FIRST QUARTER 2007 CONFERENCE CALL - TRANSCRIPT
WEDNESDAY, APRIL 25, 2007

Set forth below is a transcript of NOVA Chemicals' conference call on Wednesday, April 25, 2007, related to our first quarter 2007 earnings. This transcript has been edited for the purpose of increasing clarity and readability. However, management does not believe any of these changes, individually or in the aggregate, represent a material change from the information presented during the conference call itself.

Chris Bezaire, Vice President of Investor Relations:

Good morning! Welcome to the conference call for NOVA Chemicals' first quarter 2007 results.

Jeff Lipton, our President and CEO, will take us through our business results today and Larry MacDonald, our Chief Financial Officer will review our financial position. After these remarks, we will open the phone lines to analysts and investors for a question and answer session. Chris Pappas, our Chief Operating Officer, will also be available to answer questions.

Be advised that this call is being recorded for replay through our conference call provider and is being broadcast live through an Internet web cast system. In addition to our Earnings Press Release, a set of panels was emailed to analysts and posted in the Investor Relations section of our Company website. Jeff, Larry and Chris may refer to these slides during their comments.

The comments and answers to your questions will contain forward-looking information. This information, by its nature, is subject to risks and uncertainties as well as other factors that could cause actual results to differ materially from those suggested today. Certain material facts and assumptions were applied in drawing the conclusions, and making the forecasts or projections, contained in these forward-looking statements.

Please refer to page 16 of our First Quarter Earnings release and page 29 of our 2006 Annual Report for more information.

Now I will turn the call over to Jeff.

Jeff Lipton, President and CEO:

Good morning.

As I said during our Annual General Meeting two weeks ago, it seemed as if some analysts and investors had not yet caught up with just how strong March was for our industry and especially for NOVA Chemicals – nor had they discovered how positive the prospects are for the second quarter. That's understandable because things moved quite quickly once it was obvious to industry participants that excess inventory was out of the way.

It was fairly clear that our industry had a relatively weak January and February following inventory build ups at the end of a seasonally soft fourth quarter – and our results reflect that.

The results also reflect improved volume and margins in March, which have continued into April. That leaves us with a first quarter upside surprise for some investors – and a very optimistic start for the second quarter.

First, let me say we are very pleased with our Styrenics performance and believe it will continue to improve.

Let's start by looking at the business history in Europe. Panel 1 shows the EBITDA from NOVA Chemicals' European business from 2001 to 2006 in red. The business averaged an EBITDA loss of

$22 million and an operating loss of $50 million per year, for six years. The combination of over-supply, weak demand growth and an expensive business structure was devastating.

You might recall that our initial synergy target for the NOVA INEOS European joint venture was $40 million per year, within three years.

Once the joint venture was formed, we and INEOS moved quickly to shut down assets and take out costs. Over the last 18 months, we closed two expandable polystyrene sites and one solid polystyrene site. Other companies have also shut down excess European styrenic polymer capacity.

We reduced the joint venture headcount substantially – to the point where we now have fewer non-manufacturing employees for the entire European operation than NOVA Chemicals had for its half of the business before the joint venture.

We began the joint venture with the lower fixed costs than the two businesses were operating with and, in March, fixed costs were down to 64% of where the joint venture started.

Today, after only 1½ years, we have reduced costs by about $80 million per year – about double our target in less than half the time.

In Panel 2, you can see the quarterly operating results from Europe since the start of 2005 and the impact that our efforts have had each quarter since the joint venture was formed in the fourth quarter of 2005. We are pleased to report for the first quarter, not only positive EBITDA, but for the first time since the joint venture was formed, positive operating income.

NOVA Chemicals' 50% share of the joint venture operating income was $14 million. That happens to be the most money NOVA Chemicals has made in any quarter since we first started with European styrenics in January 2000.

We have made a big and, we believe a lasting impact in a relatively short period of time.

Last month we announced the expansion of the joint venture to include our combined North American styrenics assets. The larger joint venture will have global sales at start-up of about $3.5 billion per year.

We believe the European performance improvement shows what INEOS and NOVA Chemicals are able to do together. We have set out a minimum cost reduction target of $40 million for North America and, of course, I expect we will raise that shortly after the joint venture management team has time to study the opportunities.

I am also very pleased to report that our North American styrene and solid polystyrene business, STYRENIX, also had positive EBITDA for the first time in a very long time – and had a positive $1M of operating income in the first quarter. While the Styrenics markets have improved in Europe, our North American operations got into a positive cash generation position largely on the basis of cost reduction. So, in North America, STYRENIX is in the black before any positive impact from the expanded joint venture.

We are anxious to get the expanded joint venture up and running and we hope to be in operation by mid-year, once we receive the standard regulatory approvals.

In fact, just yesterday we announced the top three members of the joint venture senior management team. We will have one management team for the global joint venture replacing the three teams currently in place.

The newly expanded joint venture should present further opportunities for considerable rationalization and cost reduction. We are anxious to get the new team working together.

It is worthwhile adding that for NOVA Chemicals, the cost reduction implications go beyond the joint venture synergies themselves.

We will again review NOVA Chemicals' corporate costs – and expect further restructuring cost reductions that reflect the work simplification we will get with a tighter focus on our core business.

We remain committed to running our Company with the most competitive cost structure possible.

In our Performance Styrenics business unit, we reported an operating loss of $11 million in the first quarter, versus a loss of $19 million one quarter ago.

As a reminder, this is a very small business unit today, and is comprised of expandable polystyrene in North America, styrenic Performance Products and our new business ventures. Results from this unit are heavily influenced by the volume and margins of commodity expandable polystyrene because it is so big compared to everything else. Our performance products and our new business ventures are embryonic; although, they are progressing very nicely.

Post the expanded joint venture with INEOS and as shown in Panel 3, Performance Styrenics will consist of expandable polystyrene, ARCEL and our new business ventures. The products and downstream ventures we kept are all based on expanded styrenic polymers.

While the upside potential for this business unit is quite large, it is important to note that the downside from this business is limited. The significant capital expenditures are behind us, and all of our activities are close to generating positive EBITDA, with some starting revenue generation in the second quarter.

We are not yet at our targeted rates for this part of our Company. Improvements will come in step changes as compared to a smooth ramp up. We remain optimistic and ambitious and have not changed our goals for any of our new products or ventures. I will add that we are also committed to rapidly improving our expandable polystyrene product mix and to further reducing expandable polystyrene costs.

Our Olefins/Polyolefins business reported operating income of $116 million versus $92 million in the fourth quarter.

Most of the improvement came in the month of March. We sold over 300 million pounds of polyethylene, one of our best months ever. Margins also expanded as a result of price increases.

March was a much better month than January or February – not only for NOVA Chemicals – but also for the industry as a whole.

The American Plastics Council (APC) reported North American polyethylene operating rates of 95% in March – up from about 91% in January and February. The industry reported 12% more domestic sales and 13% more export sales than in February.

Even at the very heavy 95% operating rate, producers saw a small inventory reduction in March, after having removed over 100 million pounds from their stocks in February.

In Panel 4, you can see that producer inventory, as reported by APC, remained at about 39 days of sales in March versus a 43-day historical average for the industry. By comparison, NOVA Chemicals closed the month with inventory at 21 days of sales.

Strong export sales were a good part of the reason for low producer inventory and high North American operating rates. First quarter polyethylene exports for the industry were the highest ever for a first quarter at 1.8 billion pounds – and the second highest for any quarter, down just slightly from the 1.9 billion pound all-time record set last quarter.

As you can see in Panel 5, there is good reason for that. Prices in China have remained higher than prices in North America, providing solid netback margins for domestic producers. Our polyethylene export volumes were strong in the first quarter at 17% of total sales, and we expect to export significant volumes again in the second quarter.

In North America, there have been two polyethylene price increases on the table since the start of this year. Analysts have correctly reported that they were delayed by heavy year-end inventories and related light purchasing demand.

By March 1st, the first increase of 6 cents per pound was fully implemented in all but a small number of very large customers who were able to get some producers to initiate a 30-day delay for one half of the increase to April 1. However, as of April 1, the full 6 cents is in everywhere we know of.

The second increase of 4 cents per pound for standard products and 7 cents per pound for higher-performing hexane- and octane-based polyethylene, is being implemented. By the way, hexene and octene grades represent about one third of NOVA Chemicals' total polyethylene sales.

The very large customers are, of course, pushing to get some or all of the increase delayed until May 1st.

In addition to this activity, we and others in our industry have just announced a third price increase of 5 cents per pound for all polyethylene grades, effective June 1st, reflecting higher heavy and light cracker feed costs on the U.S. Gulf Coast and tightening markets.

Our March margins were also particularly strong because of the excellent spreads between our lighter feedstock costs and our cracker co-products in the Sarnia, Ontario market place.

With the start-up last month of the last two heaters in our Corunna modernization project, we have completed a 40% increase in our ability to process propane and butane feeds at that cracker. That last modernization step allowed us to be more aggressive in our light feed purchasing program.

In the first quarter, we were able to crystallize some very profitable positions, which helped reduce the cost of our feedstock.

We cannot guarantee significant cost savings every quarter, but with the completion of the work at Corunna, we now have a much better ability to take advantage of opportunities as they appear in the market. Our track record has been excellent with measurable realized gains in 9 of the past 10 quarters from our feedstock purchasing program. This is not a one-time event. We expect to maintain this very consistent performance going forward because we have invested to get the processing flexibility that allows us to take advantage of Sarnia market opportunities.

Let me switch gears to talk about our Alberta feedstock.

Remember that three-fourths of our ethylene is made in our ethane crackers at Joffre, Alberta where we have the benefit of the Alberta Advantage. This competitive advantage has provided a 15-year average 7 cent per pound lower cash cost to produce ethylene versus light feed crackers on the U.S. Gulf Coast.

In the first quarter, we enjoyed a 7 cent per pound Advantage – the same level as we had in the fourth quarter. You can see in Panel 6 that it is unusual to have such a strong advantage in the winter months when there is a high demand for natural gas but gas inventories today are about 21% higher than they have been on average for the past five years. This excess inventory has influenced pricing year to date and we expect that to continue through the summertime.

Our Advantage has averaged approximately 9 cents per pound so far in April, so we expect it to follow seasonal patterns and be higher for the second quarter than the first. The advantage has continued to increase during the month. It was approximately 11 cents per pound at the close of business yesterday.

In an effort to expand our use of the Alberta Advantage and allow us to grow NOVA Chemicals' businesses in Alberta, we announced, in March, that we and Aux Sable have signed a letter of intent to build a new 40,000 barrel per day ethane extraction plant in the province for start-up as early as 2010.

The Alberta government had previously announced a policy that will allow us to build the extraction plant; expand the use of our existing ethylene crackers; replace diminishing ethane supplies; and ultimately build a new polyethylene plant in Alberta. Because of high capital costs, we need and, based on our understanding of the proposed regulations, we can expect the support of the Alberta government. We will get going on the new extraction plant as soon as this support and a final agreement with our partner is in place.

In my view, this globally cost competitive feedstock growth makes Alberta the only practical location for significant petrochemical capacity expansion in North America.

Let me describe for you what this additional ethane will allow NOVA Chemicals to do at the Joffre site, and the impact it will have on our ability to take advantage of Alberta feedstock costs.

Today, NOVA Chemicals has approximately 4.8 billion pounds of ethylene capacity at Joffre. We sell 1.6 billion pounds of ethylene per year, about one-third of the Joffre capacity, under tolling and margin-sharing contracts, which gives us only part of the Alberta Advantage for those volumes. We do realize the full Alberta Advantage for all of our ethylene used to make polyethylene.

In 2006, we were able to increase the throughput of Joffre's gas-phase polyethylene reactor by 100 million pounds, and we expect to get another 50 million pounds of annual capacity from that reactor in 2007. That is a total of 150 million pounds of additional capacity, all of which is achieved through improved operating procedures and some new catalyst technology, and requires minimal capital.

In 2008, we expect to debottleneck our Advanced Sclairtech reactor by 150 million pounds to have 1 billion pounds per year of capacity – again for a modest capital investment.

The new supply of ethane from Aux Sable gives us an opportunity to consider building a new, third polyethylene plant at Joffre sometime in 2010 or 2011. For now, let's assume it would be about 700 million pounds of capacity.

In total, we are looking at an additional 1 billion pounds of polyethylene capacity – for which we do not need additional ethylene investment.

As some of our current ethylene supply contracts expire, we intend to either renegotiate them to improve our netbacks or use the ethylene ourselves to make more polyethylene. We will have the ethylene capacity we need to expand polyethylene from a combination of unused capacity and cracker debottlenecks.

If we assume that we will have an additional 1 billion pounds of ethylene going into polyethylene at Joffre that represents a 47% increase in our full utilization of our Alberta Advantage - and at 7 cents per pound that would increase our Alberta Advantage by approximately $70 million per year. Of course, this is before considering typical industry margins on the ethylene/polyethylene chain for those 1 billion pounds.

We have undertaken a series of steps which will allow us to focus on our core business. This perspective highlights why the Joffre asset is a very important piece of our Company.

- It is the world's largest and probably most energy efficient ethylene/polyethylene site.
- It is located in the only part of North America with the potential for significant globally competitive feedstock supply expansion.

- It produces the lowest cost light-feed ethylene outside of the Middle East, and often, lower cost ethylene than is currently made, or will be made, in the future, from heavy feeds in the Middle East.

We believe, that as feedstock supplies expand, Alberta will be a strong competitor globally for the polyethylene demand growth in China, India and other parts of Asia.

I will talk more about this after Larry's comments.

Larry MacDonald, Chief Financial Officer:

We had $62 million in funds from operations in the first quarter compared to $60 million in the fourth quarter of 2006. Available liquidity was approximately $460 million at March 31st.

The retractable preferred shares – with a net outstanding balance of $126 million – are currently scheduled for redemption on October 31, 2007 and a $100 million revolving credit facility is scheduled to expire on December 31, 2007. As we move through the remainder of the second and third quarters, we will conduct a thorough review of our debt facilities with our "core banks" and make adjustments where appropriate.

Outlined in Panel 7 and page 11 of our quarterly report is a summary of our Corporate Charges. A recent accounting change required that we accelerate the recognition of compensation cost for Restricted Share Units (RSU) earned by employees who are eligible to retire prior to the vesting date of the RSU – rather than expensing the cost evenly over three years. This accounting change drove $10 million of the $18 million first quarter stock-based compensation and profit sharing expense.

As we have discussed in previous quarters, NOVA Chemicals will lock-in forward positions for feedstock, such as propane and butane when attractive forward price ratios versus crude oil come available. Forward positions, which remained outstanding at the end of the first quarter, had a mark-to-market gain of $26 million before-tax and are reflected in our Corporate results.

Once the positions are liquidated, the final cash gain or loss is reflected as part of business feedstock costs. In the first quarter, liquidated positions resulted in a significant gain, which is reflected in lower feedstock costs in our business operating results.

The use of financial instruments such as these are an important component of an overall feedstock purchase strategy. NOVA Chemicals' policy on the use of financial instruments is structured in a manner which allows us to quickly take advantage of opportunities when they present themselves, while still maintaining a strong governance structure.

Jeff Lipton, President and CEO:

Thanks Larry.

There are two basic assumptions that many analysts have been making as they think about the next three or four years. The first is that there will soon be an overwhelming amount of new capacity start-ups in ethylene/polyethylene and the second is that this new low-cost capacity will severely damage North American producers' ability to compete in global polyethylene markets.

With regard to the timing for new capacity, I think more and more analysts and investors are shifting to our perspective that the delays are significant and, based on continuously emerging details, high global operating rates will be maintained for some time.

Earlier this month, Nexant ChemSystems published a new report reviewing the start-up timing for projects under construction or consideration in the Middle East.

You can see in Panel 8 that we believe, as Nexant does, that global operating rates will remain strong at least through 2011.

By the way, our interpretation of recent Chemical Market Associates, Inc. (CMAI) projections is not much different than this chart. As time goes by, I believe the debate on this point will be quite limited.

What I would like to talk about is that second assumption and describe for you the real cost differences for the new capacity and the impact I see on North American competitiveness and its import/export balance.

Today, almost 60% of global ethylene is made from heavy feeds – including three-fourths of the ethylene in Europe and Asia, where naphtha is by far the most important heavy feedstock

Naphtha is a globally traded liquid, shipped around the world so regional prices vary mainly by the freight cost between regions. It is a refinery feedstock for fuels, it is used to make gasoline – and it is a feed to make ethylene. The demand for gasoline continues to grow around the world as more and more automobiles are introduced. In the U.S., while there is a lot of talk about conservation, we continue to consume more and more gasoline each year. The growth in gasoline demand in China is explosive and many expect Indian demand to be the next big issue.

The growth in naphtha demand for fuel production has impacted its competitiveness for petrochemicals and is likely to have a big impact on our global industry in the future.

Let's look at Panel 9, which we have shown you before. It lists all the announced ethylene start-ups for 2007 and 2008. We have added a reference to "heavy" or "light" feedstock for each proposed new plant. 9 of the 15 plants listed will use naphtha as feedstock.

In Panel 10, you can see the same information for 2009-2011. In total, about 60% of world-wide ethylene capacity additions will use naphtha as feedstock – even one-third of new Middle East capacity projected for 2007 and 2008 will use heavy feeds.

As more and more heavy ethylene crackers come on line, the demand for naphtha will grow and the competition for feedstock will become more intense between fuels and petrochemicals. As a result, we expect that naphtha will become more expensive relative to alternative feedstocks for ethylene.

Remember two-thirds of the North American ethylene is made in light crackers based on natural gas liquids such as ethane, propane and butane. North American light crackers are competitive today versus the majority of existing global capacity – and will be competitive against the majority of new capacity.

In fact, given the dependence of the new capacity on naphtha, North America's competitive position is likely to improve.

It is this dynamic, in part, that is keeping polyethylene prices high outside of North America and allowing North America to export record volumes of polyethylene for the past two quarters.

Let's take a look at Panel 11 which shows naphtha pricing compared to crude oil in Asia. We had a two-year period where a short-term excess of Indian naphtha depressed global naphtha prices relative to crude oil and light feeds.

Our people believe naphtha is likely to return to, and stay at, normal levels versus crude now that naphtha-consuming facilities for fuels are in place in India. For the last two quarters, heavy ethylene feedstock costs around the world have moved up. In the last quarter, they were up about 10% versus crude values, making North America, particularly Alberta-based, light feed costs look very attractive.

Panel 12 shows the European market story for naphtha.

The North American story is very similar with naphtha now selling at 105% of WTI crude oil, compared to an average of 93% for the last two years.

Analysts might also want to look at the relative competitiveness of heavy feed crackers in the Middle East and probe a little deeper into their assumptions about Mid East polyethylene taking over global markets.

Another factor, of course, is strong global demand. Export markets are growing faster than most analysts expected.

China surprised many of us this month when it reported first quarter 2007 Gross Domestic Product (GDP) growth at 11%. Today, China produces only 50% of its polyethylene needs and will have to work hard to build enough domestic supply just to maintain this rate.

Any increases in the value of the Chinese currency versus the American dollar will only facilitate more imports.

India is now, or will be soon a net importer of polyethylene.

Associated with the idea some analysts have that North American producers will not be able to compete globally, is the idea that this continent will become a net importer of polyethylene in the near future. We see little chance of that happening any time soon for quality and logistical issues, and now economic reasons.

Panel 13 shows a comparison of North American imports to exports for the past six years. Excluding the brief period following the U.S. Gulf Coast hurricanes when domestic customers were forced to import resin, on an emergency basis, North American imports have stayed within the range of 1 to 1.5% of domestic demand.

Exports have never fallen to less than about 10% of domestic demand. Today, you can see that exports are over 20%, and more than 20 times the level of imports. And the trend is upward, which is what we would expect to see based on the relative competitiveness of light versus heavy feedstocks, and currency value shifts, including the Chinese currency.

So, to close; we have just come off of two record quarters for exports, and expect the trend to continue. That will continue to give North American producers a profitable outlet for polyethylene – a great alternative to building inventory. It could have a big impact on supply/demand balances in our primary market.

Polyethylene prices are up and we fully expect they will be up further in the second quarter. Margins will likely expand as a result.

We continue to see healthy demand growth – both domestically and abroad.

We expect further delays in new capacity start-ups – and the majority of those start-ups will be based on naphtha – with higher costs than North American light cracker based ethylene and polyethylene.

For NOVA Chemicals, as we focus on our core business, we believe we are a strong competitor, and will be even stronger in the future, for polyethylene demand growth in China, India and the rest of the world.

Our polyethylene is made from advantaged ethylene at Joffre, Alberta and from ethylene produced at our newly modernized and expanded Corunna flexi-cracker.

We will be making a lot more use of our Alberta Advantage as we expand polyethylene output at Joffre.

And finally, we also are convinced, as I hope most of you are now, that our newly expanded joint venture with INEOS will lead to a more profitable outcome for styrenics than many have expected for 2007 and beyond.

Thanks for joining us today.

Now, operator, I will be happy to answer any questions.

The first question is from Frank Mitsch from BB&T Capital Markets. Please go ahead.

Frank Mitsch, BB&T Capital Markets

Hey, you started talking about how the street hadn't caught up to how strong March was and still hadn't caught up as to how good the second quarter is coming out. I guess that comment is with respect to the $0.78 consensus number for the second quarter, I assume that is where your comment was directed at?

Jeff Lipton, President and CEO

Well I don't know where the consensus will end up for the second quarter, but I think in general people will focus on comments from some of the larger converters saying, that these price increases weren't going to get put in place, but they were. We expect that second price increase will be put in place for the second quarter, and believe that the June 1 announce makes a lot of sense, given the cost pressures on the Gulf and the tight market conditions. So we would look for margin expansion into the second quarter. I frankly haven't looked much at analyst expectations for our earnings for the second quarter.

Frank Mitsch from BB&T Capital Markets

Okay, and then you know one of the... Obviously the biggest change over the past month was the announcement of the North American JV. You pointed out how your European JV came in at double the cost savings in half the time of your original projections. Is there any reason that you can think of, that might suggest that there was more low hanging fruit in Europe versus the U.S. and why that may or may not be an outlier in terms of what we ought to expect from the U.S.? And then while you are talking about the North American market, if you have any comments as to what your expectations about DOW/Chevron Phillips JV and how that might impact the marketplace as well?

Jeff Lipton, President and CEO

We have said for years, that we believe consolidation is necessary in order to deal with excess styrene supply because of POSM facilities, and because of excess building downstream in the polymer capacity area. So we believe the industry needs and should move towards further consolidation, and I wish Dow and Chevron good luck. I would tell you that we think they will make sense out of their JV. Now for us, we are going to get the management team that will be leading this global operation, together as quickly as possible. We chose $40 million per year, probably because it is our lucky number, but that is a modest expectation, and I would expect that as soon as that team assembles and looks at all the details, they will be more ambitious than that. We will see what they put together, but it is really important to look at the details. We don't know a lot about the fundamental details of the INEOS operation, and that is why it is important to get the management team to look at it in depth, before they come up with a number. We're optimistic.

Frank Mitsch from BB&T Capital Markets

Alright, great. Lastly, you know given your near-term expectations of improved margins and given your longer term expectations of the advantages that you'll have. Not to put words in your mouth, but if you assume that today's stock price doesn't necessarily reflect that, where do you need to get the net debt down to before you get to the point where you would be aggressively buying back stock for the Company?

Jeff Lipton, President and CEO

Well the decision to buy back stock would be based on first what our needs for capital are. We have a target for liquidity that ranges up to $650 million; we are about $450 million, so there is a delta of about 200 million in cash that we would like to build up. We would like to pay down some short-term debt. Larry is very interested in that. I would tell you that we also have to look at the capital needs for building that polyethylene plant in Alberta. We think if we can get this LOI converted into an action plan for the ethane extraction plant, that the opportunity to build our polyethylene plant would be very, very rewarding. To be able to expand our Alberta Advantage utilization by 47% is a big deal for us and for our shareholders. We would have to balance those things with the price of our shares and the return we can get on the buy-back. Of course I would like to do everything, but we need a couple of really good quarters to make that happen.

Operator:

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

Sergey Vasnetsov, Lehman Brothers

Thanks for the editorial, very informative as usual. I want to come back to the first quarter results. Can you talk about the hedging program, both cash and non-cash elements of it, which accounted for the large part of the difference between my estimate and actual reported results this quarter?

Jeff Lipton, President and CEO

Well that is a fair question. This is a forward purchasing program. It is based on our physical needs, and we have been able to expand our ability to buy propane and butane as a percentage of crude, which is the key to this thing going forward, because we gives us more flexibility to use those products. That is the first point. If you recall, I said that we have shown positive operating numbers because of these forward buying positions for nine out of the last ten quarters. Our cracker has a tremendous amount of flexibility. We have added to that flexibility with this modernization. It cost us dearly, if you remember that shut-down and modernization program, but it is going to pay off. It will pay off, because we are able to take a larger position on anomalies that regularly occur in the Sarnia market, and we are able to write long-term purchase agreements for propane and butane at a relatively low percentage of crude. Because there are markets for those products that absorb all the propane and butane in Sarnia.

The average gain versus normal pricing has been about $6 million a quarter. This quarter was a little bit better than that, but this is a regular occurrence that we have invested to obtain. When we can take advantage of it, we will of course continue to do that. So, it is an ongoing operation. It is clearly part of what we invested to do. Now we do have to use accounting for the noncrystalized positions, and those are the swings that Larry describes each quarter on this conference call, and we show in our quarterly release. There are two components; what do we actually use, which goes into the operating results and what the forward contracts look like, which goes into the corporate accounting.

Sergey Vasnetsov, Lehman Brothers

I think it makes sense to me, so treatment as usual would be reflected in the most part of your core competency and your operational results?

Jeff Lipton, President and CEO

Absolutely, and we certainly have the capital put in place to be able to utilize them. We put a lot of money into that cracker to be able to utilize this kind of opportunity. So for us, it was a fundamental strategy and a fundamental investment plan.

Sergey Vasnetsov, Lehman Brothers

Okay, that makes sense. Secondly, there is money in important variables, the inventory prices increases delays trade etc. The fact is, we should get volatility in any given quarter and make it easy. I just want to ask you your view for 2007, you typically don't project earnings, but given your outlook for 2007 and '08 on the outside, do you envision NOVA in your current expert view making, just for the sake of a round number, $3.00 a share?

Jeff Lipton, President and CEO

Well I don't want to play with that number, other than to say that I remain very ambitious. That is the only comment I would make. We should have very strong numbers. The conditions are lining up for real strength, and if you were to look at March, it was as good or better than the months we had in the third quarter last year, and we don't see why the second quarter ought to be much different than that. That will give you some idea of our earnings power. Now what we have going on is, the return of naptha pricing to its normal range, where it has not been for a couple of years until the last six months that has changed the cost equation in many parts of the world.

We see North America being able to export into South America, because the cost on the Gulf for light feed crackers is highly competitive with Asian costs to make ethylene and polyethylene. So there are opportunities for export south, and there are opportunities for export to Asia. That is why the export numbers are so strong, and why we believe they are going to stay strong. So if you look at the two charts we showed for naptha as a percentage of crude oil, the anomaly has been the low levels for the last couple of years, not where we are today. So with reasonable export opportunities, I think producers in North America are going to have little opportunity to create the "perils of polyethylene" as I described in our Annual Report, and build polyethylene inventory. It is the inventory swings that really have an impact on what has been a very solid marketplace.

The combination of export capability, lower inventories going into the strong two quarters, the second and third quarter are normally the strongest quarters of the year, make me believe that we are looking at a very, very solid year for the whole industry, and I would hope a truly outstanding year for NOVA.

Sergey Vasnetsov, Lehman Brothers

Lastly, on panel 6, you discussed your Alberta Advantage. What is your current view on the factors that would shape-up this advantage in the summer time? Would expect something closer to what you had seen last year or on a more normal condition around 7-10 cents?

Jeff Lipton, President and CEO

So the key is where will oil prices be? First ethane is 145% of Henry Hub cash gas, and oil-to-gas ratios are now eight to nine on the Gulf and ten to one in Alberta. So the Alberta Advantage is expanding. People are shifting, where they have flexibility, to lighter feeds, because naptha is relatively expensive putting demand pressure on ethane. That is why it is moving up versus Henry Hub cash gas. This is setting up for a strengthening Alberta Advantage. So not only did we have a very strong fourth and first quarter at $0.07, but each day we look at it, in April the advantage has been expanding. So I wouldn't be so bold as to project the kind of numbers we had in the third quarter of last year, but I would expect a very strong year for the Alberta Advantage. Certainly better than the average of $0.07.

Dave Silver, J.P. Morgan

Jeff a question I guess about your newly profitable STYRENIX.

Jeff Lipton, President and CEO

I like the sound of that David.

Dave Silver, J.P. Morgan

Well I have to tell you, I have a long-term model on you guys, and I am going to have to talk to Chris about exactly when the business was last profitable. But a big turn-around. In the last quarterly conference call or two, you know you outlined a number of strategies for unlocking the value for the benefit of shareholders, and you talked about maybe a spin-off, maybe enlarging the joint venture or maybe I think you called it an attractive bottom of the cycle acquisition. So the results have turned around and you have a pretty good visibility on some additional benefits. So what is best for the shareholders here for how to manage or how to utilize this business?

Jeff Lipton, President and CEO

Well I think we have focused on the joint venture and significant further cost reductions, which includes looking at each of the assets as well. That is the pathway we are clearly on. We looked at selling. The people who where interested in buying didn't believe we could reduce costs as rapidly as we were able to, and I guess most of the world didn't believe we were going to be able to do what we said we were going to do, so I can't blame them. But their offers did not contemplate the value of what we though we had already put in place in terms of cost reduction. As a consequence, we turned them down. We see really strong synergies with INEOS, the idea of running a single global business as opposed to a European business and a North American business, we think very attractive. We think the INEOS folks are excellent partners. They are as aggressive as we are in wanting to reduce costs. As a consequence, we think we can make progress very rapidly. So that is the pathway we are going to follow for the foreseeable future.

Dave Silver, J.P. Morgan

Okay. If I could swing over to ask you a question about ethylene supply/demand balances up in the Joffre area. So you know you have kind of outlined some steps looking ahead a few years, and one thing I have kind of wondered about is kind of where things are right now. So in other words I guess Dow has reduced capacity for ethylene derivative in '06 in Alberta. And you guys have your own longer term supply commitments. Are you able to fully utilize the Joffre ethylene capability right now or are there some bottlenecks to efficiently consuming let's say the 4.8, 4.9 billion pounds of ethylene for 2007?

Jeff Lipton, President and CEO

Okay, so there are a couple of things going on. Dow's need has been reduced because they cannot move ethylene down the Cochin pipeline, and they have also closed some of their facilities in Alberta. So they will become more self sufficient. We have a contract with them that will expire, when Chris?

Chris Pappas, Chief Operating Officer

It is going to expire at the end of this year.

Jeff Lipton, President and CEO

The end of '07. We don't know exactly what they are going to do. We have other contracts that are going to expire with other consumers. We will renegotiate those contracts for higher margin for our shareholders as we go forward, because we are now in a position where we could build another polyethylene plant and use that capacity, and have assurance of feedstock supply. That is the big difference. We have not been fully utilizing all of our capacity. We have been running about 94-95% of utilization in Alberta. We have 5% that we can use if we have assured supply of ethane without new capital dollars. For small amounts of capital dollars, we could actually debottleneck our ethylene crackers and would love the opportunity to be able to do that, but don't need to in order to build another polyethylene plant.

So our path forward is clear to us, first get the ethane extraction plant on the rails and a large expansion in ethane availability. Secondly, renegotiate the existing contracts, and we would be just as comfortable keeping the ethylene for ourselves as we would be selling it. That will impact what we would be willing to accept in terms of pricing. Then expand our two polyethylene plants. It is clear that we are going to do that; we have the ethylene capability to handle those, and together we are talking about around 300 million pounds of expansion, $0.07 a pound of Alberta Advantage going to that amount of polyethylene is a significant step by itself. Then build a world-class polyethylene facility. So that is where we are headed. We don't control all of the steps ourselves. A lot of it has to do with what our current ethylene customers will want to do, as we renegotiate our agreements with them.

Operator:

Thank you. The next question is from Costas Karathanos with Goldman Sachs. Please go ahead.

Costas Karathanos, Goldman Sachs

Hi this is Costas Karathanos. Jeff on the polyethylene. You mentioned on the press release that prices sequentially remained flat for your guys, while at the same time we saw benchmark prices declining by 2-3 cents. We saw a lower percentage of sales coming from Performance Products, and also we saw the same percentage of volume going over seas. So can you please elaborate on that, and see how the sales steady?

Jeff Lipton, President and CEO

Sure, first of all export pricing was up. So that helped. We also have a wide range of products, some with much more margin than others. We try to optimize that mix as we operate our business, so that has an impact on pricing as well as margins. If you recall prices moved down sharply through the fourth quarter and they where relatively stable for January and February and then moved up very sharply in March.

Costas Karathanos, Goldman Sachs

Okay.

Jeff Lipton, President and CEO

So that is the dynamic. I would tell you that the other part of the mix is spot sales or off-grade sales. Their pricing is nice and firm, and is moving up as well. All of us, as we switch from one grade to another, create a certain amount of off-spec material that has to be sold. Better pricing on that also impacts the average. Everybody has their own dynamic, we have been fortunate and been able to manage our mix, minimize our off-grade product and do well overseas. That is why we have been able to hold pricing.

Costas Karathanos, Goldman Sachs

Okay. Also in the past, you used to comment on the converter inventories to get a hold of producer inventories. Where do we stand now in terms of polyethylene compared to this?

Jeff Lipton, President and CEO

Well we believe that converter inventory has moved down as producer inventory has moved down. Converter inventory is in very good shape. The one thing we have seen is distributor inventory come down relatively sharply. At the end of the year, we saw distributors with relatively high inventories, and they have come down sharply. Having inventory in their hands is not a good thing either, so as far as I am concerned, inventory is a problem in our industry at any point in the chain. That is why we operate with 20-21 days of inventory. We carefully look at the inventory in our customer hands and our distributor hands, and try to have an impact on their inventories as well. We think all of them have improved, and that is why we where able to see a very strong March.

Costas Karathanos, Goldman Sachs

Then one last question if I may, again on polyethylene. If you go to panel number 13, and if you could please look into your crystal ball and tell me how this chart will look like in the next three to five years? Thank you.

Jeff Lipton, President and CEO

Well the point I was trying to make, is that Asia, China specifically, will have to continue to import large quantities of polyethylene. At least half of their needs will have to be imported, even if construction of all of their current plants remain on schedule. The Chinese currency has strengthened versus the U.S. dollar, improving our ability to be competitive in China. We expect it will continue to strengthen. Naptha costs, we believe, will return to the normal range as shown in the previous two charts. That will make North American light feed crackers quite competitive.

We ship most of our export product to Asia. The Gulf Coast producers ship most of their product to South America, but in South America they are competing with Asian producers who use naptha as their feed for ethylene. The fundamental costs have led to a very strong ethylene market in Asia. If you have tracked ethylene prices in Asia, they have been much higher than North American ethylene prices, reflecting some operating problems, but more importantly their feedstock costs. So I would expect this chart not to keep on going up, because there is only so much capacity, but to stabilize at a higher range than we have seen certainly for the last two years. When naptha prices have been abnormally low. I hope that helps.

Operator:

Thank you. The next question is from P.J. Juvekar, Citigroup. Please go ahead.

P.J. Juvekar, Citigroup

Well your slide on this heavy versus light feedstocks on the new crackers, it was helpful. The question I have is, what does it imply for the export opportunity? I mean the key question for Sergey was oil-to-gas ratio. We had a really warm winter, and so gas is low related to oil as they where to export. If we have a cold winter next year, that could change.

Jeff Lipton, President and CEO

It could, but if you look at the last five to six years and look at the ratio of oil prices to gas prices in North America, there have been only a relatively few number of days where natural gas pricing, even on the U.S. Gulf Coast has approached the cost of oil on a BTU basis. I think our continent is still going be in good shape. I think we are more likely to develop gas fields and to bring in more liquefied natural gas. I don't think that LNG by the way, will bring a lot of ethane into the market. I think it will bring a lot more gas into the market. Those facilities are starting to start up.

I think that we who are deeply involved in the natural gas business, one way or another, are pleasantly surprised by the natural gas supplies. Consumption has been heavy this winter, but the supplies have stayed strong, and I think they are going to get stronger because of the cost. If I look at the amount of crackers being built on heavy feeds, and just expect naptha to return to normal levels versus crude oil, I think we will be in quite good shape in terms of export opportunities. I think this is an important issue that we started looking at when we saw naptha rising as a percentage of crude around the world. We watch it every week and all of a sudden six months ago, it started moving rapidly. By the way, I would add, that for our Corunna facility, we don't buy naptha, we buy crude or light feeds or a range of other feeds. We make our own naptha, and have unique flexibility to do that.

So we think we are pretty well positioned, and actually I think North America is pretty well positioned. If you read all the materials about what is going on in the Middle East, each new cracker is using a larger and larger concentration of heavy feeds, because they are running out of ethane supplies. In the Middle East, since naptha is a fungible material, shippable around the world, they don't have as big an advantage nor do they want as big an advantage with those kinds of feeds. So I think these charts are instructive. They were certainly helpful for us in thinking about the future. If you recall the stories out of Iran, the first two crackers listed on panel 9, are having difficulty operating at full capacity. The heavy feed cracker in particular, because Iran is short of fuels and is using the naptha to make gasoline as opposed to feeding petrochemical production. They are shorting cracker number 6 in terms of feedstock supply to make sure they can continue to supply gasoline for their population. So this is an important part of the equation going forward, and I think something that we just really started thinking seriously about, and I think everybody ought to start thinking seriously about.

Operator:

Thank you. The next question is from Jay Harris, Goldsmith & Harris. Please go ahead.

Jay Harris, Goldsmith & Harris

Yes, can you give us a little color on how much of your earnings come in the month of March? Was it majority, virtually all or more than all?

Jeff Lipton, President and CEO

Well we did have some earnings in January and February. March was spectacular compared to January and February. We had a March that would be equivalent to the kind of numbers that we saw in the strong months last summer. Very strong EBITDA generation, very strong sales.

Operator:

Thank you. The next question is from Bob Hastings, Canaccord Capital. Please go ahead.

Bob Hastings, Canaccord Capital

Hey this is just sort of a technical question on your cash positions. The preferreds come due in October, can they be extended again? Is that what you are working towards, or what is the outlook on that one?

Jeff Lipton, President and CEO

I will let Larry comment on that. We tend to have a lot of flexibility because the banks love preferred shares.

Larry MacDonald, Chief Financial Officer

Yeah, we have extended them in the past a number of times Bob, and we are looking at whether or not to extend. Hopefully to repay and finally redeem those is certainly my objective. We have had no issue with extension in the past.

Bob Hastings, Canaccord Capital

Okay, and then when you are renegotiating that revolver, there are no particular issues there either?

Larry MacDonald, Chief Financial Officer

No, we don't foresee any issues. We've had a longstanding relationship with our core banks, and work together with them very closely. They know us extremely well.

Jeff Lipton, President and CEO

I think I would add Larry that they to will be pleasantly surprised with the realization with all of our cost reductions around STYRENIX. That certainly gives us a lot more stability going forward than we have had in the past, and they were positive about us in the past. I think they'll feel very good about the future.

Bob Hastings, Canaccord Capital

Just on the polyethylene expansion in Alberta, if you were to go ahead with that 700 million pounds. Let's say what would be your expected cost of a plant like that, and how would that compare to the MiddleEast these days?

Jeff Lipton, President and CEO

So Chris, why don't you comment?

Chris Pappas, Chief Operating Officer

You mean capital or feedstocks Bob, or both? I assume you mean some of both. On capital costs, the polyethylene plant will of course be much higher than it would have been in the year 2000. Some of the numbers that are quoted out of the Middle East for ratios are roughly two and a half times what the expected capital cost were in the year 2000 for crackers. We think this plant will be 50 or 60% higher than historical cost if we go through with it. Somewhere in the 30 to 35 cent per pound range was the past number and we would be looking at numbers somewhat higher than that if we go through with it. On the cost side, we've said that we would do it in conjunction with the ethane extraction facility on the basis that we can do it at or about at the Alberta Advantage that we have had historically. That is what we are driving towards in terms of cost position. Getting as close as we can to our current Alberta Advantage all in, when we put that facility in.

Bob Hastings, Canaccord Capital

So I would take it to that you wouldn't go ahead with this expansion unless it was you were going ahead with the polyethylene expansion as well?

Chris Pappas, Chief Operating Officer

I think that is a fair assumption at this point, if we can do them at the kinds of cash cost advantages that we've had in the past. All indications are that the work we have with the government etc. is leading us in that direction. So we will have to see is we can pull it off over the next several months.

Bob Hastings, Canaccord Capital

Okay, and if you don't extend your ethylene contracts, would that mean that there would have to be some kind of ethylene expansion by somebody?

Chris Pappas, Chief Operating Officer

We have a lot of flexibility on the ethylene contract side Bob. We have a contract that is due the end of this year. We have some others that are due further on, so I think we have a number of flexible options on what to pursue. Our intent is what Jeff talked about earlier, we want to grow pellet production in Alberta, and we think there is a competitively advantaged ethylene and feedstock available to us. We have the infrastructure. We have the capability and technology to do it. We have the market ability to move the product both domestically and in export. Our intention is to grow our polyethylene business and take full advantage of the Alberta Advantage in a polyethylene expansion. So that is the path that we are on.

Operator:

Thank you. The next question is from Peter Butler from Glen Hill Investment. Please go ahead.

Peter Butler, Glen Hill Investment

Have you notice that there is a correlation between better than expected earnings and NOVA stock price. I might have missed it, but what was the guidance for earning for the second quarter and for the year?

Jeff Lipton, President and CEO

Peter, we don't give guidance.

Peter Butler, Glen Hill Investment

But you use words like spectacular and .....

Jeff Lipton, President and CEO

Well what I said was that I expect a strong second quarter, and the third quarter is usually the strongest of the year. So with or without hurricanes we would expect a nice third quarter, and we would expect the Alberta Advantage for this year to be positive relative to our history. I'm knocking on wood, but I'm feeling pretty good about the rest of this year. I think the fact that we have low inventories or pretty modest inventories is a better way to describe it at this point in time, and good export opportunities so that we are not likely to see build-ups of inventory. I think it is very important as we look forward for the rest of this year.

Peter Butler, Glen Hill Investment

Okay, and you might have missed it, but the Greek CEO at Dow is missing a few key people these days. Have you nailed down your Greek guy to retain him for NOVA shareholders?

Jeff Lipton, President and CEO

Well Chris is putting an addition on his house that no one else could afford. So he would never be able to sell it. So I think we are okay.

Peter Butler, Glen Hill Investment

It sounds like we need to get this stock up a little bit more. Hey thanks for the help, great quarter.

Operator:

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

Greg Goodnight, UBS Securities

In your styrenics JV announcement, you seemed to leave open the door that there could be some additional partners or additional consolidation. But now with Dow and the Dow/Phillips JV, you guys are going to be splitting the market about a one-third, one-third and others one-third. Do you anticipate any additional partners in your JV?

Jeff Lipton, President and CEO

Well it is certainly possible. As we have said in the past, we would be prepared to have a conversation with anybody that would be interested. We are involved in conversations with other companies. This is a business that has been horrible for a long, long time, and is something that requires consolidation to continue to improve. As we look forward, the key is styrene monomer. We think that we are going to be able, as we have shown in Europe, to improve the business based on the polymer assets. But we see the key in our joint venture and in others as being styrene monomer, which has really created the fundamental problems because of POSM generating so much styrene monomer capacity. So that is where we are looking.

Greg Goodnight, UBS Securities

Okay, second question. Polyethylene exports have been strong like you mentioned, and that has driven volumes, but now the North American prices are going up. You are losing the arbitrage difference between North American and Asian prices. So number one, do you expect exports to tail off here, and number two, are you seeing any improvement in domestic demand, which I hear is still rather sluggish for polyethylene?

Jeff Lipton, President and CEO

I certainly wouldn't describe it as sluggish. That would be the last word that I would use. The key for export opportunities is thinking about the incremental contribution available in export opportunities versus the North American spot price. To me, that is the fundamental issue. Is there enough room in export markets to get net-backs that are equal to or better than the North American spot price. We are still quite a bit away from the North American spot price. We also believe that prices in Asia and Europe will continue to go up as feedstock costs move up. They are going to have to raise their prices further than they are today. I think there will be continued opportunities to export. I think naptha pricing is going to drive higher costs, and we are clearly seeing the result of the Chinese Government relaxing its control and strengthen in the Chinese currency, which has a significant impact. Our view is that the currency has already strengthened about 55 or 6% versus the U.S. dollar. It is likely to continue to strengthen. As a consequence, we see the opportunity remaining in place.

Greg Goodnight, UBS Securities

Okay, the final one for Larry if I could. Capex was a little bit low in the first quarter compared to expectations. Are you still looking at 200 to 250 this year? Finally, what is your expectation for average tax rate?

Larry MacDonald, Chief Financial Officer

Okay, the capex will probably be in that $200 to $250 million range, I would put it right about in the middle of it. The tax rate for the Company should be like at around 32-33%.

Jeff Lipton, President and CEO

Operator, we just have time for 1 more question, we've already run over our expected time. So one more.

Operator:

Thank you. The next question is from Nils Wallin, Credit Suisse. Please go ahead.

Nils Wallin, Credit Suisse

Hi Jeff, Chris, nice quarter there. I have 2 questions. First relates to the European JV, the sequential improvement was quite dramatic, and of course European conditions, the economy is doing well. I was wondering if you would be able to quantify for us how much of that improvement was due to overall better pricing, lower feedstock costs versus the estimated cost savings you have slated for that unit of around $74 million?

Jeff Lipton, President and CEO

Alright Nils, let me ask Chris to cover that for you.

Chris Pappas, Chief Operating Officer

We had a big change in our cost structure in Europe, because we were able to finally move out of some of those assets we're closing. But we did have some good market conditions as well, which by the way we expect to continue. So I think we would consider those numbers to be probably about 50:50 in terms of cost versus market. Hard to give you a precise number. But yes we have some good market conditions in Europe, and we expect them to continue. We have additional increments of cost yet to go in Europe on the joint venture, in terms of getting to our new target of $80+million. We also have identified some additional variable cost reduction opportunities that we went over in detail recently, so I think we still have some cost reduction going forward and decent market conditions.

Nils Wallin, Credit Suisse

Okay. The $40 million you have slated for cost reduction in your joint venture here in North America for STYRENIX. Does that include or exclude the previous 15 million you had targeted?

Jeff Lipton, President and CEO

It excludes that. It is all related to the joint venture on its own.

Nils Wallin, Credit Suisse

Then finally, I have just a question about how quickly you are able to realize the higher pricing or any price movements in Asia in your export business. Are you selling through distributors that will take a price up-front, or is it immediately that you enjoy as soon as the price in Asia goes up, you are going to enjoy that benefit?

Jeff Lipton, President and CEO

Are you talking about polyethylene?

Nils Wallin, Credit Suisse

Polyethylene, yes.

Jeff Lipton, President and CEO

We are able to achieve the value difference on a very short timeframe. We go to market in Asia, both through distributors and some on a direct basis. So it is a bit of a mix, but we don't have a lot of lag time, we can move very quickly. We have a unique capability to move product out of Joffre through Vancouver to Asia. And we have some unique relationships, so we have relatively small lag time.

Nils Wallin, Credit Suisse

Okay thanks very much.

Jeff Lipton, President and CEO

Okay Nils. Well operator that is it for us for today, we thank everybody for joining us. We appreciate your interest. Goodbye.