

Cytec UK Holdings Limited

**Directors' report and consolidated
financial statements**

Registered number 2834414

31 December 2000



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Directors' report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2000.

Principal activities

The principal activities of the group are the manufacture and supply of anionic, nonionic and cationic polyacrylamides for use in the mining, paper, water treatment and oilfield industries, and the manufacture and distribution of composites and adhesives for use, primarily, in the aerospace and leisure industries.

Business review

Details of the group's results for the year are set out in the profit and loss account on page 5.

Research and development

The directors consider that research and development plays a vital role in the group's success. A significant part of the work of the group's technical services and laboratory staff is concentrated in this area.

The group's spending on research and development during the year was £260,000 (1999: £255,000).

Market value of land and buildings

In the opinion of the directors the market value of the land and buildings of the company on an existing use basis is not materially different from the book value of these assets.

Proposed dividend and transfer to reserves

The profit for the year after taxation was £7,111,000 (1999: £5,951,000). The directors do not recommend the payment of an ordinary dividend (1999: £2,440,000). Therefore, the profit for the year retained in the group was £7,111,000 (1999: 3,511,000).

Directors and directors' interests

The directors who held office during the year were as follows:

Mr JP Cronin (Chairman)
Mr DM Drillock
Mr EF Jackman
Mr A Cameron
Mr W Wood

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company, or the right to subscribe for shares in the company or another member of the group.

Directors' report *(continued)*

Employees

Good communication is considered essential, and all employees are kept well informed regarding the group's performance and activities. An open style of management is encouraged and employees are given the opportunity to express their views on matters that are likely to affect their interests. Employees are assessed on merit, and equal opportunities for promotion and career progression are available to all.

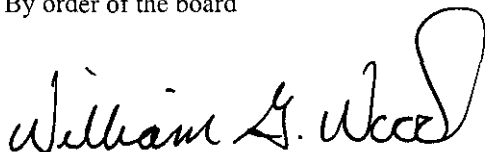
Political and charitable contributions

The holding company made no political or charitable contributions during the year (1999: £nil). Details of donations made by subsidiary companies are disclosed in those entities' own financial statements.

Auditors

In accordance with Section 386 of the Companies Act 1985, the holding company has dispensed with the obligation to re-appoint auditors annually. KPMG will continue as the company's auditors.

By order of the board



Mr W Wood
Director

Abenbury Way
Wrexham Industrial Estate
Wrexham
LL13 9UZ

29th October 2001

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps which are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



St James' Square
Manchester M2 6DS
United Kingdom

Independent auditors' report to the members of Cytec UK Holdings Limited

We have audited the financial statements on pages 5 to 21.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's and the group's affairs as at 31 December 2000 and of the profit of the group for the financial year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to read 'KPMG'.

KPMG
Chartered Accountants
Registered Auditors

24 October 2001

Consolidated profit and loss account

for the year ended 31 December 2000

	<i>Note</i>	Year ended 31 December 2000 £000	Year ended 31 December 1999 £000
Turnover	2	34,429	32,354
Cost of sales		(21,776)	(21,871)
Gross profit		12,653	10,483
Distribution costs		(370)	(316)
Administrative expenses		(9,040)	(6,810)
Other operating income		5,899	4,529
Operating profit	3-5	9,142	7,886
Other interest receivable and similar income	6	1,049	793
Interest payable and similar charges	7	-	(103)
Profit on ordinary activities before taxation		10,191	8,576
Tax on profit on ordinary activities	8	(3,080)	(2,625)
Profit on ordinary activities after taxation		7,111	5,951
Dividends payable	9	-	(2,440)
Retained profit		7,111	3,511

There were no recognised gains or losses other than the profit for the year.

The results for the year relate solely to continuing activities.

The notes on pages 8 to 21 form part of these financial statements.

Balance sheets

at 31 December 2000

		Group		Company		Group		Company	
	Note	£000	31 December 2000	£000	£000	£000	31 December 1999	£000	£000
Fixed assets									
Tangible assets	10	17,692		-		12,513		-	
Investments	11	-		20,400		-		20,400	
			17,692		20,400		12,513		20,400
Current assets									
Stocks	12	3,096		-		2,227		-	
Debtors	13	23,600		610		21,796		610	
Cash at bank and in hand		4,825		9		1,922		9	
			31,521		619		25,945		619
Creditors: amounts falling due within one year	14	(8,596)		(12)		(5,130)		(12)	
Net current assets			22,925		607		20,815		607
Total assets less current liabilities			40,617		21,007		33,328		21,007
Accruals and deferred income	15	-		-		(10)		-	
Provision for liabilities and charges	16	(1,321)		-		(1,133)		-	
Net assets			39,296		21,007		32,185		21,007
Capital and reserves									
Called up share capital	18	10,000		10,000		10,000		10,000	
Profit and loss account	19	29,296		11,007		22,185		11,007	
Shareholders' funds			39,296		21,007		32,185		21,007

The notes on pages 8 to 21 form part of these financial statements.

These financial statements were approved by the board of directors on 29th October 2001 and were signed on its behalf by:

William A. Wood

Mr W Wood
Director

Consolidated cash flow statement
for the year ended 31 December 2000

		Year ended 31 December 2000		Year ended 31 December 1999	
	Note	£000	£000	£000	£000
Operating activities					
Net cash inflow from operating activities	24		11,625		5,289
Returns on investments and servicing of finance					
Interest received		1,049		794	
Interest paid		-		(102)	
Net cash inflow from returns on investments and servicing of finance			1,049		692
Taxation					
Tax paid		(2,880)		(3,536)	
			(2,880)		(3,536)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(6,992)		(1,371)	
Proceeds from disposal of tangible fixed assets		3		52	
Net cash outflow from capital expenditure and financial investment			(6,989)		(1,319)
Net cash inflow before financing			2,805		1,126
Equity dividends paid					
Payment of dividends			-		(2,440)
Increase/(decrease) in cash in the year	25		2,805		(1,314)

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Basis of consolidation

The consolidated accounts include accounts of the company and both of its subsidiaries up to 31 December 2000. No profit and loss account is presented for the company as provided by section 230 of the Companies Act 1985.

Fixed assets and depreciation

Depreciation is provided by the group to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	2.5% per annum
Plant and machinery	-	10% per annum
Fixtures and fittings	-	10-33% per annum
Motor vehicles	-	20% per annum
Computer equipment	-	20% per annum

No depreciation is provided on freehold land and assets in the course of construction.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Government grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to trading profit over the estimated useful economic lives of the assets to which they relate.

Notes (continued)

1 Accounting policies (continued)

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Pensions and other post-retirement benefits

The group operates defined benefit pension schemes for the majority of its employees, providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the group. Contributions to the schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group.

Research and development expenditure

Expenditure on research and development is written off against profits in the period in which it is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods manufactured by the group, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise in the foreseeable future.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year.

Notes *(continued)*

2 Segmental analysis of turnover

	Year ended 31 December 2000 £000	Year ended 31 December 1999 £000
<i>By class of business</i>		
Manufacture and distribution of:		
Polyacrylamides	7,469	6,771
Composites and adhesives	26,960	25,583
	<hr/> 34,429 <hr/>	<hr/> 32,354 <hr/>
<i>By geographical market</i>		
UK	10,826	9,400
Europe/Middle East	23,102	22,635
Rest of world	501	319
	<hr/> 34,429 <hr/>	<hr/> 32,354 <hr/>

3 Profit on ordinary activities before taxation

	Year ended 31 December 2000 £000	Year ended 31 December 1999 £000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting)</i>		
Auditors' remuneration:		
Audit (including £4,000 in respect of the company; 1999: £4,000)	31	31
Other services	10	15
Depreciation and other amounts written off owned tangible fixed assets	1,598	1,654
Hire of plant and machinery – rentals payable under operating leases	18	56
Hire of other assets – operating leases	288	240
Research and development expenditure	260	255
Loss on disposal of fixed assets	3	-
Net exchange (gains)/losses	(101)	13

Notes (continued)

4 Remuneration of directors

	Year ended 31 December 2000 £000	Year ended 31 December 1999 £000
Directors' emoluments	256	193

The aggregate emoluments of the highest paid director were £182,000.

Retirement benefits are accruing to the following number of directors under:

	Number of directors 2000	1999
Defined benefit schemes	-	1

5 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of employees 2000	1999
Production	118	111
Sales and distribution	62	63
Management and administration	76	76
Research and development	8	8
	264	258

The aggregate payroll costs of these persons were as follows:

	2000 £000	1999 £000
Wages and salaries	6,653	5,946
Social security costs	545	481
Other pension costs (see note 22)	659	588
	7,857	7,015

Notes *(continued)*

6 Other interest receivable and similar income

	Year ended 31 December 2000 £000	Year ended 31 December 1999 £000
Bank interest receivable	189	141
Interest receivable from group undertakings	860	649
Net exchange gain	-	3
	<hr/> 1,049 <hr/>	<hr/> 793 <hr/>

7 Interest payable and similar charges

	Year ended 31 December 2000 £000	Year ended 31 December 1999 £000
Interest payable to group undertakings	-	103
	<hr/>	<hr/>

8 Tax on profit on ordinary activities

	Year ended 31 December 2000 £000	Year ended 31 December 1999 £000
UK corporation tax at 30% (1999: 31%)	3,061	2,520
Deferred taxation	48	134
<i>Prior year</i>		
UK corporation tax	(27)	(19)
Deferred taxation	(2)	(10)
	<hr/> 3,080 <hr/>	<hr/> 2,625 <hr/>

Notes (continued)

9 Dividends

	Year ended 31 December 2000 £000	Year ended 31 December 1999 £000
Ordinary shares:		
Total paid	-	2,440

10 Tangible fixed assets

	Freehold land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Motor vehicles £000	Assets in construction £000	Total £000
Group						
Cost						
At beginning of year	5,860	12,616	2,039	41	420	20,976
Additions	-	-	-	-	6,992	6,992
Transfers	1,338	590	238	-	(2,166)	-
Disposals	(183)	(228)	(49)	(22)	-	(482)
At end of year	7,015	12,978	2,228	19	5,246	27,486
Depreciation						
At beginning of year	1,163	6,040	1,239	21	-	8,463
Charge for one year	151	1,178	258	11	-	1,598
Disposals	(38)	(176)	(37)	(16)	-	(267)
At end of year	1,276	7,042	1,460	16	-	9,794
Net book value						
At 31 December 2000	5,739	5,936	768	3	5,246	17,692
At 31 December 1999	4,697	6,576	800	20	420	12,513

Company

No tangible fixed assets are held by the company.

Notes (continued)

11 Fixed asset investments

	2000 £000	1999 £000
Group		
The group holds no external investments.		
Company		
Cytec Industries UK Limited	11,000	11,000
Cytec Fiberite Limited	9,400	9,400
	<u>20,400</u>	<u>20,400</u>

Details of subsidiary undertakings are set out below. All subsidiaries' ordinary share capital is 100% owned by Cytec UK Holdings Limited.

Company	Activity	Country of incorporation
Cytec Industries UK Ltd	Manufacture and distribution of polyacrylamides	England
Cytec Fiberite Ltd	Manufacture and distribution of composites and adhesives	England

12 Stocks

	Group 2000 £000	Company 2000 £000	Group 1999 £000	Company 1999 £000
Raw materials and consumables	2,103	-	1,733	-
Finished goods and goods for resale	993	-	494	-
	<u>3,096</u>	<u>-</u>	<u>2,227</u>	<u>-</u>

Notes (continued)

13 Debtors

	Group 2000 £000	Company 2000 £000	Group 1999 £000	Company 1999 £000
Trade debtors	6,573	-	5,604	-
Amounts owed by group undertakings	16,685	610	16,005	610
Other debtors	140	-	17	-
Prepayments and accrued income	177	-	170	-
Deferred tax	25	-	-	-
	<u>23,600</u>	<u>610</u>	<u>21,796</u>	<u>610</u>

14 Creditors: amounts falling due within one year

	Group 2000 £000		Company 2000 £000		Group 1999 £000		Company 1999 £000	
Trade creditors	1,537		-		1,128		-	
Amounts owed to group undertakings	2,307		-		748		-	
	<u>3,844</u>		<u>-</u>		<u>1,876</u>		<u>-</u>	
Other creditors including taxation and social security:								
Corporation tax	1,473		-		1,273		-	
Other taxes and social security	223		-		428		-	
	<u>1,696</u>		<u>-</u>		<u>1,701</u>		<u>-</u>	
Accruals and deferred income	3,056		12		1,553		12	
	<u>8,596</u>		<u>12</u>		<u>5,130</u>		<u>12</u>	

Notes (continued)

15 Accruals and deferred income

	Group 2000 £000	Company 2000 £000	Group 1999 £000	Company 1999 £000
Government grants				
At beginning of the period	10	-	20	-
Credited to profit and loss account	(10)	-	(10)	-
	<u>-</u>	<u>-</u>	<u>10</u>	<u>-</u>

16 Provisions for liabilities and charges (group)

	Pensions and similar obligations £000	Taxation including deferred taxation £000	Total £000
At beginning of year	658	475	1,133
Utilised during the year	(284)	-	(284)
Charge for the year	426	46	472
At end of year	<u>800</u>	<u>521</u>	<u>1,321</u>

17 Deferred taxation

The amounts provided for deferred taxation and the amounts not provided are set out below:

	Group 2000		Group 1999	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Difference between accumulated depreciation and amortisation and capital allowances	888	1,384	673	495
Other timing differences	(367)	(357)	(198)	-
	<u>521</u>	<u>1,027</u>	<u>475</u>	<u>495</u>

Notes (continued)

18 Called up share capital

	2000 £000	1999 £000
<i>Authorised</i>		
Ordinary shares of £1 each	20,000	20,000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	10,000	10,000

19 Reserves

	Group Profit and loss account £000	Company Profit and loss account £000
At beginning of year	22,185	11,007
Retained profit for the year	7,111	-
At end of year	29,296	11,007

20 Commitments

(i) Capital commitments at the end of the financial year for which no provision has been made:

	Group 2000 £000	Company 2000 £000	Group 1999 £000	Company 1999 £000
Contracted	2,047	-	184	-

Notes (continued)

20 Commitments (continued)

(ii) Annual commitments under non-cancellable operating leases are as follows:

	Group 2000 £000	Company 2000 £000	Group 1999 £000	Company 1999 £000
Operating leases which expire:				
Within one year	79	-	33	-
In the second to fifth years inclusive	144	-	200	-
	<hr/> 223	<hr/> -	<hr/> 233	<hr/> -
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

21 Contingent liabilities

A subsidiary of the group, Cytec Engineered Materials Limited, has guaranteed duty charges to HM Customs and Excise; the maximum liability at the year end was £100,000.

The group paid a royalty charge to an associated company, Cytec Technologies Corporation Inc, a US resident corporation, at the rate of 2% on qualifying sales for a number of years to the year ended 31 December 1999. The level of royalty income recognised by the US company is currently under review by the US tax authorities, which could result in additional royalty costs in the UK in respect of qualifying sales for the periods ended 30 November 1994 to 31 December 1999. It has been estimated that the maximum liability of the group is of the order of £3,819,000. Net of tax this will be in the order of £2,574,000.

Notes (continued)

22 Pension schemes

The group operates two pension schemes in the United Kingdom, providing benefits based on final pensionable pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group.

For Cytec Engineered Materials Limited, the contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit funding method. The most recent valuation was at 29 June 2001. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions.

Investment return	-	5.75%-6.75% per annum
Earnings increases	-	4.25% per annum
Pension increases	-	2.5% per annum

The most recent actuarial valuation showed that the market value of the scheme's assets was £4,748,000 and that the actuarial value of those assets represented 102% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees will remain at 12% and 5% of earnings respectively.

There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

For Cytec Industries UK Limited the most recent formal actuarial valuation of the Scheme was undertaken as at 31 December 1999. The valuation was carried out using the projected unit method with the Scheme's assets being valued by discounting the expected future income generated by them.

An appropriate review of the funding position was carried out as at 1 January 1999 for the purpose of determining the pension charge. The main assumptions are as follows :-

Price inflation	-	2.9 % per annum
Salary increases	-	4.8% per annum
Pension increases - pre 97	-	0.0% per annum
Pension increases - post 97	-	2.9% per annum
Investment return - pre retirement	-	6.9% per annum
Investment return - post retirement	-	4.9% per annum

As at 31 December 1999 the market value of the assets of the Scheme was £9,353,000 and the actuarial value of the assets was sufficient to cover 105% of the benefits that had accrued to members, after allowing for expected future increases in salaries.

The total pension charge for the year was £426,000 (1999: £372,000).

The contributions of the Company are 10% of Scheme salaries for the period. Employees also contribute 5% of Scheme salaries.

At 31 December 2000 an accrual of £800,000 (1999: £658,000) is included in creditors, this being the excess of the accumulated pension cost over the accumulated contributions paid.

Notes (continued)

23 Reconciliation of movements in shareholders' funds

	2000		1999	
	Group £000	Company £000	Group £000	Company £000
Retained profit for the financial year	7,111	-	3,511	2,490
Net addition to shareholders' funds	7,111	-	3,511	2,490
Opening shareholders' funds	32,185	21,007	28,674	18,517
Closing shareholders' funds	39,296	21,007	32,185	21,007

24 Reconciliation of operating profit to net cash inflow from operating activities

	Year ended 31 December 2000 £000	Year ended 31 December 1999 £000
Operating profit	9,142	7,884
Depreciation	1,598	1,622
Net exchange differences	101	(21)
Loss on disposal of fixed assets	3	-
Decrease in stocks	(869)	908
Increase in debtors	(1,804)	(2,475)
Increase/(decrease) in creditors	3,266	(2,889)
Movement in provisions	188	260
Net cash inflow from operating activities	11,625	5,289

25 Analysis of changes in net debt during the year

	Year ended 31 December 2000 £000	Year ended 31 December 1999 £000
Balance at beginning of year	1,922	3,236
Net cash inflow/(outflow)	2,805	(1,314)
Foreign exchange	98	-
Balance at end of year	4,825	1,922

Notes *(continued)*

26 Related party transactions

The company has taken advantage of the exemption not to disclose details regarding transactions with other group undertakings as permitted by FRS 8, as the company is a wholly owned subsidiary. The results of the company have been consolidated in the group financial statements of Cytec Industries Inc. which are publicly available.

27 Ultimate parent company and parent undertaking of larger group of which the company is a member

The largest group in which the results of the company are consolidated is that headed by Cytec Industries Inc, incorporated in the United States of America. The consolidated accounts of this group are available to the public and may be obtained from Five Garret Mountain Plaza, West Paterson, NJ 07424, USA.