HUNTSMAN

Enriching lives through innovation

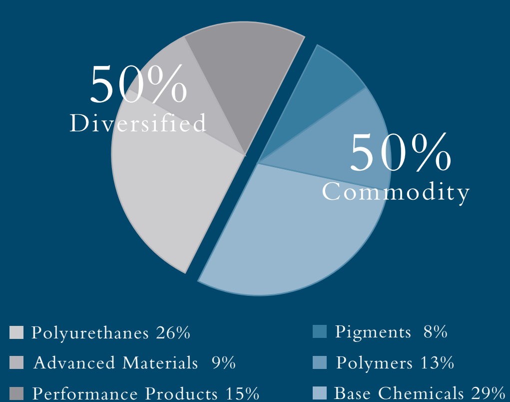
HUNTSMAN CORPORATION

2005 Annual Report

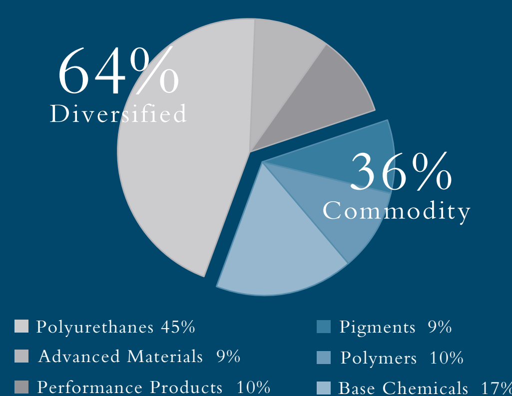
Enriching lives through innovation

HUNTSMAN IS AMONG THE WORLD'S LARGEST GLOBAL MANUFACTURERS OF DIFFERENTIATED AND COMMODITY CHEMICAL PRODUCTS. WE ARE A SUPPLIER TO SUCH ESSENTIAL INDUSTRIES AS ADHESIVES, AEROSPACE, AUTOMOTIVE, CONSTRUCTION, DURABLE AND NON-DURABLE CONSUMER PRODUCTS, ELECTRONICS, MEDICAL, PACKAGING, PAINTS AND COATINGS, POWER GENERATION, REFINING AND SYNTHETIC FIBERS. OUR EMPLOYEES ARE DEDICATED TO THE HIGHEST STANDARDS OF SAFETY, ENVIRONMENTAL STEWARDSHIP, EXCELLENCE IN THE MANUFACTURE OF QUALITY PRODUCTS, AND CUSTOMER SERVICE THAT DRIVE THE SUCCESS OF OUR BUSINESS.

2005 Revenues(1)



2005 Adjusted EBITDA(2)(3)



(1) Reflects the allocation of all inter-segment revenue eliminations to our Base Chemicals segment.
(2) Excludes Corporate and other.
(3) For a reconciliation of Adjusted EBITDA to Net (Loss)/Income, see page 94.

DEAR FELLOW STOCKHOLDERS,

Huntsman Corporation enjoyed a tremendous 2005, highlighted by a very successful initial public offering on the New York Stock Exchange in February, significant strengthening of our balance sheet, and record levels of revenues and profitability. We achieved all of this in spite of continued high and extremely volatile energy and feedstock costs and two of the worst hurricanes in U.S. history.

Financial Review

We dealt effectively with record high feedstock and energy costs mainly by concerted efforts to increase our selling prices. In 2005, our revenues were a record $13 billion which represents an increase of 13% as compared to 2004. Average selling prices increased across all of our segments.

Our gross profit expanded by 27% in 2005 compared to 2004 as margins continued to expand primarily due to improved demand and higher capacity utilization for many of our products. Stronger results were also driven by the execution of Project Coronado—our initiative to reduce our annual fixed costs by $200 million relative to 2002 levels. We exited 2005 on a run-rate of $225 million in savings, well in excess of our goal.

We generated record Adjusted EBITDA of $1,445 million in 2005, a 16% increase as compared to 2004. Adjusting to exclude the estimated direct impact of hurricanes Katrina and Rita, which we estimate at $167 million, Adjusted EBITDA was higher in each of our six business segments. In particular, our Polyurethanes segment had a superb year with Adjusted EBITDA of approximately $734 million compared to $409 million in 2004, driven by higher average selling prices for MDI.

Adjusted earnings from continuing operations were $2.02 per diluted share in 2005 as compared to pre IPO earnings of $0.16 per diluted share in 2004.

Balance Sheet Positioning

In February of last year we completed a very successful initial public offering of common and preferred stock. Net proceeds to us were approximately $1.5 billion, substantially all of which we used to reduce our debt.

We remain focused on strengthening our balance sheet through voluntary debt reduction. Since December 2004, we have used free cash flow to reduce our debt by approximately $550 million. As a result of these efforts our net debt as of December 31, 2005 was approximately $4.3 billion as compared to $6.0 billion at December 31, 2004. As we have previously indicated, our goal is to reduce indebtedness by a total of $2.0 billion by 2007. We are committed to this objective.

During 2005 we completed a series of transactions designed to simplify and streamline our legal, financial and borrowing structure. In August 2005, we merged our Huntsman International LLC and Huntsman LLC subsidiaries into one company and refinanced certain of our bank debt. In December 2005, we merged our Huntsman International LLC and Huntsman Advanced Materials LLC subsidiaries and acquired the minority interests of Advanced Materials LLC which we did not already own. We believe these mergers significantly simplify our legal, financing and reporting structures and have resulted in a reduction in the number of our SEC filing entities from five to two.

Peter R. Huntsman *President, Chief Executive Officer;*
Jon M. Huntsman *Founder and Chairman*

Expand Differentiated Segments

We remain committed to selectively investing in our portfolio of differentiated businesses, and recently entered into a definitive agreement to acquire the global Textile Effects business of Ciba Specialty Chemicals Inc. We are excited about the technology within this business which will extend our formulation business further downstream and closer to the customer. The acquisition also will enhance our presence in Asia, which currently accounts for approximately 1/3 of Textile Effects revenues. We look forward to enhancing our business relations through working with tens of thousands of new customers.

In addition to the acquisition of the Textile Effects business, we are on time and on budget with construction of our MDI facility in Caojing, China which will be complete in the middle of 2006. A world class facility in such a vital market will enable us to meet the growing demand for this valuable product.

During 2005 we announced the following expansions within our differentiated portfolio:

- Construction of a world-scale polyetheramine manufacturing facility in Jurong Island, Singapore which we expect to be operational in the first quarter of 2007.
- Construction of a new maleic anhydride manufacturing facility in Geismar, Louisiana, expected to be on line as early as the third quarter of 2008.
- A memorandum of understanding with the Al-Zamil Group of Riyadh, Saudi Arabia to form a joint venture to build a world-scale ethyleneamines manufacturing facility in Jubail Industrial City, Saudi Arabia, expected to be on line in 2008.

Strategic Direction

Late last year we received an unsolicited proposal from a party who expressed an interest in acquiring the Company. We spent a great deal of time working with this party and others developing and evaluating their proposals. After careful review, our Board of Directors and its Special Committee concluded none of these proposals were in the best interests of our stockholders and we terminated these discussions.

We also announced that we are pursuing other opportunities to increase shareholder value, which may include the sale of certain of our Base Chemicals and Polymers assets and/or a spin-off of these segments into a separate company. To this end, we have announced that we intend to sell the assets which comprise our U.S. butadiene and MTBE facility so that we may focus more of our attention and resources on our differentiated businesses.

We believe that the separation of our commodity businesses from our differentiated businesses groups will enhance shareholder value by creating two world class chemical companies—each free to independently pursue its own unique business strategy and attract its own distinct investor base.

Outlook

We are optimistic about our outlook for 2006. Demand in our differentiated businesses remains strong, raw material and energy prices have recently declined and capacity additions in most of our commodity businesses appear to be limited over the next several years. In the U.S. and Europe, many of our product lines will continue to see better than GDP growth.

We see tremendous opportunity to create further shareholder value by capitalizing on our expansion and acquisition opportunities around the world. Over the next two years, we expect to grow by more than $1 billion of sales in China and throughout Southeast Asia. Sales and growth opportunities continue in India, particularly in our Polyurethanes and Advance Materials segments.

We also are in a unique position to capitalize on the realities of higher global energy costs and consumer demands for greater environmental responsibility by continuing to develop new technologies and applications.

We will continue to execute our strategy of debt reduction, improving operational efficiencies, expanding our differentiated segments, and maximizing the cash flow from our commodity segments in order to improve our competitive position and increase shareholder value.

Peter R. Huntsman

President, Chief Executive Officer

SPECIAL NOTE TO STOCKHOLDERS

Since entering the plastics, petrochemicals and chemical industries over forty years ago, I have seen it all. The latter half of 2005 was a challenging period for Huntsman. I hope our Company never again will have two major hurricanes hit us head on, which in turn created the highest priced natural gas and the highest cost of oil in the history of America.

Let me share with you our vision going forward. The announcement of the expansion of our differentiated portfolio through the purchase of CIBA's Textile Effects business, in addition to the announcement of the divestiture of one of our major commodity units—the butadiene and MTBE facility—marks an important transformation for our company. Moreover, this transformation will continue through the pursuit of the spin-off of our entire commodity petrochemical business into a separate and distinct company. Thus, after its completion, Huntsman would be comprised of two public companies—a major differentiated chemical company and a significant stand-alone commodity chemical company.

With these changes and others underway, we are building businesses that are more global, less energy-dependent, and more technologically advanced than ever before. We will achieve this while at the same time paying down debt and increasing equity value. Our principal mission, as we accomplish these goals, is to continue building the world's largest, most profitable and most competitive differentiated chemical business. All of us at Huntsman are very excited about the future. It should clearly be a major factor in enhancing shareholder value.

We remain committed to sound principles of corporate governance. During 2005 we added to our Board of Directors new members who have rich and diverse backgrounds. Their oversight and direction have been and will continue to be invaluable as we proceed with significant changes in the strategic direction of the Company.

Jon M. Huntsman
Chairman and Founder

IMPLEMENTING OUR STRATEGY

Our Main Objectives

Our business benefits from significant integration, large production scale and proprietary manufacturing technologies, which allow us to maintain a low-cost position.

The FOUR key components of our strategy are:

1. Further reduce our indebtedness
2. Continue to focus on operational efficiencies
3. Expand our differentiated business segments
4. Maximize the cash flow generated by our commodity business segments

LEFT SEATED: *Kevin J. Ninow—Division President, Base Chemicals and Polymers; Peter R. Huntsman—President, Chief Executive Officer; Anthony P. Hankins—Division President, Polyurethanes*

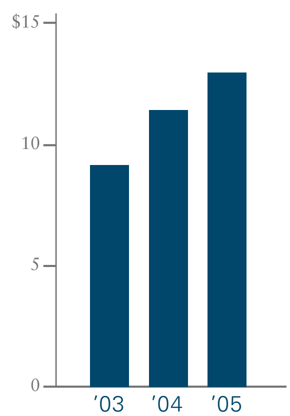
LEFT STANDING: *Samuel D. Scruggs—Executive Vice President, General Counsel and Secretary; Donald J. Stanutz—Division President, Performance Products; J. Kimo Esplin—Executive Vice President, Chief Financial Officer; Thomas J. Keenan—Division President, Pigments; Paul G. Hulme—Division President, Advanced Materials*

FINANCIAL HIGHLIGHTS

(Dollars in Millions)	2003[1]	2004	**2005**
Revenues	$9,190.1	$11,426.4	**$12,961.6**
Gross profit	999.9	1,378.4	**1,752.1**
Operating income	212.7	408.2	**813.9**
(Loss)/income from continuing operations	(423.5)	(219.9)	**37.0**
Adjusted EBITDA[2]	794.3	1,247.5	**1,444.7**
Capital expenditures	228.9	226.6	**338.7**
Total assets	8,737.4	9,423.5	**8,870.5**
Net debt[3]	5,701.8	6,047.4	**4,315.1**

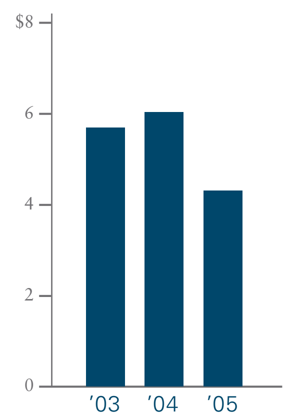
Revenues

($ in billions)



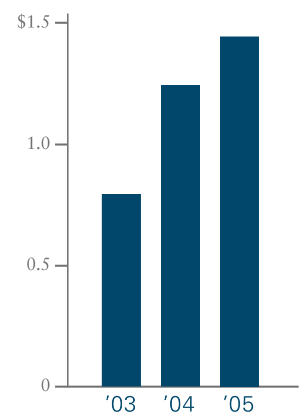
Net Debt[3]

($ in billions)



Adjusted EBITDA[2]

($ in billions)



(1) Pro forma as if Huntsman had acquired the remaining interest of Huntsman International Holdings LLC as of January 1, 2003 and its interest in Huntsman Advanced Materials LLC as of January 1, 2003.

(2) For a reconciliation of Adjusted EBITDA to Net (Loss)/Income, see page 94.

(3) Net Debt calculated as Total debt less cash.

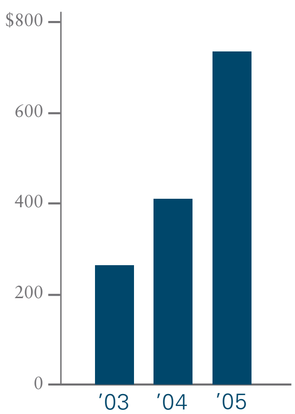
Polyurethane products, especially those made from MDI, continue to replace traditional materials in many end use markets. Key applications include binders used in composite wood products; cushioning used in automotive, furniture and footwear; and insulation for construction applications.

POLYURETHANES

World Class Integrated Global Producer of MDI

Polyurethanes offer a range of mechanical properties—including toughness, abrasion resistance and durability—which makes them particularly suitable for demanding specialized engineering applications such as protective coatings, adhesives to laminate flexible materials, and sealants and elastomers in a number of applications such as mining equipment, and small electrical devices. We are a leading global manufacturer and marketer of a broad range of polyurethane chemicals including diphenylmethane diisocyanate (MDI), polyols, propylene oxide and thermoplastic polyurethanes. Polyurethane chemicals are used to produce rigid and flexible foams, as well as coatings, adhesives, sealants and elastomers. We operate four primary manufacturing facilities in the U.S. and Europe, and have a significant interest in a world-scale, integrated MDI manufacturing joint venture in China that is expected to begin production during 2006. We have a network of twelve formulation facilities, which are located in close proximity to our customers worldwide.

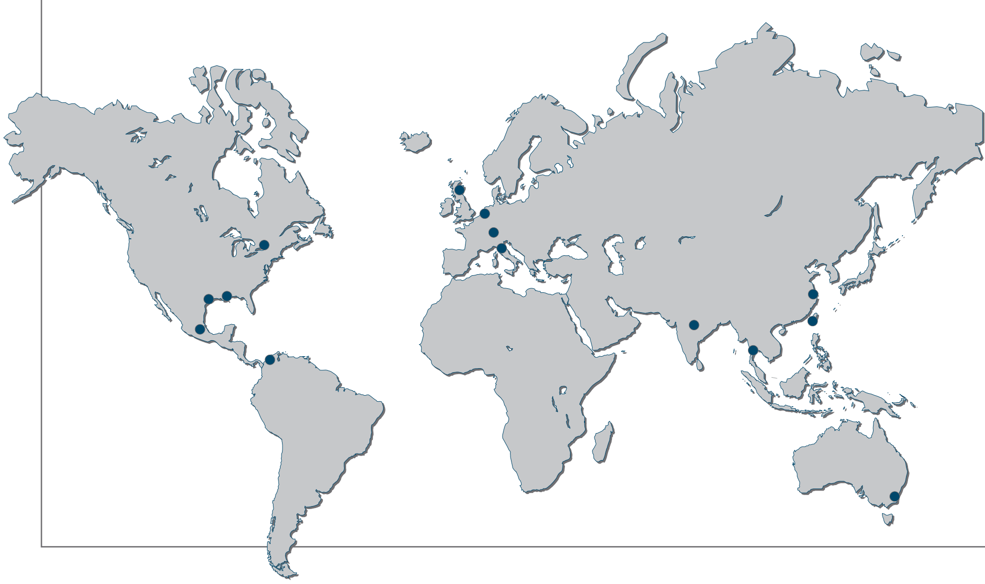
Polyurethanes
Adjusted EBITDA[1]
($ in millions)



(1) For a reconciliation of Total Segment Adjusted EBITDA to Net (Loss)/Income, see page 94.

> "Polyurethanes contribute to improved living standards through essential applications in the home, workplace, and the services and leisure sectors. For example, polyurethane foams are a very efficient insulate in a broad range of residential and commercial construction applications. As increasing energy costs create a greater awareness of the need for better quality insulation, Polyurethanes is well positioned to build on our leadership position in this market."

Anthony P. Hankins
Division President, Polyurethanes



Examples of our products include multifunctional resins used in production of structural composite materials utilized in many modern aerospace applications along with structural adhesives used to bond these materials; adhesives used to affix insulating panels to the hull of cryogenic liquid natural gas tankers; materials used by the consumer electronics industry to improve the functionality and reduce the size of their products; and resins and adhesives used in the manufacture of wind turbine blades.

ADVANCED MATERIALS

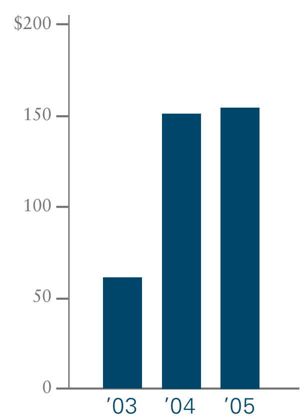
Strong Growth Through Substitution

We are a leading global manufacturer and marketer of technologically advanced epoxy, acrylic and polyurethane-based polymer products. We focus on formulations and systems that address customer-specific needs in a wide variety of industrial and consumer applications. We operate thirteen Advanced Materials synthesis and formulating facilities worldwide, and maintain leading positions in diverse markets through product differentiation, technical support and customer focus. These markets include coatings, construction, electronics, adhesives, power transmission and distribution, aerospace, wind energy, automotive and sport and leisure. Many of our products utilize innovative formulation technology to provide a unique combination of light weight and strength which has allowed our products to replace metal and other conventional materials in many end use applications.

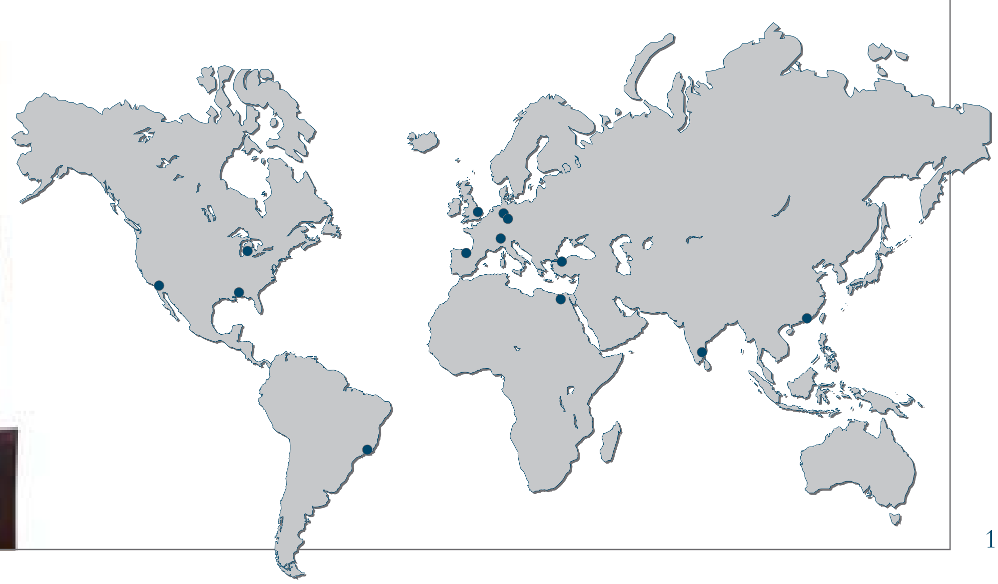
"Our products offer the benefits of light weight and strength that enable the replacement of metals and other conventional materials. There are many applications where the required strength to weight ratio can only be achieved with our type of product. Advanced Materials is the industry leader in the supply of many of these epoxy-based and multifunctional resins."

Paul G. Hulme
Division President, Advanced Materials

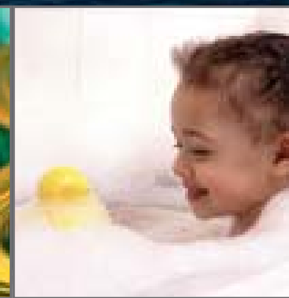
Advanced Materials
Adjusted EBITDA(1)
($ in millions)



(1) For a reconciliation of Total Segment Adjusted EBITDA to Net (Loss)/Income, *see page 94.*



Our Performance Products are found in items such as the fiberglass used in boat hulls; lithium batteries which use ultra pure ethylene carbonate to produce electrolytes; personal care products; and pick-up truck bed liners which contain polyurea spray.

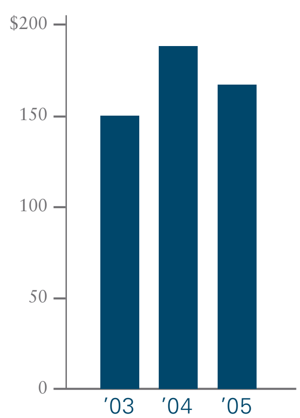


PERFORMANCE PRODUCTS

Broad Product Portfolio, Leading Market Positions

Our Performance Products segment is organized around three business groups: Performance Specialties, Performance Intermediates, and Maleic Anhydride and Licensing. We serve a wide variety of consumer and industrial end markets. We operate fifteen Performance Products manufacturing facilities in North America, Europe and Australia and are a leading global producer and licensor in many of the markets in which we compete. We are a leading global producer of performance specialties including amines, carbonates and certain specialty surfactants. Our performance intermediates include household and personal surfactants, linear alkyl benzene (LAB), ethanolamines products, ethylene glycols and ethylene oxide. We believe we are North America's largest and lowest-cost producer of maleic anhydride as well as the leading global licensor of maleic anhydride manufacturing technology.

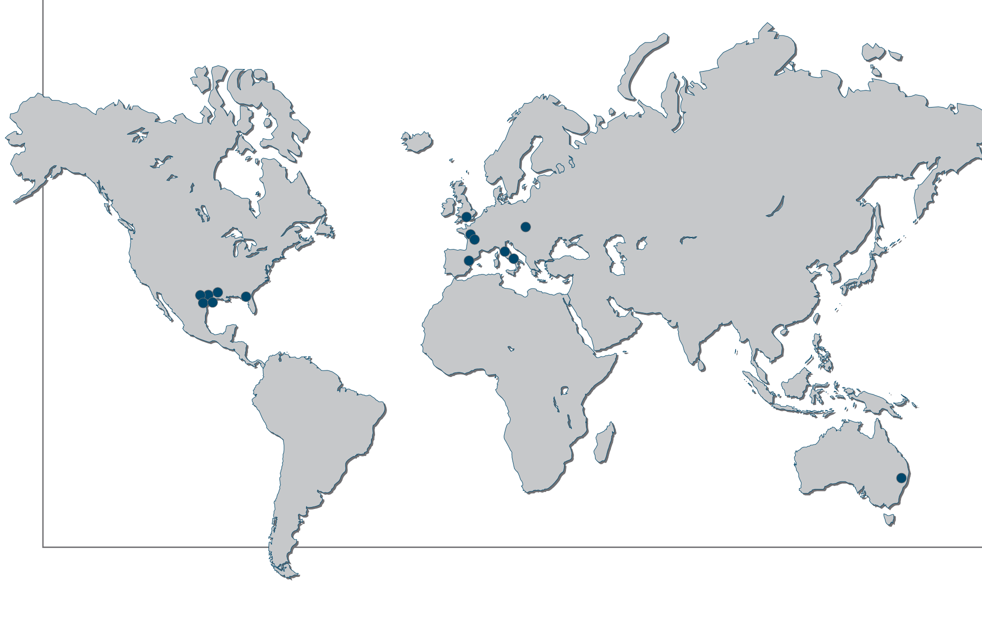
Performance Products
Adjusted EBITDA[1]
($ in millions)



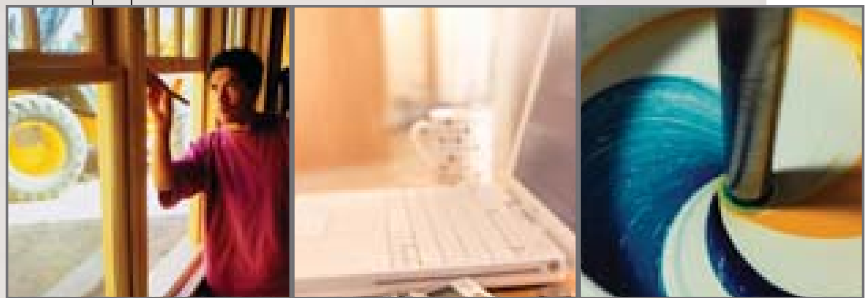
(1) For a reconciliation of Total Segment Adjusted EBITDA to Net (Loss)/Income, see page 94.

"We place a great deal of emphasis on our differentiated products, which has led to tremendous growth in Performance Products. Our talented team of research and development professionals allows us to make everyday products better and revolutionary products possible."

Donald J. Stanutz
Division President, Performance Products



Titanium dioxide is a lifestyle product which we sell worldwide into such applications as architectural paints, industrial coatings, plastics and packaging, inks and textiles. Our flagship coatings grade is recognized as the leader in European markets.



PIGMENTS

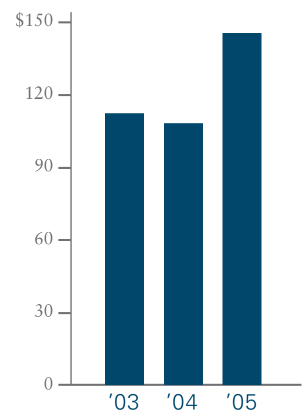
Strong Global Manufacturing and Marketing Presence

We are a leading global manufacturer and marketer of titanium dioxide (TiO_2), a white pigment used to impart whiteness, brightness and opacity to a vast range of everyday products. Our customers include manufacturers of coatings, plastics, inks, cosmetics and food. We operate eight manufacturing facilities located in North America, Europe, Asia and Africa. Our significant position in the coatings sector reflects the strength of our product portfolio and our longstanding and growing relationships with leading innovators in the industry.

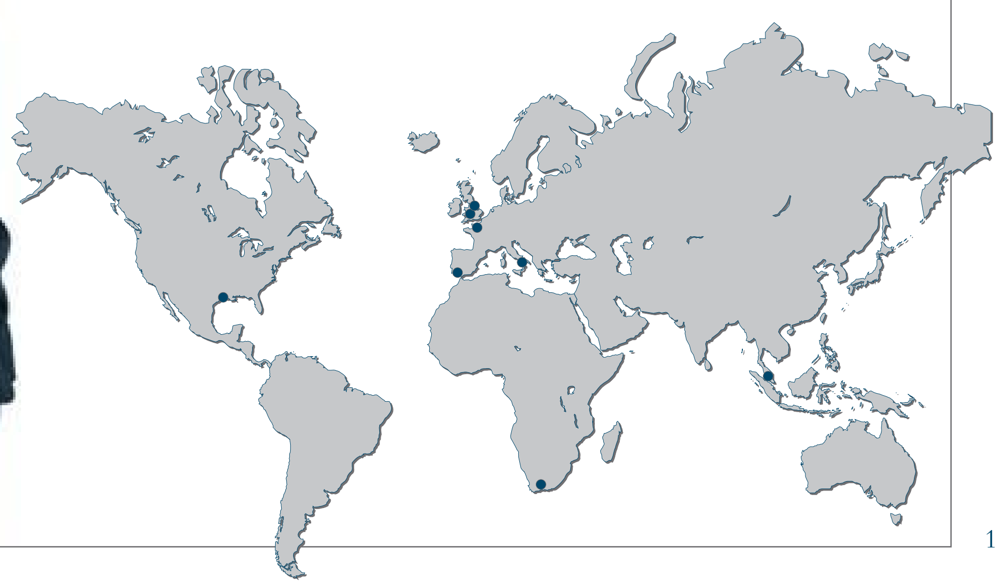
> "Our brand name, "Tioxide®," is recognized around the world. Tioxide® is well established in all of our primary end use applications and we enjoy a significant presence in all major geographic regions. We provide a global, coordinated service to our customers, and strive to innovate and further upgrade our world-class product portfolio."

Thomas J. Keenan
Division President, Pigments

Pigments
Adjusted EBITDA[1]
($ in millions)



(1) For a reconciliation of Total Segment Adjusted EBITDA to Net (Loss)/Income, see page 94.



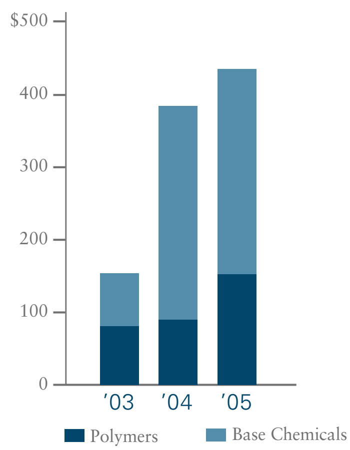
Our base chemicals and polymers are comprised of the industry's building blocks and are used by a variety of industries. Our materials are used in products such as consumer packaging, textiles for clothing and carpeting, disposable medical products as well as common household durables such as lawn furniture.

POLYMERS AND BASE CHEMICALS

Low Cost Integrated Global Manufacturer

Our Polymers segment manufactures and markets polypropylene, polyethylene, expandable polystyrene (EPS), and amorphous polyalphaolefin (APAO). We operate six primary Polymers manufacturing facilities in North America and Australia and recently began construction of an integrated, low-cost, world-scale polyethylene plant in the U.K. Our Base Chemicals segment is a highly integrated producer of olefins and aromatics. We operate four Base Chemicals manufacturing facilities in North America and Europe.

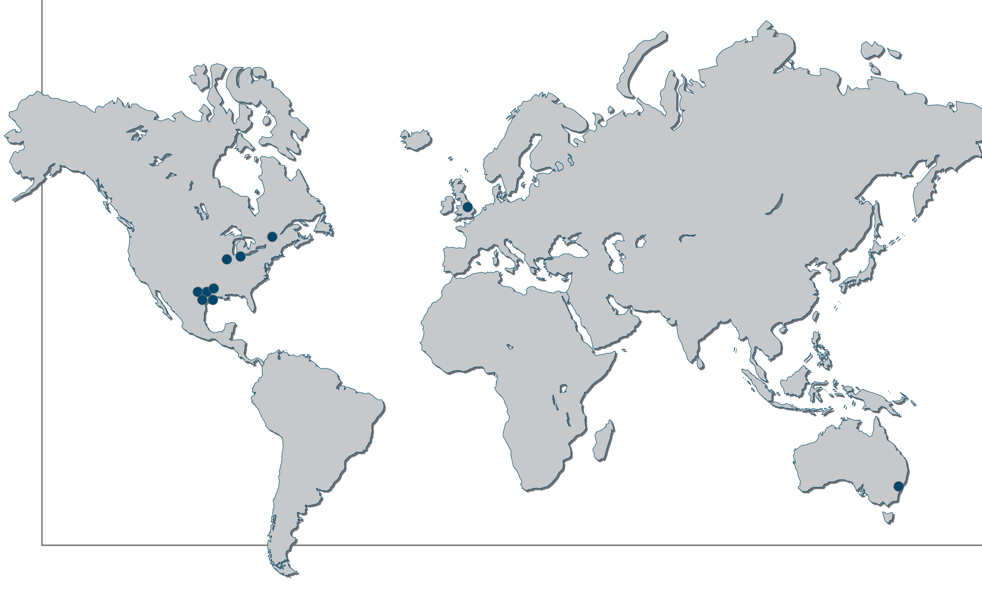
Polymers and Base Chemicals Adjusted EBITDA[(1)]
($ in millions)



(1) For a reconciliation of Total Segment Adjusted EBITDA to Net (Loss)/Income, *see page 94.*

"We support our world-scale production capability with a talented and dedicated group of associates. This allows us to provide high-quality products to our customers and supply valuable raw materials to Huntsman's downstream differentiated businesses. We are also focused on continuing to improve our cost-efficiency."

Kevin J. Ninow
Division President, Polymers and Base Chemicals

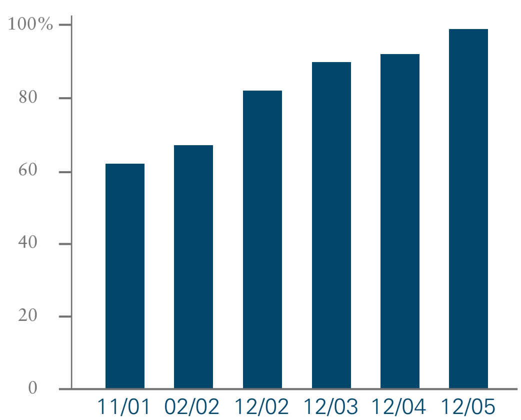


ENVIRONMENT, HEALTH AND SAFETY

Setting the Standards

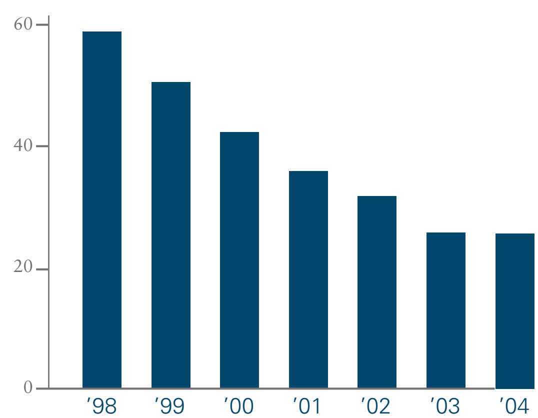
In 2001, Huntsman created corporate standards for the management of Environmental Health and Safety (EH&S) initiatives. The Huntsman EH&S standards are a uniform set of globally applicable principles which support the full implementation of the Huntsman EH&S Protection Policy. The standards establish the corporate requirements for EH&S management. They are designed as a tool to manage EH&S in a uniform fashion and to support high-level performance across Huntsman. They are the foundation from which all Huntsman business functions and operations build their local management systems to meet EH&S requirements and goals. These standards also document Huntsman's corporate resolve for compliance and are a clear demonstration of our commitment.

EHS Standard Implementation Status



Air Emissions

(Metric tons in thousands excluding greenhouse gas emissions)



SOCIAL RESPONSIBILITY

Improving Our Communities

We believe we have a duty to give back to society, and to help those who are less fortunate. To that end, we sponsor and participate in initiatives to feed the hungry, house the homeless and fund educational programs around the world.

Further, we encourage each of our employees across the world to become involved in their communities, to give of their time and other resources to improve the quality of life in the cities and towns where Huntsman has a presence.

Combating Cancer

Company Founder and Chairman, Jon M. Huntsman, has created the Huntsman Cancer Institute and Hospital at the University of Utah in an unparalleled scientific quest to research, prevent, diagnose and treat cancer at its source. When the Company was privately held, it provided a sizeable portion of the funds necessary to establish the Institute, whose mission is to make available the optimum in patient care and education as well as to make diagnosis and the latest treatment available to more people and ultimately to reduce the burden of cancer for patients and their families worldwide. Huntsman employees around the globe have voluntarily contributed hundreds of thousands of dollars to the Institute since its inception. We invite you to learn more about the Huntsman Cancer Institute and Hospital at www.hci.utah.edu.

Huntsman Cancer Institute and Hospital

STRENGTH IN MANAGEMENT

Huntsman Corporation

Board of Directors

Jon M. Huntsman
Chairman of the Board and Director

Peter R. Huntsman
President, Chief Executive Officer and Director

Nolan D. Archibald[2]
Director
Chairman, President and Chief Executive Officer of The Black & Decker Corporation

Marsha J. Evans[3]
Director
Rear Admiral, U.S. Navy (retired) and former President and Chief Executive Officer of the American Red Cross

H. William Lichtenberger[1,3]
Chairman of the Nominating and Corporate Governance Committee and Director
Former Chairman and Chief Executive Officer of Praxair, Inc.

David J. Matlin
Director
Chief Executive Officer of MatlinPatterson Global Advisers LLC

Richard Michaelson[1,3]
Chairman of the Audit Committee and Director
Chief Financial Officer of Life Sciences Research Inc.

Christopher R. Pechock
Director
Investment Partner of MatlinPatterson Global Advisers LLC

Wayne A. Reaud[2]
Chairman of the Compensation Committee and Director
Trial Lawyer and the Founder of Reaud, Morgan & Quinn

Alvin V. Shoemaker[1,2]
Director
Private Investor and Former Chairman of First Boston, Inc.

Board Committees:
(1) Audit
(2) Compensation
(3) Nominating and Corporate Governance

Executive Officers

Peter R. Huntsman
President, Chief Executive Officer and Director

J. Kimo Esplin
Executive Vice President and Chief Financial Officer

Samuel D. Scruggs
Executive Vice President, General Counsel and Secretary

Anthony P. Hankins
Division President, Polyurethanes

Paul G. Hulme
Division President, Advanced Materials

Thomas J. Keenan
Division President, Pigments

Kevin J. Ninow
Division President, Base Chemicals and Polymers

Donald J. Stanutz
Division President, Performance Products

Michael J. Kern
Senior Vice President, Environmental, Health & Safety and Chief Information Officer

Don H. Olsen
Senior Vice President, Global Public Affairs

Brian V. Ridd
Senior Vice President, Purchasing

L. Russell Healy
Vice President and Controller

FINANCIAL TABLE OF CONTENTS

SELECTED FINANCIAL DATA

HUNTSMAN CORPORATION

The selected historical financial data set forth below presents our historical financial data and the historical financial data of our predecessor Huntsman Holdings as of and for the dates and periods indicated. In such financial data, HIH is accounted for using the equity method of accounting through April 30, 2003. Effective May 1, 2003, we have consolidated the financial results of HIH. Effective June 30, 2003, as a result of the AdMat Transaction, we have consolidated the financial results of AdMat. As a result, the financial information as of and for the year ended December 31, 2003 is not comparable to the financial information as of and for the years ended December 31, 2004 and 2005. You should read the selected financial data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our Consolidated Financial Statements and accompanying notes included elsewhere in this report.

	Year Ended December 31,				
(Dollars in millions, except per share amounts)	**2005**	2004	2003	2002	2001
Statements of Operations Data:					
Revenues	**$12,961.6**	$11,426.4	$7,018.6	$2,661.0	$2,757.4
Gross profit	**1,752.1**	1,378.4	683.7	240.0	90.8
Restructuring, impairment and plant closing costs (credits)	**123.6**	299.3	37.9	(1.0)	588.5
Operating income (loss)	**813.9**	408.2	179.1	66.3	(709.4)
Income (loss) from continuing operations	**37.0**	(219.9)	(317.2)	(191.9)	(842.8)
Loss from discontinued operations, net of tax	**(43.9)**	(7.8)	(2.6)	—	—
Cumulative effect of changes in accounting principle, net of tax[(a)]	**(27.7)**	—	—	169.7	(0.1)
Net loss	**(34.6)**	(227.7)	(319.8)	(22.2)	(842.9)
Basic and diluted (loss) income per common share[(b)]:					
Loss from continuing operations	**$ (0.03)**	$ (1.40)	$ (1.78)	$ (0.95)	$ (3.82)
Loss from discontinued operations, net of tax	**(0.20)**	(0.03)	(0.01)	—	—
Cumulative effect of changes in accounting principle, net of tax[(a)]	**(0.12)**	—	—	0.77	—
Net loss	**$ (0.35)**	$ (1.43)	$ (1.79)	$ (0.18)	$ (3.82)
Other Data:					
Cash dividends per share	**$ —**	$ —	$ —	$ —	$ —
Depreciation and amortization	**500.8**	536.8	353.4	152.7	197.5
Capital expenditures	**338.7**	226.6	191.0	70.2	76.4
Balance Sheet Data (at period end):					
Total assets	**$ 8,870.5**	$ 9,423.5	$8,737.4	$2,747.2	$2,357.8
Total debt	**4,457.9**	6,299.5	5,910.1	1,736.1	2,450.5
Total liabilities	**7,329.5**	9,065.2	8,278.8	2,532.0	3,046.3

(a) *During the fourth quarter of 2005, we adopted Financial Accounting Standards Board ("FASB") Interpretation No. ("FIN") 47,* "Accounting for Conditional Asset Retirement Obligations," *and recorded a charge for the cumulative effect of accounting change, net of tax, of $31.7 million. Also in the fourth quarter of 2005, we accelerated the date for actuarial measurement of our pension and postretirement benefit obligations from December 31 to November 30. The effect of the change in measurement date resulted in a cumulative effect of accounting change credit, net of tax, of $4.0 million. In 2002, we adopted Statement of Financial Accounting Standards ("SFAS") No. 141,* "Business Combinations," *resulting in an increase of $169.7 million in the carrying value of our investment in HIH to reflect the proportionate share of the underlying net assets. In 2001, we adopted SFAS No. 133,* "Accounting for Derivative Instruments and Hedging Activities," *resulting in a cumulative increase in net loss of $0.1 million.*

(b) *All per share information has been restated to give effect to the shares issued in connection with the Reorganization Transaction and our initial public offering of common stock on February 16, 2005 and the shares issued in connection with the exchange of the HMP Warrants on March 14, 2005.*

Overview

We are among the world's largest global manufacturers of differentiated and commodity chemical products. We manufacture a broad range of chemical products and formulations, which we market in more than 100 countries to a diversified group of consumer and industrial customers. Our products are used in a wide range of applications, including those in the adhesives, aerospace, automotive, construction products, durable and non-durable consumer products, electronics, medical, packaging, paints and coatings, power generation, refining and synthetic fiber industries. We are a leading global producer in many of our key product lines, including MDI, amines, surfactants, epoxy-based polymer formulations, maleic anhydride and titanium dioxide. Our administrative, research and development and manufacturing operations are primarily conducted at the 67 facilities that we own or lease. Our facilities are located in 24 countries and we employ approximately 10,800 associates worldwide. Our businesses benefit from significant vertical integration, large production scale and proprietary manufacturing technologies, which allow us to maintain a low-cost position. We had revenues for the year ended December 31, 2005 and 2004 of $13.0 billion and $11.4 billion, respectively.

Our business is organized around our six segments: Polyurethanes, Advanced Materials, Performance Products, Pigments, Polymers and Base Chemicals. These segments can be divided into two broad categories: differentiated and commodity. Our Polyurethanes, Advanced Materials and Performance Products segments produce differentiated products, and our Pigments, Polymers and Base Chemicals segments produce commodity chemicals. Among our commodity products, our Pigments business, while cyclical, is influenced largely by seasonal demand patterns in the coatings industry. Certain products in our Polymers segment also follow different trends than petrochemical commodities as a result of our niche marketing strategy for such products that focuses on supplying customized formulations. Nevertheless, each of our six operating segments is impacted to some degree by economic conditions, prices of raw materials and global supply and demand pressures.

Growth in our Polyurethanes and Advanced Materials segments has been driven by the continued substitution of our products for other materials across a broad range of applications as well as the level of global economic activity. Historically, demand for many of these products has grown at rates in excess of GDP growth. In Polyurethanes, this growth, particularly in Asia, has recently resulted in improved demand and higher industry capacity utilization rates for many of our key products, including MDI. In 2005, the profitability of our Polyurethanes and Advanced Materials segments improved due to increased demand in several of our key industrial end markets, including aerospace, automotive and construction products. This has allowed us to increase selling prices, which has more than offset increases in the cost of our primary raw materials, including benzene, propylene and chlorine.

The global PO market is influenced by supply and demand imbalances. PO demand is largely driven by growth in the polyurethane industry, and, as a result, growth rates for PO have generally exceeded GDP growth rates. As a co-product of our PO manufacturing process, we also produce MTBE. MTBE is an oxygenate that is blended with gasoline to reduce harmful vehicle emissions and to enhance the octane rating of gasoline. See Note 20. "Environmental, Health and Safety Matters—MTBE Developments" for a discussion of legal and regulatory developments that have resulted in the curtailment and potential elimination of MTBE in gasoline in the U.S. and elsewhere. We have announced the sale of our U.S. butadiene and MTBE business operated in our Base Chemicals segment; however, the PO/MTBE operations in our Polyurethanes segment are not included in this transaction which is expected to close in mid-2006. See Note 3. "Business Combinations and Dispositions—Pending Sale of U.S. Butadiene and MTBE Business."

In 2005, we marketed approximately 95% of our MTBE to customers located in the U.S. for use as a gasoline additive. Most of our 2005 sales of MTBE to U.S. customers were made pursuant to long-term agreements. During 2006 (and concluding by the first quarter of 2007), our long-term MTBE sales agreements will terminate. We anticipate that our 2006 sales of MTBE in the U.S. will decrease substantially as compared to 2005 levels. Nevertheless, we expect to continue to sell a portion of our MTBE into the U.S. market, although not pursuant to any new long-term agreements. We have entered into sales agreements to sell a significant percentage of our MTBE into the Latin American market, and we currently believe that we could also sell MTBE relatively efficiently in Europe and Asia. Nevertheless, as a result of varying market prices and transportation costs, sales of MTBE in markets outside the U.S. may produce lower margins than the sale of MTBE in the U.S. We may also elect to use all or a portion of our precursor TBA to produce saleable products other than MTBE. If we opt to produce products other than MTBE, necessary modifications to our facilities will require us to make significant capital expenditures and the sale of such other products may produce a lower level of cash flow than the sale of MTBE.

In our Performance Products segment, demand for our performance specialties has generally continued to grow at rates in excess of GDP as overall demand is significantly influenced by new product and application development. Overall demand for most of our performance intermediates has generally been stable or improving, but excess surfactant manufacturing capacity in Europe and a decline in the use of LAB in new detergent formulations have continued to impair our ability to increase prices in response to higher raw material costs. EG industry operating rates and profitability have declined sharply during 2005 due to additional capacity coming on stream.

Historically, demand for titanium dioxide pigments has grown at rates approximately equal to global GDP growth. Pigment prices have historically reflected industry-wide operating rates but have typically lagged behind movements in these rates by up to twelve months due to the effects of product stocking and destocking by customers and producers, contract arrangements and seasonality. The industry experiences some seasonality in its sales because sales of paints, the largest end use for titanium dioxide, generally peak during the spring and summer months in the northern hemisphere. This results in greater sales volumes in the second and third quarters of the year.

The profitability of our Polymers and Base Chemicals segments has historically been cyclical in nature. The industry has recently operated in an up cycle that resulted primarily from strong demand reflecting global economic conditions and the fact that there have been no recent North American or European capacity additions. However, volatile crude oil and natural gas-based raw materials costs and a recent weakening in demand could negatively impact the profitability of our Polymers and Base Chemicals segments.

Outlook

We are optimistic about our outlook for 2006 and, consistent with industry analysts, we believe that the outlook for the chemical industry is generally positive. We expect that demand for most of our differentiated products will remain strong but anticipate somewhat softer demand for certain of our commodity products in the first half of 2006. We are currently experiencing less volatility in energy and raw material prices; however, we remain concerned that sustained high energy and raw material costs or volatility in such costs may add uncertainty to the chemical industry's profit outlook for 2006.

We believe that price momentum is generally favorable. We announced significant price increases for many of our products in the fourth quarter of 2005, and we expect our differentiated products to maintain price momentum in the near term. We believe that price momentum in our commodities products is less favorable and we expect that the margin weakness that we experienced in the later half of 2005 in our European petrochemicals business is likely to continue into early 2006. We believe that regional capacity additions in most of our commodity businesses will be limited over the next several years.

We believe that any lingering effects from the 2005 U.S. Gulf Coast storms on logistics and raw material supplies are dissipating and we expect that any further storm related effects will be relatively modest. We also believe that the supply and demand imbalances created by these storms have largely been resolved as the affected production capacity has now mostly restarted.

We expect continued global GDP growth, but we also believe that sustained high energy costs have the potential to dampen economic growth.

Results of Operations

(in millions)	Year Ended December 31, 2005	2004	2003	Percent Change 2005 vs 2004	2004 vs 2003
Revenues	**$12,961.6**	$11,426.4	$7,018.6	13%	63%
Cost of goods sold	**11,209.5**	10,048.0	6,334.9	12%	59%
Gross profit	**1,752.1**	1,378.4	683.7	27%	102%
Operating expense	**814.6**	670.9	466.7	21%	44%
Restructuring, impairment and plant closing costs	**123.6**	299.3	37.9	(59)%	690%
Operating income	**813.9**	408.2	179.1	99%	128%
Interest expense, net	**(426.6)**	(612.6)	(409.1)	(30)%	50%
Loss on sale of accounts receivable	**(10.7)**	(15.6)	(20.4)	(31)%	(24)%
Equity in income (loss) of unconsolidated affiliates	**8.2**	4.0	(37.5)	105%	NM
Other expense	**(322.6)**	(25.8)	—	NM	NM
Income (loss) from continuing operations before income taxes, minority interest and accounting changes	**62.2**	(241.8)	(287.9)	NM	(16)%
Income tax (expense) benefit	**(23.5)**	29.1	(30.8)	NM	NM
Minority interests in subsidiaries' (income) loss	**(1.7)**	(7.2)	1.5	(76)%	NM
Income (loss) from continuing operations	**37.0**	(219.9)	(317.2)	NM	(31)%
Loss from discontinued operations (including a loss on disposal of $36.4 in 2005), net of tax	**(43.9)**	(7.8)	(2.6)	463%	200%
Cumulative effect of changes in accounting principle, net of tax of $2.9	**(27.7)**	—	—	NM	NM
Net loss	**(34.6)**	(227.7)	(319.8)	(85)%	(29)%
Interest expense, net	**426.6**	612.6	409.1	(30)%	50%
Income tax expense (benefit)(1)	**20.6**	(29.1)	30.8	NM	NM
Depreciation and amortization	**500.8**	536.8	353.4	(7)%	52%
EBITDA(2)	**$ 913.4**	$ 892.6	$ 473.5	2%	89%
Net cash provided by operating activities	**$ 974.1**	$ 180.8	$ 225.4	439%	(20)%
Net cash used in investing activities	**(469.2)**	(230.0)	(846.3)	104%	(73)%
Net cash (used in) provided by financing activities	**(603.0)**	83.5	786.7	NM	(89)%

NM—Not meaningful

Included in EBITDA are the following items of (expense) income:

(in millions)	Year Ended December 31, 2005	2004	2003
Loss on early extinguishment of debt	**$(322.5)**	$ (25.6)	$ —
Legal and contract settlement expense, net	**—**	(6.6)	(2.0)
Loss on accounts receivable securitization program	**(10.7)**	(15.6)	(20.4)
Asset write down	**—**	—	(3.0)
Cumulative effect of changes in accounting principle	**(30.6)**	—	—
Loss from discontinued operations	**(43.9)**	(7.8)	(2.6)
Restructuring, impairment and plant closing (costs) credits:			
Polyurethanes	**(13.4)**	(36.9)	(11.0)
Advanced Materials	**(0.5)**	(9.0)	—
Performance Products	**(10.0)**	(97.5)	(22.1)
Pigments	**(30.1)**	(123.3)	(6.5)
Polymers	**(51.6)**	(13.6)	(0.8)
Base Chemicals	**(16.8)**	(16.7)	2.5
Corporate and other	**(1.2)**	(2.3)	—
Total restructuring, impairment and plant closing costs	**(123.6)**	(299.3)	(37.9)
Total	**$(531.3)**	$(354.9)	$(65.9)

(1) Includes a tax benefit of $2.9 million in 2005 on the cumulative effect of changes in accounting principle.

(2) EBITDA is defined as net income (loss) before interest, income taxes, depreciation and amortization. We believe that EBITDA enhances an investor's understanding of our financial performance and our ability to satisfy principal and interest obligations with respect to our indebtedness. However, EBITDA should not be considered in isolation or viewed as a substitute for net income, cash flow from operations or other measures of performance as defined by generally accepted accounting principles

in the U.S. ("GAAP"). Moreover, EBITDA as used herein is not necessarily comparable to other similarly titled measures of other companies due to potential inconsistencies in the method of calculation. Our management uses EBITDA to assess financial performance and debt service capabilities. In assessing financial performance, our management reviews EBITDA as a general indicator of economic performance compared to prior periods. Because EBITDA excludes interest, income taxes, depreciation and amortization, EBITDA provides an indicator of general economic performance that is not affected by debt restructurings, fluctuations in interest rates or effective tax rates, or levels of depreciation and amortization. Accordingly, our management believes this type of measurement is useful for comparing general operating performance from period to period and making certain related management decisions. EBITDA is also used by securities analysts, lenders and others in their evaluation of different companies because it excludes certain items that can vary widely across different industries or among companies within the same industry. For example, interest expense can be highly dependent on a company's capital structure, debt levels and credit ratings. Therefore, the impact of interest expense on earnings can vary significantly among companies. In addition, the tax positions of companies can vary because of their differing abilities to take advantage of tax benefits and because of the tax policies of the various jurisdictions in which they operate. As a result, effective tax rates and tax expense can vary considerably among companies. Finally, companies employ productive assets of different ages and utilize different methods of acquiring and depreciating such assets. This can result in considerable variability in the relative costs of productive assets and the depreciation and amortization expense among companies. Our management also believes that our investors use EBITDA as a measure of our ability to service indebtedness as well as to fund capital expenditures and working capital requirements. Nevertheless, our management recognizes that there are material limitations associated with the use of EBITDA in the evaluation of our Company as compared to net income, which reflects overall financial performance, including the effects of interest, income taxes, depreciation and amortization. EBITDA excludes interest expense. Because we have borrowed money in order to finance our operations, interest expense is a necessary element of our costs and ability to generate revenue. Therefore, any measure that excludes interest expense has material limitations. EBITDA also excludes taxes. Because the payment of taxes is a necessary element of our operations, any measure that excludes tax expense has material limitations. Finally, EBITDA excludes depreciation and amortization expense. Because we use capital assets, depreciation and amortization expense is a necessary element of our costs and ability to generate revenue. Therefore, any measure that excludes depreciation and amortization expense has material limitations. Our management compensates for the limitations of using EBITDA by using it to supplement GAAP results to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone. Our management also uses other metrics to evaluate capital structure, tax planning and capital investment decisions. For example, our management uses credit ratings and net debt ratios to evaluate capital structure, effective tax rate by jurisdiction to evaluate tax planning, and payback period and internal rate of return to evaluate capital investments. Our management also uses trade working capital to evaluate its investment in accounts receivable and inventory, net of accounts payable.

We believe that net income (loss) is the performance measure calculated and presented in accordance with GAAP that is most directly comparable to EBITDA and that cash provided by operating activities is the liquidity measure calculated and presented in accordance with GAAP that is most directly comparable to EBITDA. The following table reconciles EBITDA to our net loss and to our cash provided by operations:

	Year Ended December 31,			Percent Change	
(in millions)	**2005**	2004	2003	2005 vs 2004	2004 vs 2003
EBITDA[2]	**$ 913.4**	$ 892.6	$ 473.5	2%	89%
Depreciation and amortization	**(500.8)**	(536.8)	(353.4)	(7)%	52%
Interest expense, net	**(426.6)**	(612.6)	(409.1)	(30)%	50%
Income tax (expense) benefit[1]	**(20.6)**	29.1	(30.8)	NM	NM
Net loss	**(34.6)**	(227.7)	(319.8)	(85)%	(29)%
Cumulative effect of changes in accounting principle	**27.7**	—	—	NM	NM
Equity in (income) loss of unconsolidated affiliates	**(8.2)**	(4.0)	37.5	105%	NM
Depreciation and amortization	**500.8**	536.8	353.4	(7)%	52%
Noncash restructuring, impairment and plant closing costs	**64.1**	138.0	12.2	(54)%	NM
Loss on early extinguishment of debt	**322.5**	25.6	—	NM	NM
Loss on disposal of discontinued operations	**36.4**	—	—	NM	NM
Noncash interest	**49.8**	166.0	90.7	(70)%	83%
Deferred income taxes	**(3.1)**	(64.5)	(3.6)	NM	NM
Net unrealized loss (gain) on foreign currency transactions	**23.1**	(111.7)	(58.3)	NM	92%
Other, net	**1.1**	(3.7)	9.7	NM	NM
Changes in operating assets and liabilities	**(5.5)**	(274.0)	103.6	(98)%	NM
Net cash provided by operating activities	**$ 974.1**	$ 180.8	$ 225.4	439%	(20)%

NM—Not meaningful

Year Ended December 31, 2005 Compared with the Year Ended December 31, 2004

For the year ended December 31, 2005, we had a net loss of $34.6 million on revenues of $12,961.6 million compared to a net loss of $227.7 million on revenues of $11,426.4 million for 2004. The improvement of $193.1 million in net loss was the result of the following items:

- Revenues for the year ended December 31, 2005 increased by $1,535.2 million, or 13%, as compared with 2004 due principally to higher average selling prices in all of our operating segments, primarily in response to higher raw materials and energy costs. For further information regarding selling prices and sales volumes, see the discussion of our operating segments below.
- Gross profit for the year ended December 31, 2005 increased by $373.7 million, or 27%, as compared with 2004. This increase in gross profit, which occurred in our Polyurethanes, Pigments and Polymers segments, was mainly due to higher margins as average selling prices increased more than raw material and energy costs in 2005 as compared with 2004. The decrease in gross profit in our Advanced Materials, Performance Products and Base Chemicals segments resulted from the

impact of the 2005 U.S. Gulf Coast storms which resulted in a loss of sales, repair costs and higher raw material costs.

- Operating expenses for the year ended December 31, 2005 increased by $143.7 million, or 21%, as compared with 2004, primarily due to higher foreign currency losses of $157.8 million.
- Restructuring, impairment and plant closing costs for the year ended December 31, 2005 decreased to $123.6 million from $299.3 million in 2004. For further discussion of restructuring activities, see "—Restructuring, Impairment and Plant Closing Costs" below.
- Net interest expense for the year ended December 31, 2005 decreased by $186.0 million, or 30%, as compared with 2004, primarily due to lower average debt balances resulting from the repayment of debt from the proceeds of our initial public offering on February 16, 2005 and operating cash flows, and from lower average interest rates despite higher underlying interest rates on variable rate borrowings.
- Other expense for the year ended December 31, 2005 increased by $296.8 million to $322.6 million from $25.8 million for 2004. The increase was due primarily to a $296.9 million increase in loss on early extinguishment of debt.
- Income tax expense increased by $52.6 million to $23.5 million for the year ended December 31, 2005 as compared with a benefit of $29.1 million for the same period in 2004. Increased tax expense was largely due to increased pre-tax income. Our tax obligations are affected by the mix of income and losses in the tax jurisdictions in which we operate. The change in income tax expense includes changes in our mix of income and losses, as well as non-recurring items of expense and benefit recognized in each year.
- The loss from discontinued operations represents the operating results of our TDI business that we sold on July 6, 2005. The loss from discontinued operations of $43.9 million for the year ended December 31, 2005 includes a loss on disposal of $36.4 million recorded in the second quarter of 2005.
- During the fourth quarter of 2005, we adopted FIN 47, *"Accounting for Conditional Asset Retirement Obligations,"* and recorded a charge for the cumulative effect of this change in accounting principle, net of tax of $4.8 million, of $31.7 million. Also in the fourth quarter of 2005, we accelerated the date for actuarial measurement of our pension and postretirement benefit obligations from December 31 to November 30 in order to improve internal control procedures by allowing more time to review the completeness and accuracy of the actuarial benefit obligation measurements. The effect of the change in measurement date on the respective obligations and assets of the plan resulted in a cumulative effect of accounting change credit, net of tax, of $4.0 million.

The following table sets forth the revenues and EBITDA for each of our operating segments (dollars in millions):

	Year Ended December 31,		
	2005	2004	Percent Change
Revenues			
Polyurethanes	**$ 3,396.3**	$ 2,818.0	21%
Advanced Materials	**1,185.3**	1,162.4	2%
Performance Products	**1,960.9**	1,927.8	2%
Pigments	**1,052.8**	1,048.1	—
Polymers	**1,702.0**	1,451.8	17%
Base Chemicals	**4,462.1**	3,859.0	16%
Eliminations	**(797.8)**	(840.7)	(5)%
Total	**$12,961.6**	$11,426.4	13%
Segment EBITDA			
Polyurethanes	**$ 676.3**	$ 364.0	86%
Advanced Materials	**154.1**	151.0	2%
Performance Products	**157.3**	91.0	73%
Pigments	**115.3**	(30.0)	NM
Polymers	**102.7**	77.6	32%
Base Chemicals	**264.3**	276.2	(4)%
Corporate and other	**(556.6)**	(37.2)	NM
Total	**$ 913.4**	$ 892.6	2%

NM—Not meaningful

Polyurethanes

For the year ended December 31, 2005, Polyurethanes segment revenues increased by $578.3 million, or 21%, as compared with 2004, primarily as a result of increased MDI and MTBE revenues. MDI revenues increased by 25% due to 29% higher average selling prices. The increase in MDI selling prices was driven by improved market conditions, stronger growth in higher value applications, and in response to higher raw material and energy costs. MDI sales volumes were 3% lower principally due to product availability limitations and the effects of unplanned outages related to the U.S. Gulf Coast storms. MTBE revenues increased by 28% as a result of 38% higher average selling prices. The increase in MTBE average selling prices was principally due to strong demand and tight supplies in the market. MTBE sales volumes decreased by 8% primarily due to loss of production related to unplanned outages for maintenance and the U.S. Gulf Coast storms.

For the year ended December 31, 2005, Polyurethanes segment EBITDA increased by $312.3 million, or 86%, as compared with 2004. Segment EBITDA increased primarily as a result of higher contribution margins, with average selling prices more than offsetting increases in raw material and energy costs. Margin improvements were partially offset by higher losses from discontinued operations and the negative impact of the U.S. Gulf Coast storms. During the years ended December 31, 2005 and 2004, our Polyurethanes segment recorded a loss from discontinued operations of its TDI business of $43.9 million and $7.8 million, respectively. In addition, our Polyurethanes segment recorded restructuring, impairment and plant closing costs of

$13.4 million in the year ended December 31, 2005 as compared with $36.9 million in 2004. For further discussion of restructuring activities, see "—Restructuring, Impairment and Plant Closing Costs" below.

Advanced Materials

Advanced Materials revenues for the year ended December 31, 2005 increased by $22.9 million, or 2%, as compared with 2004, primarily attributable to an 8% increase in average selling prices, with sales volumes down 6%. Average selling prices were higher due to price increase initiatives in certain markets in response to higher raw material costs and due to a higher value product mix. Our ongoing portfolio re-alignment activities resulted in higher sales volumes in some of our markets, which were more than offset by lower sales volumes of basic epoxy resins in the coatings, construction and adhesives markets and reduced volumes of electronic laminates products.

Advanced Materials segment EBITDA for the year ended December 31, 2005 increased by $3.1 million, or 2%, as compared with 2004. Segment EBITDA improved on higher revenues and an improved product mix, resulting from increased sales volumes of higher margin adhesives and power and composite engineering applications. These improvements more than offset higher raw material costs caused principally by decreased supplies of materials and higher energy prices related to the U.S. Gulf Coast storms and a reduction of $8.7 million in legal and contract settlement gains. In addition, our Advanced Materials segment recorded restructuring, impairment and plant closing costs of $0.5 million and $9.0 million during the years ended December 31, 2005 and 2004, respectively. For further discussion of restructuring activities, see "—Restructuring, Impairment and Plant Closing Costs" below.

Performance Products

For the year ended December 31, 2005, Performance Products revenues increased by $33.1 million, or 2%, as compared with 2004, primarily as a result of higher average selling prices for all major product lines, offset by lower sales volumes in certain product lines. Overall, average selling prices increased by 19% in response to higher raw material and energy costs and improved market conditions for certain products. Sales volumes declined by 15% principally due to the loss of production volume in the U.S. related to the Gulf Coast storms and the unplanned outage at our PO facility, together with lower sales of glycols and certain surfactants.

For the year ended December 31, 2005, Performance Products segment EBITDA increased by $66.3 million, or 73%, as compared with 2004, resulting primarily from lower restructuring, impairment and plant closing costs and higher margins, partially offset by lower sales volumes and the negative impact of the U.S. Gulf Coast storms. During the years ended December 31, 2005 and 2004, the Performance Products segment recorded restructuring and plant closing charges of $10.0 million and $97.5 million, respectively. For further discussion of restructuring activities, see "—Restructuring, Impairment and Plant Closing Costs" below.

Pigments

For the year ended December 31, 2005, Pigments revenues remained relatively unchanged at $1,052.8 million, as compared with revenues of $1,048.1 million in 2004, resulting principally from a 6% increase in average selling prices, offset in part by a 5% reduction in sales volumes. Sales volumes were lower due to the restructuring of our Grimsby, U.K. and Umbogintwini, South Africa facilities during 2004 and due to lower end-use demand across all regions. Average selling prices increased in all regions and benefited from price increase initiatives implemented during late 2004 and 2005.

Pigments segment EBITDA for the year ended December 31, 2005 increased by $145.3 million to $115.3 million from negative $30.0 million for 2004. During the years ended December 31, 2005 and 2004, our Pigments segment recorded restructuring, impairment and plant closing charges of $30.1 million and $123.3 million, respectively. For further discussion of restructuring activities, see "—Restructuring, Impairment and Plant Closing Costs" below. This increase in segment EBITDA during 2005 was due primarily to the combination of lower restructuring, impairment and plant closing costs, $15.1 million of lower legal settlement costs related to Discoloration Claims and higher margins during 2005.

Polymers

For the year ended December 31, 2005, Polymers revenues increased by $250.2 million, or 17%, as compared with 2004, due mainly to 22% higher average selling prices, offset somewhat by lower sales volumes. Average selling prices were higher primarily due to tighter market conditions and in response to an increase in raw material and energy costs. Sales volumes decreased by 4% as a result of soft demand in our Australian styrenics business and raw materials supply shortages in our polypropylene business.

For the year ended December 31, 2005, Polymers segment EBITDA increased by $25.1 million, or 32%, as compared to 2004. This increase in segment EBITDA resulted from higher contribution margins, as average selling prices increased more than raw material and energy costs, and was partially offset by higher restructuring, impairment and plant closing costs. During the year ended December 31, 2005 and 2004, our Polymers segment recorded restructuring, impairment and plant closing charges of $51.6 million and $13.6 million, respectively. For further discussion of restructuring activities, see "—Restructuring, Impairment and Plant Closing Costs" below.

Base Chemicals

For the year ended December 31, 2005, Base Chemicals revenues increased by $603.1 million, or 16%, as compared with 2004. This increase was due mainly to a 22% increase in average selling prices, partially offset by a 5% decrease in sales volumes. Higher average selling prices were primarily due to improved market conditions and in response to higher raw material and energy costs. The sales volume decrease was driven principally by a loss of production volume in the U.S. related to the Gulf Coast storms.

For the year ended December 31, 2005, Base Chemicals segment EBITDA decreased by $11.9 million, or 4%, as compared with 2004. This decrease in segment EBITDA was primarily due to slightly lower contribution margins as higher average selling prices were more than offset by higher raw materials and energy costs. The increase in raw materials and energy costs during 2005 were caused principally by decreased supplies of materials and energy sources related to the U.S. Gulf Coast storms. EBITDA was also lower due to lost production in the U.S. related to the Gulf Coast storms. During the year ended December 31, 2005 and 2004, our Base Chemicals segment recorded restructuring charges of $16.8 million and $16.7 million, respectively. For further discussion of restructuring activities, see "—Restructuring, Impairment and Plant Closing Costs" below.

Corporate and Other

Corporate and other items includes unallocated corporate overhead, foreign exchange gains and losses, loss on the sale of accounts receivable, loss on the early extinguishment of debt, other non-operating income and expense and minority interest in subsidiaries' (income) loss. For the year ended December 31, 2005, EBITDA from corporate and other items decreased by $519.4 million to a loss of $556.6 million from a loss of $37.2 million for 2004. The decrease in 2005 period EBITDA resulted primarily from a $296.9 million increase in losses on early extinguishment of debt, a $148.7 million increase in unallocated foreign currency losses, $28.3 million higher incentive compensation and $30.6 million on cumulative effect of changes in accounting principles.

Year Ended December 31, 2004 Compared with the Year Ended December 31, 2003

In 2003, our predecessor underwent significant changes as a result of a number of transactions. In our historical financial data, HIH is accounted for using the equity method of accounting through April 30, 2003. Effective May 1, 2003, as a result of transactions among Huntsman LLC, HIH and ICI, the financial results of HIH were consolidated into our predecessor (the "HLLC Consolidation Transaction"). Effective June 30, 2003, as a result of the AdMat Transaction, we have consolidated the financial results of AdMat. As a result, the financial information for the year ended December 31, 2004 is not comparable to the financial data for the year ended December 31, 2003 presented herein.

For the year ended December 31, 2004, we had a net loss of $227.7 million on revenues of $11,426.4 million compared to a net loss of $319.8 million on revenues of $7,018.6 million for 2003. The improvement of $92.1 million in net loss was the result of the following items:

- Revenues for the year ended December 31, 2004 increased by $4,407.8 million, or 63%, to $11,426.4 million from $7,018.6 million during 2003. Approximately 49% of this increase was due to our consolidation of HIH following the HLLC Consolidation Transaction effective May 1, 2003 and our ownership of AdMat following the AdMat Transaction on June 30, 2003, in each case for the entire period in 2004. The remaining approximately 51% of the increase was due to higher average selling prices in all our operating segments and higher sales volumes in our Polyurethanes, Advanced Materials, Pigments, Polymers and Base Chemicals segments. For details of the changes in selling prices and sales volumes from the prior year, please see our discussion by operating segment below.
- Gross profit for the year ended December 31, 2004 increased by $694.7 million, or 102%, to $1,378.4 million from $683.7 million in 2003. Approximately 42% of this increase was due to our consolidation of HIH effective May 1, 2003 and our ownership of AdMat following the AdMat Transaction on June 30, 2003, in each case for the entire period in 2004. The remaining approximately 58% of the increase was due to higher contribution margins as average selling prices increased more than raw material and energy costs in 2004 as compared with 2003.
- Operating expenses for the year ended December 31, 2004 increased by $204.2 million, or 44%, to $670.9 million from $466.7 million in 2003. All of this increase was due to our consolidation of HIH effective May 1, 2003 and our ownership of AdMat following the AdMat Transaction on June 30, 2003, in each case for the entire period in 2004. Excluding the effect of the HLLC Consolidation Transaction and the AdMat Transaction, operating expenses decreased approximately 5%.
- Restructuring, impairment and plant closing costs for the year ended December 31, 2004 increased by $261.4 million to $299.3 million from $37.9 million in 2003. This increase was in part due to our consolidation of HIH for the entire period in 2004 following the HLLC Consolidation Transaction effective May 1, 2003. For further discussion of restructuring activities, see "—Restructuring and Plant Closing Costs" below.
- Net interest expense for the year ended December 31, 2004 increased by $203.5 million to $612.6 million from $409.1 million for 2003. Approximately 83% of this increase was due to our consolidation of HIH effective May 1, 2003 and our ownership of AdMat following the AdMat Transaction on June 30, 2003, in each case for the entire period in 2004. In addition, the increase was due to additional debt and higher interest rates on our borrowings in 2004 as compared to 2003 and the compounding of interest on the HMP Senior Discount Notes and the HIH Senior Discount Notes, the accrued interest of which was added to the principal balance and not paid in cash.
- The other expense of $25.8 million in 2004 relates to the loss on early extinguishment of debt.
- Income taxes provided a benefit of $29.1 million for the year ended December 31, 2004 as compared to income tax expense of $30.8 million for the year ended December 31, 2003. Our tax obligations are affected by the mix of income and losses in the tax jurisdictions in which we operate. Increased tax benefit was largely due to changes in pre-tax income in certain jurisdictions. During 2004, additional pre-tax losses were recorded in jurisdictions where tax benefits were provided and

additional pre-tax income was recorded in jurisdictions where tax expense was not provided, net of valuation allowances. In addition, during the year ended December 31, 2004 we recognized non-recurring benefits in Spain, France, and Holland of approximately $28 million associated with enacted changes in tax rates, the settlement of tax authority examinations and the reversal of previously established valuation allowances.

The following table sets forth the revenues and EBITDA for each of our operating segments (dollars in millions):

	Year Ended December 31,		
	2004	2003	Percent Change
Revenues			
Polyurethanes	$ 2,818.0	$1,500.1	88%
Advanced Materials	1,162.4	517.8	124%
Performance Products	1,927.8	1,507.7	28%
Pigments	1,048.1	678.9	54%
Polymers	1,451.8	1,155.5	26%
Base Chemicals	3,859.0	2,152.7	79%
Eliminations	(840.7)	(494.1)	70%
Total	$11,426.4	$7,018.6	63%
Segment EBITDA			
Polyurethanes	$ 364.0	$ 176.0	107%
Advanced Materials	151.0	29.4	414%
Performance Products	91.0	125.6	(28)%
Pigments	(30.0)	64.7	NM
Polymers	77.6	80.8	(4)%
Base Chemicals	276.2	40.7	579%
Corporate and other	(37.2)	(43.7)	(15)%
Total	$ 892.6	$ 473.5	89%

NM—Not Meaningful

Polyurethanes

For the year ended December 31, 2004, Polyurethanes revenues increased by $1,317.9 million, or 88%, from 2003. Approximately 56% of this increase was due to our consolidation of HIH for the entire period in 2004 following the HLLC Consolidation Transaction effective May 1, 2003. The remaining approximately 44% increase in Polyurethanes revenues was primarily due to higher average selling prices and higher sales volumes for MDI. MDI revenues increased by approximately 32%, resulting from approximately 10% higher sales volumes and approximately 22% higher average selling prices. The increase in MDI average selling prices resulted principally from improved market demand coupled with tighter supply, stronger major European currencies versus the U.S. dollar and in response to higher raw material and energy costs. Higher MDI volumes reflect further extensions of markets for MDI and recent improvements in global economic conditions.

For the year ended December 31, 2004, Polyurethanes segment EBITDA increased by $188.0 million, or 107%, to $364.0 million from $176.0 million for 2003, approximately 31% of which was due to our consolidation of HIH for the entire period in 2004 following the HLLC Consolidation Transaction effective May 1, 2003. The remaining approximately 69% of the increase, exclusive of restructuring costs, resulted mainly from higher contribution margins as average selling prices increased more than raw material and energy costs. For the years ended December 31, 2004 and 2003, restructuring charges of $36.9 million and $11.0 million, respectively, were included in segment EBITDA. For further discussion of restructuring activities, see "—Restructuring, Impairment and Plant Closing Costs" below.

Advanced Materials

Advanced Materials revenues for the year ended December 31, 2004 increased by $644.6 million, or 124%, from 2003. Approximately 83% of the increase was attributable to our ownership of AdMat for the entire period in 2004 following the AdMat Transaction on June 30, 2003. The remaining approximately 17% increase in revenues for 2004 as compared to 2003 was due to an increase in average selling prices and sales volumes. Average selling prices were higher due to improved demand in certain markets in response to higher raw material costs and, in part, to the strength of the major European currencies versus the U.S. dollar.

For the year ended December 31, 2004, Advanced Materials segment EBITDA increased by $121.6 million to $151.0 million from $29.4 million for the same period of 2003. Approximately 7% of the increase was attributable to our ownership of AdMat for the entire period in 2004 following the AdMat Transaction on June 30, 2003. The remaining approximately 93% increase in segment EBITDA was primarily due to higher contribution margins as average selling prices increased more than raw material costs. During the year ended December 31, 2004, our Advanced Materials segment recorded restructuring charges of $9.0 million. For further discussion of restructuring activities, see "—Restructuring, Impairment and Plant Closing Costs" below.

Performance Products

For the year ended December 31, 2004, Performance Products revenues increased by $420.1 million, or 28%, from 2003. Approximately 43% of this increase was due to our consolidation of HIH for the entire period in 2004 following the HLLC Consolidation Transaction effective May 1, 2003. The remaining increase in revenues resulted primarily from higher average selling prices for all products, offset somewhat by lower sales volumes in certain product lines. Overall, average selling prices increased by approximately 15% in response to higher raw material and energy costs, improved market conditions and the strength of the Australian dollar versus the U.S. dollar. Sales volumes declined by 2% as higher volumes of amines and maleic anhydride were more than offset by lower sales of surfactants and LAB. The reduction in surfactants sales volumes was due principally to increased competition in the marketplace.

For the year ended December 31, 2004, Performance Products segment EBITDA decreased by $34.6 million, or 28%, to $91.0 million from $125.6 million for 2003. The decrease in EBITDA resulted primarily from restructuring charges. During the years ended December 31, 2004 and 2003, the Performance Products segment recorded restructuring charges of $97.5 million and $22.1 million, respectively. For a further discussion of restructuring activities, see "—Restructuring, Impairment and

Plant Closing Costs" below. Excluding these restructuring charges, segment EBITDA increased by $40.8 million resulting primarily from higher contribution margins as average selling prices increased more than raw material and energy costs.

Pigments

For the year ended December 31, 2004, Pigments revenues increased by $369.2 million, or 54%, from 2003. Approximately 90% of this increase was due to our consolidation of HIH for the entire period in 2004 following the HLLC Consolidation Transaction effective May 1, 2003. The remaining approximately 10% of the increase in revenues was due to higher average sales prices. Average selling prices also benefited from the strength of major European currencies versus the U.S. dollar.

Pigments segment EBITDA for the year ended December 31, 2004 decreased by $94.7 million to a loss of $30.0 million from income of $64.7 million for 2003, due primarily to increased restructuring expenses. During the years ended December 31, 2004 and 2003, our Pigments segment recorded restructuring and asset impairment charges of $123.3 million and $6.5 million, respectively. For further discussion of restructuring activities, see "—Restructuring, Impairment and Plant Closing Costs" below.

Polymers

For the year ended December 31, 2004, Polymers revenues increased by $296.3 million, or 26%, to $1,451.8 million from $1,155.5 million 2003 due mainly to approximately 22% higher average selling prices and approximately 3% higher sales volumes. Higher average selling prices were primarily in response to higher raw material and energy costs while sales volumes increased principally as a result of stronger customer demand.

For the year ended December 31, 2004, Polymers segment EBITDA decreased by $3.2 million, or 4%, to $77.6 million from $80.8 million for 2003. The decrease in segment EBITDA was primarily due to a $13.6 million restructuring charge related to the closure of an Australian manufacturing unit. Higher contribution margins resulted as average selling prices increased more than raw material costs and the strengthening of the Australian dollar versus the U.S. dollar. In addition, our Polymers segment recorded restructuring charges of $13.6 million and $0.8 million for the years ended December 31, 2004 and 2003, respectively. For further discussion of restructuring activities, see "—Restructuring, Impairment and Plant Closing Costs" below.

Base Chemicals

For the year ended December 31, 2004, Base Chemicals revenues increased $1,706.3 million, or 79%, from 2003. Approximately 29% of this increase was due to our consolidation of HIH for the entire period in 2004 following the HLLC Consolidation Transaction effective May 1, 2003. The remaining increase in revenue is due to approximately 60% higher average selling prices and approximately 1% higher sales volumes. Higher average selling prices were primarily in response to higher raw material and energy costs. Sales volumes increases were principally the result of increased demand.

For the year ended December 31, 2004, Base Chemicals segment EBITDA increased by $235.5 million to $276.2 million from $40.7 million for 2003. Only 13% of this increase was due to our consolidation of HIH for the entire period in 2004 following the HLLC Consolidation Transaction effective May 1, 2003. Excluding the impact of the HLLC Consolidation Transaction, segment EBITDA increased primarily as a result of higher contribution margins as average selling prices increased more than raw material and energy costs. In addition, our Base Chemicals segment recorded restructuring charges of $16.7 million for the year ended December 31, 2004 compared to a restructuring credit of $2.5 million in 2003. For further discussion of restructuring activities, see "—Restructuring, Impairment and Plant Closing Costs" below.

Corporate and Other

Corporate and other items includes unallocated corporate overhead, unallocated foreign exchange gains and losses, loss on the sale of accounts receivable, other non-operating income and expense and minority interest in subsidiaries' loss. For the year ended December 31, 2004, EBITDA from corporate and other items increased by $6.5 million to a loss of $37.2 million from a loss of $43.7 million for 2003, primarily due to a $41.5 million increase in equity in income of unconsolidated affiliates, offset somewhat by a $25.6 million increase in expenses associated with the early extinguishment of debt.

Liquidity and Capital Resources

Year Ended December 31, 2005 Compared with the Year Ended December 31, 2004

Net cash provided by operating activities for the years ended December 31, 2005 and 2004 was $974.1 million and $180.8 million, respectively. The increase in cash provided by operations was primarily attributable to an improvement in net loss of $193.1 million. In addition, there were favorable variances in adjustments to reconcile net loss to net cash provided by operations, including $296.9 million in loss on early extinguishment of debt, deferred income taxes of $61.4 million, net unrealized gains and losses on foreign currency transactions of $134.8 million, $36.4 million in loss on disposal of discontinued operations and $268.5 million of favorable changes in operating assets and liabilities. These favorable variances were partially offset by unfavorable variances of $73.9 million in non-cash restructuring, impairments and plant closing costs, $36.0 million in depreciation and amortization expense and $116.2 million in non-cash interest.

Net cash used in investing activities for the years ended December 31, 2005 and 2004 was $469.2 million and $230.0 million, respectively. The increase in cash used in investing activities was largely attributable to our 2005 acquisition of the minority interest of AdMat for $124.8 million and higher capital expenditures of $112.1 million resulting partly from increased capital expenditures in HPS, our consolidated Chinese splitting joint venture of $38 million, and in our LDPE facility under construction at Wilton, U.K. of approximately $34 million. In addition, in connection with our initial public offering of the 5%

mandatory convertible preferred stock on February 16, 2005, we prefunded our dividends through the mandatory conversion date of February 16, 2008 with investments in government securities of $40.9 million, of which approximately $10.8 million have been used to pay dividends during the year ended December 31, 2005.

Net cash (used in) provided by financing activities in the year ended December 31, 2005 was $(603.0) million as compared with $83.5 million in 2004. This increase in net cash used in financing activities is mainly a result of net repayments of debt during the year ended December 31, 2005 of approximately $1,928.3 million. Furthermore, as a result of our initial public offering of common and preferred stock in the first quarter of 2005, we received $1,491.9 million of net proceeds. During the year ended December 31, 2005, we used $146.0 million to pay premiums associated with repayment of indebtedness.

Year Ended December 31, 2004 Compared with the Year Ended December 31, 2003

Net cash provided by operating activities for the years ended December 31, 2004 and 2003 was $180.8 million and $225.4 million, respectively. The variance is largely attributable to the HLLC Consolidation Transaction and the AdMat Transaction which occurred in 2003. The net loss in 2004 was $92.1 million lower than in 2003. In addition to the lower net loss, we also had net favorable variances in adjustments to reconcile net loss to net cash used in operating activities, including a $183.4 million increase in depreciation and amortization in 2004, a $125.8 million increase in non-cash restructuring charges in 2004, and a $75.3 million increase in non-cash interest expense, partially offset by an unfavorable variance in the change in net operating assets and liabilities of $377.6 million in 2004 compared to 2003. In addition, there were unfavorable variances in adjustments for deferred income taxes, unrealized gains on foreign currency transactions and equity in income of investment in unconsolidated affiliates of $60.9 million, $53.4 million and $41.5 million, respectively.

Net cash used in investing activities for the year ended December 31, 2004 and 2003 was $230.0 million and $846.3 million, respectively. The variance is largely attributable to the HLLC Consolidation Transaction and the AdMat Transaction which occurred in 2003. The investing activities for the year ended December 31, 2003 include the acquisition of minority interests in connection with the HLLC Consolidation Transaction and the cash paid in connection with the AdMat Transaction. Capital expenditures in 2004 were $35.6 million higher than in 2003, largely attributable to the non-comparative nature of the 2003 results.

Net cash provided by financing activities for the year ended December 31, 2004 and 2003 was $83.5 million and $786.7 million, respectively. The variance is largely attributable to the HLLC Consolidation Transaction and the AdMat Transaction that occurred in 2003.

Changes in Financial Condition

The following information summarizes our working capital position as of December 31, 2005 and December 31, 2004 (dollars in millions):

	December 31,			
	2005	2004	Increase (Decrease)	Percent Change
Current assets:				
Cash, cash equivalents and restricted cash	**$ 142.8**	$ 252.1	$(109.3)	(43)%
Accounts and notes receivables, net	**1,482.6**	1,598.1	(115.5)	(7)%
Inventories, net	**1,309.2**	1,253.9	55.3	4%
Prepaid expenses	**46.2**	45.0	1.2	3%
Deferred income taxes	**31.2**	11.9	19.3	162%
Other current assets	**84.0**	25.2	58.8	233%
Total current assets	**3,096.0**	3,186.2	(90.2)	(3)%
Current liabilities:				
Accounts payable	**1,093.5**	1,000.9	92.6	9%
Accrued liabilities	**747.2**	779.0	(31.8)	(4)%
Deferred income taxes	**2.4**	10.8	(8.4)	(78)%
Notes payable and current portion of long-term debt	**44.6**	37.5	7.1	19%
Total current liabilities	**1,887.7**	1,828.2	59.5	3%
Working capital	**$1,208.3**	$1,358.0	$(149.7)	(11)%

During the year ended December 31, 2005, our working capital decreased by $149.7 million as a result of the net impact of the following significant changes:

- The decrease in cash and cash equivalents balances of $109.3 million resulted from the matters identified in the Consolidated Statements of Cash Flows contained in our consolidated financial statements included elsewhere in this report. Furthermore, in connection with the HLLC Merger and the AdMat Minority Interest Transaction, we used cash to reduce indebtedness and, as a result of now having only one primary financed operating entity, we can now more efficiently maintain less cash on our balance sheet.
- The decrease in accounts and notes receivable of $115.5 million was due principally to increased proceeds under our accounts receivable securitization program ("A/R Securitization Program") of approximately $94 million and a decrease in European currency rates, partially offset by generally higher average selling prices.
- The increase in inventories of $55.3 million was primarily a result of higher raw materials and energy costs, partially offset by lower inventory levels and a decrease in European currency rates.
- Other current assets increased by $58.8 million related principally to net investments in government securities used to pre-fund the dividend payment on mandatory convertible preferred stock.

- Accounts payable increased by $92.6 million due mainly to higher raw materials and energy costs, partially offset by a decrease in European currency rates.
- Accrued liabilities decreased by $31.8 million due primarily to lower payroll, interest and restructuring accruals.

Debt and Liquidity

During 2005, we completed a series of transactions designed to simplify our consolidated group's financing and public reporting structure, to reduce our cost of borrowings and to facilitate other organizational efficiencies. On February 16, 2005, we completed our initial public offering of common and mandatory preferred stock that resulted in approximately $1.5 billion in net proceeds, substantially all of which were used to repay indebtedness. On August 16, 2005, we completed the HLLC Merger and on December 20, 2005 we completed the AdMat Minority Interest Transaction. As a result of these transactions, we now operate all of our businesses through HI and substantially all of our debt obligations are obligations of HI and/or its subsidiaries. In addition, these transactions, together with the repayment of debt from cash flow from our operations, reduced total net debt, including outstandings under our off-balance sheet A/R Securitization Program, by approximately $1.6 billion from December 31, 2004 to December 31, 2005. In addition, we reduced our total interest expense by approximately $186 million in the year ended December 31, 2005 as compared with the year ended December 31, 2004 and in 2006, we expect our interest expense to be approximately $375 million. In spite of an increase in U.S. LIBOR during 2005 of approximately 2.0%, our weighted average cost of borrowings decreased approximately 1.5% from approximately 9.5% as of December 31, 2004 to approximately 8.0% as of December 31, 2005.

Subsidiary Debt

With the exception of our guarantee of certain debt of HPS, our consolidated Chinese splitting joint venture, and certain indebtedness incurred from time to time to finance directors and officers insurance premiums as discussed in "—Other Debt" below, we have no direct debt or guarantee obligations. Substantially all of our debt has been incurred by our subsidiaries, and such debt is non-recourse to us and we have no contractual obligation to fund our subsidiaries respective operations. The following is a discussion of the debt and liquidity of our subsidiaries.

Credit Facilities

On August 16, 2005, in connection with the HLLC Merger, we repaid HI's senior secured credit facilities, Huntsman LLC's senior secured credit facilities and a subordinated note (the "Huntsman Specialty Subordinated Note") with available cash and with the proceeds of a new senior credit facility (the "Senior Credit Facilities"). On December 20, 2005, in connection with the AdMat Minority Interest Transaction, we increased the U.S. dollar term loan B under the Senior Credit Facilities by $350 million. On each of September 19, 2005 and December 30, 2005, we voluntarily prepaid approximately $50 million in U.S. dollar equivalents on term loan B under the Senior Credit Facilities. As of December 31, 2005, the Senior Credit Facilities consisted of (i) a $650 million revolving facility (the "Revolving Facility"), (ii) a $1,986.5 million term loan B facility (the "Dollar Term Loan"), and (iii) a €95.3 million (approximately $113 million) euro term loan B facility (the "Euro Term Loan," and collectively with the Dollar Term Loan, the "Term Loans").

As of December 31, 2005, there were no borrowings outstanding under the Revolving Facility. At our option, the Revolving Facility bears interest at a rate equal to: (i) a LIBOR-based eurocurrency rate plus an applicable margin ranging between 1.25% and 1.75% depending upon the most recent leverage ratio, or (ii) a prime-based rate plus an applicable margin ranging between 0.25% and 0.75% depending upon the most recent leverage ratio. As of December 31, 2005, borrowings under the Revolving Facility bear interest at LIBOR plus 1.75%. The Revolving Facility matures in 2010; provided that the maturity of the Revolving Facility will accelerate if we do not repay all but $100 million of our outstanding debt securities at least three months prior to the maturity of those securities. As of December 31, 2005, we had $32.5 million in U.S. dollar equivalents of letters of credit and bank guarantees issued and outstanding under the Revolving Facility.

At our option, the Term Loans bear interest at a rate equal to: (i) a LIBOR-based eurocurrency rate plus an applicable margin ranging between 1.50% and 2.00% depending upon the loan currency and the most recent leverage ratio, or (ii) a prime-based rate plus an applicable margin ranging between 0.50% and 0.75% depending upon the loan currency and the most recent leverage ratio. As of December 31, 2005, borrowings under the Dollar Term Loan bear interest at LIBOR plus 1.75% and borrowings under the Euro Term Loan bear interest at LIBOR plus 2.00%. Each of the Dollar Term Loan and the Euro Term Loan matures in 2012; provided that the maturity of the Term Loans will accelerate if we do not repay all but $100 million of our outstanding debt securities at least three months prior to the maturity of those securities. The Dollar Term Loan and the Euro Term Loan each require amortization payments of 1% annually.

As of December 31, 2005, the weighted average interest rate on the Senior Credit Facilities was approximately 6.0%, excluding the impact of interest rate hedges.

Our obligations under the Senior Credit Facilities are guaranteed by substantially all of our domestic subsidiaries and certain of our foreign subsidiaries (the "Guarantors") and are secured by a first priority lien (generally shared with the holders of the 2010 Secured Notes (as defined below)) on substantially all of our domestic property, plant and equipment, the stock of all of HI's material domestic subsidiaries and certain foreign subsidiaries, and pledges of intercompany notes between our various subsidiaries.

The credit agreements governing the Senior Credit Facilities contain financial covenants typical for these types of agreements, including a minimum interest coverage ratio, a maximum debt-to-EBITDA ratio and a limit on capital expenditures. The credit agreements also contain customary restrictions on our ability to incur liens, incur additional debt, merge or sell assets, pay dividends, prepay other indebtedness, make investments or engage in transactions with affiliates, and other customary restrictions and default provisions.

Secured Notes

On August 16, 2005, in connection with the HLLC Merger, HI entered into supplemental indentures under which it assumed the obligations of Huntsman LLC under its outstanding 11.625% senior secured notes due 2010 (the "2010 Secured Notes"). As of December 31, 2005, HI had outstanding $296.0 million aggregate principal amount ($293.6 million book value and $455.4 million original aggregate principal amount) of the 2010 Secured Notes, which are redeemable after October 15, 2007 at 105.813% of the principal amount thereof, declining ratably to par on and after October 15, 2009. In connection with our initial public offering of common and preferred stock, we used proceeds to redeem $159.4 million of aggregate principal amount of the 2010 Secured Notes. Interest on the 2010 Secured Notes is payable semiannually in April and October of each year. The 2010 Secured Notes are secured by a first priority lien on all collateral securing the Senior Credit Facilities as described above (other than capital stock of HI's subsidiaries), shared equally with the lenders on the Senior Credit Facilities, subject to certain intercreditor arrangements.

The 2010 Secured Notes contain covenants relating to the incurrence of debt and limitations on distributions, asset sales and affiliate transactions and are guaranteed by the Guarantors. The indentures governing the 2010 Secured Notes also contain change of control provisions requiring us to offer to repurchase the notes upon a change of control.

On December 20, 2005, in connection with the AdMat Minority Interest Transaction, we redeemed all of AdMat's outstanding $250 million 11% senior secured fixed rate notes due 2010 and paid $35.6 million in call premiums. Also during 2005, we redeemed all of AdMat's remaining $100.0 million secured floating rate notes due 2008 and paid $6.0 million in call premiums. The $250 million of AdMat secured fixed rate notes bore a per annum fixed rate of interest of 11%, and the AdMat secured floating rate notes bore interest at a rate per annum equal to LIBOR plus 8.0%, subject to a floor with respect to LIBOR of 2.0%. The AdMat floating rate notes were issued with an original issue discount of 2.0%.

Senior Notes

As of December 31, 2005, we had outstanding $450.0 million aggregate principal amount ($455.0 million book value) 9.875% senior notes due 2009 that were issued at a premium (the "2009 Senior Notes"). The 2009 Senior Notes are unsecured obligations. Interest on the 2009 Senior Notes is payable semiannually in March and September and these notes are redeemable after March 1, 2006 at 104.937% of the original aggregate principal amount thereof, declining ratably to par on and after March 1, 2008.

As of December 31, 2005, we had outstanding $198.0 million ($300 million original aggregate principal amount) of 11.5% senior unsecured fixed rate notes due 2012 (the "2012 Senior Fixed Rate Notes") and $100.0 million senior unsecured floating rate notes due 2011 (the "2011 Senior Floating Rate Notes"). These notes were previously obligations of Huntsman LLC. In connection with the HLLC Merger, on August 16, 2005, HI entered into supplemental indentures under which it assumed the obligations of the 2012 Senior Fixed Rate Notes and the 2011 Senior Floating Rate Notes. In connection with our initial public offering of common and preferred stock, we used proceeds to repay $102.0 million of aggregate principal amount of the 2012 Senior Fixed Rate Notes. Interest on the 2012 Senior Fixed Rate Notes is payable semiannually in January and July of each year. Interest on the 2011 Senior Floating Rate Notes is at LIBOR plus 7.25% (11.4% as of December 31, 2005) and is payable quarterly in January, April, July and October of each year. The 2012 Senior Fixed Rate Notes are redeemable after July 15, 2008 at 105.75% of the principal amount thereof, declining ratably to par on and after July 15, 2010. The 2011 Senior Floating Rate Notes are redeemable after July 15, 2006 at 104.0% of the principal amount thereof, declining ratably to par on and after July 15, 2008. At any time prior to July 15, 2007, we may redeem up to 40% of the original aggregate principal amount of the 2012 Senior Fixed Rate Notes at a redemption price of 111.5% with proceeds of a qualified equity offering. At any time prior to July 15, 2006, we may redeem up to 40% of the original aggregate principal amount of the 2011 Senior Floating Rate Notes with the proceeds of a qualified equity offering at a redemption price equal to the par value plus LIBOR plus 7.25%.

The indentures governing the 2009 Senior Notes, the 2012 Senior Fixed Rate Notes and the 2011 Senior Floating Rate Notes contain covenants, among other things, relating to the incurrence of debt and limitations on distributions, asset sales and affiliate transactions and are guaranteed by the Guarantors. The indentures governing these notes also contain change of control provisions requiring us to offer to repurchase the notes upon a change of control.

Subordinated Notes

As of December 31, 2005, HI had outstanding $175 million 7.375% senior subordinated notes due 2015 and €135 million ($159.8 million) 7.5% senior subordinated notes due 2015 (collectively, the "2015 Subordinated Notes"). The 2015 Subordinated Notes are redeemable on or after January 1, 2010 at 103.688% and 103.750%, respectively, of the principal amount thereof, declining ratably to par on and after January 1, 2013. In addition, at any time prior to January 1, 2008, we may redeem up to 40% of the original aggregate principal amount of the $175 million and €135 million 2015 Subordinated Notes at redemption prices of 107.375% and 107.5%, plus accrued and unpaid interest, respectively, with the proceeds of a qualified equity offering. Under the terms of a registration rights agreement among HI, the Guarantors and the initial purchasers of the 2015 Subordinated

Notes, we were required to complete an exchange offer for the 2015 Subordinated Notes on or before September 11, 2005. Under the terms of the registration rights agreement, because we did not complete the exchange offer by this date, we are required to pay additional interest on the 2015 Subordinated Notes at a rate of 0.25% per year for the first 90-day period following this date, and this rate increases by an additional 0.25% for each subsequent 90-day period, up to a maximum of 1.0%. As of December 31, 2005, we were paying an additional 0.50% on the 2015 Subordinated Notes.

As of December 31, 2005, HI also had outstanding $366.1 million ($600 million original aggregate principal amount) and €372.0 million ($440.4 million) (€450 million original aggregate principal amount) 10.125% senior subordinated notes due 2009 (the "2009 Subordinated Notes" and, together with the 2015 Subordinated Notes, the "Subordinated Notes"). As of December 31, 2005, the 2009 Subordinated Notes have an unamortized premium of $3.8 million and are redeemable at 103.375% of the principal amount thereof, which declines to 101.688% on July 1, 2006 and to par on and after July 1, 2007.

As of December 31, 2005, HI had outstanding a combined total of $541.1 million and €507.0 million ($600.3 million) Subordinated Notes, plus $3.8 million of unamortized premium. The Subordinated Notes are unsecured and interest is payable semiannually in January and July of each year.

The Subordinated Notes contain, among other things, covenants relating to the incurrence of debt and limitations on distributions, asset sales and affiliate transactions and are guaranteed by the Guarantors. The indentures governing these notes also contain change of control provisions requiring us to offer to repurchase the notes upon a change of control.

Immediately prior to the HLLC Merger, we funded the redemption of Huntsman LLC's outstanding 9.5% senior subordinated notes due 2007 and Huntsman LLC's senior subordinated floating rate notes due 2007, which together had an aggregate outstanding principal amount of approximately $59.3 million. The redemption was completed on September 1, 2005.

On August 16, 2005, in connection with the HLLC Merger, we repaid, in full, the Huntsman Specialty Subordinated Note which had an aggregate principal amount of $106.6 million and bore interest at 7.0%.

Senior Discount Notes

On June 30, 1999, HIH issued senior discount notes ("HIH Senior Discount Notes") and senior subordinated discount notes (the "HIH Senior Subordinated Discount Notes" and, collectively with the HIH Senior Discount Notes, the "HIH Discount Notes") to ICI with initial stated values of $242.7 million and $265.3 million, respectively. The HIH Discount Notes were due December 31, 2009. Prior to redemption, interest on the HIH Senior Discount Notes and the HIH Senior Subordinated Discount Notes accrued at 13.375% and 13.125%, respectively, per annum and was paid in kind. During the first quarter of 2005, we redeemed, in full, $505.6 million of accreted value of the HIH Senior Discount Notes and paid call premiums of approximately $33.8 million. In order to make this redemption, we used proceeds from our initial public offering in the amount of $504.4 million and received $35.0 million in dividends from HI. In addition, on February 28, 2005, in connection with our initial public offering, HMP contributed the Senior Subordinated Discount Notes at an accreted value of $422.8 million to HIH in exchange for equity in HIH.

On May 9, 2003, HMP issued units consisting of 15% senior secured discount notes due 2008 (the "HMP Senior Discount Notes") with an accreted value of $423.5 million and warrants to purchase common stock of HMP. On February 28, 2005, we used proceeds from our initial public offering to redeem in full the HMP Senior Discount Notes at an accreted value of $550.0 million, plus a redemption premium of $41.3 million.

Other Debt

We maintain a $25.0 million multicurrency overdraft facility used for the working capital needs for our European subsidiaries (the "European Overdraft Facility"). As of December 31, 2005 and 2004, there were no borrowings outstanding under the European Overdraft Facility.

HPS, one of our Chinese MDI joint ventures and our consolidated affiliate, has obtained secured loans for the construction of MDI production facilities near Shanghai, China. This debt consists of various committed loans in the aggregate amount of approximately $121 million. As of December 31, 2005, HPS had $19.5 million outstanding in U.S. dollar borrowings and 186 million in RMB borrowings ($23.1 million) under these facilities. The interest rate on these facilities is LIBOR plus 0.48% for U.S. dollar borrowings and 90% of the Peoples Bank of China rate for RMB borrowings. As of December 31, 2005, the interest rate was approximately 5.0% for U.S. dollar borrowings and 5.5% for RMB borrowings. The loans are secured by substantially all the assets of HPS and will be repaid in 16 semiannual installments beginning no later than June 30, 2007. The financing is non-recourse to HI, but is guaranteed during the construction phase by affiliates of HPS, including us. We have guaranteed 70% of any amount due and unpaid by HPS under the loans described above (except for the VAT facility, which is not guaranteed). Our guarantees remain in effect until HPS has commenced production of at least 70% of capacity for at least 30 days and achieved a debt service cost ratio of at least 1.5:1. Our Chinese MDI joint ventures are unrestricted subsidiaries under the Senior Credit Facilities and under the indentures governing our outstanding notes. HPS is expected to begin operations at the beginning of the third quarter of 2006.

Our Australian subsidiaries maintain credit facilities that had an aggregate outstanding balance of $87.2 million ($63.8 million) as of December 31, 2005. These facilities are non-recourse to us and bear interest at the Australian index rate plus a margin of 2.9%. As of December 31, 2005, the interest rate for these facilities was 8.6%.

We finance certain of our insurance premiums. As of December 31, 2005, we had $20.6 million in insurance premium financing, all of which is due in the next 12 months.

On February 16, 2005, Huntsman LLC paid in full a 15% note payable to an affiliated entity in the amount of $41.6 million.

Receivables Securitization

For information concerning our off-balance sheet A/R Securitization Program, see "—Off-Balance Sheet Arrangements—Receivables Securitization" below.

Short-Term and Long-Term Liquidity

We depend upon our credit facilities and other debt instruments to provide liquidity for our operations and working capital needs. As of December 31, 2005, we had approximately $812.2 million of combined cash and combined unused borrowing capacity, consisting of $142.8 million in cash, $617.5 million in availability under our Revolving Facility, $15.0 million attributable to our European Overdraft Facility and approximately $36.9 million in availability under our A/R Securitization Program. As a consequence of our simplified reporting, organizational and financing structure resulting from our initial public offering, the HLLC Merger and the AdMat Minority Interest Transaction, we believe that we have significantly reduced the amount of liquidity necessary to fund our operations.

We believe our current liquidity, together with funds generated by our businesses, is sufficient to meet the short-term and long-term needs of our businesses, including funding operations, making capital expenditures and servicing our debt obligations in the ordinary course.

Compliance with Covenants

Our management believes that we are in compliance with the covenants contained in the agreements governing the Senior Credit Facilities, the A/R Securitization Program and the indentures governing our notes.

Capital Expenditures

Estimates for 2006

During 2006, we expect to spend approximately $575 million on capital projects, including approximately $200 million in capital expenditures on our LDPE facility at Wilton, U.K. We believe that the cost position of our Wilton, U.K. olefins facility uniquely positions it to be the best site of a polyethylene production facility. While we export approximately one-third of our ethylene production each year to continental Europe, incurring significant shipping and handling costs, the U.K. annually imports approximately 1.9 billion pounds of polyethylene. We believe this provides an opportunity to capitalize on the low-cost operating environment and extensive petrochemical infrastructure and logistics at Wilton, as supported by a feasibility study that was conducted with respect to the construction of a world-scale LDPE facility at our Wilton site. The LDPE facility will have the capacity to produce approximately 900 million pounds of LDPE annually and is estimated to cost approximately $300 million to construct, net of any grant proceeds obtained. We have been awarded a grant of £16.5 million (approximately $30 million) from the U.K. government's Department of Trade and Industry to finance a portion of the construction of the LDPE facility. We expect construction of the LDPE facility to be complete in late 2007.

During 2006, HPS expects to spend approximately $23 million in capital expenditures, of which we will fund approximately $15 million as equity and the remaining funding will be financed through equity invested by other joint venture partners and loans from local Chinese lenders. In addition, during 2006 we expect to invest as equity approximately $14 million in SLIC. Our projected 2006 equity investments in HPS and SLIC represent our final scheduled equity contributions to these joint ventures and were completed in February 2006. Upon completion of these equity investments, our total equity investments in these joint ventures will be approximately $42 million in HPS and $40 million in SLIC. We expect operations of HPS and SLIC to commence at the beginning of the third quarter of 2006.

We expect to finance our capital expenditure commitments through a combination of our cash flow from operations and financing arrangements.

Year Ended December 31, 2005 Compared with the Year Ended December 31, 2004

Capital expenditures for the year ended December 31, 2005 were $338.7 million as compared with $226.6 million in 2004. The increase in capital expenditures in 2005 was largely attributable to increased capital expenditures in HPS which were approximately $59 million in 2005 compared with approximately $21 million in 2004. In addition, we had approximately $37 million of capital expenditures in 2005 in our Wilton, U.K. LDPE project as compared with approximately $3 million in 2004. During 2005, of the approximately $59 million of capital expenditures in HPS, we funded approximately $8 million as equity and the remaining funding of the capital expenditures of HPS was financed through equity investments by the other joint venture partners and loans from local Chinese lenders. During 2005, we invested, as equity, approximately $8 million in SLIC.

Year Ended December 31, 2004 Compared with the Year Ended December 31, 2003

Capital expenditures for the years ended December 31, 2004 and December 31, 2003 were $226.6 million and $191.0 million, respectively. The increase was largely attributable to the HLLC Consolidation Transaction effective May 2003 and the AdMat Transaction effective June 30, 2003. In 2004, we spent $11.8 million to fund SLIC as an investment in unconsolidated affiliates. In 2004, we also invested $12.5 million in HPS which had approximately $21 million in total capital expenditures. The remaining funding for HPS's capital expenditures was financed through equity investments by the other joint venture partners and loans from local Chinese lenders.

Contractual Obligations and Commercial Commitments

Our obligations under long-term debt (including current portion), lease agreements and other contractual commitments as of December 31, 2005 are summarized below (dollars in millions):

	2006	2007–2008	2009–2010	After 2010	Total
Long-term debt, including current portion	$ 44.6	$ 107.9	$1,606.5	$2,698.9	$ 4,457.9
Interest(1)	358.1	708.1	502.9	374.8	1,943.9
Operating leases	62.3	100.7	83.7	167.2	413.9
Purchase commitments(2)	2,325.6	1,895.2	214.1	184.1	4,619.0
Total(3)	$2,790.6	$2,811.9	$2,407.2	$3,425.0	$11,434.7

(1) Interest calculated using interest rates as of December 31, 2005.

(2) We have various purchase commitments extending through 2023 for materials, supplies and services entered into in the ordinary course of business. Included in the purchase commitments table above are contracts which require minimum volume purchases that extend beyond one year or are renewable annually and have been renewed for 2005. Certain contracts allow for changes in minimum required purchase volumes in the event of a temporary or permanent shutdown of a facility. To the extent the contract requires a minimum notice period, such notice period has been included in the above table. The contractual purchase price for substantially all of these contracts is variable based upon market prices, subject to annual negotiations. We have estimated our contractual obligations by using the terms of our 2005 pricing for each contract. We also have a limited number of contracts which require a minimum payment, even if no volume is purchased. We believe that all of our purchase obligations will be utilized in our normal operations.

(3) Totals do not include commitments pertaining to our pension and other postretirement obligations. Our estimated future contributions to our pension and postretirement plans are as follows (dollars in millions):

	2006–2008	2009–2010	Average Annual Amount for Next Five Years
Pension plans	$332.4	$236.7	$125.1
Other postretirement obligations	31.1	20.8	10.5

Totals also do not include expected tax payments.

Off-Balance Sheet Arrangements

Receivables Securitization

Under our A/R Securitization Program, we grant an undivided interest in certain of our trade receivables to a qualified off-balance sheet entity (the "Receivables Trust") at a discount. This undivided interest serves as security for the issuance of commercial paper and medium-term notes by the Receivables Trust.

As of December 31, 2005 and 2004, the Receivables Trust had approximately $192.2 million and $208.4 million, respectively, in U.S. dollar equivalents in medium-term notes outstanding and approximately $110.1 million in U.S. dollar equivalents and nil, respectively in commercial paper outstanding. The medium-term notes have a scheduled maturity date of September 15, 2006 with the scheduled amortization period commencing June 30, 2005. Our commercial paper facility provides for the issuance of both euro- and U.S. dollar-denominated commercial paper up to a U.S. dollar equivalent of $175 million of which $125 million is committed through June 30, 2007 and $50 million is committed through September 30, 2006. Our A/R Securitization Program is currently our cheapest form of borrowing within our capital structure. As of December 31, 2005, the weighted average interest rate for the medium term notes and commercial paper combined was approximately 3.5%. We anticipate amending and expanding the total program from its current size of approximately $367 million to approximately $500 million of capacity, the expansion of which will be supported by eligible accounts receivable of new U.S. originators, primarily pertaining to the U.S. operations of Huntsman LLC that were merged with and into HI as a result of the HLLC Merger. In accordance with the Senior Credit Facilities Agreement, we are required to prepay our term loan B with proceeds raised under the A/R Securitization Program in excess of $425 million. While we can provide no assurances, we anticipate completing this amendment and expansion of our A/R Securitization Program some time in the second quarter of 2006.

As of December 31, 2005 and 2004, our retained interest in receivables (including servicing assets) subject to the program was approximately $164 million and $328 million, respectively. The value of the retained interest is subject to credit and interest rate risk. For the years ended December 31, 2005, 2004 and 2003, new sales of accounts receivable sold into the program totaled approximately $5,585 million, $5,071 million and $2,773 million, respectively, and cash collections from receivables sold into the program that were reinvested totaled $5,589 million, $5,017 million and $2,794 million, respectively. Servicing fees received during the year ended December 31, 2005, 2004 and 2003 were approximately $6 million, $6 million and $3 million, respectively.

We incur losses on the A/R Securitization Program for the discount on receivables sold into the program and fees and expenses associated with the program. For the years ended December 31, 2005, December 31, 2004 and December 31, 2003, losses on the A/R Securitization Program were $10.7 million, $15.6 million and $20.4 million, respectively. We also retain responsibility for the economic gains and losses on forward contracts mandated by the terms of the program to hedge the currency exposures on the collateral supporting the off-balance sheet debt issued. Gains and losses on forward contracts included as a component of the loss on the A/R Securitization Program were nil, a loss of $2.4 million and a loss of $13.8 million for the years ended December 31, 2005, 2004 and 2003, respectively. As of each of December 31, 2005 and December 31, 2004, the fair value of the open forward currency contracts was nil.

The key economic assumptions used in valuing the residual interest are presented below:

	December 31,	
	2005	2004
Weighted average life (in days)	**35 to 40**	35 to 40
Credit losses (annual rate)	**Less than 1%**	Less than 1%
Discount rate (weighted average life)	**Less than 1%**	Less than 1%

A 10% and 20% adverse change in any of the key economic assumptions would not have a material impact on the fair value of the retained interest. Total receivables over 60 days past due as of December 31, 2005 and 2004 were $22.5 million and $12.1 million, respectively.

Financing of Chinese MDI Facilities

In January 2003, HI entered into two related joint venture agreements to build MDI production facilities near Shanghai, China. SLIC, our manufacturing joint venture with BASF AG and three Chinese chemical companies, will build three plants to manufacture MNB, aniline and crude MDI. We effectively own 35% of SLIC and it is an unconsolidated affiliate. HPS, our splitting joint venture with Shanghai Chlor-Alkali Chemical Company, Ltd, will build a plant to manufacture pure MDI, polymeric MDI and MDI variants. We own 70% of HPS and it is a consolidated affiliate.

On September 19, 2003, the joint ventures obtained secured financing for the construction of the production facilities. Details concerning HPS's financing are described in "—Debt and Liquidity—Other Debt" above. SLIC obtained various committed loans in the aggregate amount of approximately $229 million in U.S. dollar equivalents. As of December 31, 2005, there were $77.0 million outstanding in U.S. dollar borrowings and 500.0 million in outstanding RMB ($62.0 million) borrowings under these facilities. The interest rate on these facilities is LIBOR plus 0.48% for U.S. dollar borrowings and 90% of the Peoples Bank of China rate for RMB borrowings. The loans are secured by substantially all the assets of SLIC and will be paid in 16 semi-annual installments, beginning not later than June 30, 2007. We unconditionally guarantee 35% of any amounts due and unpaid by SLIC under the loans described above (except for a $1.5 million VAT facility which is not guaranteed). Our guarantee remains in effect until SLIC has commenced production of at least 70% of capacity for at least 30 days and achieved a debt service coverage ratio of at least 1:1. We have estimated that the fair value of this guarantee is nil as of the closing of the transaction and, accordingly, no amounts have been recorded. Should circumstances change such that payment became probable and reasonably estimable under the guarantee, we would then accrue a liability for the guarantee.

Restructuring, Impairment and Plant Closing Costs

While we continuously focus on identifying opportunities to reduce our operating costs and maximize our operating efficiency, we have now substantially completed our comprehensive global cost reduction program, referred to as "Project Coronado." Project Coronado was a program designed to reduce our annual fixed manufacturing and selling, general and administrative costs, as measured at 2002 levels, by $200 million. In connection with Project Coronado, we announced the closure of eight smaller, less competitive manufacturing units in our Polyurethanes, Advanced Materials, Performance Products and Pigments segments. These and other actions have resulted in the reduction of approximately 1,500 employees in these businesses since 2000.

As of December 31, 2005, 2004 and 2003, accrued restructuring, impairment and plant closing costs by type of cost and initiative consisted of the following (dollars in millions):

	Workforce Reductions[1]	Demolition and Decommissioning	Non-Cancelable Lease Costs	Other Restructuring Costs	Total[2]
Accrued liabilities as of January 1, 2003	$ 3.9	$ 3.3	$ 0.6	$ —	$ 7.8
HIH balance at consolidation on May 1, 2003	24.2	—	—	—	24.2
AdMat opening balance sheet liabilities at June 30, 2003	53.2	1.5	—	6.1	60.8
2003 credits for 2001 initiatives	(2.0)	(0.3)	(0.2)	—	(2.5)
2003 charges for 2003 initiatives	28.2	—	—	—	28.2
2003 payments for 2001 initiatives	(1.9)	(0.4)	(0.2)	—	(2.5)
2003 payments for 2003 initiatives	(39.2)	—	—	—	(39.2)
Accrued liabilities as of December 31, 2003	66.4	4.1	0.2	6.1	76.8
Partial reversal of AdMat Transaction opening balance sheet accrual	(2.9)	—	(0.6)	0.7	(2.8)
2004 charges for 2003 initiatives	25.1	—	—	0.4	25.5
2004 charges for 2004 initiatives	106.5	4.9	6.4	18.0	135.8
2004 payments for 2003 initiatives	(48.0)	—	(0.4)	(3.0)	(51.4)
2004 payments for 2004 initiatives	(31.4)	(0.6)	—	(4.6)	(36.6)
Non-cash settlements	—	—	(0.5)	—	(0.5)
Foreign currency effect on reserve balance	6.3	—	—	—	6.3
Accrued liabilities as of December 31, 2004	122.0	8.4	5.1	17.6	153.1
2005 charges for 2003 initiatives	11.8	—	2.5	0.1	14.4
2005 charges for 2004 initiatives	30.7	0.5	0.6	13.4	45.2
2005 charges for 2005 initiatives	13.6	—	—	0.2	13.8
Reversals of reserves no longer required	(6.3)	(0.1)	(0.8)	(6.7)	(13.9)
Partial reversal of AdMat Transaction opening balance sheet accrual	(3.7)	(0.8)	—	(0.8)	(5.3)
2005 payments for 2001 initiatives	(0.4)	—	—	—	(0.4)
2005 payments for 2003 initiatives	(22.1)	(0.2)	(0.2)	(1.0)	(23.5)
2005 payments for 2004 initiatives	(77.7)	(1.7)	(0.4)	(6.3)	(86.1)
2005 payments for 2005 initiatives	(1.0)	—	—	(0.9)	(1.9)
Foreign currency effect on reserve balance	(12.7)	(0.3)	(0.3)	(3.8)	(17.1)
Accrued liabilities as of December 31, 2005	**$ 54.2**	**$ 5.8**	**$ 6.5**	**$11.8**	**$ 78.3**

(1) *Substantially all of the positions terminated in connection with the restructuring programs were terminated under ongoing termination benefit arrangements. Accordingly, the related liabilities were accrued as a one-time charge to earnings in accordance with SFAS No. 112,* "Employers' Accounting for Postemployment Benefits."

(2) *Accrued liabilities by initiatives were as follows (dollars in millions):*

	December 31, 2005	December 31, 2004
2001 initiatives	**$ 1.4**	$ 2.8
2003 initiatives	**28.4**	44.8
2004 initiatives	**47.7**	99.2
2005 initiatives	**11.6**	—
Foreign currency effect on reserve balance	**(10.8)**	6.3
Total	**$ 78.3**	$153.1

Details with respect to our reserves for restructuring, impairment and plant closing costs are provided below by segment and initiative (dollars in millions):

	Polyurethanes	Advanced Materials	Performance Products	Pigments	Polymers	Base Chemicals	Corporate & Other	Total
Accrued liabilities as of January 1, 2003	$ —	$ —	$ —	$ —	$ 2.8	$ 5.0	$ —	$ 7.8
HIH balance at consolidation on May 1, 2003	24.2	—	—	—	—	—	—	24.2
AdMat opening balance sheet liabilities at June 30, 2003	—	60.8	—	—	—	—	—	60.8
2003 credits for 2001 initiatives	—	—	—	—	—	(2.5)	—	(2.5)
2003 charges for 2003 initiatives	11.0	—	10.7	6.5	—	—	—	28.2
2003 payments for 2001 initiatives	—	—	—	—	—	(2.5)	—	(2.5)
2003 payments for 2003 initiatives	(19.4)	(9.3)	(8.3)	(2.2)	—	—	—	(39.2)
Accrued liabilities as of December 31, 2003	15.8	51.5	2.4	4.3	2.8	—	—	76.8
Adjustments to the opening balance sheet of AdMat	—	(2.8)	—	—	—	—	—	(2.8)
2004 charges for 2003 initiatives	10.0	—	0.4	14.5	0.6	—	—	25.5
2004 charges for 2004 initiatives	16.4	9.0	56.6	27.3	9.4	16.7	0.4	135.8
2004 payments for 2003 initiatives	(11.5)	(26.0)	(2.4)	(10.9)	(0.6)	—	—	(51.4)
2004 payments for 2004 initiatives	(11.8)	(0.1)	(1.4)	(14.3)	(6.4)	(2.2)	(0.4)	(36.6)
Non-cash settlements	—	(0.5)	—	—	—	—	—	(0.5)
Foreign currency effect on reserve balance	0.1	1.9	2.6	1.1	—	0.6	—	6.3
Accrued liabilities as of December 31, 2004	19.0	33.0	58.2	22.0	5.8	15.1	—	153.1
2005 charges for 2003 initiatives	4.1	0.2	—	10.1	—	—	—	14.4
2005 charges for 2004 initiatives	4.4	0.3	6.9	18.8	3.4	10.2	1.2	45.2
2005 charges for 2005 initiatives	—	0.4	4.0	2.6	—	6.8	—	13.8
Reversals of reserves no longer required	(7.6)	(2.9)	(0.4)	(2.8)	(0.1)	(0.1)	—	(13.9)
Partial reversal of Admat Transaction opening balance sheet accrual	—	(5.3)	—	—	—	—	—	(5.3)
2005 payments for 2001 initiatives	(0.4)	—	—	—	—	—	—	(0.4)
2005 payments for 2003 initiatives	(4.5)	(8.1)	(0.8)	(10.1)	—	—	—	(23.5)
2005 payments for 2004 initiatives	(0.8)	(7.7)	(33.6)	(20.7)	(5.2)	(16.9)	(1.2)	(86.1)
2005 payments for 2005 initiatives	—	(0.6)	(0.1)	(0.9)	—	(0.3)	—	(1.9)
Foreign currency effect on reserve balance	(3.3)	(1.5)	(8.6)	(2.4)	(0.5)	(0.8)	—	(17.1)
Accrued liabilities as of December 31, 2005	**$ 10.9**	**$ 7.8**	**$ 25.6**	**$ 16.6**	**$ 3.4**	**$ 14.0**	**$ —**	**$ 78.3**
Current portion of restructuring reserve	$ 5.5	$ 5.5	$ 17.8	$ 11.4	$ 1.0	$ 14.0	$ —	$ 55.2
Long-term portion of restructuring reserve	5.4	2.3	7.8	5.2	2.4	—	—	23.1
Estimated additional future charges for current restructuring projects:								
Estimated additional charges within one year	$ —	$ 2.6	$ 0.6	$ 5.5	$ 6.5	$ 0.1	$ —	$ 15.3
Estimated additional charges beyond one year	$ —	$ —	$ —	$ 3.6	$ 9.9	$ —	$ —	$ 13.5

The following table sets forth the expected effects from our restructuring and plant closing activities in process as of December 31, 2005 (dollars in millions):

	Year Ended December 31, 2006	Year Ended December 31, 2007
Expected increase (decrease) from restructuring and plant closing activities on:		
Revenues	$(43.1)	$(43.1)
Cost of goods sold	(77.4)	(84.0)
Gross profit	34.3	40.9
Selling, general and administrative expenses	(22.1)	(25.2)
Operating income	70.6	85.1
Net cash provided by operating activities	36.1	41.8

2005 Restructuring Activities

As of December 31, 2005 and December 31, 2004, we had reserves for restructuring, impairment and plant closing costs of $78.3 million and $153.1 million, respectively. During the year ended December 31, 2005, we recorded additional net charges of $123.6 million (consisting of $59.5 million payable in cash and $64.1 million of non-cash charges) for workforce reductions, demolition and decommissioning and other restructuring costs associated with closure or curtailment of activities at our smaller, less efficient manufacturing facilities and for an impairment of long-lived assets. For purposes of measuring impairment charges in 2005, the fair value of the assets was determined based on estimated market prices. During the year ended December 31, 2005, we made cash payments against these reserves of $111.9 million.

As of December 31, 2005, our Polyurethanes segment restructuring reserve consisted of $10.9 million related to various restructuring programs, including the closure of our West Deptford, New Jersey site (as announced in 2004), restructuring initiatives at the Rozenburg, Netherlands site (as announced in 2003), workforce reductions throughout our Polyurethanes segment (as announced in 2003), and the closure of our Shepton Mallet, U.K. site (as announced in 2001). During 2005, we recorded asset impairment charges totaling $10.9 million related to the closure of our West Deptford site. These restructuring initiatives are not expected to result in additional restructuring charges.

As of December 31, 2005, our Advanced Materials segment restructuring reserve consisted of $7.8 million related to the restructuring programs implemented in association with the AdMat Transaction, the realignment and simplification of the commercial and technical organization and the closure of our Kaohsiung, Taiwan production facility. During 2005, we assessed the remaining restructuring reserves established in association with the AdMat Transaction and other 2004 initiatives and concluded that $5.3 million and $2.9 million, respectively, were no longer necessary. Accordingly, we reversed these restructuring reserves during the second quarter of 2005. The AdMat Transaction reserve reversal was recorded as a reduction to property, plant and equipment in accordance with EITF 95-3, "*Recognition of Liabilities in Connection with a Purchase Business Combination*." The reversal of the restructuring reserve for the other 2004 initiatives was recorded as a credit to earnings. These restructuring initiatives are expected to result in additional restructuring charges of approximately $2.6 million through 2006.

As of December 31, 2005, our Performance Products segment reserve consisted of $25.6 million related to various restructuring programs across our European surfactants business, including the closure of substantially all of our Whitehaven, U.K. surfactants facility, and the realignment of our Jefferson County, Texas operations. These restructuring activities are expected to result in additional charges of approximately $0.6 million in 2006.

As of December 31, 2005, our Pigments segment reserve consisted of $16.6 million related to the global workforce reductions announced in 2003, the reduction of our titanium dioxide ("TiO2") production capacity announced in 2004, and the announcement in July 2005 that our Pigments and Base Chemicals segments would establish a single U.K. headquarters in Teesside, U.K. This will result in the closure of our Pigments segment's Billingham, U.K. headquarters and the creation of a new support center for both businesses. These restructuring initiatives are expected to result in additional restructuring charges of approximately $9.1 million through 2007.

As of December 31, 2005, our Polymers segment reserve consisted of $3.4 million related primarily to the closure of our phenol manufacturing unit in Australia and restructuring initiatives at Odessa, Texas. During the third quarter of 2005, we concluded that the long-lived assets of our Australian styrenics business were impaired as a result of disappointing performance and the lack of anticipated strengthening of the styrenics market. Accordingly, our Polymers segment recorded an impairment charge of $48.2 million during 2005 related to the Australian styrenics assets. The fair value of the Australian styrenics assets was determined based on estimated market prices. These restructuring initiatives are expected to result in additional restructuring charges of approximately $16.4 million through 2007.

As of December 31, 2005, our Base Chemicals segment reserve consisted of $14.0 million related primarily to the restructuring of our Jefferson County, Texas operations, which was announced in August 2005, and workforce reductions arising from the announced changes in work shift schedules and in the engineering and support functions at our Wilton and North Tees, U.K. facilities. Also included in the reserve are amounts related to an announcement in July 2005 that our Pigments and Base Chemicals segments would establish a single U.K. headquarters in Teesside, U.K.

2004 Restructuring Activities

As of December 31, 2004 and December 31, 2003, we had reserves for restructuring and plant closing costs of $153.1 million and $76.8 million, respectively. During the year ended December 31, 2004, we recorded additional charges of $299.3 million, including $138.0 million of charges for asset impairment and write downs, and $161.3 million payable in cash for workforce reductions, demolition and decommissioning and other restructuring costs associated with closure or curtailment of activities at our smaller, less efficient manufacturing facilities. During the 2004 period, we made cash payments against these reserves of $88.0 million. For purposes of measuring impairment charges in 2004, the fair value of the assets was determined by using the present value of expected cash flows.

As of December 31, 2004, our Polyurethanes segment reserve consisted of $19.0 million related to various restructuring programs, including the closure of our West Deptford, New Jersey site (as announced in 2004), restructuring initiatives at the Rozenburg, Netherlands site (as announced in 2003), workforce reductions throughout our Polyurethanes segment (as announced in 2003), and the closure of our Shepton Mallet, U.K. site (as announced in 2001). During 2004, we recorded asset impairment charges of $10.5 million related to the closure of our West Deptford site.

As of December 31, 2004, our Advanced Materials segment reserve consisted of $33.0 million related to the restructuring program implemented in association with the AdMat Transaction, the realignment and simplification of our commercial and technical organization and the closure of our Kaohsiung, Taiwan production facility. The restructuring program initiated with the AdMat Transaction included reductions in costs of the global supply chain, reductions in general and administrative costs across the business and the centralization of operations where efficiencies could be achieved. During 2004, our Advanced Materials segment reversed $2.8 million of restructuring reserves recorded in the AdMat Transaction that were no longer required and recorded a corresponding reduction to intangible assets.

As of December 31, 2004, our Performance Products segment reserve consisted of $58.2 million primarily related to various restructuring programs primarily across our European surfactants business and North American operations. During 2004, we adopted a plan to reduce the workforce across all locations in our European surfactants business by approximately 320 positions over a period of 15 months, including the closure of substantially all of our Whitehaven, U.K. surfactants facility. We also announced a plan to close our Guelph, Ontario manufacturing facility, maleic anhydride briquette facility in St. Louis, Missouri, and technical facility in Austin, Texas. During 2004, we recorded asset impairment charges totaling $40.5 million related to the closure of the Whitehaven, U.K. facility, the Guelph, Ontario facility and the maleic anhydride briquette facility in St. Louis, Missouri.

As of December 31, 2004, our Pigments segment reserve consisted of $22.0 million related to the global workforce reductions announced in 2003 and the reduction of our TiO2 production capacity announced in 2004. During 2004, our Pigments segment announced that, following a review of our Pigments business, we would idle approximately 55,000 tonnes, or about 10%, of our total TiO2 production capacity in the third and fourth quarter of 2004. In connection with this reduction of TiO2 production capacity, we recorded a $77.2 million asset impairment charge and a $4.3 million charge for the write-off of spare parts inventory and other assets.

As of December 31, 2004, our Polymers segment reserve consisted of $5.8 million related primarily to the closure of our phenol manufacturing unit in Australia and to the demolition and decommissioning of the Odessa, Texas styrene manufacturing facility. During 2004, we recorded asset impairment charges of $3.6 million in connection with the closure of our phenol manufacturing unit in Australia.

As of December 31, 2004, our Base Chemicals segment reserve consisted of $15.1 million related to workforce reductions arising from the announced change in work shift schedules and in the engineering and support functions at our Wilton and North Tees, U.K. facilities.

During 2004, we recorded a restructuring charge in corporate and other of $2.3 million, of which $1.9 million related to non-cash charges and $0.4 million related to relocation costs.

2003 Restructuring Activities

As of December 31, 2003 and December 31, 2002, we had reserves for restructuring and plant closing costs of $76.8 million and $7.8 million, respectively. During the year ended December 31, 2003, we recorded additional charges of $37.9 million, including $12.2 million of charges for asset impairment and write downs, and $25.7 million payable in cash for workforce reductions, demolition and decommissioning and other restructuring costs associated with closure or curtailment of activities at our smaller, less efficient manufacturing facilities. During the 2003 period, we made cash payments against these reserves of $41.7 million. For purposes of measuring impairment charges, the fair value of the assets was determined by using the present value of expected cash flows.

As of December 31, 2003, our Polyurethanes segment reserve consisted of $15.8 million related to the restructuring initiatives at the Rozenburg, Netherlands site (as announced in 2003), workforce reductions throughout our Polyurethanes segment (as announced in 2003), and the closure of our Shepton Mallet, U.K. site (as announced in 2001).

As of December 31, 2003, our Advanced Materials segment reserve consisted of $51.5 million related to the restructuring program implemented in association with the AdMat Transaction. This program included reductions in costs of the global supply chain, reductions in general and administrative costs across the business and the centralization of operations where efficiencies could be achieved.

As of December 31, 2003, our Performance Products segment reserve consisted of $2.4 million relating to the closure of a number of plants at the Whitehaven, U.K. facility, the closure of an administrative office in London, U.K., the rationalization of a surfactants technical center in Oldbury, U.K., and the restructuring of a facility in Barcelona, Spain. During 2003, we recorded asset impairment charges of $11.4 million in connection with the facility closure at Whitehaven, U.K.

As of December 31, 2003, our Pigments segment reserve consisted of $4.3 million related to workforce reductions of approximately 63 employees across our global Pigments operations. The overall cost reduction program to be completed through 2005 for our Pigments segment involved approximately 250 employees.

As of December 31, 2003, our Polymers segment reserve consisted of $2.8 million related to the demolition and decommissioning of our Odessa, Texas styrene manufacturing facility and non-cancelable lease costs.

Environmental, Health and Safety Matters

For information on environmental, health and safety matters, see Note 20. "Environmental, Health and Safety Matters."

Recently Issued Accounting Pronouncements

We adopted Financial Interpretation No. ("FIN") 46R, "Consolidation of Variable Interest Entities" on January 1, 2005. FIN 46R addresses the requirements for business enterprises to consolidate related entities, for which they do not have controlling interests through voting or other rights, if they are determined to be the primary beneficiary as a result of variable economic interests. Transfers to a qualifying special purpose entity are not subject to this interpretation. The adoption of the standard required us to consolidate our Rubicon LLC joint venture. Rubicon LLC manufactures products, including aniline and DPA, for us and our joint venture partner. Rubicon LLC borrows funds from us and a joint venture partner to finance capital requirements and receives reimbursement of costs incurred to operate its facilities.

In November 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 151, *"Inventory Costs—an amendment of ARB No. 43."* SFAS No. 151 requires abnormal amounts of idle facility expense, freight, handling costs, and wasted material to be recognized as current-period charges. It also requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The requirements of the standard will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We are reviewing SFAS No. 151 to determine the statement's impact on our consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123R, *"Share Based Payment."* SFAS No. 123R requires entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which the employee is required to provide services in exchange for the award. This standard eliminates the alternative to use the intrinsic value method of accounting for share-based payments as previously provided in APB Opinion No. 25, "Accounting for Stock Issued to Employees." We adopted SFAS No. 123R effective January 1, 2005, and have applied this standard prospectively to share-based awards issued to our employees in connection with our initial public offering. We did not have share-based awards prior to the awards issued in connection with our initial public offering.

We adopted FIN 47, *"Accounting for Conditional Asset Retirement Obligations"* on December 31, 2005. FIN 47 clarifies the term conditional asset retirement obligation used in SFAS No. 143, *"Accounting for Asset Retirement Obligations,"* and clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. During the fourth quarter of 2005, we recorded a charge for the cumulative effect of this change in accounting principle, net of tax of $4.8 million, of $31.7 million.

In May 2005, the FASB issued SFAS No. 154, *"Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3."* SFAS No. 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change or unless specific transition provisions are proscribed in the accounting pronouncements. SFAS No. 154 does not change the accounting guidance for reporting a correction of an error in previously issued financial statements or a change in accounting estimate. SFAS No. 154 is effective for accounting changes and error corrections made after December 31, 2005. We will apply this standard prospectively.

In September 2005, the Emerging Issues Task Force ("EITF") reached a consensus on issue 04-13, *"Accounting for Purchase and Sales of Inventory with the Same Counterparty,"* that requires companies to recognize an exchange of finished goods for raw materials or work-in-process within the same line of business at fair value. All other exchanges of inventory should be reflected at the recorded amount. This consensus is effective for transactions completed after March 31, 2006. We are evaluating the impact of this consensus to determine its impact on our results of operations.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the U.S. requires management to make judgments, estimates and assumptions that affect the reported amounts in the consolidated financial statements. Our significant accounting policies are summarized in "Note 2. Summary of Significant Accounting Policies" to our Consolidated Financial Statements included elsewhere in this report. Summarized below are our critical accounting policies:

Revenue Recognition

We generate substantially all of our revenues through sales in the open market and long-term supply agreements. We recognize revenue when it is realized or realizable and earned. Revenue for product sales is recognized when a sales arrangement exists, risk and title to the product transfer to the customer, collectibility is reasonably assured and pricing is fixed or determinable. The transfer of risk and title to the product to the customer usually occurs at the time shipment is made.

Revenue related to the licensing of technology is recognized when earned.

Revenue arrangements that contain multiple deliverables are evaluated in accordance with EITF 00-21, "*Revenue Arrangements with Multiple Deliverables*" to determine whether the arrangements should be divided into separate units of accounting and how the arrangement consideration should be measured and allocated among the separate units of accounting.

Long-Lived Assets

The determination of useful lives of our property, plant and equipment is considered a critical accounting estimate. Such lives are estimated based upon our historical experience, engineering estimates and industry information and are reviewed when economic events indicate that we may not be able to recover the carrying value of the assets. The estimated lives of our property range from 3 to 30 years and depreciation is recorded on the straight-line method. Inherent in our estimates of useful lives is the assumption that periodic maintenance and an appropriate level of annual capital expenditures will be performed. Without on-going capital improvements and maintenance, the productivity and cost efficiency declines and the useful lives of our assets would be shorter.

Management uses judgment to estimate the useful lives of our long-lived assets. If the useful lives of our property, plant and equipment as of December 31, 2005 were to have been estimated to be one year greater or one year less, then depreciation expense for the year ended December 31, 2005 would have been approximately $30 million less or $35 million greater, respectively.

We are required to evaluate our plant assets whenever events indicate that the carrying value may not be recoverable in the future or when management's plans change regarding those assets, such as idling or closing a plant. We evaluate impairment by comparing undiscounted cash flows of the related property to the carrying value. Key assumptions in determining the future cash flows include the useful life, technology, competitive pressures, raw material pricing and regulations. During the third quarter of 2005, we concluded that the long-lived assets of our Australian styrenics business were impaired as a result of disappointing performance and the lack of anticipated strengthening of the styrenics market. Accordingly, our Polymers segment recorded an impairment charge of $48.2 million during the third quarter of 2005 related to the Australian styrenics assets. The fair value of the Australian styrenics assets was determined based on estimated market prices. During the fourth quarter of 2005, we tested the MTBE assets for recoverability and concluded that these assets were not impaired.

Restructuring, Impairment and Plant Closing Costs

We have recorded restructuring charges in recent periods in connection with closing certain plant locations, work force reductions and other cost savings programs. These charges are recorded when management has committed to a plan and incurred a liability related to the plan. Estimates for plant closing include the write-off of the carrying value of the plant, any necessary environmental and/or regulatory costs, contract termination and demolition costs. Estimates for work force reductions and other costs savings are recorded based upon estimates of the number of positions to be terminated, termination benefits to be provided and other information as necessary. While management evaluates the estimates on a quarterly basis and will adjust the reserve when information indicates that the estimate is above or below the initial estimate, management's estimates on a project-by-project basis have not varied to a material degree. For further discussion of our restructuring activities, see "Note 10. Restructuring, Impairment and Plant Closing Costs" to our Consolidated Financial Statements included elsewhere in this report.

Income Taxes

We use the asset and liability method of accounting for income taxes. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial and tax reporting purposes. We evaluate deferred tax assets to determine whether it is more likely than not that they will be realized. Valuation allowances are reviewed each period on a tax jurisdiction by tax jurisdiction basis to analyze whether there is sufficient positive or negative evidence to support a change in judgment about the realizability of the related deferred tax assets.

Subsequent to acquiring AdMat in June 2003 and through December 31, 2005, substantially all non-U.S. operations of AdMat were treated as branches for U.S. income tax purposes and were, therefore, subject to both U.S. and non-U.S. income tax. Effective January 1, 2006, AdMat's foreign operations will no longer be treated as our branches and will not be subject to U.S. taxation on their earnings until those earnings are repatriated to the U.S., similar to our other non-U.S. entities.

For non-U.S. entities that are not treated as branches for U.S. tax purposes, we do not provide for income taxes on the undistributed earnings of these subsidiaries as earnings are reinvested and, in the opinion of management, will continue to be reinvested indefinitely.

As a matter of course, our subsidiaries are regularly audited by various taxing authorities in both the U.S. and numerous non-U.S. jurisdictions. We believe that we have made adequate provision for all outstanding issues for all open years.

Employee Benefit Programs

We sponsor several contributory and non-contributory defined benefit plans primarily covering employees in the U.S., the U.K., Netherlands, Belgium, Canada and a number of other countries. We fund the material plans through trust arrangements (or local equivalents) where the assets are held separately from the employer. We also sponsor unfunded postretirement plans which provide medical and life insurance benefits covering certain employees in the U.S. and Canada. Amounts recorded in the consolidated financial statements are recorded based upon actuarial valuations performed by various independent actuaries. Inherent in these valuations are numerous assumptions regarding expected return on assets, discount rates, compensation increases, mortality rates and health care costs trends. These assumptions are disclosed in "Note 17. Employee Benefit Plans" to our Consolidated Financial Statements included elsewhere in this report.

Effective in the fourth quarter of 2005, we accelerated the date for actuarial measurement of our pension and postretirement benefit obligations from December 31 to November 30. We believe the one-month acceleration of the measurement date is a preferred change as it improves internal control procedures by allowing more time to review the completeness and accuracy of the actuarial benefit obligation measurements. The effect of the change in measurement date on the respective obligations and assets of the plan results resulted in a cumulative effect of a change in accounting principle credit, net of tax of $4.0 million.

Management, with the advice of its actuaries, uses judgment to make assumptions on which our employee benefit plan liabilities and expenses are based. The effect of a 1% change in three key assumptions is summarized as follows (dollars in millions):

Assumptions	Statement of Operations(1)	Balance Sheet Impact(2)
Discount rate		
—1% increase	$(35.9)	$(167.5)
—1% decrease	82.7	425.2
Expected return on assets		
—1% increase	(18.1)	
—1% decrease	18.1	
Rate of compensation increase		
—1% increase	23.7	
—1% decrease	(5.3)	

(1) Estimated impact on 2005 net periodic benefit cost.

(2) Estimated impact on December 31, 2005 additional minimum liability and reduction in stockholder equity.

Stock-Based Compensation Plans

Management uses judgment in determining assumptions used in the Black-Scholes valuation model to estimate fair value of its stock-based compensation plans. Because we did not have stock-based compensation plans prior to our initial public offering of common stock in February 2005, our ability to use historical experience for assumptions related to stock-based compensation plans has been limited. The effect of a 10% change in two key assumptions is summarized as follows (dollars in millions):

Assumptions	Statement of Operations[1]	Balance Sheet Impact[2]
Expected volatility		
—10% increase	$(1.2)	$(1.2)
—10% decrease	1.1	1.1
Expected life of stock options granted during the period		
—10% increase	(0.3)	(0.3)
—10% decrease	0.3	0.3

(1) Estimated impact on 2005 compensation expense.
(2) Estimated impact on December 31, 2005 additional paid-in capital.

Asset Retirement Obligations

Management uses judgment in determining assumptions used to estimate the fair value of asset retirement obligations. Estimating the fair value of asset retirement obligations involves assumptions and estimates surrounding settlement dates, methods of settlement, future costs and inflation. Because of the long-term, productive nature of our manufacturing operations, deriving estimates of the timing and the methods of settlement, and the costs of settlement require significant levels of judgment based on the facts and circumstances of each asset retirement obligation. The effect of a 1% change in the inflation rate used to estimate asset retirement obligations is estimated as follows (dollars in millions):

Assumptions	Statement of Operations[1]	Balance Sheet Impact[2]
Inflation rate		
—1% increase	$(4.8)	$(4.8)
—1% decrease	3.8	3.8

(1) Estimated impact on 2005 cumulative effect of changes in accounting principle.
(2) Estimated net impact on December 31, 2005 property, plant and equipment and asset retirement obligation balances.

Environmental Reserves

Environmental remediation costs for our facilities are accrued when it is probable that a liability has been incurred and the amount can be reasonably estimated. Estimates of environmental reserves require evaluating government regulation, available technology, site-specific information and remediation alternatives. We accrue an amount equal to our best estimate of the costs to remediate based upon the available information. Adjustments to our estimates are made periodically based upon additional information received as remediation progresses. For further information see “Note 20. Environmental, Health and Safety Matters” to the Consolidated Financial Statements of Huntsman Corporation included elsewhere in this report.

We are exposed to market risk, including changes in currency exchange rates, interest rates and certain commodity prices. To manage the volatility relating to these exposures, from time to time, we enter into various derivative transactions. We hold and issue derivative financial instruments for economic hedging purposes only.

Currency Exchange Rates

Our cash flows and earnings are subject to fluctuations due to exchange rate variation. Our sales prices are typically denominated in euros or U.S. dollars. From time to time, we may enter into foreign currency derivative instruments to minimize the short-term impact of movements in foreign currency rates. Where practicable, we generally net multicurrency cash balances among our subsidiaries to help reduce exposure to foreign currency exchange rates. Certain other exposures may be managed from time to time through financial market transactions, principally through the purchase of spot or forward foreign exchange contracts (generally with maturities of nine months or less). We do not hedge our currency exposures in a manner that would eliminate the effect of changes in exchange rates on our cash flows and earnings. Our A/R Securitization Program in certain circumstances requires that we enter into forward foreign currency hedges intended to hedge currency exposures. As of December 31, 2005, our outstanding forward foreign exchange contracts were insignificant.

A significant portion of our debt is denominated in euros. We also finance certain of our non-U.S. subsidiaries with intercompany loans that are, in some cases, denominated in currencies other than the entities' functional currency. We manage the net foreign currency exposure created by this debt through various means, including cross-currency swaps, the designation of certain intercompany loans as Permanent Loans (as defined below) and the designation of debt and swaps as hedges.

Foreign currency transaction gains and losses on intercompany loans that are not designated as Permanent Loans (as defined below) are recorded in earnings. Foreign currency transaction gains and losses on intercompany loans that we may designate as permanent because they are not expected to be repaid in the foreseeable future ("Permanent Loans") are recorded in other comprehensive income. From time to time, we review such designation of intercompany loans, and, during the year ended December 31, 2005, we have increased the net amount of our Permanent Loans. This has resulted in less volatility reported in foreign currency gains and losses reflected in earnings.

We have outstanding cross-currency interest rate swaps of fixed rate debt. We entered into these swaps with various financial institutions in order to more effectively hedge our overall underlying euro long-term net asset and euro cash flow exposures. In one of the swap transactions, we agreed to swap $175 million of 7.375% fixed rate debt for €132.4 million of 6.63% fixed rate debt. As a result, we will pay fixed rate interest at an annual rate of 6.63% on €132.4 million of principal and will receive fixed rate interest at an annual rate of 7.375% on $175 million of principal through January 1, 2010. At maturity on January 1, 2010, we are required to pay principal of €132.4 million and will receive principal of $175 million. Interest installments are paid semiannually on January 1 and July 1 of each year beginning July 1, 2005 through maturity. The swap is classified as a net investment hedge under U.S. GAAP.

In another swap transaction, we agreed to swap $31.3 million of 11.0% fixed rate debt for €25.0 million of 9.4% fixed rate debt. As a result, we will pay fixed rate interest at an annual rate of 9.4% on €25.0 million of principal and will receive fixed rate interest of 11.0% on $31.3 million of principal through July 15, 2007. At maturity, July 15, 2007, we are required to pay principal of €25.0 million and will receive principal of $31.3 million. Interest installments are paid semiannually on January 15 and July 15 of each year, beginning July 15, 2005 through maturity. The swap is not designated as a hedge for reporting purposes under U.S. GAAP.

From time to time, we review our non-U.S. dollar denominated debt and swaps to determine the appropriate amounts designated as hedges. As of December 31, 2005, excluding the cross-currency interest rate swaps discussed above, we have designated approximately €330 million of our euro-denominated debt as a hedge of our net investments.

Interest Rates

Through our borrowing activities, we are exposed to interest rate risk. Such risk arises due to the structure of our debt portfolio, including the duration of the portfolio and the mix of fixed and floating interest rates. Actions taken to reduce interest rate risk include managing the mix and rate characteristics of various interest bearing liabilities as well as entering into interest rate swaps, collars and options.

We may purchase both interest rate swaps and interest rate collars to reduce the impact of changes in interest rates on our floating-rate long-term debt. Under interest rate swaps, we agree with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional principal amount. When we enter into collars, the collars entitle us to receive from the counterparties (major banks) the amounts, if any, by which our interest payments on certain of our floating-rate borrowings exceed a certain rate, and require us to pay to the counterparties (major banks) the amount, if any, by which our interest payments on certain of our floating-rate borrowings are less than a certain rate.

Interest rate contracts were recorded as a component of other non-current liabilities as of December 31, 2005 and 2004. The effective portion of the changes in the fair value of the swaps are recorded in accumulated other comprehensive loss, with any ineffectiveness recorded in interest expense.

As of December 31, 2005 and 2004, we had entered into various types of interest rate contracts to manage our interest risk on our long-term debt as indicated below (dollars in millions):

	2005	2004
Notional amount	**$83.3**	$184.3
Fair value		
Cash flow hedges	**—**	(2.0)
Non-designated derivatives	**0.4**	(1.2)
Maturity	**2006–2010**	2005–2007

We are exposed to credit losses in the event of nonperformance by a counterparty to the derivative financial instruments. We anticipate, however, that the counterparties will be able to fully satisfy obligations under the contracts. Market risk arises from changes in interest rates.

Commodity Prices

Our exposure to changing commodity prices is somewhat limited since the majority of our raw materials are acquired at posted or market related prices, and sales prices for finished products are generally at market related prices which are largely set on a monthly or quarterly basis in line with industry practice. In order to reduce overall raw material cost volatility, from time to time we enter into various commodity contracts to hedge our purchase of commodity products. We do not hedge our commodity exposure in a manner that would eliminate the effects of changes in commodity prices on our cash flows and earnings. At December 31, 2005, we had in place forward purchase and sales contracts for 15,000 tonnes and 35,000 tonnes, respectively, of naphtha and other hydrocarbons, which do not qualify for hedge accounting.

RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Huntsman Corporation ("Company") management is responsible for the preparation, accuracy and integrity of the consolidated financial statements and other financial information included in this Annual Report. This responsibility includes preparing the statements in accordance with accounting principles generally accepted in the United States of America and necessarily includes estimates based upon management's best judgment.

To help ensure the accuracy and integrity of Company financial data, management maintains internal controls which are designed to provide reasonable assurance that transactions are executed as authorized, that they are accurately recorded and that assets are properly safeguarded. It is essential for all Company employees to conduct their business affairs in keeping with the highest ethical standards as outlined in our code of conduct policy, "Business Conduct Guidelines." Careful selection of employees and appropriate divisions of responsibility also help us to achieve our control objectives.

The consolidated balance sheets of Huntsman Corporation and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations and comprehensive loss, stockholders' equity (deficit), and cash flows for the years ended December 31, 2005, 2004 and 2003 have been audited by the Company's independent registered public accounting firm, Deloitte & Touche LLP. Their report is shown on page 50.

The Board of Directors oversees the adequacy of the Company's control environment. Representatives of the Audit Committee meet periodically with representatives of Deloitte & Touche LLP, internal financial management and the internal auditor to review accounting, control, auditing and financial reporting matters. The independent registered public accounting firm and the internal auditor also have full and free access to meet privately with the Audit Committee.

REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Huntsman Corporation and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Huntsman Corporation and subsidiaries (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of operations and comprehensive loss, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Huntsman Corporation and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the consolidated financial statements reflect the financial position and results of operations and cash flows as if Huntsman Holdings LLC and Huntsman Corporation were combined for all periods presented.

As discussed in Note 2 to the consolidated financial statements, the Company adopted FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities*, on January 1, 2005, and FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, on December 31, 2005.

As discussed in Note 2 to the consolidated financial statements, the Company changed the measurement date for its pension and other postretirement benefit plans from December 31 to November 30 during 2005.

Deloitte & Touche LLP

Houston, Texas
March 15, 2006

CONSOLIDATED
BALANCE SHEETS
HUNTSMAN CORPORATION

(Dollars in millions)	December 31, 2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 142.8**	$ 243.2
Restricted cash	**—**	8.9
Accounts and notes receivables (net of allowance for doubtful accounts of $33.7 and $25.8, respectively)	**1,475.2**	1,586.0
Accounts receivable from affiliates	**7.4**	12.1
Inventories, net	**1,309.2**	1,253.9
Prepaid expenses	**46.2**	45.0
Deferred income taxes	**31.2**	11.9
Other current assets	**84.0**	25.2
Total current assets	**3,096.0**	3,186.2
Property, plant and equipment, net	**4,643.2**	5,150.9
Investment in unconsolidated affiliates	**175.6**	170.9
Intangible assets, net	**216.3**	245.6
Goodwill	**91.2**	3.3
Deferred income taxes	**94.2**	34.5
Notes receivable from affiliates	**3.0**	23.6
Other noncurrent assets	**551.0**	608.5
Total assets	**$ 8,870.5**	$ 9,423.5
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	**$ 1,093.5**	$ 970.3
Accounts payable to affiliates	**—**	30.6
Accrued liabilities	**747.2**	779.0
Deferred income taxes	**2.4**	10.8
Current portion of long-term debt	**44.6**	37.5
Total current liabilities	**1,887.7**	1,828.2
Long-term debt	**4,413.3**	6,221.1
Long-term debt to affiliate	**—**	40.9
Deferred income taxes	**258.3**	217.9
Other noncurrent liabilities	**770.2**	757.1
Total liabilities	**7,329.5**	9,065.2
Minority interests in common stock of consolidated subsidiaries	**20.4**	36.8
Warrants issued by consolidated subsidiary	**—**	128.7
Redeemable preferred members' interest	**—**	574.8
Commitments and contingencies (Notes 19 and 20)		
Stockholders' equity (deficit):		
Common stock $0.01 par value, 1,200,000,000 shares authorized, 221,200,997 issued and 220,451,484 outstanding in 2005	**2.2**	—
Preferred members' interest	**—**	195.7
Mandatory convertible preferred stock $0.01 par value, 100,000,000 shares authorized, 5,750,000 issued and outstanding in 2005	**287.5**	—
Additional paid-in capital	**2,779.8**	712.5
Unearned stock-based compensation	**(11.8)**	—
Accumulated deficit	**(1,505.8)**	(1,471.2)
Accumulated other comprehensive (loss) income	**(31.3)**	181.0
Total stockholders' equity (deficit)	**1,520.6**	(382.0)
Total liabilities and stockholders' equity (deficit)	**$ 8,870.5**	$ 9,423.5

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF

OPERATIONS AND COMPREHENSIVE LOSS

HUNTSMAN CORPORATION

(Dollars in millions)	**2005**	2004	2003
	Year Ended December 31,		
Revenues:			
Trade sales	**$12,857.6**	$11,378.5	$6,927.9
Related party sales	**104.0**	47.9	90.7
Total revenues	**12,961.6**	11,426.4	7,018.6
Cost of goods sold	**11,209.5**	10,048.0	6,334.9
Gross profit	**1,752.1**	1,378.4	683.7
Operating expenses:			
Selling, general and administrative	**676.9**	655.8	444.1
Research and development	**95.5**	96.2	77.6
Other operating expense (income)	**42.2**	(81.1)	(55.0)
Restructuring, impairment and plant closing costs	**123.6**	299.3	37.9
Total expenses	**938.2**	970.2	504.6
Operating income	**813.9**	408.2	179.1
Interest expense, net	**(426.9)**	(607.2)	(428.3)
Interest income (expense)—affiliate	**0.3**	(5.4)	19.2
Loss on accounts receivable securitization program	**(10.7)**	(15.6)	(20.4)
Equity in income (loss) of investment in unconsolidated affiliates	**8.2**	4.0	(37.5)
Loss on early extinguishment of debt	**(322.5)**	(25.6)	—
Other expense	**(0.1)**	(0.2)	—
Income (loss) from continuing operations before income taxes, minority interest and accounting changes	**62.2**	(241.8)	(287.9)
Income tax (expense) benefit	**(23.5)**	29.1	(30.8)
Income (loss) from continuing operations before minority interest and accounting changes	**38.7**	(212.7)	(318.7)
Minority interest in subsidiaries' (income) loss	**(1.7)**	(7.2)	1.5
Income (loss) from continuing operations	**37.0**	(219.9)	(317.2)
Loss from discontinued operations (including loss on disposal of $36.4 in 2005), net of tax of nil	**(43.9)**	(7.8)	(2.6)
Loss before accounting changes	**(6.9)**	(227.7)	(319.8)
Cumulative effect of changes in accounting principle, net of tax of $2.9	**(27.7)**	—	—
Net loss	**(34.6)**	(227.7)	(319.8)
Preferred stock dividends	**(43.1)**	(87.7)	(74.3)
Net loss available to common stockholders	**$ (77.7)**	$ (315.4)	$ (394.1)
Net loss	**$ (34.6)**	$ (227.7)	$ (319.8)
Other comprehensive (loss) income	**(212.3)**	70.5	241.6
Comprehensive loss	**$ (246.9)**	$ (157.2)	$ (78.2)
Basic and diluted loss per share:			
Loss from continuing operations	**$ (0.03)**	$ (1.40)	$ (1.78)
Loss from discontinued operations, net of tax	**(0.20)**	(0.03)	(0.01)
Cumulative effect of changes in accounting principle, net of tax	**(0.12)**	—	—
Net loss	**$ (0.35)**	$ (1.43)	$ (1.79)
Weighted average shares	**220.5**	220.5	220.5

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF

STOCKHOLDERS' EQUITY (DEFICIT)

HUNTSMAN CORPORATION

(Dollars in millions)	Shares: Common Stock	Shares: Mandatory Convertible Preferred Stock	Common Stock	Preferred Members' Interest	Mandatory Convertible Preferred Stock	Additional Paid-In Capital	Unearned Stock-Based Compensation	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total
Balance, January 1, 2003	—	—	$ —	$ —	$ —	$ 857.2	$ —	$ (923.7)	$ (131.1)	$ (197.6)
Acquisition of subsidiary at less than carrying amount	—	—	—	—	—	19.5	—	—	—	19.5
Distribution to member	—	—	—	—	—	(2.2)	—	—	—	(2.2)
Preferred shares issued in exchange for investment in Huntsman Advanced Materials, LLC	—	—	—	194.4	—	—	—	—	—	194.4
Net loss	—	—	—	—	—	—	—	(319.8)	—	(319.8)
Other comprehensive income	—	—	—	—	—	—	—	—	241.6	241.6
Accumulated other comprehensive loss of HIH at May 1, 2003 (date of consolidation)	—	—	—	—	—	—	—	—	(49.3)	(49.3)
Dividends accrued on redeemable preferred members' interest	—	—	—	—	—	(74.3)	—	—	—	(74.3)
Balance, December 31, 2003	—	—	—	194.4	—	800.2	—	(1,243.5)	61.2	(187.7)
Net loss	—	—	—	—	—	—	—	(227.7)	—	(227.7)
Purchase accounting adjustment	—	—	—	1.3	—	—	—	—	49.3	50.6
Other comprehensive income	—	—	—	—	—	—	—	—	70.5	70.5
Dividends accrued on redeemable preferred members' interest	—	—	—	—	—	(87.7)	—	—	—	(87.7)
Balance, December 31, 2004	—	—	—	195.7	—	712.5	—	(1,471.2)	181.0	(382.0)
Net loss	—	—	—	—	—	—	—	(34.6)	—	(34.6)
Other comprehensive loss	—	—	—	—	—	—	—	—	(212.3)	(212.3)
Exchange of previous common and preferred members' interest and warrants for common stock	164,769,665	—	1.6	(195.7)	—	885.5	—	—	—	691.4
Issuance of common stock and mandatory convertible preferred stock	55,681,819	5,750,000	0.6	—	287.5	1,203.8	—	—	—	1,491.9
Issuance of nonvested stock awards	—	—	—	—	—	16.3	(16.3)	—	—	—
Recognition of stock-based compensation	—	—	—	—	—	4.8	4.5	—	—	9.3
Dividends declared on mandatory convertible preferred stock	—	—	—	—	—	(43.1)	—	—	—	(43.1)
Balance, December 31, 2005	**220,451,484**	**5,750,000**	**$2.2**	**$ —**	**$287.5**	**$2,779.8**	**$(11.8)**	**$(1,505.8)**	**$ (31.3)**	**$1,520.6**

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF

CASH FLOWS

HUNTSMAN CORPORATION

	Year Ended December 31,		
(Dollars in millions)	**2005**	2004	2003
Operating Activities:			
Net loss	**$ (34.6)**	$(227.7)	$(319.8)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Cumulative effect of changes in accounting principle, net of tax	**27.7**	—	—
Equity in (income) losses of unconsolidated affiliates	**(8.2)**	(4.0)	37.5
Depreciation and amortization	**500.8**	536.8	353.4
Noncash restructuring, impairment and plant closing costs	**64.1**	138.0	12.2
Provision for losses on accounts receivable	**4.2**	0.7	11.3
Loss on disposal of plant and equipment	**—**	2.4	2.4
Loss on early extinguishment of debt	**322.5**	25.6	—
Loss on disposal of discontinued operations	**36.4**	—	—
Noncash interest expense	**49.8**	166.0	90.7
Deferred income taxes	**(3.1)**	(64.5)	(3.6)
Net unrealized loss (gain) on foreign currency transactions	**23.1**	(111.7)	(58.3)
Stock-based compensation	**9.5**	—	—
Minority interest in subsidiaries' income (loss)	**1.7**	7.2	(1.5)
Other, net	**(14.3)**	(14.0)	(2.5)
Changes in operating assets and liabilities:			
Accounts and notes receivables	**155.2**	(258.1)	81.0
Change in receivables sold, net	**(93.9)**	(90.0)	(11.5)
Inventories, net	**(96.9)**	(158.9)	87.8
Prepaid expenses	**45.8**	31.0	(2.8)
Other current assets	**(38.1)**	116.0	(15.9)
Other noncurrent assets	**(86.3)**	(48.9)	(24.3)
Accounts payable	**68.6**	28.1	(71.5)
Accrued liabilities	**(19.5)**	88.3	71.5
Other noncurrent liabilities	**59.6**	18.5	(10.7)
Net cash provided by operating activities	**974.1**	180.8	225.4
Investing Activities:			
Capital expenditures	**(338.7)**	(226.6)	(191.0)
Proceeds from sale of assets	**18.2**	5.2	0.3
Acquisition of minority interest, net of cash acquired in 2003	**(124.8)**	—	(223.8)
Net cash received from unconsolidated affiliates	**6.2**	6.0	—
Net investment in government securities, restricted as to use	**(30.1)**	—	—
Net advances to unconsolidated affiliates	**(8.0)**	(19.3)	(7.8)
Change in restricted cash	**8.9**	1.6	(1.4)
Acquisition of business, net of cash acquired	**—**	—	(397.6)
Purchase of Vantico senior notes	**—**	—	(22.7)
Other, net	**(0.9)**	3.1	(2.3)
Net cash used in investing activities	**(469.2)**	(230.0)	(846.3)

(Dollars in millions)	Year Ended December 31, 2005	2004	2003
Financing Activities:			
Net (repayments) borrowings under revolving loan facilities	**$ (118.7)**	$ 113.8	$ (201.4)
Net (repayments) borrowings of overdraft and other short-term debt	**—**	(10.6)	7.5
Proceeds from long-term debt	**2,235.0**	2,869.8	1,288.6
Repayment of long-term debt	**(4,010.7)**	(2,822.8)	(426.6)
Repayment of notes payable	**(33.9)**	(19.6)	(105.7)
Debt issuance costs paid	**(17.3)**	(35.5)	(58.2)
Call premiums related to early extinguishment of debt	**(146.0)**	(17.0)	—
Dividend paid to preferred stockholders	**(10.8)**	—	—
Net proceeds from issuance of common and preferred stock	**1,491.9**	—	—
Proceeds from issuance of subsidiary warrants	**—**	—	130.0
Cost of raising subsidiary equity capital	**—**	—	(10.1)
Cash contributed to subsidiary later exchanged for preferred tracking stock	**—**	—	164.4
Other, net	**7.5**	5.4	(1.8)
Net cash (used in) provided by financing activities	**(603.0)**	83.5	786.7
Effect of exchange rate changes on cash	**(2.3)**	11.1	9.5
(Decrease) increase in cash and cash equivalents	**(100.4)**	45.4	175.3
Cash and cash equivalents at beginning of period	**243.2**	197.8	22.5
Cash and cash equivalents at end of period	**$ 142.8**	$ 243.2	$ 197.8
Supplemental cash flow information:			
Cash paid for interest	**$ 411.9**	$ 455.6	$ 263.9
Cash paid for income taxes	**27.6**	29.2	8.4

See accompanying notes to consolidated financial statements

1. General

Certain Definitions

"Company," "our," "us" or "we" may be used to refer to Huntsman Corporation and, unless the context otherwise requires, its subsidiaries and predecessors. Any references to the "Company," "we," "us" or "our" as of a date prior to October 19, 2004 (the date of our formation) are to Huntsman Holdings, LLC and its subsidiaries (including their respective predecessors). In this report, "HIH" refers to Huntsman International Holdings LLC (our 100% owned subsidiary that merged into HI on August 16, 2005) and, unless the context otherwise requires, its subsidiaries, "HI" refers to Huntsman International LLC (our 100% owned subsidiary) and, unless the context otherwise requires, its subsidiaries, "AdMat" refers to Huntsman Advanced Materials LLC (our 100% owned indirect subsidiary) and, unless the context otherwise requires, its subsidiaries, "HLLC" or "Huntsman LLC" refers to Huntsman LLC (our 100% owned subsidiary that merged into HI on August 16, 2005), "HMP" refers to HMP Equity Holdings Corporation (our 100% owned subsidiary that merged into our Company on March 17, 2005), "Vantico" refers to Vantico Group S.A. (a 100% owned subsidiary of AdMat) and, unless the context otherwise requires, its subsidiaries, "Huntsman Family Holdings" refers to Huntsman Family Holdings Company LLC (an owner with MatlinPatterson of HMP Equity Trust), and "MatlinPatterson" refers to MatlinPatterson Global Opportunities Partners L.P., MatlinPatterson Global Opportunities Partners (Bermuda) L.P. and MatlinPatterson Global Opportunities Partners B, L.P. (collectively, an owner with Huntsman Family Holdings of HMP Equity Trust).

Description of Business

We are among the world's largest global manufacturers of differentiated and commodity chemical products. We manufacture a broad range of chemical products and formulations, which are marketed in more than 100 countries to a diversified group of consumer and industrial customers. Our products are used in a wide range of applications, including those in the adhesives, aerospace, automotive, construction products, durable and non-durable consumer products, electronics, medical, packaging, paints and coatings, power generation, refining and synthetic fiber industries. We are a leading global producer in many of our key product lines, including MDI, amines, surfactants, epoxy-based polymer formulations, maleic anhydride and titanium dioxide.

Company

We were formed in 2004 to hold, among other things, the equity interests of HI, AdMat and Huntsman LLC. In connection with the completion of our initial public offering (described below), we consummated a reorganization transaction (the "Reorganization Transaction"). In the Reorganization Transaction, our predecessor, Huntsman Holdings, LLC, became our wholly owned subsidiary, and the existing beneficial holders of the common and preferred members interests of Huntsman Holdings, LLC received shares of our common stock in exchange for their interests. The Reorganization Transaction was accounted for as an exchange of shares between entities under common control similar to the pooling method. Our consolidated financial statements presented herein reflect the financial position, results of operations and cash flows as if Huntsman Holdings, LLC and our Company were combined for all periods presented.

During 2005, we completed a series of transactions designed to simplify our consolidated group's financing and public reporting structure, to reduce our cost of financing and to facilitate other organizational efficiencies. As a result of these transactions, we now operate all of our businesses through HI and substantially all of our debt obligations are obligations of HI and/or its subsidiaries.

On February 16, 2005, we completed an initial public offering of 55,681,819 shares of our common stock sold by us and 13,579,546 shares of our common stock sold by a selling stockholder, in each case at a price to the public of $23 per share, and 5,750,000 shares of our 5% mandatory convertible preferred stock sold by us at a price to the public of $50 per share. Each share of preferred stock will be convertible into between approximately 1.77 and approximately 2.17 shares of our common stock, subject to anti-dilution adjustments, depending upon the trading price of our common stock prior to the third anniversary of our initial public offering. This will result in between approximately 10.2 million and approximately 12.5 million additional shares of our common stock outstanding upon conversion. See "Note 2. Summary of Significant Accounting Policies—Net Income (Loss) per Share."

The net proceeds to us from our initial public offering of common and preferred stock were approximately $1.5 billion, substantially all of which has been used to repay outstanding indebtedness of certain of our subsidiaries as follows:

- On February 16, 2005, we used $41.6 million of net proceeds from the offering to redeem in full the subordinated note due Horizon Ventures LLC, an affiliated entity.
- On February 28, 2005, we used $1,216.7 million of net proceeds from the offering, along with $35.0 million in available cash, to redeem:
  - all of the outstanding 15% senior secured discount notes due 2008 of HMP (the "HMP Senior Discount Notes");
  - $452.3 million of the outstanding 13.375% senior discount notes due 2009 of HIH (the "HIH Senior Discount Notes"); and

- $159.4 million of the outstanding 11.625% senior secured notes due 2010 of Huntsman LLC.
- On March 14, 2005, we used $151.7 million of net cash proceeds from the offering to redeem the remaining outstanding HIH Senior Discount Notes, $78.0 million of the outstanding 11.5% senior notes due 2012 of Huntsman LLC (the "2012 Senior Fixed Rate Notes") and to pay $7.8 million to HMP warrant holders for a consent fee. On March 17, 2005, we used $26.8 million of the net cash proceeds from the offering to redeem an additional $24.0 million of the 2012 Senior Fixed Rate Notes.

Also, on February 28, 2005, we contributed to HIH the HIH Senior Subordinated Discount Notes due 2009 at an accreted value of $422.8 million.

In connection with our initial public offering and as part of the Reorganization Transaction, we exercised our rights to require that all the warrants to purchase common stock of HMP (the "HMP Warrants") be exchanged for newly issued shares of our common stock. Under the terms of the HMP Warrants, an aggregate of approximately 16.8 million shares of our common stock was issued in exchange for the outstanding HMP Warrants.

On August 16, 2005, Huntsman LLC merged into HI (the "HLLC Merger"). At that time, HIH also merged into HI. As a result of the HLLC Merger, HI succeeded to the assets, rights and obligations of Huntsman LLC. HI entered into supplemental indentures under which it assumed the obligations of Huntsman LLC under its outstanding debt securities. The HI subsidiaries that guarantee HI's outstanding debt securities now provide guarantees with respect to these securities, and all of Huntsman LLC's subsidiaries that guaranteed its debt securities continue to provide guarantees with respect to these debt securities. In addition, Huntsman LLC's guarantor subsidiaries executed supplemental indentures to guarantee all of HI's outstanding debt securities.

On December 20, 2005, we agreed to pay $125 million to affiliates of SISU Capital Limited and other third parties to acquire the 9.7% of the equity of AdMat that we did not already own. See "Note 3. Business Combinations." In conjunction with this acquisition, we amended our senior secured credit facilities and increased our existing term loan B by $350 million. We used proceeds from the increased term loan, together with approximately $74 million of cash on hand, to acquire the equity interest in AdMat, to redeem AdMat's $250 million of outstanding 11% senior secured notes due 2010, to pay $35.6 million in call premiums plus accrued interest, and to pay other related costs, and we then contributed our 100% ownership interest in AdMat to HI (the "AdMat Minority Interest Transaction").

HMP Equity Trust holds approximately 59% of our common stock. Jon M. Huntsman and Peter R. Huntsman control the voting of the shares of our common stock held by HMP Equity Trust. However, the shares of our common stock held by HMP Equity Trust will not be voted in favor of certain fundamental corporate actions without the consent of MatlinPatterson, through its representatives David J. Matlin or Christopher R. Pechock, and Jon M. Huntsman and Peter R. Huntsman have agreed to cause all of the shares of our common stock held by HMP Equity Trust to be voted in favor of the election to our board of directors of two nominees designated by MatlinPatterson.

2. Summary of Significant Accounting Policies

Principles of Consolidation

Our consolidated financial statements include the accounts of our wholly-owned and majority-owned subsidiaries and any variable interest entities for which we are the primary beneficiary. All intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the U.S. ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the consolidated financial statements for prior periods have been reclassified to conform with the current presentation.

Revenue Recognition

We generate substantially all of our revenues through sales in the open market and long-term supply agreements. We recognize revenue when it is realized or realizable and earned. Revenue for product sales is recognized when a sales arrangement exists, risk and title to the product transfer to the customer, collectibility is reasonably assured and pricing is fixed or determinable. The transfer of risk and title to the product to the customer usually occurs at the time shipment is made.

Revenue related to the licensing of technology is recognized when earned.

Revenue arrangements that contain multiple deliverables are evaluated in accordance with EITF Issue No. 00-21 "*Revenue Arrangements with Multiple Deliverables*" to determine whether the arrangements should be divided into separate units of accounting and how the arrangement consideration should be measured and allocated among the separate units of accounting.

Cost of Goods Sold

We classify the costs of manufacturing and distributing our products as cost of goods sold. Manufacturing costs include variable costs, primarily raw materials and energy, and fixed expenses directly associated with production. Manufacturing costs include, among other things, plant site operating costs and overhead, production planning and logistics costs, repair and maintenance costs, plant site purchasing costs, and engineering and technical support costs. Distribution, freight and warehousing costs are also included in cost of goods sold.

Cash and Cash Equivalents

We consider cash in checking accounts and cash in short-term highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

Securitization of Accounts Receivable

We securitize certain trade receivables in connection with a revolving accounts receivable securitization program in which we grant a participating undivided interest in certain of our trade receivables to a qualified off-balance sheet entity. We retain the servicing rights and a retained interest in the securitized receivables. Losses are recorded on the sale and are based on the carrying value of the receivables as allocated between the receivables sold and the retained interests and their relative fair value at the date of the transfer. Retained interests are subsequently carried at fair value which is estimated based on the present value of expected cash flows, calculated using management's best estimates of key assumptions including credit losses and discount rates commensurate with the risks involved. For more information, see "Note 13. Securitization of Accounts Receivable."

Inventories

Inventories are stated at the lower of cost or market, with cost determined using last-in first-out, first-in first-out, and average costs methods for different components of inventory.

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives or lease term as follows:

Buildings and equipment	10–60 years
Plant and equipment	3–25 years
Furniture, fixtures and leasehold improvements	5–20 years

Interest expense capitalized as part of plant and equipment was $9.3 million, $6.7 million and $5.1 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Periodic maintenance and repairs applicable to major units of manufacturing facilities (a "turnaround") are accounted for on the prepaid basis by capitalizing the costs of the turnaround and amortizing the costs over the estimated period until the next turnaround. Normal maintenance and repairs of plant and equipment are charged to expense as incurred. Renewals, betterments and major repairs that materially extend the useful life of the assets are capitalized, and the assets replaced, if any, are retired.

Investment in Unconsolidated Affiliates

Investments in companies in which we exercise significant management influence, but do not control, are accounted for using the equity method. Investments in companies in which we do not exercise significant influence are accounted for using the cost method.

Intangible Assets and Goodwill

Intangible assets are stated at cost (fair value at the time of acquisition) and are amortized using the straight-line method over the estimated useful lives or the life of the related agreement as follows:

Patents and technology	5–30 years
Trademarks	15–30 years
Licenses and other agreements	5–15 years
Other intangibles	5–15 years

Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Goodwill is not subject to any method of amortization, but is tested for impairment annually (at the beginning of the third quarter) and when events and circumstances indicate that an impairment may have occurred. When the fair value is less than the related carrying value of the related reporting unit, we are required to reduce the amount of goodwill through a charge to earnings. Fair value is estimated based on projected discounted cash flows.

Other Noncurrent Assets

Other noncurrent assets consist primarily of spare parts, deferred debt issuance costs, employee benefit assets and capitalized turnaround costs. Debt issuance costs are amortized using the interest method over the term of the related debt.

Carrying Value of Long-Lived Assets

We review long-lived assets and all amortizable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Recoverability is based upon current and anticipated undiscounted cash flows, and we recognize an impairment when such estimated cash flows are less than the carrying value of the asset. Measurement of the amount of impairment, if any, is based upon the difference between carrying value and fair value. Fair value is generally estimated by discounting estimated future cash flows using a discount rate commensurate with the risks involved. See "Note 10. Restructuring, Impairment and Plant Closing Costs" and "Note 29. Discontinued Operations."

Financial Instruments

The carrying amount reported in the balance sheet for cash and cash equivalents, accounts receivable and accounts payable approximates fair value because of the immediate or short-term maturity of these financial instruments. The carrying value of the senior secured credit facilities of our subsidiaries approximates fair value since they bear interest at a variable rate plus an applicable margin. The fair value of the fixed rate and floating rate notes of our subsidiaries is estimated based on interest rates that are currently available to us for issuance of debt with similar terms and remaining maturities. The fair value of government securities is estimated using prevailing market prices. See "Note 15. Fair Value of Financial Instruments."

Income Taxes

We use the asset and liability method of accounting for income taxes. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial and tax reporting purposes. We evaluate deferred tax assets to determine whether it is more likely than not that they will be realized. Valuation allowances are reviewed each period on a tax jurisdiction by tax jurisdiction basis to analyze whether there is sufficient positive or negative evidence to support a change in judgment about the realizability of the related deferred tax assets.

Subsequent to acquiring AdMat in June 2003, substantially all non-U.S. operations of AdMat were treated as branches for U.S. income tax purposes and were, therefore, subject to both U.S. and non-U.S. income tax. Effective January 1, 2006, AdMat foreign operations will no longer be treated as our branches and will not be subject to U.S. taxation on their earnings until those earnings are repatriated to the U.S., similar to our other non-U.S. entities.

For non-U.S. entities that are not treated as branches for U.S. tax purposes, we do not provide for income taxes on the undistributed earnings of these subsidiaries as earnings are reinvested and, in the opinion of management, will continue to be reinvested indefinitely.

Derivatives and Hedging Activities

All derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated as a fair-value hedge, the changes in the fair value of the derivative and the hedged items are recognized in earnings. If the derivative is designated as a cash-flow hedge, changes in the fair value of the derivative are recorded in other comprehensive income, to the extent effective, and will be recognized in the income statement when the hedged item affects earnings. We perform effectiveness assessments in order to use hedge accounting at each reporting period. For a derivative that does not qualify or has not been designated as a hedge, changes in fair value are recognized in earnings.

Environmental Expenditures

Environmental related restoration and remediation costs are recorded as liabilities when site restoration and environmental remediation and clean-up obligations are either known or considered probable and the related costs can be reasonably estimated. Other environmental expenditures that are principally maintenance or preventative in nature are recorded when expended and expensed or capitalized as appropriate. See "Note 20. Environmental, Health and Safety Matters."

Asset Retirement Obligations

We accrue for asset retirement obligations, which consist primarily of landfill closure costs and asbestos abatement costs, in the period in which the obligations are incurred. Asset retirement obligations are accrued at estimated fair value. When the liability is initially recorded, we capitalize the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its settlement value and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, we will recognize a gain or loss for any difference between the settlement amount and the liability recorded. See "Note 11. Asset Retirement Obligations."

Pensions and Postretirement Benefits

In 2005, we changed the measurement date of our pension and postretirement benefit plans from December 31 to November 30. We believe the one-month change of the measurement date is preferable because it provides us more time to review the completeness and accuracy of the actuarial benefit information which results in an improvement in our internal control procedures. The effect of the change in measurement date on the respective obligations and assets of the plan resulted in a cumulative effect of a change in accounting principle credit, net of tax of $1.9 million, of $4.0 million ($0.02 decrease in loss per share) recorded in the year ended December 31, 2005. See "Note 17. Employee Benefit Plans."

Research and Development

Research and development costs are expensed as incurred.

Foreign Currency Translation

The accounts of our operating subsidiaries outside of the U.S., except for certain finance subsidiaries and those operating in highly inflationary economic environments, consider local currency to be the functional currency. Accordingly, assets and liabilities are translated at rates prevailing at the balance sheet date. Revenues, expenses, gains and losses are translated at a weighted average rate for the period. Cumulative translation adjustments are recorded to stockholders' equity as a component of accumulated other comprehensive income (loss).

Subsidiaries that operate in economic environments that are highly inflationary consider the U.S. dollar to be the functional currency and include gains and losses from remeasurement to the U.S. dollar from the local currency in the statement of operations. The accounts of certain finance subsidiaries outside of the U.S. also consider the U.S. dollar to be the functional currency.

Transaction gains and losses are recorded in the statement of operations and were a net loss of $39.0 million, a net gain of $118.8 million and a net gain of $67.8 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Stock-Based Compensation

We adopted SFAS No. 123R, *"Share Based Payment"* on January 1, 2005. SFAS No. 123R requires entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which the employee is required to provide services in exchange for the award. We have applied this standard prospectively to share-based awards. See "Note 23. Stock-Based Compensation Plans." We did not have share-based awards prior to the awards issued in connection with our initial public offering.

Net Loss Per Share

Basic loss per share excludes dilution and is computed by dividing net loss available to common stockholders by the weighted average number of shares outstanding during the period. Dilutive loss per share reflects potential dilution and is computed by dividing net loss available to common stockholders by the weighted average number of shares outstanding during the period increased by the number of additional shares that would have been outstanding as dilutive securities.

In connection with our Reorganization Transaction and initial public offering of common stock on February 16, 2005, we issued 203,604,545 shares of common stock. On March 14, 2005, we issued 16,846,939 shares of common stock in exchange for the HMP Warrants. Also on February 16, 2005, we issued 5,750,000 shares of 5% mandatory convertible preferred stock. This preferred stock is convertible into between 10,162,550 shares and 12,499,925 shares of our common stock, subject to anti-dilution adjustments, depending on the average market price of our common stock over the 20 trading-day period ending on the third trading day prior to conversion. All share and per share data reflected in these consolidated financial statements have been retroactively restated to give effect to the shares issued in connection with the Reorganization Transaction and our initial public offering of common stock on February 16, 2005 and the shares issued in connection with the exchange of the HMP Warrants on March 14, 2005, as if such shares had been issued at the beginning of the period. As a result of the change in capital structure in connection with the Reorganization Transaction and our initial public offering, per share results for 2005 are not comparable with those of 2004 and 2003.

Basic and diluted loss per share is calculated as follows (in millions, except share amounts):

	Year Ended December 31,		
	2005	2004	2003
Basic and diluted loss from continuing operations available to common stockholders (numerator):			
Income (loss) from continuing operations before accounting changes	**$ 37.0**	$(219.9)	$(317.2)
Preferred stock dividends	**(43.1)**	(87.7)	(74.3)
Loss from continuing operations available to common stockholders	**$ (6.1)**	$(307.6)	$(391.5)
Basic and diluted net loss available to common stockholders (numerator):			
Net loss	**$(34.6)**	$(227.7)	$(319.8)
Preferred stock dividends	**(43.1)**	(87.7)	(74.3)
Net loss available to common stockholders	**$(77.7)**	$(315.4)	$(394.1)
Shares (denominator):			
Weighted average shares outstanding	**220,451,484**	220,451,484	220,451,484
Dilutive securities:			
Stock-based awards	**—**	—	—
Preferred stock conversion	**—**	—	—
Total dilutive shares outstanding assuming conversion	**220,451,484**	220,451,484	220,451,484

Additional stock-based awards of 2,773,093 weighted average equivalent shares of stock were outstanding during the year ended December 31, 2005. In addition, the preferred stock would have converted into 12,499,925 shares of common stock for the year ended December 31, 2005. However, these stock-based awards and preferred stock conversion were not included in the computation of diluted earnings per share because the effect would be anti-dilutive.

Discontinued Operations

On July 6, 2005, we sold our toluene di-isocyanate ("TDI") business. See "Note 29. Discontinued Operations." The results of operations associated with this business has been reported as discontinued operations in the accompanying consolidated statements of operations. Cash flows from discontinued operations are not presented separately in the accompanying consolidated statements of cash flows.

Recently Issued Accounting Pronouncements

We adopted Financial Accounting Standards Board ("FASB") Financial Interpretation No. ("FIN") 46R, *"Consolidation of Variable Interest Entities"* on January 1, 2005. FIN 46R addresses the requirements for business enterprises to consolidate related entities, for which they do not have controlling interests through voting or other rights, if they are determined to be the primary beneficiary as a result of variable economic interests. Transfers to a qualifying special purpose entity are not subject to this interpretation. The adoption of the standard required us to consolidate our Rubicon LLC joint venture. Rubicon LLC manufactures products, including aniline and DPA, for us and our joint venture partner. Rubicon LLC borrows funds from us and a joint venture partner to finance capital requirements and receives reimbursement of costs incurred to operate its facilities.

In November 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 151, *"Inventory Costs—an amendment of ARB No. 43."* SFAS No. 151 requires abnormal amounts of idle facility expense, freight, handling costs and wasted material to be recognized as current-period charges. It also requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The requirements of the standard will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We are reviewing SFAS No. 151 to determine the statement's impact on our consolidated financial statements.

We adopted FIN 47, *"Accounting for Conditional Asset Retirement Obligations"* on December 31, 2005. FIN 47 clarifies the term conditional asset retirement obligation used in SFAS No. 143, *"Accounting for Asset Retirement Obligations,"* and clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. During the fourth quarter of 2005, we recorded a charge for the cumulative effect of this change in accounting principle, net of tax of $4.8 million, of $31.7 million. See "Note 11. Asset Retirement Obligations."

In May 2005, the FASB issued SFAS No. 154, *"Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3."* SFAS No. 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change or unless specific transition provisions are proscribed in the accounting pronouncements. SFAS No. 154 does not change the accounting guidance for reporting a correction of an error in previously issued financial statements or a change in accounting estimate. SFAS No. 154 is effective for accounting changes and error corrections made after December 31, 2005. We will apply this standard prospectively.

In September 2005, the Emerging Issues Task Force ("EITF") reached a consensus on issue 04-13, *"Accounting for Purchase and Sales of Inventory with the Same Counterparty,"* that requires companies to recognize an exchange of finished goods for raw materials or work-in-process within the same line of business at fair value. All other exchanges of inventory should be reflected at the recorded amount. This consensus is effective for transactions completed after March 31, 2006. We are evaluating the impact of this consensus to determine its impact on our consolidated financial statements.

3. Business Combinations and Dispositions

AdMat Acquisition

On June 30, 2003, our predecessor company, MatlinPatterson, SISU Capital Ltd. ("SISU"), Huntsman Group Inc., and Morgan Grenfell Private Equity Limited ("MGPE") completed a restructuring and business combination involving Vantico, whereby ownership of the equity of Vantico was transferred to AdMat in exchange for substantially all of the issued and outstanding Vantico senior notes ("Vantico Senior Notes") and approximately $165 million of additional equity (the "AdMat Transaction"). We acquired 88.2% of the equity of AdMat and began reporting AdMat as a consolidated subsidiary as of June 30, 2003. In connection with the AdMat Transaction, AdMat issued $250 million aggregate principal amount of its 11% senior secured notes due 2010 (the "AdMat Fixed Rate Notes") and $100 million aggregate principal amount of its senior secured floating rate notes due 2008 at a discount of 2%, or for $98 million (the "AdMat Floating Rate Notes" and, collectively with the AdMat Fixed Rate Notes, the "AdMat Senior Secured Notes"). Proceeds from the issuance of the AdMat Senior Secured Notes, along with a portion of the additional equity, were used to purchase 100% of the Vantico senior secured credit facilities (the "Vantico Credit Facilities"). Also in connection with the AdMat Transaction, AdMat entered into a $60 million senior secured revolving credit facility (the "AdMat Revolving Credit Facility").

There were no contingent payments or commitments in connection with the AdMat Transaction. The total June 30, 2003 purchase price of AdMat was derived from the fair value of equity exchanged or debt instruments acquired as follows (dollars in millions):

Cash paid for the Vantico Credit Facilities and other credit facilities	$431.3
Equity issued for Vantico Senior Notes	67.8
Cash paid for Vantico Senior Notes	22.7
Total purchase price of AdMat	$521.8

The allocation of the June 30, 2003 purchase price to the assets and liabilities of AdMat is summarized as follows (dollars in millions):

Current assets	$ 415.8
Current liabilities	(242.4)
Property, plant and equipment	397.9
Intangible assets	37.0
Deferred taxes, net	(8.6)
Other noncurrent assets	44.2
Other noncurrent liabilities	(122.1)
Total purchase price of AdMat	521.8
Minority interest	(29.2)
Preferred members' interest	(195.7)
Net assets acquired	$ 296.9

During 2005 and 2004, we reversed certain valuation allowances on deferred tax assets and certain restructuring reserves recorded in the June 30, 2003 AdMat Transaction and recorded a corresponding reduction to intangible assets of $0.8 million and $31.9 million, respectively.

The acquired intangible assets represent trademarks and patents which have a weighted-average useful life of approximately 15–30 years.

On March 19, 2004, we acquired MGPE's 2.1% equity in AdMat Holdings for $7.2 million.

On December 20, 2005, we acquired the remaining 9.7% ownership interests from former AdMat minority interest holders for $124.8 million. We completed the acquisition of AdMat in order to simplify our organizational and financial reporting structure and to facilitate a more efficient tax structure. Subsequent to December 20, 2005, we own 100% of AdMat. We have accounted for this step acquisition using the purchase method. The preliminary allocation of the December 20, 2005 purchase price to the assets and liabilities of AdMat is summarized as follows (dollars in millions):

Current assets	$ 2.3
Property, plant and equipment	10.9
Intangible assets	3.2
Goodwill	88.0
Deferred taxes	(0.3)
Other noncurrent liabilities	(0.6)
Accumulated other comprehensive income	(2.3)
Net assets acquired	101.2
Reversal of minority interest	23.6
Cash paid for acquisition	$124.8

This purchase price allocation is preliminary pending finalization of fair value of assets acquired and liabilities assumed. The acquired intangible assets represent trademarks and patents which have a weighted-average useful life of approximately 15-30 years. The goodwill, none of which is deductible for tax purposes, was assigned to the Advanced Materials segment.

HLLC Consolidation Transaction

Prior to May 9, 2003, we owned, indirectly, approximately 61% of the membership interests of HIH. We accounted for our investment in HIH using the equity method due to the significant management participation rights formerly granted to Imperial Chemical Industries PLC ("ICI") pursuant to the HIH limited liability company agreement. On May 9, 2003, we exercised an option that we held and purchased the ICI subsidiary that held ICI's 30% membership interest in HIH, and, at that time, also purchased approximately 9% of the HIH membership interests held by institutional investors (the "HLLC Consolidation Transaction"). The total consideration paid in connection with the HLLC Consolidation Transaction was approximately $286 million. As a result of the HLLC Consolidation Transaction, we own 100% of the HIH membership interests. Accordingly, as of May 1, 2003, HIH became our consolidated subsidiary and is no longer accounted for using the equity method.

We accounted for the acquisition using the purchase method. Accordingly, the results of operations and cash flows of the acquired interests were consolidated with ours beginning in May 2003. During the second quarter of 2004, we finalized the allocation of the purchase price. As part of the final purchase price allocation, we valued the related pension liabilities, recorded deferred taxes and reclassified certain other amounts resulting in a corresponding increase in property, plant and equipment of approximately $285 million. The following is a summary of the final allocation of the purchase price to assets acquired and liabilities assumed (dollars in millions):

Current assets	$ 533.6
Property, plant and equipment	1,605.9
Noncurrent assets	194.5
Current liabilities	(344.3)
Long-term debt	(1,427.6)
Deferred taxes	(145.4)
Noncurrent liabilities	(130.7)
Cash paid for acquisition	$ 286.0

The acquired intangible assets represent trademarks and patents which have a weighted-average useful life of approximately 15–30 years. The following table reflects our results of operations on an unaudited pro forma basis as if the HLLC Consolidation Transaction and the AdMat Transaction had been completed on January 1, 2003, utilizing HIH and AdMat's historical results (dollars in millions, except per unit amounts):

	2003
Revenue	$9,190.1
Loss before minority interest and cumulative effect on accounting change	(367.0)
Net loss	(395.6)
Net loss per common share	(1.79)

The pro forma information is not necessarily indicative of the operating results that would have occurred had the HLLC Consolidation Transaction and the AdMat Transaction been consummated on January 1, 2003, nor are they necessarily indicative of future operating results.

Pending Acquisition of Textile Effects Business

On February 20, 2006, we announced that we have entered into a definitive agreement to acquire the global Textile Effects business of Ciba Specialty Chemicals Inc. for CHF 332 million ($253 million). The purchase price will be reduced (i) by approximately CHF 75 million ($57 million) in assumed debt and unfunded pension and other post employment liabilities and (ii) up to approximately CHF 40 million ($31 million) in unspent restructuring costs. The final purchase price is subject to a working capital and net debt adjustment. The transaction is subject to customary terms and conditions, and is expected to occur by the end of the third quarter of 2006.

Pending Sale of U.S. Butadiene and MTBE Business

On February 24, 2006, we announced that we had signed a letter of intent to sell the assets of our U. S. butadiene and MTBE business operated in our Base Chemicals segment, which includes a manufacturing facility located at Port Neches, Texas, to Texas Petrochemicals, L.P. for a sales price of $275 million, subject to customary adjustments. We expect the transaction to close in mid-2006. We expect to recognize a gain from this transaction upon closing.

4. Inventories

Inventories consisted of the following (dollars in millions):

	December 31,	
	2005	2004
Raw materials and supplies	**$ 374.1**	$ 332.0
Work in progress	**82.1**	91.5
Finished goods	**988.1**	922.8
Total	**1,444.3**	1,346.3
LIFO reserves	**(119.7)**	(81.0)
Lower of cost or market reserves	**(15.4)**	(11.4)
Net	**$1,309.2**	$1,253.9

As of December 31, 2005 and 2004, approximately 15% and 18%, respectively, of inventories were recorded using the last-in, first-out cost method ("LIFO"). At December 31, 2005 and 2004, the excess of current cost over the stated LIFO value was $119.7 million and $81.0 million, respectively.

For the years ended December 31, 2005, 2004, and 2003, inventory quantities were reduced resulting in a liquidation of certain LIFO inventory layers carried at costs that were lower than the cost of current purchases, the effect of which reduced the net loss by approximately $0.8 million, $2.0 million and $1.0 million, respectively.

In the normal course of operations, we at times exchange raw materials and finished goods with other companies for the purpose of reducing transportation costs. The net open exchange positions are valued at our cost. Net amounts deducted from or added to inventory under open exchange agreements, which represent the net amounts payable or receivable by us under open exchange agreements, were approximately $3.8 million payable and $5.3 million payable (8.8 million and 8.7 million pounds) at December 31, 2005 and 2004, respectively.

5. Property, Plant and Equipment

The cost and accumulated depreciation of property, plant and equipment were as follows (dollars in millions):

	December 31,	
	2005	2004
Land	**$ 139.0**	$ 142.1
Buildings	**516.9**	607.8
Plant and equipment	**6,254.1**	6,367.2
Construction in progress	**321.5**	251.6
Total	**7,231.5**	7,368.7
Less accumulated depreciation	**(2,588.3)**	(2,217.8)
Net	**$ 4,643.2**	$ 5,150.9

Depreciation expense for the years ended December 31, 2005, 2004 and 2003 was $464.5 million, $491.2 million and $302.9 million, respectively.

Property, plant and equipment includes gross assets acquired under capital leases of $21.6 million and $24.5 million at December 31, 2005 and 2004, respectively; related amounts included in accumulated depreciation were $8.5 million and $9.1 million at December 31, 2005 and 2004, respectively.

6. Investment in Unconsolidated Affiliates

Our ownership percentage and investment in unconsolidated affiliates were as follows (dollars in millions):

	December 31,	
	2005	2004
Equity Method:		
Polystyrene Australia Pty Ltd. (50%)	**$ 3.3**	$ 4.7
Sasol-Huntsman GmbH and Co. KG (50%)	**22.6**	17.5
Louisiana Pigment Company, L.P. (50%)	**116.8**	121.6
Rubicon, LLC (50%)(1)	**—**	5.7
BASF Huntsman Shanghai Isocyanate Investment BV (50%)(2)	**25.9**	17.9
Others	**4.5**	1.0
Total equity method investments	**173.1**	168.4
Cost Method:		
Gulf Advanced Chemicals Industry Corporation (4%)	**2.5**	2.5
Total investments	**$175.6**	$170.9

(1) Beginning January 1, 2005, we consolidated the results of operations and financial position of Rubicon LLC in accordance with FIN 46R because we are the primary beneficiary of this variable interest entity. Rubicon LLC manufactures four major products, including aniline, DPA, MDI and polyols. Rubicon LLC borrows funds from HI and a joint venture partner to finance its capital requirements and receives reimbursement of costs incurred to operate its facilities.

(2) We own 50% of BASF Huntsman Shanghai Isocyanate Investment BV. BASF Huntsman Shanghai Isocyanate Investment BV owns a 70% interest in a manufacturing joint venture, thus giving us an indirect 35% interest in the manufacturing joint venture.

Summarized Financial Information of Unconsolidated Affiliates

Summarized applicable financial information of Sasol-Huntsman GmbH and Co. KG as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003 is presented below (dollars in millions):

	December 31,		
	2005	2004	2003
Current assets	**$19.3**	$22.3	
Noncurrent assets	**74.7**	68.9	
Current liabilities	**7.6**	8.7	
Noncurrent liabilities	**41.2**	47.5	
Revenues	**58.9**	58.1	$53.8
Gross profit	**12.1**	11.9	8.6
Net income	**15.9**	5.3	9.0

Summarized applicable financial information of our remaining unconsolidated affiliates, Louisiana Pigment Company, Rubicon LLC (for periods prior to its consolidation on January 1, 2005), BASF AG ("BASF"), Huntsman Shanghai Isocyanate Investment BV and Polystyrene Australia Pty Ltd. as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003 is presented below (dollars in millions):

	December 31,		
	2005	2004	2003
Assets	**$337.1**	$ 534.9	
Liabilities	**44.8**	237.6	
Revenues	**299.8**	1,055.5	$814.2
Net income (loss)	**0.4**	2.9	(5.6)
The Company's equity in:			
Net assets	**$146.0**	$ 150.9	
Net income (loss)	**0.2**	1.4	$ (2.8)

Investment in HIH

Prior to May 1, 2003, we accounted for our investment in HIH using the equity method of accounting due to the significant management participation rights formerly granted to ICI pursuant to the HIH limited liability company agreement.

Summarized HIH income statement information for the four months ended April 30, 2003 was as follows (dollars in millions):

	Four months ended April 30, 2003
Revenues	$1,733.4
Gross profit	181.5
Loss from continuing operations	(65.2)
Net loss	(65.2)
The Company's equity in:	
Net loss	$ (39.2)

7. Intangible Assets

The gross carrying amount and accumulated amortization of intangible assets were as follows (dollars in millions):

	December 31, 2005			December 31, 2004		
	Carrying Amount	**Accumulated Amortization**	**Net**	Carrying Amount	Accumulated Amortization	Net
Patents, trademarks, and technology	**$367.8**	**$172.1**	**$195.7**	$404.5	$173.2	$231.3
Licenses and other agreements	**29.2**	**14.5**	**14.7**	18.3	10.8	7.5
Non-compete agreements	**45.0**	**42.8**	**2.2**	49.9	43.1	6.8
Other intangibles	**13.3**	**9.6**	**3.7**	14.6	14.6	—
Total	**$455.3**	**$239.0**	**$216.3**	$487.3	$241.7	$245.6

During 2005 and 2004, we reversed certain valuation allowances on deferred tax assets and certain restructuring reserves recorded in the AdMat Transaction and recorded a corresponding reduction to intangible assets of approximately $0.8 million and $31.9 million, respectively.

Amortization expense was $27.6 million, $35.8 million and $39.8 million for the years ended December 31, 2005, 2004 and 2003, respectively. Estimated future amortization expense for intangible assets over the next five years is as follows (dollars in millions):

Year ending December 31:	
2006	$27.9
2007	26.4
2008	25.1
2009	24.9
2010	24.7

8. Other Noncurrent Assets

Other noncurrent assets consisted of the following (dollars in millions):

	December 31,	
	2005	2004
Prepaid pension costs	**$149.0**	$208.2
Debt issuance costs	**27.7**	83.9
Capitalized turnaround costs	**83.5**	116.6
Spare parts inventory	**121.5**	103.0
Catalyst assets	**16.6**	15.2
Deposits	**15.2**	16.7
Investment in government securities (restricted as to use)	**17.0**	—
Other noncurrent assets	**120.5**	64.9
Total	**$551.0**	$608.5

Amortization expense of catalyst assets for the years ended December 31, 2005, 2004 and 2003 was $8.7 million, $9.8 million and $10.7 million, respectively.

9. Accrued Liabilities

Accrued liabilities consisted of the following (dollars in millions):

	December 31,	
	2005	2004
Payroll, severance and related costs	**$108.8**	$166.5
Interest	**93.9**	119.3
Volume and rebate accruals	**88.1**	94.4
Income taxes	**64.9**	49.3
Taxes (property and VAT)	**87.3**	83.0
Restructuring, impairment and plant closing costs	**55.2**	122.2
Environmental accruals	**7.1**	7.7
Pension liabilities	**21.8**	23.1
Casualty loss reserves	**16.6**	13.7
Other miscellaneous accruals	**203.5**	99.8
Total	**$747.2**	$779.0

10. Restructuring, Impairment and Plant Closing Costs

While we continuously focus on identifying opportunities to reduce our operating costs and maximize our operating efficiency, we have now substantially completed our comprehensive global cost reduction program, referred to as "Project Coronado." Project Coronado was a program designed to reduce our annual fixed manufacturing and selling, general and administrative costs, as measured at 2002 levels, by $200 million. In connection with Project Coronado, we announced the closure of eight smaller, less competitive manufacturing units in our Polyurethanes, Advanced Materials, Performance Products and Pigments segments. These and other actions have resulted in the reduction of approximately 1,500 employees in these businesses since 2000.

As of December 31, 2005, 2004 and 2003, accrued restructuring, impairment and plant closing costs by type of cost and initiative consisted of the following (dollars in millions):

	Workforce Reductions(1)	Demolition and Decommissioning	Non-Cancelable Lease Costs	Other Restructuring Costs	Total(2)
Accrued liabilities as of January 1, 2003	$ 3.9	$ 3.3	$ 0.6	$ —	$ 7.8
HIH balance at consolidation on May 1, 2003	24.2	—	—	—	24.2
AdMat opening balance sheet liabilities at June 30, 2003	53.2	1.5	—	6.1	60.8
2003 credits for 2001 initiatives	(2.0)	(0.3)	(0.2)	—	(2.5)
2003 charges for 2003 initiatives	28.2	—	—	—	28.2
2003 payments for 2001 initiatives	(1.9)	(0.4)	(0.2)	—	(2.5)
2003 payments for 2003 initiatives	(39.2)	—	—	—	(39.2)
Accrued liabilities as of December 31, 2003	66.4	4.1	0.2	6.1	76.8
Partial reversal of AdMat Transaction opening balance sheet accrual	(2.9)	—	(0.6)	0.7	(2.8)
2004 charges for 2003 initiatives	25.1	—	—	0.4	25.5
2004 charges for 2004 initiatives	106.5	4.9	6.4	18.0	135.8
2004 payments for 2003 initiatives	(48.0)	—	(0.4)	(3.0)	(51.4)
2004 payments for 2004 initiatives	(31.4)	(0.6)	—	(4.6)	(36.6)
Non-cash settlements	—	—	(0.5)	—	(0.5)
Foreign currency effect on reserve balance	6.3	—	—	—	6.3
Accrued liabilities as of December 31, 2004	122.0	8.4	5.1	17.6	153.1
2005 charges for 2003 initiatives	11.8	—	2.5	0.1	14.4
2005 charges for 2004 initiatives	30.7	0.5	0.6	13.4	45.2
2005 charges for 2005 initiatives	13.6	—	—	0.2	13.8
Reversals of reserves no longer required	(6.3)	(0.1)	(0.8)	(6.7)	(13.9)
Partial reversal of AdMat Transaction opening balance sheet accrual	(3.7)	(0.8)	—	(0.8)	(5.3)
2005 payments for 2001 initiatives	(0.4)	—	—	—	(0.4)
2005 payments for 2003 initiatives	(22.1)	(0.2)	(0.2)	(1.0)	(23.5)
2005 payments for 2004 initiatives	(77.7)	(1.7)	(0.4)	(6.3)	(86.1)
2005 payments for 2005 initiatives	(1.0)	—	—	(0.9)	(1.9)
Foreign currency effect on reserve balance	(12.7)	(0.3)	(0.3)	(3.8)	(17.1)
Accrued liabilities as of December 31, 2005	**$ 54.2**	**$ 5.8**	**$ 6.5**	**$11.8**	**$ 78.3**

(1) Substantially all of the positions terminated in connection with the restructuring programs were terminated under ongoing termination benefit arrangements. Accordingly, the related liabilities were accrued as a one-time charge to earnings in accordance with SFAS No. 112, "Employers' Accounting for Postemployment Benefits."

(2) Accrued liabilities by initiatives were as follows (dollars in millions):

	December 31, 2005	December 31, 2004
2001 initiatives	**$ 1.4**	$ 2.8
2003 initiatives	**28.4**	44.8
2004 initiatives	**47.7**	99.2
2005 initiatives	**11.6**	—
Foreign currency effect on reserve balance	**(10.8)**	6.3
Total	**$ 78.3**	$153.1

Details with respect to our reserves for restructuring, impairment and plant closing costs are provided below by segment and initiative (dollars in millions):

	Polyurethanes	Advanced Materials	Performance Products	Pigments	Polymers	Base Chemicals	Corporate & Other	Total
Accrued liabilities as of January 1, 2003	$ —	$ —	$ —	$ —	$ 2.8	$ 5.0	$ —	$ 7.8
HIH balance at consolidation on May 1, 2003	24.2	—	—	—	—	—	—	24.2
AdMat opening balance sheet liabilities at June 30, 2003	—	60.8	—	—	—	—	—	60.8
2003 credits for 2001 initiatives	—	—	—	—	—	(2.5)	—	(2.5)
2003 charges for 2003 initiatives	11.0	—	10.7	6.5	—	—	—	28.2
2003 payments for 2001 initiatives	—	—	—	—	—	(2.5)	—	(2.5)
2003 payments for 2003 initiatives	(19.4)	(9.3)	(8.3)	(2.2)	—	—	—	(39.2)
Accrued liabilities as of December 31, 2003	15.8	51.5	2.4	4.3	2.8	—	—	76.8
Adjustments to the opening balance sheet of AdMat	—	(2.8)	—	—	—	—	—	(2.8)
2004 charges for 2003 initiatives	10.0	—	0.4	14.5	0.6	—	—	25.5
2004 charges for 2004 initiatives	16.4	9.0	56.6	27.3	9.4	16.7	0.4	135.8
2004 payments for 2003 initiatives	(11.5)	(26.0)	(2.4)	(10.9)	(0.6)	—	—	(51.4)
2004 payments for 2004 initiatives	(11.8)	(0.1)	(1.4)	(14.3)	(6.4)	(2.2)	(0.4)	(36.6)
Non-cash settlements	—	(0.5)	—	—	—	—	—	(0.5)
Foreign currency effect on reserve balance	0.1	1.9	2.6	1.1	—	0.6	—	6.3
Accrued liabilities as of December 31, 2004	19.0	33.0	58.2	22.0	5.8	15.1	—	153.1
2005 charges for 2003 initiatives	4.1	0.2	—	10.1	—	—	—	14.4
2005 charges for 2004 initiatives	4.4	0.3	6.9	18.8	3.4	10.2	1.2	45.2
2005 charges for 2005 initiatives	—	0.4	4.0	2.6	—	6.8	—	13.8
Reversals of reserves no longer required	(7.6)	(2.9)	(0.4)	(2.8)	(0.1)	(0.1)	—	(13.9)
Partial reversal of Admat Transaction opening balance sheet accrual	—	(5.3)	—	—	—	—	—	(5.3)
2005 payments for 2001 initiatives	(0.4)	—	—	—	—	—	—	(0.4)
2005 payments for 2003 initiatives	(4.5)	(8.1)	(0.8)	(10.1)	—	—	—	(23.5)
2005 payments for 2004 initiatives	(0.8)	(7.7)	(33.6)	(20.7)	(5.2)	(16.9)	(1.2)	(86.1)
2005 payments for 2005 initiatives	—	(0.6)	(0.1)	(0.9)	—	(0.3)	—	(1.9)
Foreign currency effect on reserve balance	(3.3)	(1.5)	(8.6)	(2.4)	(0.5)	(0.8)	—	(17.1)
Accrued liabilities as of December 31, 2005	**$ 10.9**	**$ 7.8**	**$ 25.6**	**$ 16.6**	**$ 3.4**	**$ 14.0**	**$ —**	**$ 78.3**
Current portion of restructuring reserve	$ 5.5	$ 5.5	$ 17.8	$ 11.4	$ 1.0	$ 14.0	$ —	$ 55.2
Long-term portion of restructuring reserve	5.4	2.3	7.8	5.2	2.4	—	—	23.1
Estimated additional future charges for current restructuring projects:								
Estimated additional charges within one year	$ —	$ 2.6	$ 0.6	$ 5.5	$ 6.5	$ 0.1	$ —	$ 15.3
Estimated additional charges beyond one year	$ —	$ —	$ —	$ 3.6	$ 9.9	$ —	$ —	$ 13.5

2005 Restructuring Activities

As of December 31, 2005 and December 31, 2004, we had reserves for restructuring, impairment and plant closing costs of $78.3 million and $153.1 million, respectively. During the year ended December 31, 2005, we recorded additional net charges of $123.6 million (consisting of $59.5 million payable in cash and $64.1 million of non-cash charges) for workforce reductions, demolition and decommissioning and other restructuring costs associated with closure or curtailment of activities at our smaller, less efficient manufacturing facilities and for an impairment of long-lived assets. For purposes of measuring impairment charges in 2005, the fair value of the assets was determined based on estimated market prices. During the year ended December 31, 2005, we made cash payments against these reserves of $111.9 million.

As of December 31, 2005, our Polyurethanes segment restructuring reserve consisted of $10.9 million related to various restructuring programs, including the closure of our West Deptford, New Jersey site (as announced in 2004), restructuring initiatives at the Rozenburg, Netherlands site (as announced in 2003), workforce reductions throughout our Polyurethanes segment (as announced in 2003), and the closure of our Shepton Mallet, U.K. site (as announced in 2001). During 2005, we recorded asset impairment charges totaling $10.9 million related to the closure of our West Deptford site. These restructuring initiatives are not expected to result in additional restructuring charges.

As of December 31, 2005, our Advanced Materials segment restructuring reserve consisted of $7.8 million related to the restructuring programs implemented in association with the AdMat Transaction, the realignment and simplification of the commercial and technical organization and the closure of our Kaohsiung, Taiwan production facility. During 2005, we assessed the remaining restructuring reserves established in association with the AdMat Transaction and other 2004 initiatives and concluded that $5.3 million and $2.9 million, respectively, were no longer necessary. Accordingly, we reversed these restructuring reserves during the second quarter of 2005. The AdMat Transaction reserve reversal was recorded as a reduction to property, plant and equipment in accordance with EITF 95-3, "*Recognition of Liabilities in Connection with a Purchase Business Combination*." The reversal of the restructuring reserve for the other 2004 initiatives was recorded as a credit to earnings. These restructuring initiatives are expected to result in additional restructuring charges of approximately $2.6 million through 2006.

As of December 31, 2005, our Performance Products segment reserve consisted of $25.6 million related to various restructuring programs across our European surfactants business, including the closure of substantially all of our Whitehaven, U.K. surfactants facility, and the realignment of our Jefferson County, Texas operations. These restructuring activities are expected to result in additional charges of approximately $0.6 million in 2006.

As of December 31, 2005, our Pigments segment reserve consisted of $16.6 million related to the global workforce reductions announced in 2003, the reduction of our titanium dioxide ("TiO_2") production capacity announced in 2004, and the announcement in July 2005 that our Pigments and Base Chemicals segments would establish a single U.K. headquarters in Teesside, U.K. This will result in the closure of our Pigments segment's Billingham, U.K. headquarters and the creation of a new support center for both businesses. These restructuring initiatives are expected to result in additional restructuring charges of approximately $9.1 million through 2007.

As of December 31, 2005, our Polymers segment reserve consisted of $3.4 million related primarily to the closure of our phenol manufacturing unit in Australia and restructuring initiatives at Odessa, Texas. During the third quarter of 2005, we concluded that the long-lived assets of our Australian styrenics business were impaired as a result of disappointing performance and the lack of anticipated strengthening of the styrenics market. Accordingly, our Polymers segment recorded an impairment charge of $48.2 million during 2005 related to the Australian styrenics assets. The fair value of the Australian styrenics assets was determined based on estimated market prices. These restructuring initiatives are expected to result in additional restructuring charges of approximately $16.4 million through 2007.

As of December 31, 2005, our Base Chemicals segment reserve consisted of $14.0 million related primarily to the restructuring of our Jefferson County, Texas operations, which was announced in August 2005, and workforce reductions arising from the announced changes in work shift schedules and in the engineering and support functions at our Wilton and North Tees, U.K. facilities. Also included in the reserve are amounts related to an announcement in July 2005 that our Pigments and Base Chemicals segments would establish a single U.K. headquarters in Teesside, U.K.

2004 Restructuring Activities

As of December 31, 2004 and December 31, 2003, we had reserves for restructuring and plant closing costs of $153.1 million and $76.8 million, respectively. During the year ended December 31, 2004, we recorded additional charges of $299.3 million, including $138.0 million of charges for asset impairment and write downs, and $161.3 million payable in cash for workforce reductions, demolition and decommissioning and other restructuring costs associated with closure or curtailment of activities at our smaller, less efficient manufacturing facilities. During the 2004 period, we made cash payments against these reserves of $88.0 million. For purposes of measuring impairment charges in 2004, the fair value of the assets was determined by using the present value of expected cash flows.

As of December 31, 2004, our Polyurethanes segment reserve consisted of $19.0 million related to various restructuring programs, including the closure of our West Deptford, New Jersey site (as announced in 2004), restructuring initiatives at the Rozenburg, Netherlands site (as announced in 2003), workforce reductions throughout our Polyurethanes segment (as announced in 2003), and the closure of our Shepton Mallet, U.K. site (as announced in 2001). During 2004, we recorded asset impairment charges of $10.5 million related to the closure of our West Deptford site.

As of December 31, 2004, our Advanced Materials segment reserve consisted of $33.0 million related to the restructuring program implemented in association with the AdMat Transaction, the realignment and simplification of our commercial and technical organization and the closure of our Kaohsiung, Taiwan production facility. The restructuring program initiated with the AdMat Transaction included reductions in costs of the global supply chain, reductions in general and administrative costs across the business and the centralization of operations where efficiencies could be achieved. During 2004, our Advanced Materials segment reversed $2.8 million of restructuring reserves recorded in the AdMat Transaction that were no longer required and recorded a corresponding reduction to intangible assets.

As of December 31, 2004, our Performance Products segment reserve consisted of $58.2 million primarily related to various restructuring programs primarily across our European surfactants business and North American operations. During 2004, we adopted a plan to reduce the workforce across all locations in our European surfactants business by approximately 320 positions over a period of 15 months, including the closure of substantially all of our Whitehaven, U.K. surfactants facility. We also announced a plan to close our Guelph, Ontario manufacturing facility, maleic anhydride briquette facility in St. Louis, Missouri, and technical facility in Austin, Texas. During 2004, we recorded asset impairment charges totaling $40.5 million related to the closure of the Whitehaven, U.K. facility, the Guelph, Ontario facility and the maleic anhydride briquette facility in St. Louis, Missouri.

As of December 31, 2004, our Pigments segment reserve consisted of $22.0 million related to the global workforce reductions announced in 2003 and the reduction of our TiO_2 production capacity announced in 2004. During 2004, our Pigments segment announced that, following a review of our Pigments business, we would idle approximately 55,000 tonnes, or about 10%, of our total TiO_2 production capacity in the third and fourth quarter of 2004. In connection with this reduction of our TiO_2 production capacity, we recorded a $77.2 million asset impairment charge and a $4.3 million charge for the write-off of spare parts inventory and other assets.

As of December 31, 2004, our Polymers segment reserve consisted of $5.8 million related primarily to the closure of our phenol manufacturing unit in Australia and to the demolition and decommissioning of the Odessa, Texas styrene manufacturing facility. During 2004, we recorded asset impairment charges of $3.6 million in connection with the closure of our phenol manufacturing unit in Australia.

As of December 31, 2004, our Base Chemicals segment reserve consisted of $15.1 million related to workforce reductions arising from the announced change in work shift schedules and in the engineering and support functions at our Wilton and North Tees, U.K. facilities.

During 2004, we recorded a restructuring charge in corporate and other of $2.3 million, of which $1.9 million related to non-cash charges and $0.4 million related to relocation costs.

2003 Restructuring Activities

As of December 31, 2003 and December 31, 2002, we had reserves for restructuring and plant closing costs of $76.8 million and $7.8 million, respectively. During the year ended December 31, 2003, we recorded additional charges of $37.9 million, including $12.2 million of charges for asset impairment and write downs, and $25.7 million payable in cash for workforce reductions, demolition and decommissioning and other restructuring costs associated with closure or curtailment of activities at our smaller, less efficient manufacturing facilities. During the 2003 period, we made cash payments against these reserves of $41.7 million. For purposes of measuring impairment charges, the fair value of the assets was determined by using the present value of expected cash flows.

As of December 31, 2003, our Polyurethanes segment reserve consisted of $15.8 million related to the restructuring initiatives at the Rozenburg, Netherlands site (as announced in 2003), workforce reductions throughout our Polyurethanes segment (as announced in 2003), and the closure of our Shepton Mallet, U.K. site (as announced in 2001).

As of December 31, 2003, our Advanced Materials segment reserve consisted of $51.5 million related to the restructuring program implemented in association with the AdMat Transaction. This program included reductions in costs of the global supply chain, reductions in general and administrative costs across the business and the centralization of operations where efficiencies could be achieved.

As of December 31, 2003, our Performance Products segment reserve consisted of $2.4 million relating to the closure of a number of plants at the Whitehaven, U.K. facility, the closure of an administrative office in London, U.K., the rationalization of a surfactants technical center in Oldbury, U.K., and the restructuring of a facility in Barcelona, Spain. During 2003, we recorded asset impairment charges of $11.4 million in connection with the facility closure at Whitehaven, U.K.

As of December 31, 2003, our Pigments segment reserve consisted of $4.3 million related to workforce reductions of approximately 63 employees across our global Pigments operations. The overall cost reduction program to be completed through 2005 for our Pigments segment involved approximately 250 employees.

As of December 31, 2003, our Polymers segment reserve consisted of $2.8 million related to the demolition and decommissioning of our Odessa, Texas styrene manufacturing facility and non-cancelable lease costs.

11. Asset Retirement Obligations

We recognize asset retirement obligations in the period in which they are incurred. When the liability is initially recorded, we capitalize the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its settlement value and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, we will recognize a gain or loss for any difference between the settlement amount and the liability recorded. Upon initial adoption of SFAS No. 143, "*Accounting for Asset Retirement Obligations*," we identified certain legal obligations with indeterminate settlement dates; therefore, the fair value of these obligations could not be reasonably estimated and we did not record a liability. On December 31, 2005, we adopted FIN 47. FIN 47 clarifies the term *conditional asset retirement obligation* used in SFAS No. 143 and clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation.

Asset retirement obligations consist primarily of landfill capping and closure and post-closure costs and asbestos abatement costs. We are legally required to perform capping and closure and post-closure care on the landfills and asbestos abatement on certain of our premises. In accordance with SFAS No. 143 and FIN 47, for each landfill and premise containing asbestos we recognized the fair value of a liability for an asset retirement obligation and capitalized that cost as part of the cost basis of the related asset.

The following table describes changes to our asset retirement obligation liability (dollars in millions):

	2005	2004
Asset retirement obligation at the beginning of the year	**$ 7.2**	$ —
Liabilities incurred	**—**	6.7
Accretion expense	**0.5**	0.5
FIN 47 net transition adjustment	**38.9**	—
Asset retirement obligation at the end of the year	**$46.6**	$7.2

The cumulative effect of adopting FIN 47 resulted in an after-tax charge to earnings of $31.7 million (net of income taxes of $4.8 million), or $0.14 diluted loss per share for the year ended December 31, 2005. The pro forma effects of the application of FIN 47 as if the statement had been adopted on January 1, 2003 (instead of on December 31, 2005) are presented below (pro forma amounts assuming the accounting change is applied retroactively, net of tax) (dollars in millions):

	Year Ended December 31,		
	2005	2004	2003
Income (loss) from continuing operations, as reported	**$ 37.0**	$(219.9)	$(317.2)
Pro forma adjustments:			
Depreciation expense	**(0.3)**	(0.3)	(0.3)
Accretion expense	**(3.0)**	(2.8)	(2.6)
Income (loss) from continuing operations, pro forma	**$ 33.7**	$(223.0)	$(320.1)
Pro forma basic and diluted loss from continuing operations, per share	**$(0.04)**	$ (1.41)	$ (1.79)

The pro forma asset retirement obligation liability balances as if FIN 47 had been adopted on January 1, 2003 (instead of on December 31, 2005) were as follows (dollars in millions):

	2005	2004
Liability for asset retirement obligations at beginning of period	**$43.1**	$33.1
Liability for asset retirement obligations at end of period	**46.6**	43.1

12. Other Noncurrent Liabilities

Other noncurrent liabilities consisted of the following (dollars in millions):

	December 31,	
	2005	2004
Pension liabilities	**$380.8**	$437.1
Other postretirement benefits	**129.9**	90.0
Environmental accruals	**18.1**	27.4
Notes payable to affiliates	**—**	29.9
Restructuring, impairment and plant closing costs	**23.1**	30.9
Fair value of derivatives	**—**	8.3
Asset retirement obligation	**46.6**	7.2
Other noncurrent liabilities	**171.7**	126.3
Total	**$770.2**	$757.1

13. Securitization of Accounts Receivable

Under our accounts receivable securitization program ("A/R Securitization Program"), we grant an undivided interest in certain of our trade receivables to a qualified off-balance sheet entity (the "Receivables Trust") at a discount. This undivided interest serves as security for the issuance of commercial paper and medium-term notes by the Receivables Trust.

As of December 31, 2005 and 2004, the Receivables Trust had approximately $192.2 million and $208.4 million, respectively, in U.S. dollar equivalents in medium-term notes outstanding and approximately $110.1 million in U.S. dollar equivalents and nil, respectively in commercial paper outstanding. The medium-term notes have a scheduled maturity date of September 15, 2006 with the scheduled amortization period commencing June 30, 2005. Our commercial paper facility provides for the issuance of both euro- and U.S. dollar-denominated commercial paper up to a U.S. dollar equivalent of $175 million of which $125 million is committed through June 30, 2007 and $50 million is committed through September 30, 2006. Our A/R Securitization Program is currently our cheapest form of borrowing within our capital structure. As of December 31, 2005, the weighted average interest rate for the medium term notes and commercial paper combined was approximately 3.5%.

As of December 31, 2005 and 2004, our retained interest in receivables (including servicing assets) subject to the program was approximately $164 million and $328 million, respectively. The value of the retained interest is subject to credit and interest rate risk. For the years ended December 31, 2005, 2004 and 2003, new sales of accounts receivable sold into the program totaled approximately $5,585 million, $5,071 million and $2,773 million, respectively, and cash collections from receivables sold into the program that were reinvested totaled $5,589 million, $5,017 million and $2,794 million, respectively. Servicing fees received during the years ended December 31, 2005, 2004 and 2003 were approximately $6 million, $6 million and $3 million, respectively.

We incur losses on the A/R Securitization Program for the discount on receivables sold into the program and fees and expenses associated with the program. For the years ended December 31, 2005, 2004 and 2003, losses on the A/R Securitization Program were $10.7 million, $15.6 million and $20.4 million, respectively. We also retain responsibility for the economic gains and losses on forward contracts mandated by the terms of the program to hedge the currency exposures on the collateral supporting the off-balance sheet debt issued. Gains and losses on forward contracts included as a component of the loss on the A/R Securitization Program were nil, a loss of $2.4 million and a loss of $13.8 million for the years ended December 31, 2005, 2004 and 2003, respectively. As of each of December 31, 2005 and 2004, the fair value of the open forward currency contracts was nil.

The key economic assumptions used in valuing the residual interest are presented below:

	December 31,	
	2005	2004
Weighted average life (in days)	**35 to 40**	35 to 40
Credit losses (annual rate)	**Less than 1%**	Less than 1%
Discount rate (weighted average life)	**Less than 1%**	Less than 1%

A 10% and 20% adverse change in any of the key economic assumptions would not have a material impact on the fair value of the retained interest. Total receivables over 60 days past due as of December 31, 2005 and 2004 were $22.5 million and $12.1 million, respectively.

14. Long-Term Debt

Long-term debt outstanding as of December 31, 2005 and 2004 was as follows (dollars in millions):

	December 31,	
	2005	2004
New Credit Facilities:		
Term Loan B	**$2,099.3**	$ —
Former HI Credit Facilities:		
Term Loan B	**—**	1,314.1
Former HLLC Credit Facilities:		
Term Loan B	**—**	715.0
Revolving Facility	**—**	125.0
2010 Secured Notes	**293.6**	451.1
2009 Senior Notes	**454.7**	456.0
2011 Senior Floating Rate Notes	**100.0**	100.0
2012 Senior Fixed Rate Notes	**198.0**	300.0
Subordinated Notes	**1,145.2**	1,242.0
Former HLLC Subordinated Notes	**—**	59.3
Huntsman Specialty Subordinated Note	**—**	101.2
Subordinated note—affiliate	**—**	40.9
HIH Senior Discount Notes	**—**	494.7
Australian Credit Facilities	**63.8**	59.2
HPS (China) debt	**42.6**	10.4
AdMat Senior Secured Notes	**—**	348.6
HMP Senior Discount Notes	**—**	411.9
Fair Value adjustment of HIH debt	**—**	9.6
Other	**60.7**	60.5
Total debt	**$4,457.9**	$6,299.5
Current portion	**$ 44.6**	$ 37.5
Long-term portion	**4,413.3**	6,221.1
Long-term debt—affiliate	**—**	40.9
Total debt	**$4,457.9**	$6,299.5

During 2005, we completed a series of transactions designed to simplify our consolidated group's financing and public reporting structure, to reduce our cost of borrowings and to facilitate other organizational efficiencies. On February 16, 2005, we completed our initial public offering of common and mandatory preferred stock that resulted in approximately $1.5 billion in net proceeds, substantially all of which were used to repay indebtedness. On August 16, 2005, we completed the HLLC Merger and on December 20, 2005 we completed the AdMat Minority Interest Transaction. As a result of these transactions, we now operate all of our businesses through HI and substantially all of our debt obligations are obligations of HI and/or its subsidiaries.

Subsidiary Debt

With the exception of our guarantee of certain debt of HPS, our consolidated Chinese splitting joint venture, and certain indebtedness incurred from time to time to finance directors and officers insurance premiums as discussed in "—Other Debt" below, we have no direct debt or guarantee obligations. Substantially all of our debt has been incurred by our subsidiaries, and such debt is non-recourse to us and we have no contractual obligation to fund our subsidiaries respective operations.

Credit Facilities

On August 16, 2005, in connection with the HLLC Merger, we repaid HI's senior secured credit facilities, Huntsman LLC's senior secured credit facilities and a subordinated note (the "Huntsman Specialty Subordinated Note") with available cash and with the proceeds of a new senior credit facility (the "Senior Credit Facilities"). On December 20, 2005, in connection with the AdMat Minority Interest Transaction, we increased the U.S. dollar term loan B under the Senior Credit Facilities by $350 million. On each of September 19, 2005 and December 30, 2005, we voluntarily prepaid approximately $50 million in U.S. dollar equivalents on term loan B under the Senior Credit Facilities. As of December 31, 2005, the Senior Credit Facilities consisted of (i) a $650 million revolving facility (the "Revolving Facility"), (ii) a $1,986.5 million term loan B facility (the "Dollar Term Loan"), and (iii) a €95.3 million (approximately $113 million) euro term loan B facility (the "Euro Term Loan," and collectively with the Dollar Term Loan, the "Term Loans").

As of December 31, 2005, there were no borrowings outstanding under the Revolving Facility. At our option, the Revolving Facility bears interest at a rate equal to: (i) a LIBOR-based eurocurrency rate plus an applicable margin ranging between 1.25% and 1.75% depending upon the most recent leverage ratio, or (ii) a prime-based rate plus an applicable margin ranging between 0.25% and 0.75% depending upon the most recent leverage ratio. As of December 31, 2005, borrowings under the Revolving Facility bear interest at LIBOR plus 1.75%. The Revolving Facility matures in 2010; provided that the maturity of the Revolving Facility will accelerate if we do not repay all but $100 million of our outstanding debt securities at least three months prior to the maturity of those securities. As of December 31, 2005, we had $32.5 million in U.S. dollar equivalents of letters of credit and bank guarantees issued and outstanding under the Revolving Facility.

At our option, the Term Loans bear interest at a rate equal to: (i) a LIBOR-based eurocurrency rate plus an applicable margin ranging between 1.50% and 2.00% depending upon the loan currency and the most recent leverage ratio, or (ii) a prime-based rate plus an applicable margin ranging between 0.50% and 0.75% depending upon the loan currency and the most recent leverage ratio. As of December 31, 2005, borrowings under the Dollar Term Loan bear interest at LIBOR plus 1.75% and borrowings under the Euro Term Loan bear interest at LIBOR plus 2.00%. Each of the Dollar Term Loan and the Euro Term Loan matures in 2012; provided that the maturity of the Term Loans will accelerate if we do not repay all but $100 million of our outstanding debt securities at least three months prior to the maturity of those securities. The Dollar Term Loan and the Euro Term Loan each require amortization payments of 1% annually.

As of December 31, 2005, the weighted average interest rate on the Senior Credit Facilities was approximately 6.0%, excluding the impact of interest rate hedges.

Our obligations under the Senior Credit Facilities are guaranteed by substantially all of our domestic subsidiaries and certain of our foreign subsidiaries (the "Guarantors") and are secured by a first priority lien (generally shared with the holders of the 2010 Secured Notes (as defined below)) on substantially all of our domestic property, plant and equipment, the stock of all of HI's material domestic subsidiaries and certain foreign subsidiaries, and pledges of intercompany notes between our various subsidiaries.

The credit agreements governing the Senior Credit Facilities contain financial covenants typical for these types of agreements, including a minimum interest coverage ratio, a maximum debt-to-EBITDA ratio and a limit on capital expenditures. The credit agreements also contain customary restrictions on our ability to incur liens, incur additional debt, merge or sell assets, pay dividends, prepay other indebtedness, make investments or engage in transactions with affiliates, and other customary restrictions and default provisions.

Secured Notes

On August 16, 2005, in connection with the HLLC Merger, HI entered into supplemental indentures under which it assumed the obligations of Huntsman LLC under its outstanding 11.625% senior secured notes due 2010 (the "2010 Secured Notes"). As of December 31, 2005, HI had outstanding $296.0 million aggregate principal amount ($293.6 million book value and $455.4 million original aggregate principal amount) of the 2010 Secured Notes, which are redeemable after October 15, 2007 at 105.813% of the principal amount thereof, declining ratably to par on and after October 15, 2009. In connection with our initial public offering of common and preferred stock, we used proceeds to redeem $159.4 million of aggregate principal amount of the 2010 Secured Notes. Interest on the 2010 Secured Notes is payable semiannually in April and October of each year. The 2010 Secured Notes are secured by a first priority lien on all collateral securing the Senior Credit Facilities as described above (other than capital stock of HI's subsidiaries), shared equally with the lenders on the Senior Credit Facilities, subject to certain intercreditor arrangements.

The 2010 Secured Notes contain covenants relating to the incurrence of debt and limitations on distributions, asset sales and affiliate transactions and are guaranteed by the Guarantors. The indentures governing the 2010 Secured Notes also contain change of control provisions requiring us to offer to repurchase the notes upon a change of control.

On December 20, 2005, in connection with the AdMat Minority Interest Transaction, we redeemed all of AdMat's outstanding $250 million 11% senior secured fixed rate notes due 2010 and paid $35.6 million in call premiums. Also during 2005, we redeemed all of AdMat's remaining $100.0 million secured floating rate notes due 2008 and paid $6.0 million in call premiums. The $250 million of AdMat secured fixed rate notes bore a per annum fixed rate of interest of 11%, and the AdMat secured floating rate notes bore interest at a rate per annum equal to LIBOR plus 8.0%, subject to a floor with respect to LIBOR of 2.0%. The AdMat floating rate notes were issued with an original issue discount of 2.0%.

Senior Notes

As of December 31, 2005, we had outstanding $450.0 million aggregate principal amount ($455.0 million book value) 9.875% senior notes due 2009 that were issued at a premium (the "2009 Senior Notes"). The 2009 Senior Notes are unsecured obligations. Interest on the 2009 Senior Notes is payable semiannually in March and September and these notes are redeemable after March 1, 2006 at 104.937% of the original aggregate principal amount thereof, declining ratably to par on and after March 1, 2008.

As of December 31, 2005, we had outstanding $198.0 million ($300 million original aggregate principal amount) of 11.5% senior unsecured fixed rate notes due 2012 (the "2012 Senior Fixed Rate Notes") and $100.0 million senior unsecured floating rate notes due 2011 (the "2011 Senior Floating Rate Notes"). These notes were previously obligations of Huntsman LLC. In connection with the HLLC Merger, on August 16, 2005, HI entered into supplemental indentures under which it assumed the obligations of the 2012 Senior Fixed Rate Notes and the 2011 Senior Floating Rate Notes. In connection with our initial public offering of common and preferred stock, we used proceeds to repay $102.0 million of aggregate principal amount of the 2012 Senior Fixed Rate Notes. Interest on the 2012 Senior Fixed Rate Notes is payable semiannually in January and July of each year. Interest on the 2011 Senior Floating Rate Notes is at LIBOR plus 7.25% (11.4% as of December 31, 2005) and is payable quarterly in January, April, July and October of each year. The 2012 Senior Fixed Rate Notes are redeemable after July 15, 2008 at 105.75% of the principal amount thereof, declining ratably to par on and after July 15, 2010. The 2011 Senior Floating Rate Notes are redeemable after July 15, 2006 at 104.0% of the principal amount thereof, declining ratably to par on and after July 15, 2008. At any time prior to July 15, 2007 we may redeem up to 40% of the original aggregate principal amount of the 2012 Senior Fixed Rate Notes at a redemption price of 111.5% with proceeds of a qualified equity offering. At any time prior to July 15, 2006 we may redeem up to 40% of the original aggregate principal amount of the 2011 Senior Floating Rate Notes with the proceeds of a qualified equity offering at a redemption price equal to the par value plus LIBOR plus 7.25%.

The indentures governing the 2009 Senior Notes, the 2012 Senior Fixed Rate Notes and the 2011 Senior Floating Rate Notes contain covenants, among other things, relating to the incurrence of debt and limitations on distributions, asset sales and affiliate transactions and are guaranteed by the Guarantors. The indentures governing these notes also contain change of control provisions requiring us to offer to repurchase the notes upon a change of control.

Subordinated Notes

As of December 31, 2005, HI had outstanding $175 million 7.375% senior subordinated notes due 2015 and €135 million ($159.8 million) 7.5% senior subordinated notes due 2015 (collectively, the "2015 Subordinated Notes"). The 2015 Subordinated Notes are redeemable on or after January 1, 2010 at 103.688% and 103.750%, respectively, of the principal amount thereof, declining ratably to par on and after January 1, 2013. In addition, at any time prior to January 1, 2008, we may redeem up to 40% of the original aggregate principal amount of the $175 million and €135 million 2015 Subordinated Notes at redemption prices of 107.375% and 107.5%, plus accrued and unpaid interest, respectively, with the proceeds of a qualified equity offering. Under the terms of a registration rights agreement among HI, the Guarantors and the initial purchasers of the 2015 Subordinated Notes, we were required to complete an exchange offer for the 2015 Subordinated Notes on or before September 11, 2005. Under the terms of the registration rights agreement, because we did not complete the exchange offer by this date, we are required to pay additional interest on the 2015 Subordinated Notes at a rate of 0.25% per year for the first 90-day period following this date, and this rate increases by an additional 0.25% for each subsequent 90-day period, up to a maximum of 1.0%. As of December 31, 2005, we were paying an additional 0.50% on the 2015 Subordinated Notes.

As of December 31, 2005, HI also had outstanding $366.1 million ($600 million original aggregate principal amount) and €372.0 million ($440.4 million) (€450 million original aggregate principal amount) 10.125% senior subordinated notes due 2009 (the "2009 Subordinated Notes" and, together with the 2015 Subordinated Notes, the "Subordinated Notes"). As of December 31, 2005, the 2009 Subordinated Notes have an unamortized premium of $3.8 million and are redeemable at 103.375% of the principal amount thereof, which declines to 101.688% on July 1, 2006 and to par on and after July 1, 2007.

As of December 31, 2005, HI had outstanding a combined total of $541.1 million and €507.0 million ($600.3 million) Subordinated Notes, plus $3.8 million of unamortized premium. The Subordinated Notes are unsecured and interest is payable semiannually in January and July of each year.

The Subordinated Notes contain, among other things, covenants relating to the incurrence of debt and limitations on distributions, asset sales and affiliate transactions and are guaranteed by the Guarantors. The indentures governing these notes also contain change of control provisions requiring us to offer to repurchase the notes upon a change of control.

Immediately prior to the HLLC Merger, we funded the redemption of Huntsman LLC's outstanding 9.5% senior subordinated notes due 2007 and Huntsman LLC's senior subordinated floating rate notes due 2007, which together had an aggregate outstanding principal amount of approximately $59.3 million. The redemption was completed on September 1, 2005.

On August 16, 2005, in connection with the HLLC Merger, we repaid, in full, the Huntsman Specialty Subordinated Note which had an aggregate principal amount of $106.6 million and bore interest at 7.0%.

Senior Discount Notes

On June 30, 1999, HIH issued senior discount notes ("HIH Senior Discount Notes") and senior subordinated discount notes (the "HIH Senior Subordinated Discount Notes" and, collectively with the HIH Senior Discount Notes, the "HIH Discount Notes") to ICI with initial stated values of $242.7 million and $265.3 million, respectively. The HIH Discount Notes were due December 31, 2009. Prior to redemption, interest on the HIH Senior Discount Notes and the HIH Senior Subordinated Discount Notes accrued at 13.375% and 13.125%, respectively, per annum and was paid in kind. During the first quarter of 2005, we redeemed, in full, $505.6 million of accreted value of the HIH Senior Discount Notes and paid call premiums of approximately $33.8 million. In order to make this redemption, we used proceeds from our initial public offering in the amount of $504.4 million and received $35.0 million in dividends from HI. In addition, on February 28, 2005, in connection with our initial public offering, HMP contributed the Senior Subordinated Discount Notes at an accreted value of $422.8 million to HIH in exchange for equity in HIH.

On May 9, 2003, HMP issued units consisting of 15% senior secured discount notes due 2008 (the "HMP Senior Discount Notes") with an accreted value of $423.5 million and warrants to purchase common stock of HMP. On February 28, 2005, we used proceeds from our initial public offering to redeem in full the HMP Senior Discount Notes at an accreted value of $550.0 million, plus a redemption premium of $41.3 million.

Other Debt

We maintain a $25.0 million multicurrency overdraft facility used for the working capital needs for our European subsidiaries (the "European Overdraft Facility"). As of December 31, 2005 and 2004, there were no borrowings outstanding under the European Overdraft Facility.

HPS, one of our Chinese MDI joint ventures and our consolidated affiliate, has obtained secured loans for the construction of MDI production facilities near Shanghai, China. This debt consists of various committed loans in the aggregate amount of approximately $121 million. As of December 31, 2005, HPS had $19.5 million outstanding in U.S. dollar borrowings and 186 million in RMB borrowings ($23.1 million) under these facilities. The interest rate on these facilities is LIBOR plus 0.48% for U.S. dollar borrowings and 90% of the Peoples Bank of China rate for RMB borrowings. As of December 31, 2005, the interest rate was approximately 5.0% for U.S. dollar borrowings and 5.5% for RMB borrowings. The loans are secured by substantially all the assets of HPS and will be repaid in 16 semiannual installments beginning no later than June 30, 2007. The financing is non-recourse to HI but is guaranteed during the construction phase by affiliates of HPS, including us. We have guaranteed 70% of any amount due and unpaid by HPS under the loans described above (except for the VAT facility, which is not guaranteed). Our guarantees remain in effect until HPS has commenced production of at least 70% of capacity for at least 30 days and achieved a debt service cost ratio of at least 1.5:1. Our Chinese MDI joint ventures are unrestricted subsidiaries under the Senior Credit Facilities and under the indentures governing our outstanding notes. HPS is expected to begin operations at the beginning of the third quarter of 2006.

Our Australian subsidiaries maintain credit facilities that had an aggregate outstanding balance of A$87.2 million ($63.8 million) as of December 31, 2005. These facilities are non-recourse to us and bear interest at the Australian index rate plus a margin of 2.9%. As of December 31, 2005, the interest rate for these facilities was 8.6%.

We finance certain of our insurance premiums. As of December 31, 2005, we had $20.6 million in insurance premium financing, all of which is due in the next 12 months.

On February 16, 2005, Huntsman LLC paid in full a 15% note payable to an affiliated entity in the amount of $41.6 million.

Compliance with Covenants

Our management believes that we are in compliance with the covenants contained in the agreements governing the Senior Credit Facilities, the A/R Securitization Program and the indentures governing our notes.

Maturities

The scheduled maturities of our debt by year as of December 31, 2005 are as follows (dollars in millions):

Year ending December 31:	
2006	$ 44.6
2007	84.0
2008	23.9
2009	1,289.2
2010	317.3
Later Years	2,698.9
	$4,457.9

We also have lease obligations accounted for as capital leases which are included in other long-term debt. The scheduled maturities of our commitments under capital leases are as follows (dollars in millions):

Year ending December 31:	
2006	$ 2.3
2007	2.1
2008	2.4
2009	2.7
2010	2.3
Later Years	0.8
Total minimum payments	12.6
Less: amounts representing interest	(4.0)
Present value of minimum lease payments	8.6
Less: current portion of capital leases	(1.9)
Long-term portion of capital leases	$ 6.7

In connection with repayment of indebtedness, we recorded a loss on early extinguishment of debt for the years ended December 31, 2005 and 2004 of $322.5 million and $25.6 million, respectively.

15. Fair Value of Financial Instruments

	December 31,			
	2005		2004	
(Dollars in millions)	**Carrying Amount**	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Non-qualified employee benefit plan investments	**$ 5.4**	**$ 5.4**	$ 4.3	$ 4.3
Government securities	**31.2**	**31.2**	—	—
Long-term debt (including current portion)	**4,457.9**	**4,593.2**	6,299.5	6,820.2
Notes receivable from affiliates	**3.0**	**3.0**	23.6	23.6

Interest rates that are currently available to us for issuance of debt with similar terms and remaining maturities are used to estimate fair value for debt issues that are not quoted on an exchange.

The fair value of government securities and non-qualified employee benefit plan investments are estimated using prevailing market prices.

The carrying amount reported in the balance sheets for cash and cash equivalents, accounts receivable, and accounts payable approximates fair value because of the immediate or short-term maturity of these financial instruments.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2005 and 2004. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since December 31, 2005, and current estimates of fair value may differ significantly from the amounts presented herein.

16. Derivative Instruments and Hedging Activities

We are exposed to market risks, such as changes in interest rates, foreign exchange rates and commodity pricing risks. From time to time, we enter into transactions, including transactions involving derivative instruments, to manage certain of these exposures. We manage interest rate exposure through a program designed to reduce the impact of fluctuations in variable interest rates and to meet the requirements of certain credit agreements.

All derivatives, whether designed in hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated as a fair-value hedge, the changes in the fair value of the derivative and the hedged items are recognized in earnings. If the derivative is designated as a cash-flow hedge, changes in the fair value of the derivative are recorded in accumulated other comprehensive (loss) income, to the extent effective, and will be recognized in the income statement when the hedged item affects earnings. We perform effectiveness assessments in order to use hedge accounting at each reporting period. For a derivative that does not qualify as a hedge, changes in fair value are recognized in earnings.

We have also participated in some derivatives that were classified as non-designated derivative instruments and we hedge our net investment in certain European operations. Changes in the fair value of any non-designated derivative instruments and any ineffectiveness in cash flow hedges are reported in current period earnings. Changes in the fair value of the hedge in the net investment of certain European operations are recorded in accumulated other comprehensive (loss) income.

Interest Rate Hedging

Through our borrowing activities, we are exposed to interest rate risk. Such risk arises due to the structure of our debt portfolio, including the duration of the portfolio and the mix of fixed and floating interest rates. Actions taken to reduce interest rate risk include managing the mix and rate characteristics of various interest bearing liabilities as well as entering into interest rate swaps, collars and options.

We may purchase both interest rate swaps and interest rate collars to reduce the impact of changes in interest rates on our floating-rate long-term debt. Under interest rate swaps, we agree with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional principal amount. When we enter into collars, the collars entitle us to receive from the counterparties (major banks) the amounts, if any, by which our interest payments on certain of our floating-rate borrowings exceed a certain rate, and require us to pay to the counterparties (major banks) the amount, if any, by which our interest payments on certain of our floating-rate borrowings are less than a certain rate.

Interest rate contracts were recorded as a component of other non-current liabilities as of December 31, 2005 and 2004. The effective portion of the changes in the fair value of the swaps are recorded in accumulated other comprehensive loss, with any ineffectiveness recorded in interest expense.

As of December 31, 2005 and 2004, we had entered into various types of interest rate contracts to manage our interest risk on our long-term debt as indicated below (dollars in millions):

	2005	2004
Notional amount	**$83.3**	$184.3
Fair value		
Cash flow hedges	**—**	(2.0)
Non-designated derivatives	**0.4**	(1.2)
Maturity	**2006–2010**	2005–2007

For the year ended December 31, 2005 and 2004, the changes in accumulated other comprehensive (loss) income associated with cash flow hedging activities is indicated below:

	2005	2004
Balance at January 1	**$ 5.2**	$ 15.7
Current period change in fair value	**(1.9)**	(10.9)
Reclassifications to earnings	**(1.2)**	0.4
Balance at December 31	**$ 2.1**	$ 5.2

During the next twelve months ending December 31, 2006, approximately $2.0 million is expected to be reclassified from accumulated other comprehensive loss to earnings. The actual amount that will be reclassified to earnings over the next twelve months may vary from this amount due to changing market conditions.

We are exposed to credit losses in the event of nonperformance by a counterparty to the derivative financial instruments. We anticipate, however, that the counterparties will be able to fully satisfy obligations under the contracts. Market risk arises from changes in interest rates.

Commodity Price Hedging

As of December 31, 2005, there were no cash flow commodity price hedging contracts in place. As of December 31, 2004, there was $0.1 million included in other current assets and accrued liabilities related to cash flow commodity price hedging contracts recorded in other current assets and other comprehensive income.

As of December 31, 2005, commodity price hedging contracts designated as fair value hedges are included in the balance sheet as $0.4 million in other current liabilities and as a $0.8 million increase in inventory. As of December 31, 2004, commodity price hedging contracts designated as fair value hedges are included in the balance sheet as $1.5 million in other current assets and a $1.8 million decrease in inventory.

Commodity price contracts not designated as hedges are reflected in the balance sheet as $2.0 million and $0.2 million in other current assets and liabilities, respectively, as of December 31, 2005 and as $5.6 million and $1.8 million in other current assets and liabilities, respectively, as of December 31, 2004.

During the year ended December 31, 2005 we recorded a decrease of $2.2 million and, for the years ended December 31, 2004 and 2003, we recorded an increase of $2.4 million and $1.2 million, respectively, related to changes in cost of goods sold related to net gains and losses from settled contracts, net gains and losses in fair value price hedges, and the change in fair value on commodity price hedging contracts not designated as hedges.

Foreign Currency Rate Hedging

We may enter into foreign currency derivative instruments to minimize the short-term impact of movements in foreign currency rates. These contracts are not designated as hedges for financial reporting purposes and are recorded at fair value. As of December 31, 2005 and 2004 and for the year ended December 31, 2005, 2004 and 2003 the fair value, change in fair value, and realized gains (losses) of outstanding foreign currency rate hedging contracts was not significant.

Net Investment Hedging

As of December 31, 2005, excluding the cross-currency interest rate swaps discussed below, we have designated approximately €330 million of our euro-denominated debt as a hedge of our net investments in foreign subsidiaries. Currency effects of net investment hedges produced a gain of $55.0 million, a loss of $51.5 million and a loss of $93.6 million in other comprehensive income (loss) (foreign currency translation adjustments) for the years ended December 31, 2005, 2004, and 2003, respectively. As of December 31, 2005 and 2004, there was a cumulative net loss of approximately $133.5 million and $188.5 million, respectively.

We have outstanding cross-currency interest rate swaps of fixed rate debt. We entered into these swaps with various financial institutions in order to more effectively hedge our overall underlying euro long-term net asset and euro cash flow exposures. In the aggregate, we agreed to swap $175.0 million of 7.375% fixed rate debt for €132.4 million of 6.63% fixed rate debt. As a result, we will pay fixed rate interest at an annual rate of 6.63% on €132.4 million of principal and will receive fixed rate interest at an annual rate of 7.375% on $175 million of principal through January 1, 2010. At maturity on January 1, 2010, HI is required to pay principal of €132.4 million and will receive principal of $175.0 million. Interest installments are paid semiannually on January 1 and July 1 of each year beginning July 1, 2005 through maturity. The swap is designated as a net investment hedge. As of December 31, 2005, the fair value of this swap was $15.0 million and recorded in the balance sheet in other noncurrent assets. The fair value as of December 31, 2004 was a liability of $8.0 million recorded in other noncurrent liabilities.

In another swap transaction, we agreed to swap $31.3 million of 11.0% fixed rate debt for €25.0 million of 9.4% fixed rate debt. As a result, we will pay fixed rate interest at an annual rate of 9.4% on €25.0 million of principal and will receive fixed rate interest of 11.0% on $31.3 million of principal through July 15, 2007. At maturity, July 15, 2007, we are required to pay principal of €25.0 million and will receive principal of $31.3 million. Interest installments are paid semiannually on January 15 and July 15 of each year, beginning July 15, 2005 through maturity. The swap is not designated as a hedge for reporting purposes. As of December 31, 2005, the fair value of this was $2.0 million and recorded in other noncurrent assets in the balance sheet. For the year ended December 31, 2005, this swap decreased interest expense by $0.3 million.

Foreign currency transaction gains and losses on intercompany loans that are not designated as Permanent Loans (as defined below) are recorded in earnings. Foreign currency transaction gains and losses on intercompany loans that we may designate as permanent because they are not expected to be repaid in the foreseeable future ("Permanent Loans") are recorded in other comprehensive income. From time to time, we review such designation of intercompany loans, and, during the year ended December 31, 2005, we have increased the amount of our Permanent Loans.

17. Employee Benefit Plans

Defined Benefit Pension and Other Postretirement Benefit Plans

Our employees participate in a trusteed, non-contributory defined benefit pension plan (the "Plan") that covers substantially all of our full-time U.S. employees. Effective July 1, 2004, the Plan formula for employees not covered by a collective bargaining agreement was converted to a cash balance plan. For represented employees, participation in the cash balance plan is subject to the terms of negotiated contracts. Between July 1, 2004 and September 1, 2005, thirteen collectively bargained units had negotiated to participate. For participating employees, benefits accrued under the prior formula were converted to opening cash balance accounts. The new cash balance benefit formula provides annual pay credits from 4% to 12% of eligible pay, depending on age and service, plus accrued interest. Participants in the plan on July 1, 2004 may be eligible for additional annual pay credits from 1% to 8%, depending on their age and service as of that date, for up to five years. The conversion to the cash balance plan did not have a significant impact on the ongoing pension expense.

We sponsor defined benefit plans in a number of countries outside of the U.S. The availability of these plans, and their specific design provisions, are consistent with local competitive practices and regulations.

We also sponsor two unfunded postretirement benefit plans other than pensions, which provide medical and life insurance benefits.

In May 2004, the FASB issued FASB Staff Position ("FSP") No. 106-2, *"Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003."* The FSP provides accounting guidance for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") to a sponsor of a postretirement health care plan. On July 1, 2004 we adopted the provisions of FSP No. 106-2. The adoption of FSP No. 106-2 reduced our non-pension postretirement accumulated benefit obligation by approximately $4.7 million, which has been recognized as a change in our unrecognized actuarial gain/loss. The adoption of FSP No. 106-2 reduced the net periodic postretirement benefit cost recognized during the year ended December 31, 2004 by approximately $0.5 million.

In 2005, we changed the measurement date of our pension and postretirement benefit plans from December 31 to November 30. We believe the one-month change of the measurement date is preferable because it provides us more time to review the completeness and accuracy of the actuarial benefit information which results in an improvement in our internal control procedures. The effect of the change in measurement date on the respective obligations and assets of the plan resulted in a cumulative effect of a change in accounting principle credit, net of tax of $1.9 million, of $4.0 million ($0.02 decrease in loss per share) recorded in the year ended December 31, 2005. The pro forma impact of changing this accounting policy is to reduce net loss by approximately $0.2 million ($0.00 per share) and $6.9 million ($0.03 per share), respectively, for the years ended December 31, 2004 and 2003.

The following table sets forth the changes in funded status of the plans and the amounts recognized in the consolidated balance sheets during 2005 and 2004 (dollars in millions). The measurement date of the plans was November 30 in 2005 and December 31 in 2004.

	Defined Benefit Pension Plans				Other Postretirement Benefit Plans			
	2005		2004		**2005**		2004	
	U.S. Plans	**Non-U.S. Plans**	U.S. Plans	Non-U.S. Plans	**U.S. Plans**	**Non-U.S. Plans**	U.S. Plans	Non-U.S. Plans
Change in benefit obligation								
Benefit obligation at beginning of year	**$ 489.5**	**$2,020.7**	$ 483.2	$1,658.3	**$ 126.9**	**$ 4.3**	$ 140.8	$ 4.2
Adjustment due to change in measurement date	**(2.1)**	**(11.5)**	—	—	**(0.2)**	**—**	—	—
Service cost	**30.6**	**48.3**	19.0	45.1	**4.1**	**—**	3.3	—
Interest cost	**36.0**	**90.3**	30.7	86.9	**9.3**	**0.2**	7.5	0.3
Participant contributions	**—**	**5.8**	—	5.2	**—**	**—**	—	—
Plan amendments	**(21.4)**	**(15.4)**	(58.8)	(0.3)	**(8.3)**	**—**	—	—
Exchange rate changes	**—**	**(242.3)**	—	155.5	**—**	**0.2**	—	—
Divestitures/acquisitions	**—**	**0.3**	—	—	**—**	**—**	—	—
Settlements/transfers	**—**	**(2.7)**	—	(1.2)	**—**	**—**	—	—
Other	**—**	**(0.3)**	—	3.3	**—**	**—**	—	—
Curtailments	**—**	**(2.6)**	—	(1.3)	**—**	**—**	—	(0.1)
Special termination benefits	**—**	**11.4**	—	10.7	**—**	**—**	—	—
Actuarial (gain)/loss	**13.2**	**108.5**	39.1	126.4	**(0.4)**	**0.4**	(15.8)	0.3
Consolidation of Rubicon	**116.4**	**—**	—	—	**34.2**	**—**	—	—
Benefits paid	**(36.8)**	**(69.3)**	(23.7)	(67.9)	**(9.7)**	**(0.3)**	(8.9)	(0.4)
Benefit obligation at end of year	**$ 625.4**	**$1,941.2**	$ 489.5	$2,020.7	**$ 155.9**	**$ 4.8**	$ 126.9	$ 4.3
Change in plan assets								
Fair value of plan assets at beginning of year	**$ 297.9**	**$1,607.4**	$ 257.8	$1,345.1	**$ —**	**$ —**	$ —	$ —
Adjustment due to change in measurement date	**(8.8)**	**(8.8)**	—	—	**—**	**—**	—	—
Actual return on plan assets	**36.5**	**236.1**	34.9	149.3				
Adjustments to opening value	**—**	**—**	—	(4.3)	**—**	**—**	—	—
Exchange rate changes	**—**	**(199.9)**	—	125.2	**—**	**—**	—	—
Divestitures/acquisitions	**—**	**0.2**	—	—	**—**	**—**	—	—
Participant contributions	**—**	**5.8**	—	5.2	**—**	**—**	—	—
Other	**—**	**4.3**	—	(2.3)	**—**	**—**	—	—
Administrative expenses	**—**	**(1.3)**	—	(0.8)	**—**	**—**	—	—
Company contributions	**50.8**	**55.8**	28.9	59.0	**9.7**	**0.3**	8.9	0.4
Settlements/transfers	**—**	**(3.9)**	—	(1.1)	**—**	**—**		
Consolidation of Rubicon	**77.4**	**—**	—	—	**—**	**—**	—	—
Benefits paid	**(36.8)**	**(69.3)**	(23.7)	(67.9)	**(9.7)**	**(0.3)**	(8.9)	(0.4)
Fair value of plan assets at end of year	**$ 417.0**	**$1,626.4**	$ 297.9	$1,607.4	**$ —**	**$ —**	$ —	$ —
Funded status								
Funded status	**$(208.4)**	**$ (314.8)**	$(191.6)	$ (413.3)	**$(155.9)**	**$(4.8)**	$(126.9)	$(4.3)
Unrecognized net actuarial loss	**153.3**	**318.3**	114.6	416.0	**55.4**	**1.4**	57.8	1.1
Unrecognized prior service cost	**(68.3)**	**(6.5)**	(52.3)	5.6	**(26.9)**	**—**	(17.8)	—
Unrecognized net transition obligation	**2.8**	**2.5**	3.9	3.3	**—**	**0.2**	—	0.2
Contributions paid December 1 through December 31	**3.3**	**3.7**	—	—	**0.7**	**—**	—	—
Accrued benefit cost	**$(117.3)**	**$ 3.2**	$(125.4)	$ 11.6	**$(126.7)**	**$(3.2)**	$ (86.9)	$(3.0)
Amounts recognized in balance sheet								
Accrued benefit cost recognized in accrued liabilities and other noncurrent liabilities	**$(185.8)**	**$ (216.8)**	$(173.6)	$ (286.6)	**$(126.7)**	**$(3.2)**	$ (86.9)	$(3.0)
Prepaid pension costs	**1.0**	**148.0**	0.8	207.4	**—**	**—**	—	—
Intangible asset	**3.7**	**3.7**	4.1	2.8	**—**	**—**	—	—
Accumulated other comprehensive income	**63.8**	**68.3**	43.3	88.0	**—**	**—**	—	—
Accrued benefit cost	**$(117.3)**	**$ 3.2**	$(125.4)	$ 11.6	**$(126.7)**	**$(3.2)**	$ (86.9)	$(3.0)

Components of the net periodic benefit costs for the years ended December 31, 2005, 2004 and 2003 are as follows (dollars in millions):

	Defined Benefit Pension Plans					
	U.S. Plans			Non-U.S. Plans		
	2005	2004	2003	**2005**	2004	2003
Service cost	**$ 30.6**	$ 19.0	$ 14.2	**$ 48.3**	$ 45.1	$ 27.2
Interest cost	**36.0**	30.7	26.0	**90.3**	86.9	46.6
Expected return on assets	**(31.1)**	(22.1)	(18.1)	**(105.8)**	(96.4)	(49.0)
Amortization of transition obligation	**1.1**	1.1	1.1	**0.7**	0.7	0.6
Amortization of prior service cost	**(4.0)**	1.0	0.9	**(1.2)**	0.5	0.4
Amortization of actuarial loss	**7.4**	4.8	0.9	**15.4**	5.8	15.1
Curtailment gain	**—**	—	—	**(1.2)**	—	—
Settlement loss	**—**	—	—	**1.3**	—	—
Special termination benefits	**—**	—	—	**11.4**	4.7	—
Net periodic benefit cost	**$ 40.0**	$ 34.5	$ 25.0	**$ 59.2**	$ 47.3	$ 40.9

	Other Postretirement Benefit Plans					
	U.S. Plans			Non-U.S. Plans		
	2005	2004	2003	**2005**	2004	2003
Service cost	**$ 4.1**	$ 3.3	$ 3.3	**$ —**	$ —	$ —
Interest cost	**9.3**	7.5	8.2	**0.2**	0.3	0.2
Amortization of prior service cost	**(2.4)**	(1.9)	(0.3)	**—**	—	—
Amortization of actuarial loss	**3.3**	3.5	2.8	**0.1**	0.1	0.1
Net periodic benefit cost	**$14.3**	$12.4	$14.0	**$0.3**	$0.4	$0.3

The following assumptions were used to determine the projected benefit obligation at the measurement date and the net periodic benefit cost for the year:

	Defined Benefit Pension Plans					
	U.S. Plans			Non-U.S. Plans		
	2005	2004	2003	**2005**	2004	2003
Projected benefit obligation:						
Discount rate	**5.75%**	5.75%	6.00%	**4.61%**	4.85%	5.30%
Rate of compensation increase	**3.90%**	4.00%	4.00%	**3.33%**	3.65%	3.51%
Net periodic benefit cost:						
Discount rate	**5.75%**	6.00%	6.75%	**4.85%**	5.30%	5.49%
Rate of compensation increase	**4.00%**	4.00%	4.00%	**3.65%**	3.51%	3.76%
Expected return on plan assets	**8.25%**	8.25%	8.25%	**7.06%**	7.11%	7.29%

	Other Postretirement Benefit Plans					
	U.S. Plans			Non-U.S. Plans		
	2005	2004	2003	**2005**	2004	2003
Projected benefit obligation:						
Discount rate	**5.71%**	5.75%	6.00%	**5.00%**	5.77%	6.25%
Rate of compensation increase	**3.90%**	4.00%	4.00%	**3.33%**	3.65%	3.51%
Net periodic benefit cost:						
Discount rate	**5.75%**	6.00%	6.75%	**5.77%**	6.25%	6.25%
Rate of compensation increase	**4.00%**	4.00%	4.00%	**3.65%**	3.51%	3.76%

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the defined benefit pension plans with accumulated benefit obligations in excess of plan assets were as follows (dollars in millions):

	U.S. Plans		Non-U.S. Plans	
	2005	2004	**2005**	2004
Projected benefit obligation	**$625.4**	$489.9	**$1,430.5**	$1,415.9
Accumulated benefit obligation	**604.9**	468.3	**1,220.8**	1,113.4
Fair value of plan assets	**417.0**	297.9	**1,089.6**	998.7

Expected future contributions and benefit payments are as follows for the U.S. and non-U.S. plans (dollars in millions):

	Defined Benefit Pension Plans	Other Postretirement Benefit Plans
2006 expected employer contributions:		
To plan trusts	$100.4	$13.1
To plan participants	6.3	0.4
Expected benefit payments:		
2006	$ 98.2	$13.1
2007	94.9	13.4
2008	99.4	13.4
2009	103.7	13.6
2010	107.9	13.7
2011–2015	606.9	71.4

In 2005, the health care trend rate used to measure the expected increase in the cost of benefits was assumed to be 9% decreasing to 5% after 2009. Assumed health care cost trend rates have a significant effect on the amounts reported for the post-retirement benefit plans. A 1% change in assumed health care cost trend rates would have the following effects (dollars in millions):

Asset category	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost	$0.5	$(0.4)
Effect on postretirement benefit obligation	4.7	(4.5)

The asset allocation for our pension plans at the end of 2005 and 2004 and the target allocation for 2006, by asset category, follows. The fair value of plan assets for these plans was $2,043.4 million at the end of 2005. Based upon historical returns, the expectations of our investment committee and outside advisors, the expected long term rate of return on these assets is estimated to be between 7.06% to 8.25%.

Asset category	Target Allocation 2005	**Allocation at December 31, 2005**	Allocation at December 31, 2004
U.S. pension plans:			
Large Cap Equities	30%	**31%**	29%
Small/Mid Cap Equities	20%	**19%**	22%
International Equities	15%	**16%**	16%
Fixed Income	20%	**17%**	18%
Real Estate/Other	15%	**14%**	14%
Cash	0%	**3%**	1%
Total U.S. pension plans		**100%**	100%
Non-U.S. pension plans:			
Equities	59%	**60%**	61%
Fixed Income	37%	**35%**	34%
Real estate	3%	**4%**	3%
Cash	1%	**1%**	2%
Total non-U.S. pension plans		**100%**	100%

Equity securities in our pension plans did not include any equity securities for us or our affiliates at the end of 2005.

Our pension plan assets are managed by outside investment managers; assets are rebalanced based upon market opportunities and the consideration of transactions costs. Our strategy with respect to pension assets is to pursue an investment plan that, over the long term is expected to protect the funded status of the plan, enhance the real purchasing power of plan assets, and not threaten the plan's ability to meet currently committed obligations.

Defined Contribution Plans

We have a money purchase pension plan covering substantially all of our domestic employees who have completed at least two years of service. Employer contributions are made based on a percentage of employees' earnings (ranging up to 8%).

We also have a salary deferral plan covering substantially all domestic employees. Plan participants may elect to make voluntary contributions to this plan up to a specified amount of their compensation. We contribute an amount equal to one-half of the participant's contribution, not to exceed 2% of the participant's compensation.

Coincident with the introduction of the cash balance formula within our defined benefit pension plan, the money purchase pension plan was closed to new hires. At the same time, the company match in the salary deferral plan was increased, for new hires, to a 100% match, not to exceed 4% of the participant's compensation, once the participant has achieved six years of service with the Company.

Our total combined expense for the above defined contribution plans for the years ended December 31, 2005, 2004, and 2003 was approximately $15.9 million, $20.7 million, and $17.3 million, respectively.

Supplemental Salary Deferral Plan and Supplemental Executive Retirement Plan

The Huntsman Supplemental Savings Plan ("SSP") is a non-qualified plan covering key management employees and allows participants to defer amounts that would otherwise be paid as compensation. The participant can defer up to 75% of their salary and bonus each year. This plan also provides benefits that would be provided under the Huntsman Salary Deferral Plan if that plan were not subject to legal limits on the amount of contributions that can be allocated to an individual in a single year. The SSP was amended and restated effective as of January 1, 2005 to allow eligible executive employees to comply with Section 409A of the Internal Revenue Code of 1986 ("Section 409A").

The Huntsman Supplemental Executive Retirement Plan (the "SERP") is an unfunded nonqualified pension plan established to provide certain executive employees with benefits that could not be provided, due to legal limitations, under the Huntsman Defined Benefit Pension Plan, a qualified defined benefit pension plan, and the Huntsman Money Purchase Pension Plan, a qualified money purchase pension plan. On December 23, 2005, the SERP was amended and restated for four purposes: (1) to transfer certain liabilities related to benefits for eligible executive employees to the newly-established Huntsman Supplemental Executive MPP Plan (the "SEMPP"), (2) to reflect a change in the benefit formula in the Huntsman Defined Benefit Pension Plan, (3) to provide for the merger of the Polyurethanes Executive Pension Plan and the Polyurethanes Excess Benefit Plan (each an unfunded nonqualified pension plan) into the SERP, and (4) to allow eligible executive employees to comply with Section 409A. The effective date of the amendment and restatement of the SERP with respect to items (1) – (3) is July 1, 2004 because each of these items relates to the amendment of the Huntsman Defined Benefit Pension Plan which was effective on such date. The effective date of the amendment and restatement of the SERP with respect to item (4) is January 1, 2005 in accordance with Section 409A.

Assets of these plans are included in other assets and were $5.3 million and $4.3 million at December 31, 2005 and 2004, respectively. During the year ended December 31, 2005, 2004 and 2003, we expensed $0.5 million, $0.5 million and $1.1 million for the SSP and SERP, respectively.

Stock-based Incentive Plan

In connection with the initial public offering of common and preferred stock on February 16, 2005, we adopted the Huntsman Stock Incentive Plan (the "Stock Incentive Plan"). The Stock Incentive Plan permits the grant of non-qualified stock options, incentive stock options, stock appreciation rights, nonvested stock, phantom stock, performance awards and other stock-based awards ("Awards") to our employees, directors and consultants and to employees and consultants of our subsidiaries, provided that incentive stock options may be granted solely to employees. A maximum of 21,590,909 shares of common stock may be delivered pursuant to the Awards under the Stock Incentive Plan. See "Note 23. Stock-Based Compensation Plans."

International Plans

International employees are covered by various post employment arrangements consistent with local practices and regulations. Such obligations are included in the consolidated financial statements in other long-term liabilities.

18. Income Taxes

The following is a summary of U.S. and non-U.S. provisions for current and deferred income taxes (dollars in millions):

	Year Ended December 31,		
	2005	2004	2003
Income tax expense (benefit):			
U.S.			
Current	**$ 1.5**	$ 11.1	$ 8.4
Deferred	**(19.1)**	(2.2)	(12.8)
Non-U.S.			
Current	**25.1**	24.3	26.0
Deferred	**16.0**	(62.3)	9.2
Total	**$ 23.5**	$(29.1)	$ 30.8

The following schedule reconciles the differences between the U.S. federal income taxes at the U.S. statutory rate to our provision (benefit) for income taxes (dollars in millions):

	Year Ended December 31,		
	2005	2004	2003
Income (loss) from continuing operations before income taxes, minority interests and accounting changes	**$ 62.2**	$(241.8)	$(287.9)
Expected expense (benefit) at U.S. statutory rate of 35%	**$ 21.8**	$ (84.6)	$(100.8)
Change resulting from:			
State taxes (benefit) net of federal benefit	**(2.3)**	2.6	(5.6)
Effects of non-U.S. operations and tax rate differential	**8.5**	(37.4)	(1.5)
Equity method of accounting	**—**	—	5.2
Incremental U.S. tax on non-U.S. income	**18.1**	28.4	1.6
Effect of AdMat consolidation transaction	**88.4**	—	—
Change in valuation allowance	**(113.4)**	69.7	123.9
Other—net	**2.4**	(7.8)	8.0
Total income tax expense (benefit)	**$ 23.5**	$ (29.1)	$ 30.8

The components of income (losses) from continuing operations before income taxes, minority interests and accounting changes were as follows (dollars in millions):

	Year Ended December 31,		
	2005	2004	2003
Loss before income taxes:			
U.S.	**$(111.3)**	$(155.4)	$(200.1)
Non-U.S.	**173.5**	(86.4)	(87.8)
Total	**$ 62.2**	$(241.8)	$(287.9)

Subsequent to the AdMat Transaction in June 2003, substantially all non-U.S. operations of AdMat were treated as branches of our Company for U.S. income tax purposes and were, therefore, subject to both U.S. and non-U.S. income tax. The pre-tax income in the table above and the preceding U.S. and non-U.S. allocation of the income tax provision by taxing jurisdiction may, therefore, not be directly related.

Components of deferred income tax assets and liabilities were as follows (dollars in millions):

	December 31,	
	2005	2004
Deferred income tax assets:		
Net operating loss and AMT credit carryforwards	**$ 1,020.6**	$ 1,217.8
Pension and other employee compensation	**167.5**	150.3
Property, plant & equipment	**44.8**	69.5
Intangible assets	**113.7**	190.7
Inventory costing	**4.8**	—
Other, net	**65.4**	70.8
Total	**1,416.8**	1,699.1
Deferred income tax liabilities:		
Property, plant & equipment	**(881.1)**	(959.0)
Pension and other employee compensation	**(39.2)**	(54.0)
Inventory costing	**—**	(10.5)
Other, net	**(82.5)**	(15.8)
Total	**(1,002.8)**	(1,039.3)
Net deferred tax asset before valuation allowance	**414.0**	659.8
Valuation allowance	**(549.3)**	(842.1)
Net deferred tax liability	**$ (135.3)**	$ (182.3)
Current tax asset	**$ 31.2**	$ 11.9
Current tax liability	**(2.4)**	(10.8)
Non-current tax asset	**94.2**	34.5
Non-current tax liability	**(258.3)**	(217.9)
Total	**$ (135.3)**	$ (182.3)

As of December 31, 2005, we have U.S. Federal net operating loss carryforwards ("NOLs") of $1,232.0 million. The U.S. NOLs begin to expire in 2018 and fully expire in 2025. We also have NOLs of $1,762.4 million in various non-U.S. jurisdictions. While the majority of the non-U.S. NOLs have no expiration date, $467.6 million have a limited life and $2.9 million may expire in 2006.

Included in the $1,762.4 million of non-U.S. NOLs is $930.6 million attributable to AdMat's Luxembourg entities. As of December 31, 2005, there is a valuation allowance of $265.4 million against these net tax-effected NOLs of $279.2 million. Due to the uncertainty surrounding the realization of the benefits of these losses that may result from future dissolution or restructuring of the Luxembourg entities, we continue to reduce the related deferred tax asset with a valuation allowance.

We are subject to the "ownership change" rules of Section 382 of the Internal Revenue Code. Under these rules, our use of the NOLs could be limited in tax periods following the date of the ownership change. Based upon the existence of significant tax "built-in income" items, the effect of the ownership change rules on the ability to utilize the NOLs is not anticipated to be material.

We have a valuation allowance against our entire U.S. and a material portion of our non-U.S. net deferred tax assets. We have specific valuation allowances of $2.7 million that, when reversed, will reduce goodwill and other non-current intangibles. During the year ended December 31, 2005, we reversed valuation allowances of $0.8 million, which were used to reduce non-current intangibles. Additionally, included in the deferred tax assets at December 31, 2005 is approximately $7.7 million of cumulative tax benefit related to equity transactions which will be credited to stockholders' equity when realized, after all other valuation allowances have been reversed.

The decrease in valuation allowances between December 31, 2004 and 2005 which is not accounted for in the rate reconciliation is attributable to the following: Foreign currency movements ($81.0 million); adjustments to deferred tax assets (with a full valuation allowance) for tax contingencies ($98.0 million); adjustments to deferred tax assets (with a full valuation allowance) for changes in tax filing positions ($27.0 million); other adjustments to deferred tax assets with a full valuation allowance ($(24.5) million); and movement of net deferred assets unrelated to income or loss from continuing operations and other items ($(2.1) million).

During the year ended December 31, 2005, included in the $8.5 million "Effects of non-U.S. operations and tax rate differential" above is approximately $8.0 million of non-recurring items including cancellation of debt income that was offset by NOLs (with a full valuation allowance), amounts associated with enacted changes in tax rates, the expiration of tax statute of limitations as well as the establishment of contingency reserves.

The "Effect of the AdMat Transaction" above is approximately $88.4 million of tax expense fully offset by changes in valuation allowances. The components of the $88.4 million are as follows: $30.7 million associated with loss recapture income related to non-U.S. losses that had previously been deducted for U.S. taxation purposes; $6.2 million associated with current year non-U.S. losses not deducted for U.S. tax purposes; and $51.5 million associated with the write-down of net deferred tax assets, with a full valuation allowance, related to the U.S. taxation of AdMat non-U.S. entities. Effective January 1, 2006, certain of AdMat's non-U.S. operations previously treated as branches will no longer be treated as branches and will only be subject to U.S. taxation on future earnings to the extent those earnings are repatriated. This eliminates current double taxation of non-U.S. earnings that was inherent in the AdMat tax structure.

On August 16, 2005, HIH and Huntsman LLC were merged with and into HI, which continued in existence as the surviving entity. Prior to the merger, HIH, including HI, was treated as a partnership for U.S. federal income tax purposes and as such was generally not subject to U.S. income tax, but rather such income was taxed directly to its owners. A net deferred tax liability was recognized for the excess of the difference in the book and tax investment in the partnership over the difference in the book and tax basis of the net assets of the partnership. After the merger, HI is treated as a corporate subsidiary and subject to U.S. income tax. The basis difference in the investment in the HIH partnership has been reversed, offset by a corresponding change in valuation allowance.

For non-U.S. entities that are not treated as branches for U.S. tax purposes, we do not provide for income taxes on the undistributed earnings of these subsidiaries as earnings are reinvested and, in the opinion of management, will continue to be reinvested indefinitely. The undistributed earnings of non-U.S. subsidiaries that are deemed to be permanently invested were $56.5 million at December 31, 2005. It is not practicable to determine the unrecognized deferred tax liability on those earnings.

As a matter of course, our subsidiaries are regularly audited by various taxing authorities in both the U.S. and numerous non-U.S. jurisdictions. We believe adequate provision has been made for all outstanding issues for all open years. Significant judgments and estimates are required in determining the global provision for income taxes, including judgments and estimates regarding the realization of deferred tax assets and the ultimate outcome of tax-related contingencies. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We either recognize a liability, including related interest, or reduce a tax asset, for the anticipated outcome of tax audits. We adjust these amounts in light of changing facts and circumstances, such as the closing of a tax audit or the expiration of a statute of limitations in the period in which the change occurs. If our tax positions are ultimately upheld under audits by respective taxing authorities, it is possible that the provision for income taxes in future years may reflect significant favorable adjustments. During 2005, the IRS audit for the years ended 1998 through 2001 was completed, with the exception of two issues as to which we are pursuing an administrative appeal before the IRS. The potential net adjustment to our net operating losses is approximately $200 million. Due to the uncertainty of realization caused by the tax audit, the gross deferred assets have been reduced, offset by a corresponding change in valuation allowance.

The $19.1 million deferred tax benefit in the U.S. results primarily from recognizing an income tax benefit for losses from continuing operations to the extent income was recorded in other comprehensive income, pursuant to SFAS No. 109, "*Accounting for Income Taxes.*" An offsetting income tax expense was recognized in accumulated other comprehensive income.

19. Commitments and Contingencies

Purchase Commitments

We have various purchase commitments extending through 2023 for materials and supplies entered into in the ordinary course of business. The purchase commitments are contracts that require minimum volume purchases. Certain contracts allow for changes in minimum required purchase volumes in the event of a temporary or permanent shutdown of a facility. The contractual purchase price for substantially all of these contracts require minimum payments, even if no volume is purchased. Historically, we have not made any minimum payments under such take or pay contracts without taking product.

Total purchase commitments as of December 31, 2005 are as follows (dollars in millions):

Year ending December 31:	
2006	$2,325.6
2007	1,520.1
2008	375.1
2009	125.4
2010	88.7
Thereafter	184.1
	$4,619.0

Legal Matters

Discoloration Claims—Certain claims have been filed against us relating to discoloration of unplasticized polyvinyl chloride products allegedly caused by our titanium dioxide ("Discoloration Claims"). Substantially all of the titanium dioxide that is the subject of these claims was manufactured prior to our acquisition of our titanium dioxide business from ICI in 1999. Net of amounts we have received from insurers and pursuant to contracts of indemnity, we have paid approximately $16 million in costs and settlement amounts for Discoloration Claims as of December 31, 2005.

The following table presents information about the number of Discoloration Claims for the periods indicated. Claims include all claims for which service has been received by us, and each such claim represents a plaintiff who is pursuing a claim against us.

	Year Ended December 31,		
	2005	2004	2003
Claims filed during period	**0**	1	1
Claims resolved during period	**1**	2	2
Claims unresolved at end of period	**2**	3	4

During the year ended December 31, 2004, we settled claims for approximately $45 million, approximately $30 million of which was paid by our insurers or ICI and approximately $15 million of which was paid by us. During 2004, we recorded charges of $15.1 million relating to Discoloration Claims. During the year ended December 31, 2005, we settled a claim for approximately $1 million, all of which was paid by ICI. The two Discoloration Claims unresolved as of December 31, 2005 asserted aggregate damages of approximately $63 million. An appropriate liability has been accrued for these claims. Based on our understanding of the merits of these claims and our rights under contracts of indemnity and insurance, we do not believe that the net impact on our financial condition, results of operations or liquidity will be material.

While additional Discoloration Claims may be made in the future, we cannot reasonably estimate the amount of loss related to such claims. Although we may incur additional costs as a result of future claims (including settlement costs), based on our history with Discoloration Claims to date, the fact that substantially all of the titanium dioxide that has been the subject of these Discoloration Claims was manufactured and sold more than six years ago, and the fact that we have rights under contract to indemnity, including from ICI, we do not believe that any unasserted Discoloration Claims will have a material impact on our financial condition, results of operations, or liquidity. Based on this conclusion and our inability to reasonably estimate our expected costs with respect to these unasserted claims, we have made no accruals in our financial statements as of December 31, 2005 for costs associated with unasserted Discoloration Claims.

Ciba Settlement—Vantico concluded that certain of the products of its former Electronics division may have infringed patents owned by Taiyo and it entered into a license agreement in October 2001 with Taiyo to obtain the right to use the Taiyo patents. This license agreement required payment of approximately $4 million in back royalties and agreement to pay periodic royalties for future use. We believe that Ciba Specialty Chemicals Holdings Inc. ("Ciba") is liable under the indemnity provisions of certain agreements in connection with the leveraged buy-out transaction in 2000 involving Ciba and Vantico for certain payments made under the license agreement and related costs and expenses, and we initiated an arbitration proceeding against Ciba. In July 2004, we entered into a settlement agreement with Ciba with respect to this matter. In general, the settlement agreement provided that Ciba would pay us $11.1 million in 2004. We received additional consideration in the form of modifications to certain operating agreements between us and Ciba. In August 2004, we received payment of the $11.1 million settlement.

Environmental Litigation—We have been a party to various lawsuits brought by persons alleging personal injuries and/or property damage based upon alleged exposure to toxic air emissions. For example, since June 2003, a number of lawsuits have been filed in state district court in Jefferson County, Texas against several local chemical plants and refineries, including our subsidiary, Huntsman Petrochemical Corporation. Generally, these lawsuits have alleged that the refineries and chemical plants located in the vicinity of the plaintiffs' homes discharged chemicals into the air that interfere with use and enjoyment of property and cause health problems and/or property damages. None of these lawsuits have included the amount of damages being sought. The following table presents information about the number of claims asserting damages based upon alleged exposure to toxic air emissions for the periods indicated. Claims include all claims for which service has been received by us, and each such claim represents a plaintiff who is pursuing a claim against us.

	Year Ended December 31,		
	2005	2004	2003
Claims filed during period	**2,104**	214	721
Claims resolved during period	**2,988**	51	0
Claims unresolved at end of period	**0**	884	721

All claims filed as of December 31, 2005 have been resolved through dismissal and/or settlement.

In addition, we have been named as a "premises defendant" in a number of asbestos exposure cases, typically a claim by a non-employee of exposure to asbestos while at a facility. In the past, these cases typically have involved multiple plaintiffs bringing actions against multiple defendants, and the complaint has not indicated which plaintiffs were making claims against which defendants, where or how the alleged injuries occurred, or what injuries each plaintiff claimed. These facts, which would be central to any estimate of probable loss, generally have been learned only through discovery. Recent changes in Texas tort procedures have required many pending cases to be split into multiple cases, one for each claimant, increasing the number of pending cases reported below for the year ended December 31, 2005. Nevertheless, the complaints in these cases provide little additional information. We do not believe that the increased number of cases reflects an increase in the number of underlying claims.

Where the alleged exposure occurred prior to our ownership or operation of the relevant "premises," the prior owners and operators generally have contractually agreed to retain liability for, and to indemnify us against, asbestos exposure claims. This indemnification is not subject to any time or dollar amount limitations. Upon service of a complaint in one of these cases, we tender it to the prior owner or operator. None of the complaints in these cases state the amount of damages being sought. The prior owner or operator accepts responsibility for the conduct of the defense of the cases and payment of any amounts due to the claimants. In our eleven-year experience with tendering these cases, we have not made any payment with respect to any tendered asbestos cases. We believe that the prior owners or operators have the intention and ability to continue to honor their indemnities, although we cannot assure you that they will continue to do so or that we will not be liable for these cases if they do not.

The following table presents for the periods indicated certain information about cases for which service has been received that we have tendered to the prior owner or operator, all of which have been accepted.

	Year Ended December 31,		
	2005	2004	2003
Tendered during period	**284**	94	94
Resolved during period	**106**	65	51
Unresolved at end of period	**576**	398	369

We have never made any payments with respect to these cases. As of December 31, 2005, we had an accrued liability of $12.5 million relating to these cases and a corresponding receivable of $12.5 million relating to our indemnity protection with respect to these cases. We cannot assure you that our liability will not exceed our accruals or that our liability associated with these cases would not be material to our financial condition, results of operations or liquidity.

Certain cases in which we are a "premises defendant" are not subject to indemnification by prior owners or operators. The following table presents for the periods indicated certain information about these cases. Cases include all cases for which service has been received by us.

	Year Ended December 31,		
	2005	2004	2003
Filed during period	**55**	23	28
Resolved during period	**56**	42	6
Unresolved at end of period	**34**	29	48

We paid gross settlement costs for asbestos exposure cases that are not subject to indemnification of approximately $0.1 million, $1 million and $0.2 million in 2005, 2004 and 2003, respectively. The cases for the year ended December 31, 2005 include cases filed against Rubicon LLC, which became our consolidated subsidiary on January 1, 2005, as follows: one case filed during the period, one case resolved during the period and six cases unresolved at the end of the period.

As of December 31, 2005, we had an accrual of $0.9 million relating to these cases. We cannot assure you that our liability will not exceed our accruals or that our liability associated with these cases would not be material to our financial condition, results of operations or liquidity.

Antitrust Matters—We have been named as a defendant in putative class action antitrust suits alleging a conspiracy to fix prices in the MDI, TDI, and polyether polyols industries that are now consolidated as the "Polyether Polyols Cases" in multidistrict litigation known as *In re Urethane Antitrust Litigation*, MDL No. 1616, Civil No. 2:04-md-01616-JWL-DJW, United States District Court, District of Kansas, initial order transferring and consolidating cases filed August 23, 2004. Other defendants named in the Polyether Polyols Cases are Bayer, BASF, Dow, and Lyondell. Bayer has announced that it has entered into a settlement agreement with the plaintiffs.

These consolidated cases are in the early stages of class certification discovery. The pleadings of the plaintiffs do not provide specifics about any alleged illegal conduct of the defendants and we are not aware of any evidence of illegal conduct by us or any of our employees. For these reasons, we cannot estimate the possible loss or range of loss relating to these claims, and therefore we have not accrued a liability for these claims. Nevertheless, we could incur losses due to these claims in the future and those losses could be material.

In addition, on February 16, 2006, the Antitrust Division of the U.S. Department of Justice served us with a grand jury subpoena requesting the production of documents relating to sales and pricing of TDI, MDI, polyether polyols and related systems. Bayer and Lyondell have announced that they have also been served with subpoenas in this matter. We intend to cooperate fully in this matter.

Tax Dispute—In connection with the audit of our income tax returns for the years ended 1998 through 2001, we received a Notice of Proposed Adjustment from the Internal Revenue

Service and, in late 2005, we initiated an administrative appeal before the Internal Revenue Service. The potential liability and the potential reduction to our net operating losses have been reserved in our financial statements. For more information on this matter, including the potential net adjustment to our net operating losses, see "Note 18. Income Taxes."

Other Proceedings

We are a party to various other proceedings instituted by private plaintiffs, governmental authorities and others arising under provisions of applicable laws, including various environmental, products liability and other laws. Except as otherwise disclosed in this report, we do not believe that the outcome of any of these matters will have a material adverse effect on our financial condition, results of operations or liquidity.

Guarantee—In January 2003, HI entered into two related joint venture agreements to build MDI production facilities near Shanghai, China. Shanghai Isocyanate Investment BV ("SLIC"), our manufacturing joint venture with BASF AG and three Chinese chemical companies, will build three plants to manufacture MNB, aniline and crude MDI. We effectively own 35% of SLIC and it is our unconsolidated affiliate. Huntsman Polyurethanes Shanghai Ltd. ("HPS"), our splitting joint venture with Shanghai Chlor-Alkali Chemical Company, Ltd, will build a plant to manufacture pure MDI, polymeric MDI and MDI variants. We own 70% of HPS and it is our consolidated affiliate.

On September 19, 2003, the joint ventures obtained secured financing for the construction of the production facilities. SLIC obtained various committed loans in the aggregate amount of approximately $229 million in U.S. dollar equivalents. As of December 31, 2005, there were $77.0 million outstanding in U.S. dollar borrowings and 500.0 million in outstanding RMB ($62.0 million) borrowings under these facilities. The interest rate on these facilities is LIBOR plus 0.48% for U.S. dollar borrowings and 90% of the Peoples Bank of China rate for RMB borrowings. The loans are secured by substantially all the assets of SLIC and will be paid in 16 semiannual installments, beginning not later than June 30, 2007. We unconditionally guarantee 35% of any amounts due and unpaid by SLIC under the loans described above (except for a $1.5 million VAT facility which is not guaranteed). Our guarantee remains in effect until SLIC has commenced production of at least 70% of capacity for at least 30 days and achieved a debt service coverage ratio of at least 1:1. We have estimated that the fair value of this guarantee is nil as of the closing of the transaction and, accordingly, no amounts have been recorded.

Gain Contingencies—While the 2005 U.S. Gulf Coast storms did not cause serious structural damage to our facilities, they did cause operational disruptions for us and certain of our suppliers and customers. Some of our products were temporarily negatively impacted by restrictions on the availability of certain raw materials and our business was adversely impacted by logistics and transportation disruptions. Certain of our operations were suspended for much of the fourth quarter of 2005. We are in the process of preparing claims for possible recovery of damages under our insurance policies for property damage and business interruption. We can provide no assurances that we will recover these damages (or the amount of recovery, if any), as such, we have not recorded any receivables from our insurance carriers at December 31, 2005. However, we anticipate obtaining at least a partial recovery, net of insurance deductibles, by the end of 2006.

20. Environmental, Health and Safety Matters

General

We are subject to extensive federal, state, local and foreign laws, regulations, rules and ordinances relating to pollution, protection of the environment and the generation, storage, handling, transportation, treatment, disposal and remediation of hazardous substances and waste materials. In the ordinary course of business, we are subject to frequent environmental inspections and monitoring and occasional investigations by governmental enforcement authorities. In addition, our production facilities require operating permits that are subject to renewal, modification and, in certain circumstances, revocation. Actual or alleged violations of environmental laws or permit requirements could result in restrictions or prohibitions on plant operations, substantial civil or criminal sanctions, as well as, under some environmental laws, the assessment of strict liability and/or joint and several liability. Moreover, changes in environmental regulations could inhibit or interrupt our operations, or require us to modify our facilities or operations. Accordingly, environmental or regulatory matters may cause us to incur significant unanticipated losses, costs or liabilities.

Environmental, Health and Safety Systems

We are committed to achieving and maintaining compliance with all applicable environmental, health and safety ("EHS") legal requirements, and we have developed policies and management systems that are intended to identify the multitude of EHS legal requirements applicable to our operations, enhance compliance with applicable legal requirements, ensure the safety of our employees, contractors, community neighbors and customers and minimize the production and emission of wastes and other pollutants. Although EHS legal requirements are constantly changing and are frequently difficult to comply with, these EHS management systems are designed to assist us in our compliance goals while also fostering efficiency and improvement and minimizing overall risk to us.

EHS Capital Expenditures

We may incur future costs for capital improvements and general compliance under EHS laws, including costs to acquire, maintain and repair pollution control equipment. For the years ended December 31, 2005 and 2004, our capital expenditures for EHS matters totaled $48.9 million and $55.4 million, respectively. Since capital expenditures for these matters are subject to evolving regulatory requirements and depend, in part, on the timing, promulgation and enforcement of specific requirements, we cannot provide assurance that our recent expenditures will be indicative of future amounts required under EHS laws.

Governmental Enforcement Proceedings

On occasion, we receive notices of violation, enforcement and other complaints from regulatory agencies alleging non-compliance with applicable EHS law. By way of example, we are aware of the individual matters set out below, which we believe to be the most significant presently pending matters and unasserted claims. Although we may incur costs or penalties in connection with the governmental proceedings discussed below, based on currently available information and our past experience, we believe that the ultimate resolution of these matters will not have a material impact on our financial condition, results of operations or cash flows.

In May 2003, the State of Texas settled an air enforcement case with us relating to our Port Arthur plant. Under the settlement, we are required to pay a civil penalty of $7.5 million over more than four years, undertake environmental monitoring projects totaling about $1.5 million in costs, and pay $0.4 million in attorney's fees to the Texas Attorney General. As of December 31, 2005, we have paid $3.5 million toward the penalty and $0.4 million for the attorney's fees. The monitoring projects are underway and on schedule. We do not anticipate that this settlement will have a material adverse effect on our financial condition, results of operations or cash flows.

Beginning in the third quarter of 2004 and extending through December 2005, we have received notifications of approximately eight separate enforcement actions from the Texas Commission on Environmental Quality ("TCEQ") for alleged violations related to air emissions at our Port Neches or our Port Arthur plant. These alleged violations primarily relate to specific upset emissions, emissions from cooling towers, or flare operations occurring at particular times and at particular operating units during 2004 and 2005. These notices of violation appear to be part of a larger enforcement initiative by the TCEQ regional office focused on upset emissions at chemical and refining industry plants located within the Beaumont/Port Arthur region. TCEQ has made individual proposals to us to resolve four of the notices of alleged violation for approximately $0.1 million each. TCEQ has also made a proposal to resolve one of the remaining notices, addressing upset emissions at Port Neches, for $0.2 million. TCEQ has not made a penalty proposal for two other notices, and the final notice is seeking a penalty of less than $5,000. Final resolution of these matters is subject to negotiation between us and TCEQ. We do not believe that the resolution of these matters will result in the imposition of costs material to our financial condition, results of operations or cash flows.

By letter dated September 13, 2005, the Tamil Nadu Pollution Control Board (the "TNPCB") issued an Order in follow-up to a Show Cause notice dated June 30, 2005 requiring a manufacturing facility of Petro Araldite Private Limited, a subsidiary of AdMat in Chennai, India, to close for one week and to submit an action plan and timeline to reduce chemical oxygen demand in its wastewater effluent. The facility complied with the order and submitted an action plan to the TNPCB, which has been accepted pending installation of assets to remedy the issue. A consent order renewal was subsequently issued covering the period through March 31, 2006. The proposed changes are being installed and we expect these modifications to resolve the current issues with the TNPCB. Ultimately, if the asset modifications do not resolve the effluent issue, or the TNPCB believes the plan or its implementation is inadequate, the TNPCB has the power to take further enforcement action, including shutting down the facility for a longer period or permanently, initiating criminal sanctions or imposing fines. Nevertheless, we believe that the investments in progress will fully resolve this matter. If they do not, however, the ultimate resolution will not have a material impact on our financial position, results of operations or cash flows.

Remediation Liabilities

We have incurred, and we may in the future incur, liability to investigate and clean up waste or contamination at our current or former facilities or facilities operated by third parties at which we may have disposed of waste or other materials. Similarly, we may incur costs for the cleanup of wastes that were disposed of prior to the purchase of our businesses. Under some circumstances, the scope of our liability may extend to damages to natural resources. Specifically, under the U.S. Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), and similar state laws, a current or former owner or operator of real property may be liable for remediation costs regardless of whether the release or disposal of hazardous substances was in compliance with law at the time it occurred, and a current owner or operator may be liable regardless of whether it owned or operated the facility at the time of the release. In addition, under the U.S. Resource Conservation and Recovery Act of 1976, as amended ("RCRA"), and similar state laws, we may be required to remediate contamination originating from our properties as a condition to our hazardous waste permit. For example, our Odessa, Port Arthur, and Port Neches facilities in Texas are the subject of ongoing remediation requirements under RCRA authority. In many cases, our potential liability arising from historical contamination is based on operations and other events occurring prior to our ownership of the relevant facility. In these situations, we frequently obtained an indemnity agreement from the prior owner addressing remediation liabilities arising from pre-closing conditions. We have successfully exercised our rights under these contractual covenants for a number of sites, and where applicable, mitigated our ultimate remediation liability. We cannot assure you, however, that all of such matters will be subject to indemnity or that our existing indemnities will be sufficient to cover our liabilities for such matters.

Some of our manufacturing sites have an extended history of industrial chemical manufacturing and use, including on-site waste disposal. We are aware of soil, groundwater and surface water contamination from past operations at some of our sites, and we may find contamination at other sites in the future. Based on available information and the indemnification rights we believe are likely to be available, we believe that the costs to investigate and remediate known contamination will not have a material adverse effect on our financial condition, results of operations or cash flows. However, if such indemnities are unavailable or do not fully cover the costs of investigation and remediation or we are required to contribute to such costs, and if such costs are material, then such expenditures may have a material adverse effect on our financial condition, results of operations or cash flows. At the current time, we are unable to estimate the full cost, exclusive of indemnification benefits, to remediate any of the known contamination sites.

We have been notified by third parties of claims against us or our subsidiaries for cleanup liabilities at approximately 12 former facilities and other third party sites, including but not limited to sites listed under CERCLA. Based on current information and past experience at other CERCLA sites, we do not expect any of these third party claims to result in a material liability to us.

Environmental Reserves

We have established financial reserves relating to anticipated environmental cleanup obligations, site reclamation and closure costs and known penalties. Liabilities are recorded when potential liabilities are either known or considered probable and can be reasonably estimated. Our liability estimates are based upon available facts, existing technology and past experience. On a consolidated basis, we have accrued approximately $25 million and $35 million for environmental liabilities as of December 31, 2005 and 2004, respectively. Of these amounts, approximately $7 million and $8 million are classified as accrued liabilities on our consolidated balance sheets as of December 31, 2005 and 2004, respectively, and approximately $18 million and $27 million are classified as other noncurrent liabilities on our consolidated balance sheets as of December 31, 2005 and 2004, respectively. In certain cases, our remediation liabilities are payable over periods of up to 30 years. We may incur losses for environmental remediation in excess of the amounts accrued; however, we are not able to estimate the amount or range of such potential excess.

Regulatory Developments

Under the European Union ("EU") Integrated Pollution Prevention and Control Directive ("IPPC"), EU member governments are to adopt rules and implement a cross media (air, water and waste) environmental permitting program for individual facilities. While the EU countries are at varying stages in their respective implementation of the IPPC permit program, we have submitted all necessary IPPC permit applications required to date, and in some cases received completed permits from the applicable government agency. We expect to submit all other IPPC applications and related documents on a timely basis as the various countries implement the IPPC permit program. Although we do not know with certainty what each IPPC permit will require, we believe, based upon our experience with the permits received to date, that the costs of compliance with the IPPC permit program will not be material to our financial condition, results of operations or cash flows.

In October 2003, the European Commission ("EC") adopted a proposal for a new EU regulatory framework for chemicals. Under this proposed new system called "REACH" (Registration, Evaluation and Authorization of Chemicals), companies that manufacture or import more than one ton of a chemical substance per year would be required to register such manufacture or import in a central database. On November 17, 2005, the European Parliament completed its first reading of the EC-drafted REACH legislation. Ministers from EU's 25 member states (sitting as the Council) finalized their own position on the text on December 13, 2005, paving the way for final agreement between Parliament and the Council in late 2006 and for REACH to become law in early 2007. As proposed, REACH would require risk assessment of chemicals, preparations (e.g., soaps and paints) and articles (e.g., consumer products) before those materials could be manufactured or imported into EU countries. Where warranted by a risk assessment, hazardous substances would require authorizations for their use. This regulation could impose risk control strategies that would require expenditures by us. As currently envisioned, REACH would take effect in three primary stages over eleven years following the final effective date (assuming final approval). The impacts of REACH on the chemical industry and on us are unclear at this time because the parameters of the program are still in development.

MTBE Developments

We produce MTBE, an oxygenate that is blended with gasoline to reduce vehicle air emissions and to enhance the octane rating of gasoline. The use of MTBE has become controversial in the U.S. and elsewhere and has been curtailed and may be eliminated in the future by legislation or regulatory action. For example, about 25 states have adopted rules that prohibit or restrict the use of MTBE in gasoline sold in those states. Those states account for a substantial portion of the "pre-ban" U.S. MTBE market. In addition, the Energy Policy Act of 2005 is beginning to have an adverse impact on our MTBE business in the U.S., since it mandates increased use of renewable fuels and eliminates the oxygenate requirement for reformulated gasoline established by the 1990 Clean Air Act Amendments. Although the extent of the potential impact of the new law is still unclear, there have been indications that certain gasoline refiners and distributors may stop using MTBE and that certain pipeline companies may stop shipping gasoline containing MTBE. A significant loss in demand for our MTBE in the U.S. could result in a material loss in revenues or material costs or expenditures. Moreover, additional phase-outs or other future regulation of MTBE may result in a further reduction in demand for our MTBE in the U.S.

A number of lawsuits have been filed, primarily against gasoline manufacturers, marketers and distributors, by persons seeking to recover damages allegedly arising from the presence of MTBE in groundwater. While we have not been named as a defendant in any litigation concerning the environmental effects of MTBE, we cannot provide assurances that we will not be involved in any such litigation or that such litigation will not have a material adverse effect on our business, financial condition and results of operations.

21. Redeemable Preferred Members' Interest

On September 30, 2002, we authorized the issuance of 18% cumulative preferred members' interest. The preferred members' interest had a liquidation preference of $395.0 million and was entitled to a cumulative preferred return equal to 18% per annum, compounded annually. As of December 31, 2004 the accumulated liquidation preference was $574.8 million. In connection with our initial public offering of common and preferred stock, we redeemed the preferred members' interest on February 16, 2005. See "Note 1. General—Company."

22. Common Interests and Tracking Preferred Interests

All common interests and tracking preferred interests were exchanged for common stock in connection with the initial public offering of common stock on February 16, 2005. See "Note 1. General—Company."

Common Interests

On September 30, 2002, we authorized and issued 10,000,000 Class A Common Units and 10,000,000 Class B Common Units. Both Class A Common Units and Class B Common Units had equal rights in our management and shared ordinary profits and losses equally. There were, however, special provisions governing distributions of proceeds until a certain specified level of proceeds had been distributed after which proceeds were distributed equally.

Tracking Preferred Interests

On June 30, 2003, one of our subsidiaries authorized and issued four series of tracking preferred interests (Series A, B, C and D) that tracked the performance of the AdMat business (collectively, "Tracking Preferred Interests"). The Series A Tracking Preferred Interests had a liquidation preference equal to $128.3 million. The Series B Tracking Preferred Interests had a liquidation preference equal to $77.0 million, reduced by the amount of certain distributions to the holders of certain Class A Common Units. The Series C Tracking Preferred Interests had a liquidation preference equal to $231.0 million. The Series D Tracking Preferred Interests had a liquidation preference equal to $77.0 million, reduced by the amount of certain distributions to the holders of certain Class A Common Units. The Tracking Preferred Interests were not entitled to any return other than their liquidation preferences. The liquidation preferences were limited to the underlying investment in the AdMat business. The Tracking Preferred Interests did not have voting rights, and could be redeemed by us in connection with certain sale transactions for an amount equal to their unpaid liquidation preferences.

23. Stock-Based Compensation Plans

We have one stock-based compensation plan, described below. The compensation cost for that plan was $9.5 million for the year ended December 31, 2005. The total income tax benefit recognized in the statement of operations for stock-based compensation arrangements was nil for the year ended December 31, 2005. We did not have any stock-based compensation plans prior to our initial public offering.

Under the Huntsman Stock Incentive Plan (the "Stock Incentive Plan"), a plan approved by stockholders, we may grant non-qualified stock options, incentive stock options, stock appreciation rights, nonvested stock, phantom stock, performance awards and other stock-based awards to our employees, directors and consultants and to employees and consultants of our subsidiaries, provided that incentive stock options may be granted solely to employees and directors. The terms of the grants are fixed at the grant date. As of December 31, 2005, we were authorized to grant up to 21,590,909 shares under the Stock Incentive Plan. Option awards have a maximum contractual term of 10 years and generally must have an exercise price at least equal to the market price of our common stock on the date the option award is granted. Stock-based awards generally vest over a three-year period.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes valuation model that uses the assumptions noted in the following table. Because we became a publicly-held company in February 2005, expected volatilities are based on implied volatilities from traded options on the stock of comparable companies and other factors. The expected term of options granted is estimated based on the contractual term of the instruments and employees' expected exercise and post-vesting employment termination behavior. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	Year Ended December 31, 2005
Dividend yield	**0.0%**
Expected volatility	**22.4%**
Risk-free interest rate	**3.9%**
Expected life of stock options granted during the period	**6.6 years**

A summary of stock option activity under the Stock Incentive Plan as of December 31, 2005, and changes during the year then ended is presented below:

Stock Options

Option Awards	Shares (000)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2005	—	$ —		
Granted	2,677	22.57		
Exercised	—	—		
Forfeited/Expired	(98)	23.00		
Outstanding at December 31, 2005	**2,579**	**22.56**	**9.20**	**$—**
Exercisable at December 31, 2005	**—**	**—**	**—**	**—**

The weighted-average grant-date fair value of stock options granted during the year ended December 31, 2005 was $7.49 per option. As of December 31, 2005, there was $14.0 million of total unrecognized compensation cost related to nonvested stock option arrangements granted under the Stock Incentive Plan; that cost is expected to be recognized over a weighted-average period of approximately 2.20 years. No option awards were granted during the periods prior to January 1, 2005. No option awards were exercised during the year ended December 31, 2005.

Nonvested Shares

A summary of the status of our nonvested shares as of December 31, 2005, and changes during the year then ended is presented below:

	Shares (000)	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2005	—	$ —
Granted	784	22.99
Vested	—	—
Forfeited/Expired	(14)	23.00
Nonvested at December 31, 2005	**770**	**22.99**

As of December 31, 2005, there was $12.1 million of total unrecognized compensation cost related to nonvested share compensation arrangements granted under the Stock Incentive Plan. That cost is expected to be recognized over a weighted-average period of approximately 2.11 years. No shares vested during the year ended December 31, 2005.

24. Dividends on Mandatory Convertible Preferred Stock

In connection with the initial public offering of our 5% mandatory convertible preferred stock on February 16, 2005, we declared all dividends that will be payable on such preferred stock from the issuance through the mandatory conversion date, which is February 16, 2008. Accordingly, we recorded dividends payable of $43.1 million and a corresponding charge to net loss available to common stockholders during the year ended December 31, 2005. As of December 31, 2005, we had $31.2 million invested in government securities that are restricted for satisfaction of our dividend payment obligations through the mandatory conversion date. We expect to pay dividends in cash on February 16, May 16, August 16 and November 16 of each year prior to February 16, 2008. Under certain circumstances, we may not be allowed to pay dividends in cash. If this were to occur, any unpaid dividend would be payable in shares of common stock on February 16, 2008 based on the market value of common stock at that time.

25. Other Comprehensive (Loss) Income

Other comprehensive (loss) income consisted of the following (dollars in millions):

	December 31,				
	2005		2004		2003
	Accumulated Income (Loss)	**Income (Loss)**	Accumulated Income (Loss)	Income (Loss)	Income (Loss)
Foreign currency translation adjustments, net of tax of $31.8 million and $18.3 million as of December 31, 2005 and 2004, respectively	**$ 44.2**	**$(251.8)**	$ 296.0	$124.8	$192.8
Unrealized gain on nonqualified plan investments	**1.9**	**1.0**	0.9	0.3	0.6
Unrealized gain (loss) on derivative instruments	**18.2**	**23.4**	(5.2)	3.0	13.9
Minimum pension liability, net of tax of $30.0 million and $14.2 million as of December 31, 2005 and 2004, respectively	**(102.1)**	**15.0**	(117.1)	(56.9)	14.0
Minimum pension liability unconsolidated affiliate	**(0.8)**	**2.8**	(3.6)	(0.2)	(0.2)
Unrealized loss on securities	**—**	**(2.0)**	2.0	0.7	3.3
Other comprehensive (loss) income of unconsolidated affiliates	**7.3**	**(0.7)**	8.0	(1.2)	17.2
Total	**$ (31.3)**	**$(212.3)**	$ 181.0	$ 70.5	$241.6

Items of other comprehensive (loss) income of our Company and our consolidated affiliates have been recorded net of tax, with the exception of the foreign currency translation adjustments related to subsidiaries with earnings permanently reinvested. The tax effect is determined based upon the jurisdiction where the income or loss was recognized and is net of valuation allowances that have been recorded.

26. Related Party Transactions

Our accompanying consolidated financial statements include the following transactions with our affiliates not otherwise disclosed (dollars in millions):

	Year Ended December 31,		
	2005	2004	2003
Sales to:			
HIH	**$ —**	$ —	$ 76.3
Other unconsolidated affiliates	**104.0**	47.9	14.4
Inventory purchases from:			
HIH	**—**	—	53.0
Other unconsolidated affiliates	**—**	403.9	261.4
Operating expenses allocated to:			
HIH	**—**	—	(22.3)

We have agreed with the Jon and Karen Huntsman Foundation, a private charitable foundation established by Jon M. and Karen H. Huntsman to further the charitable interests of the Huntsman family, that we will donate our Salt Lake City office building and our option to acquire an adjacent undeveloped parcel of land to the foundation free of debt. We have agreed to complete this donation on the earlier of November 30, 2009 or the date on which we occupy less than 20% of the two main floors of the Salt Lake City office building. Under certain circumstances, after we make this donation, we will have the right, but not the obligation, to lease space in the Salt Lake City office building from the foundation.

Through May 2002, we paid the premiums on various life insurance policies for Jon M. Huntsman. These policies have been liquidated, and the cash values have been paid to Mr. Huntsman. Mr. Huntsman is indebted to us in the amount of approximately $1.4 million, which represents the insurance premiums paid on his behalf through May 2002.

27. Operating Leases

We lease certain railcars, aircraft, equipment and facilities under long-term lease agreements. The total expense recorded under operating lease agreements in the accompanying consolidated statements of operations is approximately $74.1 million, $55.2 million and $49.0 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Future minimum lease payments under operating leases as of December 31, 2005 are as follows (dollars in millions):

Year ending December 31:	
2006	$ 62.3
2007	54.1
2008	46.6
2009	43.6
2010	40.1
Thereafter	167.2
	$413.9

28. Other Operating Expense (Income)

Other operating expense (income) consisted of the following (dollars in millions):

	Year Ended December 31,		
	2005	2004	2003
Foreign exchange losses (gains)	**$39.0**	$(118.8)	$(67.8)
Bad debts	**4.2**	2.0	11.3
Legal and contract settlement—net	**—**	6.6	2.0
Other	**(1.0)**	29.1	(0.5)
Total other operating expense (income)	**$42.2**	$ (81.1)	$(55.0)

29. Discontinued Operations

On July 6, 2005, we sold our toluene di-isocyanate ("TDI") business. The sale involved the transfer of our TDI customer list and sales contracts. We further agreed to discontinue the use of our remaining TDI assets. TDI has been accounted for as a discontinued operation under SFAS No. 144. Accordingly, the following results of TDI have been presented as discontinued operations in the accompanying consolidated statements of operations (dollars in millions):

	Year Ended December 31,		
	2005	2004	2003
Revenues	**$ 24.4**	$ 59.4	$ 62.3
Costs and expenses	**(31.9)**	(67.2)	(64.9)
Loss on disposal	**(36.4)**	—	—
Operating loss	**(43.9)**	(7.8)	(2.6)
Income tax expense	**—**	—	—
Loss from discontinued operations, net of tax	**$(43.9)**	$ (7.8)	$ (2.6)

The loss on disposal of $36.4 million for the year ended December 31, 2005 includes an impairment of long-lived assets of $24.7 million. We expect to incur approximately $2 million of additional costs related to the TDI transaction by the end of the second quarter of 2006. The TDI business is reported in our Polyurethanes operating segment in the accompanying consolidated financial statements.

30. Operating Segment Information

We derive our revenues, earnings and cash flows from the manufacture and sale of a wide variety of differentiated and commodity chemical products. We report our operations through six segments: Polyurethanes, Advanced Materials, Performance Products, Pigments, Polymers and Base Chemicals. We have organized our business and derived our operating segments around differences in product lines.

The major products of each reportable operating segment are as follows:

Segment	Products
Polyurethanes	MDI, TPU, polyols, aniline, PO and MTBE(1)
Advanced Materials	Epoxy resin compounds, cross-linkers, matting agents, curing agents, epoxy, acrylic and polyurethane-based adhesives and tooling resins and sterolithography tooling resins
Performance Products	Amines, surfactants, linear alkylbenzene, maleic anhydride, other performance chemicals, glycols, and technology licenses
Pigments	Titanium dioxide
Polymers	Ethylene (produced at the Odessa, Texas facilities primarily for internal use), polyethylene, polypropylene, expandable polystyrene, styrene and other polymers
Base Chemicals	Olefins (primarily ethylene and propylene), butadiene(2), MTBE(2), benzene, cyclohexane and paraxylene

(1) The PO/MTBE operations in our Polyurethanes segment are not included in the announced sale of our U.S. butadiene and MTBE business (operated in our Base Chemicals segment). See "Note 3. Business Combinations and Dispositions."

(2) We have announced the sale of our U.S. butadiene and MTBE business operated in our Base Chemicals segment; this transaction is expect to close in mid-2006. See "Note 3. Business Combinations and Dispositions."

Sales between segments are generally recognized at external market prices.

	December 31, 2005	2004	2003[4]
Net Sales (including intercompany sales):			
Polyurethanes	**$ 3,396.3**	$ 2,818.0	$1,500.1
Advanced Materials	**1,185.3**	1,162.4	517.8
Performance Products	**1,960.9**	1,927.8	1,507.7
Pigments	**1,052.8**	1,048.1	678.9
Polymers	**1,702.0**	1,451.8	1,155.5
Base Chemicals	**4,462.1**	3,859.0	2,152.7
Eliminations	**(797.8)**	(840.7)	(494.1)
Total	**$12,961.6**	$11,426.4	$7,018.6
Segment EBITDA[1]:			
Polyurethanes	**$ 676.3**	$ 364.0	$ 176.0
Advanced Materials	**154.1**	151.0	29.4
Performance Products	**157.3**	91.0	125.6
Pigments	**115.3**	(30.0)	64.7
Polymers	**102.7**	77.6	80.8
Base Chemicals	**264.3**	276.2	40.7
Corporate and other[2]	**(556.6)**	(37.2)	(43.7)
Total EBITDA	**913.4**	892.6	473.5
Interest expense, net	**(426.6)**	(612.6)	(409.1)
Income tax (expense) benefit[3]	**(20.6)**	29.1	(30.8)
Depreciation and amortization	**(500.8)**	(536.8)	(353.4)
Net loss	**$ (34.6)**	$ (227.7)	$ (319.8)
Depreciation and Amortization:			
Polyurethanes	**$ 147.4**	$ 147.8	$ 96.0
Advanced Materials	**46.5**	53.8	27.3
Performance Products	**52.0**	54.3	53.7
Pigments	**77.0**	83.2	44.2
Polymers	**56.2**	59.5	51.4
Base Chemicals	**85.3**	89.9	60.8
Corporate and other	**36.4**	48.3	20.0
Total	**$ 500.8**	$ 536.8	$ 353.4
Capital Expenditures:			
Polyurethanes	**$ 106.6**	$ 45.8	$ 25.6
Advanced Materials	**27.4**	17.4	5.8
Performance Products	**44.2**	43.8	40.6
Pigments	**38.4**	42.7	42.4
Polymers	**27.1**	14.5	25.9
Base Chemicals	**82.2**	56.7	39.0
Corporate and other	**12.8**	5.7	11.7
Total	**$ 338.7**	$ 226.6	$ 191.0
Total Assets:			
Polyurethanes	**$ 4,074.5**	$ 4,056.0	
Advanced Materials	**896.7**	953.2	
Performance Products	**1,465.1**	1,124.4	
Pigments	**1,659.7**	1,514.5	
Polymers	**955.4**	878.7	
Base Chemicals	**1,968.9**	2,009.7	
Corporate and eliminations	**(2,149.8)**	(1,113.0)	
Total	**$ 8,870.5**	$ 9,423.5	

(1) Segment EBITDA is defined as net income (loss) before interest, income tax, depreciation and amortization, and certain corporate and other items.

(2) Corporate and other items includes unallocated corporate overhead, loss on sale of accounts receivable, foreign exchange gains or losses and other non-operating income (expense).

(3) Includes a tax benefit of $2.9 million in 2005 on the cumulative effect of changes in accounting principle.

(4) Effective May 1, 2003, HIH is consolidated with our results. On June 30, 2003, our affiliates completed the AdMat Transaction. AdMat has been included in our consolidated financial statements since June 30, 2003.

	2005	2004	2003[2]
By Geographic Area			
Net sales:			
United States	**$ 7,447.5**	$ 6,385.1	$4,327.9
United Kingdom	**2,988.7**	2,718.5	1,296.7
Netherlands	**1,838.9**	1,274.6	709.7
Other nations	**2,876.7**	2,857.0	866.9
Eliminations	**(2,190.2)**	(1,808.8)	(182.6)
Total	**$12,961.6**	$11,426.4	$7,018.6
Long-lived assets[1]:			
United States	**$ 2,267.0**	$ 2,392.8	
United Kingdom	**980.7**	1,121.8	
Netherlands	**326.8**	402.6	
Other nations	**1,068.7**	1,233.7	
Total	**$ 4,643.2**	$ 5,150.9	

(1) Long lived assets are made up of property, plant and equipment.

(2) Effective May 1, 2003, HIH is consolidated with our results. On June 30, 2003, our affiliates completed the AdMat Transaction. AdMat has been included in our consolidated financial statements since June 30, 2003.

31. Selected Unaudited Quarterly Financial Data

A summary of selected unaudited quarterly financial data for the years ended December 31, 2005 and 2004 is as follows (dollars in millions):

	Three Months Ended			
	March 31, 2005[1]	**June 30, 2005**	**September 30, 2005**	**December 31, 2005**
Revenues	**$3,349.3**	**$3,339.5**	**$3,121.8**	**$3,151.0**
Gross profit	**589.1**	**509.5**	**392.6**	**260.9**
Restructuring, impairment and plant closing costs	**10.4**	**18.8**	**71.3**	**23.1**
(Loss) income from continuing operations	**(53.9)**	**153.1**	**(29.2)**	**(33.0)**
(Loss) income before accounting changes	**(56.5)**	**112.7**	**(29.8)**	**(33.3)**
Net (loss) income	**(52.5)**	**112.7**	**(29.8)**	**(65.0)**
Basic (loss) income per share:				
(Loss) income from continuing operations	**(0.44)**	**0.69**	**(0.13)**	**(0.15)**
(Loss) income before accounting changes	**(0.45)**	**0.51**	**(0.14)**	**(0.15)**
Net (loss) income	**(0.43)**	**0.51**	**(0.14)**	**(0.29)**
Diluted (loss) income per share:				
(Loss) income from continuing operations	**(0.44)**	**0.66**	**(0.13)**	**(0.15)**
(Loss) income before accounting changes	**(0.45)**	**0.48**	**(0.14)**	**(0.15)**
Net (loss) income	**(0.43)**	**0.48**	**(0.14)**	**(0.29)**

	Three Months Ended			
	March 31, 2004	June 30, 2004	September 30, 2004	December 31, 2004
Revenues	$2,620.8	$2,754.0	$2,934.8	$3,116.8
Gross profit	279.7	334.0	368.0	396.7
Restructuring, impairment and plant closing costs	8.7	150.5	43.2	96.9
(Loss) income from continuing operations	(84.0)	(184.5)	46.5	2.1
Net (loss) income	(84.8)	(185.4)	43.7	(1.2)
Basic and diluted (loss) income per share:				
(Loss) income from continuing operations	(0.48)	(0.94)	0.11	(0.09)
Net (loss) income	(0.49)	(0.94)	0.10	(0.10)

(1) During the fourth quarter of 2005, we changed the measurement date of our pension and postretirement benefit plans from December 31 to November 30 and recorded a cumulative effect of a change in accounting principle credit, net of tax, of $4.0 million ($0.02 decrease in loss per share). In accordance with SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements," *the cumulative effect of this accounting change was reported effective January 1, 2005.*

Market Information and Holders

Our common stock is listed on the New York Stock Exchange under the symbol "HUN." As of February 13, 2006, there were approximately 198 stockholders of record and the closing price of our common stock on the New York Stock Exchange was $20.06 per share.

The reported high and low sale prices of our common stock on the New York Stock Exchange for each of the periods set forth below are as follows:

Period	High	Low
2005:		
First Quarter*	**$29.99**	**$22.00**
Second Quarter	**23.77**	**18.15**
Third Quarter	**24.44**	**16.50**
Fourth Quarter	**20.45**	**17.03**

* *Prior to our initial public offering in February 2005, there was no established trading market for our common stock. Our common stock began trading on the New York Stock Exchange on February 11, 2005. Accordingly, no sales price information is available for our common stock for periods prior to February 11, 2005.*

Dividends

We do not currently pay or anticipate paying any cash dividends on our common stock. Instead, we intend to retain our earnings, if any, to invest in our businesses, to repay indebtedness and to use for general corporate purposes. Subject to the terms of our mandatory convertible preferred stock, our board of directors has the authority to declare and pay dividends on the common stock, in its discretion, as long as there are funds legally available to do so. However, amounts available to pay dividends will be restricted by the terms of the credit agreements and indentures of our subsidiaries. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

RECONCILIATION OF ADJUSTED EBITDA TO NET (LOSS)/INCOME

HUNTSMAN CORPORATION

(Dollars in millions)	Pro Forma[1] 2003	2004	**2005**
Net (loss)/income	$(426.1)	$ (227.7)	**$ (34.6)**
Interest expense—net	577.8	612.6	**426.6**
Income tax expense/(benefit)[3]	32.1	(29.1)	**20.6**
Depreciation and amortization	479.7	536.8	**500.8**
EBITDA	663.5	892.6	**913.4**
Early extinguishment of debt	—	25.6	**322.5**
Legal and contract settlement expense, net	7.5	6.6	**—**
Loss on sale of accounts receivable	32.4	15.6	**10.7**
Asset impairment, write down	5.8	—	**—**
Restructuring and plant closing costs	55.0	299.3	**123.6**
Reorganization costs	27.5	—	**—**
Loss from discontinued operations	2.6	7.8	**43.9**
Cumulative effect of changes in accounting principle	—	—	**30.6**
Adjusted EBITDA	794.3	1,247.5	**1,444.7**
Segment Adjusted EBITDA			
Polyurethanes	264.1	408.7	**733.6**
Advanced Materials[2]	61.2	151.4	**154.6**
Performance Products	150.4	188.5	**167.3**
Pigments	111.9	108.4	**145.4**
Polymers	81.6	91.2	**154.3**
Base Chemicals	71.7	292.9	**281.1**
Corporate and other[2]	53.4	6.4	**(191.6)**
Total Segment Adjusted EBITDA	$ 794.3	$1,247.5	**$1,444.7**

(1) Pro forma as if Huntsman had acquired the remaining interest in Huntsman International Holdings LLC as of January 1, 2003 and its interest in Huntsman Advanced Materials LLC as of January 1, 2003.

(2) Foreign currency transaction gains and losses of the Advanced Materials segment have been reclassified to Corporate and other.

(3) Includes a tax benefit of $2.9 million in 2005 on the cumulative effect of changes in accounting principle.

Reconciliation of Adjusted Net (Loss)/Income from Continuing Operations

	Year Ended December 31,	
(in millions, except per share amounts)	2004	**2005**
Net (loss)/income available to common stockholders	$(315.4)	**$ (77.7)**
Preferred dividends	87.7	**43.1**
Net (loss)/income	(227.7)	**(34.6)**
Adjustments net of tax:		
Loss on early extinguishment of debt	25.6	**322.5**
Restructuring, impairment and plant closing costs	231.6	**111.3**
Loss from discontinued operations	7.8	**43.9**
Cumulative effect of changes in accounting principle	—	**27.7**
Adjusted net income from continuing operations	$ 37.3	**$470.8**
Adjusted diluted earnings (loss) per share from continuing operations	$ 0.16	**$ 2.02**
Diluted shares for Adjusted earnings (loss) per share from continuing operations	233.0	**233.0**

EBITDA is defined as net income (loss) before interest, income taxes, and depreciation and amortization. We believe that EBITDA enhances an investor's understanding of our financial performance and our ability to satisfy principal and interest obligations with respect to our indebtedness. However, EBITDA should not be considered in isolation or viewed as a substitute for net income, cash flow from operations or other measures of performance as defined by generally accepted accounting principles in the U.S. ("GAAP"). Moreover, EBITDA as used herein is not necessarily comparable to other similarly titled measures of other companies due to potential inconsistencies in the method of calculation. Our management uses EBITDA to assess financial performance and debt service capabilities. In assessing financial performance, our management reviews EBITDA as a general indicator of economic performance compared to prior periods. Because EBITDA excludes interest, income taxes, depreciation and amortization, EBITDA provides an indicator of general economic performance that is not affected by debt restructurings, fluctuations in interest rates or effective tax rates, or levels of depreciation and amortization. Accordingly, our management believes this type of measurement is useful for comparing general operating performance from period to period and making certain related management decisions. EBITDA is also used by securities analysts, lenders and others in their evaluation of different companies because it excludes certain items that can vary widely across different industries or among companies within the same industry. For example, interest expense can be highly dependent on a company's capital structure, debt levels and credit ratings. Therefore, the impact of interest expense on earnings can vary significantly among companies. In addition, the tax positions of companies can vary because of their differing abilities to take advantage of tax benefits and because of the tax policies of the various jurisdictions in which they operate. As a result, effective tax rates and tax expense can vary considerably among companies. Finally, companies employ productive assets of different ages and utilize different methods of acquiring and depreciating such assets. This can result in considerable variability in the relative costs of productive assets and the depreciation and amortization expense among companies. Our management also believes that our investors use EBITDA as a measure of our ability to service indebtedness as well as to fund capital expenditures and working capital requirements. Nevertheless, our management recognizes that there are material limitations associated with the use of EBITDA in the evaluation of our Company as compared to net income, which reflects overall financial performance, including the effects of interest, income taxes, depreciation and amortization. EBITDA excludes interest expense. Because we have borrowed money in order to finance our operations, interest expense is a necessary element of our costs and ability to generate revenue. Therefore, any measure that excludes interest expense has material limitations. EBITDA also excludes taxes. Because the payment of taxes is a necessary element of our operations, any measure that excludes tax expense has material limitations. Finally, EBITDA excludes depreciation and amortization expense. Because we use capital assets, depreciation and amortization expense is a necessary element of our costs and ability to generate revenue. Therefore, any measure that excludes depreciation and amortization expense has material limitations. Our management compensates for the limitations of EBITDA by using it to supplement GAAP results to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone. Our management also uses other metrics to evaluate capital structure, tax planning and capital investment decisions. For example, our management uses credit ratings and net debt ratios to evaluate capital structure, effective tax rate by jurisdiction to evaluate tax planning, and payback period and internal rate of return to evaluate capital investments. Our management also uses trade working capital to evaluate its investment in receivables and inventory, net of payables. Adjusted EBITDA is computed by eliminating from EBITDA losses from discontinued operations, all restructuring and reorganization costs, losses on the sale of accounts receivable to its securitization program, losses from early extinguishment of debt and legal and contract settlement expense, net and cumulative effect of changes in accounting principle and is used to provide a more meaningful measure of operational performance. Adjusted net income (loss) from continuing operations is computed by eliminating losses from discontinued operations, the preferred dividends and after tax impact of restructuring, impairment and plant closing costs, losses on the early extinguishment of debt, and cumulative effect of changes in accounting principle. We believe that net income (loss) is the performance measure calculated and presented in accordance with GAAP that is most directly comparable to EBITDA, Adjusted EBITDA and adjusted net income (loss) from continuing operations.

CORPORATE INFORMATION

HUNTSMAN CORPORATION

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Independent Registered Public Accounting Firm

Deloitte & Touche LLP

Stockholder Inquiries

Inquiries from stockholders and other interested parties regarding our company are always welcome. Please direct your requests for information to:

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500 Huntsman Way
Salt Lake City, Utah 84108
Tel.: +1-801-584-5860
Fax: +1-801-584-5788
Email: ir@huntsman.com

Stock Listing

Our common stock is listed on the New York Stock Exchange under the symbol HUN.

HUN
LISTED
NYSE

Our mandatory convertible preferred stock is listed on the New York Stock Exchange under the symbol HUNPr.

Stock Transfer Agent

The Bank of New York
Shareholder Relations Department
P.O. Box 11258
Church Street Station
New York, New York 10286-1258
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Hearing Impaired—TDD: +1-888-269-5221
Email: shareowners@bankofny.com

Send certificates for transfer and address changes to:

The Bank of New York
Receive and Deliver Department
P.O. Box 11002
Church Street Station
New York, New York 10286-1002

Annual Meeting

The 2006 annual meeting of stockholders will be held on Thursday, May 4, 2006, at 10:30 a.m. (CT) at The Woodlands Waterway Marriott Hotel and Convention Center, 1601 Lake Robbins Drive, The Woodlands, Texas, U.S.A.

Website

www.huntsman.com

Certifications

In March 2006, we submitted to the NYSE for the first time the annual CEO certification required under Section 303A.12(a) of the NYSE Listed Company Manual. In addition, we filed with the SEC as exhibits to our annual report on Form 10-K for the year ended December 31, 2005 the CEO and CFO certifications required under Section 302 of the Sarbanes-Oxley Act.

Forward-Looking Statements

Statements in this report that are not historical are forward-looking statements. These statements are based on management's current belief and expectations. The forward-looking statements in this report are subject to uncertainty and changes in circumstances and involve risks and uncertainties that may affect our operations, markets, products, services, prices and other factors as discussed in our filings with the Securities and Exchange Commission. Significant risks and uncertainties may relate to, but are not limited to, financial, economic, competitive, environmental, political, legal, regulatory and technological factors. In addition, completion of transactions of the type described in this report are subject to a number of uncertainties and to negotiation and execution of definitive agreements among the parties and closing will be subject to approvals and other customary conditions. Accordingly, there can be no assurance that the transactions will be completed or that our expectations will be realized. We assume no obligation to provide revisions to any forward-looking statements should circumstances change, except as otherwise required by securities and other applicable laws.


Enriching lives through innovation

HUNTSMAN

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