Financial Issues in CMS Programs

Robert Westervelt
Editor-in-Chief
Chemical Week

Overview

- Current industry market conditions
- Inventory management in volatile price environment
- Factors affecting chemical availability and pricing

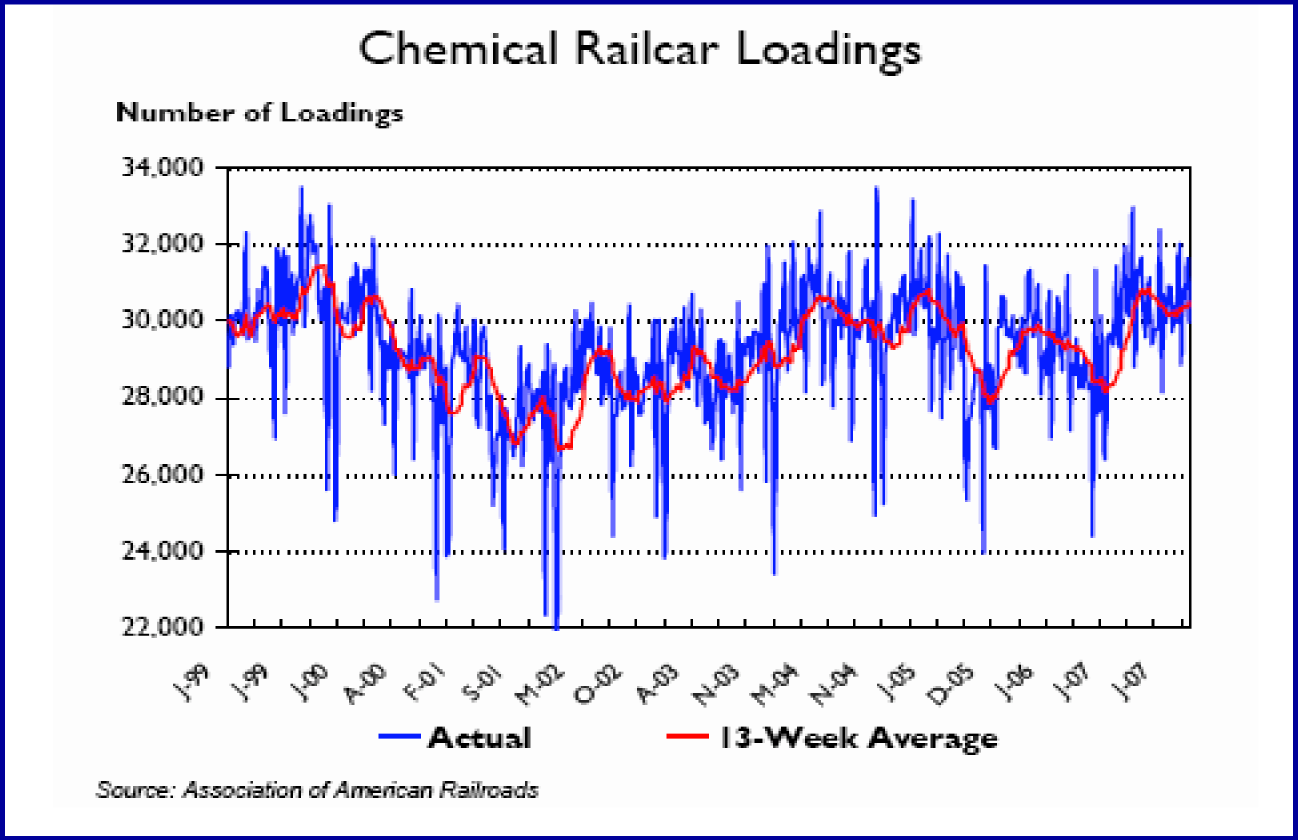
chemicalweek

Drivers Impacting Chemical Supply

- Demand (and production) shifting overseas
- Limited U.S. capacity additions
- Feedstock volatility

chemicalweek

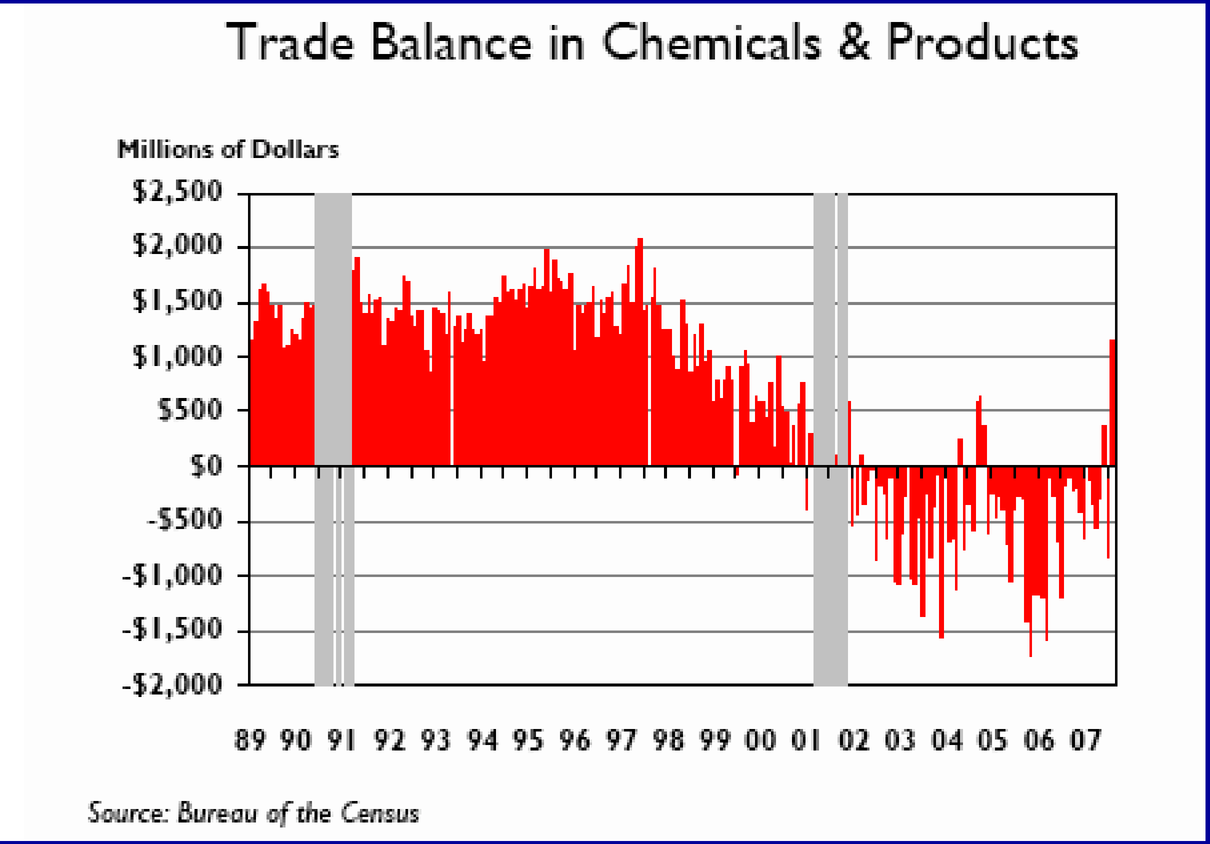
Demand Holding Despite Auto, Housing Weakness



Source: ACC (Arlington, VA)

chemicalweek

Exports Keeping U.S. Supply Tight



Source: ACC (Arlington, VA)

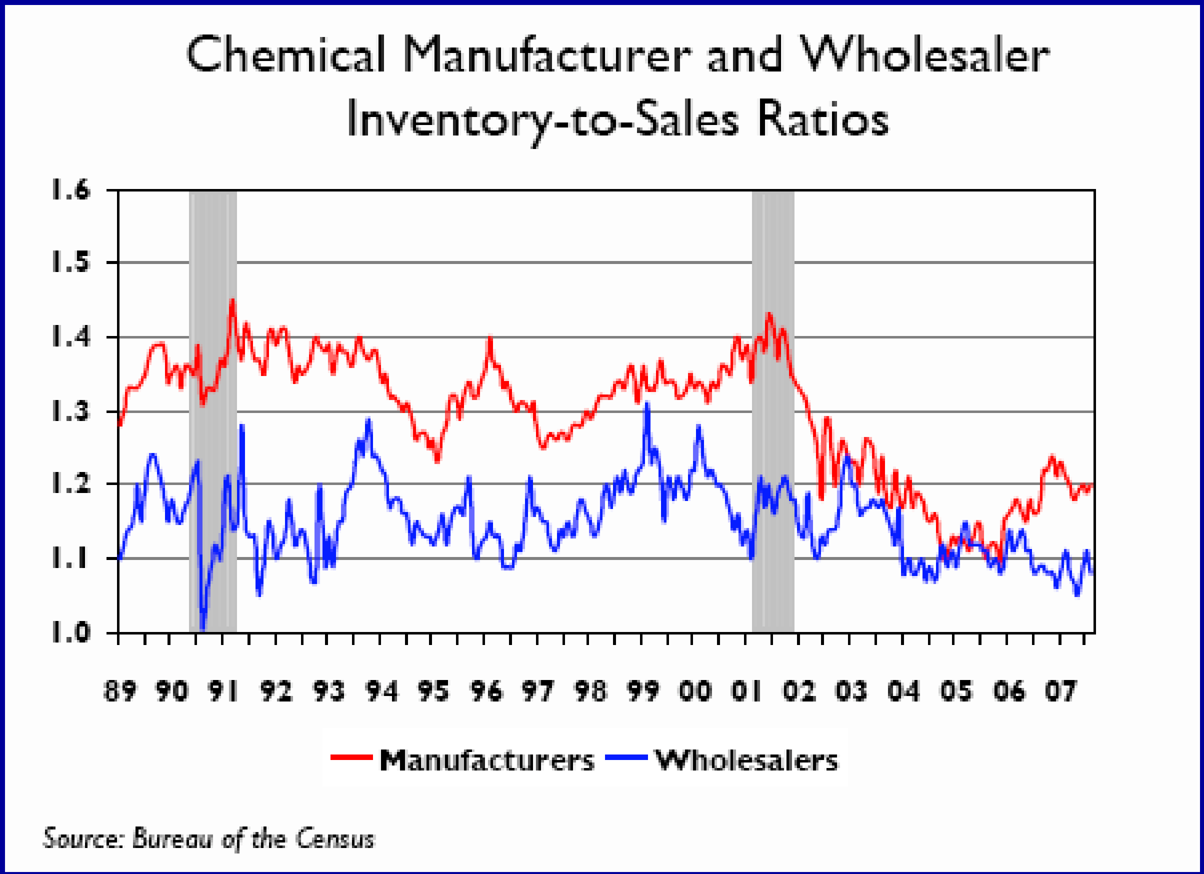
chemicalweek

Inventory Management

- Producers and buyers are paying more attention to inventory
- Inventories at much lower levels across supply chain in the past five years
- Sharp inventory correction in late 2005 and 2006
  - Some indications 2007 will be a repeat

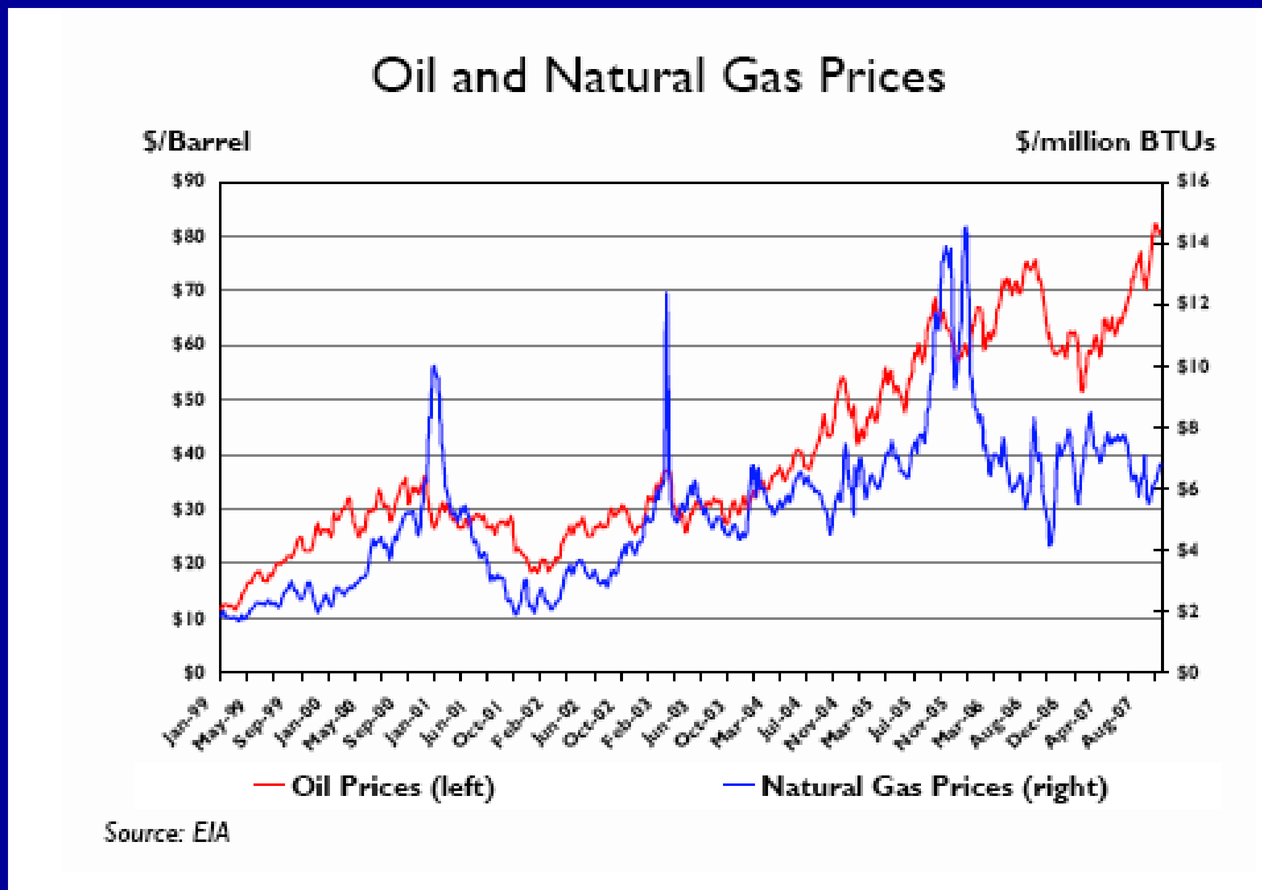
chemicalweek

Inventories Sharply Lower



Source: ACC (Arlington, VA)

Energy is Inflating Prices



Source: ACC (Arlington, VA)

chemicalweek

Producer Prices (% change Y/Y - 3MMA)	Jun 07	Jul 07	Aug 07	Sep 07
Feedstocks	10.5	8.4	6.3	9.4
Total Chemicals	2.7	3.0	3.3	3.5
Pharmaceuticals	2.9	2.7	3.2	3.7
Total Chemicals, excluding Pharmaceuticals	2.6	3.2	3.4	3.5
Agricultural Chemicals	16.3	16.8	18.7	19.7
Consumer Products	1.7	1.9	2.1	2.1
Basic & Specialty Chemicals	1.8	2.4	2.4	2.4
Basic Chemicals	1.2	1.9	2.0	2.0
Inorganic Chemicals	4.9	6.0	6.7	7.4
Petrochemicals & Organic Chemicals	0.6	1.5	1.5	1.3
Plastic Resins	-1.7	-1.2	-1.6	-1.9
Synthetic Rubber	6.1	7.0	7.8	7.2
Man-Made Fibers	0.2	-0.7	-0.8	-0.6
Specialty Chemicals	3.7	3.6	3.5	3.4
Coatings	4.2	4.1	4.1	4.0
Other Specialties	3.4	3.3	3.3	3.2

Source: Bureau of Labor Statistics, ACC analysis

* 3MMA= 3 month moving average

Source: ACC (Arlington, VA)

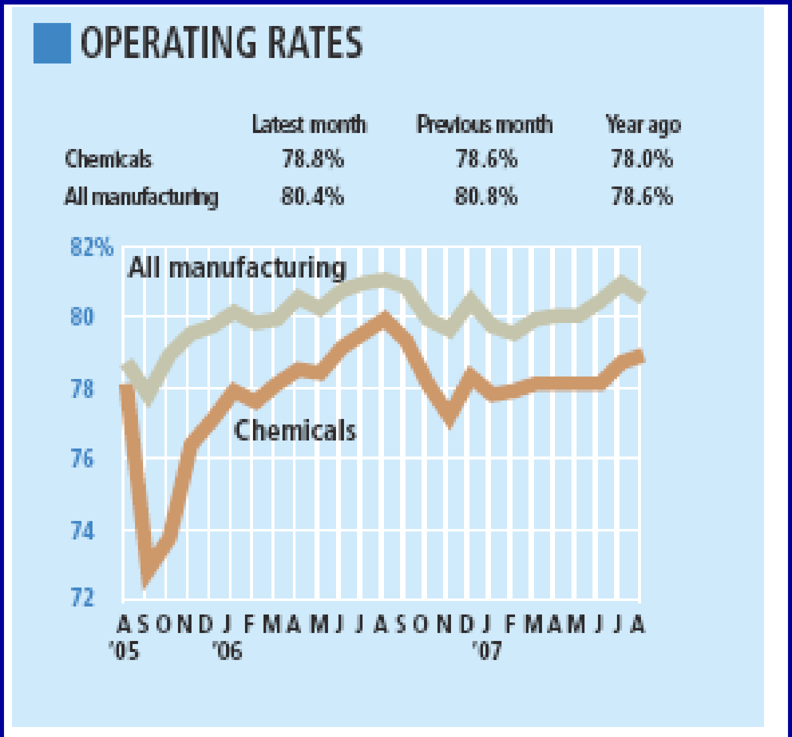
chemicalweek

Short-term Price Outlook

- Energy/feedstocks have climbed faster than chemical prices since the summer
  - Chemical makers still playing catch up
    - November and December increases on table across all product chains
    - Late-year increases tough to implement but chemical makers appear determined

chemicalweek

Operating Rates



- Industry operating rates have climbed through 2007
- Key products such as ethylene and benzene are over 90%

Source: U.S. Census Bureau

Long-term Price Outlook

- Volatility is here to stay
- Supply for key specialty chemical raw materials very tight
  - feedstocks: ethane; products: ethylene, benzene, p-xylene

Summing it up…

- Prices appear to be headed higher
- Capacity additions limited in U.S.
- Inventories appear balanced

chemicalweek

Questions?

Rob Westervelt
Tel. 212/621-4944
Email: robw@chemweek.com
www.chemweek.com