ACCOUNTING STANDARDS —

**Asset Retirement Obligations.** In March 2003, the CICA issued new recommendations regarding accounting for asset retirement obligations, which are effective for fiscal years beginning on or after January 1, 2004. This standard harmonizes Canadian GAAP with U.S. Financial Accounting Standards Board Statement No. 143, "Accounting for Asset Retirement Obligations," which became effective January 1, 2003. We chose to adopt the CICA recommendations early, effective January 1, 2003, to be consistent with U.S. GAAP reporting.

The new standard changes the method for recognition of obligations, or liabilities, associated with the retirement of plant, property and equipment. The liabilities are initially recorded at their estimated fair value, which is based on a discounted value of the expected costs to be paid when the assets are retired. The amount is added to the carrying values of the assets and depreciated over the estimated remaining lives of the assets. The liability increases each period as the amount of the discount decreases over time. The resulting expense is referred to as accretion expense and is included in operating expenses. The liability and associated capital assets are also adjusted for any changes in the estimated amount or timing of the underlying future cash flows. Previously, asset retirement obligations were accrued over the estimated remaining useful lives of the plants. See Note 20 to the consolidated financial statements for further information.

**Stock-Based Compensation.** In 2003, the Canadian Accounting Standards Board (ASB) issued revisions to CICA Handbook Section 3870, Stock-Based Compensation. Public companies will now be required to expense all stock-based compensation awards including those made to employees, senior executives and board members effective January 1, 2004. Prior to January 1, 2004, we utilized the intrinsic-value method of accounting where compensation expense, if any, was measured based on the excess of the market price of the stock over the option's exercise price on the date of grant. As options are generally granted at the market price on the date of grant, no compensation cost resulted. We will change our method of accounting for stock options to the fair-value based method beginning January 1, 2004 on a retroactive basis with no restatement of prior periods. We have provided disclosures of what net income (loss) would have been had we followed the fair-value method in 2001 to 2003. These disclosures are provided in Note 13 to the consolidated financial statements.

**Derivative Instruments and Hedging Activities.** In 2003, the ASB issued Accounting for Derivative Instruments and Hedging Activities (CICA Accounting Guideline 13) effective January 1, 2004. This statement requires that all derivative instruments not used in qualifying "hedging activities" must be recorded on the balance sheet at fair value and marked-to-market through earnings. Certain derivative instruments commonly used in NOVA Chemicals' commodity risk management program will not qualify for hedge accounting treatment and changes in their market value will be reflected in earnings.

## — DISCLOSURE OF MARKET AND REGULATORY RISK —

The Audit, Finance and Risk Committee of our Board of Directors regularly reviews foreign exchange, interest rate and commodity hedging activity and monitors compliance with our hedging policy. Our policy prohibits the use of financial instruments for speculative purposes and limits hedging activity to the underlying net economic exposure.

**Foreign Exchange Hedging.** We conduct business in various countries where certain revenues and expenses are determined in currencies other than the U.S. dollar. Our earnings exposure to the Canadian dollar was hedged, through March 2003, with forward contracts to fix the exchange rate. The Canadian dollar averaged 0.65¢ per U.S. dollar during the first quarter of 2003, which was lower than the fixed rates in the forward contracts. As a result, after-tax earnings in 2003 was \$3 million lower than it would have otherwise been.

We have not hedged our exposure to fluctuations in the Canadian dollar since March 2003 nor have we hedged fluctuations in any other currency.

**Commodity Hedging and Feedstock Acquisition.** We manage our exposure to fluctuating commodity prices on our physical feedstock requirements by varying our mix of fixed and floating price contracts and by entering into commodity futures contracts, swaps and options. The extent to which hedging instruments are used depends on market conditions and requires adherence to our hedging policy. We also limit our positions in futures markets to our feedstock requirements and do not use hedging instruments for speculative purposes.

Our feedstock acquisition team manages our exposure in the volatile natural gas and crude markets in an effort to moderate the risks of fluctuations in feedstock prices and to reduce overall feedstock costs. As a result of our hedging activities, after-tax earnings in 2003 decreased by \$5 million compared to an increase of \$9 million in 2002. On December 31, 2003, the unrecognized after-tax, mark-to-market value of all outstanding commodity positions was a net gain of \$4 million (\$3 million after-tax) which includes \$12 million (\$8 million after-tax) related to certain liquidated natural gas and crude positions. Liquidated gains are recognized in earnings over the remaining terms of the related feedstock purchase commitments to March 2005.

**Interest Rate Hedging.** We use interest rate swaps to manage our mix between fixed and floating interest rate exposure. In October and November of 2003, we entered into floating-for-fixed interest rate swap transactions on \$550 million of Medium-Term Notes. As a result, at December 31, 2003, 48% of our debt had fixed interest rates averaging 7.5% and 52% of our debt had floating interest rates averaging 4.8%. These positions had an estimated fair-market value of \$4 million at December 31, 2003.

**Credit Risk Management.** We are exposed to credit risk on financial instruments given the possibility a counterparty to an instrument in which we are entitled to receive payment of an unrealized gain fails to perform. NOVA Chemicals has established a limit on contingent exposure for each counterparty, based on the counterparty's credit rating. Credit exposure is managed through credit approval and monitoring procedures.

Concentration of credit risk can result primarily from our receivables, as certain customer groups are located in the same geographic area and operate in the same industry. We manage our credit risk relating to these receivables through credit approval and monitoring procedures. For further details on our hedging activities, please see Note 23 to the consolidated financial statements.

— SUMMARIZED QUARTERLY FINANCIAL INFORMATION —

THREE MONTHS ENDED (UNAUDITED; MILLIONS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS)	2003				2002			
	MAR 31	JUNE 30	SEPT 30	DEC 31	MAR 31	JUNE 30	SEPT 30	DEC 31
Revenue	\$ 977	964	967	1,041	\$ 662	777	806	846
Operating income (loss)	\$ 14	(36)	(56)	3	\$ (53)	1	(1)	(18)
Net income (loss)	\$ 12	82	(58)	(8)	\$ (23)	(14)	(5)	(39)
Net income (loss) per share								
— Basic	\$0.05	0.86	(0.75)	(0.18)	\$(0.35)	(0.25)	(0.14)	(0.56)
— Diluted	\$0.05	0.79	(0.75)	(0.18)	\$(0.35)	(0.25)	(0.14)	(0.56)
Weighted-average common shares outstanding (millions)								
— Basic	86.7	86.8	86.8	87.0	86.0	86.3	86.4	86.5
— Diluted	87.4	96.0	86.8	87.0	86.0	86.3	86.4	86.5

## Consolidated Six-Year Review

(MILLIONS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS, RATIOS AND MISCELLANEOUS DATA) <sup>(1)</sup>	2003	2002	2001	2000	1999	1998
<b>Operating Results</b>						
Revenue	<b>\$3,949</b>	3,091	3,194	3,916	2,808	2,075
Operating income (loss)	<b>\$ (75)</b>	(71)	(195)	414	305	103
Net income (loss)	<b>\$ 28</b>	(81)	(128)	302	253	18
Total assets	<b>\$4,413</b>	4,154	4,359	4,754	4,559	3,580
<b>Capitalization</b>						
Current bank loans	<b>\$ —</b>	3	14	28	—	—
Long-term debt <sup>(2)</sup>	<b>1,101</b>	1,212	1,508	1,423	1,525	1,297
Less: Cash and cash equivalents	<b>(212)</b>	(14)	(10)	(27)	(59)	(37)
Net debt	<b>\$ 889</b>	1,201	1,512	1,424	1,466	1,260
Shareholders' equity	<b>1,890</b>	1,561	1,614	1,926	1,964	1,512
Total capitalization net of cash and cash equivalents <sup>(3)</sup>	<b>\$2,779</b>	2,762	3,126	3,350	3,430	2,772
<b>Cash Flow Data</b>						
Plant, property and equipment additions	<b>\$ 130</b>	71	168	440	620	367
Cash from operations	<b>\$ 15</b>	359	278	351	395	198
Net debt additions (repayments) <sup>(4)</sup>	<b>\$ (157)</b>	(307)	68	(72)	219	502
<b>Supplemental Measures</b>						
Net income (loss) to common shareholders before unusual items <sup>(5)</sup>	<b>\$ (118)</b>	(148)	(161)	245	93	16
Net income (loss) to common shareholders after unusual items	<b>\$ (1)</b>	(112)	(161)	266	217	16
EBITDA <sup>(6)</sup>	<b>\$ 223</b>	195	35	602	460	254
<b>Data per Common Share<sup>(7)</sup></b>						
Net income (loss) before unusual items <sup>(5)</sup>						
— Basic	<b>\$ (1.36)</b>	(1.72)	(1.88)	2.76	1.00	0.17
— Diluted	<b>\$ (1.36)</b>	(1.72)	(1.88)	2.49	0.98	0.17
Net income (loss) after unusual items						
— Basic	<b>\$ (0.02)</b>	(1.30)	(1.88)	3.00	2.35	0.17
— Diluted	<b>\$ (0.02)</b>	(1.30)	(1.88)	2.84	2.26	0.17
Common shareholders' equity at year-end <sup>(8)</sup>	<b>\$15.76</b>	12.40	13.05	16.52	15.58	12.96
<b>Ratios</b>						
Return (loss) on average common equity <sup>(9)</sup>	<b>(9.8)%</b>	(14.5)%	(13.2)%	18.1%	7.4%	1.3%
Net debt to total capitalization <sup>(3)</sup>	<b>32.0%</b>	43.5%	48.4%	42.5%	42.7%	45.5%
Funds flow coverage of financial charges <sup>(10)</sup>	<b>2.5x</b>	2.7x	1.7x	6.0x	4.2x	3.6x
<b>Miscellaneous Data</b>						
Employees at year-end <sup>(11)</sup>	<b>4,300</b>	4,300	4,600	4,700	4,700	4,200
Closing share price TSX (\$Cdn)	<b>\$35.04</b>	28.89	30.75	28.10	28.25	20.00
NYSE (\$U.S.)	<b>\$26.95</b>	18.30	19.27	18.81	19.31	13.06
<b>Dividends and Distributions</b>						
Common shares	<b>\$ 25</b>	23	23	23	25	12
Preferred securities and shares	<b>\$ 29</b>	31	33	36	36	2

- (1) For all periods prior to July 2, 1998, Canadian dollar amounts have been restated in U.S. dollars using an exchange of \$1.00 Canadian = U.S. \$0.68.
- (2) Includes current portion of long-term debt.
- (3) Total capitalization reflects shareholders' equity and total debt net of cash and cash equivalents. See Supplemental Measures on page 40 of Management's Discussion and Analysis.
- (4) Includes current bank loans.
- (5) Unusual items were \$117 million in 2003, \$36 million in 2002, \$nil in 2001 (see page 41 of Management's Discussion and Analysis for a complete listing). Unusual items were \$21 million in 2000 (gain on sale of Dynegy Inc. preferred shares), \$124 million in 1999 (\$60 million — loss on hedges and \$184 million — gain on sale of Dynegy Inc. preferred shares), \$nil in 1998. Due to new U.S. SEC rules, certain items are no longer excluded when presenting non-GAAP financial measures. Net income (loss) to common shareholders before unusual items also does not exclude restructuring charges and certain other items previously considered unusual in nature. Prior periods have been restated to reflect these new determinations. See Supplemental Measures on page 40 of Management's Discussion and Analysis.
- (6) Net income (loss) before income taxes, other gains and losses, equity in earnings (losses) of affiliate, interest expense and depreciation and amortization. Periods prior to 2003 have been restated to reflect U.S. SEC rules concerning non-GAAP financial measures, see page 41 of Management's Discussion and Analysis.
- (7) 87 million weighted-average common shares outstanding in 2003 (86 million in 2002, 85 million in 2001, 89 million in 2000, 93 million in 1999 and 92 million in 1998).
- (8) All years assume the retractable preferred shares were exchanged for 8.5 million common shares.
- (9) Net income (loss) to common shareholders before unusual items divided by average common equity (excluding preferred securities and retractable preferred shares). All ratios prior to 2003 have been restated to reflect U.S. SEC rules concerning non-GAAP financial measures, see page 41 of Management's Discussion and Analysis.
- (10) Funds from operations plus interest expense (net) less interest income divided by gross interest expense.
- (11) 1999 includes the addition of Shell employees; 1998 includes the addition of Huntsman employees.

— WHERE YOU CAN FIND MORE INFORMATION —

We file additional information relating to NOVA Chemicals, including our Annual Information Form (AIF), with Canadian securities administrators. This information can be accessed through the System for Electronic Document Analysis and Retrieval (SEDAR), at [www.sedar.com](http://www.sedar.com).

## Management's Report

### To the Shareholders of NOVA Chemicals Corporation

The consolidated financial statements and other financial information included in this annual report have been prepared by management. It is management's responsibility to ensure that sound judgment, appropriate accounting principles and methods and reasonable estimates have been used in the preparation of this information. They also ensure that all information presented is consistent.

Management is also responsible for establishing and maintaining internal controls and procedures over the financial reporting process. The internal control system includes an internal audit function and an established business conduct policy that applies to all employees. In addition, the company has adopted a code of ethics that applies to its Chief Executive Officer, Chief Financial Officer and Corporate Controller. The code of ethics can be viewed on NOVA Chemicals' website ([www.novachemicals.com](http://www.novachemicals.com)). Management believes the system of internal controls, review procedures and established policies provide reasonable assurance as to the reliability and relevance of financial reports. Management also believes that NOVA Chemicals' operations are conducted in conformity with the law and with a high standard of business conduct.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit, Finance and Risk Committee. The Committee, which consists solely of non-management directors, reviews the financial statements and annual report and recommends them to the Board for approval. The Committee meets with management, internal auditors and external auditors to discuss internal controls, auditing matters, and financial reporting issues. Internal and external auditors have full and unrestricted access to the Audit, Finance and Risk Committee. The Committee also recommends a firm of external auditors to be appointed by the shareholders.



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



**LARRY A. MACDONALD**  
Senior Vice President & Chief Financial Officer

February 12, 2004  
Calgary, Canada

## Auditors' Report

### To the Shareholders of NOVA Chemicals Corporation

We have audited the consolidated balance sheets of NOVA Chemicals Corporation as at December 31, 2003, 2002, and 2001 and the consolidated statements of income (loss) and reinvested earnings and cash flows for each of the years in the three-year period ended December 31, 2003. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian and United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of NOVA Chemicals Corporation as at December 31, 2003, 2002, and 2001 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2003 in accordance with Canadian generally accepted accounting principles.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style script.

ERNST & YOUNG LLP  
Chartered Accountants

February 12, 2004  
Calgary, Canada

## Consolidated Statements of Income (Loss) and Reinvested Earnings

(MILLIONS OF U.S. DOLLARS, EXCEPT NUMBER OF SHARES AND PER SHARE AMOUNTS) YEAR ENDED DECEMBER 31	2003	2002	2001
<b>Revenue</b>	<b>\$3,949</b>	\$3,091	\$3,194
Feedstock and operating costs	3,487	2,668	2,901
Depreciation and amortization	298	266	230
Selling, general and administrative	179	169	191
Research and development	45	39	40
Restructuring charges (Note 15)	15	20	27
	<b>4,024</b>	3,162	3,389
Operating loss	(75)	(71)	(195)
Interest expense (net) (Note 8)	(89)	(87)	(88)
Equity in earnings of affiliate (Note 5)	39	5	14
Other gains and (losses) (Note 16)	92	59	58
	<b>42</b>	(23)	(16)
Loss before income taxes	(33)	(94)	(211)
Income tax recovery (Note 17)	61	13	83
<b>Net Income (Loss)</b>	<b>\$ 28</b>	\$ (81)	\$ (128)
Reinvested earnings, beginning of year	605	740	924
Change in accounting policy (Notes 2 and 20)	5	—	—
Common share dividends	(25)	(23)	(23)
Preferred securities dividends and distributions	(29)	(31)	(33)
Reinvested earnings, end of year	<b>\$ 584</b>	\$ 605	\$ 740
Weighted-average number of common shares outstanding (millions)	87	86	85
Net loss per common share (Note 12)			
— Basic and diluted	<b>\$ (0.02)</b>	\$ (1.30)	\$ (1.88)

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Balance Sheets

(MILLIONS OF U.S. DOLLARS) DECEMBER 31	2003	2002	2001
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 212	\$ 14	\$ 10
Accounts receivable (Note 3)	316	249	362
Inventories (Note 4)	392	321	279
	<b>920</b>	584	651
Investments and other assets (Note 5)	157	537	549
Plant, property and equipment, net (Note 6)	3,336	3,033	3,159
	<b>\$4,413</b>	\$4,154	\$4,359
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Bank loans	\$ —	\$ 3	\$ 14
Accounts payable and accrued liabilities (Note 7)	587	562	437
Long-term debt installments due within one year (Note 8)	—	1	186
	<b>587</b>	566	637
Long-term debt (Note 8)	1,101	1,211	1,322
Deferred credits (Note 9)	835	816	786
	<b>2,523</b>	2,593	2,745
<b>Shareholders' Equity</b>			
Preferred securities (Notes 10 and 25)	383	383	383
Retractable preferred shares (Note 11)	198	198	198
Common shares (Note 12)	493	484	472
Cumulative translation adjustment	232	(109)	(179)
Reinvested earnings	584	605	740
	<b>1,890</b>	1,561	1,614
	<b>\$4,413</b>	\$4,154	\$4,359
Contingencies and commitments (Notes 8, 11, 21 and 23)			
Subsequent events (Note 25)			

See accompanying Notes to Consolidated Financial Statements.

On behalf of the board:



Kerry L. Hawkins, Director



Jeffrey M. Lipton, Director

## Consolidated Statements of Cash Flows

(MILLIONS OF U.S. DOLLARS) YEAR ENDED DECEMBER 31	2003	2002	2001
<b>Operating Activities</b>			
Net income (loss)	\$ 28	\$ (81)	\$(128)
Depreciation and amortization	298	266	230
Future income tax (recovery) expense (Note 17)	(78)	8	(4)
Other gains (net of current tax) (Note 16)	(92)	(39)	—
Equity in earnings of affiliate	(39)	(5)	(14)
Methanex dividends received	14	4	—
Asset writedowns	9	—	10
Funds from operations	140	153	94
Changes in non-cash working capital (Note 18)	(125)	206	184
Cash from operations	15	359	278
<b>Investing Activities</b>			
Proceeds on sales of assets and investments	564	82	—
Plant, property and equipment additions	(130)	(71)	(168)
Turnaround costs, long-term investments and other assets	(57)	(18)	(156)
Change in non-cash working capital (Note 18)	7	—	(16)
	384	(7)	(340)
<b>Financing Activities</b>			
Decrease in current bank loans	(3)	(11)	(14)
Proceeds on liquidation of swap positions	—	13	27
Long-term debt additions	—	—	302
Long-term debt repayments	(152)	(2)	(61)
Decrease in revolving debt	(2)	(294)	(159)
Preferred securities dividends and distributions	(29)	(31)	(33)
Common shares issued	9	11	12
Common share dividends	(25)	(23)	(23)
Project advances (Note 18)	11	1	—
Changes in non-cash working capital (Note 18)	(10)	(12)	(6)
	(201)	(348)	45
Increase (decrease) in cash and cash equivalents	198	4	(17)
Cash and cash equivalents, beginning of year	14	10	27
Cash and cash equivalents, end of year	\$ 212	\$ 14	\$ 10

See accompanying Notes to Consolidated Financial Statements.

## Notes to Consolidated Financial Statements

All amounts in U.S. dollars, unless otherwise noted.

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### 1

#### Basis of Presentation

NOVA Chemicals is incorporated under the laws of Alberta, Canada. Where used in these financial statements, "NOVA Chemicals" or "the Corporation" means NOVA Chemicals Corporation alone or together with its subsidiaries and affiliate, depending on the context in which such terms are used. The consolidated financial statements include the accounts of the Corporation, its subsidiaries and the proportionate share of the accounts of its joint ventures.

These consolidated financial statements have been prepared by management on the historical cost basis in accordance with Canadian generally accepted accounting principles (GAAP). These accounting principles are different in some respects from those generally accepted in the United States and the significant differences are described in Note 24, "United States Generally Accepted Accounting Principles" (U.S. GAAP).

The Corporation measures and reports its consolidated financial statements in U.S. dollars.

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### 2

#### Summary of Significant Accounting Policies

##### — CHANGE IN ACCOUNTING POLICIES —

**Asset Retirement Obligations.** On January 1, 2003, NOVA Chemicals adopted the new accounting standard related to asset retirement obligations as prescribed by the Canadian Institute of Chartered Accountants (CICA). The new recommendations change the method for recognition of liabilities associated with the retirement of plant, property and equipment. The liabilities are initially recorded at their estimated fair value, based on a discounted value of the expected costs to be paid when the assets are retired. The amount is added to the carrying values of the assets and depreciated over the estimated remaining lives of the assets. The liability increases each period as the amount of the discount decreases over time. The resulting expense is referred to as accretion expense and is included in operating expenses. The liability is also adjusted for any changes in the estimated amount or timing of the underlying future cash flows. Previously, asset retirement obligations were accrued over the estimated remaining useful lives of the assets on a straight-line basis. The Corporation's asset retirement obligations are comprised of expected costs to be incurred upon termination of operations and the closure of active manufacturing plant facilities. These closures are expected to occur in 25 to 40 years, depending on the plant. Costs will be incurred for activities such as dismantling, demolition and disposal of facilities and equipment, and remediation and restoration of sites. The Corporation chose early adoption for the CICA recommendations to be consistent with U.S. GAAP. Under Canadian GAAP, a change in accounting policy generally requires retroactive restatement of financial statements presented for prior periods, however, as the effect of these new recommendations is less than \$1 million for each prior period, opening reinvested earnings was adjusted for the cumulative effect on adoption. The change in accounting policy did not have a material effect on net income in 2003 (see Note 20).

— COST OF SERVICE —

Under the terms of certain sales agreements, the Corporation sells ethylene on a take-or-pay basis, for a price determined by a cost-of-service formula that includes the cost of fuel and feedstock, operating expenses, depreciation, income taxes, return on capital and realized foreign exchange gains or losses in respect of debt service. The return on capital includes a 20% after-tax return on equity based on a deemed debt to equity ratio.

— CASH AND CASH EQUIVALENTS —

Short-term investments with initial maturities not greater than 90 days are considered to be cash equivalents, and are recorded at cost, which approximates current market value.

— FOREIGN CURRENCY TRANSLATION —

The Corporation's foreign operations are considered self-sustaining and are translated into U.S. dollars using the current rate method. Resulting translation gains or losses are deferred in the cumulative translation adjustment account (CTA) until there is a realized reduction of the investment in the foreign operations.

— HEDGING ACTIVITIES —

The Corporation sells petrochemical products at prices denominated in various currencies, purchases energy commodities, invests in foreign operations and issues short- and long-term debt, including amounts in foreign currencies. These activities result in exposures to fluctuations in foreign currency exchange rates, commodity prices and interest rates. NOVA Chemicals may choose to modify these exposures by entering into contractual arrangements (derivatives), which reduce (hedge) the exposure by creating offsetting positions. Derivative instruments are used only for economic hedges of exchange rate, commodity prices and interest rate risk. These derivative instruments are not utilized for trading or speculative purposes.

NOVA Chemicals has U.S., Canadian and European-based petrochemical operations. The Corporation has managed its exposure to fluctuations in these exchange rates by using forward exchange contracts. Gains or losses realized on settlement of the forward exchange contracts are recognized in income in the same period as the related expenditures.

NOVA Chemicals may choose to use commodity-based derivatives to manage its exposure to price fluctuations on crude oil, refined products and natural gas transactions. The instruments are used to moderate against adverse short-term price movements. Occasionally, longer-term positions will be taken to manage price risk for anticipated supply requirements. Gains or losses realized on the settlement of commodity-based instruments are recognized in income in the same period as the related revenues or expenditures.

When considered appropriate, NOVA Chemicals enters into interest rate swaps in order to manage the fixed and floating interest rate mix on its long-term debt portfolio. The interest rate swap agreements generally involve the periodic exchange of payments without the exchange of the notional principal amounts upon which the payments are based. The amounts paid or received are recorded as an adjustment to interest expense on the hedged debt instrument.

Gains or losses on termination or liquidation of derivative instruments are deferred as current or non-current assets or liabilities on the balance sheet, as appropriate, and are amortized to income in the period in which the underlying hedged transaction is recognized.

— INVENTORIES —

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis with no allocation of fixed production overhead.

#### — INVESTMENTS —

Investments in affiliate, over which the Corporation exercises significant influence, but not control, are accounted for by the equity method. Under this method, the investment is carried at cost plus the related share of undistributed earnings, less dividends received. Other investments, except investments in joint ventures, are carried at cost.

#### — JOINT VENTURES —

NOVA Chemicals applies the proportionate consolidation method of accounting for its investments in joint venture operations. Under this method, NOVA Chemicals records, on a line-by-line basis within its financial statements and related notes, its pro rata share of the joint venture's assets, liabilities, revenues, expenses and cash flows.

#### — PLANT, PROPERTY AND EQUIPMENT (PP&E) —

NOVA Chemicals' PP&E consists primarily of manufacturing equipment, land and buildings for producing petrochemicals. PP&E are valued at historical cost. Financing costs incurred during major construction are capitalized as part of the cost of the asset until the asset is available for use. Costs related to turnaround activities are capitalized and amortized over the period remaining to the next turnaround activity, while maintenance and repair costs are expensed as incurred.

The Corporation periodically reviews the carrying value of PP&E for impairment when circumstances indicate an asset's value may not be recoverable. If it is determined that an asset's undiscounted cash flows are less than its carrying value, the asset is written down to its net realizable value.

#### — DEPRECIATION —

Plant and equipment are depreciated on a straight-line basis at annual rates ranging from 3% to 40%. These rates are designed to writeoff the assets to their salvage values over their estimated useful lives. The Alberta cost-of-service ethylene plants and the hydrogen plant are depreciated over the lives of the related sales agreements.

#### — DEFERRED START-UP COSTS —

Costs associated with start-up activities on constructed plants are deferred from the date of mechanical completion of the facilities until the date of commercial service. Any revenues earned during this period are recorded as a reduction in deferred start-up costs. These costs are amortized over a five-year period, commencing on the date of commercial service.

#### — INCOME TAXES —

Cost-of-service activities operate under billing structures that allow NOVA Chemicals to recover related income tax costs from customers based on the taxes-payable method. NOVA Chemicals records income tax expense on these operations equal to recoverable amounts.

For non-cost-of-service operations, the liability method of tax allocation accounting is used. Under the liability method, future tax assets and liabilities are determined based on differences between the accounting and tax basis of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Under the liability method, future income taxes are also provided on the difference between the accounting and tax basis of equity investments. One of these differences results from recording equity earnings (losses) for accounting purposes. Accordingly, income tax expense (recovery) is provided on equity earnings (losses).

— EMPLOYEE FUTURE BENEFITS —

**Pension Plans.** NOVA Chemicals sponsors both defined benefit and defined contribution pension arrangements covering substantially all employees.

The cost of defined benefit pensions is determined using the projected benefit method prorated on employment services and is expensed as the employees provide services. Adjustments arising from plan amendments are amortized on a straight-line basis over the estimated average remaining service lifetime (EARSL). Adjustments arising from changes in assumptions and experience gains and losses are amortized over EARSL when the cumulative unamortized balance exceeds 10% of the greater of accrued obligations or plan assets. Gains or losses arising from plan curtailments and settlements are recognized in the year in which they occur. For purposes of calculating the expected return on plan assets, pension assets are revalued at fair value. Liabilities are measured at market discount rates.

The cost of defined contribution benefits is expensed as earned by employees. NOVA Chemicals makes contributions in accordance with plan agreements.

**Post-Retirement Benefits Other Than Pensions.** In North America, NOVA Chemicals provides medical care and life insurance benefits to eligible retirees and their dependents. Post-retirement benefit costs are expensed as the employees provide services.

— STOCK-BASED COMPENSATION —

The Corporation uses the intrinsic-value method of accounting for stock-based compensation awards granted to employees, where compensation expense, if any, is measured based on the excess of the market price of the stock over the option exercise price on the date of grant. As options are generally granted at the market price on the date of grant, no compensation cost results.

— DEFERRED SHARE UNIT PLANS —

Units issued under these Plans are calculated based on annual management incentive awards or director fees. The cost of the units earned is expensed as employees and directors provide services. Any adjustments to the value of the units as a result of expected changes in NOVA Chemicals' common stock value are amortized on a straight-line basis over the estimated average remaining service lifetime of individuals participating in the Plans.

— EQUITY APPRECIATION PLAN —

Units granted and vested under this Plan are marked-to-market each period based on the value of NOVA Chemicals' common stock as reported on the Toronto Stock Exchange. Any changes in value are recorded through earnings in the period.

— EARNINGS PER SHARE —

The treasury stock method is used to calculate diluted earnings per share. Under this method, the incremental number of common shares outstanding for the diluted earnings per share calculation is determined assuming that the proceeds from exercise of dilutive options are used to repurchase common shares at the average market price during the period.

— SECURITIZATIONS —

Accounts receivable securitization transactions are recorded as sales of assets based on the transfer of control to the purchaser. Transactions recorded in this manner result in the removal of the sold assets from the Corporation's balance sheet. Interest paid, net of servicing fees, on the portfolio of sold receivables is recorded as interest expense.

— REVENUE RECOGNITION —

The Corporation recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer in accordance with the terms of the sales agreement, title or risk of loss has been transferred, and pricing is fixed or determinable. The Corporation accounts for sales incentives as a reduction in revenue at the time revenue is recorded.

— RESEARCH AND DEVELOPMENT —

Expenditures associated with research and development activities are expensed as incurred.

— MEASUREMENT UNCERTAINTY —

The preparation of these consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. Actual results could differ materially from those estimates due to factors such as fluctuations in commodity prices, currency exchange rates, interest rates, changes in economic conditions and regulatory changes.

— COMPARATIVE FIGURES —

Certain comparative figures have been reclassified to conform to the current year's presentation.

3

Accounts Receivable

DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Trade	\$239	\$173	\$154
Other	73	53	74
Allowance for doubtful accounts <sup>(1)</sup>	(7)	(8)	(13)
	305	218	215
Income taxes receivable	11	31	147
	\$316	\$249	\$362

<sup>(1)</sup> The Corporation's special purpose entity maintained an allowance for doubtful accounts of \$5 million at December 31, 2003 (2002—\$5 million and 2001—\$10 million) related to securitized trade receivables.

— ACCOUNTS RECEIVABLE SECURITIZATIONS —

The Corporation sells undivided interests in certain trade accounts receivable pursuant to revolving securitization transactions in which the Corporation retains servicing responsibilities. The receivables are sold at a discount approximating the purchaser's financing cost of issuing commercial paper backed by the accounts receivable. The Corporation pays a fee on this same basis plus a margin that varies with the Corporation's credit rating. The sale of receivables is reflected as a reduction of accounts receivable and in operating cash flows. As collections reduce previously sold interests, new accounts receivable are sold, to a maximum amount equal to the lesser of eligible receivables or \$195 million. Recourse on sold receivables is limited to the receivables and certain reserves provided to cover credit losses and dilution (such as discounts, rebates, and other non-cash reductions). The current securitization agreements expire July 12, 2004 and are renewable for a further one-year term.

Information regarding the Corporation's securitization programs is as follows:

DECEMBER 31 (MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)	2003	2002	2001
Amount sold at end of year <sup>(1)</sup>	\$177	\$163	\$154
Loss, dilution and other reserves (as a % of eligible accounts receivable)	18%	17%	16%
Interest expense, net of servicing fees	\$ 3	\$ 4	\$ 7

<sup>(1)</sup> At December 31, 2003, \$nil (2002—\$11 million and 2001—\$24 million) is reflected in accrued liabilities as an amount repayable under the facility due to decreases in accounts receivable balances (see Note 7).

One of the Corporation's securitization agreements involves the use of a special purpose entity (SPE). Information regarding the cash flows between the Corporation and the SPE are as follows:

DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Proceeds from (repayment of) new securitizations	\$ 14	\$ (6)	\$ (26)
Proceeds from collections reinvested in revolving period securitizations <sup>(1)</sup>	\$1,406	\$1,289	\$1,410
Servicing fees received	\$ 2	\$ 2	\$ 2
Other cash flows received	\$ 306	\$ 74	\$ 48

<sup>(1)</sup> Collections received by the SPE on accounts receivable previously sold are used to purchase interests in new accounts receivable.

## 4

### Inventories

DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Materials and supplies	\$ 46	\$ 39	\$ 38
Raw materials	170	121	93
Finished goods	176	161	148
	\$392	\$321	\$279

## 5

### Investments and Other Assets

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003		2002		2001	
	INVESTMENT	EQUITY EARNINGS	INVESTMENT	EQUITY EARNINGS	INVESTMENT	EQUITY EARNINGS
Methanex Corporation <sup>(1)(2)</sup>	\$ —	\$39	\$399	\$ 5	\$397	\$14
Other investments <sup>(3)</sup>	28	—	27	—	17	—
Other assets <sup>(4)</sup>	129	—	111	—	135	—
	\$157	\$39	\$537	\$ 5	\$549	\$14

<sup>(1)</sup> Equity earnings include before-tax charges (2002—\$33 million and 2001—\$3 million) representing NOVA Chemicals' share of Methanex's restructuring charges.

<sup>(2)</sup> Dividends received of \$14 million (2002—\$4 million and 2001—\$nil) were recorded as reductions in the Corporation's investment.

<sup>(3)</sup> Includes an investment of \$15 million (2002—\$15 million and 2001—\$15 million) in a special purpose entity with respect to the accounts receivable securitization program described in Note 3.

<sup>(4)</sup> See schedule on next page.

## — METHANEX CORPORATION —

The Corporation's original investment in Methanex was \$265 million. In June 2003, the Corporation sold its equity investment in Methanex Corporation for net proceeds of \$441 million. This resulted in a before-tax gain of \$29 million and an after-tax gain of \$61 million. The sale was completed with no cash taxes payable and accordingly, a previously recorded income tax provision of \$32 million was taken into income at the time of the sale. The Corporation has no remaining equity interest in Methanex. The market value of the Corporation's investment in Methanex at December 31, 2002 was approximately \$393 million (2001 – \$260 million).

## — OTHER ASSETS —

Other assets are comprised of the following:

DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Restricted cash on retractable preferred shares (Note 11)	\$ 65	\$ 45	\$ 78
Deferred debt issue costs <sup>(1)</sup>	18	17	16
Deferred start-up costs <sup>(2)</sup>	12	14	18
Other	34	35	23
	<b>\$129</b>	<b>\$111</b>	<b>\$135</b>

<sup>(1)</sup> Debt issue costs are amortized on a straight-line basis over the terms of the related debt instruments.

<sup>(2)</sup> Start-up costs consist of the unamortized portion of operating costs, net of incidental revenues, incurred during the pre-operating period on constructed assets, which were deferred until commercial production levels were achieved in 2001.

## — PETROCHEMICAL JOINT VENTURES —

NOVA Chemicals owns a 50% interest in an ethylene plant, and a 20% interest in a cogeneration facility located at Joffre, Alberta, and a 33.3% interest in an ethane gathering system in Alberta.

The following is summarized financial information for NOVA Chemicals' interests in these joint ventures:

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Revenue	\$ 216	\$ 171	\$ 144
Operating expenses, depreciation and income taxes	(204)	(161)	(138)
Net income	\$ 12	\$ 10	\$ 6

DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Current assets	\$ 21	\$ 21	\$ 20
Plant, property and equipment and other assets	556	489	514
Current liabilities	(29)	(22)	(25)
Long-term liabilities	(33)	(28)	(28)
Venturers' equity	<b>\$515</b>	<b>\$460</b>	<b>\$481</b>

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Cash inflows (outflows) from:			
Operating activities	\$51	\$34	\$ 31
Financing activities	\$ (5)	\$ (1)	\$ 2
Investing activities	\$ (9)	\$ (8)	\$(14)

NOVA Chemicals also owned a 50% interest in the Fort Saskatchewan Ethylene Storage Limited Partnership which was sold in June 2003 for net cash proceeds of \$123 million, resulting in an after-tax gain of \$64 million. The total before-tax gain on this transaction was \$114 million, of which \$38 million has been deferred and will be recognized in earnings over the 20-year storage contract with the new owners. The Corporation's 20% interest in the Cochin Pipeline was sold in January 2002 for cash proceeds of \$64 million, resulting in an after-tax gain of \$36 million.

## 6

### Plant, Property and Equipment

DECEMBER 31 (MILLIONS OF DOLLARS)	2003 <sup>(1)</sup>	2002	2001
Plant and equipment	\$ 5,638	\$ 4,847	\$ 4,818
Land	35	32	33
Under construction	169	55	85
	5,842	4,934	4,936
Accumulated depreciation	(2,506)	(1,901)	(1,777)
Net book value	\$ 3,336	\$ 3,033	\$ 3,159

(1) See Note 8 for discussion of security provided on the committed credit facility.

During 2002, the Corporation sold and leased back certain buildings for total proceeds of \$13 million, resulting in an after-tax gain of \$3 million. The gain realized on the sale has been deferred and is being amortized to income over the remaining term of the lease, which expires in 2020.

## 7

### Accounts Payable and Accrued Liabilities

DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Accounts payable			
Trade	\$406	\$350	\$241
Other	25	25	20
	431	375	261
Accrued liabilities			
Interest	18	22	21
Accounts receivable securitization programs <sup>(1)</sup>	—	11	24
Deferred credit on hedges of former economic exposures	—	3	16
Site clean-up and restoration	4	3	3
Dividends	6	6	7
Deferred commodity hedging gains <sup>(2)</sup>	9	8	—
Deferred gains on interest rate swaps <sup>(3)</sup>	7	—	—
Pension and post-retirement benefit obligations	20	—	—
Trade accruals and other	92	134	105
	156	187	176
	\$587	\$562	\$437

(1) Represents amounts repayable pursuant to the Corporation's accounts receivable securitization programs (see Note 3).

(2) Represents the portion of deferred gains realized on liquidation of natural gas option positions to be recognized within one year (see Notes 9 and 23).

(3) Represents the portion of deferred gains realized on liquidation of floating-for-fixed interest rate swaps to be recognized within one year (see Notes 9 and 23).

## 8

## Long-Term Debt

(MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)							
DECEMBER 31		2003		2002		2001	
	MATURITY	DEBT	WEIGHTED-AVERAGE YEAR-END INTEREST RATE(1)	DEBT	WEIGHTED-AVERAGE YEAR-END INTEREST RATE(1)	DEBT	WEIGHTED-AVERAGE YEAR-END INTEREST RATE(1)
Unsecured debentures and notes							
	2005 to 2028	\$ 518	7.5%	\$ 633	7.3%	\$ 632	7.3%
Secured loan	2006	—	—	—	—	295	2.9%
Medium-Term Notes	2006 to 2009	550	4.7%	550	6.0%	550	3.7%
Other(2)	2004 to 2020	33	6.0%	29	6.2%	31	6.3%
		1,101		1,212		1,508	
Less installments due within one year							
		—		(1)		(186)	
		\$1,101		\$1,211		\$1,322	

(1) Weighted-average year-end interest rates include the effects of interest rate swaps (see Note 23).

(2) Comprised primarily of non-recourse joint venture secured debt (2003—\$33 million and 2002—\$27 million and 2001—\$28 million). Security is limited to NOVA Chemicals' net investment in the Joffre co-generation joint venture.

## — UNSECURED DEBENTURES AND NOTES —

On August 15, 2003, NOVA Chemicals redeemed at par its \$150 million of 7% debenture maturing August 15, 2026 from available cash, in accordance with the terms of the debenture.

The remaining debentures and notes are unsecured borrowings which rank *pari passu* in all respects with other unsecured and unsubordinated debt of the Corporation. Terms of the outstanding unsecured debentures and notes are as follows:

DECEMBER 31 (MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)				
		2003	2002	2001
MATURITY	STATED INTEREST RATE %	DEBT	DEBT	DEBT
2005(1)	7.0	\$100	\$100	\$100
2010(2)	7.85	193	158	157
2025(3)	7.875	100	100	100
2026	7.0	—	150	150
2028(4)	7.25	125	125	125
		\$518	\$633	\$632

(1) Not redeemable by the Corporation or the holders prior to maturity.

(2) \$250 million Canadian; callable at the option of the Corporation at any time.

(3) Callable at the option of the Corporation on or after September 15, 2005.

(4) Redeemable at the option of the holders on August 15, 2008.

## — SECURED LOAN —

The Corporation has a committed credit facility from a syndicate of Canadian and U.S. banks. The facility provides for a floating-rate revolving line of credit and the issuance of letters of credit, to a maximum of \$300 million. The facility expires in April 2007 and is secured by \$1.2 billion in net book value of assets in Canada, including real estate.

At December 31, 2003, NOVA Chemicals was in compliance with all required financial covenants under the credit facility.

## — MEDIUM-TERM NOTES —

The notes are unsecured borrowings ranking *pari passu* with all other unsecured and unsubordinated debt of the Corporation. The \$300 million 7% notes are due in May 2006 and are not redeemable by the Corporation or the holders prior to maturity. The \$250 million 7.4% notes are due in April 2009 and are redeemable by the Corporation at any time. As described in Note 23, the Corporation has entered into floating-for-fixed interest rate swaps on these notes.

## — REPAYMENT REQUIREMENTS —

Repayment requirements in respect of long-term debt are as follows:

(MILLIONS OF DOLLARS)	
2004	\$ —
2005	103
2006	302
2007	2
2008	2
Thereafter	692
	<b>\$1,101</b>

## — INTEREST EXPENSE —

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Interest on long-term debt	<b>\$84</b>	\$80	\$ 96
Interest on bank loans and securitizations	4	5	8
Other	4	5	4
Gross interest expense	<b>92</b>	90	108
Interest capitalized during plant construction	—	—	(18)
Interest income	<b>(3)</b>	(3)	(2)
Interest expense (net)	<b>\$89</b>	\$87	\$ 88

## 9

## Deferred Credits

DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Future income taxes (Note 17)	<b>\$586</b>	\$611	\$615
Pension and post-retirement benefit obligations	92	91	82
Deferred commodity hedging gains <sup>(1)</sup>	3	9	—
Deferred gains on interest rate swaps <sup>(2)</sup>	16	31	24
Deferred gain on sale of investment <sup>(3)</sup>	37	—	—
Site clean-up and restoration	27	27	26
Deferred share unit plan obligations	20	16	13
Equity appreciation plan obligations (Note 13)	12	1	1
Other	42	30	25
	<b>\$835</b>	\$816	\$786

<sup>(1)</sup> Represents the long-term portion of deferred gains realized on liquidation of natural gas options (see Notes 7 and 23).

<sup>(2)</sup> Represents the long-term portion of deferred gains realized on liquidation of floating-for-fixed interest rate swaps (see Notes 7 and 23).

<sup>(3)</sup> Represents the long-term portion of a deferred gain realized on the sale of a 50% interest in the Fort Saskatchewan Ethylene Storage Limited Partnership (see Note 5).

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## 10

### Preferred Securities

On January 26, 1999 and October 22, 1998, NOVA Chemicals issued \$172.5 million (9.04%) and \$210 million (9.50%) of preferred securities due March 31, 2048 and December 31, 2047, respectively. The securities are redeemable by the Corporation at any time on or after January 26, 2004 and October 22, 2003, respectively (see Note 25).

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## 11

### Retractable Preferred Shares

In connection with the acquisition of styrenics assets from Huntsman Corporation in 1998, a subsidiary of the Corporation issued retractable preferred shares with a liquidation preference of \$198 million as partial consideration. Holders of the retractable preferred shares have the right to exchange the shares (a retraction) for NOVA Chemicals' common shares (plus preferred shares if the market value of such common shares is less than \$198 million).

During 2001, 2002, and 2003, certain changes were made to the terms of the retractable preferred shares and related stockholder agreements. These changes provide the Corporation with the right to call the retractable preferred shares on or after December 15, 2001 and repurchase the retractable preferred shares prior to any retraction into NOVA Chemicals common shares. If the Corporation does not exercise its repurchase rights prior to March 15, 2005, the market-based exchange rate at which the retractable preferred shares may be retracted into NOVA Chemicals common shares (and, accordingly, the effective price at which the common shares would be issued) will be fixed on that date. The number of NOVA Chemicals common shares issuable upon a retraction remains limited to a maximum of 8.5 million shares with the balance of the obligation, if any, met through the issuance of NOVA Chemicals preferred shares. The dividend rate on the retractable preferred shares is 2% per year.

NOVA Chemicals also entered into a total return swap, which terminates on March 15, 2005, with respect to the retractable preferred shares. Under the terms of the total return swap: (i) the counterparty pays NOVA Chemicals an amount equal to the fixed dividend on the retractable preferred shares; (ii) NOVA Chemicals pays the counterparty LIBOR plus a spread; (iii) NOVA Chemicals is obligated under the swap to provide initial margin (cash, government securities or a letter of credit) equal to 20% of the original notional amount of \$191 million, which is currently satisfied by a letter of credit issued by a third-party for which we pay a fee; (iv) NOVA Chemicals is also required to provide maintenance margin in the form of restricted cash for any negative changes in the equity value of the retractable preferred shares; and (v) the counterparty pays NOVA Chemicals for any positive changes in the equity value of the retractable preferred shares.

NOVA Chemicals has provided \$65 million of restricted cash to reduce the notional amount of the swap from \$191 million to \$126 million. As a result, prior to March 15, 2005, NOVA Chemicals can redeem the potentially dilutive security for an additional \$126 million.

Beginning in 2004, changes in the equity value of the retractable preferred shares during the term of the swap will be determined based on changes in the average price of the outstanding 7% Senior Notes due 2005 and 7% Medium-Term Notes due 2006 issued by NOVA Chemicals (see Note 8).

If NOVA Chemicals defaults on other debt with an aggregate principal amount of \$25 million or more, or the closing price of the Corporation's common shares is \$12.00 U.S. or less, and upon certain other credit events, the counterparty will have the right to sell the retractable preferred shares to a third-party and terminate the swap. NOVA Chemicals would then owe the counterparty the difference between the actual sale price received by the counterparty and the most recent adjusted notional equity value of the retractable preferred shares (in the event the difference was negative).

## 12

## Common Shares

## — AUTHORIZED —

Unlimited number of voting common shares without par value.

## — ISSUED AND OUTSTANDING —

(MILLIONS OF DOLLARS, EXCEPT NUMBER OF SHARES)	2003		2002		2001	
Beginning of year	86,527,812	\$484	85,778,788	\$472	84,884,333	\$460
Issued for cash on exercise of stock options	571,969	9	749,024	12	894,455	12
End of year <sup>(1)</sup>	87,099,781	\$493	86,527,812	\$484	85,778,788	\$472

<sup>(1)</sup> Stated common share capital for legal purposes at December 31, 2003 is \$1,665 million.

## — SHARES RESERVED FOR FUTURE ISSUE —

DECEMBER 31 (NUMBER OF SHARES)	2003	2002	2001
Under the employee incentive stock option plan <sup>(1)(2)</sup>	10,672,994	11,244,963	11,993,987
Under the director compensation plan	47,800	47,800	47,800
Under the terms of the retractable preferred share agreement (Note 11)	8,500,000	8,500,000	8,500,000
	19,220,794	19,792,763	20,541,787

<sup>(1)</sup> Under the employee incentive stock option plan, options are outstanding to officers and employees to purchase 8,822,440 shares at prices ranging from \$15.279 to \$34.32 (Canadian \$) per share with expiration dates between March 3, 2004, and July 15, 2013. A total of 1,850,554 common shares are reserved but unallocated. See Note 13 for further details regarding the plan.

<sup>(2)</sup> Shareholders have approved reserving 13 million common shares for issuance under the employee incentive stock option plan.

## — EARNINGS PER SHARE —

The following table outlines the calculation of basic and diluted net loss per common share:

YEAR ENDED DECEMBER 31	2003	2002	2001
(MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)	BASIC AND DILUTED	BASIC AND DILUTED	BASIC AND DILUTED
Net income (loss)	\$ 28	\$ (81)	\$ (128)
Preferred securities dividends and distributions	(29)	(31)	(33)
Net loss available to common shareholders	\$ (1)	\$ (112)	\$ (161)
Weighted-average common shares outstanding <sup>(1)</sup>	86.8	86.3	85.4
Net loss per common share	\$(0.02)	\$(1.30)	\$(1.88)

<sup>(1)</sup> Retractable preferred shares and stock options representing 17 million common shares have been excluded from the computation of diluted earnings per share for the year ended December 31, 2003 (2002—17 million and 2001—17 million), as their impact would not be dilutive.

## — SHAREHOLDER RIGHTS PLAN —

In May 1999, NOVA Chemicals' shareholders approved a shareholder rights plan where one right was issued for each outstanding common share. The rights remain attached to the shares and are not exercisable until the commencement or announcement of a takeover bid for NOVA Chemicals' common shares or until a person acquires 20% or more of NOVA Chemicals' common shares. The plan expires in May 2009, but is subject to shareholder re-confirmation at the sixth annual meeting following the date of approval.

## 13

## Stock-Based Compensation

## — EMPLOYEE INCENTIVE STOCK OPTION PLAN —

The Corporation may grant options to its employees for up to 13 million common shares. The exercise price of each option equals the closing market price on the Toronto Stock Exchange of the Corporation's common stock on the date of grant. Options may be exercised over a 10-year period and generally 25% of the options vest at the grant date with further vesting of 25% in each of the next three years.

A summary of the status of the Corporation's employee incentive stock option plan as of December 31, 2003, 2002, and 2001, and changes during the years then ended is presented below:

	2003		2002		2001	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE (CANADIAN \$)	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE (CANADIAN \$)	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE (CANADIAN \$)
Outstanding at beginning of year	8,625,532	\$26.662	8,558,109	\$25.648	8,003,725	\$24.762
Granted	999,700	\$25.788	855,900	\$34.319	1,547,350	\$28.182
Exercised	(571,969)	\$23.525	(749,024)	\$23.613	(894,455)	\$21.813
Cancelled	(230,823)	\$25.723	(39,453)	\$30.713	(98,511)	\$28.267
Outstanding at end of year	8,822,440	\$26.791	8,625,532	\$26.662	8,558,109	\$25.648
Exercisable at end of year	7,414,052	\$26.448	6,116,910	\$25.159	5,404,057	\$24.193

The following table summarizes information about employee incentive stock options outstanding at December 31, 2003:

RANGE OF EXERCISE PRICES (CANADIAN \$)	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE (CANADIAN \$)	NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE (CANADIAN \$)
\$15.279–\$18.376	336,382	0.9	\$17.592	336,382	\$17.592
\$20.234–\$21.225	915,809	2.5	\$20.738	915,809	\$20.738
\$24.950–\$26.346	4,184,100	6.2	\$25.741	3,469,325	\$25.733
\$28.050–\$34.320	3,386,149	6.5	\$30.639	2,692,536	\$30.419
	8,822,440			7,414,052	

Had compensation cost for stock options been determined and expensed based on the fair-value method, the following pro forma amounts would have resulted:

DECEMBER 31 (MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)	2003	2002	2001
Net income (loss)			
As reported	\$ 28	\$ (81)	\$(128)
Pro forma	\$ 21	\$ (92)	\$(134)
Loss per share — basic and diluted			
As reported	\$(0.02)	\$(1.30)	\$(1.88)
Pro forma	\$(0.09)	\$(1.43)	\$(1.95)

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for stock options granted in 2003, 2002, and 2001:

WEIGHTED-AVERAGE ASSUMPTIONS		2003	2002	2001
Expected dividend yield	%	1.4	1.0	1.0
Expected volatility	%	36.7	39.1	39.6
Risk-free interest rate	%	4.20	3.38	5.65
Expected life	years	4	2½	2½
Fair value of options granted during the year	U.S.	\$5.34	\$5.57	\$5.16

#### — EQUITY APPRECIATION PLAN —

The Corporation has an equity appreciation plan in which units are granted to key employees. The redemption price of a unit is determined by the closing price of the Corporation's common shares on the date of grant. Units may be redeemed for cash over a 10-year period and generally 25% of the units vest at the grant date with further vesting of 25% in each of the next three years. The value of a unit on the redemption date is the difference between the price of the Corporation's common shares on that date and the redemption price.

At December 31, 2003, the mark-to-market value of the vested units was approximately \$12 million (2002 and 2001 – \$1 million).

EQUITY APPRECIATION UNITS	2003		2002		2001	
	UNITS	WEIGHTED-AVERAGE REDEMPTION (CANADIAN \$)	UNITS	WEIGHTED-AVERAGE REDEMPTION (CANADIAN \$)	UNITS	WEIGHTED-AVERAGE REDEMPTION (CANADIAN \$)
Cumulative amount at beginning of year	1,836,841	\$31.22	843,167	\$27.69	288,000	\$26.25
Granted	1,499,400	\$25.78	1,012,950	\$34.21	555,167	\$28.44
Redeemed	(18,166)	\$27.77	—	—	—	—
Cancelled	(25,088)	\$31.60	(19,276)	—	—	—
Cumulative amount at end of year	3,292,987	\$28.76	1,836,841	\$31.22	843,167	\$27.69

## 14

## Deferred Share Unit Plans

Under the Corporation's Deferred Share Unit Plans (DSUP), key employees and non-employee directors may elect on an annual basis, prior to the relevant performance period, to receive all or a portion of their management incentive award or fees, respectively, in deferred share units (DSUs).

The amount of the management incentive award that a key employee elects to have participate in the DSUP will be converted to an equivalent number of DSUs based primarily on the average closing price, on the NYSE, of NOVA Chemicals' common shares for the last five consecutive trading days of the month of December prior to the performance period.

The amount of fees that a non-employee director elects to have participate in the DSUP will be converted to an equivalent number of DSUs based on the average closing price, on the TSX, of NOVA Chemicals' common shares for the last five consecutive trading days preceding the end of each fiscal quarter in which the fees are earned.

The units are exercisable upon retirement or termination from the Corporation. A summary of the status of the Corporation's deferred share unit plans as of December 31, 2003, 2002 and 2001, and changes during the years ended on those dates is presented below:

EMPLOYEE DEFERRED SHARE UNITS	2003		2002		2001	
	UNITS	WEIGHTED-AVERAGE EXERCISE PRICE (U.S. \$)	UNITS	WEIGHTED-AVERAGE EXERCISE PRICE (U.S. \$)	UNITS	WEIGHTED-AVERAGE EXERCISE PRICE (U.S. \$)
Cumulative amount at beginning of year	379,114	\$16.97	352,393	\$16.52	280,454	\$15.88
Earned	55,235	\$19.41	65,622	\$19.14	91,063	\$18.48
Exercised	—	\$ —	(38,901)	\$16.53	(19,124)	\$16.52
Cumulative amount at end of year	434,349	\$17.28	379,114	\$16.97	352,393	\$16.52

NON-EMPLOYEE DEFERRED SHARE UNITS	2003		2002		2001	
	UNITS	WEIGHTED-AVERAGE EXERCISE PRICE (CANADIAN \$)	UNITS	WEIGHTED-AVERAGE EXERCISE PRICE (CANADIAN \$)	UNITS	WEIGHTED-AVERAGE EXERCISE PRICE (CANADIAN \$)
Cumulative amount at beginning of year	57,383	\$29.90	44,040	\$28.91	27,806	\$29.24
Earned	22,293	\$27.57	13,343	\$33.16	16,234	\$28.34
Exercised	—	\$ —	—	—	—	—
Cumulative amount at end of year	79,676	\$29.24	57,383	\$29.90	44,040	\$28.91

The amount expensed in aggregate related to the award of units was approximately \$3 million (2002—\$4 million and 2001—\$5 million).

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**15**


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**Restructuring Charges**

During 2003, NOVA Chemicals took action to streamline its operations and reduce costs. The Corporation announced plans for the closure of its oldest and highest-cost polyethylene production line, at its St. Clair River site. As a result, NOVA Chemicals recognized \$15 million before-tax (\$10 million after-tax) in restructuring costs related to asset writedown, severance, and other costs. The Corporation expects these restructuring actions to be substantially complete in the first half of 2004.

Restructuring charges in 2002 and 2001 related to organizational changes involving plant closures and idling, capital project cancellations, writedowns of certain non-productive assets and severance activities. All actions related to these restructuring activities have been substantially completed.

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**Other Gains and Losses**

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003		2002		2001	
	BEFORE-TAX	AFTER-TAX	BEFORE-TAX	AFTER-TAX	BEFORE-TAX	AFTER-TAX
Gain on sale of 50% interest in Fort Saskatchewan Ethylene Storage Limited Partnership (Note 5)	\$ 76	\$ 64	\$—	\$—	\$—	\$—
Gain on sale of investment in Methanex Corporation (Note 5)	29	61	—	—	—	—
Bayport charge <sup>(1)</sup>	(13)	(8)	—	—	—	—
Gain on sale of 20% interest in Cochin Pipeline (Note 5)	—	—	59	36	—	—
IRS settlement	—	—	—	—	58	44
	<b>\$ 92</b>	<b>\$117</b>	<b>\$59</b>	<b>\$36</b>	<b>\$58</b>	<b>\$44</b>

<sup>(1)</sup> NOVA Chemicals had an explosion, which resulted in a fire at its Bayport, Texas styrene monomer production facility and as a result, incurred a charge primarily related to the amount of property damage not covered by insurance.

## 17

## Income Taxes

Income tax recovery varies from amounts computed by applying the Canadian federal and provincial statutory income tax rates to loss before income taxes as shown in the following table:

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Loss before income taxes	\$ (33)	\$ (94)	\$ (211)
Statutory income tax rate	36.74%	39.24%	42.12%
Computed income tax recovery	\$ (12)	\$ (37)	\$ (89)
Increase (decrease) in taxes resulting from:			
Manufacturing and processing deduction	(2)	3	4
Lower effective foreign tax rates	19	8	25
Lower effective tax rate on equity in earnings of affiliate	(12)	(2)	(3)
Lower tax rates and higher recoveries on asset sales	(56)	—	—
Non-provision of future income taxes on cost-of-service operations <sup>(1)</sup>	9	8	8
Reduction in tax reserves <sup>(2)</sup>	(20)	—	—
Income tax rate adjustments <sup>(3)</sup>	15	—	(17)
Lower tax rate on gain related to tax settlement <sup>(4)</sup>	—	—	(10)
Other	(2)	7	(1)
Income tax recovery	\$ (61)	\$ (13)	\$ (83)
Current income tax (recovery) expense	\$ 17	\$ (21)	\$ (79)
Future income tax (recovery) expense	(78)	8	(4)
Income tax recovery	\$ (61)	\$ (13)	\$ (83)

<sup>(1)</sup> Certain agreements for cost-of-service operations provide for the recovery of income taxes from customers. The Corporation records income tax expense on these operations equal to the amounts recoverable under the agreements, resulting in no effect on net income. Some agreements limit the recoverable amount to current taxes payable. Accordingly, the provision for income taxes excludes future income tax recoveries relating to these operations. Cumulative unrecorded future income taxes payable amounted to \$nil at December 31, 2003 (2002—\$6 million and 2001—\$13 million).

<sup>(2)</sup> NOVA Chemicals has a tax reserve, which is available to settle periodic tax disputes and ongoing tax adjustments. NOVA Chemicals assesses this reserve from time to time for adequacy and in 2003, determined that it was over-provided.

<sup>(3)</sup> As a result of Canadian provincial tax rate increases in 2003 and federal and provincial tax rate reductions in 2001, income tax rates on future tax liabilities have been increased in 2003 and reduced in 2001.

<sup>(4)</sup> In 2001, NOVA Chemicals recorded a \$58 million gain (\$44 million after-tax) related to a settlement with the IRS.

The principal temporary difference in calculating future income taxes, for both cost-of-service and non-cost-of-service operations, relates to deductions for tax purposes in respect of plant, property and equipment in excess of depreciation provided for in the accounts. Future tax liabilities resulting from these temporary differences have been reduced by the tax benefits associated with unused tax losses.

The following table outlines the income tax (recovery) expense arising from Canadian and Foreign operations:

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Income (loss) before income taxes			
Canadian	\$ 98	\$(35)	\$ (19)
Foreign	(131)	(59)	(192)
	\$ (33)	\$(94)	\$(211)
Current income tax (recovery) expense			
Canadian	\$ 14	\$(17)	\$ (46)
Foreign	3	(4)	(33)
	17	(21)	(79)
Future income tax (recovery) expense			
Canadian	(41)	19	18
Foreign	(37)	(11)	(22)
	(78)	8	(4)
Total income tax recovery	\$ (61)	\$(13)	\$ (83)

## 18

### Changes in Non-Cash Working Capital

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Accounts receivable	\$ (67)	\$113	\$ 89
Inventories	(71)	(42)	254
Accounts payable and accrued liabilities	25	125	(180)
Changes in non-cash working capital	(113)	196	163
Reclassification and other items not having a cash effect	(4)	(1)	(1)
Changes in non-cash working capital having a cash effect	\$(117)	\$195	\$ 162
These changes relate to the following activities:			
Operating	\$(125)	\$206	\$ 184
Investing	7	—	(16)
Financing <sup>(1)</sup>	1	(11)	(6)
Decrease (increase) in working capital	\$(117)	\$195	\$ 162

<sup>(1)</sup> Changes in non-cash working capital related to financing activities include project advances of \$11 million (2002—\$1 million) (see Note 6).

### — INTEREST AND INCOME TAX PAYMENTS —

Third-party interest payments were \$100 million in 2003 (2002—\$86 million and 2001—\$108 million). Income tax receipts were \$28 million in 2003 (2002—\$176 million and 2001—\$13 million).

## 19

## Employee Future Benefits

## — PENSION PLANS —

NOVA Chemicals sponsors both defined benefit and defined contribution pension arrangements.

Defined benefit pensions at retirement are mainly related to years of service and remuneration during the last years of employment and are partially indexed to inflation for some plans. Actuarial reports are prepared regularly by independent actuaries for accounting and funding purposes. The Corporation funds the plans using a valuation based on the projected unit credit method and the plans' assets consist primarily of publicly traded equity and fixed income securities.

Plan assets are measured at fair value while pension obligations are discounted using current yield rates of bonds with terms to maturity that approximate the duration of the Corporation's pension liabilities. The Corporation uses a measurement date of December 31 for its pension and post-retirement plans.

Pension and post-retirement expense (included in operating and selling, general and administrative costs) for all significant plans consisted of the following:

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	PENSION PLANS			POST-RETIREMENT PLANS		
	2003	2002	2001	2003	2002	2001
Current service cost	\$21	\$ 16	\$ 17	\$ 2	\$ 2	\$ 1
Interest cost on projected benefit obligations	30	25	26	4	3	3
Expected return on plan assets	(26)	(26)	(25)	—	—	—
Prior service cost	2	2	2	—	—	—
Actuarial (gain) loss	4	1	—	1	—	—
Amortization of transition obligation	(4)	(5)	(4)	—	—	—
Amortization of settlement/curtailment (gain) loss	—	—	1	—	—	—
Net total of other components	—	—	1	—	1	2
Net expense	\$27	\$ 13	\$ 18	\$ 7	\$ 6	\$ 6

The status of all significant defined benefit pension and post-retirement plans is as follows:

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	PENSION PLANS			POST-RETIREMENT PLANS		
	2003	2002	2001	2003	2002	2001
<b>Change in benefit obligations</b>						
Benefit obligation at beginning of year	\$ 430	\$ 388	\$372	\$ 53	\$ 50	\$ 38
Current service cost	21	16	17	2	2	1
Interest cost	30	25	26	4	3	3
Experience (gain) loss	24	(1)	9	10	—	10
Settlement/curtailment	(2)	(1)	—	(1)	—	—
Plan amendments	—	1	—	—	—	—
Business combination	—	2	—	—	—	—
Special termination benefits	—	—	2	—	—	1
Employee contributions	5	9	2	—	—	—
Benefits paid	(20)	(19)	(21)	(2)	(2)	(2)
Foreign currency exchange rate (gain) loss	81	10	(19)	3	—	(1)
<b>Net benefit obligation at end of year</b>	<b>\$ 569</b>	<b>\$ 430</b>	<b>\$388</b>	<b>\$ 69</b>	<b>\$ 53</b>	<b>\$ 50</b>
<b>Change in plan assets</b>						
Fair value of plan assets at beginning of year	\$ 312	\$ 329	\$357	\$ —	\$ —	\$ —
Actual return (loss) on plan assets	50	(28)	3	—	—	—
Employer and employee contributions	20	22	10	2	—	—
Settlement/curtailment	(2)	(1)	—	—	—	—
Benefits paid	(20)	(19)	(21)	(2)	—	—
Foreign currency exchange rate gain (loss)	65	9	(18)	—	—	—
Net total of other components	—	—	(2)	—	—	—
<b>Fair value of plan assets at end of year</b>	<b>\$ 425</b>	<b>\$ 312</b>	<b>\$329</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Funded status</b>						
Plan assets in deficiency of benefit obligation	\$(144)	\$(118)	\$( 59)	\$(69)	\$(53)	\$(50)
Unrecognized net transitional (asset) obligation	(49)	(44)	(48)	10	10	10
Unrecognized prior service cost	7	8	9	—	—	—
Unrecognized net actuarial loss	118	105	49	22	13	14
<b>Net amounts recognized in consolidated balance sheets</b>	<b>\$ (68)</b>	<b>\$ (49)</b>	<b>\$ (49)</b>	<b>\$(37)</b>	<b>\$(30)</b>	<b>\$(26)</b>
<b>Weighted-average assumptions as at December 31:</b>						
Discount rate	5.9%	6.4%	6.4%	6.1%	6.8%	7.0%
Assumed long-term rate of return on plan assets <sup>(1)</sup>	7.3%	7.7%	7.8%	—	—	—
Rate of increase in future compensation	3.2%	3.1%	3.8%	4.2%	3.7%	3.0%
Long-term health care inflation <sup>(2)</sup>	—	—	—	5.0%	5.0%	4.8%

(1) NOVA Chemicals establishes an appropriate long-term rate of return for each plan's assets, which reflects asset allocations within each plan, as well as independent views of long-term rate of return expectations for each asset class.

(2) Ultimate trend rate, expected to be achieved between 2010 and 2012, depending on the plan. The assumed health care cost trend rate used to measure the 2003 expected cost of benefits covered by the plan is 11% on average for the plans.

Virtually all of NOVA Chemicals' pension plans have accumulated benefit obligations which exceed the fair value of assets. The accumulated benefit obligation and the fair value of assets for these plans were \$549 million and \$425 million, respectively, at December 31, 2003 (\$426 million and \$308 million, respectively, at December 31, 2002 and \$305 million and \$246 million, respectively, at December 31, 2001).

In 2004, NOVA Chemicals expects to fund its defined benefit plans by \$27 million.

#### — PENSION ASSETS —

The Corporation's investment strategy is set for each plan after taking into consideration the plan structure, nature of the liabilities, the funded status and cash flow requirements of the plan, the size of the assets, and the financial situation of the Corporation and its ability to withstand fluctuations in pension contributions. The assets of each plan are invested in a variety of traditional financial instruments such as equities and fixed income securities using a combination of active and passive strategies. Non-traditional assets such as real estate and venture capital may also be considered in certain situations. Although the Corporation does not consider derivatives a separate asset class, they are permitted in order to manage the allocation of investments across asset classes, markets and currencies. However, under no circumstances can they be used for speculative purposes or have the effect of leveraging the assets.

While most of the benefits of diversification are achieved by allocating across different asset classes, the Corporation also believes it may be appropriate to further diversify by using multiple investment managers employing different management styles within an asset class.

In Europe, the Corporation has pension plans in several countries that vary considerably in membership, liability structure, pension arrangement, and asset size. Given these differences, the asset allocation can vary significantly not only from the North American plans, but also by country. In addition, some European plans are re-insured with investment strategy and asset allocation determined or heavily influenced by the re-insurer.

The Corporation's Canadian and U.S. plans are the most significant to the Corporation with 80% of total pension assets and 87% of total plan members in these plans. The asset allocation for these pension plans at the end of 2003, 2002 and 2001 and the target allocation for 2004, by asset category follows. This information has been aggregated within a geographic segment as asset allocations are similar for the Canadian and U.S. plans.

#### North American Plans

ASSET CATEGORY	TARGET	PERCENTAGE OF PLAN ASSETS		
	ALLOCATION	2003	2002	2001
YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2004			
Equities	60%	61%	57%	60%
Fixed income	40%	39%	43%	40%
Real estate	—	—	—	—
Other	—	—	—	—
Total	100%	100%	100%	100%

#### — POST-RETIREMENT BENEFITS OTHER THAN PENSIONS —

The Corporation provides medical care and life insurance benefits to eligible retirees and their dependents in North America. The Corporation accrues the cost of providing post-retirement benefits as the employees provide services. Post-retirement costs are funded as they are incurred.

A 1% increase in the health care inflation rate would have increased the accumulated post-retirement benefit obligation by an additional \$3 million at December 31, 2003 for Canadian plans and \$7 million for U.S. plans. A 1% decrease in the same health care inflation rate would have decreased the post-retirement benefit obligation by \$3 million and \$5 million for Canadian and U.S. plans, respectively.

— DEFINED CONTRIBUTION ARRANGEMENTS —

NOVA Chemicals has a number of defined contribution arrangements providing pension benefits to certain groups of employees. The total expense for the Corporation's contribution to these plans in 2003 was \$6 million (2002—\$6 million and 2001—\$6 million). In 2004, NOVA Chemicals expects to fund its defined contribution plans by approximately \$6 million.

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## 20

### Asset Retirement Obligations

The total undiscounted amount of estimated cash flows expected to be incurred on closure of active plants in 25 to 40 years is between \$225 million and \$250 million. This amount has been developed pursuant to provisions of the new CICA standard, and is based on third-party cost estimates obtained from reputable sources after an in-depth review of active plant sites and required clean-up and restoration activities. In arriving at the January 1, 2003 estimated asset retirement obligation, a credit-adjusted risk-free rate of 10.5% was used to discount the estimated future cash flows. The estimated asset retirement obligation liability of \$19 million at December 31, 2003 will increase, or accrete, each year over the lives of active plants until it equals the \$225 million to \$250 million expected to be incurred on closure of the plants. In addition to the liability for active sites, the Corporation also has an asset retirement obligation liability for decommissioning and restoration costs associated with plant sites that have been divested or are no longer in use. The accrued liability associated with these sites is \$12 million and is considered to be adequate at this time. The effect of adopting the new CICA standard on January 1, 2003 was an increase to plant, property and equipment (net) of \$4 million, a reduction in the January 1, 2003 asset retirement obligation of \$3 million, and an increase in future income tax liabilities of \$2 million, resulting in an increase in reinvested earnings of \$5 million.

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## 21

### Contingencies and Commitments

Various lawsuits and claims are pending by and against the Corporation. It is the opinion of management that final determination of these claims will not materially affect the financial position or operating results of the Corporation.

The Corporation leases office space and transportation equipment under various operating leases. The minimum lease payments are approximately \$455 million in total with annual amounts of \$49 million in 2004, \$46 million in 2005, \$38 million in 2006, \$35 million in 2007, \$33 million in 2008, and \$254 million thereafter. Rental expense under operating leases was \$53 million in 2003 (2002—\$55 million and 2001—\$58 million).

The Corporation has entered into agreements for the purchase of minimum amounts of feedstock and other raw materials for short- and long-term supply. The resulting obligations, based on year-end market prices, are approximately \$7,734 million in total with annual amounts of \$2,124 million in 2004, \$1,129 million in 2005, \$1,107 million in 2006, \$897 million in 2007, \$605 million in 2008, and \$1,872 million thereafter.

## 22

## Segmented Information

The Corporation determines its reportable segments based on the structure of its operations, which are primarily focused in two principal business segments—Olefins/Polyolefins and Styrene/Polystyrene (Styrenics). These operations involve the production and marketing of ethylene and polyethylene resins; and styrene monomer and styrenic polymers, respectively.

## — FINANCIAL INFORMATION BY BUSINESS SEGMENT —

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
<b>Revenue</b>			
Olefins and polyolefins	\$2,559	\$1,930	\$2,014
Styrenics	1,579	1,305	1,314
Intersegment eliminations	(189)	(144)	(134)
	<b>\$3,949</b>	<b>\$3,091</b>	<b>\$3,194</b>
<b>Depreciation</b>			
Olefins and polyolefins	\$ 187	\$ 166	\$ 132
Styrenics	111	100	98
	<b>\$ 298</b>	<b>\$ 266</b>	<b>\$ 230</b>
<b>Operating income (loss)</b>			
Olefins and polyolefins	\$ 92	\$ 67	\$ 57
Styrenics	(152)	(118)	(225)
Restructuring charges	(15)	(20)	(27)
	<b>\$ (75)</b>	<b>\$ (71)</b>	<b>\$ (195)</b>
<b>Net income (loss)</b>			
Olefins and polyolefins	\$ 14	\$ (5)	\$ (2)
Styrenics	(130)	(102)	(181)
Equity investments	37	5	11
Other	107	21	44
	<b>\$ 28</b>	<b>\$ (81)</b>	<b>\$ (128)</b>
<b>Plant, property, and equipment additions</b>			
Olefins and polyolefins	\$ 74	\$ 43	\$ 125
Styrenics	56	28	43
	<b>\$ 130</b>	<b>\$ 71</b>	<b>\$ 168</b>
<b>DECEMBER 31 (MILLIONS OF DOLLARS)</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Assets</b>			
Olefins and polyolefins	\$2,246	\$1,923	\$1,960
Styrenics	1,767	1,643	1,638
Investment in Methanex	—	399	397
Corporate and other <sup>(1)</sup>	400	189	364
	<b>\$4,413</b>	<b>\$4,154</b>	<b>\$4,359</b>

<sup>(1)</sup> Amounts include all cash and cash equivalents.

## — FINANCIAL INFORMATION BY GEOGRAPHIC AREA —

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Revenue <sup>(1)</sup>			
Canada	\$1,414	\$1,081	\$1,236
United States	1,789	1,410	1,408
Europe and other	746	600	550
	<b>\$3,949</b>	\$3,091	\$3,194
Export sales from Canadian operations			
United States	\$1,054	\$ 748	\$ 694
Europe and other	148	113	137
	<b>\$1,202</b>	\$ 861	\$ 831
Operating income (loss)			
Canada	\$ 4	\$ 11	\$ (75)
United States	(66)	(85)	(31)
Europe and other	(13)	3	(89)
	<b>\$ (75)</b>	\$ (71)	\$ (195)
Equity in earnings of affiliate			
Canada	\$ 39	\$ 5	\$ 14

DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Assets <sup>(2)</sup>			
Canada	\$2,600	\$2,055	\$2,237
United States	1,113	1,090	1,189
Europe and other	673	583	520
Investments	27	426	413
	<b>\$4,413</b>	\$4,154	\$4,359

(1) Based on location of customer.

(2) Based on location of the operating facility.

## 23

## Financial Instruments

## — FINANCIAL INSTRUMENT FAIR VALUES —

Financial instrument fair values represent a reasonable approximation of amounts NOVA Chemicals would have received or paid to counterparties to unwind positions prior to their maturity. NOVA Chemicals has no plans to unwind these positions prior to maturity and has no significant exposure to any individual customer or counterparty.

The carrying amounts reported on the balance sheets for cash and cash equivalents, accounts receivable, bank loans, and accounts payable and accrued liabilities approximate their fair value. Fair values and carrying amounts for long-term debt are as follows:

DECEMBER 31 (MILLIONS OF DOLLARS)	CARRYING AMOUNT			ESTIMATED FAIR VALUE <sup>(1)</sup>		
	2003	2002	2001	2003	2002	2001
Long-term debt <sup>(2)</sup>	\$1,101	\$1,212	\$1,508	\$1,163	\$1,134	\$1,410

(1) The fair value of long-term debt is based on quoted market prices, where available. If market prices are not available, fair values are estimated using discounted cash flow analysis, based on NOVA Chemicals' current incremental borrowing rates for similar borrowing arrangements.

(2) Includes debt installments due within one year.

— FOREIGN EXCHANGE RISK MANAGEMENT —

NOVA Chemicals has U.S., Canadian and European-based petrochemical operations. As a result, a portion of the Corporation's expenditures are incurred in Canadian dollars and euros. Prior to April 2003, NOVA Chemicals managed its exposure to fluctuations in the Canadian/U.S. dollar exchange rate by using forward exchange contracts. At December 31, 2003, NOVA Chemicals had no foreign currency forward exchange contracts nor any plans to enter into any such contracts.

— COMMODITY PRICE RISK MANAGEMENT —

NOVA Chemicals uses commodity-based derivatives to hedge a portion of its exposure to price fluctuations on crude oil, refined products and natural gas transactions. The instruments are used to moderate the risk of adverse short-term price movements. Occasionally, longer-term positions will be taken to manage price risk for anticipated supply requirements.

At December 31, 2003, 2002 and 2001, the notional volume and estimated fair value of outstanding derivative contracts for natural gas are as follows:

DECEMBER 31		2003	2002	2001
<b>Pricing swaps</b>				
Notional volume	GJ millions	—	3.2	12.0
Weighted-average price per GJ	Cdn.	\$ —	\$ 5.92 <sup>(2)</sup>	\$ 6.89 <sup>(2)</sup>
Estimated fair value <sup>(1)</sup>	U.S. millions	\$ —	\$ (2)	\$ 21
Carrying value	U.S. millions	\$ —	\$ —	\$ —
Term to maturity	Months	—	1–10	1–10
<b>Basis swaps</b>				
Notional volume	mcf millions	76.0	113.0	3.0
Weighted-average basis differential per mcf	U.S.	\$ 0.52 <sup>(4)</sup>	\$ 0.47 <sup>(3)</sup>	\$ 0.02 <sup>(3)</sup>
Estimated fair value <sup>(1)</sup>	U.S. millions	\$ (18) <sup>(4)</sup>	\$ (10)	\$ (1)
Carrying value	U.S. millions	\$ —	\$ —	\$ —
Term to maturity	Months	1–15	1–34	1–10
<b>Options</b>				
Notional volume — calls	mcf millions	3.6	1.1	20.5
Notional volume — puts	mcf millions	33.5	68.1	36.6
Weighted-average price per mcf — calls	U.S.	\$ 6.27	\$ 4.10	\$ 4.93
Weighted-average price per mcf — puts	U.S.	\$ 2.42 <sup>(5)</sup>	\$ 2.32 <sup>(5)</sup>	\$ 2.67
Estimated fair value <sup>(1)</sup>	U.S. millions	\$ 1	\$ (1)	\$ 6
Carrying value	U.S. millions	\$ —	\$ —	\$ —
Term to maturity	Months	1–22	1–34	1–22

(1) Unrealized before-tax gain (loss).

(2) The Corporation pays floating prices and receives a fixed price from the counterparty.

(3) The Corporation will pay or receive the difference between the NYMEX market price and the U.S. export market price, plus a fixed differential established in the contract.

(4) The Corporation has crystallized the losses on substantially all of the basis swaps by placing offsetting positions with an average basis differential of 75¢. The net effect of these positions will result in an aggregate loss of \$18 million before-tax, when all positions have matured.

(5) The Corporation will pay the difference between the NYMEX market price and the contract price (if contract is higher than market).

At December 31, 2003, 2002 and 2001, the notional volume and estimated fair value of outstanding derivative contracts for crude oil, refined products, and alternative feedstock are as follows:

DECEMBER 31		2003	2002	2001
Notional volume	bbls millions	6.4	13.8	10.8
Weighted-average price per bbl <sup>(1)</sup>	U.S.	\$29.96	\$29.84	\$29.05
Estimated fair value <sup>(2)</sup>	U.S. millions	\$ 9	\$ 8	\$ (4)
Carrying value	U.S. millions	\$ —	\$ —	\$ —
Term to maturity	Months	1–36	1–48	1–60

<sup>(1)</sup> Crude oil swaps, options, collars.

<sup>(2)</sup> Unrealized gain (loss).

In addition to the outstanding contracts described above, NOVA Chemicals has liquidated certain natural gas and crude oil option positions, realizing a gain of \$3 million in 2003 (2002–\$17 million and 2001–\$nil). Gains and losses on liquidated positions are deferred on the balance sheet and recognized in income over the periods in which the cost of the related feedstock purchases will be recognized. The unamortized portion of liquidated gains was \$12 million at December 31, 2003 (see Notes 7 and 9). The net fair value of NOVA Chemicals' outstanding and liquidated positions is \$4 million at December 31, 2003 (2002–\$12 million and 2001–\$22 million).

#### — INTEREST RATE RISK MANAGEMENT —

When deemed appropriate, NOVA Chemicals enters into interest rate swap agreements to manage its interest rate price risk exposure on certain fixed-rate debt. The agreements generally involve the receipt of fixed-rate amounts in exchange for floating-rate LIBOR-based payments over the terms of the related debt. In 2003, the Corporation entered into floating-for-fixed interest rate swaps on \$550 million of Medium-Term Notes. These positions had an estimated fair-market value of \$4 million at December 31, 2003.

In 2002 and 2001, a series of interest rate swaps on \$550 million (2001–\$650 million) of fixed-rate debt were liquidated, resulting in a before-tax gain of \$13 million (2001–\$27 million) (see Notes 7 and 9). The gains have been deferred and will be recognized in income as a reduction of interest expense over the terms of the related debt instruments, which mature in 2005, 2006 and 2009.

#### — CREDIT RISK MANAGEMENT —

Credit exposure on financial instruments arises from the possibility that a counterparty to an instrument in which NOVA Chemicals is entitled to receive payment of an unrealized gain fails to perform. NOVA Chemicals has established a limit on contingent exposure for each counterparty based on the counterparty's credit rating. Credit exposure is managed through credit approval and monitoring procedures. NOVA Chemicals does not anticipate any counterparties that it currently transacts with will fail to meet their obligations. At December 31, 2003, 2002 and 2001, NOVA Chemicals' credit exposure was \$nil for foreign currency instruments, \$4 million (2002–\$nil and 2001–\$nil) for interest rate instruments, and \$3 million (2002–\$4 million and 2001–\$27 million) for commodity-based instruments.

Concentration of credit risk relates primarily to the Corporation's receivables, as certain customer groups are located in the same geographic area and operate in the same industry. The Corporation manages its credit risk relating to these receivables through credit approval and monitoring procedures.

## 24

## United States Generally Accepted Accounting Principles

## — RECONCILIATION TO ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES —

The Corporation prepares its consolidated financial statements in accordance with Canadian GAAP, which, in some respects, are different from GAAP used in the United States. The effect of these differences on the Corporation's consolidated net income (loss) and balance sheet are as follows:

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS EXCEPT PER SHARE AMOUNTS)	2003	2002	2001
Net income (loss) in accordance with Canadian GAAP	\$ 28	\$ (81)	\$ (128)
Add (deduct) adjustments for:			
Start-up costs <sup>(1)</sup>	4	3	(11)
Foreign exchange derivative instruments and hedging activity <sup>(2)</sup>	3	15	14
Other derivative instruments and hedging activity <sup>(2)</sup>	(7)	5	10
Future income taxes <sup>(3)</sup>	—	—	29
Inventory costing <sup>(4)</sup>	(1)	1	(2)
Preferred securities distributions <sup>(5)</sup>	(23)	(23)	(23)
Equity in earnings (losses) of affiliate <sup>(6)</sup>	(1)	(4)	1
Change in accounting policy <sup>(7)</sup>	5	—	—
Other gains <sup>(8)</sup>	42	—	—
Other	1	1	1
Net income (loss) in accordance with U.S. GAAP	\$ 51	\$ (83)	\$ (109)
Earnings (loss) per share using U.S. GAAP			
— Basic	\$0.52	\$(1.05)	\$(1.39)
— Diluted	\$0.51	\$(1.05)	\$(1.39)
Comprehensive income (loss) (net of tax) <sup>(9)</sup>			
Net income (loss) in accordance with U.S. GAAP	\$ 51	\$ (83)	\$ (109)
Cumulative translation adjustment (less tax of \$nil, \$nil, and \$nil) <sup>(10)</sup>	395	70	(140)
Less: reclassification of amounts included in net income	(54)	—	—
Unrealized gain (loss) on cash flow hedging instruments (less tax of \$(2), \$(15) and \$17) <sup>(2)</sup>	4	26	(30)
Equity in comprehensive income (loss) of affiliate (less tax of \$nil, \$(1) and \$1) <sup>(6)</sup>	(3)	7	(4)
Minimum pension liability adjustments (less tax of \$2, \$1, and \$nil) <sup>(11)</sup>	(3)	(1)	—
Comprehensive income (loss) in accordance with U.S. GAAP	\$ 390	\$ 19	\$ (283)
Accumulated other comprehensive income (loss) <sup>(9)</sup>			
Cumulative translation adjustment <sup>(10)</sup>	\$ 211	\$ (130)	\$ (200)
Unrealized loss on cash flow hedging instruments <sup>(2)</sup>	—	(4)	(30)
Equity in comprehensive income (loss) of affiliate <sup>(6)</sup>	—	3	(4)
Minimum pension liability <sup>(11)</sup>	(4)	(1)	—
Accumulated other comprehensive income (loss)	\$ 207	\$ (132)	\$ (234)

DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
<b>Balance sheet items in accordance with U.S. GAAP</b>			
Current assets <sup>(2)(4)</sup>	\$ 959	\$ 626	\$ 716
Investment and other assets <sup>(1)(2)(6)(11)</sup>	157	492	496
Plant, property, and equipment (net) <sup>(1)(7)</sup>	3,311	3,007	3,131
Current liabilities <sup>(2)</sup>	(585)	(577)	(725)
Long-term debt:			
Preferred securities <sup>(5)</sup>	(383)	(383)	(383)
Other long-term debt <sup>(2)</sup>	(1,122)	(1,234)	(1,323)
Deferred credits <sup>(2)(3)(11)</sup>	(829)	(790)	(771)
Retractable preferred shares	(198)	(198)	(198)
<b>Common shareholders' equity</b>	<b>\$ 1,310</b>	<b>\$ 943</b>	<b>\$ 943</b>

(1) **Start-Up Costs.** Canadian GAAP provides that when an entity starts up a new facility, expenditures incurred during the pre-operating period may be deferred when certain criteria are met. Under U.S. GAAP, all costs (except interest on constructed assets) associated with start-up activities must be expensed as incurred. See Note 5 for information on the Corporation's start-up costs.

(2) **Derivative Instruments and Hedging Activities.** Canadian GAAP does not require the recognition of derivative instruments on the consolidated balance sheet at fair values. Under U.S. GAAP, entities must follow the recommendations of Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, which requires the recognition of all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. For derivatives that are designated and qualify as hedging instruments, the Corporation documents the hedging strategy, including hedging instrument and hedged item, based on the risk exposure being hedged. Based upon the designated hedging strategy, effectiveness of the hedge in offsetting the hedged risk is assessed at inception and on an ongoing basis during the term of the hedge. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

The application of SFAS No. 133 for U.S. GAAP reporting results in differences related to foreign exchange, commodity-based and other derivative instruments used by the Corporation. For information regarding the Corporation's use of derivatives and hedging activities, see Note 23.

(3) **Future Income Taxes.** Canadian GAAP permits recognition of the impact of changes in tax laws and rates on the measurement of future income tax assets and liabilities in the period in which the tax laws and rates are considered to be substantively enacted. Under U.S. GAAP rules the impact of tax rate changes on future income tax assets and liabilities is only recognized on enactment of the change in tax law and rates.

(4) **Inventory Costing.** Canadian GAAP allows fixed overhead costs associated with production activities to be expensed during the period whereas U.S. GAAP requires an allocation of fixed production overhead to inventory.

(5) **Compound Financial Instruments.** Canadian GAAP requires the classification and recording of a financial instrument, or its component parts, as a liability or equity in accordance with the substance of the contractual arrangements governing the instrument. U.S. GAAP requires that no portion of the proceeds from issuance of convertible debt securities be attributed to the conversion feature and classified as equity. Accordingly, the Corporation's preferred securities discussed in Note 10 are accounted for as debt under U.S. GAAP and the related distributions as interest expense.

(6) **Equity in Earnings (Losses) of Affiliate.** NOVA Chemicals' share of adjustments to financial information and results of operations of equity investments to comply with U.S. accounting principles.

(7) **Change in Accounting Policy.** On January 1, 2003, the Corporation adopted SFAS No. 143, Accounting for Asset Retirement Obligations. This standard and the CICA standard, also adopted on January 1, 2003, and discussed in Notes 2 and 20, are essentially the same. However, under U.S. GAAP, the cumulative effect of adopting a new standard is reflected in net income in the period of adoption, whereas under Canadian GAAP, it is reflected as a charge or credit to reinvested earnings.

(8) **Other Gains.** Difference in gain on disposition of investment in Methanex resulting from different cost basis under U.S. GAAP.

(9) **Comprehensive Income.** U.S. GAAP SFAS No. 130, Reporting Comprehensive Income, requires the presentation of a statement containing the components of comprehensive income and the accumulated balance of other comprehensive income. Comprehensive income includes all changes in equity during the period including items that are not in net income. This statement is not required under Canadian GAAP.

(10) **Cumulative Translation Adjustment.** Unrealized gains (losses) resulting from translation of self-sustaining foreign operations are recorded in other comprehensive income until there is a realized reduction in the investment.

(11) **Minimum Pension Liability.** SFAS No. 87, Employer's Accounting for Pensions, requires an employer to record an additional minimum liability (AML) if the unfunded accumulated benefit obligation exceeds the accrued pension liability or if there is a prepaid pension asset with respect to the plan. If an AML is recognized, an intangible asset, in an amount not exceeding the unrecognized prior service cost, is also recognized. The excess of the AML, over the intangible asset, if any, is charged to other comprehensive income, net of income tax effects. At December 31, 2003, an AML and an intangible asset, in the amount of \$10 million and \$4 million, respectively, have been recognized, resulting in a charge of \$4 million (net of tax) to other comprehensive income.

## — OTHER DISCLOSURES —

**Stock-based Compensation.** SFAS No. 123, Accounting for Stock-Based Compensation, defines a fair-value based method of accounting for employee stock options and encourages the use of this method to account for stock compensation plans. It does, however, permit an entity to continue to measure compensation cost using the intrinsic-value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). Entities using the intrinsic method must disclose pro forma net income (loss) and net income (loss) per share assuming the fair-value method had been applied. NOVA Chemicals has elected to follow APB 25 and related interpretations in accounting for employee stock options. Options are issued at the market price on date of grant and therefore, under APB 25, no compensation expense has been recorded.

The following table outlines the impact on the Corporation's U.S. GAAP results, had compensation expense for the stock option plan been determined based on the fair-value method as prescribed under SFAS No. 123:

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)	2003	2002	2001
Net income (loss) in accordance with U.S. GAAP			
As reported	\$ 51	\$ (83)	\$ (109)
Pro forma	\$ 44	\$ (94)	\$ (115)
Earnings (loss) per share — basic			
As reported	\$0.52	\$(1.05)	\$(1.39)
Pro forma	\$0.44	\$(1.18)	\$(1.46)
Earnings (loss) per share — diluted			
As reported	\$0.51	\$(1.05)	\$(1.39)
Pro forma	\$0.44	\$(1.18)	\$(1.46)

— U.S. ACCOUNTING DEVELOPMENTS —

FASB Statement No. 123, Accounting for Stock-Based Compensation, issued in December 2002, provides alternative methods of transition for a voluntary change to the fair-value based method of accounting for stock-based employee compensation. As the Corporation intends to adopt the fair-value method as required for Canadian GAAP reporting in 2004, the implications of FASB Statement No. 123 are expected to be minimal.

FASB Statement No. 132, Employers' Disclosures about Pensions and Other Post-Retirement Benefits, was revised in December 2003 and requires additional disclosures about pension plans and other post-retirement benefit plans. Certain disclosures are required for 2003 financial statements and others for 2004 financial statements. Canadian GAAP disclosure requirements for pension and post-retirement plans have also been amended and as such, the Corporation does not anticipate this Statement will have an impact on the Corporation's disclosure requirements.

FASB Statement No. 150, Accounting for Certain Financial Instruments with the Characteristics of both Liabilities and Equity, issued in May 2003, requires the classification of certain financial instruments, previously classified as equity, as liabilities. While Statement No. 150 has not had an impact on the current classification of the Corporation's financial instruments, the FASB intends to continue deliberations on this topic. Future recommendations by the FASB may have an impact on the Corporation's financial position and are not determinable at this time.

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## 25

### Subsequent Events

In January 2004, NOVA Chemicals issued \$400 million of 6.5% Senior Notes due 2012. The net proceeds of the offering will be used to redeem, in March 2004, the 9.04% preferred securities due 2048 and 9.50% preferred securities due 2047. The two issues of preferred securities total \$383 million. The balance of the proceeds will be used for general corporate purposes.

## Responsible Care® Information

### What is Responsible Care?

Responsible Care is an initiative developed by the chemical industry to improve performance in environmental protection, health and safety. The Responsible Care program had its beginnings in 1985, in Canada, and the initiative now extends to more than 47 countries. Communication of Responsible Care principles and practices helps our industry to provide a better understanding of the value our products bring to society, the risks associated with these products, and the ways in which we reduce these risks to acceptable levels.

At NOVA Chemicals, we believe that Responsible Care makes good business sense, and we have been a Responsible Care company since the program's inception. We strive to operate with zero incidents and work to ensure our products are safely manufactured, safe to use and effectively managed throughout their lifecycles.

### NOVA Chemicals' Responsible Care Vision

"We will be a leader in the chemical industry worldwide, in terms of our performance and commitment to Responsible Care. Our ultimate goal is to operate our businesses without harm to people, property and the environment."

### Worker Safety and Health

NOVA Chemicals operates on the premise that all work-related illnesses and injuries can be prevented. Our safety and health programs are designed to protect employees and contractors from both immediate on-the-job and long-term health risks.

### Product Stewardship

NOVA Chemicals fosters responsible management of our products throughout their lifecycles by working closely with our customers, suppliers and carriers. Through our product stewardship program, we ensure compliance with product regulations and advise customers on the safe handling of our products. We also work with major chemical industry trade associations to manage issues confronting our industry.

### A Corporate Neighbor of Choice

As a chemical manufacturer, it is imperative that we share information about our facilities, operations and products. NOVA Chemicals makes concerted efforts to understand and respond to the concerns of local

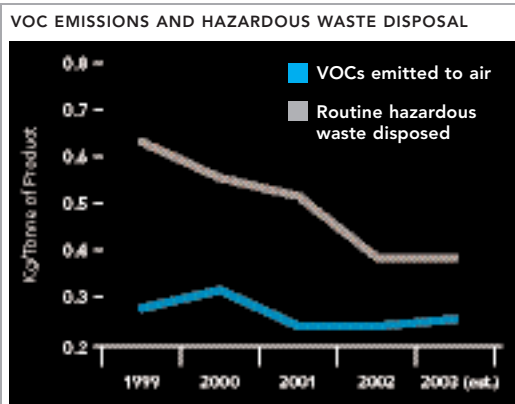
communities and residents. Our efforts include: community forums and open houses, participation in local government activities, and presentations to schools and community groups. The measures we take to protect workers, neighbors and the environment are all part of our efforts to be a "neighbor of choice."

### Hazardous Waste Disposal

Through efficient manufacturing practices and reuse and recycling initiatives, NOVA Chemicals strives to limit the amount of waste requiring disposal. Between 1999 and 2005, our goal is to reduce the quantity of hazardous waste disposed by 50% per unit of product manufactured. NOVA Chemicals achieved a 43% reduction per unit of product manufactured over the last four years.

### Volatile Organic Compounds (VOC) Emissions

Between 1999 and 2005, NOVA Chemicals' goal is to reduce VOC emissions by 25% per unit of product manufactured. As a result of various VOC reduction initiatives, our emissions per unit of product manufactured were approximately 10% lower in 2003 compared to 1999.



### Additional Information

NOVA Chemicals publishes a Responsible Care annual report that details all of our Responsible Care performance measures. You can access our most current report at [www.novachemicals.com](http://www.novachemicals.com), or call (412) 490-4000 to request a copy.

## Board of Directors



### LEFT TO RIGHT

Seated: J. Rennie, K. Hawkins, J.E. Newall, A. Ludwick

Standing: L.Y. Fortier, J. Blumberg, J. Stanford, J. Bougie, J. Lipton, F.P. Boer, J. Creighton, R. Dineen, J. Thompson

**J. E. (Ted) Newall, O.C., 68**, is Chairman of the Board of Directors of NOVA Chemicals and, prior to July 1998, was Vice Chairman and Chief Executive Officer of NOVA Corporation. He has been a director of NOVA Chemicals, or its predecessor companies, NOVA Corporation and NOVA Corporation of Alberta, since August 1991. He is a director and Chairman of the Board of Canadian Pacific Railway, and is also a director of Alcan Inc., Royal Bank of Canada, Maple Leaf Foods and McCain Capital Corporation. Mr. Newall resides in Calgary, Alberta.

**Jerald A. Blumberg, 64**, has been a director of NOVA Chemicals since February 2000. He is Past President and Chief Executive Officer of Ambar, Inc., a private oilfield services company. Prior to January 1998, Mr. Blumberg held various international and management positions with E.I. DuPont de Nemours & Company, Inc., most recently as an Executive Vice President and member of the Office of the Chief Executive. He is a director of The Lubrizol Corporation and iServiceX.com. Mr. Blumberg resides in Durango, Colorado.

**Dr. F. Peter Boer, 63**, has been a director of NOVA Chemicals, or its predecessor companies, NOVA Corporation and NOVA Corporation of Alberta, since February 1991. He resides in Boynton Beach, Florida. He is President and Chief Executive Officer of Tiger Scientific Inc., a firm specializing in science and technology consulting and investments. He is a director of Ensco, Inc., Laureate Biopharma LLC and Rhodes Technologies. Dr. Boer holds an AB in Physics from Princeton University and a PhD in Chemical Physics from Harvard University.

**Jacques Bougie, O.C., 56**, has been a director of NOVA Chemicals since June 2001. He resides in Iles-des-soeurs, Québec. He is Past President and Chief Executive Officer of Alcan Inc. Mr. Bougie held numerous other positions within Alcan beginning in 1979 until his retirement in 2001. Mr. Bougie currently serves on the board of McCain Foods Ltd., and Rona Inc., and previously served on the boards of Royal Bank of Canada, Bell Canada and BCE Mobile Communications, Inc.

**Joanne V. Creighton, 61**, has been a director of NOVA Chemicals since June 2001. She resides in South Hadley, Massachusetts, and is President and Professor of English of Mount Holyoke College. Prior to January 1996, Ms. Creighton was Interim President and Professor of English of Wesleyan University. She is a director and President of Five Colleges, Inc., and a director of the Consortium on the Financing of Higher Education, the Women's College Coalition and the Economic Development Council of Western Massachusetts.

**Robert E. Dineen, Jr., 63**, has been a director of NOVA Chemicals since July 1998. He resides in New York, New York, and is a partner of Shearman & Sterling, LLP, Attorneys-at-Law, New York, New York. Mr. Dineen is a director of Manulife Financial Corporation.

**L. Yves Fortier, C.C., Q.C., 68**, has been a director of NOVA Chemicals since July 1998. He resides in Westmount, Québec, and is Chairman and a senior partner of Ogilvy Renault, Barristers and Solicitors, Montréal, Québec. He is Governor and director of Hudson's Bay Company, Chairman and director of Alcan Inc., and a director of Northern Telecom Limited, Royal Bank of Canada and Groupe TVA Inc.

**Kerry L. Hawkins, 63**, has been a director of NOVA Chemicals since July 1998. He resides in Winnipeg, Manitoba, and is President of Cargill Limited, and Chief Executive Officer of Canadian Operations for Cargill. He is also Chairman of Prince Rupert Grain, Saskferco Products Inc. and Cascadia Terminal. He is the Founding Chairman of the Business Council of Manitoba and a director of TransCanada PipeLines Limited, Shell Canada Limited, Hudson's Bay Company, Canadian Council of Chief Executives, C.D. Howe and the Chamber of Maritime Commerce.

**Jeffrey M. Lipton, 61**, has been a director of NOVA Chemicals, or its predecessor company, NOVA Corporation, since April 1996. He is President and Chief Executive Officer of NOVA Chemicals and resides in Sewickley, Pennsylvania. Mr. Lipton serves as Chairman of the Board of Trimeris, Inc. He is also a director of Hercules Incorporated. Mr. Lipton is Vice Chairman of the Board and Chairman of the Finance and Membership Committee of the American Chemistry Council; and Honorary Secretary and board member of the Society of Chemical Industries. He is also a member of the Canadian Council of Chief Executives.

**Arnold M. Ludwick, 66**, has been a director of NOVA Chemicals since February 2000. Until December 2002, he was Deputy Chairman of Claridge Inc., and prior to 1999 was President and Chief Executive Officer of Claridge and a Vice President of The Seagram Company Ltd. He resides in Montréal, Québec.

**Janice G. Rennie, F.C.A., 46**, has been a director of NOVA Chemicals, or its predecessor companies, NOVA Corporation and NOVA Corporation of Alberta, since April 1991. She is Vice Chair of EPCOR Utilities Inc., and a director of EPCOR Preferred Equity Inc., Matrikon Inc. and Greystone Capital Management Inc. She is also a trustee of Canadian Hotel Income Properties. Ms. Rennie resides in Edmonton, Alberta, where she is Principal of Rennie & Associates.

**James M. Stanford, 66**, has been a director of NOVA Chemicals since December 1999. He is President of Stanford Resource Management, Inc., and retired President, Chief Executive Officer and director of Petro-Canada (1993–2000) and President, Chief Operating Officer and director (1990–1993). Mr. Stanford is a director of EnCana Corporation, Inco Limited, Terasen Inc., OMERS Resources, Logen Corporation, and OPTI Canada Inc., and serves as Chairman of the Canadian Foundation for Sustainable Development Technology. He resides in Calgary, Alberta.

**Joseph D. Thompson, 70**, has been a director of NOVA Chemicals since July 1998. He is Chairman of PCL Construction Group Inc. Prior to July 1998, Mr. Thompson was Chairman, President and Chief Executive Officer of PCL Construction Group Inc. He is also a director of TransCanada PipeLines Limited, Jonan Enterprises Ltd., and PCL Employee Holdings Ltd. He resides in Edmonton, Alberta.

## Corporate Governance Information

The governance of NOVA Chemicals is the responsibility of the Board of Directors and is delivered by four committees of the Board and NOVA Chemicals' Executive Leadership Team, comprising senior management.

NOVA Chemicals has a long history of strong corporate governance. With NOVA Chemicals' increasing national and international development, and the globalization of the commodity chemical businesses, the directors and management have established forward-looking governance policies that are regularly evaluated and modified to ensure effectiveness.

NOVA Chemicals complies with the corporate governance guidelines of the Toronto Stock Exchange. The company is also aligned, where appropriate, with the corporate governance rules recently passed by the U.S. Securities and Exchange Commission and the New York Stock Exchange.

The Board of Directors is responsible for making significant decisions regarding the business and affairs of NOVA Chemicals and establishes the overall policies and standards for the Corporation. The Board of Directors and the committees of the Board meet on a regularly scheduled basis. In addition, communications between the directors and management occur apart from regularly scheduled Board and committee meetings.

### Committees of the Board

#### — AUDIT, FINANCE AND RISK —

This committee reviews and inquires into matters affecting the financial reporting of NOVA Chemicals; the system of internal accounting and financial controls and procedures; NOVA Chemicals' financial audit procedures and plans; recommends the approval of the issuance of debt securities; oversees the policies and practices of NOVA Chemicals relating to corporate compliance and risk management strategies; recommends to the Board the appointment and remuneration of the external auditors and approves the mandate and appointment of internal auditors; oversees the funding, administration and investment of the trust funds associated with NOVA Chemicals' savings and profit sharing plans and pension plans; and reviews with management and reports to the Board, annually, on the financing plans and objectives of NOVA Chemicals. Members are: Messrs. Hawkins (Chairman), Dineen, Ludwick, and Thompson and Ms. Rennie. Mr. Thompson will not stand for re-election at the April Annual General Meeting, as he will have reached mandatory retirement age.

#### — CORPORATE GOVERNANCE —

This committee is responsible for the composition, compensation and governance of the Board of Directors of NOVA Chemicals and recommends nominees for election or appointment as directors. This committee is also responsible for maintaining an effective working relationship between the Board of Directors and NOVA Chemicals' management. Members are: Messrs. Newall (Chairman), Blumberg, Bougie, Dineen, Fortier and Stanford.

— PUBLIC POLICY AND RESPONSIBLE CARE —

This committee is responsible for overseeing the policies and practices of NOVA Chemicals relating to its Responsible Care audit and the environment, occupational health and safety, communications, corporate contributions, public policy matters and NOVA Chemicals' relationship with all of its stakeholders. Members are: Dr. Boer (Chairman) and Messrs. Bougie, Fortier, Ludwick, and Thompson and Mmes. Creighton and Rennie. Mr. Thompson will not stand for re-election at the April Annual General Meeting, as he will have reached mandatory retirement age.

— HUMAN RESOURCES —

This committee oversees policies and practices of NOVA Chemicals with respect to human resources. It reviews recommendations for senior executive appointments and considers the terms and conditions of their employment; as well as succession planning and compensation. It recommends awards under the Management Incentive Plan, the Equity Appreciation Plan, the Option Plan and the Restricted Stock Unit Plan. It is also responsible for the proper and orderly administration of NOVA Chemicals' savings, profit sharing and pension plans, other than matters relating to the funding and investment of the plans' trust funds. Members are: Mr. Stanford (Chairman), Dr. Boer, Messrs. Blumberg and Hawkins, and Ms. Creighton.

The mandates of the Audit, Finance and Risk, Human Resources, Public Policy and Responsible Care, and Corporate Governance Committees are available on the NOVA Chemicals website at [www.novachemicals.com](http://www.novachemicals.com).

### Other Corporate Activities

— TECHNOLOGY ADVISORY COMMITTEE —

In 1996, a Technology Advisory Committee was created to advise NOVA Chemicals on its research strategy and programs. The Technology Advisory Committee consists of two NOVA Chemicals' directors, Dr. Boer and Mr. Blumberg (Co-Chairs); Mr. Christopher Pappas, Senior Vice President and President, Styrenics, NOVA Chemicals; Mr. Paul Clark (Co-Chair), Vice President, Research and Technology, NOVA Chemicals; Mr. Kees Bleijenberg, Vice President, Technology, NOVA Chemicals Inc.; Mr. William Mitchell, Vice President, Legal and Chief Patent Counsel, NOVA Chemicals; Mr. Gerry Dyer, retired Research and Development Director, DuPont Canada Inc.; and three world-renowned research scientists: Dr. Musa Kamal, Professor, McGill University; Dr. Kurt Zilm, Professor, Yale University; and Dr. Robert Waymouth, Professor, Stanford University.

## Executive Leadership Team



### LEFT TO RIGHT

L. MacDonald, C. Pappas, A.T. Poole, J. Mustoe, S. O'Brien, J. Lipton, J. Wheeler, D. Spiess

#### **JEFFREY M. LIPTON, 61** **President and** **Chief Executive Officer**

Jeff joined NOVA Corporation in 1994 as Senior Vice President and Chief Financial Officer and assumed his current position as President and Chief Executive Officer of NOVA Chemicals in 1998. Jeff also serves as Chairman of the Board of Trimeris, Inc. He is also a director of Hercules Incorporated. Jeff is Vice Chairman of the Board and Chairman of the Finance and Membership Committee of the American Chemistry Council; and Honorary Secretary and board member of the Society of Chemical Industries. He is also a member of the Canadian Council of Chief Executives. Jeff worked with E.I. DuPont for almost three decades, prior to joining NOVA Chemicals. He graduated from the Rensselaer

Polytechnic Institute with a Bachelor of Chemical Engineering degree and obtained an MBA from Harvard University.

#### **LARRY A. MACDONALD, 52** **Senior Vice President** **and Chief Financial Officer**

Larry joined NOVA Corporation of Alberta in 1979 as Controller. He progressed through several financial, information technology, and merger and acquisition positions within NOVA Corporation and NOVA Corporation of Alberta before assuming the role of Senior Vice President, Manufacturing East for NOVA Chemicals in 1999. He began his current role in December 2001. Larry graduated from the University of Windsor with a Bachelor of Commerce degree and is a Chartered Accountant.

#### **JACK S. MUSTOE, 56** **Senior Vice President** **Legal and General Counsel**

Jack joined NOVA Corporation of Alberta in 1988 as Vice President, General Counsel and Corporate Secretary and was named Senior Vice President, General Counsel and Corporate Environmental Officer of NOVA Corporation in 1994. He assumed his current position as Senior Vice President, Legal and General Counsel for NOVA Chemicals in 1998. Jack is also responsible for NOVA Chemicals' purchasing function. Prior to 1988, he served as Senior Legal Counsel for Dome Petroleum Ltd., and as Assistant General Counsel for Norcen Energy Resources Ltd. Jack graduated from the University of Western Ontario with a Bachelor of Laws degree and is a member of the Ontario and Alberta Bars.

**SHEILA H. O'BRIEN C.M., 56**  
**Senior Vice President**  
**Human Resources**  
**Public Affairs, Government and**  
**Investor Relations**

Sheila was named to her current role with NOVA Chemicals in July 1998. Since 1992 she held several senior management roles within NOVA Corporation and NOVA Corporation of Alberta, including Human Resources, Public Affairs, and People and Community. Prior to 1992, Sheila held managerial positions in Human Resources and Public Affairs at Amoco Canada Petroleum Co. Ltd. and Petro-Canada. She also held leadership positions in organizations in the public and not-for-profit sectors. Sheila holds a Bachelor of Arts degree in English and Sociology from the University of Calgary and is a graduate of the University of Western Ontario's Management Training Course. Sheila was appointed to the Order of Canada in 1998.

**DALE H. SPIESS, 60**  
**Senior Vice President and**  
**President, Olefins/Polyolefins**

Dale began his current role in November of 2001. He joined NOVA Chemicals as Senior Vice President, Polyethylene Sales and Marketing in 1998. Prior to this, Dale was Group Vice President with Millennium Petrochemicals Inc., and also held positions with Northern Petrochemicals, ARCO Chemical and Uniroyal Chemical. Dale serves as a director of the Flexible Packaging Association. Dale has a Bachelor of Science degree in Biology from Illinois Wesleyan University, and is a graduate of the Executive Management Program at The University of Pennsylvania.

**CHRISTOPHER D. PAPPAS, 48**  
**Senior Vice President and**  
**President, Styrenics**

Chris joined NOVA Chemicals in his current role in July of 2000. Chris was President and Chief Executive Officer of Paint and Coatings.com just prior to joining NOVA Chemicals. From 1996 until 1998, Chris led the ethylene elastomers business of DuPont Dow Elastomers, Inc. as Vice President, and was later named Commercial Vice President. He began his career with Dow Chemical in 1978, where he held a variety of sales and managerial positions through 1995. Chris is a member of the American Plastics Council Operating Board, Chair of AIChE Industrial Advisory Board and a director of WQED Public Television. He has a Bachelor of Science degree in Civil Engineering from The Georgia Institute of Technology and an MBA from The Wharton School of Business at The University of Pennsylvania.

**JOHN L. WHEELER, 60**  
**Senior Vice President and**  
**Chief Information Officer**

John joined NOVA Chemicals in his current role in 1998. Prior to this, he held senior management positions in Information Technology at AT&T Co., Bristol-Myers Consumer Products, Viacom and PolyGram, and was Director of Information Systems for W.R. Grace Specialty Chemicals Co. John graduated with a Bachelor of Arts degree in Political Science (Pre-Law) from Duke University.

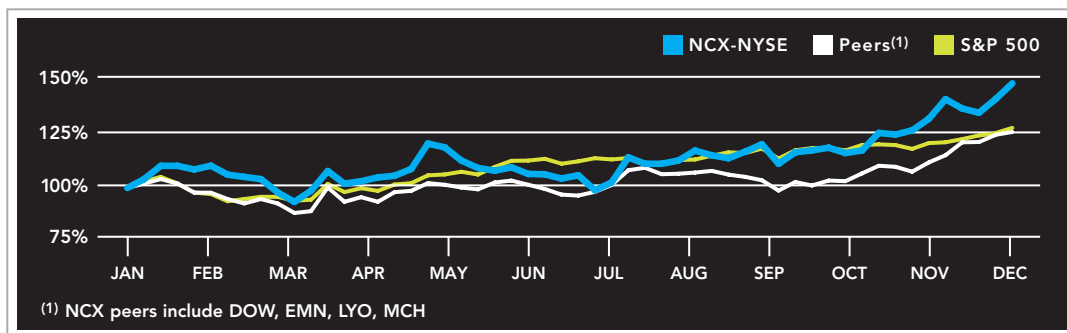
**A. TERENCE POOLE, 61**  
**Executive Vice President**  
**Corporate Strategy and**  
**Development**

Terry began his current role in 2000. Prior to this, he spent two years as Executive Vice President, Finance and Strategy for NOVA Chemicals. Since 1998, Terry has held several senior management roles within NOVA Corporation of Alberta and NOVA Corporation, including Senior Vice President and Chief Financial Officer; Senior Vice President, Controller and Treasurer; and Vice President and Controller. Terry also serves on the board of Methanex Corporation. Prior to 1988, Terry held senior financial and operating management positions in the John Labatt group of companies and with Phillips Cables. Terry graduated from Dalhousie University with a Bachelor of Commerce degree and is a Chartered Accountant.

## Shareholder Value

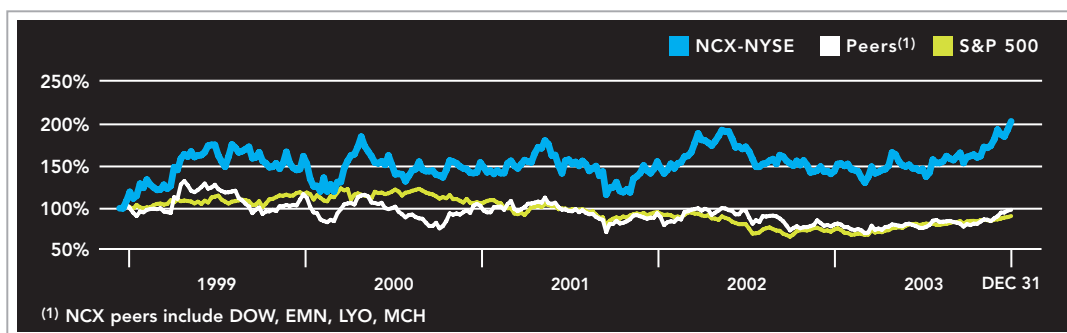
### — SHARE PRICE PERFORMANCE: 2003 —

NOVA Chemicals' share price increased 47% in the U.S. on the New York Stock Exchange. This compares to an average increase of 25% in peer chemical companies' share values, a 26% increase in the S&P 500.



### — SHARE PRICE PERFORMANCE: 1999 THROUGH 2003 —

From January 1, 1999 through December 31, 2003, NOVA Chemicals' share price increased 106% on the New York Stock Exchange. This compares to an average 2% decline in peer chemical companies' share values, and a 10% decline in the S&P 500.



### — NOVA CHEMICALS' SHARE HISTORY —

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Dividends paid (Canadian dollars)	\$ 0.40	\$ 0.40	\$ 0.40
Market price (NYSE) (U.S. dollars)			
High	\$27.04	\$26.09	\$24.70
Low	\$16.80	\$18.14	\$14.86
Close	\$26.95	\$18.30	\$19.27
Market price (TSX) (Canadian dollars)			
High	\$35.05	\$40.15	\$37.90
Low	\$24.65	\$28.48	\$23.25
Close	\$35.04	\$28.89	\$30.75
Common dividend yield	1.1%	1.4%	1.3%
Shares outstanding			
Year-end (millions)	87	87	86
Average (millions)	87	86	85
Registered shareholders at year-end (thousands) <sup>(1)</sup>	14	14	19
Percentage of U.S. ownership <sup>(2)</sup>	26	28	27

(1) NOVA Chemicals estimates that 85% of the outstanding common shares are managed by institutional investors and 15% are owned directly by individual investors, including approximately 1.3% held by insiders.

(2) December 31, based on U.S. Securities and Exchange Commission filings as reported by Thomson Financial.

## Investor Information

### Annual Meeting

Shareholders are invited to attend NOVA Chemicals' annual meeting on April 14, 2004, at 10:30 a.m. at The Fairmont Palliser Hotel in Calgary, Alberta.

### Shareholder Information

For inquiries on stock-related matters, including dividend payments, stock transfers and address changes, contact NOVA Chemicals' Shareholder Relations, toll free, at (800) 661-8686 or via e-mail to: [shareholders@novachem.com](mailto:shareholders@novachem.com).

### Requests for Additional Information

For copies of NOVA Chemicals' quarterly reports, additional copies of this annual report, or to order a complete shareholder information package, please send an e-mail to: [publications@novachem.com](mailto:publications@novachem.com).

### Rapports annuels en français

On peut obtenir un exemplaire de ce rapport en français auprès du service des affaires publiques ou du service des relations avec les investisseurs au (403) 750-3600 au (412) 490-4000.

### Corporate Contact Information

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Internet: [www.novachemicals.com](http://www.novachemicals.com)  
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Public Affairs and Investor Relations:  
(866) ASK-NOVA  
(866) 275-6682

### Transfer Agent and Registrars:

CIBC Mellon Trust Company  
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333 Seventh Avenue S.W.  
Calgary, Alberta, Canada T2P 2Z1

Phone: (403) 232-2400  
Toll free: (800) 387-0825  
Fax: (403) 264-2100  
Internet: [www.cibcmellon.ca](http://www.cibcmellon.ca)  
E-Mail: [inquiries@cibcmellon.ca](mailto:inquiries@cibcmellon.ca)


### Share Registration

NOVA Chemicals' common shares are listed on the New York and Toronto Stock Exchanges under the trading symbol "NCX." On the Toronto Stock Exchange (TSX), NOVA Chemicals is listed and traded in both Canadian and U.S. dollars. The U.S. dollar trading symbol on the TSX is "NCX.U." On December 31, 2003, approximately 87 million common shares were outstanding and there were some 13,700 registered shareholders. NOVA Chemicals' common shares are transferable at the Vancouver, Calgary, Regina, Winnipeg, Toronto, Montréal and Halifax offices of CIBC Mellon Trust Company. The common shares are also transferable at Mellon Investor Services LLC, New York, New York.

### Non-Resident Investors

Dividends paid to non-resident shareholders are subject to Canadian withholding tax, generally at the rate of 15% for the United States and other countries where Canadian tax treaties apply, and 25% for non-treaty countries. Certain exemptions or refunds may be available to residents of the United States and other countries where Canadian tax treaties apply. Under regulations in effect in the United States, the Company is generally subject to the U.S. backup withholding rules, which would require withholding at a rate of 28% on dividends and interest paid to certain U.S. persons who have not provided the Company with a taxpayer identification number. Please consult your tax advisor for more information.

### Trademark Information

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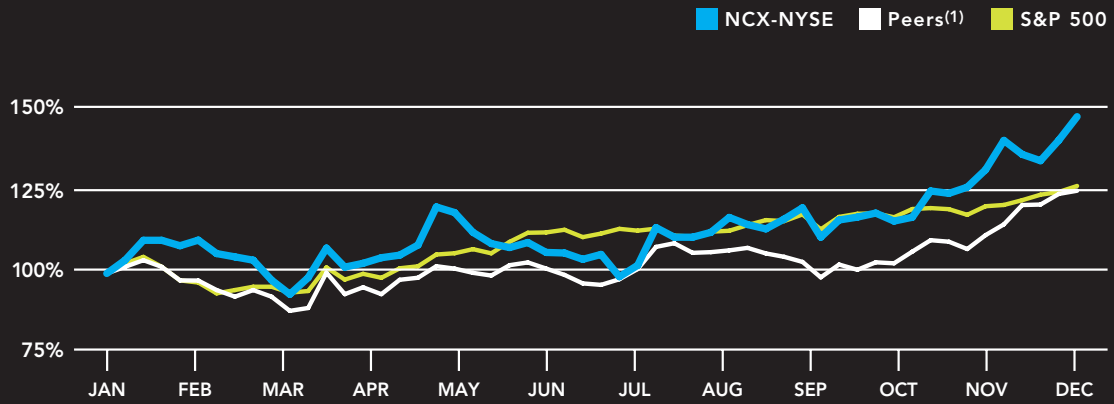
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SHARE PRICE PERFORMANCE For the year 2003



(1) NCX peers include DOW, EMN, LYO, MCH