

**SECOND QUARTER 2007 CONFERENCE CALL - TRANSCRIPT
WEDNESDAY, JULY 25, 2007**

Set forth below is a transcript of NOVA Chemicals' conference call on Wednesday, July 25, 2007, related to our second 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' second quarter 2007 results. In just a minute, I will turn the call over to Jeff Lipton, our President and CEO. But first, a few comments about disclosure.

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. An audio replay and transcript of the call will be available in the Investor Relations section of our company website for the next 90 days.

The transcript and all posted materials related to this Earnings Press Release, including a set of panels we will reference today, will be available at our company website after that period.

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 Second 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 Chief Executive Officer

Good morning, and thanks for joining us today.

First, I have to acknowledge the recent equity market speculation about NOVA Chemicals, and tell you we are not going to comment about any of that today. We believe it will be much more valuable to discuss the fundamental aspects of our company, its prospects for continued strong earnings growth and the clear, very positive short and long term developments in North American and global markets.

I also have to say we are pleased with our results this quarter. We had a very strong June, with excellent polyethylene sales volumes and margins, which not everyone expected, resulting in the strongest second quarter business EBITDA generation we have had since the year 2000 when Styrenics earned \$70 million of EBITDA. This quarter is also \$28 million better than the second quarter last year excluding the tax rate change benefits of \$6 million this past quarter and the \$60 million credit in second quarter 2006.

Our net income for the quarter was \$80 million, up from \$44 million in the first quarter, with still only modest – but improving – contributions from our commodity Styrenics business.

Our businesses delivered EBITDA at a \$1 billion per year rate before corporate expenses. After interest, taxes and our increased investment in working capital – cash flow from operations was strong, at \$115 million.

We are going to do things a little differently with our conference calls starting today. First, you will hear from Chris Pappas, our Chief Operating Officer, who will cover the business results. Then Larry MacDonald, our Chief Financial Officer, will review our financial position.

After Larry's comments, I will come back and talk about our perspective on the third quarter and what we continue to see as a long period of strength for ethylene/ polyethylene markets and especially for NOVA Chemicals.

After our prepared remarks, we will open the phone lines for the usual Question & Answer session.

Okay. Chris Pappas – let's go.

Chris Pappas, Chief Operating Officer

Thanks, Jeff.

I am pleased to have the opportunity to describe our results for you today. It's nice to start when we have performance that's both strong and improving.

I will start with STYRENIX where EBITDA was \$29 million in the second quarter, up from \$19 million in the first quarter. Most of the improvement came from styrene monomer sales where we were able to put through price increases that provided NOVA Chemicals with higher margins. We use FIFO-based accounting so the higher benzene costs that many of our peers experienced in the second quarter will be a factor for us in the third quarter.

Sales revenue from styrene improved with stronger pricing in the second quarter, despite the fact that volumes were down from the first quarter. We responded to a softer Asian market by selling more monomer into Europe.

We continue to make progress with INEOS to expand our existing European Joint Venture to include our North American assets. We announced the five-member management team who will lead the expanded INEOS NOVA Joint Venture. This team will decide which actions will be taken to deliver the targeted \$50 million in synergies, which is over and above the \$74 million per year of European Joint Venture synergies we have delivered in less than two years since the October 2005 start-up of this Joint Venture.

Based on our discussions with the Federal Trade Commission (FTC) so far, we would still expect to close the expanded joint venture by the end of the third quarter.

In Performance Styrenics, our \$6 million EBITDA loss was the same as the first quarter. Panel 1 shows that business segment is made up of expandable polystyrene, ARCEL[®] and various business ventures – with expandable polystyrene still being the dominant factor in the unit.

We sold 22% more expandable polystyrene volume in the second quarter. However, the margins on expandable polystyrene are still slim. We have steps in place to improve expandable polystyrene performance, to reduce variable and fixed costs, and to create more value in the market place. We expect these efforts to begin to take hold soon.

High ARCEL[®] margins remain unchanged. But sales this year have not grown at the rate we projected. In response, we have dramatically increased our sales and marketing efforts and believe we can catch up to our original growth plan as we move through the balance of 2007 and first half of 2008.

Both ARCEL[®] and our downstream ventures - which are embryonic and growing rapidly – bring unique value to our customers. They are progressing well and have exciting futures. We expect to deliver results very soon that demonstrate that promise.

Now let's turn to Olefins and Polyolefins.

This segment delivered a very strong \$228 million in EBITDA in the second quarter versus \$159 million in the first quarter.

That includes \$58 million of EBITDA from our Corunna flexi-cracker and crude processing unit.

The completion of our modernization and expansion work in March coincided with the arrival of some very good market conditions in the quarter. The result was our best quarterly performance by Corunna since 2000.

Corunna's second quarter performance is particularly impressive when you consider that our light feedstock purchase program did not deliver anywhere near the same level of value as in the first quarter. The realized gain from our butane and propane positions was only \$3 million after-tax in the second quarter. That's \$15 million after-tax less than in the first quarter – and only about half of our average in the past 12 quarters.

Larry will talk about the other part of our program, the mark-to-market value of our open positions, as of the end of the quarter.

Now let's look at Joffre, where we use Alberta advantaged feedstock to produce ethylene for NOVA Chemicals and others, and two-thirds of our total polyethylene.

Our Advantage over US Gulf Coast producers this quarter increased to 13 cents per pound of ethylene cash cost – up from 7 cents per pound in first quarter. You can see in Panel 2 that 7 cents per pound is what we've averaged for the past 15 years.

The reasons that the Advantage expanded in the second quarter – and continues to expand through July – are straightforward. First, the price of ethane on the US Gulf Coast relative to the price of natural gas has increased significantly versus its historic level. If you look at Panel 3, you can see that the increase in the ethane-to-gas price ratio so far in 2007 is similar to the pattern we saw last year. It is very high now, closing this Monday at 194%. The cost of our ethane is more directly tied to the price of natural gas in Alberta – and we haven't seen anything like the level of higher costs that Gulf Coast producers are experiencing.

In fact, Panel 4 shows how the basis differential between AECO spot gas in Alberta and Henry Hub spot gas widened out to \$1.10 per mMBTU in the second quarter, and as of this Monday was \$1.16 per mMBTU.

So, the ethane price has been running up on the US Gulf Coast – and at the same time the price of natural gas in Alberta is at a bigger discount to the US Gulf Coast.

This has enabled us to maintain roughly flat ethane feedstock cost from the first quarter to the second quarter, so the implementation of polyethylene price increases led directly to an increase in chain margins for NOVA Chemicals; whereas US Gulf Coast producers were only able to maintain the same level of margin quarter-over-quarter, according to CMAI.

The average North American price for polyethylene in the second quarter increased by about 6 cents per pound from the first quarter – with the implementation of two price increases. The first increase of 6 cents per pound went in across March and April – so about half of it contributed to higher polyethylene prices in the quarter.

The second price increase was implemented in May and June. It was 4 cents per pound for standard polyethylene grades, and 6 cents per pound for hexene- and octene-copolymer resins - including our Advanced SCLAIRTECH™ resins. In total, these products represent about one-third of our polyethylene capacity.

And, effective July 1, we implemented another price increase for 5 cents per pound. We expect almost all of our customers to pay the full 5 cents in July. We have chosen to selectively meet competitive offers for 30-day price protection – to August 1 – for just a handful of customers, as is often the case.

We have an additional price increase for 4 cents per pound on the table to be implemented effective August 1. We will be invoicing all of our customers up 4 cents per pound on August 1st.

Despite higher polyethylene prices in North America, producers still have an incentive to export product. Panel 5 shows the trend line for the Chinese polyethylene price (in red) versus the range of contract and spot prices in North America.

Prices in Asia and Europe remain high enough relative to the US to create attractive export opportunities for North American producers. We are seeing excellent netbacks for us out of Alberta since our logistics cost to China is only about 2 cents per pound from Vancouver. We don't see any reason to expect that this situation will change any time soon.

As a result of these fundamentals, industry exports have remained strong through the second quarter. North American exports in the first half of 2007 were 31% ahead of the same period last year. Clearly, all North American producers have a profitable alternative to building inventory – and that's very helpful to our industry.

In Panel 6, you can see the comparison of North American exports to imports. There is no comparison really. Exports remain at or above 20% of domestic demand and imports are still well below 1%. Again, we see no reason to think that this is about to change.

While export demand has been extremely strong – domestic demand has remained solid and domestic consumption has been quite strong - not “anemic” as I read in some analyst reports. Second quarter domestic sales for the industry were the fourth highest of any quarter in history. Not bad.

And sales were up from the first quarter to the second quarter. Domestic sales were up 2.7%, and export sales were up by 2.3%. So, we have healthy, and improving, demand.

We believe North American sales would be much higher than last year – if converters had not worked down their inventory in the first half of this year. Producers are not pushing hard for domestic sales because they are economically indifferent, given the strong export opportunities.

Panel 7 shows the American Chemistry Council polyethylene inventory trend. Polyethylene operating rates reached 97% in June, and have averaged 95% for the first six months of the year. That's up from 91% in the first half of 2006. History indicates we can't sustain that utilization rate very long.

After reducing inventory by 63 million pounds year-to-date, producer levels stood at 38 days of sales. By comparison, NOVA Chemicals had about 19 days of sales as of the end of June, down from 21 days at the end of March – and well below our 24-day historical average level.

I would also like to mention that, so far in July, NOVA Chemicals' polyethylene sales and our assessment of customer consumption are both 10% ahead of where we were in July 2006, so we feel very good about the markets today – and we have a lot of confidence around the implementation of the polyethylene price increases that are on the table.

I would also like to take a moment to declare victory for our Advanced SCLAIRTECH™ operation which is now fully commercial in every sense.

Back in 2001, we took a big step, with the launch of a new process technology and new proprietary catalysts, to produce polyethylene in a first-of-its-kind world-scale reactor. We are pleased that the market has quickly embraced our high-performance polyethylene grades.

Today, with the help of our customers, we have a fully developed slate of commercial products. This work took about as long as we expected and is similar to what other companies have done with this sort of new technology development.

I would like to specifically note a few of our Advanced SCLAIRTECH™ milestones.

The Joffre Advanced SCLAIRTECH™ facility:

- Is now producing prime resin at rates that exceed nameplate capacity.
- Is on track to produce 43% less off-grade this year than last year.
- Has, for the past 12 months, earned at least 30% higher contribution margin per reactor hour than any of our other polyethylene assets.
- And now has international customers, newly exposed to Advanced SCLAIRTECH™ resins, who are starting to bid volume away from our North American customer base.

Of course, we will continue to upgrade the sales mix to maximize margins on an ongoing basis – as we do at all of our assets – but this plant has clearly moved out of the development phase and into fully commercial operation. And we expect to see ongoing improvement in EBITDA generated from this product line.

Now, I will turn it over to Larry.

Larry MacDonald, Chief Financial Officer

I would like to start out by commenting on our strong cash flow generation in the second quarter. We generated \$160 million of funds from operations during the quarter, which is up from \$62 million last quarter. After investing \$45 million in working capital and other items, we generated \$115 million of cash from operating activities.

This cash was used to finance our capital spending and turnaround costs and allowed us to build our cash reserves by \$22 million and pay down debt by \$33 million.

The amount of debt shown on our balance sheet was only reduced by \$10 million because we have some debt in currencies other than the US dollar. As these currencies have appreciated against the US dollar, the amount of debt, as expressed in US dollars has increased by \$23 million during the second quarter.

Liquidity increased to \$508 million at the end of the second quarter – from \$459 million at the end of the first quarter.

Our banking group has approved an extension of covenant modification from June 30, 2007 to March 30, 2008.

NOVA Chemicals has non-U.S. fixed asset investment – the large majority of which is in Canada – which increased by \$198 million during the quarter, as a consequence of changes in exchange rate. This increase in equity – together with the increase from our earnings during the period, and the reduction of debt, has resulted in a reduction in our debt to total capitalization ratio from 73.9% at March 31 to 65.8% at June 30.

As part of the light feedstock purchase program for the Corunna flexi-cracker, NOVA Chemicals will lock in butane and propane positions when attractive forward price ratios versus crude oil come available. You might recall that our forward positions appreciated in the first quarter, resulting in a mark-to-market gain of \$26 million before-tax. The value of these positions did not change much during the second quarter, and we ended June with a mark-to-market loss of \$1 million before-tax, which is reflected in our Corporate results.

The LIFO / FIFO impact was positive in the second quarter as benzene and crude oil prices were higher in June than in March. If NOVA Chemicals reported using LIFO-based accounting, we estimate that reported second quarter earnings could have been \$35 million lower.

Also included in our second quarter earnings is a \$6 million tax benefit related to a decrease in future income tax liabilities due to a reduction in the Canadian federal tax rate from 19% to 18.5% beginning in 2011. You might recall that last year, both the Canadian and Alberta governments reduced corporate tax rates, which resulted in a \$60 million benefit in the second quarter of 2006.

Jeff Lipton, President and Chief Executive Officer

Thanks, Larry.

Let me first talk a bit about what we expect in the near term, and then I will comment on some of the implications for the longer term.

We are not going to say much more about our commodity styrenics business until we have completed the FTC process. We will have a separate conference call – some time shortly after we can define the new joint venture. We will cover the consolidation and improvement steps we plan to take, and the impact we believe it will have on business results.

I will say that, in the third quarter, we face seasonally weaker styrenics markets, especially in Europe. Also, our FIFO accounting practice will give us a hill to climb in the quarter based on the current trend of falling benzene costs which, by the way, are back down to the upper end of benzene's historical price range relative to oil.

In Olefins/Polyolefins, we feel very good about current market conditions and prospects going forward for next quarter and the next several years. The polyethylene market fundamentals are all lined up:

We have very high producer operating rates – 95% in North America year-to-date – which as Chris pointed out our industry has not been able to sustain in past years.

He also pointed out we have very strong export sales – up 31% over the first half of last year.

We are selling into strong markets that:

- are growing faster than the numbers analysts have used for demand increase projections
- have relatively low inventory positions, and
- have currencies that are strengthening versus the US dollar.

It is also important to note that, even with soaring ethane costs on the US Gulf Coast, the cost for North American ethane-based ethylene is about 4 cents per pound lower than naphtha-based ethylene, including the current values for cracker co-products.

Remember 60% of ethylene – and related polyethylene production outside of North America is based on heavy feedstock, so North American ethane-based exports are very competitive and we believe they will stay strong.

In addition, we have low producer inventories. American Chemistry Council data shows North America producer levels at 38 days versus the historic 43-day average.

And despite some different opinions, we have very strong customer consumption indications. Panel 8 shows the return rate of empty hopper cars from our customers.

As you can see, our customers' resin consumption was very strong in the first half of this year - stronger than the first half of 2004, which some analysts speak of as a peak period. In fact, it was stronger than any half year period in the last three years.

So our view for the third quarter is very upbeat. We believe our customers' business will remain robust and that they have worked inventories down in the first half. That leaves us with low producer and low converter inventories going into what is usually our strongest quarter in North America. In addition, we have feedstock markets that are very positive for NOVA Chemicals.

Panel 9 shows the rapid build in North American natural gas inventory. Today, there is as much gas inventory as at this time last year – which was a record high level. Total inventories in the US and Canada are now 18% above the 5-year average.

At this rate, we will likely reach maximum inventory levels before the winter drawdown begins. Gas prices have fallen 29% since the middle of June, and we expect this decline to continue in the third quarter, especially in Alberta. In fact, August prices for gas in Alberta were \$4.63 per million BTU at the close last night – about 20% lower than August NYMEX prices.

Most analysts note the modest air conditioning demand we've seen so far this summer, and some cite record LNG imports and increased US production for this situation. But few appreciated the potential impact of the major new source of gas expected from the Independence Hub off the Louisiana coast that the Wall Street Journal reported on last week. The article indicated the hub is expected to ramp up supply to 1 billion cubic feet per day, 1.5% of domestic production, over the next few months, and my understanding is that the new gas will have low natural gas liquid content. So that will actually help NOVA Chemicals' relative competitive position by lowering gas prices across the continent and adding little to ethane supply.

So that's the short term picture – about which I can only say "What's not to like?"

Now, what about the longer term?

We continue to see an extremely strong market for naphtha, the feedstock for 60% of the world's ethylene production. The competition for naphtha is only expected to increase as the worldwide demand for gasoline continues to soar. The implications of higher naphtha costs for the global ethylene / polyethylene industry are clear.

We recently read a report published by a respected European energy consultant, Wood Mackenzie, that described naphtha demand as growing faster than demand for any other crude oil derivative between now and 2020. After accounting for all new potential sources of naphtha, Wood Mackenzie believes that the world could be 10% short of naphtha by 2010.

And it appears more and more likely that new ethylene capacity additions around the world are going to have to rely on naphtha and other globally priced feedstocks, such as condensate and propane, because the Middle East and other areas are running short of low-cost ethane supply.

At a petrochemical industry conference in Asia, an expert from SRI Consulting said regarding ethane "there is not enough for all the new projects". That's becoming clear to everyone.

CMAI put together an ethylene cost comparison for various locations in the world, which we show in Panel 10. We've added NOVA Chemicals' Joffre, Alberta ethane cracker and Corunna, Ontario flexi-cracker to show their relative cost position.

You may have seen this chart in the past showing Saudi Arabia as a single point on the curve.

The reality is a lot more complex and this expanded version shows the spectrum of cost for different types of feedstock in Saudi Arabia. You can also see that our two ethylene facilities are in the best quartile for

cost globally – and are competitive with assets in the Middle East that use anything but the historically low-priced mainly ethane feeds.

The Alberta government recognizes the value in maximizing the availability of low-cost feedstock in Western Canada. It has committed to help expand the supply of ethane in the province in order to grow downstream industry. Earlier in July, the government approved what it calls the “Incremental Ethane Extraction Program”, and spelled out most of the implementation details.

You might recall in March, we announced an LOI with Aux Sable to develop an ethane extraction plant in Fort Saskatchewan, Alberta that would process natural gas from the Alliance Pipeline. With the right level of support from the government’s new initiative, this project would boost Joffre’s ethane feedstock supply by 25% as early as 2011. We still have some work to do to finalize this project but we are encouraged by our progress.

Also, importantly, while future Middle Eastern ethylene production shifts from increasingly scarce ethane to more expensive naphtha feedstock, a brand new source of ethane from the Alberta Oil Sands is just starting to be developed.

Earlier this week, we signed a Letter of Intent with Williams Energy Canada to put a project together to process off-gas from the Oil Sands to extract and deliver a mix of ethane and a small amount of ethylene to our Joffre site.

Let me explain how this would work.

The Alberta oil sands contain an enormous amount of heavy oil and bitumen – estimated to be over two trillion barrels.

The process to heat and strip crude oil from the oil sand’s bitumen generates significant quantities of off-gas which is rich in natural gas liquids.

As the Oil Sands are developed, we believe off-gas will become another very important source of feedstock supply for petrochemical growth in Alberta. In Panel 11, you can see just how much ethane potential there is. If all the expected ethane available from current oil sands projects was extracted in Alberta, it would double Western Canada’s current supply of ethane feedstock.

In Panel 12, we show a simple schematic of the oil sands process. Williams produces propylene from an off-gas stream today.

With Williams, we will evaluate installing ethane and ethylene extraction equipment and delivering the feedstock to Joffre using an existing pipeline.

This project is an important step – one that we are pleased to be the first to take – to tap into the significant ethane growth opportunity provided by the phenomenal expansion of oil sands projects. If all goes well, we expect that we could have the first tranche of about 10,000 bbl/day of new ethane feedstock delivered from the Oil Sands to Joffre as early as 2010.

And, very importantly, we also believe that as we ramp up the proposed new oil sands ethane extraction facility, we will provide Joffre with new ethane feedstock that is at least as competitive as our current feedstock supply.

As we see it the combination of more ethane extraction from existing pipelines; the new pipelines from Mackenzie Delta and Alaska that will, some day, get built; and our ability to economically use oil sand off-gases make Alberta a very exciting place to be operating and growing in for decades to come.

In contrast, the cost for new feedstock in the Middle East is likely going to be much higher than today. Shrinking ethane supplies and higher-cost naphtha is resulting in substantially higher feedstock cost for

new capacity – on top of much higher capital cost estimates. As a result, there are more delays and cancellations.

We have included in the Appendix of our slides the same capacity announcement table we have shown before. From the list of 32 projects we first assembled less than one year ago, there are a total of 11 new delay announcements that average about 9 months. Two projects have been cancelled or delayed indefinitely, and one new permanent plant closure was announced. These are summarized in Panel 13.

As an example, one of the revisions we show is the 2.2 billion pound per year ethylene plant, originally announced for a 2011 start-up in Oman. The cancellation announcement related to higher than expected capital costs, and doubts that there was enough light feed available to supply the project.

Also, the Gas Authority of India formally announced this month that they would indefinitely postpone the construction of their 1.3 billion pound per year ethylene cracker because of the uncertainty they face in obtaining the ethane feedstock they need. We didn't have this project in our listing because we didn't think it was likely to proceed, but the announcement is instructive nonetheless.

These delays and the increasing amount of evidence around feedstock issues support our outlook for ethylene and polyethylene supply/demand balances. We have more confidence than ever that there will be a prolonged period of strength in global ethylene and polyethylene markets through 2010 – and probably beyond that – if global economic growth continues at anywhere near today's pace.

For NOVA, we plan to make the most of Western Canada's advantaged feedstock supply and our unused ethylene capacity at Joffre. We will continue to debottleneck our gas-phase polyethylene reactor. We will increase throughput by another 100 million pounds this year, just as we did last year.

We will also expand our Advanced SCLAIRTECH™ polyethylene reactor from 850 million to 1 billion pounds next year, and expect to build a new polyethylene reactor at Joffre to use the newly available ethane we've identified.

We show all of this planned growth, totaling more than 1 billion pounds of new polyethylene capacity in Panel 14. This capacity increase will provide significant new cash flow potential for NOVA Chemicals – and it is important to understand that we can generate it with no new investment in ethylene capacity – it's already in place.

Let's do some math.

Since 1995, North American ethylene/polyethylene chain gross margins have averaged 25 cents per pound. In addition, for the past fifteen years, NOVA Chemicals has averaged 7 cents per pound of Alberta Advantage – which is on top of the industry average margins. Together, that's 32 cents per pound on about 1 billion pounds of new capacity. After you consider the fixed costs of a new polyethylene reactor, we have the potential for a total of \$290 million of additional EBITDA using long-term average margins coming into play over the next four years.

I used to talk about retiring at 65 or 70 – whichever came first.

Obviously, I didn't appreciate how long the Styrenics trough would last.

Having celebrated my 65th birthday earlier this month, I have to say that the exciting earnings growth prospects for our ethylene and polyethylene business, and the potential for us to start making a real difference in our Styrenics performance in the foreseeable future, are keeping me and everyone else at NOVA Chemicals as motivated to deliver shareholder value as we've ever been.

Operator, we are now ready for questions.

Frank Mitsch, BB&T Capital Markets

During the presentation Chris, you mentioned that the 5 ¢ polyethylene price increase in July is going through the vast majority of the customers, although there are a handful of customers that are going to be taking the 5 ¢ on August 1. Can you give a rough guesstimate of what percent of the polyethylene volume would fall in the latter category?

Chris Pappas, Chief Operating Officer

Frank, as a matter of fact the customers that are our largest are the ones that have the potential for this delay, the competitive 30-day delay. So at this point, I would say it is probably in the range of roughly 20% or so of our volume is going to be in the August timeframe rather than July. That is the way we would see the picture at this time.

Frank Mitsch, BB&T Capital Markets

If you are not too dissimilar to the market, 80% or so of the market is getting a nickel added pricing on July 1.

Jeff Lipton, President and Chief Executive Officer

Yes, but be careful with that Frank, because we do export 20% of our product, and that is not tied to that price increase directly.

Frank Mitsch, BB&T Capital Markets

Larry, I'm wondering if you could talk about what the impact of the strengthening Canadian currency was relative to the dollar in the second quarter, and any sense as to how the third quarter is trending in that regard?

Larry MacDonald, Chief Financial Officer

Okay Frank, from the end of the first quarter to the end of the second quarter, the Canadian dollar strengthened by about 5.5 to 6 ¢ versus the U.S. dollar. Our Canadian dollar fixed costs increased by approximately \$16 million in U.S. dollar terms versus the first quarter as a result of that change in currency. This negative fixed cost P&L impact was largely offset by foreign exchange impact on U.S. dollar liabilities and non U.S. entities that were realized in the period.

Let me give you an example. We buy a lot of crude oil from offshore in U.S. dollars in the Canadian entity. When we receive that crude oil, the payable is booked in U.S. dollars converted to Canadian dollars at the time. So if we had a \$30 million crude shipment in U.S. dollars that was received when the Canadian dollar was 90¢, we would book \$33 million Canadian liability. At the payment date, if that Canadian dollar exchange rate had increased to 95 ¢, the actual Canadian dollar payment is only \$31.5 million and we would realize a Cdn \$1.5 million gain. So those U.S. dollar liabilities in our Canadian operations in particular, can work to offset the negative impact on fixed costs. It is certainly not matched every quarter. It depends on the level of payables we have at any point in time.

Frank Mitsch, BB&T Capital Markets

I see, so basically there was not a big factor in the second quarter. You'll have some puts and takes, but it is not a significant delta that we would look at it in the third quarter either?

Larry MacDonald, Chief Financial Officer

I don't believe so, no.

Frank Mitsch, BB&T Capital Markets

Then Jeff, just lastly, you know we were talking about the Alberta Advantage over the past 15 years of 7¢ a pound and you know obviously it is trending much higher today. I think you outlined some cases where some of the factors that go into that Alberta Advantage relative to ethane and the gas cost on the Gulf Coast. Would you anticipate that Alberta Advantage is going to be set at a higher plateau going forward?

Jeff Lipton, President and Chief Executive Officer

I would guess so if we stay in a high energy cost regime. Pipeline costs will stay high, because the big variable cost in pipeline movement is energy to run the turbines for the natural gas pipelines. We also get a bigger spread in our conversion of ethane to ethylene, because our plants are more energy efficient. So we would expect in a high energy cost regime to have the advantage expand. By the way, the number for the last three years is 8¢ and for the last two years, we've averaged 9¢. If we have a summer like we had last summer that average will continue to move up. It looks to us anyway, as if the oil-to-gas spreads will continue to drive ethylene versus natural gas, and we'll enjoy some very nice feedstock market conditions for the foreseeable future.

Sergey Vasnetsov, Lehman Brothers

Your plans about the new ethylene and ethane supply in Alberta are quite interesting. My question is why should NOVA Chemicals plan to spend capex to obtain ethane from those tar sands? Even if you go about sequentially getting costs to other chemical companies, you would think that either DOW or even Shell should be the ones supporting these costs to offset future growth. In the mean time if you terminate those contracts you would have ethylene available for polyethylene and actually you'll pull them out of there.

Jeff Lipton, President and Chief Executive Officer

Well we will not have any capex involved in either one of these two programs. I think that is important to understand. We act as the ethane supplier for all of the activities on our site. So we actually have to arrange the ethane for Dow's share of what we call E3, the third ethylene cracker at Joffre, and as we go forward, we are going to continue to renegotiate contracts with our customers so that there is a fair balance of return.

One of the reasons that we deserve more is because we have been innovative and been able to do these extraction deals to be able to supply more ethane. So we see the ability for NOVA to keep on growing its profitability of ethylene, and most importantly to be able to make use of some of the unused ethylene capacity by building our own polyethylene expansions downstream, which we think will have a very big payoff. So I don't foresee us having unreasonable negotiations closing off ethylene supply to our customers. Of course if they won't pay a reasonable price, then we will use it ourselves.

Sergey Vasnetsov, Lehman Brothers

Okay that makes sense, thank you. The second question is to Chris. Chris, comment a little bit about performance products. Given that it is an important area for you, could you comment why the targets came a little bit short, the results come a little bit short of targets, and what you plan to accomplish by having more people to sell this product?

Chris Pappas, Chief Operating Officer

Yes Sergey, we are obviously not comfortable or pleased with the \$6 million EBITDA loss we have in Performance Styrenics at this point. On a broader basis, I would tell you we are very encouraged by what we are doing in our expandable polystyrene to improve that business. We announced some cost reduction activities last quarter that are going to be taking hold in the third quarter. We're making

significant effort to reduce variable and other costs there. We've redoubled our efforts to move ARCEL volume. That is beginning to take shape as we head into the third and fourth quarter.

Our downstream ventures in that particular business unit are all doing extremely well, and they were not forecasted to produce large amounts of EBITDA until well into 2008, and they are tracking very well. The other product line that fits our performance definition is our Advanced Sclairtech polyethylene resins (AST). I commented about our view on AST earlier. We are very pleased with the results of AST. We are tracking to a very strong finish for the balance of this year on an EBITDA basis, and we are tracking very nicely as we look at our targets for 2008. We are very pleased with our margin per reactor hour, as I mentioned earlier.

So all in, we had aggressive targets. We are not hitting all of them, but we feel very comfortable about how these businesses are progressing for the balance of 2007 and into 2008.

Jeff Lipton, President and Chief Executive Officer

If I could just add to Chris's comment Sergey. We have seen absolutely nothing in terms of the ARCEL product or its value in use that are a negative or anything but better than we had originally projected. We believe the lack of penetration in the marketplace is related to us and our capacity to market and sell, not the product.

You might have noticed that post office rates for packages and related UPS rates and FedEx rates have changed significantly this summer. They are pricing packages by the cube of the package. All of this will aid our ability to sell ARCEL, as everybody begins to understand that the issue is not weight, it is space, cubic space in transportation modes, whether they be in the air, over the ocean or even on the roads in North America. So we'll get there, we are confident that we will. The issue really is doing a more thorough job of marketing and selling, and as Chris indicated, we've got some talented people added to that organization to just that.

Sergey Vasnetsov, Lehman Brothers

My last question is for Larry. The tax benefits that you booked this quarter, if it's a 2011 tax change, why the benefit was taken now. Secondly, if you expect some more tax benefits in the second part of this year.

Larry MacDonald, Chief Financial Officer

It really affects the deferred taxes. So the deferred tax liabilities are booked based on the rates that are in effect. So when the rates change, you have to change the deferred tax liability. We are not aware of any addition tax decreases contemplated in Canada at this time.

David Silver, J.P. Morgan Securities

A couple of questions. I guess first, I think I would like to ask you a transfer pricing question. In your Olefins/Polyolefins business, it seems like a lot of the improvement from first quarter to second quarter was concentrated in ethylene, and yet when I look at the EBITDA spread from first quarter to second quarter, it seem like it is distributed more heavily towards polyethylene. I'm just wondering, is that a transfer pricing issue, or could you explain why a widening of the Alberta Advantage and a favorable AECO/NYMEX spread doesn't show up more in the sequential improvement in your Olefins/Polyolefins results.

Chris Pappas, Chief Operating Officer

David, I can tell you that there has been no change in our transfer price posture. The question was raised earlier, a couple of quarters ago, and we transfer on a market basis in both Joffre and Corunna, there are slightly different mechanics for each site but no difference in policy. So any sequential

difference you see is not related to any change in transfer pricing policy. We've had that policy in place for a long time, and we continue to use that policy. We are of course raising polyethylene prices substantially through the quarter, and also seeing a nice increase in our Alberta Advantage. So I can't give you a detailed answer to your sequential question, but it doesn't have to do with any change in transfer pricing.

Jeff Lipton, President and Chief Executive Officer

The other factor I would guess David, although I don't have all the details in front of me, is that we sell to our ethylene customers in Alberta in a way that shares the Alberta Advantage with them. So the full magnitude of the Alberta Advantage change doesn't carry forward for all of our ethylene volumes.

David Silver, J.P. Morgan Securities

had another question on your AST volumes. So 225 million pounds is the highest number there for a while, and I apologize if I missed this. In Chris's comments, did you discuss what percentage of those volumes might have been sold at an AST premium price versus the overall mix of maybe selling some AST product at regular resin prices?

Chris Pappas, Chief Operating Officer

We did not comment on it David, but the number is about 70%. I think the important other number of course is the 225 that is, as you mentioned, a very nice volume for us. Also, and I did mention it, our prime rate in the facility is very high, in fact we have been running prime rates above name plate capacity. So we are very pleased with both the way the plant is operating, and our ability to move the product mix up into higher value applications and that is why I reflected on those comments about such strong performance moving forward on AST. So the answer to your question is about 70 or so percent.

Jeff Lipton, President and Chief Executive Officer

Again, if could add just a little bit. David, one of the real benefits of a solution polyethylene process is the flexibility of the plant that enables us to shift grade-to-grade without a lot of transition costs and a lot of off grade production. So Chris and his team continually look at the marketplace, and the overall objective is to maximize the contribution per reactor hour we have at AST, since it is now sold out. At times, particularly in strong markets, there are situations where what we don't generally call premium products are selling at very good margins, and our ability to shift their production load at our plant in Joffre allows us to maximize Company contributions.

So for example, just recently, we've seen thin wall injection molding as being a particularly strong market, and generating gross margins that are better per reactor hour than some of our other products, and we would shift the mix in that direction. So just looking at the percentage on a premium basis was important to us as we started up, but now what we look at is the average contribution per total reactor hour, which Chris mentioned was significantly higher than any of our other lines, and is I think the real indication of what we are going to be able to do with that plant going forward.

David Silver, J.P. Morgan Securities

One last question. That would be on your approach to domestic versus export sales as we move into the back half of the year. So the information that you laid out on panel five, if I interpreted it correctly, indicates it was an advantage for NOVA to sell overseas earlier in the year, and I think you cited a 31% increase. Now it is pointing a little more towards indifference or if the July price increase goes through, I'm guessing that maybe you even favor the domestic market. So could you talk about the sales opportunities and the way you think about incremental sales offshore versus incremental sales into the domestic market.

Chris Pappas, Chief Operating Officer

Yes, the number for us was about 17% David in the quarter, and the industry had a 31% increase in exports since the beginning of the year. We are still in a very strong export environment and would expect that to continue. We are seeing our prices come up for polyethylene here in North America, but they are also rising in Asia as we speak. So I would not say anything other than I expect the third quarter and beyond to, at least in the medium term, to offer very strong export opportunities for North America producers. The relative cost position that we have is strong. The cost of naphtha based polyethylene is high, and that should put us in a very good position to continue with strong exports for the foreseeable future.

Now for us, 17% is close to our maximum capability. We have had quarters we've been marginally above that, but that is about really our max based on logistics and so on. We would expect to run pretty close to that for the foreseeable future, and I expect the industry to be strong as well.

Edlain Rodriguez, Goldman Sachs

I have a question for Jeff on polyethylene and ethylene. Back in April, during the conference call, you were very confident about industry fundamentals, and for the ability to get significantly more prices than actually we see. What do you believe happened, which make the prices lesser, and what give you more confidence now that in the next few months we will see those price increases?

Jeff Lipton, President and Chief Executive Officer

Well Edlain, I have a little different perspective than the way you put it in your question. We got two price increases in the second quarter, and they held quite nicely. Our pricing is up in July, and I think we're in very good shape for NOVA with regard to pricing. More importantly our competitors, facing significant increases in naphtha costs and significant increases in ethane costs, need the price increases to generate reasonable margins given the supply/demand balance. So if you look at our Quarterly Report, you will see that from a market perspective the average price was up 6 ¢ a pound higher in the second quarter than the first quarter, and we'd expect significant movement again in the third quarter. Our feedstock costs are likely going to be declining with natural gas moving the way it is in Alberta, and with ethane selling at 194% of natural gas values on the U.S. Gulf Coast, our competitors need that price increase to make reasonable margins. Don't forget we're operating polyethylene facilities in North America at very, very high rates. Normally when we see 95% utilization, our competitors are making very strong margins. They are not today. There are low inventories, they know they can get the price increase, and I think they are going to go after them, and we will get the benefit of an aggressive industry looking for price increases.

Edlain Rodriguez, Goldman Sachs

But, wouldn't you say that was the case last quarter, that they needed those prices increases also, but somehow because of higher costs they have been seeing a margin expansion? I mean you benefited from that because of your Alberta Advantage, the industry failed to see any margin expansion.

Jeff Lipton, President and Chief Executive Officer

Well the industry didn't get enough price increase fast enough to cope with the rapidly rising costs of naphtha and ethane, but I think all of us in the industry would take a 6 ¢ per pound quarter-over-quarter increase on a regular basis. We are very pleased with the way the industry moved, and most importantly the way we were able to move to raise our prices. We are very pleased with the prospects for the third quarter. So our view is the industry was not able to move fast enough to capture all of the increases, but customers did consume a lot of product. Inventory was drawn down. Our operating rates were very strong. I see the situation in being positive in both the second quarter and the third, for everybody in our industry.

Mark Connelly, Credit Suisse

The first question is, how does ethane extraction from the Alberta oil sands affect the advantage itself? I'm wondering whether the increased capital and processing costs mean that the raw material part of the advantage goes down, but then you get more ethane, and that helps you on the other side. Is that the right way to think about it?

Jeff Lipton, President and Chief Executive Officer

I would look at it a different way. We don't have any capital tied up in either one of these situations. We are giving our partners here, the Aux Sable group and eventually we hope Williams, a reasonable return on their capital. We signed long-term contracts, and the net cost to us for their capital charge and their extraction charge for the ethane, we believe will be competitive with where we are today. In the case of the off gases from oil sands, if we fully utilize the facility that we are talking with Williams about, don't forget we still have to go through the engineering work and the study, we'll be able to reduce the extraction and delivery cost of the ethane. We're natural gas buyers, we swap BTUs of natural gas with BTUs of ethane, and what we have to look at on top of the natural gas differential then, is the cost to extract and deliver that ethane for us. We think both of these alternatives will be very economic for the long-term.

So it is really the capital charge and the energy cost of the extraction that is an issue.

Mark Connelly, Credit Suisse

Okay, and second, a simple question. The quarter two restructuring charge, is it fair to assume that it is all in the STYRENIX business?

Jeff Lipton, President and Chief Executive Officer

Yes.

Fai Lee, RBC Capital Markets

Thanks. Jeff, I'm just wondering if you could maybe comment on the competitive landscape within the industry, specifically we've seen a recent spike in take-over activity in the chemical sector. Do you see this trend accelerating or slowing down, not being specific to NOVA of course?

Jeff Lipton, President and Chief Executive Officer

Well since we are not likely to be an acquirer, I would tell you that it is hard for me to say, but certainly it appears as if the interest is out there. I think there are people involved in our industry strategically that have stated publicly that they are interested in growing in areas where they are not currently operating. I think the hold up for the last little while, while other industries were seeing rapid consolidation, has been concern about the fundamentals. A lot of people in the industry were concerned about what might happen in the Middle East, and when we were going to see a significant downturn.

My conversations with other CEOs in our industry are coming to the point where just about all of us are seeing the fundamentals the same way. In that we are much more optimistic about a long, strong period and much less concerned about a short-term dip in cash flow performance. That is changing the mentality of the potentially aggressive players all around the world.

Fai Lee, RBC Capital Markets

That's great. Maybe just turning to Chris, you mentioned earlier about perhaps benzene impact in the third quarter. Can you comment a little bit more on the potential impact?

Chris Pappas, Chief Operating Officer

Well I think the issue of course is FIFO accounting. Benzene was dropping during the quarter, and of course because of the accounting procedures that we use, we will see a different benzene curve going into the third quarter. Benzene moved from \$4.00 a gallon in June to \$3.70 in July, and we will be taking some of our more expensive benzene into the third quarter versus what we had going into the second quarter. Hard to quantify that exactly, because we will have to see what happens to benzene going forward through the third quarter, but at this instant in time, it looks like there will be a head wind for us on that piece of the accounting.

Jeff Lipton, President and Chief Executive Officer

One of the problems Fai, is that without a tight market, we and our competitors are looking for small incremental contribution on top of our cost for benzene/ethylene to make styrene. With benzene moving down in a loose market, you'll find people are willing to sell for a small incremental contribution. On their books it looks fine, because they are looking at the last increment of benzene. It puts pressure on us, because we are looking at the old increments of benzene, and our accounting results aren't similar to theirs. If anything, we certainly don't control any pricing in styrenics at any stage of the chain. So markets have their will, and most of the markets focus on last-in, first-out.

Fai Lee, RBC Capital Markets

In this potential head wind that you are talking about, I'm assuming that all the potential positive impact for the polyethylene market is going to way offset this potential head wind. Is that a correct way to look at it?

Jeff Lipton, President and Chief Executive Officer

Well if you are asking whether we are bullish about our results in the third quarter, I would say yes, very.

Bob Hastings, Canaccord Adams

A couple of questions. I was going to ask the one that Fai just asked as well, but in terms of when you look at the Middle East situation, and you had a nice panel on there of where you fit in for Joffre and Corunna in terms of cost structure in panel 10. What would it look like if you were projecting on a new plant in Alberta in 2010/2012 timeframe for example, relative to a new plant in Saudi Arabia?

Jeff Lipton, President and Chief Executive Officer

I would say capital construction costs in Alberta are not dramatically different than we would expect them to be in other hot spots of the world. But, the important thing is, we already have the ethylene capacity, and we don't have to build a new cracker. We have had excess hardware in ethylene pending growth in ethane supply and downstream demand. As you recall Dow has reduced their operations in Alberta, at least in the short-term, freeing up some more ethane and ethylene capacity. As a consequence, we see the capital need is dramatically less than new capital needs in the Middle East at least for the next little while.

Bob Hastings, Canaccord Adams

So when we look at panel 10 for the Middle East, is that current cost today, or does that reflect...

Jeff Lipton, President and Chief Executive Officer

This is cash cost, and does include the capital charge.

Bob Hastings, Canaccord Adams

Right, but I was wondering is that you were projecting higher ethane costs for example in the Middle East, and wondering if that meant that a new plant would be higher on that chart than what you are showing.

Jeff Lipton, President and Chief Executive Officer

Marginally so. I think it is important to understand that condensate and propane are both generally globally priced, because they are movable and people have access to them as feedstocks around the world. For example, we buy some condensate from Algeria, to use in our Corunna cracker. So as projects in the Middle East use globally fungible product, the pricing there tends to follow global pricing, not just pricing for stranded ethane. The only application for ethane or by far the major one is petrochemicals. So there is a difference.

Bob Hastings, Canaccord Adams

One last question is, you reiterated the 65 or 70 again, so I feel it is free for me to ask you. You did turn 65, can you update us on what your retirement plans are?

Jeff Lipton, President and Chief Executive Officer

We don't have a retirement date at NOVA, and my retirement is directly related to how excited I can get about the prospects for NOVA. So I don't have any current plans. I'm very excited about what we can do in the next little while.

Bob Hastings, Canaccord Adams

So the 70 still stands as well?

Jeff Lipton, President and Chief Executive Officer

It is a long way away from where we are today. So we have to get our styrenics business up and reaching their potential, and that is going to take a reasonable amount of time to do, although we do have some very interesting things that we are working on. As I indicated, we'll have a conference call later on, probably late in this quarter, September is our target to talk about what we think we can do with the expanded JV and what else we have in our minds to improve the STYRENIX business. I think you might have noted that BASF has indicated that they are prepared to sell their commodity styrenics portfolio. Their split looks similar to ours. They are going to keep the construction-related expandable polystyrene, and they are interested in looking at opportunities to sell styrene and solid polystyrene. We think that eventual transaction, if it occurs, would further consolidate the industry. It is very good to see that even the giants in our industry are starting to be concerned about the sad state of the styrene/polystyrene marketplace.

Bob Hastings, Canaccord Adams

It looks like in the last year, we are moving towards the goal of just about every other commodity the industry realized is over capacity, and too many players doesn't do anything good for anyone.

Jeff Lipton, President and Chief Executive Officer

That's right.

Greg Goodnight, USB Securities

I tend to agree with you in terms of your outlook for ethylene in the next two years, but would you comment about 2010 and 2011. Two cancelled projects to me would not seem to offset the huge amount of capacity that has been announced. What is your operating rate outlook for 2010 and 2011? What is your profitability outlook?

Jeff Lipton, President and Chief Executive Officer

Let me give you a kind of general description. I see demand growing at a pretty rapid pace; the developing world, China, India, other parts of Asia growing their needs for our basic polymers, polyethylene in particular. So I see pretty rapid growth and demand, and the longer projects are delayed the more likely the balance of demand and supply are going to come together. We've listed a series of projects where they have announced a delay of 9 months. I think you are going to see more announcements, and continued delay. As a consequence, we believe that the supply/demand balance in 2010 and likely 2011 is going to firm up as we go forward and that the balance for naphtha is going to get worse and worse as the study that I quoted indicates, leaving North America able to export into a marketplace that needs our polyethylene.

That export capability will allow us to keep inventories in control as an industry, which will make our markets quite strong for the foreseeable future. So that is the dynamic I see. That is the scenario I would portray to you, and I don't see new capacity in North America, other than NOVA's and Alberta. I don't see a lot of new capacity coming on stream in other parts of the world other than the Middle East, and I think that capacity being delayed and delayed given all the problems they've had; not only with construction, but also with feedstock. So I don't think we've seen the end of the announcements.

Greg Goodnight, USB Securities

Okay, well thank you for that perspective. It's been a long call, so I'll end it there.

Jeff Lipton, President and Chief Executive Officer

Okay, thank you Greg. Thank you everybody. Operator that concludes our conference call for today.