CHEVRON PHILLIPS CHEMICAL (THE WOODLANDS, TX)

Financials:
Sales: $8.4 billion; Net earnings: $410 million.

Products:
Olefins, polyolefins, alpha-olefins aromatics, styrenics, engineering plastics, specialty chemicals.

Positives:
- Dramatic profit rebound from cost-cutting and petrochemical market improvement.
- Improved safety performance.
- Growing presence in countries with low-cost feedstock.

Negatives:
- Still vulnerable to petrochemical cycles.

Outlook:
Focus on regions with low feedstock costs will further reduce overall cost structure.

1) Based on first-half 2004 data.

Gallagly: Putting safety first.

CPChem has closed several plants in North America as part of the cost-reduction effort, but has also added and upgraded capacity at several sites. Key projects include the HDPE venture with BP Solvay, which Gallagly says is the largest plant of its type worldwide, and the first "condo" unit in ethylene derivatives in the region. The company has also expanded and modernized its styrene plant at St. James, LA, and expanded cyclohexane capacity via a scrap-and-build project at Port Arthur, TX. The company is still evaluating the potential restart of an ethylene cracker at Sweeny, TX, that has been idle since 2001, but no decision has been made, he says.

The company's major investment push has been to expand capacity in regions that have "advantaged" feedstock costs and access to the Asia and European markets, Gallagly says. That includes joint ventures in olefins and polyolefins in Qatar, and aromatics in Saudi Arabia. Q-Chem, CPChem's joint venture with Qatar Petroleum Corp. at Mesaieed, Qatar, started production in 2003, and the companies are planning two more ventures, the first of which will start up in 2008. Its aromatics JV with Saudi Industrial Investment Group at Al Jubail, Saudi Arabia, is planning a $1.2-billion expansion for startup in 2007.

CPChem's parent companies, ChevronTexaco and ConocoPhillips, are pleased with their investment, particularly now that profitability has improved, Gallagly says, and he dismisses rumors that a sale was being considered last year. The company could be a participant in future industry consolidation, but for right now the focus is on continued improvement in its operating performance, he says. "Our strategy is simple: to be the safest chemical company, to be environmentally sensitive, to run our assets at the best cost structure, and to set up production based on advantaged feedstocks," he adds.

—ANDREW WOOD in Houston