Cytec Engineered Materials Limited
(formerly known as Cytec Fiberite Limited)

Directors' report and financial statements

Registered number: 2851421

31 December 2002

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

Principal activities

The principal activities of the company are the manufacture and distribution of composites and adhesives for use, primarily, in the aerospace and leisure industries.

Business review

Details of the company'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 company's success. A significant part of the work of the company's technical services and laboratory staff is concentrated in this area.

The company's spending on research and development during the period was £290,000 (*2001: £267,000*).

Proposed dividend and transfer to reserves

The profit for the year after taxation was £3,215,000 (*2001: £6,323,000*). An ordinary dividend of £14,800,000 *(2001: £2,690,000)* was paid during the year resulting in a retained loss for the year of £11,585,000 (*2001: £3,633,000 profit*).

Directors and directors' interests

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

Mr JP Cronin (Chairman)
Mr M Molyneux (resigned 21 January 2002)
Mr W Wood (resigned 23 September 2002)
Mr R Smith (appointed 21 January 2002)
Mr A Dodwell (appointed 23 September 2002)

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 company'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.

It is company policy that people with disabilities have the same consideration as others with respect to recruitment, retention and personal development. Depending upon their skills and abilities, they enjoy the same career prospects as other employees and the same scope for realising potential. The company also makes every effort to continue to employ staff who may become disabled whilst employed.

Political and charitable contributions

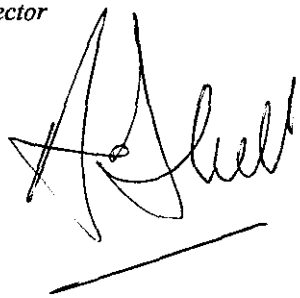
The company made no political contributions during the year. Donations to UK charities amounted to £650 (*2001: £418*).

Auditors

Previously, in accordance with Section 386 of the Companies Act 1985, a resolution was passed resulting in the company not being required to reappoint its auditors annually, with KPMG continuing as the company's auditors. KPMG has since transferred its business to a limited liability partnership, KPMG LLP. Accordingly KPMG resigned as auditors on 27 May 2002 and the directors thereupon appointed KPMG LLP to fill the vacancy arising.

By order of the board

Mr A Dodwell
Director



Abenbury Way
Wrexham Industrial Estate
Wrexham
LL13 9UZ

29th July 2003

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 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 company will continue in business.

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

kpmg

St James' Square
Manchester M2 6DS
United Kingdom

Independent auditors' report to the members of Cytec Engineered Materials Limited

We have audited the financial statements on pages 5 to 20.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 company'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 affairs as at 31 December 2002 and of its result for the financial year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

25 September 2003

Profit and loss account

for the year ended 31 December 2002

	Note	Year ended 31 December 2002 £000	As restated Year ended 31 December 2001 £000
Turnover	2	**24,227**	29,451
Cost of sales		**(14,319)**	(16,443)
Gross profit		**9,908**	13,008
Distribution costs		**(499)**	(473)
Administrative expenses		**(6,534)**	(6,535)
Other operating income		**1,554**	2,236
Operating profit	3-5	**4,429**	8,236
Other interest receivable and similar income	6	**174**	820
Profit on ordinary activities before taxation		**4,603**	9,056
Tax on profit on ordinary activities	7	**(1,388)**	(2,767)
Profit on ordinary activities after taxation		**3,215**	6,289
Dividends paid and proposed	8	**(14,800)**	(2,690)
Retained (loss)/profit		**(11,585)**	3,599

The notes on pages 8 to 20 form part of these financial statements.

Balance sheet

at 31 December 2002

	Note	31 December 2002 £000	£000	As restated 31 December 2001 £000	£000
Fixed assets					
Tangible assets	*9*		**3,904**		3,869
Current assets					
Stocks	*10*	**2,370**		2,627	
Debtors	*11*	**6,562**		22,093	
Cash at bank and in hand		**9,758**		4,961	
		18,690		29,681	
Creditors: amounts falling due within one year	*12*	**(6,113)**		(5,509)	
Net current liabilities			**12,577**		24,172
Total assets less current liabilities			**16,481**		28,041
Provisions for liabilities and charges	*13*		**(454)**		(429)
Net assets			**16,027**		27,612
Capital and reserves					
Called up share capital	*14*		**8,400**		8,400
Capital contribution reserve	*15*		**1,000**		1,000
Profit and loss account	*15*		**6,627**		18,212
Shareholders' funds			**16,027**		27,612

The notes on pages 8 to 20 form part of these financial statements.

These financial statements were approved by the board of directors on 29th July 2003 and were signed on its behalf by:

Mr A Dodwell
Director

Statement of total recognised gains and losses

For the year ended 31 December 2002

	2002 £000	As restated 2001 £000
(Loss) /profit for the financial year	**(12,014)**	3,599
Total recognised gains and losses relating to financial year	**(12,014)**	3,599
Prior year adjustment – FRS 19	**(429)**	
Total gains and losses recognised since last annual report	**(11,585)**	

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. The company followed the transitional arrangements of FRS 17 'Retirement benefits' in these financial statements and adopted FRS 19 'Deferred Taxation'. The comparative figures have been restated accordingly.

The impact of the adoption of FRS 19 has been the recognition of a deferred tax charge of £25,000 *(2001: £34,000)* and a deferred tax provision of £454,000 *(2001: £429,000)*.

Basis of preparation

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

The company is exempt from the requirement of Financial Reporting Standard No 1 to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of Cytec UK Holdings Limited, which is registered in England and Wales, and its cash flows are included within the consolidated cash flow statement of that company.

Copies of that company's financial statements may be obtained from Companies House.

Fixed assets and depreciation

Depreciation is provided by the company 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% 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.

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 within 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.

Pension costs

The company operates a defined benefit pension scheme, providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

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 company, 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 year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

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 Analysis of turnover

The directors consider the company to have only one class of business being the manufacture and distribution of composites and adhesives for use, primarily, in the aerospace and leisure industries.

By geographical market	**Year ended 31 December 2002 £000**	Year ended 31 December 2001 £000
UK	**10,879**	12,495
Europe/Middle East	**12,865**	16,267
Rest of world	**483**	689
	24,227	29,451

3 Profit on ordinary activities before taxation

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Auditors' remuneration:		
Audit	**20**	19
Other services	**10**	3
Depreciation	**554**	518
Hire of plant and machinery - operating leases	**19**	22
Hire of other assets - operating leases	**101**	90
Research and development expenditure	**290**	267
Loss on disposal of fixed assets	**-**	5
Net exchange (gains)/losses	**(34)**	50

Notes *(continued)*

4 Remuneration of directors

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Directors' emoluments	**134**	243

1 *(2001: 0)* director is accruing benefits under a defined benefit pension scheme.

5 Staff numbers and costs

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

	Number of employees 2002	2001
Production	**83**	86
Sales and distribution	**17**	18
Management and administration	**18**	18
Research and development	**12**	11
	130	133

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Wages and salaries	**3,458**	3,363
Social security costs	**240**	228
Other pension costs (see note 18)	**283**	235
	3,981	3,826

6 Other interest receivable and similar income

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Bank interest receivable	**122**	104
Amounts due from group undertakings	**52**	716
	174	820

Notes *(continued)*

7 Tax on profit on ordinary activities

	Year ended 31 December 2002 £000	As restated Year ended 31 December 2001 £000
(a) Analysis of charge in period		
UK corporation tax		
UK corporation tax at 30% (*2001: 30%*)	**1,368**	2,733
Deferred taxation	**(5)**	-
Total current tax	**1,363**	2,733
Deferred taxation		
Origination / reversal of timing differences	**25**	34
	1,388	2,767

(b) Factors affecting the tax charge for the current period

	Year ended 31 December 2002 £000	As restated Year ended 31 December 2001 £000
UK corporation tax		
Profit on ordinary activities before tax	**4,603**	9,056
Current tax at 30% (2001: 30%)	**1,381**	2,717
Effects of:		
Expenses not deductible for tax purposes	**12**	16
Capital allowances for period in excess of depreciation	**(35)**	(24)
Other short term timing differences	**10**	10
Other	**-**	14
Adjustment in respect of prior year	**(5)**	-
	1,363	2,733

Notes *(continued)*

8 Dividends paid and proposed

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Ordinary shares:		
Dividend paid	**14,800**	2,690

9 Tangible fixed assets

	Freehold land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Motor vehicles £000	Assets in course of construction £000	Total £000
Cost						
At beginning of year	2,099	4,146	1,686	19	77	8,027
Additions	-	-	-	-	589	589
Disposals	-	-	-	(19)	-	(19)
Transfer	39	429	196	-	(664)	-
At end of year	2,138	4,575	1,882	-	2	8,597
Depreciation						
At beginning of year	359	2,795	985	19	-	4,158
Charge for the year	53	317	184	-	-	554
Disposals	-	-	-	(19)	-	(19)
At end of year	412	3,112	1,169	-	-	4,693
Net book value						
At 31 December 2002	**1,726**	**1,463**	**713**	**-**	**2**	**3,904**
At 31 December 2001	1,740	1,351	701	-	77	3,869

Notes *(continued)*

10 Stocks

	2002 £000	2001 £000
Raw materials and consumables	1,838	1,927
Finished goods and goods for resale	532	700
	2,370	2,627

11 Debtors

	2002 £000	2001 £000
Trade debtors	5,175	7,151
Amounts owed by group undertakings	1,055	14,662
Other debtors	72	82
Prepayments and accrued income	248	198
Deferred tax	12	-
	6,562	22,093

12 Creditors: amounts falling due within one year

	2002 £000	2002 £000	2001 £000	2001 £000
Trade creditors		1,379		1,012
Amounts owed to group undertakings		2,804		1,894
Other creditors including taxation and social security:				
Corporation tax	597		1,223	
Other taxes and social security	195		71	
		792		1,294
Accruals and deferred income		1,138		1,309
		6,113		5,509

Notes *(continued)*

13 Deferred taxation

	2002 £000
At beginning of year	429
Charge for year	25
Utilised during year	-
	454

The amounts provided for deferred taxation are set out below:

	2002 £000	As restated 2001 £000
Difference between accumulated depreciation and amortisation and capital allowances	554	519
Short term timing differences	(100)	(90)
	454	429

14 Called up share capital

	2002 £000	2001 £000
Authorised		
Ordinary shares of £1 each	12,000	12,000
Allotted, called up and fully paid		
Ordinary shares of £1 each	8,400	8,400

15 Reserves

	Capital contribution reserve £000	Profit and loss account £000
At beginning of year as previously stated	1,000	18,641
Prior year adjustment – FRS 19	-	(429)
	1,000	18,212
Retained loss for the year	-	(11,585)
At end of year	1,000	6,627

Notes *(continued)*

16 Contingent liabilities

The company has guaranteed duty charges to HM Customs and Excise; the maximum liability at the year end was £100,000 *(2001:£100,000)*.

The company paid a royalty charge to an associated company, Cytec Technology Corp, 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 Cytec Engineered Materials Limited is of the order of £2,801,000. Net of tax this will be of the order of £1,892,000.

17 Commitments

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

	2002	2001
	£000	£000
Contracted	**95**	140

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

	2002	2001
	£000	£000
Operating leases which expire:		
Within one year	**-**	22
In the second to fifth years inclusive	**23**	3
	23	25

Notes *(continued)*

18 Pension scheme

The note below shows the effect on the balance sheet under the new Financial Reporting Standard 17 reporting guidelines. The objective of the new FRS is to reflect at fair value the assets and liabilities arising from an employer's retirement benefit obligations, to better reflect the operating costs of providing those benefits and to ensure there is adequate disclosure of these items.

Requirements under SSAP 24

Scheme description and results of actuarial valuation

The company operates a pension scheme providing funded benefits on a defined benefit basis. The assets of the scheme are held separately from those of the company in trustee administered funds. The cost charged to the profit and loss account is determined by a qualified actuary and reflects the costs of pensions spread over members' working lives within the company.

The pension contributions are determined on the basis of triennial valuations using the projected unit funding method. The most recent valuation was carried out as at 29 June 2000.

The company has taken separate advice from a professionally qualified actuary in order to determine the pension cost to be included in the financial statements under Statement of Standard Accounting Practice 24.

The main actuarial assumptions used for accounting purposes were an investment return of 5.75% - 6.75% per annum, salary increases averaging 4.25% per annum and increases to pensions in payment of 2.5% per annum. The assets were included at market value.

The market value of assets at 29 June 2000 was £4,748,000 which was sufficient to cover 102% of the liabilities that had accrued to members after allowing for expected future increases in salaries (using the assumptions for accounting purposes).

The pension cost charged to the profit and loss account was £283,000 *(2001: £235,000)*.

Requirements under FRS 17

The relevant disclosures required under FRS 17 are as follows:

Net assets statement

	2002	As restated 2001
	£000	£000
Net assets – excluding pension liability	**16,027**	27,612
Pension liability	**(2,930)**	(1,459)
Net assets – including pension liability	**13,097**	26,153

Notes *(continued)*

18 Pension scheme *(continued)*

Reserves statement

	2002 £000	As restated 2001 £000
Profit and loss reserve – excluding pension liability	**6,627**	18,212
Net pension liability	**(2,930)**	(1,459)
Profit and loss reserve – including pension liability	**3,697**	16,753

Pension cost note

The Company operates a defined benefit scheme in the UK. A full actuarial valuation was carried out as at 29 June 2000 by a qualified actuary and the result updated in line with FRS 17 guidelines.

The valuation update is based on the following assumptions:

Valuation method	Projected unit method
Rate of increase in salaries	3.9% per annum
Rate of increase in pensions in payment (post April 1997 service)	2.4% per annum
Rate of increase in deferred pensions	2.4% per annum
Discount rate	5.5% per annum
Inflation assumption	2.4% per annum

The assets in the scheme and the expected rate of return were:

	Long term rate of return expected on 31 December 2002	Long term rate of return expected on 31 December 2001	Values as at 31 December 2002	Values as at 31 December 2001
			£000	£000
Gilts	4.5% per annum	4.9% per annum	273	350
Equities	7.5% per annum	7.9% per annum	2,971	3,334
Cash	4.5% per annum	4.9% per annum	127	376
Bonds	5.5% per annum	5.8% per annum	401	249
Total market value of assets			3,772	4,309
Actuarial value of scheme liabilities			(6,702)	(5,768)
Net pension liability			(2,930)	(1,459)

Notes *(continued)*

18 Pension scheme *(continued)*

Movement in the deficit during the year:

	2002 £000
Deficit in scheme at beginning of year	(1,459)
Current service cost	(298)
Contributions paid	285
Other finance income	(22)
Actuarial loss	(1,436)
Deficit in the scheme at the end of the year	(2,930)

If FRS 17 had been fully adopted in these financial statements the pension costs for the defined benefit scheme would have been:

	2002 £000
Current service cost	298

Analysis of amounts included in other finance income:

	2002 £000
Expected return on pension scheme assets	322
Interest on pension scheme liabilities	(344)
	(22)

Analysis of amount recognised in statement of total recognised gains and losses

	2002 £000
Actual return less expected return on scheme assets	(1,162)
Experience gains and losses on liabilities	68
Changes in assumptions	(342)
	(1,436)

Notes *(continued)*

18 Pension scheme *(continued)*

History of experience gains and losses:

	2002 £000
Difference between actual and expected return on scheme assets:	
Amount	(1,162)
Percentage of scheme liabilities	31%
Experience gains and losses on scheme liabilities:	
Amount	(68)
Percentage of scheme liabilities	1%
Total amount recognised in statement of total recognised gains and losses:	
Amount	
Percentage of scheme liabilities	(1,436)
	21%

19 Reconciliation of movements in shareholders' funds

	2002 £000
Profit for the year	3,215
Dividends	(14,800)
Retained profit for the financial year and net addition to shareholders' funds	(11,585)
Opening shareholders' funds as previously stated	28,041
Prior year adjustment – FRS 19	(429)
Closing shareholders' funds	16,027

20 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 Cytec UK Holdings Limited financial statements which are publicly available from Companies House.

21 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.

The smallest group in which the results of the company are consolidated is that headed by Cytec UK Holdings Limited, a company incorporated in Great Britain and registered in England and Wales. The consolidated accounts of this company are available to the public and may be obtained from Companies House after the statutory filing period.