

SECOND QUARTER 2010 EARNINGS REPORT – TRANSCRIPT**TUESDAY, AUGUST 24, 2010**

Set forth below is a transcript of NOVA Chemicals' second quarter 2010 earnings conference call on Tuesday, August 24, 2010. This transcript was 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 actual conference call.

Pace Markowitz, Investor Relations Manager, NOVA Chemicals Corporation

Good morning. Welcome to the conference call for NOVA Chemicals' second quarter 2010 earnings results.

Today you will hear from:

- Randy Woelfel, our Chief Executive Officer; and
- Todd Karran, our Chief Financial Officer.

After these remarks, we will open the phone lines to debt analysts and investors for a question and answer session.

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 webcast system.

The comments will, and answers to your questions may, contain forward-looking information.

Forward-looking 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 that are contained in these forward-looking statements.

Please refer to the disclosure about forward-looking information in our second quarter 2010 filing and on page 5 of our 2009 Form 20-F annual filing for more details.

Now I will turn the call over to Randy.

Randy Woelfel, Chief Executive Officer, NOVA Chemicals Corporation

Good Morning,

Today, I would like to comment on the market dynamics we saw in the second quarter of 2010 and provide an update on our business. Then, Todd will comment further on NOVA Chemicals' earnings results.

Our business performance in the second quarter was strong, with our headline results being steady demand and strong margins in both the olefins and polyolefins sectors, anchored by excellent operating performance.

Domestic polyethylene demand has remained strong. According to the American Chemistry Council, domestic sales in the U.S. and Canada are up about 6% year-to-date through July, compared to the same period last year. In addition, exports are only down 8% year-to-date compared to 2009, which was a record year for exports.

Overall, polyethylene sales are up 3% year-to-date.

Ethylene pricing peaked in March and declined through the second quarter as unplanned outages ended, and ethylene was no longer short in the market. Following a similar pattern, polyethylene prices peaked in April and also began to decline. Between May and June, polyethylene prices declined 8 cents per pound for low-density polyethylene and 14 cents per pound for both linear low-density and high-density.

This change in market direction caused some customers to delay their buying, in anticipation of lower future prices. However, overall purchasing dynamics remained solid, as short-term volatility in order patterns was constrained by the industry supply chain, which continues to operate at historical low levels.

Industry chain margins peaked in April and declined in May and June; however, they were still at what we consider to be healthy levels throughout the quarter.

Looking at July, prices for linear low-density and high-density polyethylene declined an additional 2 cents per pound while low-density polyethylene prices remained flat. All indications are that August pricing will remain steady for all grades, and effective September 1, 2010, producers have nominated a 5 cent per pound increase for all grades. This increase is supported by a tightening supply / demand position and continued low inventory levels across the chain.

NOVA's business results for the first half of 2010 were exceptional, with strong earnings for olefins and polyolefins, including ethylene, polyethylene and co-products. However, we are not counting on the second half of 2010 to be as strong.

In the first half of the year, unplanned shutdowns of ethylene production caused a short market for ethylene, which resulted in rapid margin expansion. The industry is now fully operational; ethylene is no longer short in the market and prices have declined from the peak.

However, these events demonstrated just how sensitive the market for ethylene and co-products can be, where a few unplanned shutdowns can rapidly affect the marketplace.

For the second half of the year, there are questions about the global economy in general, which could slow the strong growth of polyethylene consumption.

We are also cautious about supply additions in the Middle East and Asia and their potential impact on global pricing.

On balance, while we are encouraged by the market dynamics so far in 2010, uncertainties remain in the outlook, so our employees continue to work very hard managing costs, generating cash, and focusing on implementation of our strategy. In a minute I will review a major step forward in our feedstock strategy for our Western Canadian facilities, but first I would like to make a comment about IPIC.

This quarter marks the one-year anniversary of our acquisition by IPIC. During this past year, we established an excellent working relationship with our new owners. IPIC has now developed an in-depth knowledge of our businesses and is fully aligned with our future business direction.

With our new ownership, we now have the opportunity to re-direct our efforts toward value creation for our customers, products and markets; with the objective of becoming a leader in the markets that we choose. Success from this long-term work will begin to show during the next several quarters.

Now let's move on to feedstock supplies for our Western Canadian assets and a strategic step to improve our long-term outlook.

So far in 2010, ethane flows to our Joffre facilities continue to be stronger than forecast, due to higher production from currently producing wells. This increase, while modest, is important to us as we try to maximize our current ethylene production.

However, small short-term increases are not enough to overcome the structural declines in supply that we've seen in the last three years. In an effort to minimize our reliance solely on natural gas flows out of Alberta to the United States; and to improve the long-term feedstock availability for our Western Canadian assets – in July, we signed a memorandum of understanding with Hess Corporation and Mistral Energy to extract and transport ethane from the Williston basin in North Dakota. This ethane will flow north into our Alberta facilities.

Hess will extract the ethane at their Tioga Gas Plant in North Dakota and we will purchase 100% of their production under a long-term arrangement.

Mistral will design, construct, own and operate the proposed Vantage Pipeline, which will transport the ethane from Hess' Tioga Gas Plant into the existing Alberta infrastructure.

We are very excited about this new oil-based ethane supply, which brings feedstock source diversification and the potential for us to become less dependent on cross-border natural gas flows into the United States.

We are working on other feedstock projects that are based on both traditional natural gas supplies and other non-traditional supply sources. This work includes our project with Buckeye Partners that would move feedstock from the Marcellus Shale basin, in the United States, north to Corunna, Ontario, Canada. We will communicate additional information as we reach further milestones in our portfolio of projects.

Now, taking a look at our operations.

During June, as part of our major turnaround schedule, we completed a successful turnaround of our PE2 Advanced SCLAIRTECH™ polyethylene asset. A few days after restart, in early July, we had an unexpected failure that caused a temporary shutdown of the line. We worked diligently with our customers to minimize the impact to them – and by the end of July, the problem was corrected and the line restarted.

At the end of July, our low-density polyethylene production unit in Mooretown, Ontario began a planned shutdown to complete the final installation and start-up of our new hyper-compressor. The result will be a capacity increase of about 50%, as well as the ability to produce new, higher-value products. We are on schedule to re-start in late September 2010.

In a strategic step forward for our Styrenics business, our Board of Directors approved management's recommendation to sell our building and construction businesses, collectively known as SYNTHEON.

Under the proposed new ownership, we believe that SYNTHEON will be better positioned for greater long-term, sustainable growth, and have an improved opportunity to access a variety of markets in the building and construction industry.

We expect the sale to be complete during the third quarter of 2010.

We are encouraged by the continued progress in the remaining portion of our Performance Styrenics segment, as well as with the INEOS NOVA joint venture. As these businesses are now self-funding and contributing positively to NOVA's results – we are in a better position to evaluate further strategic decisions.

Now, turning to an important provision we made in our quarterly results. In industries such as ours, which are technically complex and competitive, litigation issues, unfortunately, can arise.

In 2005, Dow Chemical filed a complaint against us which alleged that certain grades of our SURPASS® polyethylene film resins infringe two Dow patents.

A jury trial took place in June, resulting in a verdict against us. Based on United States sales of SURPASS resins through the end of 2009, damages were awarded in the amount of \$61.8 million, plus pre-judgment interest of \$14.3 million, as awarded by the Court.

Following the jury verdict, both parties filed certain motions with the Court, including a motion by Dow seeking a permanent injunction, which would require us to stop importing and selling certain grades of our SURPASS resin in the United States.

The Court denied Dow's motion for a permanent injunction, noting that given the substantial issues for appeal, which include the question of Dow's standing in the case, the short time remaining until the patents expire in October 2011, and the possibility that we will prevail on appeal, the court was not persuaded that a permanent injunction would serve the parties' or the public's interest.

Accordingly, the court order permits us to continue to sell the alleged infringing grades of our SURPASS resin to existing customers in the United States.

We will appeal the jury verdict on several grounds.

This outcome, while it impacts our net income for the quarter, does not diminish the strength of the operating results in our olefins and polyolefins business. The quarterly and half-year results were the highest that we have had in several years and among the best in our 12-year history.

Now I will turn the call over to Todd for a review of our second quarter earnings.

Todd Karran, Chief Financial Officer, NOVA Chemicals Corporation

Thank you, Randy.

As Randy said, the results of our olefins and polyolefins business in the second quarter were among the best that we have had in our 12-year history. Between the operating results and the reduction in working capital, we generated a large amount of cash, resulting in a large increase in liquidity.

Our net income for the second quarter of 2010 was negatively impacted by the \$84 million charge related to the legal action that Randy discussed earlier. This charge includes the \$76 million jury award and pre-judgment interest as awarded by the Court, plus \$8 million based on first half 2010 sales and post-judgment interest.

In addition, pending the outcome of our appeal, we will be required to post a bond in the amount of the full jury verdict plus pre-judgment interest, post-judgment interest and costs as awarded by the Court. To secure the bond, we will be required to provide cash collateral of \$85 million, which will impact future liquidity beginning in the third quarter of 2010.

Until the earlier of either the resolution of the appeal or the expiration of the patents in October 2011, we will accrue an amount to reflect the U.S. sales of the alleged infringing grades of SURPASS resin and post-judgment interest based on the jury award.

Pending the outcome of the appeal process, we will adjust the charge as appropriate.

Also noted in the earnings release, since our Board of Directors approved the sale of SYNTHÉON, the associated results of operations, financial position and cash flows are reported separately as held for sale for all periods presented.

Moving on to our cash flow during the quarter.

As a result of our strong operating results, and a reduction in non-cash working capital, we generated \$375 million of cash in the second quarter of 2010. The reduction in working capital resulted from lower sales prices, which reduced accounts receivable and inventory values.

During the quarter, we received a cash payment in the amount of \$47 million related to the arbitration award against an insurance claim that was recorded in the first quarter.

After \$44 million in capital expenditures and other investing activities, our cash balance increased by \$329 million, with a corresponding decrease in net debt.

The increase in our cash balance at the end of the second quarter of 2010 resulted in liquidity of \$956 million, significantly up from \$625 million at the end of the first quarter of 2010 and \$831 million as of December 31, 2009.

Given the high level of cash-on-hand, even after the impact of posting the required cash collateral for the bond, we will pay off the Canadian \$250 million 7.85% senior notes due on August 30, 2010 using cash-on-hand.

Foreign currency forwards entered into to hedge this payment at U.S. \$237 million will settle on August 30, 2010.

After August, our next significant debt maturity is not until the beginning of 2012. As I have said before, we will continue to watch the markets and plan to take advantage of opportunities prior to the 2012 maturity.

Thank you and now I will turn the call back over to Randy.

Randy Woelfel, Chief Executive Officer, NOVA Chemicals Corporation:

Thank you, Todd.

To summarize our report:

- During the second quarter of 2010 our olefins and polyolefins businesses had very strong operating results, and in fact, some of the best in our 12-year history;
- Solid operational performance, together with a reduction in non-cash working capital, resulted in increased cash flow at sufficient levels to pay off the 2010 Canadian \$250 million bond using cash-on-hand;
- With our initial agreement with Hess and Mistral, we made important progress as we work to improve the long-term supply of competitive feedstocks for our Western Canadian assets; and
- Although the second half of 2010 may not be as strong as the first; we are confident that our plans strike the right balance of improving our business fundamentals while accelerating progress in our long-term strategies.

On behalf of our leadership team I want to thank you for your interest in NOVA Chemicals.

Todd and I would be happy to take your questions for a few minutes.

Question and Answer Session

Bill Hoffman – RBC Capital Markets

Randy, I wonder if you could address a little bit about the September \$0.05 per pound across-the-board price increase. I just want to get a sense of, one, whether you're seeing certain sequential improvement in demand on a monthly basis, maybe that's what's driving it, so we can get a sense of sort of where we're going in the second half here.

Randy Woelfel – Chief Executive Officer – NOVA Chemicals Corporation

I think all I would basically comment would be to reinforce the continuing strength that we are seeing on the demand side; and, that, coupled with also the ability of the North American market to hold at relatively high levels of exports underpinned by the very important competitive dynamics of the gas market versus the crude oil market continues to show very healthy capacity utilization rates. It looks like those tightening dynamics are pointing the way to the recent announcement.

Bill Hoffman – RBC Capital Markets

Just with regards to your natural gas sourcing deal with Hess and Mistral, as well as conversations with Buckeye for Corunna, can you just give us a little bit more color on what level of risk you think you have currently on supply, i.e. constraints that would limit you from operating 100% in both assets and maybe where you're operating today?

Randy Woelfel – Chief Executive Officer – NOVA Chemicals Corporation

Let me see if I can comment on the several directions through your question. In terms of the situation in the West, while I referenced the fact that on a short-term basis in the recent months we've been pleased by the incremental availability of ethane relative to our projections, structurally we continue to see a year-over-year decline and that's a trend that we've basically seen on a fairly steady basis in the West since 2007.

What's particularly exciting about the Hess and Mistral project is, of course, first of all, it brings us the opportunity for a very significant upside in ethane availability. The announcements that we've made together talk about a roughly 45,000 barrel per day capacity sizing of the pipeline upon startup in 2012 with the ability to expand that line to approximately 60,000 barrels a day.

So first and foremost, a very substantial upside that should allow us to move from a decline to actually a growth in ethane availability. I'd say also very important here is the fact that this is ethane supply which is tied to crude oil production dynamics rather than cross-border natural gas flows. So again, that represents a very important diversification of supply for us, and clearly from a risk standpoint, as you referenced, something quite attractive.

The situation in the East; we do consume throughout the year natural gas liquid-based feedstocks. That's, of course, traditionally affected by the seasonality of NGL markets. So once again, the opportunity with the Marcellus development is to provide not only greater year-round supply sources than we currently have, but also the opportunity to have a substantive increase in feedstock availability, which we feel could be quite competitive.

So, for both the West and the East, these two projects represent very significant and important steps for us.

Bill Hoffman – RBC Capital Markets

Just a point of sort of quantification: In the West, this Hess supply, what of your daily requirements has that the potential to supply up to? Is it sort of 15% to 20% kind of number?

Randy Woelfel – Chief Executive Officer – NOVA Chemicals Corporation

I won't be in a position to give you an exact number, but it's certainly larger than the kind of percentages that you just described.

Laurence Jollon – Credit Suisse

I was hoping you could help me sort of follow the \$85 million through the cash flow statement. I certainly see the loss or expense running through the income statement, but did you increase an accrued liability in the quarter and did that benefit working capital in the quarter?

Todd Karran – Chief Financial Officer – NOVA Chemicals Corporation

In terms of the \$85 million, it's actually not in the Q2 results in terms of the bond impact. So, we've shown it as the income only. The bond is going to be set up as an accrual in August.

Laurence Jollon – Credit Suisse

So in the second quarter, the balance sheet doesn't reflect any accrual?

Todd Karran – Chief Financial Officer – NOVA Chemicals Corporation

It does in terms of the income impact. The actual bond will be set up in August and the cash impact will be felt then, in terms of the restricted cash balance.

Laurence Jollon – Credit Suisse

So in the second quarter, there was the income impact that you referred to, but no increase in accrual.

Todd Karran – Chief Financial Officer – NOVA Chemicals Corporation

That's exactly right. You've asked the question, "Can you track it through the cash flow statement?" It's not a cash impact in Q2. It's an income statement and balance sheet impact only.

Laurence Jollon – Credit Suisse

Then in Q3, \$85 million of cash will move into restricted cash, or what would be the other—?

Todd Karran – Chief Financial Officer – NOVA Chemicals Corporation

That's correct. In the second quarter, you've got the expense impact and then the liability is set-up and then we set-up the bond in August and the liquidity impact is in Q3.

Laurence Jollon – Credit Suisse

Obviously, your cash flow was exceptional in the quarter. In terms of the insurance recovery that you reference earlier of \$47 million, I know there was an income statement impact last quarter for that. Did that actually impact working capital in the second quarter? I'm just trying to get a sense for that movement through the cash flow statement.

Todd Karran – Chief Financial Officer – NOVA Chemicals Corporation

Yes. We received the cash in the second quarter based on the accrual that we made in the first quarter, when the award was given to us through the arbitration process, and then the cash was actually received in Q2.

Tarek Hamid – J.P. Morgan

You disclosed in the press release that the accrual on, or that you had sold roughly \$8 million of the SURPASS resins in the first half of 2010. Should we think about that as a reasonable run rate kind of going forward until when the patent expires October 2011?

Todd Karran – Chief Financial Officer – NOVA Chemicals Corporation

The accrual in the first part of the year of \$8 million is not sales revenue; it reflects potential damages based on sales during the first half of the year. It also includes interest on that amount for that period; and it includes the compounding of the interest from the pre-judgment period up to December 2009. So, it's a combination of the three.

The last part of your question in terms of what you can expect going forward; it would be something on that order—for modeling purposes a million plus per month, probably.

Tarek Hamid – J.P. Morgan

Then you talked a little bit about trying to be opportunistic on financing. As you think about it, is the focus on the 2012 or is it on the 2013 and the revolver? Is it sort of incremental or is it going to be something a little bit more holistic?

Todd Karran – Chief Financial Officer – NOVA Chemicals Corporation

I think probably more likely to be incremental. So, we're looking at the 2012s right now. We don't anticipate taking out the 2013s early for the most part due to the favorable rates that we're seeing there.

Bill Hoffman – RBC Capital Markets

I wonder if you could just help us quantify the costs of the polyethylene failure in Q2 and maybe what the impact might be Q3.

Todd Karran – Chief Financial Officer – NOVA Chemicals Corporation

Yes, we're still getting through all the costs of that. There would be two components, Bill; obviously, the repair costs and then there'd be the impact on sales, but the combination of the two might be somewhere in the range of \$10 million to \$15 million pre-tax.

Bill Hoffman – RBC Capital Markets

Okay and assumedly, just from the color of your text in here that you had sufficient inventory to satisfy customer demand and the like?

Todd Karran – Chief Financial Officer – NOVA Chemicals Corporation

That's correct, Bill. We built the inventory in anticipation of the shutdown and then the problem just extended it slightly. [Clarification: Inventory was sufficient for the planned shutdown; however, there were limited customer impacts as a result of the unplanned shutdown, which we worked diligently to minimize.]

Bill Hoffman – RBC Capital Markets

Then with the potential sale of SYNTHEON, can you just talk a little bit about what potential proceeds you might get from that?

Todd Karran – Chief Financial Officer – NOVA Chemicals Corporation

It's probably a little early to tell in terms of the details, Bill, but I'd say it's not going to be an overly material number.

Randy Woelfel – Chief Executive Officer – NOVA Chemicals Corporation

I'd like to thank everyone for your questions today. As always, if there are other areas where you'd like some more information, please contact Pace Markowitz who manages our investor relations activity.

So again, thanks for your interest in NOVA Chemicals and have a great day.