CYTEC INDUSTRIES INC/DE/
Form 10-K
February 26, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

Commission file number 1-12372

CYTEC INDUSTRIES INC.

(Exact name of registrant as specified in its charter)

Delaware	**22-3268660**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No).**
Five Garret Mountain Plaza Woodland Park, New Jersey	**07424**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (973) 357-3100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of exchange on which registered**
Common Stock, par value $.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No þ

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 the filing requirements for at least the past 90 days. Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ¨ No þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

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

Yes ¨ No þ

At June 30, 2008 the aggregate market value of common stock held by non-affiliates was $2,562,834,622 based on the closing price ($54.18 per share) of such stock on such date.

There were 47,154,734 shares of common stock outstanding on February 18, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	**Part of Form 10-K**
Portions of Proxy Statement for 2009 Annual Meeting	Parts III, IV
of Common Stockholders, dated March 6, 2009.	

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CYTEC INDUSTRIES INC. AND SUBSIDIARIES

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COMMENTS ON FORWARD-LOOKING STATEMENTS

A number of the statements made by us in our Annual Report on Form 10-K, or in other documents, including but not limited to the Chairman, President and Chief Executive Officer s and Vice President and Chief Financial Officer s letters to stockholders and stakeholders, respectively, our press releases and other periodic reports to the Securities and Exchange Commission, may be regarded as forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements include, among others, statements concerning: our or any of our segments outlook for the future, anticipated results of acquisitions and divestitures, selling price and raw material cost trends, anticipated changes in currency rates and their effects, economic forces within the industry we operate, anticipated costs, target completion dates and expenditures for capital projects, expected sales growth, operational excellence strategies and their results, expected annual tax rates, our long-term goals, future legal settlements and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Such statements are based upon our current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may vary materially from those set forth in the forward-looking statements.

The following factors, among others, could affect our anticipated results: our ability to successfully complete planned or ongoing restructuring and capital expansion projects, including realization of the anticipated results from such projects; our ability to maintain or improve current ratings on our debt; our ability to obtain financing or borrow fully against committed lines, changes in financial conditions or the financial status of our existing lenders markets; changes in global and regional economies; the financial well-being of our customers and the end consumers of our products; changes in demand for our products or in the quality, costs and availability of our raw materials and energy; customer inventory reductions; the actions of competitors; currency and interest rate fluctuations; technological change; our ability to renegotiate expiring long-term contracts; our ability to raise our selling prices when our product costs increase; changes in employee relations, possible strikes or work stoppages at our facilities or at the facilities of our customers or suppliers; changes in laws and regulations or their interpretation, including those related to taxation and those particular to the purchase, sale, storage and manufacture of chemicals or operation of chemical plants; governmental funding for those military programs that utilize our products; litigation, including its inherent uncertainty and changes in the number or severity of various types of claims brought against us and changes in the laws applicable to these claims; quality problems; difficulties in plant operations and materials transportation, including those caused by hurricanes or other natural forces; environmental matters; returns on employee benefit plan assets and changes in the discount rates used to estimate employee benefit liabilities; changes in the medical cost trend rate; changes in accounting principles or new accounting standards; political instability or adverse treatment of foreign operations in any of the significant countries in which we or our customers operate; war, terrorism or sabotage; epidemics; and other unforeseen circumstances. Unless indicated otherwise, the terms Cytec, Company, we, us, and our each refer collectively to Cytec Industries Inc. and its subsidiaries.

AVAILABLE INFORMATION

We maintain a website that contains various information on our Company and products. It is accessible at www.Cytec.com. Through our website, stockholders and the general public may access free of charge (other than any connection charges from internet service providers) filings we make with the Securities and Exchange Commission as soon as practicable after filing. Filing accessibility in this manner includes our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934.

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PART I

Item 1. BUSINESS

We are a global specialty chemicals and materials company focused on developing, manufacturing and selling value-added products. Our products serve a diverse range of end markets including aerospace, adhesives, automotive and industrial coatings, construction, chemical intermediates, inks, mining and plastics. We use our technology and application development expertise to create chemical and material solutions that are formulated to perform specific and important functions for our customers. We operate on a global basis with 39% of our 2008 revenues in North America, 41% in Europe, Middle East, and Africa, 14% in Asia-Pacific and 6% in Latin America. We have manufacturing and research facilities located in 18 countries. We had net sales of $3,639.9 million and loss from operations of $121.1 million in 2008. Cytec was incorporated as an independent public company in December 1993.

During the past four years, we have made two significant portfolio changes. We sold our water treatment chemicals and acrylamide product lines with 2006 nine months sales while owned by Cytec of approximately $231 million, to Kemira Group (Kemira) for approximately $245 million cash. The closing of the sale was transacted in three phases. We recorded a pre-tax gain of $75.5 million ($59.6 million after-tax) related to the first phase closing in the fourth quarter of 2006, and a pre-tax gain of $13.6 million ($13.3 million after-tax) in 2007 from the second and third phase closings and other miscellaneous adjustments. For further details see Note 2 to the Consolidated Financial Statements.

On February 28, 2005, we completed the acquisition of the Surface Specialties business (Surface Specialties) of UCB SA (UCB) for cash and stock valued at approximately $1.8 billion. This acquisition complemented our existing product offering to the coatings industry including the general industrial, automotive, architectural, plastic, ink and wood sectors. We recorded $725.7 million of goodwill as part of the acquisition. In the fourth quarter of 2008, we completed our annual goodwill impairment test. Due to the adverse impact of current macroeconomic conditions on the forecasted volume growth and thus reduced profitability of certain product lines in our Surface Specialties reporting unit, we recognized a $385.0 million ($358.3 million after-tax) non-cash goodwill impairment charge related to our Surface Specialties reporting unit in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets (SFAS 142). For further details see Note 9 to the Consolidated Financial Statements.

We have four business segments: Cytec Performance Chemicals, Cytec Surface Specialties, Cytec Engineered Materials and Building Block Chemicals. Cytec Performance Chemicals and Cytec Surface Specialties are managed under one executive leader, and are referred to collectively as Cytec Specialty Chemicals. Cytec Performance Chemicals includes the following product lines: mining chemicals, phosphines, polymer additives, specialty additives, specialty urethanes and adhesives. Cytec Surface Specialties product lines include radiation-cured resins (Radcure resins), powder coating resins and liquid coating resins. Included in the liquid coating resins product line are waterborne resins, amino cross-linkers and solventborne resins. Cytec Engineered Materials principally includes advanced composites, carbon fiber, and structural film adhesives. Building Block Chemicals principally includes acrylonitrile, hydrocyanic acid, sulfuric acid and melamine. We regularly review our segment reporting and classifications and may periodically change our reportable segments to align with operational changes.

Our corporate vision is to deliver technology beyond our customers imagination. To achieve our corporate vision, our strategy includes the following initiatives:

- Achieve sustainable and profitable growth by providing innovative solutions to meet customer needs. We seek to collaborate closely with our customers to understand their needs and provide them with a superior value proposition, whether through improvement in product quality, reduced part cost or a new enabling technology. We seek to market our specialty products in terms of the value they provide and focus on delivering a high level of technical service to our customers as we work with them on solving problems and providing them with better products for their applications. Examples are:
  - Scale inhibitors that allow for increased uptime at alumina refineries therefore improving process efficiency.
  - Industrial mineral purifiers that work efficiently using proprietary magnetic separation chemistry.

Provide a culture that challenges, engages and rewards our employees. We know that progress and growth depend on every employee taking responsibility, being creative, and contributing to our overall successful performance. We strive to have employees be challenged and enjoy success as we continue to build a stronger Cytec. As part of this process employees have opportunities to embark on career paths geared towards advancement in various areas of our organization. Our goal is to attract, retain and develop employees to their highest potential and be recognized as a global employer of choice.

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Be universally recognized as the technology leader in our markets. We are dedicated to creating a sustainable competitive advantage through superior technology. We believe our technology is the ultimate engine of our growth and success. To that end we focus on our new product pipeline and delivering value-added products to our customers every year. For example, we have continued to invest in the Cytec Engineered Materials segment by recruiting technical service as well as Research and Development personnel to take advantage of the growing potential for new applications for our technology. Additionally, within the Cytec Surface Specialties segment, we are developing hybrid resins, in which radiation-curable properties are combined with water-based or powder-based technologies and in more complex applications, such as coil coating, automotive repair, ultraviolet inkjet printing and flat-panel displays. Examples are:

Extension of the UVEKOL® glass lamination system range through the addition of a flame retardant and solar control variants both of which rely on the special features of radiation curable resins.

The recently launched UV Pressure Sensitive Adhesive (GELVA GMR) is a strong example of a growing trend of cross product line exploitation of technology competencies.

Positively impact society by our commitment to safety, health, and environmental stewardship. We focus our innovation on the development of environmentally sustainable products, and demonstrate our respect for the communities in which we operate. We operate on a global basis with manufacturing plants and research facilities located in 18 countries including high growth emerging markets where we can continue to expand sales as markets develop. For example, in 2007 we began construction of a Radcure oligomer manufacturing facility at our site near Shanghai, China which successfully began operating in 2008. We are also establishing Cytec Engineered Materials manufacturing capacity in China to support expected growth in that region of the world. Our global operations add to the vitality and the economy of the regions in which we operate.

We are focused on operational excellence. To develop and implement best practices, we benchmark our performance against our competitive peer group. This has had a significant positive impact in terms of our safety and environmental performance. Manufacturing has the largest impact on our costs and we use various techniques such as six-sigma and lean manufacturing to reduce our product costs by improving process yields, reducing batch times, increasing capacity and improving and/or streamlining our manufacturing processes. We continuously review our operational footprint versus current and projected market demand and from time to time we may also shutdown parts of or close certain manufacturing or laboratory facilities.

Over the years, in the course of our ongoing operations, we have made a number of other strategic business and product line acquisitions and dispositions. All acquisitions have been recorded using the purchase method of accounting. Accordingly, the results of operations of the acquired companies have been included in our consolidated results from the dates of the respective acquisitions.

Our management team regularly reviews our product line portfolio in terms of strategic fit and capital allocation based on financial performance which includes factors such as growth, profitability and return on net assets. From time to time, we may also dispose of or withdraw certain product lines. We may also acquire additional product lines or technologies. We conduct regular reviews of our plant sites cost effectiveness, including individual facilities within such sites to insure our long-term competitiveness.

SEGMENT INFORMATION

Revenues from external customers, earnings from operations and total assets for each of our four reportable segments can be found in Note 16 of the Notes to Consolidated Financial Statements which is incorporated by reference herein.

Cytec Surface Specialties

Set forth below are our primary product lines and major products in this segment and their principal applications.

Product Line	Major Products	Principal Applications
Radcure resins	Oligomers, monomers, photo-initiators	Coatings and inks used in industrial metal, wood and plastic coatings including parquet, furniture, safety glass interlayer,

		printing varnishes and inks
Powder coating resins	Conventional and ultraviolet powders	Powder coatings for industrial and heavy duty metal applications, appliance, white goods, architecture and wood

Liquid coating resins	Waterborne resins, solventborne resins, amino cross-linkers	Industrial coatings for automobiles, can, coil, metal fixtures, metal and wood furniture, and heavy-duty industrial machinery, architectural applications, products used in abrasives, tires, electronics, marine, sanitary and swimming pools

We market our surface specialty chemicals through specialized sales and technical service staffs for each of our product lines. Sales are typically made directly to large customers and through distributors to smaller customers. Certain of our products, primarily amino cross-linkers, in this segment are manufactured using melamine that is manufactured by our Building Block Chemicals segment. For further discussion of raw materials, refer to Customers and Suppliers.

Radcure Resins

We are a leading producer of environmentally friendly, radiation-cured resins for high-performance coatings and graphics applications. These resins are cured (dried and hardened) by exposing them to ultraviolet or electron-beam radiation, rather than heat which typically reduces processing costs and increases productivity. Products such as inks, compact discs, DVDs, flat panel displays, credit cards, packaging, parquet and furniture utilize advanced resins like the ones we have developed.

Powder Coating Resins

Our polyester powder resin technologies or powder coatings which are environmentally friendly account for a significant portion of the industrial finishing market. We offer innovations such as powder resins for super durable clear coats, weather-resistant finishes and ultraviolet-curing powder coating systems for heat-sensitive substrates such as plastic and wood. These powder coatings provide original equipment manufacturers with a number of cost and environmental benefits compared to traditional coating systems.

Liquid Coating Resins

We manufacture a broad range of waterborne and solventborne resins. We are a market leader in resins for high-solids and waterborne coating systems. Our extensive portfolio includes products based on seven chemistries: acrylics, amino cross-linkers, epoxy systems, alkyds and polyesters, polyurethanes, phenolics and unsaturated polyesters. We expect to reduce the capacity of our solventborne product line in 2009 in response to declining market demand.

We also market a broad range of additives to assist customers in formulating high-performance coatings for protective and decorative applications. Along with individual additives, we have developed formulated products that combine multiple additives to achieve specific performance properties targeted to meet the needs of diverse industries.

Cytec Performance Chemicals

Set forth below are our primary product lines and major products in this segment and their principal applications.

Product Line	**Major Products**	**Principal Applications**
Mining chemicals	Promoters, collectors, solvent extractants, flocculants, frothers, filter and dewatering aids, antiscalants, dispersants, depressants, defoamers and reagents	Mineral separation and processing for copper, alumina and other minerals
Phosphines	Solvent extractants, flame retardants, catalyst ligands, high purity phosphine gas and biocides	Mineral processing, pharmaceutical, chemical and electronic manufacturing, and fumigants

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Polymer additives	Ultraviolet light stabilizers and absorbers, high performance antioxidants and antistatic agents	Plastics, coatings, and fibers for: agricultural films, automotive parts, architectural lighting, housewares, packaging, outdoor furniture, sporting goods, toys and apparel
Specialty additives	Surfactants, specialty monomers, resin amines, and PTZ® Phenothiazine (acrylic stabilizers)	Textiles, non-wovens and adhesives, super absorbent polymers, pharmaceuticals and acrylic acid
Specialty urethanes	Polyurethane resins, isocyanates, carbamates and epoxy and polyurethane resin systems	Breathable textile coatings, formulated polyurethane and epoxy systems, adhesives, inks and sealants
Adhesives	Pressure sensitive adhesives: waterborne and solventborne	Signage, labels, tapes, graphics, medical and specialty customer formulations

We market our performance chemicals through specialized sales and technical service staffs for each of our product lines. Sales are usually made directly to large customers and through distributors to smaller customers. We have achieved growth in our performance chemicals sales by finding new applications for our existing products as well as developing new products. For a discussion of raw materials, refer to Customers and Suppliers.

Mining Chemicals

Our mining chemicals product line is primarily used in applications to separate desired minerals from host ores. We have leading positions in the copper processing industry, particularly in the flotation and solvent extraction of copper. We also have a leading position in the alumina processing industry, where our patented HxPAMs is particularly effective at the flocculation of red mud and new patented MaxHT antiscalant is sold for suppressing sodalite scale formation. We also sell phosphine specialty reagents which have leading positions in cobalt-nickel solvent extraction separation and complex sulfide flotation applications. Demand for mining chemicals is cyclical and varies with industry conditions such as global demand, inventory levels and prices for the particular minerals with respect to which our products have processing applications. We strive to develop new technologies as well as new formulations tailored for specific applications.

Phosphines

Our phosphine specialties are utilized for a variety of applications. We are a leading supplier of ultra-high purity phosphine gas, used in semiconductor manufacturing and light emitting diode applications, and have significant positions in various phosphine derivative products including phosphonium salts used in pharmaceutical catalysts and biocides. Included in the phosphine line are organo phosphorus compounds. The compounds are used primarily as intermediates and catalyst ligands for organic and chemical synthesis in the pharmaceutical and chemical industries.

Polymer Additives

We are a global supplier to the plastics industry of specialty additives which protect plastics from the ultraviolet radiation of sunlight and from oxidation. We seek to enhance our position with new products based on proprietary chemistries, such as our proprietary technology for CYASORB THT® ultraviolet stabilizer, and our solutions-based technical support. CYASORB THT® provides much improved ultraviolet stabilization efficiency and cost effectiveness. In certain cases, we use a combination of additives to achieve a level of efficiency not previously achieved in polymer applications. In 2007 and 2008, we restructured our Polymer Additives product line by discontinuing production and/or divesting certain commodity products to focus on our differentiated technology. The remaining products are now made at our facility in West Virginia.

Specialty Additives

We are a leading global supplier of sulfosuccinate surfactants, acrylamide-based specialty monomers, and PTZ® phenothiazine. Sulfosuccinate surfactants and acrylamide-based specialty monomers products are used in emulsion polymers, paints, paper coatings, printing inks, and other diverse customer applications. PTZ® phenothiazine is used as an acrylic acid stabilizer.

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Specialty Urethanes

Our line of isocyanates, carbamates and epoxy and specialty polyurethane resin systems are used in high-performance applications in industries such as aerospace, automotive, military, computers, biomedical, textiles and electrical /electronics and together form our Specialty Urethanes product line. We are in the process of investigating strategic alternatives for the polyurethane products.

Pressure Sensitive Adhesives

We manufacture and sell specialty pressure sensitive adhesives for both waterborne and solventborne systems. The product line has numerous formulations featuring innovative products, such as high-performance emulsions, adhesives for medical (transdermal patch) applications and removable adhesives.

Cytec Engineered Materials

Our Cytec Engineered Materials segment manufactures and sells advanced structural film adhesives and advanced composite materials primarily to the aerospace industry and other high performance specialty applications. The primary applications for both aerospace adhesives and advanced composites are large commercial airliners, regional and business jets, military aircraft (including rotorcraft, satellites and launch vehicles), high-performance automotive and specialty applications.

Advanced composites are exceptionally strong and lightweight materials manufactured by impregnating fabrics and tapes made from high performance fibers (such as carbon fiber) with epoxy, bismaleimide, phenolic, polyimide and other resins formulated or purchased by us.

Sales are dependent to a large degree on the commercial and military aircraft build-rates and the number of applications and aircraft programs for which we are a qualified supplier. The majority of commercial aircraft programs in the Western world has qualified and uses certain of our products. We are a major supplier to such U.S. military programs as the F-35 Joint Strike Fighter, the F/A-22 and F/A-18 combat aircraft and the C-17 transport aircraft. We have a number of long-term agreements, expiring over various periods, to supply aerospace customers with their requirements of various specialty materials at prices that are generally fixed by year.

Advanced composites generally account for a higher percentage of the structural weight on a military aircraft than on a commercial aircraft. They also account for a higher percentage of the structural weight on newer design commercial aircraft than older design commercial aircraft as technology progresses and manufacturers design planes to achieve greater fuel efficiency. Advanced composites made from carbon fibers and epoxy or bismaleimide resins are primarily used for structural aircraft applications such as wing, tail and rudder components, engine housings, and fuselage components while advanced composites made from fiberglass or aramid materials and phenolic resins are primarily used for secondary structure applications such as fairings and interior aircraft applications such as sidewall, ceiling and floor panels and storage and cargo bins. In addition, our ablatives are used in manufacturing rocket nozzles and our carbon/carbon products are used in manufacturing aircraft and other high performance brakes. We expect the demand for advanced composites to continue to increase as new applications are developed.

Our aerospace adhesives and advanced composites also have various applications in industrial, high performance automotive and selected recreational products.

We market aerospace materials primarily through a dedicated sales and technical service staff typically direct to customers.

We purchase from third parties all of the aramid and glass fibers and much of the carbon fibers and base resins used in the manufacture of composites. They are mainly used as a reinforcement material for advanced composites used in the aerospace and certain other industries and have many advantageous characteristics such as light weight, high tensile strength and strong heat resistance.

We manufacture and sell various high-performance grades of both polyacrylonitrile (PAN) type and pitch type carbon fibers. Approximately 65% of our carbon fiber production is utilized internally (which represents approximately 35% of our demand for carbon fiber) with the balance being sold to third parties. We have started a project to build a new carbon fiber line at our existing site in South Carolina which is forecasted to cost in a range of $200 to $250 million, of which $66.1 million has been spent through December 31, 2008. Construction and start-up is expected to be completed in 2010 and qualification for use in aerospace markets is expected in 2011. The new line will increase our capacity of PAN carbon fiber for aerospace applications by approximately 50%. The project will include certain infrastructure to support additional carbon fiber production expansion. For additional information refer to Customers and Suppliers .

Building Block Chemicals

Building Block Chemicals are manufactured at our world-scale, highly integrated Fortier facility. The Fortier facility is located on the bank of the Mississippi River near New Orleans, Louisiana and has access to all major forms of transportation and supplies of raw materials. This segment s product lines include acrylonitrile, hydrocyanic acid (a co-product of acrylonitrile), sulfuric acid, acetonitrile and melamine which is produced both for use internally within our other segments and for third party sale. The integration of the facility comes from its steam usage whereas the acrylonitrile and sulfuric acid production produces excess steam which is used in the production of melamine. Additionally, a tenant at the site purchases substantially all of the hydrocyanic acid we produce as well as substantial amounts of the sulfuric acid we produce for their manufacture of methyl methacrylate at the site. We strive to operate our plants at capacity subject to market conditions and raw material availability.

Acrylonitrile and Hydrocyanic Acid

We expect to sell up to approximately 22% of our current acrylonitrile production to an international trading company under a long-term distribution agreement at a market based price. Another 30% is expected to be sold to Kemira under long-term agreements to make acrylamide (the product line sold to Kemira in October 2006) and the remainder is sold within the United States or exported to international markets principally in Europe and Asia depending upon selling prices in the regions. We sell all of our hydrocyanic acid under a long-term supply agreement to a tenant at our Fortier site.

*Other Building Block Chemical***s**

We are the only manufacturer of melamine in North America and about 30% of our approximately 150 million pound capacity is used internally to make amino cross-linkers. Depending on market conditions, the remainder is marketed and sold to third parties. Our ability to manufacture melamine at a competitive cost depends primarily on the cost of ammonia (which is dependent on the cost of natural gas) and freight rates.

We manufacture and sell sulfuric acid and regenerated sulfuric acid under a long-term supply agreement to a tenant at our Fortier site and sell sulfuric acid in the merchant marketplace.

Prices of Building Block Chemicals are sensitive to the stages of economic cycles, raw material cost and availability, energy prices and currency rates, as well as to periods of insufficient or excess capacity. Building Block Chemicals and its competitors tend to operate their plants at capacity even in poor market environments, which may result in strong downward pressure on product pricing.

We sell Building Block Chemicals to third parties through a direct sales force and distributors.

Associated Company and Minority Interests

We own a 50% interest in SK Cytec Co., Ltd. and two majority-owned entities. All make products for principal applications similar to those listed in under our Surface Specialties segment. Each of the entities is immaterial to the results of our operations.

Competition

We actively compete with companies producing the same or similar products and, in some instances, with companies producing different products designed for the same uses. We encounter competition in price, delivery, service, performance, product innovation, product recognition and quality, depending on the product involved. For some of our products, our competitors are larger and have greater financial resources than we do. As a result, these competitors may be better able to withstand a change in conditions within the industries in which we operate, a change in the prices of raw materials without increasing their prices or a change in the economy as a whole.

Our competitors can be expected to continue to develop and introduce new and enhanced products, which could cause a decline in market acceptance of our products. Current and future consolidation among our competitors and customers may also cause a loss of market share as well as put downward pressure on pricing. Our competitors could cause a reduction in the prices for some of our products as a result of intensified price competition. Competitive pressures can also result in the loss of major customers.

In general, we compete by maintaining a broad range of products, focusing our resources on products in which we have a competitive advantage and fostering our reputation for quality products, competitive prices and excellent technical service and customer support. To help increase sales and margins, we are seeking to leverage our research and development efforts to develop value-added products and products based on

proprietary technologies. If we cannot compete successfully, our businesses, financial condition, results of operations, and cash flows could be adversely affected.

Customers and Suppliers

Sales derived from any single customer did not exceed 10% of our consolidated revenues for fiscal years 2008, 2007, and 2006. Sales to one of our customers, including sales to this customer s subcontractors, are significant to our Cytec Engineered Materials segment. The loss of this customer and related subcontractors would have a material adverse effect on the operating results of our Cytec Engineered Materials segment. Sales of hydrocyanic acid and the sale and regeneration of sulfuric acid to one of our customers are significant to our Building Block Chemicals segment. The loss of this customer would have a material adverse effect on the operating results of our Building Block Chemicals segment. Sales to one customer of our Cytec Surface Specialties segment are significant to this segment and, if such sales were lost, would have a material adverse effect on the operating results of our Cytec Surface Specialties segment. A summary of various long-term customer supply agreements is disclosed in Note 11, of the Notes to Consolidated Financial Statements which is incorporated by reference herein.

A number of our customers operate in cyclical industries such as the aerospace, automotive, construction and mining. This in turn, causes demand for our products to also be cyclical. Industry cycles also impact profitability of our Building Block Chemicals sales.

Key raw materials for the Cytec Specialty Chemicals segments are propylene derivatives such as acrylic acid, methanol derivatives and natural gas for energy. Key raw materials for the Cytec Engineered Materials segment are carbon fiber and various resins. We require natural gas, propylene, ammonia and sulfur to manufacture our Building Block Chemicals. These are typically available although we have experienced tight markets for certain raw materials from time to time.

Oil and natural gas are important indirect raw materials for many of our products. The prices of both of these commodities have been volatile over time. Sudden price swings such as the ones experienced in 2008 can adversely affect our ability to recover increased costs from our customers or demand for our products. Because natural gas is not easily transported, the price may vary widely between geographic regions. The price of natural gas in the U.S. has historically been higher than the price in many other parts of the world. Many of our products compete with similar products made with less expensive natural gas available elsewhere and we may not be able to recover any or all of the increased cost of gas in manufacturing our products.

Our Fortier facility is served principally by a single propylene pipeline owned by a supplier. Propylene deliveries from two suppliers will utilize this pipeline with contracts expiring at the end of 2009 and 2010. Propylene will also be received via rail in 2009.

To minimize reliance on any one supplier, we generally attempt to retain multiple sources for high volume raw materials, other than our own Building Block Chemicals. We are dependent on a limited number of suppliers for carbon fibers that are used in many of our advanced composite products. As we manufacture some of our own carbon fibers, the risk of future carbon fiber supply limitations is somewhat reduced. There can be no assurance that the risk of encountering supply limitations can be entirely eliminated.

Changes to raw material costs year on year are an important factor in profitability. Raw material prices can increase or decrease based on supply and demand and other market forces. We have from time to time experienced difficulty procuring several key raw materials, such as but not limited to, methanol derivatives, propylene, natural gas and carbon fiber, due to general market conditions or conditions unique to a significant supplier. We may experience supply disruptions of these and other materials in the future. Such conditions, if protracted, could result in our inability to manufacture our products, resulting in lower than anticipated revenues. If we are unable to raise our selling prices to recover the increased costs of raw materials driven by higher energy costs or other factors, our profit margins will be adversely affected.

Based on the year end prices for oil and natural gas and a lower demand outlook, we expect raw material prices to decline except where supply of such raw materials may be limited. In many cases, we may have to reduce the selling prices of our products due to competitive pressures and may not be able to retain the additional profitability from the reduced raw material costs.

International

We operate on a global basis, with manufacturing and research facilities located in 18 countries. Through our sales forces, third party distributors and agents, we market our products internationally. Geographical information is contained in Note 16 of the Notes to Consolidated Financial Statements which is incorporated by reference herein.

International operations are subject to various risks which may or may not be present in U.S. operations. These risks include political instability, the possibility of expropriation, restrictions on royalties, dividends and remittances, exchange rate fluctuations, requirements for governmental approvals for new ventures and local participation in operations such as local equity ownership and workers councils. Since we conduct business through subsidiaries in many different countries, fluctuations in currency exchange rates could have a significant impact on our reported revenues, which are reported in U.S. dollars. In 2008,

approximately 64% of our consolidated net sales occurred outside of the U.S., a significant portion of which are denominated in foreign currencies. However, we have material operations outside the U.S. which tend to offset some of the impact on earnings. Accordingly, changes in currency exchange rates could cause favorable or unfavorable fluctuations in our reported results of operations. Cross border transactions, both with external parties and intercompany relationships result in increased exposure to foreign exchange effects. Such fluctuations between the various currencies in which we do business have caused and will continue to cause currency transaction gains and losses, which may be material. While we may periodically enter into currency forward contracts to hedge currency fluctuations of transactions denominated in currencies other than the functional currency of the respective entity, it is not always cost effective to hedge all foreign currency exposures in a manner that would completely eliminate the effects of changes in foreign currency exchange rates on our results of operations or cash flows. Further, our international sales are translated into U.S. dollars for reporting purposes. The strengthening or weakening of the U.S. dollar could result in favorable or unfavorable translation effects as the results of our foreign operations are translated into U.S. dollars. Foreign currency translation favorably impacted our sales and income from operations for the year ended December 31, 2008 by $123.8 million and $19.6 million, respectively as compared to fiscal 2007. While we do not currently believe that we are likely to suffer a material adverse effect on our results of operations in connection with our existing international operations, any of these events could have an adverse effect on our international operations in the future by reducing the demand for our products, affecting the prices at which we can sell our products or otherwise having an adverse effect on our operating performance.

Research and Process Development

During 2008, 2007 and 2006, we incurred $81.6 million, $75.7 million and $73.9 million, respectively, of research and process development expense.

Trademarks and Patents

We have approximately 1,940 patents issued in various countries around the world. We also have trademark applications and registrations for approximately 250 product names. We do not believe that the loss of patent or trademark protection on any one product or process would have a material adverse effect on our company. While the existence of a patent is presumptive evidence of its validity, we cannot assure that any of our patents will not be challenged, nor can we predict the outcome of any challenge.

Employees

We employ approximately 6,700 employees of whom about 50% are represented by unions. We believe that our relations with employees and unions are generally good.

Operating Risks

Our revenues are largely dependent on the continued operation of our various manufacturing facilities. There are many risks involved in operating chemical manufacturing plants, including the breakdown, failure or substandard performance of equipment, operating errors, natural disasters, the need to comply with directives of, and maintain all necessary permits from, government agencies and potential terrorist attack. Our operations can be adversely affected by labor force shortages or work stoppages and events impeding or increasing the cost of transporting our raw materials and finished products. The occurrence of material operational problems, including but not limited to the above events, may have a material adverse effect on the productivity and profitability of a particular manufacturing facility. With respect to certain facilities, such events could have a material effect on our company as a whole.

Our operations are also subject to various hazards incident to the production of industrial chemicals. These include the use, handling, processing, storage and transportation of certain hazardous materials. Under certain circumstances, these hazards could cause personal injury and loss of life, severe damage to and destruction of property and equipment, environmental damage and suspension of operations. Claims arising from any future catastrophic occurrence at one of our locations may result in Cytec being named as a defendant in lawsuits asserting potentially large claims.

We typically seek to utilize third party insurance. This insurance covers portions of certain of these risks to the extent that coverage is available and can be obtained on terms we believe are economically justified.

Environmental Matters and REACH

We are subject to various laws and regulations which impose stringent requirements for the control and abatement of pollutants and contaminants and the manufacture, transportation, storage, handling and disposal of hazardous substances, hazardous wastes, pollutants and

contaminants.

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In particular, under various laws in the U.S. and certain other countries in which we operate, a current or previous owner or operator of a facility may be liable for the removal or remediation of hazardous materials at the facility and nearby areas. Such laws typically impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such hazardous materials. In addition, under various laws governing the generation, transportation, treatment, storage or disposal of solid and hazardous wastes, owners and operators of facilities may be liable for removal or remediation, or other corrective action at areas where hazardous materials have been released. The costs of removal, remediation or corrective action may be substantial. The presence of hazardous materials in the environment at any of our facilities, or the failure to abate such materials promptly or properly, may adversely affect our ability to operate such facilities. Certain of these laws also impose liability for investigative, removal and remedial costs on persons who dispose of or arrange for the disposal of hazardous substances at facilities owned or operated by third parties. Liability for such costs is retroactive, strict, and joint and several.

We are required to comply with laws that govern the emission of pollutants into the ground, waters and the atmosphere and with laws that govern the generation, transportation, treatment, storage, and disposal of solid and hazardous wastes. We are also subject to laws that regulate the manufacture, processing, and distribution of chemical substances and mixtures, as well as the disposition of certain hazardous substances. In addition, certain laws govern the abatement, removal, and disposal of asbestos-containing materials and the maintenance of underground storage tanks and equipment which contains or is contaminated by polychlorinated biphenyls. The costs of compliance with such laws and related regulations may be substantial, and regulatory standards tend to evolve towards more stringent requirements. These requirements might, from time to time, make it uneconomic or impossible to continue operating a facility. Non-compliance with such requirements at any of our facilities could result in substantial civil penalties or our inability to operate all or part of the facility, or our ability to sell certain products.

Further discussion of environmental matters is discussed in Note 11 of the Notes to Consolidated Financial Statements which is incorporated by reference herein.

The Registration, Evaluation and Authorization of Chemicals (REACH) legislation became effective in the European Union on June 1, 2007. This legislation requires manufacturers and importers of certain chemicals to register certain chemicals and evaluate their potential impact on human health and the environment. Under REACH, where warranted by a risk assessment, specified uses of some hazardous substances may be restricted. Covered substances were registered as of December 31, 2008. Subsequently, registration is required based on volume for covered substances manufactured or imported into the European Union in quantities greater than one metric ton per year. REACH is expected to take effect in three primary stages over eleven years following the effective date. The registration, evaluation and authorization phases would require expenditures and resource commitments, for example, in order to compile and file comprehensive reports, including testing data, on each chemical substance and perform chemical safety assessments. We did not incur significant costs for REACH compliance in 2008 and it is not expected to be significant in 2009. However, the overall cost of compliance over the next 10-15 years could be substantial although at this time, we do not expect costs to be substantial. In addition, it is possible that REACH may affect raw material supply, customer demand for certain products, and our decision to continue to manufacture and sell certain products in the European Union.

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Item 1A. RISK FACTORS

Our indebtedness could adversely affect our financial condition, limit our ability to grow and compete and prevent us from fulfilling our obligations under our notes and our other indebtedness.

As of December 31, 2008, we had $848.8 million of total debt outstanding. Our indebtedness could adversely affect our financial condition, limit our ability to grow and compete and prevent us from fulfilling our obligations under our notes and our other indebtedness. A discussion of our debt is contained in Note 10 of the Notes to Consolidated Financial Statements which is incorporated herein.

There is $286 million of availability under our $400.0 million five-year revolving credit facility, which expires June 2012, and $74.1 million of availability under various non-U.S. credit facilities. Under the five-year revolving credit facility, we are required to meet financial ratios, including total consolidated debt to consolidated EBITDA (as defined in the credit agreement) and consolidated EBITDA (as defined in the credit agreement) to interest expense. These restrictions could limit our ability to plan for or react to market conditions or meet extraordinary capital needs and could otherwise restrict our financing activities. Our ability to comply with the covenants will depend on our future operating performance. If we fail to comply with those covenants and terms, we will be in default. In this case, we would be required to obtain waivers from our lenders in order to maintain compliance. If we were unable to obtain any necessary waivers, the amounts outstanding under this agreement could be accelerated, and become immediately due and payable, and we would not be able to borrow any additional funds under the agreement while such default continued. If our ability to fully borrow under the facility is limited by the margins upon which we are compliant, we would be required to obtain waivers from our lenders in order to maintain the full use of the revolver and, as a result, we believe our financing costs would be significantly higher.

Disposition or restructuring charges and goodwill impairment or acquisition intangible impairment or other asset impairment charges may affect our results of operations in the future.

Management regularly reviews our business portfolio in terms of strategic fit and financial performance and may from time to time dispose of or withdraw certain product lines. Additionally, management regularly reviews the cost effectiveness of its plant sites and/or assets at such sites. Long-lived assets with determinable useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We may find it necessary to record disposition, restructuring or asset impairment charges in connection with such reviews. For example, we recorded restructuring charges of approximately $15 million in 2008 principally related to plant closures and employee severance. See Note 3 of the Notes to the Consolidated Financial Statements for further details. Such charges could have a material adverse effect on our results of operations in the period in which they are recorded.

We test goodwill for impairment on an annual basis each October 1st and more often if events occur or circumstances change that would likely reduce the fair value of a reporting unit to an amount below its carrying value. We also test for other possible acquisition intangible impairments if events occur or circumstances change that would indicate that the carrying amount of such intangible asset may not be recoverable. Any resulting impairment loss would be a non-cash charge and may have a material adverse impact on our results of operations in any future period in which we record a charge. See Critical Accounting Policies for further discussion on our goodwill impairment testing.

In connection with the 2005 acquisition of Surface Specialties, we recorded goodwill in the amount of $725.7 million and recorded acquisition intangibles of $490.4 million. In connection with our annual goodwill impairment test, we recorded in the fourth quarter of 2008 a $385.0 million ($358.3 million after-tax) non-cash goodwill impairment charge related to our Surface Specialties reporting unit. The impairment charge was based on a comparison of the implied fair value of goodwill to the book value of goodwill. The determination of the implied fair value of goodwill considers the fair value of identifiable assets and liabilities of the reporting unit, which values rely on an estimate of projected cash flows expected to be generated by the Surface Specialties reporting unit on a discounted basis. If we are unable to achieve these expected cash flow projections, or other indicators of impairment exist, such as a further decline in our share price and market capitalization, we may incur additional material impairment charges relating to our goodwill. Any potential future impairment charges would also be non-cash and may have a material adverse effect on our results of operations in any future period in which we record a charge. In total, we had $693.7 million of goodwill and acquisition intangibles with a net carrying value of $430.8 million at December 31, 2008.

Prices and availability of raw materials could adversely affect our operations.

See Item 1. BUSINESS Customers and Suppliers.

We face active competition from other companies, which could adversely affect our revenue and financial condition.

See Item 1. BUSINESS Competition.

We face numerous risks relating to our international operations that may adversely affect our results of operations.

See Item 1. BUSINESS International.

Our production facilities are subject to operating risks that may adversely affect our operations.

See Item 1. BUSINESS Operating Risks.

We are subject to significant environmental and product regulatory expenses and risks.

See Item 1. BUSINESS Environmental Matters.

The current global economic weakness coupled with a lack of credit availability from the credit markets could adversely impact our customer s demand for our products, their ability to pay their accounts receivable to us and/or their viability.

See Item 1. BUSINESS Customers and Suppliers .

The current market conditions could also adversely impact our supplier s ability to supply our materials requirement and/or their viability.

See Item 1. BUSINESS Customers and Suppliers .

Loss of certain significant customers may have an adverse effect on results of the affected segment and loss of several significant customers may have an adverse effect on our consolidated results.

See Item 1. BUSINESS Customers and Suppliers .

If the current global economic weakness worsens or continues for an extended period, it could significantly impact our results of operations and cash flows. This could impact our ability to fund certain investments for growth, could cause a significant reduction in global operations and impact our current credit rating. We anticipate that if we had to borrow funds beyond our current revolving credit agreement, or if our ability to fully borrow under the facility is limited by the margins upon which we are compliant and if a waiver with our lenders is needed, the financing costs would be significantly higher.

We are subject to significant litigation expense and risk.

See Item 1. LEGAL PROCEDINGS.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

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Item 2. PROPERTIES

We operate manufacturing and research facilities in 18 countries. Capital spending for the years ended December 31, 2008, 2007 and 2006 was $195.8 million, $114.8 million and $102.5 million, respectively.

Our capital expenditures are intended to provide increased capacity, to improve the efficiency of production units, to improve the quality of our products, to modernize or replace older facilities, or to install equipment for protection of employees, neighboring communities and the environment.

Our manufacturing and research facilities and the segments served by each such facility are as follows:

FACILITY	SEGMENTS SERVED
Anaheim, California	Cytec Engineered Materials
Antofagasta, Chile	Cytec Performance Chemicals
Atequiza, Mexico	Cytec Performance Chemicals
Avondale (Fortier), Louisiana	Building Block Chemicals
Bassano, Italy	Cytec Surface Specialties
Belmont (Willow Island), West Virginia	Cytec Performance Chemicals
Bogota, Colombia	Cytec Performance Chemicals; Cytec Surface Specialties
D Aircraft (Anaheim), California	Cytec Engineered Materials
Drogenbos, Belgium	Cytec Performance Chemicals; Cytec Surface Specialties
Graz, Austria	Cytec Surface Specialties
Greenville, South Carolina	Cytec Engineered Materials
Greenville, Texas	Cytec Engineered Materials
Gumi, Korea	Cytec Performance Chemicals
Hamburg, Germany	Cytec Surface Specialties
Havre de Grace, Maryland	Cytec Engineered Materials
Indian Orchard, Massachusetts	Cytec Performance Chemicals
Kalamazoo, Michigan	Cytec Performance Chemicals; Cytec Surface Specialties; Cytec Engineered Materials
La Llagosta, Spain	Cytec Surface Specialties
Langley, South Carolina	Cytec Performance Chemicals; Cytec Surface Specialties
Lillestrom, Norway	Cytec Surface Specialties
Mount Pleasant, Tennessee	Cytec Performance Chemicals
North Augusta, South Carolina	Cytec Surface Specialties
Oestringen, Germany	Cytec Engineered Materials
Olean, New York	Cytec Performance Chemicals

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Orange, California	Cytec Engineered Materials
Pampa, Texas	Cytec Surface Specialties
Rayong, Thailand	Cytec Surface Specialties, Cytec Performance Chemicals
Rock Hill, South Carolina	Cytec Engineered Materials
San Fernando, Spain	Cytec Surface Specialties
Schoonaarde, Belgium	Cytec Surface Specialties
Seremban, Malaysia	Cytec Surface Specialties
Shanghai, China	Cytec Surface Specialties
Shimonoseki, Japan	Cytec Surface Specialties
Smyrna, Georgia	Cytec Surface Specialties
Stamford, Connecticut	Cytec Performance Chemicals; Cytec Surface Specialties
Suzano, Brazil	Cytec Surface Specialties
Wallingford, Connecticut	Cytec Performance Chemicals; Cytec Surface Specialties
Welland, Canada	Cytec Performance Chemicals
Werndorf, Austria	Cytec Surface Specialties
Wiesbaden, Germany	Cytec Surface Specialties
Winona, Minnesota	Cytec Engineered Materials
Wrexham, U. K.	Cytec Engineered Materials

We own all of the foregoing facilities and their sites except for the land at the Indian Orchard, Lillestrom, Pampa, Shanghai and Shimonoseki facilities and the land and the facilities at the Smyrna, and Wiesbaden sites. We have long-term leases and/or operating agreements for the Indian Orchard, Lillestrom, Shanghai, Shimonoseki and Wiesbaden sites. The lease and operating agreement for the Pampa site has expired and we have ceased production at the site in the first quarter of 2009. We have begun construction at our North Augusta site to consolidate the Pampa site volume. We have served the required twelve month notice to terminate our lease for the Smyrna site and we are reviewing other sites for the activities conducted at Smyrna. We lease our corporate headquarters in Woodland Park, New Jersey, our Cytec Specialty Chemicals headquarters in Brussels, Belgium and our Cytec Engineered Materials headquarters located in Tempe, Arizona. The municipal authorities in San Fernando, Spain have proposed to expropriate, for consideration to be negotiated, our San Fernando site and we are reviewing our options where to locate the manufacturing capacity. In addition, we are reviewing strategic alternatives for our Gumi, Korea manufacturing site and currently anticipate, subject to consultation and negotiation with our Works Council, to consolidate production from our La Llagosta, Spain manufacturing site to other locations and close the site permanently.

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Item 3. LEGAL PROCEEDINGS

Information regarding legal proceedings is included in Note 11 of the Notes to Consolidated Financial Statements and is incorporated herein by reference.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

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PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES. (Currencies in millions, except per share amounts)

Our stock is listed on the New York Stock Exchange. On February 18, 2009, there were approximately 7,019 registered holders of our Common Stock.

The high and low closing stock prices and declared dividends per share for each quarter were:

	1Q	2Q	3Q	4Q
2008				
High	$ 60.35	$ 63.77	$ 58.19	$ 38.67
Low	$ 47.66	$ 54.56	$ 38.91	$ 16.28
Dividends	$ 0.125	$ 0.125	$ 0.125	$ 0.125
2007				
High	$ 61.88	$ 64.50	$ 71.78	$ 68.02
Low	$ 53.83	$ 54.72	$ 61.53	$ 57.61
Dividends	$ 0.10	$ 0.10	$ 0.10	$ 0.10

On January 29, 2009, our Board of Directors declared a quarterly cash dividend of $0.125 per common share, payable on February 25, 2009 to stockholders of record as of February 10, 2009.

During the year ended December 31, 2008, we repurchased 908,400 shares of common stock for $46.4 under our stock buyback program. Approximately $45.0 remained authorized under the buyback program as of that date. Pursuant to this program, shares can be repurchased in open market transactions or privately negotiated transactions at our discretion.

Period	Total Number of Shares Purchased	Average Price Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Program
March 1, 2008 March 31, 2008	100,900	$ 53.62	100,900	$ 86.0
May 1, 2008 May 31, 2008	142,500	$ 61.84	142,500	$ 77.0
June 1, 2008 June 30, 2008	90,000	$ 58.46	90,000	$ 72.0
August 1, 2008 August 31, 2008	155,000	$ 51.36	155,000	$ 64.0
September 1, 2008 September 30, 2008	420,000	$ 45.12	420,000	$ 45.0
Total	908,400		908,400	

See Part III, Item 11. Executive Compensation for information relating to our equity compensation plans.

The graph set forth below is based on the assumption that $100 had been invested in our common stock and in each index on December 31, 2003, with reinvestment of dividends at market prices. The total cumulative dollar returns represent the value such investments would have had on December 31, 2008.

	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08
Cytec Industries Inc.	$ 100	$ 135	$ 126	$ 151	$ 166	$ 58
S&P 500	$ 100	$ 111	$ 116	$ 135	$ 142	$ 90
S&P Specialty Chemicals	$ 100	$ 115	$ 120	$ 147	$ 170	$ 142

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Item 6. SELECTED FINANCIAL DATA
FIVE-YEAR SUMMARY

Note: The selected financial data below has been restated to show the retroactive application of Financial Accounting Standards Board (FASB) Staff Position No. AUG AIR-1, Accounting for Planned Major Maintenance Activities (FSP AUG-AIR 1), which we adopted on January 1, 2007. For further details see Note 1 to the Consolidated Financial Statements (Currencies in millions, except per share amounts).

	2008	2007	2006	2005	2004
Statements of income data:					
Net sales	$ 3,639.9	$ 3,503.8	$ 3,329.5	$ 2,925.7	$ 1,721.3
(Loss)/earnings from operations	($121.1)(1), (7)	$ 324.1(3), (7)	$ 305.4(5), (7)	$ 162.1(8)	$ 167.9(10)
(Loss)/earnings from continuing operations before accounting change and premium paid to redeem preferred stock	($198.8)(2)	$ 206.5(4)	$ 196.4(6)	$ 58.9(9)	$ 131.1(11)
Earnings from discontinued operations, net of taxes				1.2	
Cumulative effect of accounting change, net of taxes			(1.2)(7)		
Premium paid to redeem preferred stock					(9.9)(12)
Net (loss)/earnings available to common stockholders	($198.8)	$ 206.5	$ 195.2	$ 60.1	$ 121.2
Basic net (loss)/earnings per common share:					
(Loss)/earnings available to common stockholders before discontinued operations and accounting change	($4.16)	$ 4.29	$ 4.13	$ 1.30	$ 3.06
Earnings from discontinued operations, net of taxes				0.03	
Cumulative effect of accounting change, net of taxes			(0.02)		
Net (loss)/earnings available to common stockholders	($4.16)	$ 4.29	$ 4.11	$ 1.33	$ 3.06
Diluted net (loss)/earnings per common share:					
(Loss)/earnings available to common stockholders before discontinued operations and accounting change	($4.16)	$ 4.20	$ 4.03	$ 1.28	$ 2.97
Earnings from discontinued operations, net of taxes				0.02	
Cumulative effect of accounting change, net of taxes			(0.02)		
Net (loss)/earnings available to common stockholders	($4.16)	$ 4.20	$ 4.01	$ 1.30	$ 2.97
Cash dividends declared and paid per common share	$ 0.50	$ 0.40	$ 0.40	$ 0.40	$ 0.40
Balance sheet data:					
Total assets	$ 3,625.6	$ 4,061.7	$ 3,830.5	$ 3,861.5	$ 2,254.8
Long-term debt	$ 806.4	$ 705.3	$ 900.4	$ 1,225.5	$ 300.1

(1) Includes a pre-tax charge of $5.6 ($3.6 after-tax) for incremental accelerated depreciation related to our planned exit of Radcure manufacturing at our leased facility in Pampa, Texas, a pre-tax goodwill impairment charge of $385.0 ($358.3 after-tax), and $14.9 ($10.4 after-tax) for additional restructuring costs primarily associated with various organizational restructuring initiatives across the Specialty Chemicals segments.

(2) In addition to items in Note (1) above, includes a pre-tax gain of $6.1 ($4.0 after-tax) for a legal settlement and an income tax benefit of $2.6 related to a favorable tax development related to the sale of the water treatment business in 2007.

(3)

Includes a pre-tax restructuring charge of $6.2 ($5.0 after-tax) for restructuring initiatives and a pre-tax gain of $13.6 ($13.3 after-tax) for the sale of certain product lines.

(4) In addition to the items in Note (3) above, includes $6.3 related to various income tax rate changes in various jurisdictions.

(5) Includes pre-tax restructuring charges of $19.3 ($16.1 after-tax) primarily related to plant closures, pre-tax impairment charges of $29.3 ($24.6 after-tax) related to two unprofitable manufacturing sites in Europe, a pre-tax charge of $2.6 ($1.9 after-tax) related to a change in employee benefit plans in the U.K., a pre-tax charge of $2.2 ($1.6 after-tax) related to a contingent liability study update, pre-tax integration costs of $1.7 ($1.3 after-tax) related to the Surface Specialties acquisition and a pre-tax gain of $75.5 ($59.6 after-tax) for the sale of certain product lines.

(6) In addition to the items in Note (5) above, includes a pre-tax $15.7 ($12.4 after-tax) gain related to resolution of a legal dispute and an income tax benefit of $3.5 related to the completion of prior years tax audits, partially offset by a $1.7 tax charge related to a taxable capital reduction at our Thailand subsidiary.

(7) 2006 cumulative effect of accounting change represents the cumulative effect of adopting SFAS No. 123(R). Pre-tax expenses resulting from the application of SFAS No. 123(R) included in Earnings from Operations were $9.1, $11.6, and $10.4 in 2008, 2007, and 2006, respectively.

(8) Includes a non-deductible charge of $37.0 for the write-off of acquired in-process research and development, a pre-tax charge of $20.8 ($15.4 after-tax) resulting from the amortization of the write-up to fair value of acquired inventory, pre-tax restructuring charges of $16.8 ($12.4 after-tax) and pre-tax integration costs of $0.2 ($0.1 after-tax).

(9) In addition to the items in Note (8) above, includes pre-tax charges of $44.2 ($28.1 after-tax) related to derivative contracts entered into to hedge currency and interest rate exposure associated with the purchase of Surface Specialties, $22.0 ($14.0 after-tax) of interest charges and unamortized put premiums and rate lock agreements related to the redemption of the Mandatory Par Put Remarketed Securities (MOPPRS) and $28.3 representing the favorable resolution of several prior year tax matters.

(10) Includes a pre-tax charge of $8.0 ($6.2 after-tax) for various litigation matters.

(11) In addition to the item in Note (10) above, includes a pre-tax charge of $6.2 ($4.8 after-tax) relating to the settlement of several environmental and toxic tort lawsuits, a pre-tax charge of $2.0 (after-tax $1.6) relating to the settlement of disputed matters with the former holder of our Series C Preferred Stock, a tax credit of $2.4 resulting from the favorable outcome of a completed international tax audit and a pre-tax gain of $26.8 (after-tax $17.1) resulting from derivative transactions related to the acquisition of Surface Specialties.

(12) Represents a charge to net earnings available to common stockholders resulting from the redemption of our Series C Preferred Stock.

Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements contained in Item 8 herein. It is assumed that the reader is familiar with the description of our business and risk factors contained in Part I of this report. Currency amounts are in millions, except per share amounts. Percentages are approximate.

GENERAL

We are a global specialty chemicals and materials company and sell our products to diverse major markets for aerospace, adhesives, automotive and industrial coatings, chemical intermediates, inks, mining and plastics. Sales price and volume by region and the impact of exchange rates on our reporting segments are important measures that are analyzed by management and are provided in our segment analysis.

In the course of our ongoing operations, a number of strategic product line acquisitions and dispositions have been made. The results of operations of the acquired businesses have been included in our consolidated results from the dates of the respective acquisitions. On October 2, 2006, we completed the initial closing on the sale of our water treatment chemicals and acrylamide product lines for $208.0. The second and the last phase of the closings were completed during 2007. A further discussion of this disposition can be found in Note 2 to the Consolidated Financial Statements contained herein. On February 5, 2005, we completed the acquisition of the Surface Specialties business (Surface Specialties) of UCB SA (UCB) for cash and stock valued at $1.8 billion. This acquisition complemented our existing product offerings to the coating industry including the general industrial automotive, architectural, plastic ink and wood sectors.

We report net sales in four geographic regions: North America, Latin America, Asia/Pacific and Europe/Middle East/Africa. The destination of the sale determines the region under which it is reported consistent with management s view of the business. North America consists of the United States and Canada. Latin America includes Mexico, Central America, South America and the Caribbean Islands. Asia/Pacific is comprised of Asia, Australia and the islands of the South Pacific Rim.

Raw material cost changes year on year are an important factor in profitability especially in years of high volatility. Global oil and natural gas costs in certain countries are highly volatile and many of our raw materials are derived from these two commodities. Discussion of the year to year impact of raw materials and energy is provided in our segment discussion. In addition, higher global demand levels and, occasionally, operating difficulties at suppliers, have limited the availability of certain of our raw materials.

On January 1, 2008, we adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements , (SFAS 157) for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. For further details see Notes 1 and 6 to the Consolidated Financial Statements.

On January 1, 2007, we adopted FSP AUG AIR-1 retroactively and accordingly, prior financial statements have been restated. For further details see Note 1 to the Consolidated Financial Statements.

On January 1, 2007, we adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, Accounting for Income Taxes (FIN 48). For further details see Notes 1 and 12 to the Consolidated Financial Statements.

On January 1, 2006, we adopted SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R). For further details see Notes 1 and 4 to the Consolidated Financial Statements.

The downturn in the global economy during the fourth quarter of 2008 has led to a dramatic reduction in demand for our products across many of our industrial markets, which resulted in a significant decrease in earnings in the fourth quarter of 2008. We do not expect to see a short-term turnaround in the economy and as a result, we are taking proactive measures to reduce costs and improve cash management. We are exploring actions to reduce our costs including consolidation of manufacturing facilities, reduction of excess labor, and migration to regional shared

services. While these plans are not finalized, we estimate that these initiatives will result in up to $140.0 in restructuring charges in 2009. These actions are targeted to achieve $90.0 of annualized

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cost savings starting in 2010. In addition, we are focusing on working capital management with the objective of achieving sustainable improvement in our investment in net working capital. We expect these measures will generate approximately $200.0 of additional cash flow in 2009.

RESULTS OF OPERATIONS

The following table sets forth the percentage relationship that certain items in our Consolidated Statements of Income bear to net sales:

Years Ended December 31,	2008	2007	2006
Net sales	100.0%	100.0%	100.0%
Manufacturing cost of sales	80.0	78.6	80.2
Gross profit	20.0	21.4	19.8
Selling and technical services	6.3	6.1	6.5
Research and process development	2.2	2.2	2.2
Administrative and general	3.1	3.2	3.1
Amortization of acquisition intangibles	1.1	1.1	1.1
Gain on sale of assets		0.4	2.3
Goodwill impairment charge	10.6		
(Loss)/earnings from operations	(3.3)	9.2	9.2
Net (loss)/earnings available to common stockholders	(5.5)	5.9	5.9

NET SALES BY SEGMENT AND GEOGRAPHIC AREA

Net Sales	North America	Latin America	Asia/ Pacific	Europe/ Middle East/ Africa	Total
2008					
Cytec Surface Specialties	$ 336.8	$ 73.4	$ 303.3	$ 924.2	$ 1,637.7
Cytec Performance Chemicals	258.1	132.5	133.0	218.7	742.3
Cytec Engineered Materials	455.2	1.3	59.7	232.0	748.2
Building Block Chemicals	364.5	5.8	12.9	128.5	511.7
Total	$ 1,414.6	$ 213.0	$ 508.9	$ 1,503.4	$ 3,639.9
2007					
Cytec Surface Specialties	$ 347.5	$ 72.7	$ 284.5	$ 935.7	$ 1,640.4
Cytec Performance Chemicals	262.6	132.6	130.3	210.9	736.4
Cytec Engineered Materials	418.5	1.1	51.9	198.3	669.8
Building Block Chemicals	246.1	3.7	31.8	175.6	457.2
Total	$ 1,274.7	$ 210.1	$ 498.5	$ 1,520.5	$ 3,503.8
2006					
Cytec Surface Specialties	$ 366.7	$ 60.3	$ 260.6	$ 835.8	$ 1,523.4
Cytec Performance Chemicals	324.1	128.8	127.9	284.3	865.1
Cytec Engineered Materials	378.2	1.2	44.7	177.7	601.8
Building Block Chemicals	177.6	4.7	26.9	130.0	339.2

Total	$ 1,246.6	$ 195.0	$ 460.1	$ 1,427.8	$ 3,329.5

Net sales in the United States were $1,322.1, $1,188.6, and $1,162.2, or 36%, 34% and 35% of total net sales for 2008, 2007 and 2006, respectively. International net sales were $2,317.8, $2,315.2, and $2,167.3, or 64%, 66% and 65% of total net sales, for 2008, 2007 and 2006, respectively.

For more information on our segments, refer to Note 16 of the Notes to Consolidated Financial Statements and further discussions in Segment Results below.

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YEAR ENDED DECEMBER 31, 2008, COMPARED WITH YEAR ENDED DECEMBER 31, 2007

Consolidated Results

Net sales for 2008 were $3,639.9 compared with $3,503.8 for 2007. Overall, sales were up 4% with price increases of 7% and favorable exchange impact of 3%, which were partially offset by lower volumes of 6%. In the Cytec Surface Specialties segment, sales were flat as changes in exchange rates and higher selling prices increased sales 9% but were offset by lower selling volumes. The Cytec Performance Chemicals segment sales increased 1% due to higher selling prices and changes in exchange rates partially offset by lower selling volumes partially due to the completion of a resale agreement related to the sale of the water treating chemicals product line in the prior year period. In the Cytec Engineered Materials segment, sales increased 12% primarily due to higher selling volumes and prices. Building Block Chemicals segment sales were up 12% primarily due to higher selling prices which were partially offset by lower volumes.

For a detailed discussion on revenues refer to the Segment Results section below.

Manufacturing cost of sales was $2,912.7 (80.0% of net sales) compared with $2,752.9 (78.6% of net sales) for 2007. The $159.8 increase in manufacturing costs, or 1.4% increase in manufacturing cost as a percent of sales, is primarily due to $213.2 of higher raw material prices, $90.9 due to changes in exchange rates, and $26.3 related to higher fixed costs due to inflationary increases. These increases were partially offset by $161.8 of lower costs related to lower selling volumes. Manufacturing cost of sales for 2008 includes $5.6 of incremental accelerated depreciation on assets at our Pampa, Texas site that we have decided to exit and consolidate production. Included in 2008 was $5.6 of pre-tax restructuring charges primarily related to various organization restructuring initiatives across both Specialty Chemical segments and our manufacturing sites in West Virginia and Connecticut. Included in 2007 were pre-tax charges of $5.7 primarily related to restructuring of manufacturing sites in France, West Virginia, and Connecticut. See Note 3 to the Consolidated Financial Statements for additional detail.

Pension and other post employment benefits expense was $21.0 for 2008 versus $30.7 in 2007. The $9.7 decrease from 2007 is primarily related to the change from a defined benefit plan to a defined contribution plan for our U.S. salaried employees effective December 31, 2007. This decline was largely offset by an $8.3 increase in costs of our defined contribution plans. Pension and other post employment benefit expense is reported in the expense category that it relates to, which is primarily in manufacturing cost of sales. We expect pension and other post employment benefit expenses to be higher in 2009 due to the amortization of investment losses experienced during 2008 on our pension equity investments and a lower discount rate. For a detailed discussion on employee benefit plans, see Note 13 to the Consolidated Financial Statements.

Selling and technical services was $230.1 in 2008 versus $212.8 in the prior year. The increase of $17.3 was primarily due to exchange rate changes of $6.3, increased spending in our Cytec Engineered Materials segment of $5.7 primarily related to higher personnel costs and a restructuring charge of $6.6.

Research and process development was $81.6 in 2008 versus $75.7 in the prior year. The increase was primarily related to changes in exchange rates of $2.1, higher spending in the Cytec Engineered Materials segment of $3.2, and a restructuring charge of $1.6.

Administrative and general expenses were $112.0 in 2008 versus $113.2 in the prior year. The decrease in 2008 was primarily attributable to lower incentive compensation of $4.7, offset by exchange rate changes of $3.1 and restructuring charges of $1.1.

Amortization of acquisition intangibles was $39.6 in 2008 versus $38.7 in the prior year. This increase was primarily attributable to changes in exchange rates of $1.8.

Gain on the sale of assets held for sale of $13.6 in 2007 was attributable to the phase two and three closings of the water treatment and acrylamide product lines. See Note 2 of the Consolidated Financial Statements for further information.

Goodwill impairment charge of $385.0 in 2008 is related to our Surface Specialties segment which resulted from the adverse impact that current macroeconomic conditions had on forecasted volume growth and thus reduced profitability of certain product lines. For further details see Note 9 to the Consolidated Financial Statements.

Other income (expense), net was income of $1.5 in 2008 compared with expense of ($0.4) in the prior year. Included in 2008 is a pre-tax gain of $6.1 related to a legal settlement for our Engineered Materials segment and a gain on sale of real estate of $3.9, partially offset by environmental reserve adjustments of $2.2, increased legal spending of $1.0, supplemental savings plan adjustments of $3.1, and unrealized losses on cross currency swaps of $1.5.

Included in 2008 is a gain on the early extinguishment of debt of $1.9 as we repurchased a portion of our 4.6% notes due July 1, 2013 with a carrying value of $11.2 (including accrued interest) at a purchase price of $9.3.

Equity in earnings of associated companies was $1.5 in 2008 versus $1.4 in the prior year.

Interest expense, net was $35.2 in 2008 compared with $41.9 in the prior year. The decrease resulted primarily from lower average outstanding debt balances and lower cost of borrowing versus 2007.

The effective income tax rate for 2008 was a tax provision of -31.3% ($47.4) compared to a tax provision of 27.1% ($76.7) for 2007. The 2008 effective tax rate was unfavorably impacted by a shift in our earnings to higher tax jurisdictions, and the portion of the goodwill impairment charge for which no tax benefit was given. The rate was favorably affected primarily by a $2.6 tax benefit recorded due to a favorable audit resolution regarding an international subsidiary. The underlying estimated annual tax rate for the year ended December 31, 2008 was 31.7% (excluding accrued interest on unrecognized tax benefits), with an underlying tax rate of 32.0% including such interest.

On October 3, 2008, the U.S. Government signed into law the Emergency Economic Stabilization Act of 2008 (Division A), the Energy Improvement and Extension Act of 2008 (Division B), and the Tax Extenders and Alternative Minimum Tax Relief Act of 2008 (Division C) (collectively the Act). The Act reinstated the U.S. research and development tax credit retroactively to January 1, 2008. We included the full year benefit of the U.S. research and development tax credit in our 2008 tax provision during the fourth quarter of 2008.

The 2007 effective tax rate was unfavorably impacted by a shift in our earnings to higher tax jurisdictions, changes in U.S. tax laws regarding export incentives, and a French restructuring charge for which no tax benefit was given due to the unlikely utilization of related net operating losses. The rate was favorably affected by the relatively low tax expense of $0.3 with respect to the $13.6 gain recorded on the water business divestiture, U.S. manufacturing incentives and a net tax benefit of $6.3 to primarily adjust our deferred taxes for recently enacted tax legislation that lowered the corporate income tax rate in a number of jurisdictions beginning in 2008. The underlying estimated annual tax rate for the year ended December 31, 2007 was 29.3% (excluding accrued interest on unrecognized tax benefits), with an underlying rate of approximately 30.3% including such interest.

Net loss for 2008 was $198.8 ($4.16 loss per diluted share) compared with net earnings of $206.5 ($4.20 earnings per diluted share) in 2007. Included in 2008 results were an after-tax goodwill impairment charge of $358.3 ($7.50 per diluted share) in our Surface Specialties segment and an after-tax $10.4 ($0.22 per diluted share) restructuring charge for various organizational restructuring initiatives across both Surface Specialties and Performance Chemical segments and restructuring costs at our Performance Chemicals manufacturing facility in West Virginia and Surface Specialties manufacturing facilities in Connecticut and France. Included in our 2008 results was an after-tax $3.6 ($0.08 per diluted share) charge related to incremental accelerated depreciation on our Pampa, Texas Surface Specialties manufacturing site that we have decided to exit and relocate the manufacturing to one of our other existing facilities. Our 2008 results also include an after-tax $4.0 ($0.08 per diluted share) gain from a legal settlement related to our Cytec Engineered Materials segment and an income tax benefit of $2.6 ($0.05 per diluted share) related to a favorable tax development on the sale of the water treatment business in 2007.

Included in 2007 results were an after-tax gain of $13.3 ($0.27 per diluted share) on the sale of the water treatment chemicals product line to Kemira, a $6.3 benefit for tax adjustments primarily related to tax rate changes in various jurisdictions ($0.13 per diluted share) and net after-tax restructuring charges of $5.0 ($0.10 per diluted share).

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Segment Results (Sales to external customers)

Year-to-year comparisons and analyses of changes in net sales by segment and region are set forth below:

Cytec Surface Specialties

				% Change Due to		
	2008	2007	Total % Change	Price	Volume/Mix	Currency
North America	$ 336.8	$ 347.5	-3%	6%	-9%	
Latin America	73.4	72.7	1%	3%	-7%	5%
Asia/Pacific	303.3	284.5	7%	4%	-5%	8%
Europe/Middle East/Africa	924.2	935.7	-1%		-10%	9%
Total	$ 1,637.7	$ 1,640.4		2%	-9%	7%

Overall selling volumes decreased 9% reflecting lower volumes across all regions due to the global recession and depressed demand in industrial coatings markets, particularly automotive and construction, which affected all product lines. Overall selling prices were up 2% with increases in all product lines except powders which were flat primarily due to price competition and lower demand. Changes in exchange rates increased sales by 7%.

Loss from operations was $340.2 or -21% of sales, compared with earnings from operations of $99.7, or 6% of sales in 2007. The operating loss includes a goodwill impairment charge of $385.0. See Note 9 of the Consolidated Financial Statements for additional details on goodwill impairment. Excluding the goodwill impairment charge, earnings from operations were $44.8 and positively impacted primarily by increases in selling prices of $33.4, $13.6 from changes in exchange rates, and $0.8 due to higher fixed cost absorption into inventory due to the lower demand. These positive impacts were more than offset principally by the negative impacts of $59.2 due to lower selling volumes, $36.5 for higher raw material costs, $1.1 due to higher manufacturing costs primarily related to freight costs and $0.7 due to higher operating costs due to bad debt expense partially offset by overall expense control. Earnings were also negatively impacted in 2008 by $5.6 in incremental accelerated depreciation on assets at our Pampa, Texas site that we have decided to exit and consolidate production.

Cytec Performance Chemicals

				% Change Due to		
	2008	2007	Total % Change	Price	Volume/Mix	Currency
North America	$ 258.1	$ 262.6	-2%	5%	-7%	
Latin America	132.5	132.6		9%	-10%	1%
Asia/Pacific	133.0	130.3	2%	7%	-7%	2%
Europe/Middle East/Africa	218.7	210.9	4%	4%	-7%	7%
Total	$ 742.3	$ 736.4	1%	6%	-8%	3%

Overall selling volumes decreased 8% reflecting lower volumes across all regions mostly due to global economic weakness experienced in the fourth quarter and partially due to the completion of a resale agreement related to the sale of the water treating chemicals product line in the prior year. Selling volumes were down across all product lines except mining chemicals which were essentially flat. Overall selling prices increased 6% with increases across all product lines and regions. Changes in exchange rates increased sales by 3%.

Earnings from operations were $77.9, or 11% of sales in 2008, up from $71.1 or 10% of sales in 2007. Earnings were positively impacted primarily by $43.7 of higher selling prices, $6.3 from changes in exchange rates and $2.9 due to higher fixed cost absorption into inventory due to the lower demand. Earnings were negatively impacted primarily by $32.7 due to higher raw material costs and $13.4 due to lower volumes across all product lines.

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Cytec Engineered Materials

				% Change Due to		
	2008	2007	Total % Change	Price	Volume/Mix	Currency
North America	$ 455.2	$ 418.5	9%	3%	6%	
Latin America(1)	1.3	1.1	18%			
Asia/Pacific	59.7	51.9	15%	1%	14%	
Europe/Middle East/Africa	232.0	198.3	17%	4%	14%	-1%
Total	$ 748.2	$ 669.8	12%	3%	9%	

(1) Due to the level of sales in this geographic region, percentage comparisons are not meaningful.

Overall sales increased 12%. Selling volumes increased 9% primarily from higher volumes to the business/regional jet and rotorcraft and commercial transport market sectors due to build-rate increases. Net selling prices increased 3% due to price increases across most market sectors and regions.

Earnings from operations were $154.7, or 21% of sales in 2008, up from $132.3, or 20% of sales in 2007. The $22.4 increase in earnings included $33.6 due to higher selling volumes, $18.6 due to higher selling prices, and $6.6 due to increased fixed cost absorption into inventory as a result of lower demand. Earnings were adversely impacted by $21.0 higher manufacturing costs primarily related to the higher production volumes, $7.6 due to higher operating expenses of which approximately $6.0 related to increased investments in research and development and technical service costs, $6.7 due to higher raw material costs, and $1.1 due to changes in exchange rates.

Building Block Chemicals

				% Change Due to		
	2008	2007	Total % Change	Price	Volume/Mix	Currency
North America	$ 364.5	$ 246.1	48%	48%		
Latin America(1)	5.8	3.7				
Asia/Pacific	12.9	31.8	-59%	5%	-64%	
Europe/Middle East/Africa	128.5	175.6	-27%	10%	-37%	
Total	$ 511.7	$ 457.2	12%	31%	-19%	

(1) Due to the level of sales in this geographic region, percentage comparisons are not meaningful.

Overall sales were up 12%. Selling volumes were down 19% primarily due to lower volumes of acrylonitrile. Demand destruction occurred for acrylic fibers primarily in Asia and Europe due to high costs for acrylonitrile in 2008. Overall selling prices increased 31% to offset higher raw material price increases across all product lines.

Earnings from operations were $4.7, or 1% of sales in 2008, down from $23.8, or 5% of sales in 2007. Earnings were positively impacted by a $140.4 increase in selling prices and $9.8 of higher fixed cost absorption into inventory due to higher production than demand primarily in the acrylonitrile product line. Earnings in 2008 were negatively impacted $137.2 due to higher raw material costs, $24.1 related to lower selling volumes, and $8.7 of higher manufacturing costs of which $6.0 was related to lower acid regeneration operations.

YEAR ENDED DECEMBER 31, 2007, COMPARED WITH YEAR ENDED DECEMBER 31, 2006

Consolidated Results

Net sales for 2007 were $3,503.8 compared with $3,329.5 for 2006, up 5%, of which the divestiture of the water treatment chemicals and acrylamide product lines decreased sales 6%. Excluding the reduction due to these divestitures, sales were up 4% due to volume, 4% up due to price, and up 3% due to changes in exchange rates. Cytec Performance Chemicals selling volumes were down 17% attributable to the divestiture of the water treating chemicals product line. Excluding the divestiture, selling volumes and prices were flat and changes in exchange rates increased sales 2%. Cytec Surface Specialties selling volumes decreased 3% while selling prices increased sales 5% and changes in exchange rates increased sales 6%. Cytec Engineered Materials selling volumes increased 9% and selling prices increased 2%. Building Block Chemicals overall sales volumes were

up 24% and selling prices were up 11%. Building Block Chemical sales volume declined 15% due to the divestiture of the acrylamide product line which was more than offset by a 23% increase in selling volumes of acrylonitrile to the purchaser of the divested product line.

For a detailed discussion on revenues refer to the Segment Results section below.

Manufacturing cost of sales was $2,752.9 (78.6% of net sales) compared with $2,669.6 (80.2% of net sales) for 2006. The $83.3 increase was primarily due to $112.5 of costs related to higher selling volumes, $93.0 related to higher raw material costs, and unfavorable currency exchange of $88.1. These were partially offset by a reduction in manufacturing cost of sales of $168.1 due to the divestiture of the water treatment chemicals and acrylamide product lines and benefits related to the various restructuring initiatives and the shutdown of an unprofitable manufacturing facility in Dijon, France. Also included in 2007 and 2006 manufacturing cost of sales were pre-tax costs of $5.7 and $47.6, respectively, related to restructuring, asset impairment, and pension curtailment/settlement costs. See Restructuring Activities section below and Note 3 to the consolidated financial statements for additional detail of the net restructuring and impairment charges.

Pension and other post employment benefits expense was $30.7 for 2007 versus $55.0 in 2006. The $24.3 decrease from 2006 is primarily related to lower costs due to the divestiture of the water treatment chemicals and acrylamide product lines as well as 2006 included an additional $9.2 of pension curtailments and plan settlements primarily related to European defined benefit pension plans. Pension and other post employment benefit expense is reported in the expense category that it relates to, which is primarily in manufacturing cost of sales. For a detailed discussion on employee benefit plans, see Note 13 to the consolidated financial statements.

Selling and technical services was $212.8 in 2007 versus $215.4 in 2006. The decrease of $2.6 was primarily due to lower costs of $15.2 due to the divestiture of the water treatment chemicals and acrylamide product lines partially offset by increases primarily due to exchange rate changes of $8.0 and increased spending principally to support future growth programs. Included in 2006 are net restructuring charges of $1.1 and a benefit plan curtailment charge as described above of $0.4.

Research and process development was $75.7 in 2007 versus $73.9 in 2006. The increase was primarily related to changes in exchange rates of $2.6 and increased spending principally to support future growth programs. Partially offsetting this was a reduction in costs due to divestiture of the water treatment chemicals and acrylamide product lines of $3.7. Also included in 2006 are restructuring charges of $1.0.

Administrative and general expenses were $113.2 in 2007 versus $102.9 in 2006. The increase in 2007 was primarily attributable to changes in exchange rates of $4.1, and higher compensation expenses and higher professional services expenses. Included in 2006 are integration expenses of $1.4 associated with the transition from UCB s information technology system infrastructure, a benefit plan curtailment charge of $0.2 as described above and restructuring charges of $1.8.

Amortization of acquisition intangibles was $38.7 in 2007 versus $37.8 in 2006. This increase was primarily attributable to changes in exchange rates of $1.8. Included in 2006 is a write-off of $1.4 related to impaired intangibles related to an unprofitable product line manufactured in Europe.

Gain on the sale of assets was $13.6 in 2007 compared to $75.5 in 2006 and amounts in both years are related to the divestiture of the water treatment and acrylamide product lines. See Note 2 of the Consolidated Financial Statements for further information.

Other income (expense), net was expense of ($0.4) in 2007 compared with income of $12.7 in 2006. Included in 2006 is a gain of $15.7 in connection with proceeds collected in an arbitration award in settlement of the commercial dispute as discussed in Note 11 of the Consolidated Financial Statements.

Equity in earnings of associated companies was $1.4 in 2007 versus $3.2 in 2006. The decline is attributable to the lower sales at our associated company.

Interest expense, net was $41.9 in 2007 compared with $55.5 in 2006. The decrease is primarily due to the lower average debt levels in 2007.

The effective income tax rate for 2007 was a tax provision of 27.1% ($76.7) compared to a tax provision of 26.1% ($69.4) for 2006. The 2007 effective tax rate was unfavorably impacted by a shift in our earnings to higher tax jurisdictions, changes in U.S. tax laws regarding export incentives, and a French restructuring charge for which no tax benefit was given due to the unlikely utilization of related net operating losses. The rate was favorably affected by the relatively low tax expense of $0.3 with respect to the $13.6 gain recorded on the water business divestiture, U.S. manufacturing incentives and a net tax benefit of $6.3 to primarily adjust our deferred taxes for recently enacted tax legislation that lowered the corporate income tax rate in a number of

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jurisdictions beginning in 2008. Excluding these items and accrued interest from uncertain tax positions, the underlying estimated annual tax rate for the year ended December 31, 2007 was 29.3%, with an underlying rate of approximately 30.3% including such interest.

The 2006 effective tax rate was positively impacted by an arbitration award in settlement of a commercial dispute, a portion of which was recorded in a lower tax entity resulting in an effective rate of 20.0%, the gain on the divestiture of the water treatment and acrylamide product lines recorded at a 21.0% rate, and a reduction in tax expense of $3.5 as a result of the completion of prior years U.S. tax audits. The rate was also favorably impacted by the change in statutory tax rates with respect to deferred tax assets and liabilities recorded in certain countries. These results were partially offset by a reduction of earnings of divested product lines in lower tax jurisdictions, the zero tax benefit on a French restructuring charge due to insufficient earnings to realize its net deferred tax asset, a tax benefit from a restructuring charge recorded at 29.6% and a $1.7 tax charge associated with a capital reduction with respect to a foreign subsidiary. In 2006 a tax benefit of $0.7 was allocated to the cumulative effect of accounting change. Excluding these items, the underlying annual tax rate for 2006 was 26.8%.

Net earnings for 2007 were $206.5 ($4.20 per diluted share) compared with net earnings of $195.2 ($4.01 per diluted share) in 2006. Included in 2007 results were an after-tax gain of $13.3 ($0.27 per diluted share) on the sale of the water treatment chemicals product line to Kemira, a $6.3 benefit for tax adjustments primarily related to tax rate changes in various jurisdictions ($0.13 per diluted share) and net after-tax restructuring charges of $5.0 ($0.10 per diluted share). The improvement in net earnings is primarily related to the net effect of the aforementioned items, higher selling volumes, and increased selling prices partially offset by higher raw materials, higher operating expenses as discussed above, and a smaller gain on the product line divestiture as compared to 2006.

Included in the 2006 results are an after-tax gain of $59.6 ($1.23 per diluted share) related to the first phase of the sale of the water treatment and acrylamide product lines, after-tax net restructuring and impairment charges of $40.6 ($0.84 per diluted share), an after-tax charge of $1.6 ($0.03 per diluted share) related to completion of a detailed update of our asbestos contingent liability, net of insurance recoveries, after-tax costs of $1.3 ($0.03 per diluted share) related to Surface Specialties integration, an after-tax gain of $12.4 ($0.26 per diluted share) related to a favorable resolution of a legal dispute, an after-tax charge of $1.9 ($0.04 per diluted share) related to a change in employee benefit plans in the U.K., and the cumulative effect of an accounting change after-tax charge of $1.2 ($0.02 per diluted share) related to the adoption of SFAS 123R.

Segment Results (Sales to external customers)

Year-to-year comparisons and analyses of changes in net sales by segment and region are set forth below.

Cytec Surface Specialties

				% Change Due to		
	2007	**2006**	**Total % Change**	**Price**	**Volume/Mix**	**Currency**
North America	$ 347.5	$ 366.7	-5%	3%	-8%	
Latin America	72.7	60.3	20%		15%	5%
Asia/Pacific	284.5	260.6	9%	5%	2%	2%
Europe/Middle East/Africa	935.7	835.8	12%	6%	-3%	9%
Total	$ 1,640.4	$ 1,523.4	8%	5%	-3%	6%

Overall selling volumes decreased 3% primarily due to weak demand across most product lines in North America and price competition in liquid coating resins as well as the impact of discontinuing certain unprofitable solventborne production in Europe. Volumes increased in Asia/Pacific due to strong demand for liquid coating resins and Radcure resins partially offset by lower powder coating resins where we gave up low profit business. In Latin America volumes were up across all product lines principally due to improved demand. Overall selling prices increased 5%. Selling prices for liquid coating and powder coating resins were higher in all regions while Radcure prices were up in Europe and Asia/Pacific but down in North America and Latin America.

Earnings from operations were $99.7, or 6% of sales, compared with earnings from operations of $95.5, or 6% of sales in 2006. The $4.2 increase in earnings is primarily attributable to higher selling prices of $73.8 and changes in exchange rates with a favorable impact of approximately $4.6. These were partially offset by higher raw material costs of $46.9, lower selling volumes of $15.8, and higher manufacturing and operating expenses of $12.0.

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Cytec Performance Chemicals

				% Change Due to			
	2007	2006	Total % Change	Price	Volume/Mix	Acquisition/ Divestiture	Currency
North America	$ 262.6	$ 324.1	-19%	1%	-4%	-16%	
Latin America	132.6	128.8	3%	-1%	7%	-4%	1%
Asia/Pacific	130.3	127.9	2%		5%	-5%	2%
Europe/Middle East/Africa	210.9	284.3	-26%	1%		-31%	5%
Total	$ 736.4	$ 865.1	-15%			-17%	2%

Excluding the divestiture of the water treating chemicals product line, volumes were flat due to increases in the mining chemicals as a result of new business and general market growth offset by decreases in specialty additives, phosphines and specialty urethanes. On a regional basis, North America sales volumes declined across all product lines primarily due to weaker market demand while the sales volume increase in Latin America was primarily attributable to the mining chemicals product line as a result of increased demand. The Asia/Pacific volume increase is primarily due to higher demand levels for mining chemicals and the specialty additives product lines.

Earnings from operations were $71.1, or 10% of sales, compared with $68.4 or 8% of sales in 2006. The $2.7 increase in earnings is primarily attributable to slightly higher selling prices of $2.6, favorable volume/mix of approximately $7.9 due to higher sales of more profitable product lines, favorable changes in exchange rates of $4.3 and cost reduction of $10.0 primarily due to savings from restructuring activities. These were partially offset by higher raw material costs of approximately $14.4, higher operating costs of $5.0, and the loss of $2.7 of profitability associated with the divested water treatment product line.

Cytec Engineered Materials

				% Change Due to		
	2007	2006	Total % Change	Price	Volume/Mix	Currency
North America	$ 418.5	$ 378.2	11%	3%	8%	
Latin America(1)	1.1	1.2				
Asia/Pacific	51.9	44.7	16%	1%	15%	
Europe/Middle East/Africa	198.3	177.7	12%	1%	8%	3%
Total	$ 669.8	$ 601.8	11%	2%	9%	

(1) Due to the level of sales in this geographic region, percentage comparisons are not meaningful.

Overall selling volumes increased 9% primarily due to higher sales to the large commercial transport sector across most regions predominantly related to higher production levels on the existing Boeing and other aircraft programs and ramp up of the 787 program as well as higher sales to the business/regional jet sector and launch vehicle sector for the crew launch vehicle partially offset by lower sales to Airbus. The increase in Asia/Pacific sales selling volumes were primarily due to the aforementioned increases in build-rates in the large commercial aircraft sector.

Earnings from operations were $132.3, or 20% of sales, compared with $106.0, or 18% of sales, in 2006. The $26.3 increase in earnings is primarily attributable to higher volumes of $32.8 and higher selling prices of $11.5. These increases were partially offset by higher manufacturing and operating expenses of $14.9 related to the higher manufacturing volumes as well as additional spending to support future growth programs, higher raw materials of $2.6, and changes in exchange rates with an unfavorable impact of $3.1. Operating earnings in 2006 included a $2.4 charge related to the curtailment/settlement of a U.K. pension plan.

Building Block Chemicals

				% Change Due to			
	2007	2006	Total % Change	Price	Volume/Mix	Divestiture	Currency
North America	$ 246.1	$ 177.6	39%	8%	36%	-5%	
Latin America(1)	3.7	4.7					
Asia/Pacific	31.8	26.9	18%	20%		-2%	
Europe/Middle East/Africa	175.6	130.0	35%	14%	50%	-29%	
Total	$ 457.2	$ 339.2	35%	11%	39%	-15%	

(1) Due to the level of sales in this geographic region, percentage comparisons are not meaningful.

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Overall sales volumes were up 24%. Sales volume declined 15% due to the divestiture of the acrylamide product line which was more than offset by a 23% increase in selling volumes of acrylonitrile to the purchaser of the divested product line. Acrylonitrile is the key raw material to make acrylamide and prior to the divestiture our internal uses of acrylonitrile to make acrylamide were treated as internal transfers. Sales volumes were also up another 16% primarily due to increased capacity available following our takeover of the melamine manufacturing facility in August 2006, which previously was a 50-50 joint venture with a third party and higher demand levels for acrylonitrile. Sales volumes were up in all regions except Asia/Pacific where they were flat. Acrylonitrile volumes were up in 2007 as some shipments in late December 2006 were delayed to 2007 due to weather conditions in the Gulf Coast of the U.S. as well as the acrylonitrile manufacturing facility shutdown in 2006 due to a scheduled maintenance turnaround. Overall selling prices were up 11% with higher prices in acrylonitrile and melamine. Prices were up in all regions as they trended with increases in the raw material prices and higher demand.

Earnings from operations were $23.8, or 5% of sales, compared with $19.8, or 6% of sales, in 2006. The $4.0 increase in earnings is primarily attributable to selling price increases of $36.7 and a $37.0 positive impact from higher selling volumes of acrylonitrile and melamine. These were partially offset by lower earnings of $9.3 due to the divestiture of the acrylamide product line, $29.1 of higher raw material costs as well as $32.0 of higher manufacturing costs related to the higher volumes and acquiring 100% of the melamine manufacturing facility discussed above.

RESTRUCTURING ACTIVITIES

In accordance with our accounting policy, restructuring costs are included in our corporate unallocated operating results for segment reporting purposes consistent with management s view of its businesses.

In 2008, we recorded total net restructuring charges of $14.9 ($10.4 after-tax), which were charged to expense as follows: manufacturing cost of sales of $5.6, selling and technical services of $6.6, administrative and general expenses of $1.1, and research and development of $1.6. The $14.9 in net restructuring charges is comprised of $11.1, $3.0, and $0.8 for 2008, 2007 and 2006 restructuring initiatives, respectively, as described below.

In 2007, we recorded total net restructuring charges of $6.2 ($5.0 after-tax), which were charged to expense as follows: manufacturing cost of sales $5.7, and administrative and general of $0.5. The $6.2 in net restructuring charges is comprised of $4.0, $2.4, and ($0.2) for 2007, 2006 and 2005 restructuring initiatives, respectively.

In 2006, we recorded net restructuring charges of $19.3 ($16.1 after-tax) and impairment charges of $29.3 ($24.6 after-tax) in connection with several restructuring initiatives. In the aggregate these costs were charged to expense as follows: manufacturing cost of sales $43.3, selling and technical services $1.1, administrative and general $1.8, research and process development $1.0, and amortization of acquisition intangibles $1.4. The $48.6 in net restructuring and impairment charges are comprised of $51.1 and ($2.5) for 2006 and 2005 restructuring initiatives, respectively.

Details of 2008 restructuring initiatives are as follows:

During the fourth quarter of 2008, in an effort to align our cost structure to the changing and challenging demand environment, we decided to restructure certain activities in our Surface Specialties segment, resulting in the elimination of 31 positions. The restructuring charge of $4.6 for the three and twelve months ended December 31, 2008 primarily relates to severance and was charged to expense as follows: manufacturing cost of sales of $0.7, selling and technical services of $2.9, and research and process development of $1.0. The remaining reserve at December 31, 2008 of $3.0 relating to this restructuring initiative is expected to be paid in 2009. Minimal savings from this restructuring initiative were realized in 2008 and $4.2 of annualized pre-tax savings is expected to be realized in 2009.

During the third quarter of 2008, as a cost savings and reduction initiative and to re-align our staff levels with our latest view of the global economy, we decided to restructure several areas primarily in our Surface Specialties segment, resulting in the elimination of 39 positions. The net restructuring charge of $5.2 for the twelve months ended December 31, 2008 primarily relates to severance and was charged to expense as follows: manufacturing cost of sales of $1.2, selling and technical services of $3.2, administrative and general of $0.7, and research and process development of $0.1. The remaining reserve at December 31, 2008 of $1.3 relating to this restructuring initiative is expected to be paid in 2009. Savings of $0.8 from this restructuring initiative were realized in 2008 and $4.8 of annualized pre-tax savings is expected to be realized in 2009.

During the first quarter of 2008, as a cost savings and reduction initiative, we decided to restructure several areas primarily in our Surface Specialties segment, resulting in the elimination of 13 positions. The net restructuring charge of $1.3 for the twelve months ended December 31, 2008 primarily relates to severance and was charged to expense as follows: selling and technical services of $0.5, administrative and general of $0.3, and research and process development of $0.5. The remaining reserve at December 31, 2008 of $0.1 relating to this restructuring initiative is expected to be paid in 2009. Savings of $1.3 from this restructuring initiative were realized in 2008 and $1.5 of annualized pre-tax savings is expected to be realized in 2009.

Details of 2007 restructuring initiatives are as follows:

We decided to cease manufacturing of several mature products at our Willow Island, West Virginia plant. The discontinued products were part of the polymer additives product line in our Cytec Performance Chemicals segment. As a result, we recorded a restructuring charge of $2.6 to 2007 manufacturing cost of sales primarily related to severance and other benefits earned through 2007 by the 63 employees who were retained through May 2008. This charge also included the write-off of excess raw materials and spare parts. For the twelve months ended December 2008, we recorded an additional restructuring charge of $2.9 to manufacturing cost of sales. This charge relates to the remainder of the severance and other benefits which were recorded as they were earned as well as decontamination expenses which were expensed as incurred. The remaining reserve at December 31, 2008 of $1.5 relating to this restructuring initiative is expected to be paid in 2009. Minimal savings from this restructuring initiative were realized in 2007 and $1.2 annualized pre-tax savings were realized in 2008. A cash benefit of $17.2 from working capital reductions is expected to be realized through the first quarter of 2009. These benefits are net of lost earnings due to an annual sales reduction of $31.5.

We also announced the restructuring of our liquid coating resins plant in Wallingford, Connecticut in order to exit a mature product line and consolidate and automate certain operations at the site. Liquid coating resins are part of the Cytec Surface Specialties segment. We recorded a restructuring charge of $1.4 to 2007 manufacturing cost of sales relating to severance and other benefits for 31 employees. For the twelve months ended December 2008, we recorded an additional net restructuring charge of $0.1, primarily related to the remainder of the severance and other benefits which were recorded as they were earned. The remaining reserve at December 31, 2008 of $0.5 relating to this restructuring initiative is expected to be paid in 2009. The economic benefit of this restructuring is derived from the combination of ceasing operations of one manufacturing line and supplying the volume on a consolidated operating basis. A cash benefit of $1.7 from working capital reductions is expected to be realized from this initiative, of which $1.0 and $0.2 was realized in 2007 and 2008, respectively. The remaining $0.5 is expected to be realized in the first quarter of 2009 as we delayed the exit of one of our product lines. Annualized pre-tax benefits of $4.7 were realized in 2008 as a result of this restructuring initiative. These benefits are net of lost earnings due to an annual sales reduction of $6.8.

Asset retirements resulting from the Willow Island and Wallingford projects are being recorded as they are dismantled, and are charged to the composite depreciation reserve in accordance with our accounting policy.

Details of 2006 restructuring initiatives are as follows:

Based on forecasted cash flow information, we determined that our manufacturing facility in Dijon, France and related intangible assets were impaired. This facility manufactured solventborne alkyd and solventborne acrylic based resins for our Cytec Surface Specialties segment, which are used in the coating industry for sale in the European market. These mature products were in a declining market with supplier overcapacity with severe price erosion and were generating losses. We recorded an impairment charge of $15.5 to write-down the carrying value of the manufacturing facility and related intangible assets down to zero as we did not believe the assets were saleable and the outlook for recovery of products it manufactured was not positive. Also in 2006, after the appropriate consultations with the Works Council, we decided to close the facility and commence shutdown activities. At that time, we recorded a restructuring charge of $8.4, based on estimated severance costs for eliminating 60 positions at our Dijon, France manufacturing site. In addition, we recorded a net restructuring charge of $1.5 primarily for the severance costs for eliminating 8 positions at our Indian Orchard, Massachusetts site, and 16 positions at our leased facilities in New Castle, Delaware, which operations have relocated to our new manufacturing facility in Kalamazoo, Michigan. The restructuring was charged as follows: manufacturing cost of sales $7.8, selling and technical services $0.6, research and process development $0.5, and administrative and general $1.0. No payments were made in 2006. In 2007 and 2008, the Dijon restructuring reserve was reduced by $7.7 and $2.6, respectively, for cash payments primarily related to severance and the balance is expected to be paid by the beginning of 2009. In addition, a non-cash charge of $0.3 for asset impairment at the Indian Orchard facility was charged against the reserve and all cash payments for severance of the 8 positions in Indian Orchard and 16 positions in New Castle were made in 2007 for a total of $1.3 and that portion of the reserve is now depleted. The remaining reserve at December 31, 2008 of $2.2 relating to the Dijon restructuring is expected to be paid in 2010. This initiative resulted in a reduction in annual revenues of approximately $24.0; however, net annual before tax benefits of approximately $2.9 were expected to begin in 2007 as a result of these restructuring initiatives. Savings realized in 2007 and 2008 were $2.4 and $2.9, respectively.

We recorded a restructuring charge of $22.5 in 2006 of which $13.8 related to the impairment of fixed assets in Botlek related to our polymer additives product line in our Cytec Performance Chemicals segment and the remainder related to the elimination of 38 positions. This initiative includes the cessation of manufacturing of two light stabilizer products in Botlek. Manufacture of one of these products, which had sales of approximately $12.0 in 2005, has been consolidated at our facility in West Virginia; the other product, representing 2005 sales of approximately $6.0, has been exited. The restructuring costs included estimated cash severance, reduction of prepaid pensions and retirement of fixed assets and were charged as follows: manufacturing cost of sales $22.1, and selling expense $0.4. In 2007, this restructuring reserve was reduced by $1.6 for cash payments primarily related to severance and the balance of $0.2 was paid in 2008. Annualized savings of approximately $6.5 were realized in 2007 and 2008 from this restructuring initiative.

We also recorded restructuring charges of $3.2 related to the elimination of 35 positions associated with our Cytec Specialty Chemicals segments as we continue our efforts to take advantage of synergies from the 2005 acquisition, and to mitigate continuing costs related to the 2006 divestiture of our water treatment chemicals and acrylamide product lines. The restructuring costs, which were primarily severance related, were charged to expense as follows: manufacturing cost of sales $1.3, selling and technical services $0.9, research and process development $0.5 and administrative and general $0.5. Through 2008, cash payments primarily related to severance of $3.0 were made and the remaining reserve is expected to be paid by the end of 2009. Annualized savings of approximately $5.9 were realized in 2007 and 2008 as a result of these restructuring initiatives.

See Note 3 of the Consolidated Financial Statements for a further summary of the restructuring charges.

LIQUIDITY AND FINANCIAL CONDITION

At December 31, 2008, our cash balance was $55.3 compared with $76.8 at year end 2007.

Cash flows provided by operating activities were $228.7 compared with $269.8 for 2007. Trade accounts receivable decreased $104.0 due to the lower sales partially offset by increased days outstanding. Inventory increased $70.0 primarily due to higher raw material costs principally in the Specialty Chemicals segments and higher days of inventory on hand. The inventory days was influenced primarily by a slowdown in demand in our Specialty Chemicals and Building Block Chemical segments for which our operations were not able to adjust production levels to the lower demand by the end of 2008. Other liabilities decreased $42.0 which includes pension and other postretirement benefit contributions of $50.9 partially offset by current year accruals of $21.0 and environmental remediation spending of $10.2. Accounts payable decreased $75.4 due to reduced spending as a result of lower production levels, lower raw material pricing mostly in the Building Block Chemicals segment, and cost controls leading to a reduction of costs.

Cash flows used in investing activities were $193.4 for 2008 compared with $76.1 for 2007. In 2007, we received $38.7 related to the divestiture of our water treatment and acrylamide product lines. Capital spending for 2008 was $195.8 mostly related to work on a new carbon fiber line in South Carolina, a prepreg plant in China, and capacity expansions for waterborne and Radcure resins. We expect the prepreg plant to be operational in the second quarter of 2009 and the project in South Carolina is expected to be completed in the first quarter of 2010. Given current economic conditions, we expect capital spending in 2009 to remain relatively flat as compared to 2008. In 2009, we expect to continue investments in our new carbon fiber line in South Carolina and our prepreg plant in China. We have decided to limit 2009 investments to the aforementioned projects as well as expenditures related to safety, normal maintenance, and any other projects that present quick pay back economics.

Net cash flows used in financing activities were $52.0 in 2008 compared with $144.0 for 2007. In 2008, we had net debt borrowings of $0.3, treasury stock repurchases of 908,400 shares for $46.4, and cash dividends of $23.8, which was partially offset by proceeds received on the exercise of stock options of $11.2 and excess tax benefits from share-based payment arrangements of $5.3.

Approximately $45.0 remained authorized under our stock buyback program as of December 31, 2008. We did not purchase any shares in the fourth quarter of 2008. We do not expect to be actively repurchasing shares in 2009 given current economic conditions.

In November 2008, we repurchased a portion of our 4.6% notes due July 1, 2013 with a carrying value of $11.2 (including accrued interest) for a purchase price of $9.3 and recorded a gain on extinguishment of debt for $1.9.

At December 31, 2008, we have $286.0 of borrowing capacity available under our $400.0 revolving credit facility. Also at December 31, 2008, we had approximately $117.9 of non-U.S. credit facilities with outstanding borrowings of $43.8.

As of December 31, 2008, our total debt of $848.8 is denominated approximately 67% in U.S. dollars, 30% in Euros and the balance in other currencies, after taking into account Euro/U.S. dollar cross currency swaps. Our next scheduled long term debt maturity is October 1, 2010 when

our $250.0, 5.5% notes are due and payable.

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During 2008, we paid four quarterly cash dividends of $0.125 per common share which aggregated to $23.8. On January 29, 2009, our Board of Directors declared a quarterly cash dividend of $0.125 per common share, payable on February 25, 2009 to stockholders of record as of February 10, 2009.

We believe that we have the ability to fund our operating cash requirements and planned capital expenditures as well as the ability to meet our debt service requirements for the foreseeable future from existing cash and from internal cash generation. However, from time to time, based on such factors as local tax regulations, prevailing interest rates and our plans for capital investment or other investments, it may make economic sense to utilize our existing credit lines in order to meet those cash requirements, which may include debt-service related disbursements. Our $400.0 primary credit facility contains various covenants in which we are required to meet two financial tests: ratio of consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) and ratio of consolidated EBITDA to consolidated interest expense. We are currently in compliance with all covenants in the credit facility and based on our current view, expect to continue to be in compliance during 2009. However, as a result of the deteriorating economic environment and the adverse impact it has had and is expected to have on our results of operations in 2009, our ability to fully borrow under the facility may be limited as our ratio of consolidated total debt to consolidated EBITDA comes closer to the covenant requirement. If we were to seek a waiver of this covenant, we expect the cost of borrowing would increase significantly.

We have not guaranteed any indebtedness of our unconsolidated associated company.

Inflation at this time is not considered significant although higher costs for energy and commodities could impact our future operating expenses and capital spending. The impact of increasing raw material costs are discussed under Customers and Suppliers in Business in Item 1, herein.

The portion of our pension and postretirement plan assets invested in equity securities have experienced negative returns in line with the decline in the markets in 2008. We estimate that pension and postretirement plan funding will be approximately $51.8 in 2009 as compared to $50.9 in 2008.

Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations under long-term agreements as of December 31, 2008:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long-term debt	$ 807.5	$ 1.4	$ 251.3	$ 303.1	$ 251.7
Interest payments (1)	159.2	32.5	55.5	44.3	26.9
Operating leases	53.3	14.4	16.2	7.9	14.8
Pension and postretirement plans obligations (2)	51.8	51.8			
Purchase obligations	94.6	75.5	13.5	3.6	2.0
Other noncurrent liabilities (3):					
Environmental liabilities (2)	7.4	7.4			
Cross currency swap (4)	56.2		14.0		$ 42.2
Total	$ 1,230.0	$ 183.0	$ 350.5	$ 358.9	$ 337.6

(1) Includes variable interest rate payments on $114.0 of debt using the LIBOR rates and the Euro exchange rate at December 31, 2008.

(2) Expected cash flows for our pension and postretirement plans obligations and environmental liabilities for years beyond 2009 were excluded as specific payment dates could not be reasonably estimated. Amounts reflected to be paid in less than one year are based on our budget and actual amounts paid in 2009 may vary significantly for pension. See Notes 11 (environmental) and 13 (pension) of the Notes to the Consolidated Financial Statements for more information on these liabilities.

(3) Included in other noncurrent liabilities on our consolidated balance sheet at December 31, 2008, were $66.2 of contingent liabilities (principally asbestos related liabilities) and $45.5 of asset retirement obligations. As specific payment dates for these items are unknown, the related balances have not been reflected in the Payments Due by Period section of the table above.

(4) Related balances are based on principal components using Euro exchange rate at December 31, 2008.

As of December 31, 2008, the amount of unrecognized tax benefits (FIN 48 liabilities) was $35.2. As specific payment dates can not be reasonably estimated, the related balances have not been reflected in the Payments Due by Period section of the table above.

We had net contractual commitments under currency forward contracts in U.S. dollar equivalent amounts of $146.4, that all settle in less than one year. (Refer to Item 7A as well as Note 6 of the Notes to Consolidated Financial Statements included herein).

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We had $32.8 of outstanding letters of credit, surety bonds and bank guarantees at December 31, 2008 that are issued on our behalf in the ordinary course of business to support certain of our performance obligations and commitments. The instruments are typically renewed on an annual basis.

We do not have any unconsolidated limited purpose entities or any undisclosed material transactions or commitments involving related persons or entities.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion provides forward-looking quantitative and qualitative information about our potential exposures to market risk arising from changes in currency rates, commodity prices and interest rates. Actual results could differ materially from those projected in this forward-looking analysis. Currencies are in millions.

Market risk represents the potential loss arising from adverse changes in the value of financial instruments. The risk of loss is assessed based on the likelihood of adverse changes in fair values, cash flows or future earnings.

In the ordinary course of business, we are exposed to various market risks, including fluctuations in currency rates, commodity prices and interest rates. To manage the exposure related to these risks, we may engage in various derivative transactions in accordance with our established policies. We do not hold or issue financial instruments for trading or speculative purposes. Moreover, we enter into financial instrument transactions with either major financial institutions or highly-rated counterparties and make reasonable attempts to diversify transactions among counterparties, thereby limiting exposure to credit-related and performance-related risks.

Currency Risk: We periodically enter into currency forward and cross currency swap contracts primarily to hedge currency fluctuations of transactions denominated in currencies other than the functional currency of the respective entity. At December 31, 2008, the principal transactions hedged involved accounts receivable, accounts payable and intercompany loans. When hedging currency exposures, our practice is to hedge such exposures with forward contracts and cross currency swaps denominated in the same currency and with similar critical terms as the underlying exposure, and therefore, the instruments are effective at generating offsetting changes in the fair value, cash flows or future earnings of the hedged item or transaction.

At December 31, 2008, the currency and net notional amounts of forward contracts outstanding translated into U.S. dollar equivalent amounts were as follows:

December 31, 2008				**Buy**		
Sell	**U.S. Dollar**	**Euro**	**Pound Sterling**	**Australian Dollar**	**Canadian Dollar**	**Others**
U.S. Dollar		$ 26.5	$ 8.0	$ 16.2	$ 41.0	$ 5.6
Pound Sterling		$ 1.7				
Chinese Yuan	$ 5.0					
Brazilian Real	$ 16.9					
Norwegian Krone		$ 5.2				
Taiwan Dollar	$ 6.7					
Korean Won	$ 6.8					
Others	$ 4.4	$ 1.3				$ 1.1

The unfavorable fair value of currency contracts, based on exchange rates at December 31, 2008, was $5.4. Assuming that year-end exchange rates between the underlying currencies of all outstanding contracts and the various hedged currencies were to adversely change by a hypothetical 10%, the fair value of all outstanding contracts at year-end would decrease by approximately $13.7. However, since these contracts hedge specific transactions, any change in the fair value of the contracts would be offset by changes in the underlying value of the transaction being hedged.

In September 2005, we entered into 207.9 of five year cross currency swaps and 207.9 of ten year cross currency swaps to effectively convert the five-year notes and ten-year notes into Euro-denominated liabilities. The swaps included an initial exchange of $500.0 on October 4, 2005 and will require final principal exchanges of $250.0 on each settlement date of the five-year and ten-year notes (October 1, 2010 and October 1, 2015), respectively. At the initial principal exchange, we paid U.S. dollars to counterparties and received Euros. Upon final exchange, we will

provide Euros to counterparties and receive U.S.

dollars. The swaps also call for a semi-annual exchange of fixed Euro interest payments for fixed U.S. dollar interest receipts. With respect to the five year swaps, we will receive 5.5% per annum and will pay 3.78% per annum on each April 1 and October 1, through the maturity date of the five year swaps. With respect to the ten year swaps, we will receive 6.0% per annum and will pay 4.52% per annum on each April 1 and October 1, through the maturity date of the ten year swaps. Both currency swaps were designated as cash flow hedges of the changes in value of the future Euro interest and principal receipts that results from changes in the U.S. dollar to Euro exchange rates on certain Euro denominated intercompany loans receivable we have with one of our subsidiaries. In November 2008, the 207.9 five year cross currency swaps were de-designated as cash flow hedges in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), due to our decision to execute new off-setting cross currency swaps (two year cross currency swaps) to lock-in the Euro forward exchange rate for the principal exchange on the five year cross currency swaps due on October 1, 2010. The net credit of $5.5 recorded in accumulated other comprehensive income on the de-designation date related to the five year swaps will be amortized into earnings over the remaining term of the related Euro-denominated intercompany loans. Prospective changes in the fair value of the five year swaps since the date of de-designation are reported in earnings. The two year cross currency swaps cover an identical notional amount of 207.9 and also call for a semi-annual exchange of fixed Euro interest receipts for fixed U.S. dollar interest payments. With respect to the two year swaps, we will receive 3.78% per annum and will pay 3.69% per annum on each April 1 and October 1, through the maturity date of the two year swaps, which is also on October 1, 2010. The two year cross currency swaps are not designated as cash flow hedges under SFAS 133. The fair value of the two year swaps is calculated each quarter with changes in fair value reported in earnings. We expect the earnings impact related to future changes in the fair value of the two year cross currency swaps to substantially offset the earnings impact related to future changes in the fair value of the five year swaps. At December 31, 2008, the fair value of the two, five, and ten year swaps were $24.9, $(30.5), and $(4.6), respectively. Assuming other factors are held constant, a hypothetical increase/decrease of 10% in the Euro exchange rate would cause an increase/decrease of approximately $42.8 in the total value of the hedging instruments referred to above.

A portion of the intercompany Euro denominated loans payable of one of our U.S. subsidiaries is designated as a hedge of our net investment in our Belgium-based subsidiary, Cytec Surface Specialties SA/NV. From time to time we also enter into designated forward Euro contracts to adjust the amount of the net investment hedge. At December 31, 2008, we had no designated forward contracts.

Commodity Price Risk: We use natural gas swaps to hedge a portion of our utility requirements at certain of our North American manufacturing facilities. The maturities of these swaps correlate highly to the actual purchases of the commodity and have the effect of securing predetermined prices that we pay for the underlying commodity. While these contracts are structured to limit our exposure to increases in commodity prices, they can also limit the potential benefit we might have otherwise received from decreases in commodity prices. These swaps are recognized on the balance sheet at fair value, which will be reclassified into manufacturing cost of sales through January 2010 as the hedged natural gas purchases affect earnings. For a detailed discussion on natural gas swaps, see Critical Accounting Policies *Derivative Financial Instruments and Certain Hedging Activities, Commodity Price Risk section below***.**

At December 31, 2008, we had outstanding natural gas swaps with a fair value loss of $11.3. Assuming that year-end natural gas prices were to decrease by a hypothetical 10%, the value of these contracts would decrease by approximately $2.2.

Interest Rate Risk: At December 31, 2008, our outstanding borrowings consisted of $41.0 of short-term variable rate borrowings and long-term debt, including the current portion, which had a carrying value of $807.8, a face value of $807.5 and a fair value, based on dealer quoted values, of approximately $734.6.

Assuming other factors are held constant, a hypothetical increase/decrease of 1% in the weighted-average prevailing interest rate on our variable rate debt outstanding as of December 31, 2008, interest expense would increase/decrease by approximately $1.5 for the next fiscal year and the fair value of the fixed rate long-term debt would increase/decrease by approximately $20.9.

SIGNIFICANT ACCOUNTING ESTIMATES / CRITICAL ACCOUNTING POLICIES

Accounting principles generally accepted in the United States require management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts in the consolidated financial statements and the notes thereto. The areas discussed below involve the use of significant judgment in the preparation of our consolidated financial statements and changes in the estimates and assumptions used may impact future results of operations and financial condition.

Share-based Compensation

On January 1, 2006, we adopted SFAS 123R using the modified prospective method. SFAS 123R requires recognition of compensation cost in an amount equal to the fair value of share-based payments. Compensation cost for performance stock is recorded based on the market value on the original date of grant (which is the fair value in accordance to SFAS 123R).

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Compensation cost for stock appreciation rights payable in cash (cash-settled SARS) is recognized based on the fair value of the award at the end of each period through the date of settlement. Compensation cost for stock appreciation rights payable in shares (stock-settled SARS) and stock options is recognized over the vesting period based on the estimated fair value on the date of the grant.

SFAS 123R also requires that we estimate a forfeiture rate for all share-based awards. We monitor share option exercise and employee termination patterns to estimate forfeiture rates within the valuation model. The estimated fair values are based on assumptions, including estimated lives of the instruments, historical and implied volatility, dividend yield on our common stock, and risk-free interest rates. We also consider the probability that the options and stock-settled SARS will be exercised prior to the end of their contractual lives and the probability of termination or retirement of the holder. These assumptions are based on reasonable facts but are subject to change based on a variety of external factors. Changes in assumptions from period to period may materially affect the amount of share-based compensation cost we recognize in income.

Environmental and Other Contingent Liabilities

Accruals for environmental remediation and operating and maintenance costs directly related to remediation, and other contingent liabilities are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Accruals are recorded at management s best estimate of the ultimate expected liabilities, without any discount to reflect the time value of money. These accruals are reviewed periodically and adjusted, if necessary, as additional information becomes available.

The amount accrued for environmental remediation reflects our assumptions about remediation requirements at the contaminated site, the nature and cost of the remedy, the outcome of discussions with regulatory agencies and other potentially responsible parties at multi-party sites, and the number and financial viability of other potentially responsible parties.

Included in other contingent liabilities are workers compensation, product liability and toxic tort claims. The amount accrued for other contingent liabilities reflects our assumptions about the incidence, severity, indemnity costs and dismissal rates for existing and future claims.

Our asbestos related contingent liabilities and related insurance receivables are based on a study. The study estimated our gross asbestos liabilities using a frequency/severity approach. With this approach, the cost of future claim filings due to asbestos-related diseases are estimated as the product of the future number of claims filed and the average value of those claims on a nominal as opposed to discounted basis. Future claim frequency has been estimated using our claims history and the Stallard/Manton Epidemiological Decay Model*,* a widely used industry study. The Decay model assumes that future levels of claims activity will gradually decrease from current levels by applying model-specific decay factors that project this claim activity to wind down over the next 35 to 40 years. Our current levels are estimated based on our risk profile and our historical claim experience. The estimated cost per claim is based on our historical paid claims adjusted for inflation. Although these estimates and assumptions are based on reasonable facts, they are subject to change based on the actual outcome and a variety of external factors. A sustained 1% change in the annual number of future asbestos claims filed against us will increase or decrease the liability and related receivable by $0.5 and $0.3, respectively. A sustained 1% change in the average value of asbestos claims paid will increase or decrease the liability and related receivable by $0.5 and $0.3, respectively.

Accruals for environmental remediation and other contingent liabilities can change substantially if our assumptions are not realized or due to actions by governmental agencies or private parties. We cannot estimate any additional amount of loss or range of loss in excess of the recorded amounts. Moreover, environmental and other contingent liabilities are paid over an extended period, and the timing of such payments cannot be predicted with any certainty. Accruals for environmental and other contingent liabilities are recorded as other noncurrent liabilities with any amounts expected to be paid out in the next twelve months classified as accrued expenses.

Probable insurance recoveries for past and probable future indemnity costs are recorded at management s best estimate of the ultimate expected receipts without discounting to reflect the time value of money and are recorded as other assets. A number of factors impact the estimates of insurance reimbursements. These factors include the financial viability of the insurance companies, the method in which losses will be allocated to the various insurance policies, how legal and defense costs will be covered by the insurance policies, the interpretation of the effect on coverage of various policy terms and limits and their interrelationships, and historical recovery rates over the past ten years.

Defense and processing costs are expensed as incurred. Insurance recoveries for defense and processing costs are recognized when the recovery is probable and related costs are incurred and are recorded as other assets.

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Retirement Plans

We sponsor defined benefit pension and other postretirement benefit plans. The postretirement plans provide medical and life insurance benefits to retirees who meet minimum age and service requirements. Our most significant pension plans are in the U.S., and constituted over 68% of our consolidated pension assets and 70% of projected benefit obligations as of December 31, 2008. The calculation of our pension expense and pension liability associated with our defined benefit pension plans requires the use of a number of assumptions. Changes in these assumptions can result in different pension expense and liability amounts, and actual experience can differ from the assumptions. We believe that the most critical assumptions are the discount rate and the expected rate of return on plan assets.

At the end of each year, we determine the discount rate to be used for pension liabilities. In estimating this rate, we look to rates of return on high quality, long-term corporate bonds that receive one of the two highest ratings given by a recognized ratings agency. Future expected actuarially determined cash flows of our major U.S. plans are matched against a yield curve encompassing such bonds to arrive at a single discount rate by plan. We discounted our U.S. future pension liabilities using a rate of 6.05% at December 31, 2008. The discount rate used to determine the value of liabilities has a significant effect on expense. A 1% increase to the discount rate for our U.S. pension plans would decrease our 2009 expected annual expense by $7.0 and decrease our liability by $65.6. A 1% decrease to the discount rate for our U.S. pension plans would increase our 2009 expected annual expense by $7.1 and increase our liability by $73.8. A 1% increase to the discount rate for our U.S. post retirement medical plan would increase our 2009 expected annual expense by $0.7 and decrease our liability by $14.7. A 1% decrease to the discount rate for our U.S. post retirement medical plan would decrease our 2009 expected annual expense by $0.9 and increase our liability by $15.8.

The expected rate of return on our U.S. plan assets, which was 7.75% for 2008, reflects the long-term average rate of return expected on funds invested or to be invested in the pension plans to provide for the benefits included in the pension liability. We establish the expected rate of return at the beginning of each fiscal year based upon information available to us at that time, including the historical returns of major asset classes, the expected investment mix of the plans assets, and estimates of future long-term investment returns. A 1% change to the expected rate of return on plan assets of our U.S. pension plans would increase or decrease our 2009 expected annual expense by $5.3. The U.S. pension plans investment mix at December 31, 2008 approximated 45% equities and 55% fixed income securities. Any differences between actual experience and assumed experience are deferred as an unrecognized actuarial gain or loss. The unrecognized net actuarial gain or loss is amortized into pension expense in accordance with SFAS No. 87, Employers' Accounting for Pensions.

Impairment of Goodwill

We have defined our segments as our SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142) reporting units. Our four business segments are Cytec Performance Chemicals, Cytec Surface Specialties, Cytec Engineered Materials and Building Block Chemicals. Cytec Performance Chemicals serves large, global industrial markets. Cytec Surface Specialties serves the large, global coatings market. Cytec Engineered Materials serves principally aerospace markets. Building Block Chemicals sells commodity chemical intermediates to industrial users. The segments above reflect how we run our Company, manage the assets and view our customers.

We test goodwill for impairment on an annual basis. Goodwill of a reporting unit will be tested for impairment between annual tests if events occur or circumstances change that would likely reduce the fair value of the reporting unit below its carrying value. We use a two-step process to test goodwill for impairment. We initially use a market multiple approach (1A) to estimate a range of fair values by reporting unit, and then use a discounted cash flow approach (1B) if the market multiple approach indicates that a potential impairment might exist to refine and reaffirm the results of the first test. The market multiple approach provides a straightforward, cost effective and relatively simple method to readily determine if an impairment might exist by utilizing EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) information by reporting unit multiplied by average current industry valuation factors or multiples to easily determine an estimated range of fair value. Due to the cyclical nature of our reporting units, we utilize a three year EBITDA average of historical and forecasted EBITDA for the reportable segment times the range of EBITDA multiple factors. The three year period is comprised of the prior year, current year and one year projected amounts. The market multiple range utilizes an average lower and upper multiple limit based on recent industry acquisition average EBITDA multiples paid by financial and strategic purchasers. We obtain this information from a third party investment bank. If the reporting unit s estimated fair value using the low end of the range is close to, in our judgment, or below the reporting unit s carrying value, we refine the calculation using cash flows to calculate a point estimate of the reporting unit s fair value, as opposed to a range. If the discounted cash flow approach yields a fair value estimate less than the reporting unit s carrying value, we would proceed to step two of the impairment test, as defined by SFAS No. 142. In the second step, the implied fair value of the reporting unit s goodwill is determined by allocating the reporting unit s fair value to all of its assets and liabilities other than goodwill in a manner similar to a purchase price allocation. The resulting implied fair value of the goodwill that results from the application of this second step is then compared to the carrying amount of the goodwill and an impairment charge is recorded for the difference.

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In the fourth quarter of 2008, we completed our annual goodwill impairment test. For the market multiple approach, we used an EBITDA range of between 8.0X and 10.0X. All of our reporting units passed step 1A using both the lower and upper limit EBITDA multiples, with the exception of the Surface Specialties reporting unit. The Surface Specialties EBITDA of $139.5 was a three year average of the 2007 actual, 2008 actual, and the 2009 budgeted EBITDA amounts. The market multiple approach (Step 1A) for the Surface Specialties reporting unit resulted in a fair value range of $1,116 to $1,395. Since the range of the estimated fair values using the multiples was below the carrying value, we refined the estimate of the fair value using a discounted cash flow approach in accordance with our aforementioned policy which resulted in a value of $1,159. The discounted cash flow approach fair value was less than the carrying value, indicating that an impairment of Surface Specialties goodwill exists. The discounted cash flow projections considered the adverse impact of the current macroeconomic business environment on the long-term financial outlook of Surface Specialties and reduced profitability of certain product lines. The discounted cash flow approach considered a weighted average cost of capital (WACC) rate of 11.5% as the discount rate and an estimated net cash flow for a ten-year period from 2009 to 2018. The WACC calculation considered a risk-free rate of return, cost of debt and expected equity premium. The risk-free rate of return equaled the yield on long-term United States Treasury bonds. The cost of debt represented the yield of a BBB rated U.S. bond. The cost of equity included an estimate of the return on typical long-term investments required to induce investment in a diversified portfolio of U.S. publicly traded stocks adjusted for a specific risk and size premiums of Surface Specialties. The Surface Specialties specific risk premium reflects the specific risks associated with the current business and future performance estimates. The cost of equity and debt were weighted based on the observed capital structures of companies with characteristics similar to the Surface Specialties reporting unit. The discounted cash flow model also reflects a terminal value that assumes 2018 net cash flows will continue to grow at a rate of 2.75% in perpetuity, which we believe is reasonable for this business. These evaluations involve amounts that are based on management's best estimates and judgments.

The discounted cash flows were based on a ten year projection, covering 2009 through 2018. The 2009 to 2012 projections take into account current macroeconomic conditions and reflect management s best estimate of the amount of time required before the business recovers from the current recessionary environment. The 2013 to 2018 amounts were based on forecasted average revenue growth factor of approximately 3%. The projections included average annual capital expenditures of $48 and net working capital increases corresponding to the revenue growth assumed. We assumed an average tax rate of 30% for the discounted cash flow approach which we believe is a realistic approximation of our future annual effective tax rate.

Since the fair value of the Surface Specialties reporting unit was less than the carrying value of the business, we allocated the fair value of Surface Specialties to all of the identifiable tangible and intangible assets and liabilities of the reporting unit. The results of the allocation of total fair value to all assets and liabilities resulted in an implied fair value of goodwill of $322.0. The difference of $385.0 between the carrying value of goodwill of $707.0 and the implied value of goodwill of $322.0 represents the impairment charge recorded in the fourth quarter of 2008.

The following table summarizes the approximate impact that a change in certain critical assumptions would have on the goodwill impairment. The approximate impact of the change in each critical assumption assumes all other assumptions and factors remain constant.

Critical Factors	**Change**	**Approximate Increase/(Decrease) to Impairment Charge**
Weighted Average Cost of Capital	+0.50%	$ 59.0
Weighted Average Cost of Capital	-0.50%	(65.0)
Terminal Value Growth Rate	+0.25%	(15.9)
Terminal Value Growth Rate	-0.25%	15.0
Annual Capital Expenditures	+$10.0	49.0
Annual Capital Expenditures	-$10.0	(48.0)
Annual Sales Volume Growth Rate	+0.25%	(184.0)
Annual Sales Volume Growth Rate	-0.25%	215.0
Operating Profit Margin	+1%	(84.0)
Operating Profit Margin	-1%	103.0

Because of the uncertainty inherent in such estimates, actual results may differ from these estimates. We are not aware of reasonably likely events or circumstances that would result in different amounts being estimated that would have a material impact on these assessments for impairment.

Impairment of Long-Lived Assets, Intangible Assets and Assets to be Disposed

Long-lived assets and intangible assets with determinable useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets or asset group to the future undiscounted net cash flows expected to be generated by the asset or asset group. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets and would be charged to earnings. Intangible assets with determinable useful lives are amortized over their respective estimated useful lives. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the costs to sell. In conjunction with our annual assessment of goodwill for impairment, we performed a recoverability test of the long-lived assets of the Surface Specialties reporting unit. The undiscounted cash flows expected from the use and eventual disposition of the long-lived assets exceeded the net book value of the long-lived assets. Accordingly, no impairment charges were recorded.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

We intend to reinvest the unremitted earnings of international subsidiaries. Accordingly, no provision has been made for U.S. or additional non-U.S. taxes with respect to these earnings. In the event of repatriation to the U.S., such earnings would be subject to U.S. income taxes in most cases. Foreign tax credits would be available to substantially reduce the amount of U.S. tax otherwise payable in future years.

Our annual effective tax rate is based on expected income, statutory tax rates and tax planning opportunities available in various jurisdictions in which we operate. Significant judgment is required in determining the annual effective tax rate and in evaluating our tax positions.

We establish accruals for tax contingencies when, notwithstanding the reasonable belief that our tax return positions are fully supported, we believe that certain filing positions are likely to be challenged and moreover, that such filing positions may not be fully sustained. Prior to the issuance of FIN 48, all uncertain income tax positions were accounted for under FASB Statement 5; *Accounting for Contingencies* (FAS 5). We adopted FIN 48 in January 2007, which provides that recognition of a tax benefit from an uncertain tax position will be recognized only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. We continually evaluate our uncertain tax positions and will adjust such amounts in light of changing facts and circumstances all within accordance of the provisions of FIN 48 including but not limited to emerging case law, tax legislation, rulings by relevant tax authorities, and the progress of ongoing tax audits. Settlement of a given tax contingency could impact the income tax provision in the period of resolution. Our accruals for gross uncertain tax positions are presented in the balance sheet within income taxes payable and other noncurrent liabilities.

Derivative Financial Instruments and Certain Hedging Activities

We use derivative instruments in accordance with our established policies to manage exposure to fluctuations in currency rates, interest rates and natural gas prices in North America. We do not hold or issue derivative financial instruments for trading or speculative purposes. We enter into financial instrument transactions with either major financial institutions or highly-rated counterparties and make reasonable attempts to diversify transactions among counterparties, thereby limiting exposure to credit-related and performance-related risks.

Foreign Currency Risk: We use currency forward contracts and cross currency swaps to manage our exposure to fluctuations in currency rates on third party and intercompany transactions denominated in currencies other than the functional currency of the legal entity. We hedge such exposures with currency forward contracts and cross currency swaps denominated in the same currency and with similar terms as the underlying exposure, and therefore, the instruments are effective at generating offsetting changes in the fair value or cash flows of the hedged item or transaction. All derivative contracts used to manage foreign currency risk are measured at fair value and reported as assets or liabilities on the balance sheet. Changes in fair value are reported in earnings or deferred, depending on the nature and effectiveness of the hedging relationship. Ineffectiveness, if any, in a hedging relationship is recognized immediately into earnings. If the hedging relationship is not highly effective in generating offsetting

cash flows or changes in fair value, we would recognize the change in the fair value of the currency forward contract in other income (expense), net. In November 2008, we ceased designating our five year cross currency swaps as a cash flow hedge of the changes in the value of the future Euro interest and principal receipts that results from changes in the U.S. dollar to Euro exchange rates on certain intercompany loans as noted below. We did not terminate any other designated hedging relationships in 2007 or 2006. There was no ineffectiveness in 2008, 2007 or 2006.

The earnings impact of cross currency swaps that are not designated as cash flow hedges and currency forward contracts that are used to economically hedge foreign currency assets or liabilities, if any, are recognized in other income/(expense), net during the term of the contracts.

We use cross currency swaps to hedge certain future cash flows from Euro receipts on certain Euro denominated intercompany loans receivable we have with certain subsidiaries against changes in the U.S. dollar to Euro exchange rates. The swaps fix the U.S. dollar equivalent cash flows of these Euro denominated intercompany loans and eliminate foreign exchange variability since the notional amounts of the swaps equal that of the loans, and all cash flow dates and interest rates coincide between the swaps and the loans, therefore no ineffectiveness is expected. These swaps have been designated as cash flow hedges. In November 2008, the 207.9 five year cross currency swaps were de-designated as cash flow hedges in accordance with SFAS 133, due to our decision to execute new off-setting cross currency swaps (two year cross currency swaps) to lock-in the Euro forward exchange rate for the principal exchange on the five year cross currency swaps due on October 1, 2010. The two year cross currency swaps are not designated as cash flow hedges under SFAS 133. All cross currency swaps are recorded at fair value as either assets or liabilities. Each period we record the change in the fair value of the ten year swaps in accumulated other comprehensive income. For the ten year swaps, we reclassify an amount out of accumulated other comprehensive income to the income statement to offset the foreign currency gain or loss on the remeasurement to U.S. dollar of the Euro intercompany loans. We accounted for the five year swaps in this manner until de-designation as cash flow hedges in November 2008. Prospectively, upon de-designation, the fair value of the two year and the five year cross currency swaps is calculated each quarter with changes in fair value reported in earnings. We expect the earnings impact related to future changes in the fair value of the two year cross currency swaps to substantially offset the earnings impact related to future changes in the fair value of the five year cross currency swaps. We accrue for all swaps the periodic net swap interest payments each period in the consolidated income statement. We monitor the counterparty credit risk and the continued probability of the hedged cash flows as to amount and timing.

A portion of the intercompany Euro denominated loans payable of one of our U.S. subsidiaries is designated as a hedge of our net investment in our Belgium-based subsidiary, Cytec Surface Specialties SA/NV. The portion of the remeasurement of the intercompany loan to the U.S. dollar that relates to the amount designated as a hedge of our net investment is recorded as a translation adjustment.

Commodity Price Risk: We use natural gas swaps to hedge a portion of our utility requirements at certain of our North American manufacturing facilities. These swaps, which are highly effective at achieving offsetting cash flows of the underlying natural gas purchases, have been designated as cash flow hedges and are reported on the consolidated balance sheets at fair value, with the effective portion of the hedged item included in accumulated other comprehensive income/(loss) on an after-tax basis. Gains and losses are reclassified into earnings, as a component of manufacturing cost of sales, in the period the hedged natural gas purchases affect earnings. If the derivative is no longer highly effective in achieving offsetting cash flows, subsequent changes in fair value are recorded in other income (expense), net. Any ineffectiveness is recognized in other income (expense), net in the current period. If the hedging relationship is terminated we continue to defer the related gain or loss in accumulated other comprehensive income and include it as a component of the cost of the underlying hedged item. If the forecasted transaction is no longer likely to occur we recognize the related gain or loss in other income (expense), net in that period. We did not terminate any hedges during 2008, 2007 and 2006. All hedged transactions that were forecasted to occur in 2008, 2007 and 2006 occurred as forecasted. Ineffectiveness during these years was insignificant. The fair values of all of these instruments are based on quotes from third party financial institutions.

Fair Value Measurements

During the first quarter of 2008, we adopted SFAS 157 for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. SFAS 157 establishes a single authoritative framework for measuring fair value, and requires additional disclosures about fair value measurements. The fair value hierarchy in SFAS 157 prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or liability, into three levels. It gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets, interest rates, exchange rates, and yield curves observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability.

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All of our derivatives are valued based on level 2 inputs. Our gas swaps and currency forwards are valued based on readily available published indices for commodity prices and currency exchange rates. Our cross currency swaps are valued using an income approach based on industry-standard techniques. This model includes a discounted cash flow analysis that nets the discounted future cash receipts and the discounted expected cash payments resulting from the swap. The analysis is based on the contractual terms of the swaps including the period to maturity and observable market-based inputs that include time value, interest rate curves, exchange rates, implied volatilities, as well as other relevant economic measures. We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the counterparty s nonperformance risk in the fair value measurements.

At December 31, 2008, the favorable/(unfavorable) fair value of the two, five, and ten year swaps were $24.9, $(30.5), and $(4.6), respectively. The following table summarizes the approximate impact that a change in certain critical inputs would have on the fair values of our cross currency swaps in total. The approximate impact of the change in each critical input assumes all other inputs and factors remain constant. See Note 6 of the Consolidated Financial Statements for additional details on SFAS 157 disclosures.

Critical Factors	Change	Approximate Impact On Two, Five, and Ten Year Swaps Favorable/(Unfavorable) Fair Value Combined
Euro interest rate curve	+10%	$ 8.2