HUNTSMAN INTERNATIONAL LLC
Form 10-Q
August 01, 2012

Use these links to rapidly review the document


# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# Form 10-Q

**(Mark One)**

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2012**

**OR**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

| Commission File Number | Exact Name of Registrant as Specified in its Charter, Principal Office Address and Telephone Number | State of Incorporation or Organization | I.R.S. Employer Identification No. |
|---|---|---|---|
| 001-32427 | Huntsman Corporation<br>500 Huntsman Way<br>Salt Lake City, Utah 84108<br>(801) 584-5700 | Delaware | 42-1648585 |
| 333-85141 | Huntsman International LLC<br>500 Huntsman Way<br>Salt Lake City, Utah 84108<br>(801) 584-5700 | Delaware | 87-0630358 |

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

| | | |
|---|---|---|
| Huntsman Corporation | YES ý | NO o |
| Huntsman International LLC | YES ý | NO o |

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

| | | |
|---|---|---|
| Huntsman Corporation | YES ý | NO o |
| Huntsman International LLC | YES ý | NO o |

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | | |
|---|---|---|---|---|
| Huntsman Corporation | Large accelerated filer ý | Accelerated filer o | Non-accelerated filer o | Smaller reporting company o |
| Huntsman International LLC | Large accelerated filer o | Accelerated filer o | Non-accelerated filer ý | Smaller reporting company o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

| | | |
|---|---|---|
| Huntsman Corporation | YES o | NO ý |
| Huntsman International LLC | YES o | NO ý |

On July 23, 2012, 243,458,610 shares of common stock of Huntsman Corporation were outstanding and 2,728 units of membership interests of Huntsman International LLC were outstanding. There is no trading market for Huntsman International LLC's units of membership interests. All of Huntsman International LLC's units of membership interests are held by Huntsman Corporation.

This Quarterly Report on Form 10-Q presents information for two registrants: Huntsman Corporation and Huntsman International LLC. Huntsman International LLC is a wholly owned subsidiary of Huntsman Corporation and is the principal operating company of Huntsman Corporation. The information reflected in this Quarterly Report on Form 10-Q is equally applicable to both Huntsman Corporation and Huntsman International LLC, except where otherwise indicated. Huntsman International LLC meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and, to the extent applicable, is therefore filing this form with a reduced disclosure format.

**HUNTSMAN CORPORATION AND SUBSIDIARIES**
**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**
**QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012**

**TABLE OF CONTENTS**

Table of Contents

## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

### HUNTSMAN CORPORATION AND SUBSIDIARIES

### CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

**(Dollars in Millions, Except Share and Per Share Amounts)**

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents(a) | $ 452 | $ 554 |
| Restricted cash(a) | 9 | 8 |
| Accounts and notes receivable (net of allowance for doubtful accounts of $44 and $46, respectively), ($649 and $659 pledged as collateral, respectively)(a) | 1,677 | 1,529 |
| Accounts receivable from affiliates | 40 | 5 |
| Inventories(a) | 1,645 | 1,539 |
| Prepaid expenses | 37 | 46 |
| Deferred income taxes | 40 | 20 |
| Other current assets(a) | 209 | 245 |
| **Total current assets** | 4,109 | 3,946 |
| Property, plant and equipment, net(a) | 3,536 | 3,622 |
| Investment in unconsolidated affiliates | 223 | 202 |
| Intangible assets, net(a) | 78 | 91 |
| Goodwill | 106 | 114 |
| Deferred income taxes | 189 | 195 |
| Notes receivable from affiliates | 2 | 5 |
| Other noncurrent assets(a) | 486 | 482 |
| **Total assets** | $ 8,729 | $ 8,657 |
| **LIABILITIES AND EQUITY** | | |
| **Current liabilities:** | | |
| Accounts payable(a) | $ 976 | $ 862 |
| Accounts payable to affiliates | 33 | 50 |
| Accrued liabilities(a) | 669 | 695 |
| Deferred income taxes | 27 | 7 |
| Current portion of debt(a) | 143 | 212 |
| **Total current liabilities** | 1,848 | 1,826 |
| Long-term debt(a) | 3,601 | 3,730 |
| Notes payable to affiliates | 4 | 4 |
| Deferred income taxes | 341 | 309 |
| Other noncurrent liabilities(a) | 929 | 1,012 |
| **Total liabilities** | 6,723 | 6,881 |
| **Commitments and contingencies (Notes 13 and 14)** | | |
| **Equity** | | |
| **Huntsman Corporation stockholders' equity:** | | |
| Common stock $0.01 par value, 1,200,000,000 shares authorized, 243,468,351 and 241,836,001 issued and 237,890,371 and 235,746,087 outstanding in 2012 and 2011, respectively | 2 | 2 |
| Additional paid-in capital | 3,257 | 3,228 |
| Treasury stock, 4,043,526 shares at 2012 and 2011 | (50) | (50) |

| | | |
|---|---|---|
| Unearned stock-based compensation | (17) | (12) |
| Accumulated deficit | (715) | (947) |
| Accumulated other comprehensive loss | (589) | (559) |
| **Total Huntsman Corporation stockholders' equity** | 1,888 | 1,662 |
| Noncontrolling interests in subsidiaries | 118 | 114 |
| **Total equity** | 2,006 | 1,776 |
| **Total liabilities and equity** | $ 8,729 | $ 8,657 |

(a) At June 30, 2012 and December 31, 2011, respectively, $34 and $44 of cash and cash equivalents, $9 and $2 of restricted cash, $36 and $29 of accounts and notes receivable (net), $50 and $47 of inventories, $1 each of other current assets, $383 and $403 of property, plant and equipment (net), $20 and $23 of intangible assets (net), $22 and $21 of other noncurrent assets, $54 and $55 of accounts payable, $22 and $21 of accrued liabilities, $23 and $16 of current portion of debt, $248 and $264 of long-term debt, and $74 and $111 of other noncurrent liabilities from consolidated variable interest entities are included in the respective balance sheet captions above. See "Note 5. Variable Interest Entities."

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

**(Dollars in Millions, Except Per Share Amounts)**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| **Revenues:** | | | | |
| Trade sales, services and fees, net | $ 2,862 | $ 2,896 | $ 5,715 | $ 5,522 |
| Related party sales | 52 | 38 | 112 | 91 |
| **Total revenues** | 2,914 | 2,934 | 5,827 | 5,613 |
| **Cost of goods sold** | 2,387 | 2,433 | 4,750 | 4,652 |
| **Gross profit** | 527 | 501 | 1,077 | 961 |
| **Operating expenses:** | | | | |
| Selling, general and administrative | 232 | 256 | 453 | 474 |
| Research and development | 38 | 42 | 77 | 81 |
| Other operating expense (income) | 2 | (26) | 7 | 8 |
| Restructuring, impairment and plant closing costs | 5 | 9 | 5 | 16 |
| **Total expenses** | 277 | 281 | 542 | 579 |
| **Operating income** | 250 | 220 | 535 | 382 |
| Interest expense, net | (57) | (65) | (116) | (124) |
| Equity in income of investment in unconsolidated affiliates | 1 | 2 | 3 | 4 |
| Loss on early extinguishment of debt | | | (1) | (3) |
| Other income | 1 | 1 | 1 | 1 |
| **Income from continuing operations before income taxes** | 195 | 158 | 422 | 260 |
| Income tax expense | (65) | (34) | (125) | (56) |
| **Income from continuing operations** | 130 | 124 | 297 | 204 |
| Loss from discontinued operations, net of tax | (2) | (1) | (6) | (15) |
| **Income before extraordinary gain** | 128 | 123 | 291 | 189 |
| Extraordinary gain on the acquisition of a business, net of tax of nil | | 1 | | 2 |
| **Net income** | 128 | 124 | 291 | 191 |
| Net income attributable to noncontrolling interests | (4) | (10) | (4) | (15) |
| **Net income attributable to Huntsman Corporation** | $ 124 | $ 114 | $ 287 | $ 176 |
| **Basic income (loss) per share:** | | | | |
| Income from continuing operations attributable to Huntsman Corporation common stockholders | $ 0.53 | $ 0.48 | $ 1.24 | $ 0.79 |
| Loss from discontinued operations attributable to Huntsman Corporation common stockholders, net of tax | (0.01) | | (0.03) | (0.06) |
| Extraordinary gain on the acquisition of a business attributable to Huntsman Corporation common stockholders, net of tax | | | | 0.01 |
| Net income attributable to Huntsman Corporation common stockholders | $ 0.52 | $ 0.48 | $ 1.21 | $ 0.74 |
| Weighted average shares | 237.8 | 239.4 | 237.2 | 238.5 |
| **Diluted income (loss) per share:** | | | | |
| Income from continuing operations attributable to Huntsman Corporation common stockholders | $ 0.52 | $ 0.47 | $ 1.22 | $ 0.78 |

| | | | | |
|---|---|---|---|---|
| Loss from discontinued operations attributable to Huntsman Corporation common stockholders, net of tax | | | (0.03) | (0.07) |
| Extraordinary gain on the acquisition of a business attributable to Huntsman Corporation common stockholders, net of tax | | | | 0.01 |
| Net income attributable to Huntsman Corporation common stockholders | $ 0.52 | $ 0.47 | $ 1.19 | $ 0.72 |
| Weighted average shares | 240.5 | 243.7 | 240.2 | 243.2 |
| **Amounts attributable to Huntsman Corporation common stockholders:** | | | | |
| Income from continuing operations | $ 126 | $ 114 | $ 293 | $ 189 |
| Loss from discontinued operations, net of tax | (2) | (1) | (6) | (15) |
| Extraordinary gain on the acquisition of a business, net of tax | | 1 | | 2 |
| Net income | $ 124 | $ 114 | $ 287 | $ 176 |
| **Dividends per share** | $ 0.10 | $ 0.10 | $ 0.20 | $ 0.20 |

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)**

**(Dollars in Millions)**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| **Net income** | $ 128 | $ 124 | $ 291 | $ 191 |
| **Other comprehensive (loss) income, net of tax:** | | | | |
| Foreign currency translations adjustments | (142) | 56 | (69) | 147 |
| Pension and other postretirement benefits adjustments | 22 | 4 | 41 | 8 |
| Other, net | (3) | | (2) | 1 |
| **Other comprehensive (loss) income** | (123) | 60 | (30) | 156 |
| **Comprehensive income** | 5 | 184 | 261 | 347 |
| Comprehensive income attributable to noncontrolling interests | (2) | (10) | (4) | (16) |
| **Comprehensive income attributable to Huntsman Corporation** | $ 3 | $ 174 | $ 257 | $ 331 |

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

**(Dollars in Millions)**

| | Six months ended June 30, 2012 | Six months ended June 30, 2011 |
|---|---|---|
| **Operating Activities:** | | |
| Net income | $ 291 | $ 191 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Gain on the consolidation of a variable interest entity | | (12) |
| Equity in income of investment in unconsolidated affiliates | (3) | (4) |
| Depreciation and amortization | 216 | 214 |
| Loss (gain) on disposal of businesses/assets, net | 1 | (2) |
| Loss on early extinguishment of debt | 1 | 3 |
| Noncash interest expense | 14 | 19 |
| Deferred income taxes | 31 | (18) |
| Noncash loss on foreign currency transactions | 4 | |
| Stock-based compensation | 15 | 16 |
| Other, net | 7 | 2 |
| Changes in operating assets and liabilities: | | |
| Accounts and notes receivable | (183) | (325) |
| Inventories | (139) | (270) |
| Prepaid expenses | 9 | 10 |
| Other current assets | 32 | (121) |
| Other noncurrent assets | (7) | 37 |
| Accounts payable | 100 | 200 |
| Accrued liabilities | 4 | 119 |
| Other noncurrent liabilities | (45) | (58) |
| **Net cash provided by operating activities** | 348 | 1 |
| **Investing Activities:** | | |
| Capital expenditures | (163) | (124) |
| Proceeds from settlements treated as reimbursement of capital expenditures | | 3 |
| Cash assumed in connection with the initial consolidation of a variable interest entity | | 28 |
| Cash paid for acquisition of a business | (2) | (23) |
| Proceeds from sale of business/assets | | 3 |
| Investment in unconsolidated affiliates | (60) | (10) |
| Cash received from unconsolidated affiliates | 40 | 13 |
| Increase in restricted cash | (2) | |
| Other, net | 2 | (1) |
| **Net cash used in investing activities** | (185) | (111) |

(Continued)

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Continued)**

**(Dollars in Millions)**

| | Six months ended June 30, 2012 | Six months ended June 30, 2011 |
|---|---|---|
| **Financing Activities:** | | |
| Net (repayments) borrowings under revolving loan facilities | $ (15) | $ 4 |
| Net borrowings on overdraft facilities | 4 | 11 |
| Repayments of short-term debt | (21) | (100) |
| Borrowings on short-term debt | | 76 |
| Repayments of long-term debt | (152) | (170) |
| Proceeds from issuance of long-term debt | 1 | 71 |
| Repayments of notes payable | (24) | (15) |
| Borrowings on notes payable | 1 | 1 |
| Debt issuance costs paid | (4) | (7) |
| Call premiums related to early extinguishment of debt | (2) | (3) |
| Dividends paid to common stockholders | (48) | (48) |
| Repurchase and cancellation of stock awards | (7) | (8) |
| Proceeds from issuance of common stock | 1 | 3 |
| Excess tax benefit related to stock-based compensation | 4 | 10 |
| Other, net | (2) | (3) |
| **Net cash used in financing activities** | (264) | (178) |
| Effect of exchange rate changes on cash | (1) | 5 |
| Decrease in cash and cash equivalents | (102) | (283) |
| Cash and cash equivalents at beginning of period | 554 | 966 |
| Cash and cash equivalents at end of period | $ 452 | $ 683 |
| **Supplemental cash flow information:** | | |
| Cash paid for interest | $ 106 | $ 108 |
| Cash paid for income taxes | 70 | 35 |

During the six months ended June 30, 2012 and 2011, the amount of capital expenditures in accounts payable decreased by $8 million each.

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)**

**(Dollars in Millions)**

| | Huntsman Corporation Stockholders | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Shares** | | | | | | | | |
| | **Common stock** | **Common stock** | **Additional paid-in capital** | **Treasury stock** | **Unearned stock-based compensation** | **Accumulated deficit** | **Accumulated other comprehensive (loss) income** | **Noncontrolling interests in subsidiaries** | **Total equity** |
| Balance, January 1, 2012 | 235,746,087 | $ 2 | $ 3,228 | $ (50) | $ (12) | $ (947) | $ (559) | $ 114 | $ 1,776 |
| Net income | | | | | | 287 | | 4 | 291 |
| Other comprehensive loss | | | | | | | (30) | | (30) |
| Issuance of nonvested stock awards | | | 12 | | (12) | | | | |
| Vesting of stock awards | 2,141,910 | | 10 | | | | | | 10 |
| Recognition of stock-based compensation | | | 4 | | 7 | | | | 11 |
| Repurchase and cancellation of stock awards | (533,266) | | | | | (7) | | | (7) |
| Stock options exercised | 535,640 | | 1 | | | | | | 1 |
| Excess tax benefit related to stock-based compensation | | | 4 | | | | | | 4 |
| Dividends paid on common stock | | | | | | (48) | | | (48) |
| Acquisition of a business | | | (2) | | | | | | (2) |
| Balance, June 30, 2012 | 237,890,371 | $ 2 | $ 3,257 | $ (50) | $ (17) | $ (715) | $ (589) | $ 118 | $ 2,006 |
| Balance, January 1, 2011 | 236,799,455 | $ 2 | $ 3,186 | $ | $ (11) | $ (1,090) | $ (297) | $ 60 | $ 1,850 |
| Net income | | | | | | 176 | | 15 | 191 |
| Other comprehensive income | | | | | | | 155 | 1 | 156 |
| Consolidation of a variable interest entity | | | | | | | | 61 | 61 |
| Issuance of nonvested stock awards | | | 11 | | (11) | | | | |
| | 2,211,143 | | 13 | | | | | | 13 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Vesting of stock awards | | | | | | | | | |
| Recognition of stock-based compensation | | | 2 | | 6 | | | | 8 |
| Repurchase and cancellation of stock awards | (503,913) | | | | | (8) | | | (8) |
| Stock options exercised | 1,225,436 | | 3 | | | | | | 3 |
| Excess tax benefit related to stock-based compensation | | | 10 | | | | | | 10 |
| Dividends paid on common stock | | | | | | (48) | | | (48) |
| Balance, June 30, 2011 | 239,732,121 | $ 2 | $ 3,225 | $ | $ (16) | $ (970) | $ (142) | $ 137 | $ 2,236 |

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

**(Dollars in Millions)**

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents(a) | $ 201 | $ 231 |
| Restricted cash(a) | 9 | 8 |
| Accounts and notes receivable (net of allowance for doubtful accounts of $44 and $46, respectively), ($649 and $659 pledged as collateral, respectively)(a) | 1,677 | 1,529 |
| Accounts receivable from affiliates | 205 | 148 |
| Inventories(a) | 1,645 | 1,539 |
| Prepaid expenses | 35 | 46 |
| Deferred income taxes | 40 | 40 |
| Other current assets(a) | 209 | 220 |
| **Total current assets** | 4,021 | 3,761 |
| Property, plant and equipment, net(a) | 3,436 | 3,510 |
| Investment in unconsolidated affiliates | 223 | 202 |
| Intangible assets, net(a) | 80 | 93 |
| Goodwill | 106 | 114 |
| Deferred income taxes | 189 | 163 |
| Notes receivable from affiliates | 2 | 5 |
| Other noncurrent assets(a) | 486 | 482 |
| **Total assets** | $ 8,543 | $ 8,330 |
| **LIABILITIES AND EQUITY** | | |
| **Current liabilities:** | | |
| Accounts payable(a) | $ 976 | $ 862 |
| Accounts payable to affiliates | 40 | 64 |
| Accrued liabilities(a) | 641 | 694 |
| Deferred income taxes | 29 | 29 |
| Note payable to affiliate | 100 | 100 |
| Current portion of debt(a) | 143 | 212 |
| **Total current liabilities** | 1,929 | 1,961 |
| Long-term debt(a) | 3,601 | 3,730 |
| Notes payable to affiliates | 523 | 439 |
| Deferred income taxes | 235 | 106 |
| Other noncurrent liabilities(a) | 926 | 1,003 |
| **Total liabilities** | 7,214 | 7,239 |
| **Commitments and contingencies (Notes 13 and 14)** | | |
| **Equity** | | |
| **Huntsman International LLC members' equity:** | | |
| Members' equity, 2,728 units issued and outstanding | 3,097 | 3,081 |
| Accumulated deficit | (1,248) | (1,493) |
| Accumulated other comprehensive loss | (638) | (611) |
| **Total Huntsman International LLC members' equity** | 1,211 | 977 |
| Noncontrolling interests in subsidiaries | 118 | 114 |
| **Total equity** | 1,329 | 1,091 |
| **Total liabilities and equity** | $ 8,543 | $ 8,330 |

(a) At June 30, 2012 and December 31, 2011, respectively, $34 and $44 of cash and cash equivalents, $9 and $2 of restricted cash, $36 and $29 of accounts and notes receivable (net), $50 and $47 of inventories, $1 each of other current assets, $383 and $403 of property, plant and equipment (net), $20 and $23 of intangible assets (net), $22 and $21 of other noncurrent assets, $54 and $55 of accounts payable, $22 and $21 of accrued liabilities, $23 and $16 of current portion of debt, $248 and $264 of long-term debt, and $74 and $111 of other noncurrent liabilities from consolidated variable interest entities are included in the respective balance sheet captions above. See "Note 5. Variable Interest Entities."

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

**(Dollars in Millions)**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| **Revenues:** | | | | |
| Trade sales, services and fees, net | $ 2,862 | $ 2,896 | $ 5,715 | $ 5,522 |
| Related party sales | 52 | 38 | 112 | 91 |
| **Total revenues** | 2,914 | 2,934 | 5,827 | 5,613 |
| **Cost of goods sold** | 2,382 | 2,429 | 4,741 | 4,643 |
| **Gross profit** | 532 | 505 | 1,086 | 970 |
| **Operating expenses:** | | | | |
| Selling, general and administrative | 230 | 255 | 449 | 472 |
| Research and development | 38 | 42 | 77 | 81 |
| Other operating expense (income) | 2 | (26) | 7 | 8 |
| Restructuring, impairment and plant closing costs | 5 | 9 | 5 | 16 |
| **Total expenses** | 275 | 280 | 538 | 577 |
| **Operating income** | 257 | 225 | 548 | 393 |
| Interest expense, net | (61) | (67) | (122) | (131) |
| Equity in income of investment in unconsolidated affiliates | 1 | 2 | 3 | 4 |
| Loss on early extinguishment of debt | | | (1) | (3) |
| Other income | 1 | 1 | 1 | 1 |
| **Income from continuing operations before income taxes** | 198 | 161 | 429 | 264 |
| Income tax expense | (65) | (34) | (126) | (56) |
| **Income from continuing operations** | 133 | 127 | 303 | 208 |
| Loss from discontinued operations, net of tax | (2) | (1) | (6) | (15) |
| **Income before extraordinary gain** | 131 | 126 | 297 | 193 |
| Extraordinary gain on the acquisition of a business, net of tax of nil | | 1 | | 2 |
| **Net income** | 131 | 127 | 297 | 195 |
| Net income attributable to noncontrolling interests | (4) | (10) | (4) | (15) |
| **Net income attributable to Huntsman International LLC** | $ 127 | $ 117 | $ 293 | $ 180 |

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)**

**(Dollars in Millions)**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **Net income** | $ 131 | $ 127 | $ 297 | $ 195 |
| **Other comprehensive (loss) income, net of tax:** | | | | |
| Foreign currency translations adjustments | (142) | 55 | (69) | 148 |
| Pension and other postretirement benefits adjustments | 22 | 6 | 43 | 11 |
| Other, net | (2) | | (1) | |
| **Other comprehensive (loss) income** | (122) | 61 | (27) | 159 |
| **Comprehensive income** | 9 | 188 | 270 | 354 |
| Comprehensive income attributable to noncontrolling interests | (2) | (10) | (4) | (16) |
| **Comprehensive income attributable to Huntsman International LLC** | $ 7 | $ 178 | $ 266 | $ 338 |

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

**(Dollars in Millions)**

| | Six months ended June 30, 2012 | Six months ended June 30, 2011 |
|---|---|---|
| **Operating Activities:** | | |
| Net income | $ 297 | $ 195 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Gain on the consolidation of a variable interest entity | | (12) |
| Equity in income of investment in unconsolidated affiliates | (3) | (4) |
| Depreciation and amortization | 204 | 203 |
| Loss (gain) on disposal of businesses/assets, net | 1 | (2) |
| Loss on early extinguishment of debt | 1 | 3 |
| Noncash interest expense | 20 | 25 |
| Deferred income taxes | 96 | (19) |
| Noncash loss on foreign currency transactions | 4 | |
| Noncash compensation | 14 | 15 |
| Other, net | 6 | 2 |
| Changes in operating assets and liabilities: | | |
| Accounts and notes receivable | (183) | (325) |
| Inventories | (139) | (270) |
| Prepaid expenses | 10 | 12 |
| Other current assets | 7 | (121) |
| Other noncurrent assets | (7) | 37 |
| Accounts payable | 94 | 194 |
| Accrued liabilities | (22) | 119 |
| Other noncurrent liabilities | (43) | (55) |
| **Net cash provided by (used in) operating activities** | 357 | (3) |
| **Investing Activities:** | | |
| Capital expenditures | (163) | (124) |
| Proceeds from settlements treated as reimbursement of capital expenditures | | 3 |
| Cash assumed in connection with the initial consolidation of a variable interest entity | | 28 |
| Cash paid for acquisition of a business | (2) | (23) |
| Proceeds from sale of business/assets | | 3 |
| (Increase) decrease in receivable from affiliate | (29) | 8 |
| Investment in unconsolidated affiliates | (60) | (10) |
| Cash received from unconsolidated affiliates | 40 | 13 |
| Increase in restricted cash | (2) | |
| Other, net | 2 | (1) |
| **Net cash used in investing activities** | (214) | (103) |

(Continued)

Table of Contents

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Continued)**

**(Dollars in Millions)**

| | Six months ended June 30, | |
|---|---|---|
| | **2012** | **2011** |
| **Financing Activities:** | | |
| Net (repayments) borrowings under revolving loan facilities | $ (15) | $ 4 |
| Net borrowings on overdraft facilities | 4 | 11 |
| Repayments of short-term debt | (21) | (100) |
| Borrowings on short-term debt | | 76 |
| Repayments of long-term debt | (152) | (170) |
| Proceeds from issuance of long-term debt | 1 | 71 |
| Proceeds from notes payable to affiliate | 84 | |
| Repayments of notes payable | (24) | (15) |
| Borrowings on notes payable | 1 | 1 |
| Debt issuance costs paid | (4) | (7) |
| Call premiums related to early extinguishment of debt | (2) | (3) |
| Dividends paid to parent | (48) | (32) |
| Excess tax benefit related to stock-based compensation | 4 | 10 |
| **Net cash used in financing activities** | (172) | (154) |
| Effect of exchange rate changes on cash | (1) | 5 |
| Decrease in cash and cash equivalents | (30) | (255) |
| Cash and cash equivalents at beginning of period | 231 | 561 |
| Cash and cash equivalents at end of period | $ 201 | $ 306 |
| **Supplemental cash flow information:** | | |
| Cash paid for interest | $ 106 | $ 108 |
| Cash paid for income taxes | 58 | 35 |

During the six months ended June 30, 2012 and 2011, the amount of capital expenditures in accounts payable decreased by $8 million each. During the six months ended June 30, 2012 and 2011, Huntsman Corporation contributed $14 million and $15 million related to stock-based compensation, respectively.

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)**

**(Dollars in Millions)**

| | Huntsman International LLC Members | | | | | |
|---|---|---|---|---|---|---|
| | Members' equity | | | | | |
| | Units | Amount | Accumulated deficit | Accumulated other comprehensive (loss) income | Noncontrolling interests in subsidiaries | Total equity |
| Balance, January 1, 2012 | 2,728 | $ 3,081 | $ (1,493) | $ (611) | $ 114 | $ 1,091 |
| Net income | | | 293 | | 4 | 297 |
| Other comprehensive loss | | | | (27) | | (27) |
| Contribution from parent | | 14 | | | | 14 |
| Dividends paid to parent | | | (48) | | | (48) |
| Acquisition of a business | | (2) | | | | (2) |
| Excess tax benefit related to stock-based compensation | | 4 | | | | 4 |
| Balance, June 30, 2012 | 2,728 | $ 3,097 | $ (1,248) | $ (638) | $ 118 | $ 1,329 |
| | | | | | | |
| Balance, January 1, 2011 | 2,728 | $ 3,049 | $ (1,667) | $ (354) | $ 60 | $ 1,088 |
| Net income | | | 180 | | 15 | 195 |
| Other comprehensive income | | | | 158 | 1 | 159 |
| Consolidation of a variable interest entity | | | | | 61 | 61 |
| Contribution from parent | | 15 | | | | 15 |
| Dividends paid to parent | | | (32) | | | (32) |
| Excess tax benefit related to stock-based compensation | | 10 | | | | 10 |
| Balance, June 30, 2011 | 2,728 | $ 3,074 | $ (1,519) | $ (196) | $ 137 | $ 1,496 |

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

## 1. GENERAL

### CERTAIN DEFINITIONS

For convenience in this report, the terms "Company," "our," "us" or "we" may be used to refer to Huntsman Corporation and, unless the context otherwise requires, its subsidiaries and predecessors. In this report, "Huntsman International" refers to Huntsman International LLC (our 100% owned subsidiary) and, unless the context otherwise requires, its subsidiaries; and "HPS" refers to Huntsman Polyurethanes Shanghai Ltd. (our consolidated splitting joint venture with Shanghai Chlor-Alkali Chemical Company, Ltd).

In this report, we may use, without definition, the common names of competitors or other industry participants. We may also use the common names or abbreviations for certain chemicals or products.

### INTERIM FINANCIAL STATEMENTS

Our interim condensed consolidated financial statements (unaudited) and Huntsman International's interim condensed consolidated financial statements (unaudited) were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP" or "U.S. GAAP") and in management's opinion reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of results of operations, comprehensive income, financial position and cash flows for the periods presented. Results for interim periods are not necessarily indicative of those to be expected for the full year. These condensed consolidated financial statements (unaudited) should be read in conjunction with the audited consolidated financial statements and notes to consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2011 for our Company and Huntsman International.

### DESCRIPTION OF BUSINESS

We are a global manufacturer of differentiated organic chemical products and of inorganic chemical products. Our products comprise a broad range of chemicals and formulations, which we market globally 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, personal care and hygiene, durable and non-durable consumer products, electronics, medical, packaging, paints and coatings, power generation, refining, synthetic fiber, textile chemicals and dye industries. We are a leading global producer in many of our key product lines, including MDI, amines, surfactants, maleic anhydride, epoxy-based polymer formulations, textile chemicals, dyes and titanium dioxide.

We operate in five segments: Polyurethanes, Performance Products, Advanced Materials, Textile Effects and Pigments. Our Polyurethanes, Performance Products, Advanced Materials and Textile Effects segments produce differentiated organic chemical products and our Pigments segment produces inorganic chemical products.

### COMPANY

Our Company, a Delaware corporation, was formed in 2004 to hold the Huntsman businesses. Jon M. Huntsman founded the predecessor to our Company in 1970 as a small packaging company.

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

## 1. GENERAL (Continued)

Since then, we have grown through a series of acquisitions and now own a global portfolio of businesses.

We operate all of our businesses through Huntsman International, our 100% owned subsidiary. Huntsman International is a Delaware limited liability company.

### HUNTSMAN CORPORATION AND HUNTSMAN INTERNATIONAL FINANCIAL STATEMENTS

Except where otherwise indicated, these notes relate to the condensed consolidated financial statements (unaudited) for both our Company and Huntsman International. The differences between our financial statements and Huntsman International's financial statements relate primarily to the following:

- purchase accounting recorded at our Company for the 2003 step-acquisition of Huntsman International Holdings LLC, the former parent company of Huntsman International that was merged into Huntsman International in 2005;
- the different capital structures; and
- a note payable from Huntsman International to us.

### PRINCIPLES OF CONSOLIDATION

Our condensed consolidated financial statements (unaudited) 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, except for intercompany sales between continuing and discontinued operations.

### USE OF ESTIMATES

The preparation of financial statements in conformity with 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.

## 2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

### ACCOUNTING PRONOUNCEMENTS ADOPTED DURING 2012

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, providing a consistent definition of fair value between U.S. GAAP and International Financial Reporting Standards ("IFRSs") as well as developing common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRSs. The amendments in this ASU were effective prospectively for interim and annual periods beginning after December 15, 2011. We adopted the amendments of this ASU effective January 1, 2012, and the initial adoption of the

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (Continued)**

amendments in this ASU did not have a significant impact on our condensed consolidated financial statements (unaudited).

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, requiring entities to present net income and other comprehensive income in either a single continuous statement of comprehensive income or in two separate, but consecutive, statements of net income and other comprehensive income. The option to present components of other comprehensive income as part of the statement of equity is eliminated. The amendments do not change the option to present components of other comprehensive income either net of related tax effects or before related tax effects, with one amount shown for the aggregate income tax expense or benefit related to the total of other comprehensive income components. The amendments in this ASU were effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2011. We adopted this ASU effective January 1, 2012 and have presented our consolidated net income and consolidated comprehensive income in two separate, but consecutive, statements.

**ACCOUNTING PRONOUNCEMENTS PENDING ADOPTION IN FUTURE PERIODS**

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. The guidance in this ASU is intended to reduce complexity and costs of the annual goodwill impairment test by providing entities with the option of performing a qualitative assessment to determine whether further impairment testing is necessary. The amendments in this ASU include examples of events and circumstances that might indicate that a reporting unit's fair value is less than its carrying value. The amendments in this ASU are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption permitted. We did not early adopt the provisions of this ASU for our annual impairment test on July 1, 2011 and do not expect the adoption of the amendments in this ASU to have a significant impact on our condensed consolidated financial statements (unaudited).

**3. BUSINESS COMBINATIONS**

**EMA ACQUISITION**

On December 30, 2011, we completed the acquisition of EMA Kimya Sistemleri Sanayi ve Ticaret A.S. (the "EMA Acquisition"), an MDI-based polyurethanes systems house in Istanbul, Turkey for approximately $11 million, net of cash acquired and including the repayment of assumed debt. We have accounted for the EMA Acquisition using the acquisition method and transaction costs charged to expense associated with this acquisition were not significant. For purposes of a preliminary allocation of the acquisition cost to assets acquired and liabilities assumed, we have assigned the excess of the acquisition cost over historical carrying values of $7 million to property, plant and equipment. At December 31, 2011, the excess of the acquisition cost over historical carrying values had been assigned as goodwill. This preliminary purchase price allocation is likely to change once we complete the analysis of the fair value of tangible and intangible assets acquired and liabilities assumed. Net sales for the three and six months ended June 30, 2011 related to the business acquired were approximately

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**3. BUSINESS COMBINATIONS (Continued)**

$7 million and $12 million, respectively. Net losses for the three and six months ended June 30, 2011 related to the business acquired were approximately $1 million and $2 million, respectively.

**LAFFANS ACQUISITION**

On April 2, 2011, we completed the acquisition of the chemical business of Laffans Petrochemicals Limited, an amines and surfactants manufacturer located in Ankleshwar, India (the "Laffans Acquisition") at a cost of approximately $23 million. The acquired business has been integrated into our Performance Products segment. Transaction costs charged to expense related to this acquisition were not significant.

We have accounted for the Laffans Acquisition using the acquisition method. As such, we analyzed the fair value of tangible and intangible assets acquired and liabilities assumed. The allocation of acquisition cost to the assets acquired and liabilities assumed is summarized as follows (dollars in millions):

| | |
|---|---|
| Acquisition cost | $ 23 |
| | |
| Fair value of assets acquired and liabilities assumed: | |
| Accounts receivable | $ 9 |
| Inventories | 2 |
| Other current assets | 2 |
| Property, plant and equipment | 12 |
| Intangibles | 3 |
| Accounts payable | (3) |
| Accrued liabilities | (1) |
| Other noncurrent liabilities | (1) |
| | |
| Total fair value of net assets acquired | $ 23 |

If this acquisition were to have occurred on January 1, 2011, the following estimated pro forma revenues and net income attributable to Huntsman Corporation and Huntsman International would have been reported (dollars in millions):

**Huntsman Corporation**

| | Pro Forma Six months ended June 30, 2011 |
|---|---|
| Revenues | $ 5,627 |
| Net income attributable to Huntsman Corporation | 177 |

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**3. BUSINESS COMBINATIONS (Continued)**

**Huntsman International**

| | Pro Forma Six months ended June 30, 2011 |
|---|---|
| Revenues | $ 5,627 |
| Net income attributable to Huntsman International | 181 |

**4. INVENTORIES**

Inventories are stated at the lower of cost or market, with cost determined using last-in first-out ("LIFO"), first-in first-out, and average costs methods for different components of inventory. Inventories consisted of the following (dollars in millions):

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Raw materials and supplies | $ 441 | $ 374 |
| Work in progress | 98 | 92 |
| Finished goods | 1,183 | 1,162 |
| Total | 1,722 | 1,628 |
| LIFO reserves | (77) | (89) |
| Net | $ 1,645 | $ 1,539 |

For June 30, 2012 and December 31, 2011, approximately 11% and 12%, respectively, of inventories were recorded using the LIFO cost method.

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 nonmonetary open exchange positions are valued at cost. The amounts included in inventory under nonmonetary open exchange agreements receivable by us as of June 30, 2012 and December 31, 2011 were $8 million and $3 million, respectively. Other open exchanges are settled in cash and result in a net deferred profit margin. The amount payable under these open exchange agreements as of both June 30, 2012 and December 31, 2011 was nil.

**5. VARIABLE INTEREST ENTITIES**

We evaluate our investments and transactions to identify variable interest entities ("VIEs") for which we are the primary beneficiary. We hold a variable interest in the following four joint ventures for which we are the primary beneficiary:

Rubicon LLC manufactures products for our Polyurethanes and Performance Products segments. The joint venture is structured such that the total equity investment at risk is not sufficient to permit it to finance its activities without additional financial support. Under the Rubicon LLC

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**5. VARIABLE INTEREST ENTITIES (Continued)**

operating agreement, we are entitled to a majority of the output, absorb a majority of the operating costs and provide a majority of the additional funding.

Pacific Iron Products Sdn Bhd manufactures products for our Pigments segment. In this joint venture, we supply all the raw materials through a fixed cost supply agreement, operate the manufacturing facility and market the products. Under the fixed cost supply agreement, we are exposed to the risks related to the fluctuation of raw material prices.

Arabian Amines Company manufactures ethyleneamines products for our Performance Products segment. Prior to July 1, 2010, this joint venture was accounted for under the equity method. In July 2010, Arabian Amines Company exited the development stage, which triggered its reconsideration as a VIE. As required in the Arabian Amines Company operating agreement, we purchase all of its production and sell it to our customers. Substantially all of the joint venture's activities are conducted on our behalf.

Sasol-Huntsman GmbH and Co. KG ("Sasol-Huntsman") is our joint venture with Sasol that owns and operates a maleic anhydride facility in Moers, Germany. This joint venture manufactures products for our Performance Products segment. Prior to April 1, 2011, we accounted for Sasol-Huntsman using the equity method. In April 2011, an expansion at this facility began production, which triggered the reconsideration of this joint venture as a VIE. The joint venture uses our technology and expertise, and we bear a disproportionate amount of risk of loss due to a related-party loan to Sasol-Huntsman for which we bear the default risk. As a result, we concluded that we were the primary beneficiary and began consolidating Sasol-Huntsman beginning April 1, 2011.

Creditors of these VIEs have no recourse to our general credit, except in the event that we offer guarantees of specified indebtedness. As the primary beneficiary, the joint ventures' assets, liabilities and results of operations are included in our condensed consolidated financial statements (unaudited).

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**5. VARIABLE INTEREST ENTITIES (Continued)**

The following table summarizes the carrying amount of our variable interest entities' assets and liabilities included in our condensed consolidated balance sheets (unaudited), before intercompany eliminations (dollars in millions):

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Current assets | $ 148 | $ 140 |
| Property, plant and equipment, net | 383 | 403 |
| Other noncurrent assets | 58 | 61 |
| Deferred income taxes | 45 | 45 |
| Intangible assets | 20 | 23 |
| Goodwill | 15 | 15 |
| Total assets | $ 669 | $ 687 |
| Current liabilities | $ 162 | $ 145 |
| Long-term debt | 252 | 269 |
| Deferred income taxes | 9 | 9 |
| Other noncurrent liabilities | 74 | 110 |
| Total liabilities | $ 497 | $ 533 |

The following table summarizes the fair value of Sasol-Huntsman's assets and liabilities recorded upon initial consolidation in our condensed consolidated balance sheets (unaudited), before intercompany eliminations (dollars in millions):

| | April 1, 2011 |
|---|---|
| Current assets | $ 61 |
| Property, plant and equipment, net | 155 |
| Intangible assets | 16 |
| Goodwill | 17 |
| Total assets | $ 249 |
| Current liabilities | $ 23 |
| Long-term debt | 93 |
| Deferred income taxes | 8 |
| Other noncurrent liabilities | 7 |
| Total liabilities | $ 131 |

Goodwill of $17 million was recognized upon consolidation of Sasol-Huntsman, of which approximately $12 million is deductible for income tax purposes. The total amount of goodwill decreased approximately $2 million from the date of consolidation to December 31, 2011 due to a change in the foreign currency exchange rate. The net change due to changes in the foreign currency exchange rate to the total amount of goodwill from December 31, 2011 to June 30, 2012 was nil. All other intangible assets are being amortized over an average useful life of 18 years.

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**5. VARIABLE INTEREST ENTITIES (Continued)**

If this consolidation had occurred on January 1, 2011, the approximate pro forma revenues attributable to both our Company and Huntsman International would have been $5,643 million for the six months ended June 30, 2011. There would have been no impact to the combined earnings attributable to us or Huntsman International excluding a one-time noncash gain of approximately $12 million recognized upon consolidation included in other operating expense in the condensed consolidated statements of operations (unaudited). Upon consolidation we also recognized a one-time noncash income tax expense of approximately $2 million. The fair value of the noncontrolling interest was estimated to be $61 million at April 1, 2011. The noncontrolling interest was valued at 50% of the fair value of the net assets as of April 1, 2011, as dictated by the ownership interest percentages, adjusted for certain tax consequences only applicable to one parent.

**6. RESTRUCTURING, IMPAIRMENT AND PLANT CLOSING COSTS**

As of June 30, 2012 and December 31, 2011, accrued restructuring 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, 2012 | $ 73 | $ | $ 11 | $ 8 | $ 92 |
| 2012 charges for 2007 and prior initiatives | 2 | | | | 2 |
| 2012 charges for 2009 initiatives | 1 | | | 3 | 4 |
| 2012 charges for 2010 initiatives | 1 | | | | 1 |
| 2012 charges for 2011 initiatives | 2 | | | 2 | 4 |
| 2012 charges for 2012 initiatives | 5 | | | 1 | 6 |
| Reversal of reserves no longer required | (12) | | | (1) | (13) |
| 2012 payments for 2007 and prior initiatives | (1) | | (1) | (1) | (3) |
| 2012 payments for 2009 initiatives | (1) | | | (2) | (3) |
| 2012 payments for 2010 initiatives | (3) | | | | (3) |
| 2012 payments for 2011 initiatives | (13) | | | (3) | (16) |
| 2012 payments for 2012 initiatives | (2) | | | | (2) |
| Net activity of discontinued operations | | | | 1 | 1 |
| Foreign currency effect on liability balance | (1) | | | | (1) |
| Accrued liabilities as of June 30, 2012 | $ 51 | $ | $ 10 | $ 8 | $ 69 |

(1) The total workforce reduction reserves of $51 million relate to the termination of 565 positions, of which 516 positions had not been terminated as of June 30, 2012.

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**6. RESTRUCTURING, IMPAIRMENT AND PLANT CLOSING COSTS (Continued)**

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

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| 2007 initiatives and prior | $ 1 | $ 2 |
| 2009 initiatives | 9 | 11 |
| 2010 initiatives | 10 | 16 |
| 2011 initiatives | 45 | 63 |
| 2012 initiatives | 4 | |
| Total | $ 69 | $ 92 |

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**6. RESTRUCTURING, IMPAIRMENT AND PLANT CLOSING COSTS (Continued)**

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

| | Polyurethanes | Performance Products | Advanced Materials | Textile Effects | Pigments | Discontinued Operations | Corporate and Other | Total |
|---|---|---|---|---|---|---|---|---|
| Accrued liabilities as of January 1, 2012 | $ | $ 1 | $ 12 | $ 69 | $ 3 | $ 6 | $ 1 | $ 92 |
| 2012 charges for 2007 and prior initiatives | | | | 2 | | | | 2 |
| 2012 charges for 2009 initiatives | | | 1 | | 3 | | | 4 |
| 2012 charges for 2010 initiatives | | | | | | | 1 | 1 |
| 2012 charges for 2011 initiatives | | | 1 | 3 | | | | 4 |
| 2012 charges for 2012 initiatives | 5 | | 1 | | | | | 6 |
| Reversal of reserves no longer required | | | | (13) | | | | (13) |
| 2012 payments for 2007 and prior initiatives | | | | (2) | (1) | | | (3) |
| 2012 payments for 2009 initiatives | | | | | (3) | | | (3) |
| 2012 payments for 2010 initiatives | | (1) | | (1) | | | (1) | (3) |
| 2012 payments for 2011 initiatives | | | (11) | (5) | | | | (16) |
| 2012 payments for 2012 initiatives | (2) | | | | | | | (2) |
| Net activity of discontinued operations | | | | | | 1 | | 1 |
| Foreign currency effect on liability balance | | | (1) | | | | | (1) |
| Accrued liabilities as of June 30, 2012 | $ 3 | $ | $ 3 | $ 53 | $ 2 | $ 7 | $ 1 | $ 69 |
| Current portion of restructuring reserves | $ 3 | $ | $ 2 | $ 28 | $ 2 | $ 7 | $ 1 | $ 43 |
| Long-term portion of restructuring reserve | | | 1 | 25 | | | | 26 |
| Estimated additional future charges for current restructuring projects | | | | | | | | |
| Estimated additional charges within one year | 35 | | | 12 | | | | 47 |
| Estimated additional charges beyond one year | | | | 7 | | | | 7 |

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**6. RESTRUCTURING, IMPAIRMENT AND PLANT CLOSING COSTS (Continued)**

Details with respect to cash and non-cash restructuring charges for the three and six months ended June 30, 2012 and 2011 by initiative are provided below (dollars in millions):

| | Three months ended June 30, 2012 | Six months ended June 30, 2012 |
|---|---|---|
| Cash charges: | | |
| 2012 charges for 2007 and prior initiatives | $ | $ 2 |
| 2012 charges for 2009 initiatives | 3 | 4 |
| 2012 charges for 2010 initiatives | 1 | 1 |
| 2012 charges for 2011 initiatives | 1 | 4 |
| 2012 charges for 2012 initiatives | 1 | 6 |
| Reversal of reserves no longer required | (1) | (13) |
| Non-cash charges | | 1 |
| Total 2012 restructuring, impairment and plant closing costs | $ 5 | $ 5 |

| | Three months ended June 30, 2011 | Six months ended June 30, 2011 |
|---|---|---|
| Cash charges: | | |
| 2011 charges for 2006 and prior initiatives | $ | $ 2 |
| 2011 charges for 2009 initiatives | 2 | 3 |
| 2011 charges for 2010 initiatives | 2 | 3 |
| 2011 charges for 2011 initiatives | 6 | 11 |
| Reversal of reserves no longer required | (1) | (3) |
| Total 2011 restructuring, impairment and plant closing costs | $ 9 | $ 16 |

**2012 RESTRUCTURING ACTIVITIES**

During the six months ended June 30, 2012, our Polyurethanes segment recorded charges of $5 million primarily related to fixed cost reduction programs.

During the six months ended June 30, 2012, our Advanced Materials segment recorded charges of $3 million primarily related to the reorganization of our global business structure and the relocation of our divisional headquarters from Basel, Switzerland to The Woodlands, Texas.

On September 27, 2011, we announced plans to implement a significant restructuring of our Textile Effects segment, including the closure of our production facilities and business support offices in Basel, Switzerland, as part of an ongoing strategic program aimed at improving the Textile Effects segment's long-term global competitiveness. In connection with this plan, during the six months ended June 30, 2012, we recorded restructuring charges of $3 million and a $1 million noncash charge for asset impairments. We expect to incur additional restructuring and plant closing charges, excluding site exit

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**6. RESTRUCTURING, IMPAIRMENT AND PLANT CLOSING COSTS (Continued)**

costs, of approximately $19 million through December 31, 2014. In addition, during the six months ended June 30, 2012, our Textile Effects segment recorded charges of $2 million primarily related to the closure of our St. Fons, France facility and a global transfer pricing initiative. Also during the six months ended June 30, 2012, we reversed $13 million of reserves that were primarily related to workforce reductions that were no longer required at our production facility in Langweid, Germany, the consolidation of manufacturing activities and processes at our site in Basel, Switzerland and closure of our production facilities in Basel, Switzerland.

During the six months ended June 30, 2012, our Pigments segment recorded charges of $3 million related to the closure of our Grimsby, U.K. plant.

**7. DEBT**

Outstanding debt consisted of the following (dollars in millions):

**Huntsman Corporation**

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Senior Credit Facilities: | | |
| Term loans | $ 1,686 | $ 1,696 |
| Amounts outstanding under A/R programs | 232 | 237 |
| Senior notes | 483 | 472 |
| Senior subordinated notes | 893 | 976 |
| HPS (China) debt | 128 | 167 |
| Variable interest entities | 271 | 281 |
| Other | 51 | 113 |
| Total debt excluding debt to affiliates | $ 3,744 | $ 3,942 |
| Total current portion of debt | $ 143 | $ 212 |
| Long-term portion | 3,601 | 3,730 |
| Total debt excluding debt to affiliates | $ 3,744 | $ 3,942 |
| Total debt excluding debt to affiliates | $ 3,744 | $ 3,942 |
| Notes payable to affiliates-noncurrent | 4 | 4 |
| Total debt | $ 3,748 | $ 3,946 |

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**7. DEBT (Continued)**

**Huntsman International**

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Senior Credit Facilities: | | |
| Term loans | $ 1,686 | $ 1,696 |
| Amounts outstanding under A/R programs | 232 | 237 |
| Senior notes | 483 | 472 |
| Senior subordinated notes | 893 | 976 |
| HPS (China) debt | 128 | 167 |
| Variable interest entities | 271 | 281 |
| Other | 51 | 113 |
| Total debt excluding debt to affiliates | $ 3,744 | $ 3,942 |
| Total current portion of debt | $ 143 | $ 212 |
| Long-term portion | 3,601 | 3,730 |
| Total debt excluding debt to affiliates | $ 3,744 | $ 3,942 |
| Total debt excluding debt to affiliates | $ 3,744 | $ 3,942 |
| Notes payable to affiliates-current | 100 | 100 |
| Notes payable to affiliates-noncurrent | 523 | 439 |
| Total debt | $ 4,367 | $ 4,481 |

**DIRECT AND SUBSIDIARY DEBT**

Huntsman Corporation's direct debt and guarantee obligations consist of a guarantee of certain indebtedness incurred from time to time to finance certain insurance premiums.

Substantially all of our other debt, including the facilities described below, has been incurred by our subsidiaries (primarily Huntsman International); such subsidiary debt is nonrecourse to us and we have no contractual obligation to fund our subsidiaries' respective operations.

**Senior Credit Facilities**

As of June 30, 2012, our senior credit facilities ("Senior Credit Facilities") consisted of our revolving credit facility ("Revolving Facility"), our term loan B facility ("Term Loan B"), our extended term loan B facility ("Extended Term Loan B"), our extended term loan B facility Series 2

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**7. DEBT (Continued)**

("Extended Term Loan B Series 2") and our term loan C facility ("Term Loan C") as follows (dollars in millions):

| Facility | Committed Amount | Principal Outstanding | Carrying Value | Interest Rate(2) | Maturity |
|---|---|---|---|---|---|
| Revolving Facility | $ 400 | $ (1) | $ (1) | USD LIBOR plus 2.50% | 2017(3) |
| Term Loan B | NA | $ 304 | $ 304 | USD LIBOR plus 1.50% | 2014 |
| Extended Term Loan B | NA | $ 643 | $ 643 | USD LIBOR plus 2.50% | 2017(3) |
| Extended Term Loan B Series 2 | NA | $ 346 | $ 346 | USD LIBOR plus 3.00% | 2017(3) |
| Term Loan C | NA | $ 423 | $ 393 | USD LIBOR plus 2.25% | 2016 |

(1) We had no borrowings outstanding under our Revolving Facility; we had approximately $17 million (U.S. dollar equivalents) of letters of credit and bank guarantees issued and outstanding under our Revolving Facility.

(2) The applicable interest rate of the Senior Credit Facilities is subject to certain secured leverage ratio thresholds. As of June 30, 2012, the weighted average interest rate on our outstanding balances under the Senior Credit Facilities was approximately 3%.

(3) The maturity of the Revolving Facility commitments will accelerate if we do not repay, refinance or have a minimum level of liquidity available to enable us to repay our 5.50% senior notes due 2016, Term Loan B due April 19, 2014 and Term Loan C due June 30, 2016. The maturity of Extended Term Loan B and Extended Term Loan B Series 2 will accelerate if we do not repay, refinance or have a minimum level of liquidity available to enable us to refinance or repay our 5.50% senior notes due 2016 that remain outstanding during the three months prior to the maturity date of such notes.

Our obligations under the Senior Credit Facilities are guaranteed by our guarantor subsidiaries ("Guarantors"), which consist of substantially all of our domestic subsidiaries and certain of our foreign subsidiaries, and are secured by a first priority lien on substantially all of our domestic property, plant and equipment, the stock of all of our material domestic subsidiaries and certain foreign subsidiaries and pledges of intercompany notes between certain of our subsidiaries.

During the three months ended June 30, 2012, we paid the annual scheduled repayment of $3 million on our Term Loan B, $7 million on our Extended Term Loan B, and $4 million on our Term Loan C.

**Amendment to Credit Agreement**

On March 6, 2012, Huntsman International entered into a seventh amendment to its Senior Credit Facilities. Among other things, the amendment:

extended the stated termination date of the Revolving Facility commitments from March 9, 2014 to March 20, 2017;

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**7. DEBT (Continued)**

reduced the applicable interest rate margin on the Revolving Facility commitments by 0.50%;

set the undrawn commitment fee on the Revolving Facility at 0.50%;

increased the capacity for the Revolving Facility commitments from $300 million to $400 million;

extended the stated maturity date of $346 million aggregate principal amount of Term Loan B from April 19, 2014 to April 19, 2017 (now referred to as Extended Term Loan B Series 2);

increased the interest rate margin with respect to Extended Term Loan B Series 2 to LIBOR plus 3.00% (the interest rate margin is subject to a leverage-based step-down, which was achieved based on June 30, 2012 results);

set the amortization on the Extended Term Loan B Series 2 at 1% of the principal amount, payable annually commencing on March 31, 2013; and

made certain other amendments to the Senior Credit Facilities.

**Redemption of Notes and Loss on Early Extinguishment of Debt**

During the six months ended June 30, 2012 and 2011, we redeemed or repurchased the following notes (monetary amounts in millions):

| Date of Redemption | Notes | Principal Amount of Notes Redeemed | Amount Paid (Excluding Accrued Interest) | Loss on Early Extinguishment of Debt |
|---|---|---|---|---|
| March 26, 2012 | 7.50% Senior Subordinated Notes due 2015 | €64 (approximately $86) | €65 (approximately $87) | $ 1 |
| January 18, 2011 | 7.375% Senior Subordinated Notes due 2015 | $100 | $102 | $ 3 |

**Other Debt**

During the six months ended June 30, 2012, HPS repaid $2 million and RMB 120 million (approximately $19 million) on term loans and working capital loans under its secured facilities. As of June 30, 2012, HPS had $10 million and RMB 354 million (approximately $56 million) outstanding under their secured facilities. In connection with these payments, the lenders agreed to release our Company as a guarantor.

During the six months ended June 30, 2012, HPS repaid RMB 109 million (approximately $17 million) under its loan facility for working capital loans and discounting of commercial drafts. As of June 30, 2012, HPS had RMB 390 million (approximately $62 million) outstanding, which is classified as current portion of debt on the accompanying condensed consolidated balance sheets (unaudited).

On March 30, 2012, we repaid the remaining A$26 million (approximately $27 million) outstanding under our Australian subsidiary credit facility ("Australian Credit Facility"), which represents repayment of A$14 million (approximately $15 million) under the revolving facility and A$12 million (approximately $12 million) under the term loan facility.

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**7. DEBT (Continued)**

**Note Payable from Huntsman International to Huntsman Corporation**

As of June 30, 2012, we have a loan of $619 million to our subsidiary, Huntsman International (the "Intercompany Note"). During the six months ended June 30, 2012, Huntsman International borrowed $84 million from us under the Intercompany Note. The Intercompany Note is unsecured and $100 million of the outstanding amount is classified as current as of both June 30, 2012 and December 31, 2011 on the condensed consolidated balance sheets (unaudited). As of June 30, 2012, under the terms of the Intercompany Note, Huntsman International promises to pay us interest on the unpaid principal amount at a rate per annum based on the previous monthly average borrowing rate obtained under our U.S. accounts receivable securitization program ("U.S. A/R Program"), less ten basis points (provided that the rate shall not exceed an amount that is 25 basis points less than the monthly average borrowing rate obtained for the U.S. LIBOR-based borrowings under our Revolving Facility).

**COMPLIANCE WITH COVENANTS**

We believe that we are in compliance with the covenants contained in the agreements governing our material debt instruments, including our Senior Credit Facilities, our U.S. A/R Program and our European accounts receivable securitization program (the "EU A/R Program" and collectively with the U.S. A/R Program the "A/R Programs") and our notes.

Our material financing arrangements contain certain covenants with which we must comply. A failure to comply with a covenant could result in a default under a financing arrangement if not waived or amended. A default under these material financing arrangements generally allows debt holders the option to declare the underlying debt obligations immediately due and payable.

Furthermore, certain of our material financing arrangements contain cross default and cross acceleration provisions under which a failure to comply with the covenants in one financing arrangement may result in an event of default under another financing arrangement.

Our Senior Credit Facilities are subject to a single financial covenant (the "Leverage Covenant") which applies only to the Revolving Facility and is tested at the Huntsman International level. The Leverage Covenant is applicable only if borrowings, letters of credit or guarantees are outstanding under the Revolving Facility (cash collateralized letters of credit or guarantees are not deemed outstanding). The Leverage Covenant is a net senior secured leverage ratio covenant which requires that Huntsman International's ratio of senior secured debt to EBITDA (as defined in the applicable agreement) is not more than 3.75 to 1.

If in the future Huntsman International fails to comply with the Leverage Covenant, then we may not have access to liquidity under our Revolving Facility. If Huntsman International failed to comply with the Leverage Covenant at a time when we had uncollateralized loans or letters of credit outstanding under the Revolving Facility, Huntsman International would be in default under the Senior Credit Facilities, and, unless Huntsman International obtained a waiver or forbearance with respect to such default (as to which we can provide no assurance), Huntsman International could be required to pay off the balance of the Senior Credit Facilities in full, and we may not have further access to such facilities.

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**7. DEBT (Continued)**

The agreements governing our A/R Programs also contain certain receivable performance metrics. Any material failure to meet the applicable A/R Programs' metrics in the future could lead to an early termination event under the A/R Programs, which could require us to cease our use of such facilities, prohibiting us from additional borrowings against our receivables or, at the discretion of the lenders, requiring that we repay the A/R Programs in full. An early termination event under the A/R Programs would also constitute an event of default under our Senior Credit Facilities, which could require us to pay off the balance of the Senior Credit Facilities in full and could result in the loss of our Senior Credit Facilities.

**8. 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.

All derivatives, whether designated in hedging relationships or not, are recorded on our 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, to the extent effective, and will be recognized in the income statement when the hedged item affects earnings. To the extent applicable, 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 also hedge our net investment in certain European operations. Changes in the fair value of the hedge in the net investment of certain European operations are recorded in accumulated other comprehensive loss.

Our cash flows and earnings are subject to fluctuations due to exchange rate variation. Our revenues and expenses are denominated in various foreign currencies. 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 multi-currency 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 one year or less). We do not hedge our foreign currency exposures in a manner that would eliminate the effect of changes in exchange rates on our cash flows and earnings. As of June 30, 2012, we had approximately $238 million in notional amount (in U.S. dollar equivalents) outstanding in forward foreign currency contracts.

On December 9, 2009, we entered into a five-year interest rate contract to hedge the variability caused by monthly changes in cash flow due to associated changes in LIBOR under our Senior Credit Facilities. The notional value of the contract is $50 million, and it has been designated as a cash flow hedge. The effective portion of the changes in the fair value of the swap was recorded in other comprehensive (loss) income. We will pay a fixed 2.6% on the hedge and receive the one-month

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (Continued)**

LIBOR rate. As of June 30, 2012, the fair value of the hedge was $3 million and was recorded in other noncurrent liabilities on the condensed consolidated balance sheets (unaudited).

On January 19, 2010, we entered into an additional five-year interest rate contract to hedge the variability caused by monthly changes in cash flow due to associated changes in LIBOR under our Senior Credit Facilities. The notional value of the contract is $50 million, and it has been designated as a cash flow hedge. The effective portion of the changes in the fair value of the swap was recorded in other comprehensive (loss) income. We will pay a fixed 2.8% on the hedge and receive the one-month LIBOR rate. As of June 30, 2012, the fair value of the hedge was $3 million and was recorded in other noncurrent liabilities on the condensed consolidated balance sheets (unaudited).

On September 1, 2011, we entered into a $50 million forward interest rate contract that will begin in December 2014 with maturity in April 2017 and a $50 million forward interest rate contract that will begin in January 2015 with maturity in April 2017. These two forward contracts are to hedge the variability caused by monthly changes in cash flow due to associated changes in LIBOR under our Senior Credit Facilities once our existing interest rate hedges mature. These swaps are designated as cash flow hedges and the effective portion of the changes in the fair value of the swaps were recorded in other comprehensive (loss) income. Both interest rate contracts will pay a fixed 2.5% on the hedge and receive the one-month LIBOR rate once the contracts begin in 2014 and 2015, respectively. As of June 30, 2012, the combined fair value of these two hedges was $3 million and was recorded in other noncurrent liabilities on the condensed consolidated balance sheets (unaudited).

In 2009, Sasol-Huntsman entered into derivative transactions to hedge the variable interest rate associated with its local credit facility. These hedges include a floating to fixed interest rate contract providing Sasol-Huntsman with EURIBOR interest payments for a fixed payment of 3.62% and a cap for future periods with a strike price of 3.62%. In connection with the consolidation of Sasol-Huntsman as of April 1, 2011, the interest rate contract is now included in our consolidated results. See "Note 5. Variable Interest Entities." The notional amount of the hedge as of June 30, 2012 was €45 million (approximately $56 million) and the derivative transactions do not qualify for hedge accounting. As of June 30, 2012, the fair value of this hedge was €2 million (approximately $3 million) and was recorded in other noncurrent liabilities on the condensed consolidated balance sheets (unaudited). For the three months and six months ended June 30, 2012, we recorded interest income of less than €1 million (less than $1 million) due to changes in the fair value of the swap.

Beginning in 2009, Arabian Amines Company entered into a 12-year floating to fixed interest rate contract providing for a receipt of LIBOR interest payments for a fixed payment of 5.02%. In connection with the consolidation of Arabian Amines Company as of July 1, 2010, the interest rate contract is now included in our consolidated results. See "Note 5. Variable Interest Entities." The notional amount of the swap as of June 30, 2012 was $38 million, and the interest rate contract is not designated as a cash flow hedge. As of June 30, 2012, the fair value of the swap was $6 million and was recorded as other noncurrent liabilities on the condensed consolidated balance sheets (unaudited). For both the three and six months ended June 30, 2012, we recorded a reduction of interest expense of less than $1 million due to changes in the fair value of the swap.

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (Continued)**

In conjunction with the issuance of the 8.625% senior subordinated notes due 2020, we entered into cross-currency interest rate contracts with three counterparties. On March 17, 2010, we paid $350 million to these counterparties and received €255 million from these counterparties and at maturity on March 15, 2015 we are required to pay €255 million and will receive $350 million. On March 15 and September 15 of each year, we will receive U.S. dollar interest payments of approximately $15 million (equivalent to an annual rate of 8.625%) and make interest payments of approximately €11 million (equivalent to an annual rate of approximately 8.41%). These swaps are designated as a hedge of net investment for financial reporting purposes. As of June 30, 2012, the fair value of these swaps was $35 million and was recorded in noncurrent assets in our condensed consolidated balance sheets (unaudited).

As of and for the three and six months ended June 30, 2012, the changes in fair value of the realized gains (losses) recorded in the condensed consolidated statements of operations (unaudited) of our other outstanding foreign currency rate hedging contracts and derivatives were not considered significant.

A significant portion of our intercompany debt is denominated in euros. We also finance certain of our non-U.S. subsidiaries with intercompany loans that are, in many 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 because they are not expected to be repaid in the foreseeable future ("permanent loans") and the designation of certain debt and swaps as net investment hedges.

Foreign currency transaction gains and losses on intercompany loans that are not designated as permanent loans are recorded in earnings. Foreign currency transaction gains and losses on intercompany loans that are designated as permanent loans are recorded in other comprehensive (loss) income. From time to time, we review such designation of intercompany loans.

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 June 30, 2012, we have designated €255 million (approximately $318 million) of euro-denominated debt and cross-currency interest rate swaps as a hedge of our net investments. For the three and six months ended June 30, 2012, the amount of gain recognized on the hedge of our net investments was $18 and $5 million, respectively and was recorded as a gain in other comprehensive (loss) income. As of June 30, 2012, we had €1,260 million (approximately $1,572 million) in net euro assets.

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

## 9. FAIR VALUE

The fair values of financial instruments were as follows (dollars in millions):

| | June 30, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Non-qualified employee benefit plan investments | $ 13 | $ 13 | $ 12 | $ 12 |
| Cross-currency interest rate contracts | 35 | 35 | 27 | 27 |
| Interest rate contracts | (18) | (18) | (17) | (17) |
| Long-term debt (including current portion) | (3,744) | (3,960) | (3,942) | (4,061) |

The carrying amounts reported in our condensed consolidated balance sheets (unaudited) of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the immediate or short-term maturity of these financial instruments. The fair value of non-qualified employee benefit plan investments is obtained through market observable pricing using prevailing market prices. The estimated fair values of our long-term debt are based on quoted market prices for the identical liability when traded as an asset in an active market (Level 1).

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2012 and December 31, 2011. 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 June 30, 2012, and current estimates of fair value may differ significantly from the amounts presented herein.

The following assets and liabilities are measured at fair value on a recurring basis (dollars in millions):

| | | Fair Value Amounts Using | | |
|---|---|---|---|---|
| Description | June 30, 2012 | Quoted prices in active markets for identical assets (Level 1)(3) | Significant other observable inputs (Level 2)(3) | Significant unobservable inputs (Level 3) |
| **Assets:** | | | | |
| Available-for-sale equity securities: | | | | |
| Equity mutual funds | $ 13 | $ 13 | $ | $ |
| Derivatives: | | | | |
| Cross-currency interest rate contracts(1) | 35 | | 35 | |
| **Total assets** | $ 48 | $ 13 | $ 35 | $ |
| **Liabilities:** | | | | |
| Derivatives: | | | | |
| Interest rate contracts(2) | $ (18) | $ | $ (18) | $ |

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**9. FAIR VALUE (Continued)**

| | | Fair Value Amounts Using | | |
|---|---|---|---|---|
| **Description** | **December 31, 2011** | **Quoted prices in active markets for identical assets (Level 1)(3)** | **Significant other observable inputs (Level 2)(3)** | **Significant unobservable inputs (Level 3)** |
| **Assets:** | | | | |
| Available-for-sale equity securities: | | | | |
| Equity mutual funds | $ 12 | $ 12 | $ | $ |
| Derivatives: | | | | |
| Cross-currency interest rate contracts(1) | 27 | | | 27 |
| **Total assets** | $ 39 | $ 12 | $ | $ 27 |
| **Liabilities:** | | | | |
| Derivatives: | | | | |
| Interest rate contracts(2) | $ (17) | $ | $ (17) | $ |

(1) The income approach is used to calculate the fair value of these instruments. Fair value represents the present value of estimated future cash flows, calculated using relevant interest rates, exchange rates, and yield curves at stated intervals. There were no material changes to the valuation methods or assumptions used to determine the fair value during the current period.

(2) The income approach is used to calculate the fair value of these instruments. Fair value represents the present value of estimated future cash flows, calculated using relevant interest rates and yield curves at stated intervals. There were no material changes to the valuation methods or assumptions used to determine the fair value during the current period.

(3) There were no transfers between Levels 1 and 2 within the fair value hierarchy for the six months ended June 30, 2012 and the year ended December 31, 2011.

Table of Contents

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**9. FAIR VALUE (Continued)**

The following table shows a reconciliation of beginning and ending balances for instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (dollars in millions):

| Three months ended June 30, 2012 | Six months ended June 30, 2012 |
|---|---|