CYTEC INDUSTRIES INC/DE/
Form 10-K
February 26, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 10-K

(Mark One)
/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2003

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition period from ______ to ______

Commission file number 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 West Paterson, 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 whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _x_ No ___.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 __

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12-b-2 of the Act). Yes _x_ No ___.

At June 30, 2003 the aggregate market value of common stock held by non-affiliates was $1,343,810 based on the closing price ($33.80) of such stock on such date.

There were 39,157,218 shares of common stock outstanding on January 31, 2004.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	Part of Form 10-K
Portions of Proxy Statement for 2004 Annual Meeting Of Common Stockholders, dated March 18, 2004.	Parts III, IV

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COMMENTS ON FORWARD-LOOKING STATEMENTS

A number of the statements made by the Company in the Annual Report on Form 10-K, or in other documents, including but not limited to Chairman, President and Chief Executive Officer's letter to Stockholders, its 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 the Company's (including its segments) outlook for the future, the accretive effects of acquisitions, the financial effects of divestitures, pricing trends, the effects of changes in currency rates and forces within the industry, the completion dates of and expenditures for capital projects, expected sales growth, operational excellence strategies and their results, long-term goals of the Company and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts.

All predictions as to future results contain a measure of uncertainty and, accordingly, actual results could differ materially. Among the factors that could cause a difference include, but are not limited to: changes in global and regional economies; the financial well-being of end consumers of the Company's products, particularly the airline industry; changes in demand for the Company's products or in the quality, costs and availability of its raw materials and energy; customer inventory reduction; the actions of competitors; currency rates and interest rate fluctuations; technological change; the Company's ability to renegotiate expiring long-term contracts; changes in employee relations, including possible strikes; government regulations; including those related to taxation and those particular to the purchase, sale and manufacture of chemicals or operation of chemical plants, governmental funding for those military programs that utilize the Company's products; litigation, including its inherent uncertainty and changes in the number or severity of various types of claims brought against the Company; difficulties in plant operations and materials transportation; environmental matters; the results of and recoverability of investments in associated companies; 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; war, terrorism or sabotage; epidemics; and other unforeseen circumstances. A number of these factors are discussed in this and other of the Company's filings with the Securities and Exchange Commission.

AVAILABLE INFORMATION

The Company maintains a website that contains various information on the Company and its products. It is accessible at www.Cytec.com. Through the Company's website, stockholders and the general public may access free of charge (other than any connection charges from internet service providers) filings the Company makes with the Securities and Exchange Commission as soon as practicable after filing. Filing accessibility in this manner includes the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and current reports on Form 8-K.

PART I

Item 1. BUSINESS

The Company is a global specialty chemicals and specialty materials company that focuses on value-added products. The Company serves major markets for aerospace, water treatment and mining, automotive and industrial coatings, plastics and chemical intermediates. The Company manufactures the vast majority of its products and sells its products worldwide. The Company had net sales of $1,471.8 million and earnings from operations of $141.1 million in 2003.

The Company operates in four segments: Water and Industrial Process Chemicals, Performance Products, Specialty Materials and Building Block Chemicals. Water and Industrial Process Chemicals principally include water treatment chemicals, mining chemicals and phosphine chemicals and prior to November 2000, paper chemicals. Performance Products principally include coating chemicals, performance chemicals and polymer additives. Specialty Materials principally include advanced composites and film adhesives. Building Block Chemicals principally include acrylonitrile, hydrocyanic acid, acrylamide, sulfuric acid and melamine. The Company characterizes its product lines as platform product lines and value product lines. Platform product lines are those product lines the Company believes have a competitive advantage to grow organically and by extension through strategic acquisitions. The Company expects these product lines to have sales growth over a business cycle considerably in excess of growth in gross domestic product. The Company also expects its platform product lines will need investment in research and development and possibly in capital to increase global capacity to support sales growth. Value product lines are those product lines which are expected to build sales and profit growth through greater focus on manufacturing productivity. Value product lines are expected to provide significant free cash flow and to increase their economic value with a greater focus on asset management. The Company's platform product lines are water treating chemicals, mining chemicals, phosphine chemicals, coating chemicals, performance chemicals and specialty materials. The Company's value product lines are polymer additives and building block chemicals.

The Company's management regularly reviews the product line portfolio of the Company in terms of strategic fit and financial performance and may from time-to-time dispose of or withdraw certain product lines and/or acquire additional product lines or technologies. Additionally, regular reviews are performed of the cost effectiveness and profitability of plant sites or individual facilities within such sites. In management's opinion, the financial impact of a disposal or withdrawal of certain product lines together with the impact on plant sites will not have a material adverse effect on the financial position of the Company but could be material to the results of operations of the Company in any one accounting period.

During 2003, the Company acquired the metal extractant products ("MEP") and intermediates and stabilizers ("I&S") product lines of Avecia Investments Limited ("Avecia"). Also during 2003, the Company ended its 50% participation in its Mitsui Cytec joint venture while simultaneously acquiring 100% of the venture's coating resins product line. The Company also ended its one-third participation in the PolymerAdditives.com ("PA.com") joint venture in 2003 that was previously written-off. The Company completed three other acquisitions during 2001. (See Note 2 of the Notes to Consolidated Financial Statements).

In addition, the Company has a 50% interest in an associated company CYRO Industries ("CYRO"). See Note 5 of the Notes to Consolidated Financial Statements.

Unless indicated otherwise, the terms "Company" and "Cytec" each refer collectively to Cytec Industries Inc. and its subsidiaries. Cytec was incorporated as an independent public company in December 1993.

Segment Information

Revenues from external customers, earnings or loss from operations and total assets for each of the Company's reportable segments can be found in Note 16 of the Notes to Consolidated Financial Statements.

Water and Industrial Process Chemicals Segment

Set forth below are the Company's primary product lines and major products in this segment and their principal applications.

PRODUCT LINE	MAJOR PRODUCTS	
Water treating chemicals	Flocculants, coagulants, filter aids, drilling and production polymers	Wate raw wate dril wast
Mining chemicals	Promoters, collectors, solvent extractants, flocculants, frothers, filter and dewatering aids, antiscalants, dispersants, depressants, defoamers and reagents	Mine proc and
Phosphine chemicals	Solvent extractants, flame retardants, catalyst ligands, high purity phosphine gas and biocides	Mine phar chem manu

Many of the Company's products in this segment are manufactured using acrylamide that is manufactured by the Company's Building Block Chemicals segment.

Water Treating Chemicals

The Company's water treating chemicals product line consists primarily of the manufacture and sale of products for use in applications such as treatment of industrial waste streams and industrial influent water supplies to remove suspended solids, sewage conditioners for municipal wastewater treatment, treatment of municipal drinking water and as drilling mud conditioners for oil service companies. Increased demand for clean water, environmental regulations and regional and global economic development have increased demand for the Company's water treating chemicals. To support this growing demand, Cytec completed significant expansions at its Mobile, Alabama and Bradford, England plants during 2001. Although Cytec sold its paper chemicals product line in two separate transactions in late 2000, it retained all of its production facilities, which are also used in its water treating and mining chemicals product lines, and Cytec now produces paper chemicals under a long-term manufacturing supply agreement for one of the purchasers of its paper chemicals product line which expires in November, 2005. The Company is in the process of negotiating an extension of this agreement. Cytec also retained its paper wastewater treating product line.

Competition is generally intense in wastewater treatment applications, particularly for municipal accounts, where contracts generally are awarded on a competitive bid basis, and for those industrial applications where technical service is not an important factor. Cytec markets its water treating chemicals through a specialized sales staff with an emphasis on sales to global full-service water treatment companies.

Mining Chemicals

The Company's mining chemicals product line is primarily used in applications to separate minerals from ores. The Company has leading positions in the copper processing industry, particularly in the flotation and in extraction of copper. The Company also has a leading position in the alumina processing industry, where its patented HxPams are particularly effective at the flocculation of "red mud". The Company also sells phosphine chemicals specialty reagents which have leading positions in cobalt nickel separation and copper sulfide recovery applications. In 2003 the Company broadened its mining chemicals product line by acquiring from Avecia, its MEP product line. The MEP product line has a leading position for extractants in the processing of copper oxide ores. In 1999, the Company completed two acquisitions in mining chemicals broadening its product offerings to the copper processing industry and for industrial minerals. Demand for mining chemicals is cyclical and varies with industry conditions for the particular minerals with respect to which the Company's products have processing applications. The Company strives to develop new technologies as well as new formulations tailored for specific applications. The Company's mining chemicals product lines are marketed primarily through a specialized sales and technical services staff. Cytec has expanded its sales and technical service presence in South America, South Africa, Asia and Australia, the growth markets for the Company's mineral processing chemicals.

Phosphine Chemicals

The Company's phosphine chemicals are utilized for a variety of applications. The Company is the largest supplier of ultra-high purity phosphine gas, used in semiconductor manufacturing and light emitting diode applications, and has significant positions in various phosphine derivative products including phosphonium salts used in pharmaceutical catalysts and biocides. In 2003 the Company acquired from Avecia its organo phosphorus product line as part of its I&S product line. The compounds are used primarily as intermediates and catalyst ligands for organic and chemical synthesis in the pharmaceutical and chemical industries. The Company acquired a phosphine fumigants product line in 1999 which it markets as an alternative to methyl bromide. Sales of certain phosphine products are dependent upon obtaining and maintaining necessary registrations and approvals from applicable regulatory agencies and the Company is seeking additional product registrations. The Company also seeks to broaden its product line through development of additional proprietary technologies for pharmaceuticals, specialty chemicals catalysts and reactive intermediate applications. In 2002 the Company increased its plant capacity to meet increased customer demand.

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Performance Products Segment

Set forth below are the Company's primary product lines and major products in this segment and their principal applications.

Product Line	Major Products	Principal Appli
Coatings chemicals	Amino crosslinking resins, additives, urethanes and carbamates	Industrial coatings and pai automobiles, containers, me and wood furniture, heavy d machinery
Performance chemicals	Adhesion promoters, surfactants, specialty monomers, amino crosslinkers, isocyanates, carbamates, acrylic stabilizers, thermoplastics, formulated polyurethane and epoxies	Adhesives and sealants, ink electronic products, wood b laminating, textiles, tires non-wovens and super absorb flexible packaging, and pla
Polymer additives	Ultraviolet light stabilizers and absorbers, high performance antioxidants, antistatic agents	A broad range of plastics, fibers for agricultural fil architectural lighting, fib packaging, outdoor furnitur toys and apparel

Many of the Company's products in this segment are manufactured using melamine and acrylamide that are both manufactured by the Company's building block chemicals segment.

Coatings Chemicals

The Company believes that it is the largest global supplier of amino crosslinking resins ("Resins"), which the Company markets primarily for industrial coatings applications under the CYMEL(R) trademark. The Company sells Resins worldwide to manufacturers producing coatings for automotive, marine, wood and metal finishings, and appliances, containers, coils and general industrial maintenance coatings. In 2003 the Company acquired 100% of the coating resins product line formerly operated by its Mitsui Cytec joint venture. As part of the project to consolidate and increase the flexibility of the Company's global Resins production, the Company completed an expansion of its Resins production capacity at its Lillestrom, Norway plant in the second half of 2001. In 1999, the Company acquired the amino coatings resins product line of BIP Limited which continued to toll products for the Company. Near the end of 2002, the Company transferred production to its expanded Lillestrom, Norway facility.

The Company markets coating chemicals through a specialized sales and technical service staff. Sales are typically made directly to large customers and through distributors to smaller customers.

Performance Chemicals

The Company's performance chemicals have different functionalities and are sold into varied end use applications. The largest product group is a line of adhesion promoters sold under the CYREZ(R) trademark. Adhesion promoters are used globally in the rubber industry, the major application being in the manufacture of tires.

The Company is a leading global supplier of acrylamide based specialty monomers and sulfosuccinate surfactants. These products are used in emulsion polymers, paints, paper coatings, printing inks, and other diverse customer applications.

The Company also manufactures and markets urethane chemicals and formulated urethane and epoxy systems. The Company's urethane chemicals are sold primarily for use in high performance coating applications and inks and adhesives and formulated urethane systems are sold primarily for use as potting compounds in electrical applications.

In 2003 the Company broadened its performance chemicals product line by acquiring Avecia's I&S product line which broadened its customer base and added new products, such as acrylic stabilizers and thermoplastics, and manufacturing technologies.

The Company markets its performance chemicals through several specialized sales and technical service staffs. Sales are typically made directly to large customers and through distributors to smaller customers. The Company has typically achieved growth in its performance chemicals sales by finding new applications for its existing products. The Company continues to seek additional new applications.

Polymer Additives

The Company is a significant global supplier to the plastics industry of specialty additives which protect plastics from the ultraviolet radiation of sunlight and from oxidation. Typical end use applications of the Company's products include a wide variety of polyolefins that are used in agricultural films, toys, lawn furniture and automotive applications, fibers for carpets, spandex applications, engineered plastics and automotive coatings. Ciba Specialty Chemicals AG is the dominant competitor in this product line. The Company seeks to enhance its position with new products based on proprietary chemistries and solutions-based technical support. In 2001 the Company launched its proprietary CYASORB THT family of light stabilizers based on the Company's hindered amine light stabilizer and triazine chemistries. These chemistries provide much higher efficiency as ultraviolet light stabilizers than previous technologies.

The Company markets polymer additives through a dedicated sales and technical service staff. Sales are typically made directly to large customers and through distributors to smaller customers. In 2003 the Company ended its participation in PA.com, a business-to-business internet joint venture originally formed by the Company, GE Specialty Chemicals, Inc. and Albemarle Corporation and began selling directly to its customers previously purchased through the venture. During 2002, the Company had reduced the carrying value of its net investment in this venture to zero.

Specialty Materials Segment

The Specialty Materials segment principally manufactures and sells aerospace materials that are used mainly in commercial and military aviation, satellite and launch vehicles, and aircraft brakes and high performance automotive applications such as Formula 1 racing cars and luxury sports cars.

Cytec Engineered Materials

The Company is the major global supplier of aerospace structural film adhesives and a major supplier of aerospace advanced composite materials. Advanced composites are exceptionally strong and lightweight materials manufactured by impregnating fabrics and tapes made from high performance fibers (such as carbon) with epoxy, bismaleimide, phenolic, polyimide and other resins formulated or purchased by the Company. The Company acquired 3M's composites product line in 2001 providing additional customer qualifications and new products.

The primary applications for both aerospace adhesives and advanced composites are commercial airliners, regional and business jets, military aircraft, satellites and launch vehicles, high performance automotive and specialty applications. Sales are dependent to a large degree on the commercial and military aircraft build rate and the number of applications and aircraft programs for which the Company is a qualified supplier. Every major commercial program in the Western world has qualified and uses certain of the Company's products. The Company is a major supplier to such military programs as the F/A-22 and F/A-18 combat aircraft and the C-17 transport aircraft. In 2001 the Company was also named as the sole source provider of structural composites for the F-35 Joint Strike Fighter which is in development by a team led by Lockheed. The Company has a long term agreement, expiring partly in 2005 and partly in 2007, to supply an aerospace customer with its requirements, subject to various exceptions, of various specialty materials at prices that are fixed by year. The reduction in air passenger traffic after September 11, 2001 has caused financial problems for the airline industry with a consequential reduction in overall demand for commercial aircraft. The Company anticipates, however, that the long-term trend of growth in passenger air miles will recover.

Advanced composites generally account for a higher percentage of the structural weight on military aircraft than on 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 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, the Company's ablatives are used in manufacturing rocket nozzles and the Company's carbon/carbon products are used in manufacturing aircraft and other high performance brakes. The Company expects the demand for advanced composites to continue to increase and is currently expanding its production facility in Oestringen, Germany to meet the expected growth in demand. The Company expects to complete this project in early 2004.

The Company's aerospace adhesives and advanced composites also have various applications in industrial, high performance automotive and selected recreational products. The Company is seeking to leverage its engineered materials portfolio with customers in these and other new markets.

The Company purchases 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. Other carbon fibers are sourced directly from Cytec Carbon Fibers as discussed below. See "Customers and Suppliers" and Item 3, "Legal Proceedings."

The Company markets aerospace materials through a dedicated sales and technical service staff typically direct to customers.

Cytec Carbon Fibers

In 2001 the Company acquired BP's carbon fibers product line to enhance its ability to maintain a high quality, low cost supply of carbon fiber for its advanced composite products.

The Company manufactures and sells various high performance grades of both PAN (polyacrylonitrile) type and pitch type carbon fibers. Carbon fibers 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, tensile strength and heat resistance.

Over 50% of the Company's carbon production is utilized internally as reinforcement in producing certain of the Company's advanced composites. The remainder is sold to third parties through a direct sales force.

Building Block Chemicals Segment

Building Block Chemicals are manufactured primarily at the Company's world-scale, highly integrated Fortier facility. The Fortier facility is located on the bank of the Mississippi River near New Orleans, Louisiana and has ready access to all major forms of transportation and supplies of raw materials. The

Company attempts to run most of its plants at capacity subject to market conditions and raw material availability.

Acrylonitrile and Hydrocyanic Acid

The Company anticipates that over the near term it will use internally approximately 25% of its current acrylonitrile annual production capacity of 475 million pounds to produce acrylamide and that up to approximately 25% will be sold pursuant to a long term supply agreement and 25% through a long term distribution agreement, the first of which provides for a cost based price through the first quarter of 2005 and the second of which provides for a market based price. The profitability of producing acrylonitrile is influenced by supply and demand, by the cost of propylene and ammonia, which are the largest components of the cost of producing acrylonitrile, and by manufacturing efficiency (i.e., yield and co-product recovery). Hydrocyanic acid is produced as a co-product of the acrylonitrile process. Substantially all of the hydrocyanic acid produced by the Company is sold to CYRO, as a raw material for methyl methacrylate ("MMA") under two long-term contracts which have been renegotiated and superceded by a new contract that will extend until 2011.

Other Building Block Chemicals

The Company also manufactures and sells acrylamide, sulfuric acid and melamine. The Company anticipates that over the near term it will use internally approximately 40% of its acrylamide annual production capacity of 200 million pounds for the production of certain products for the Company's water treating chemicals, mining chemicals and performance chemicals product lines. The remainder of the Company's production is sold to third parties. The Company manufactures acrylamide at its Fortier facility and at its Botlek facility in the Netherlands.

The Company sells sulfuric acid to third parties and also toll converts substantially all of CYRO's spent sulfuric acid arising from the manufacture of MMA under a long-term service contract. This agreement, which was scheduled to expire at the end of 2003, has recently been renegotiated and extended through 2011.

American Melamine Industries ("AMEL"), a 50% owned manufacturing joint venture with a subsidiary of DSM N.V., operates a melamine manufacturing plant with annual production capacity of approximately 160 million pounds at the Fortier facility. DSM, which is the world's leading manufacturer of melamine, makes its melamine expertise available to AMEL under a license agreement. The Company anticipates that over the near term it will use internally up to 80% of its 50% share of AMEL's annual melamine production, primarily for the production of Resins. The remainder of the Company's share of production is sold to third parties.

The Company indefinitely idled its only ammonia plant in 2001. The ammonia plant had been using higher cost, U. S. natural gas as a raw material making continuing operations economically unviable. It remains unlikely it will be restarted and the Company is exploring the options of selling the asset, having it dismantled and shipped to another location. If not successful, the Company expects to dismantle it by year end 2004.

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 and excess capacity. The production of building block chemicals is generally capital intensive, which may cause strong downward pressure on prices in poor market environments as producers tend to operate their plants at capacity even in poor market environments. The Company sells building block chemicals to third parties through a direct sales force and distributors.

Associated Companies

At the beginning of 2003 the Company had an ownership interest in three unconsolidated associated companies. During 2003 the Company ended its participation in two of the joint ventures as described below. For additional information see Note 5 of the Notes to Consolidated Financial Statements.

CYRO Industries (50% owned)

CYRO manufactures and sells acrylic sheet and molding compound products, primarily under the ACRYLITE(R) trademark, and MMA. CYRO operates primarily in North America and manufactures its acrylic products at four locations in the U. S. CYRO closed its Canadian manufacturing plant in 2001 in order to enhance its overall manufacturing efficiency. The Company's partner in CYRO, an indirect subsidiary of Degussa A.G., has an affiliate, Rohm GmbH and Co. KG., that manufactures and sells acrylic sheet and molding compounds products and MMA primarily in Europe and makes its technological expertise available to CYRO.

CYRO uses much of the MMA it manufactures as a raw material in the manufacture of acrylic sheet and molding compounds and it sells the remainder to third parties. CYRO's world-scale MMA manufacturing facility is an integrated part of the Company's Fortier facility, consuming substantially all the hydrocyanic acid produced by the Company in connection with the manufacture of acrylonitrile. CYRO's annual MMA production capacity is 290 million pounds.

Mitsui Cytec (formerly 50% owned)

Mitsui Cytec manufactured and sold coating resins in Japan and manufactured certain water treating chemicals in Japan that it sold throughout Asia. In September 2003, the Company dissolved this joint venture acquiring 100% of its coating resins product line, including a manufacturing facility in Japan, and certain rights associated with the water treating product line in most of Asia, and relinquished its share of the water treating product line of the former joint venture.

PolymerAdditives.com LLC (formerly 33 1/3% owned)

In October, 2003 the Company ended its participation in this joint venture. See "Performance Products Segment--Polymer Additives."

Competition

The Company operates in a highly competitive marketplace. It competes against a number of other companies in each of its product lines, although none of such companies competes with the Company in all of its product lines. The Company's competitors are both larger and smaller than the Company in terms of resources and market shares. Competition is primarily based on product performance, reputation for quality, price and customer service and support. The degree and nature of competition depends on the type of product involved.

In general, the Company competes by maintaining a broad range of products, focusing its resources on products in which it has a competitive advantage and fostering its reputation for quality products, competitive prices and excellent technical service and customer support. Through research and development, the Company seeks to increase sales and margins by introducing value-added products and products based on proprietary technologies.

Customers and Suppliers

The Company has a diversity of product lines and in 2003 and 2002, no customer accounted for more than 10% of the Company's net sales. Sales to the Boeing Company and its subcontractors for commercial and military aerospace and other components were approximately $150 million, or 11% of consolidated net sales, in 2001. See also the discussion of various long-term supply agreements in Note 10 of the Notes to Consolidated Financial Statements.

With respect to suppliers, the Company's vertical integration (i.e., its manufacture of intermediates used to manufacture certain water treating chemicals, mining chemicals, coating chemicals and performance chemicals and its manufacture of carbon fibers for advanced composites) helps protect it from being reliant on other companies for many significant intermediates. The significant raw materials required to manufacture the Company's building block chemicals are natural gas, propylene, ammonia and sulfur which are typically available. Natural gas is an important indirect raw material for many of the Company's products, including resins. Because natural gas is not easily transported, the price may vary widely between geographic regions. The price of natural gas in the United States has been volatile during the past few years and is significantly above the price in many other parts of the world. The Company has not had any problems obtaining the natural gas that it needs. However, many of the Company's products compete with similar products made with less expensive natural gas available elsewhere and the Company may not be able to recover any or all of the increased cost of gas in manufacturing its products. The Fortier facility is served principally by a single propylene pipeline owned by a supplier although other suppliers can utilize the pipeline for a transportation fee. In addition, the Company has made arrangements to obtain propylene by rail.

The Company generally attempts to retain multiple sources for high volume raw materials, other than its own building block chemicals, in order to minimize its reliance on any one supplier. The Company sources its requirements of cationic monomers from a single supplier under a long-term agreement. Cationic monomers are important raw materials in the water treating chemicals and mining chemicals product lines. The Company is dependent on a limited number of suppliers for carbon fibers that are used in many of the Company's advanced composite products. Availability of certain carbon fibers has occasionally been limited, although availability has recently been adequate. The risk of future carbon fiber supply limitations is reduced now that the Company manufactures some of its own carbon fibers.

A number of the Company's customers operate in cyclical industries such as the aerospace, automotive and paper industries. As a result, demand for the Company's products from customers in such industries is also cyclical. In addition, the profitability of sales of certain of the Company's building block chemicals varies due to the cyclicality typically experienced with respect to the amount of industry wide capacity dedicated to producing such chemicals and the amount of end user demand.

International

The Company operates on a global basis with manufacturing plants located in ten countries. Export sales to unaffiliated customers from the United States were $186.6 million for 2003, $164.7 million for 2002 and $185.3 million for 2001 or approximately 13%, 12% and 13% of net sales in such years, respectively.

The Company markets its products internationally through Company sales forces, distributors and agents. International sales were approximately 51% in 2003, 49% in 2002 and 47% in 2001, of net sales to unaffiliated customers.

The Company's identifiable assets located outside of the United States, by geographical region, at year end 2003 and 2002 are set forth in Note 16 of the Notes to Consolidated Financial Statements and are incorporated by reference herein.

International operations are subject to various risks which may not be present in U. S. operations including political instability, the possibility of expropriation, restrictions on royalties, dividends and remittances, instabilities of currencies, requirements for governmental approvals for new ventures and local participation in operations such as local equity ownership and workers' councils. The Company does not currently believe that it is likely to suffer a material adverse effect on its results of operations in connection with its existing international operations.

Research and Process Development

During 2003, 2002 and 2001, the Company incurred $35.2 million, $33.7 million and $32.4 million, respectively, of research and process development expense. The Company is currently investing approximately $57.0 million to renovate and upgrade its main Specialty Chemical research facility located in Stamford, Connecticut. Through December 31, 2003, the Company has spent $46.5 and expects to be substantially completed with the renovation by the second half of 2004.

Trademarks and Patents

The Company has approximately 2,000 United States and international patents and also has trademark applications and registrations for approximately 150 product names. The Company believes the loss of patent or trademark protection on any one product or process would not have a material adverse effect on the Company. While the existence of a patent is prima facie evidence of its validity, the Company cannot assure that any of the Company's patents will not be challenged, and it cannot predict the outcome of any challenge.

Employees

The Company employs approximately 4,500 employees of which approximately 2,200 are covered by union contracts. The Company believes that its relations with both employees and the related union leaderships are generally good.

Operating Risks

The Company's revenues are largely dependent on the continued operation of its various manufacturing facilities. The operation of chemical manufacturing plants involves many risks, including the breakdown, failure or substandard performance of equipment, operating errors, natural disasters, and the need to comply with directives of, and maintain all necessary permits from, government agencies. In addition, the Company's operations can be adversely affected by raw material or energy supply disruptions, labor force shortages or work stoppages and events impeding or increasing the cost of transporting the Company's 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, or with respect to certain facilities, the Company as a whole, during the period of such operational difficulties.

The Company's operations are also subject to various hazards incident to the production of industrial chemicals, including 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 the Company's locations may result in the Company being named as a defendant in lawsuits asserting potentially large claims.

The Company utilizes third party insurance to cover portions of certain of these risks to the extent that coverage is available and can be obtained on terms the Company believes are economically justifiable. After September 11, 2001, the availability of property insurance in particular became much tighter. In response to an approximate tripling in proposed rates, the Company increased certain of its deductibles and self-insured retention amounts primarily in the area of property insurance.

Environmental Matters

The Company is subject to various federal, state and international 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.

In particular, under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") and various other federal and state laws, a current or previous owner or operator of a facility may be liable for the removal or remediation of hazardous materials at the facility. 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, pursuant to the Resource Conservation and Recovery Act ("RCRA") and state 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 at a facility. The costs of removal, remediation or corrective action may be substantial, and the presence of hazardous materials in the environment at any of the Company's facilities, or the failure to abate such materials promptly or properly, may adversely affect the Company's ability to operate such facilities. CERCLA and analogous state 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 investigative, removal and remedial costs under such laws is retroactive, strict, and joint and several.

The Clean Air Act and similar state laws govern the emission of pollutants into the atmosphere. The Federal Water Pollution Control Act and similar state laws govern the discharge of pollutants into the waters of the United States. RCRA and similar state laws govern the generation, transportation, treatment, storage, and disposal of solid and hazardous wastes. The Toxic Substances Control Act regulates the manufacture, processing, and distribution of chemical substances and mixtures, as well as the disposition of certain hazardous substances. In addition, certain state and federal 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.

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The costs of compliance with such laws and regulations promulgated thereunder may be substantial, and regulatory standards under such statutes tend to evolve towards more stringent requirements, which might, from time-to-time, make it uneconomic or impossible to continue operating a facility. Non-compliance with such requirements at any of the Company's facilities could result in substantial civil penalties or the inability of the Company to operate all or part of the facility.

Notes 1 and 10 of the Notes to Consolidated Financial Statements are incorporated by reference herein.

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Item 2. PROPERTIES

The Company operates manufacturing and research facilities in ten countries. Capital spending, exclusive of acquisitions, for the years ended 2003, 2002 and 2001 was $93.8 million, $62.2 million, and $63.9 million, respectively. Capital expenditures in 2004 are expected to be in the range of $90.0 to $95.0 million. The increase in spending from 2002 levels is due primarily to a multi-year project to significantly upgrade and modernize the Stamford, Connecticut Specialty Chemicals research facility, expanding capacity at its Oestringen, Germany manufacturing facility, infrastructure upgrades at its Willow Island, West Virginia manufacturing facility and capital expenditures at the two plants acquired by the Company during 2003 in Shimonoseki, Japan and Mount Pleasant, Tennessee. The Company's capital expenditures are intended to provide increased capacity, to improve the efficiency of production units, to improve the quality of the Company's products, to modernize or replace older facilities, or to install equipment for protection of employees, neighboring communities and the environment.

The Company's major facilities and the segments served by each such facility are as follows:

FACILITY	PRINCIPAL SEGMENT
Anaheim, California	Specialty Materials
Atequiza, Mexico	Water and Industrial Process Chemica
Antofogasta, Chile	Water and Industrial Process Chemica
Avondale (Fortier), Louisiana	Building Block Chemicals
Belmont (Willow Island), West Virginia	Performance Products
Bogota, Colombia	Performance Products
Botlek, the Netherlands	Water and Industrial Process Chemica Building Block Chemicals

Bradford, England	Water and Industrial Process Chemica
Greenville, South Carolina	Specialty Materials
Greenville, Texas	Specialty Materials
Havre de Grace, Maryland	Specialty Materials
Kalamazoo, Michigan	Water and Industrial Process Chemica
Lillestrom, Norway	Performance Products
Longview, Washington	Water and Industrial Process Chemica
Mobile, Alabama	Water and Industrial Process Chemica
Mount Pleasant, Tennessee	Water and Industrial Process Chemica
Oestringen, Germany	Specialty Materials
Olean, New York	Performance Products
Orange, California	Specialty Materials
Rock Hill, South Carolina	Specialty Materials
Shimonoseki, Japan	Performance Products
Stamford, Connecticut.	Water and Industrial Process Chemica
Wallingford, Connecticut	Performance Products
Welland, Ontario	Water and Industrial Process Chemica
Winona, Minnesota	Specialty Materials
Wrexham, Wales, U. K.	Specialty Materials

The Company owns all of the foregoing facilities and their sites except for the land at the Botlek, Lillestrom, Shimonoseki and Rock Hill facilities which is leased under long term leases. The Company leases its corporate and Specialty Chemicals headquarters in West Paterson, New Jersey and its Specialty Materials headquarters located in Tempe, Arizona.

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Item 3. LEGAL PROCEEDINGS

The Company is the subject of numerous lawsuits and claims incidental to the conduct of its or its predecessors' businesses, including lawsuits and claims relating to product liability, personal injury, environmental, contractual, employment and intellectual property matters. Many of the matters relate to the use, handling, processing, storage, transport or disposal of hazardous materials. The Company believes that the resolution of such lawsuits and claims, including those described below, will not have a material adverse effect on the consolidated financial position of the Company, but could be material to the consolidated results of operations of the Company in any one accounting period. The Company, in this section, includes predecessor entities being indemnified by Cytec.

The Company is among several defendants in approximately 35 cases, in which plaintiffs assert claims for personal injury, property damage, and other claims for relief relating to lead pigment that was used as an ingredient decades ago in paint for use in buildings. The different suits were brought by government entities and/or individual plaintiffs, on behalf of themselves and others. The suits variously seek compensatory and punitive damages and/or injunctive relief, including funds for the cost of monitoring, detecting and removing lead based paint from buildings and for medical monitoring; for personal injuries allegedly caused by ingestion of lead based paint; and plaintiffs' attorneys' fees. The Company believes that the suits are without merit and is vigorously defending against all such claims.

The Company has access to a substantial amount of primary and excess general liability insurance for property damage and believes these policies are available to cover a significant portion of both its defense costs and indemnity costs, if any, for lead pigment-related property damage claims. The Company has not recorded an insurance receivable relating to its defense costs although it is currently pursuing an agreement with various of its insurers concerning coverage with respect to these matters.

In 1999 the Company received a subpoena to testify before, and provide documents to, a federal grand jury in California investigating the carbon fiber and prepreg industry. The Company manufactures prepregs as part of its advanced composites product line and, since its acquisition of BP's carbon fibers product line in August 2001, also manufactures carbon fiber. The grand jury was dismissed in December 2003 without issuing any indictments against the Company or any indictments for violation of anti-trust laws. After the grand jury investigation was commenced, the Company and the other companies subpoenaed to testify before the grand jury were named as defendants in various civil actions, including several class actions, on behalf of purchasers of carbon fiber, which the complaints defined to include prepregs manufactured from carbon fiber. The complaints allege that the defendants conspired to fix the prices of their products. The Company denies that it conspired to fix prices and is vigorously defending against all such claims.

The Company, like many other industrial companies, has been increasingly named as one of hundreds of defendants in a number of lawsuits filed throughout the United States by persons alleging bodily injury as a result of exposure to asbestos. Plaintiffs' attorneys have increased their focus on peripheral defendants, such as the Company, and the number of claims against the Company has more than doubled since September 30, 2002. The Company believes that a substantial part of the increase in claims is related to efforts to file cases before December 31, 2002, the effective date of tort reform legislation in Mississippi. The claimants allege exposure to asbestos at facilities formerly or currently owned by the Company or in products formerly manufactured by the Company for specialized applications. Most of these cases involve numerous defendants, sometimes as many as several hundred. Historically, most of the closed asbestos claims against the Company have been dismissed without any indemnity payment by the Company, and the Company has no information that this pattern will change.

The following table presents information about the asbestos claims against the Company.

	2003	2002
Claims Closed	7,601	530
Claims Filed	7,648	17,511
Claims Open, as of December 31	26,955	26,908

In addition to liabilities with respect to the specific cases described above, because the production of certain chemicals involves the use, handling, processing, storage, transportation and disposal of hazardous materials, and because certain of the Company's products constitute or contain hazardous materials, the Company has been subject to claims of injury from direct exposure to such materials and from indirect exposure when such materials are incorporated into other companies' products. There can be no assurance that, as a result of past or future operations, there will not be additional claims of injury by employees or members of the public due to exposure, or alleged exposure, to such materials.

See also the first four paragraphs of "Environmental Matters" under "Business" in Item 1 and Note 10 of the Notes to Consolidated Financial Statements.

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

Not applicable

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Common Stock of the Company is listed on the New York Stock Exchange. On January 30, 2004, there were approximately 12,000 holders of record of the Common Stock of the Company.

The high and low stock prices for each quarter were:

	1Q	2Q	3Q	4Q
2003				
High	$30.51	$35.54	$38.76	$38.59
Low	25.98	28.05	34.60	33.45
2002				
High	$31.67	$34.00	$31.99	$27.89
Low	22.64	27.33	21.41	19.20

On January 22, 2004 the Board of Directors approved the initiation of a common stock quarterly cash dividend program and declared a $0.10 per share cash dividend, payable on February 25, 2004 to shareholders of record as of February 10, 2004. The Company is restricted from paying dividends in excess of certain amounts determined in accordance with the terms of its Series C Cumulative Preferred Stock. (See Note 15 of the Notes to Consolidated Financial Statements, which is incorporated by reference herein).

Item 6. SELECTED FINANCIAL DATA

FIVE-YEAR SUMMARY
(Dollars in millions, except per share amounts)

	2003	2002		2001	
Statements of income data:					
Net sales	$1,471.8	$1,346.2		$1,387.1	
Earnings from operations	141.1	119.4	(2)	113.8	(4)

Earnings before accounting change and extraordinary item	91.0		79.3	(3)	66.2	(5)
Cumulative effect of accounting change, net of taxes	(13.6)		-		-	
Extraordinary gain, net of taxes	-		-		4.9	
Net earnings available to common stockholders	$77.4		$79.3		$71.1	
Net earnings per common share:						
Basic :						
Before accounting change and extraordinary item	$2.34		$2.01		$1.65	
Accounting change	(0.35)	(1)	-		-	
Extraordinary item	-		-		$0.12	
Net earnings	$1.99		$2.01		$1.77	
Diluted:						
Before accounting change and extraordinary item	$ 2.27		$1.96		$1.59	
Accounting change	(0.34)		-		-	
Extraordinary item	-		-		$0.12	
Net earnings	$ 1.93		$1.96		$1.71	
Statements of balance sheet data:						
Total assets	$2,025.9		$1,766.4		$1,650.4	
Long-term debt	$ 416.2		$ 216.0		$ 314.7	

(1) Represents the cumulative effect of adopting Statement of Financial Accounting Standards ("SFAS") No. 143 ("SFAS No. 143"). Expenses resulting from SFAS No. 143 included in Earnings from Operations were $1.8 in 2003. Had this accounting policy been in effect in prior years, additional expenses of $1.7 in 2002, $1.6 in 2001, $1.5 in 2000 and $1.4 in 1999 would have been recognized.

(2) Includes net restructuring charges of $13.7 and a charge of $1.7 for costs associated with a tax refund related to the prior years' research and development tax credit.

(3) In addition to the items in Note (2) above, includes restructuring charges of $0.4 included in equity in earnings of associated companies, $2.0 of interest income related to the research and development tax credit, and a $6.0 reduction in income tax expense related to a refund associated with prior years' research and development tax credits.

(4) Includes a restructuring charge of $5.4 and $9.7 of goodwill amortization that is no longer amortized under SFAS No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets."

(5) In addition to the items in note (4) above, includes a restructuring charge of $2.3 included in earnings of associated companies.

(6) Includes a restructuring charge of $10.1, a charge of $1.4 for receivables which were deemed uncollectible and due the Company from its former ammonia joint venture and $9.4 of goodwill amortization that is no longer amortized under SFAS 142.

(7) In addition to the items in note (6) above, includes a gain of $88.3 from the divestiture of the paper chemicals product line; a gain of $13.3, discounted

and net of expenses, from an environmental remediation insurance settlement; a gain of $7.1 from the sale of real estate at a former plant site; and a charge of $4.8 for the write-down of receivables from the AC Molding Compounds joint venture.

(8) Includes $8.5 of goodwill amortization that is no longer amortized under SFAS 142.

(9) In addition to the items in note (8) above, includes a credit of $8.0 related to the utilization of prior years' tax credits.

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 Consolidated Financial Statements. Dollars are in millions, except per share amounts. Percentages are approximate.

GENERAL

Cytec Industries Inc. is a global specialty chemicals and materials company and sells its products to diverse major markets for aerospace, water treatment, mining, automotive, industrial coatings, plastics and chemical intermediates. With slightly over half of its sales outside of the U. S., sales volume by region is an important metric to management and is detailed by segment as well as the impact of changes in currency rates. The Company reports its net sales in four segments: Water and Industrial Process Chemicals, Performance Products, Specialty Materials and Building Block Chemicals. The Water and Industrial Process Chemicals and Performance Products segments are collectively referred to as Specialty Chemicals. (See Item 1. Business.) The Company also reports its 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. Key raw materials for the Specialty Chemical and Building Block Chemicals segments are propylene, ammonia, methanol derivatives and natural gas for utilities. Discussion of the year to year impact for raw materials and energy is provided in our segment discussion.

In the course of the Company's ongoing operations, a number of strategic product line acquisitions and dispositions have been made. All acquisitions have been recorded using the purchase method of accounting. Accordingly, the results of operations of the acquired companies have been included in the Company's consolidated results from the dates of the respective acquisitions. (For further information about the Company's acquisitions and dispositions, see Note 2 of the Notes to Consolidated Financial Statements.)

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143") effective January 1, 2003, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146") effective January 1, 2003 and Statement of Financial Accounting Standards No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS 132 Revised"). SFAS 143 addresses the accounting and reporting requirements for legal obligations associated with the retirement of tangible long-lived assets, and SFAS 146 addresses the recognition and measurement of costs associated with an exit or disposal activity. The adoption of SFAS No. 143 resulted in a net charge of $13.6 million after-tax. SFAS No. 132 Revised provides for additional financial statement disclosures for defined benefit plans. In addition, the Company adopted SFAS No. 141, "Business Combinations" ("SFAS 141") effective July 1, 2001 and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") effective January 1, 2002, and SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") effective January 1, 2001. For further information on these accounting changes, see Note 1 of the Notes to Consolidated Financial Statements.

RESULTS OF OPERATIONS

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

Years Ended December 31,	2003	2002	2001
Net Sales	100.0%	100.0%	100.0%
Manufacturing cost of sales	75.8	75.8	77.1
Gross profit	24.2	24.2	22.9
Selling and technical services	8.6	9.1	8.2
Research and process development	2.4	2.5	2.3
Administrative and general	3.4	3.5	3.2
Amortization of acquisition intangibles	0.3	0.2	0.9
Earnings from operations	9.6	8.9	8.2
Net earnings	5.3	5.9	5.1

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NET SALES BY SEGMENT AND GEOGRAPHIC AREA

Net Sales

	North America	Latin America	Asia/ Pacific Rim	Ea
2003				
Water and Industrial Process Chemicals	$146.6	$60.2	$ 51.2	
Performance Products	248.6	28.9	86.6	
Specialty Materials	292.3	1.6	15.5	
Building Block Chemicals	88.9	4.0	58.0	
Total	$776.4	$94.7	$211.3	

2002			
Water and Industrial Process Chemicals	$139.9	$51.5	$ 50.1
Performance Products	242.9	26.2	72.3
Specialty Materials	290.7	1.3	14.7
Building Block Chemicals	68.9	3.9	60.2
Total	$742.4	$82.9	$197.3
2001			
Water and Industrial Process Chemicals	$156.0	$57.2	$ 36.6
Performance Products	238.0	27.2	65.7
Specialty Materials	320.4	1.9	16.8
Building Block Chemicals	82.6	4.7	51.6
Total	$797.0	$91.0	$170.7

Net sales in the United States were $719.7, $685.8 and $736.9 for 2003, 2002 and 2001, respectively. International net sales were $752.1, $660.4, and $650.2, or 51%, 49% and 47% of total net sales, for 2003, 2002 and 2001, respectively.

For more information on the Company's segments, see Note 16 of the Notes to Consolidated Financial Statements and further discussions in the Segment Results section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

YEAR ENDED DECEMBER 31, 2003, COMPARED WITH YEAR ENDED DECEMBER 31, 2002

Consolidated Results

Net sales for 2003 were $1,471.8, up 9%, compared to $1,346.2 for 2002. Overall, sales volume increased 5% with acquisitions accounting for 2% of this increase, favorable changes in currency rates adding 3%, and higher selling prices adding 1%.

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

Manufacturing cost of sales was $1,114.9, or 75.8% of net sales, for 2003 compared to $1,020.4, or 75.9%, of net sales, for 2002. Included in 2002 is a $10.8 net restructuring charge or 1.0% of net sales for plant closure costs and expenses associated with discontinuing a product line. Additional savings related to 2002 restructuring initiative were $1.4 in 2003 which was the result of planned personnel reductions under the 2002 initiative. Manufacturing costs in 2003 were also impacted by higher raw material and energy costs of $37.4, particularly from petroleum based products globally and natural gas based products in the U. S. and currency rate changes increased cost $18.2 Freight and warehousing increased $6.6 of which $3.0 was due to currency rates changes. The remainder of the increase in freight and warehousing is due primarily to sales volume increases as well as higher freight rates and fuel surcharges. Insurance costs increased $1.7 over 2002. Partially offsetting this were lower costs as a result of the Company's operational excellence initiatives.

Pension expense increased $5.2 principally as a result of the Company lowering its discount rate in the U. S. by 0.5% to reflect current market rates on fixed income securities and by the 2003 acquisitions which increased pension expense by $0.3. This was partly offset by plan changes to the retirement medical plans in the U. S. which were instituted by the Company in 2002 and reduced expense by $0.7. Pension expense is primarily reported in manufacturing cost of sales. See Critical Accounting Policies, Retirement Plans for further discussion on how changes in discount rates and return on asset assumptions can impact annual expense.

Selling and technical services increased $4.3. Included in prior year amounts are net restructuring charges of $2.5. Additional savings related to 2002 restructuring were $1.1 in 2003 primarily as a result of planned personnel reductions. Costs associated with the acquisitions in 2003 added $2.6 and costs associated with the Company's performance stock plan increased by $1.1 due to a higher market value for the Company's common stock. The remainder of the increase is primarily due to currency rate changes.

Research and process development increased $1.5. Included in the prior year are net restructuring charges of $1.0. Costs associated with the acquisitions in 2003 added $0.5. Headcount additions and costs for outside testing in the Specialty Chemical segments accounted for the increase in costs.

Administrative expenses increased $2.7 but included in prior year amounts are net restructuring charges of $0.8 and fees of $1.7 related to a research and development tax credit filing. The Company's performance stock plan increased costs by $1.5 due to the higher stock price. The acquisitions of 2003 added $0.7 to administrative costs in 2003 and insurance premiums increased $1.1 over 2002. Currency rate changes also increased costs.

The increase in the amortization of acquisition intangibles is due to the amortization of acquisition intangibles from the 2003 acquisitions.

Other expense, net increased $6.9 from the year ago period. This resulted primarily from currency losses where certain of our international subsidiaries held dollar denominated assets when the U. S. dollar weakened. Currency rate changes increased expenses compared to 2002 by $5.3. Cleanup costs of $0.6 at an operating site related to a divested product line and royalty income of $0.8 that expired in 2002 also contributed to the increase.

Equity in earnings of associated companies increased $1.1 from the year ago period. Included in 2002 results was a restructuring charge of $0.4 representing the Company's 50% share of restructuring charges recorded by CYRO, and a charge of $1.7 to reduce to zero the carrying value of the Company's net investment in the one-third owned PA.com. In addition, the Company's share of operating losses from PA.com in 2002 totaled $0.9. CYRO had increased sales of 5% in 2003, however its product mix was less favorable and raw material and energy costs were higher than the year ago period. As a result, the Company's share of earnings in 2003 from CYRO decreased by $1.7.

Interest expense, net was $16.2, a decrease of $0.3, from the prior year period. Interest income in 2002 was favorably impacted by $2.0 received in conjunction with research and development tax credit refund. In March 2003 the Company repaid $100.0 of its existing debt with an interest rate of 6.5% per annum resulting in lower interest expense. This was largely offset by interest expense related to the $200.0 principal amount of 4.6% Notes that were issued in June 2003. The interest expense associated with this new debt was partially reduced by $0.7 as a result of interest rate swap agreements entered into in August 2003.

Income tax provision reflects a reduction in the effective tax rate from 33.5%, before the impact of prior years' tax credits, to 28.0%. This reduction was a result of the Company's continued emphasis on global tax planning and execution of those plans together with an increased level of investment and earnings in tax jurisdictions with lower rates as well as a favorable international tax ruling with respect to a legal entity restructuring that occurred in the prior year. The 2002 full year effective tax rate of 28% reflects a reduction for a tax refund of $6.0 associated with prior year's research & development tax credits.

Net earnings before the cumulative effect of the accounting change were $91.0, or $2.27 per diluted share, for 2003, compared to $79.3, or $1.96 per diluted share, in 2002. Included in 2002 was an after-tax net restructuring charge of $14.1, or $0.23 per diluted share. Also included in 2002 is a net credit of $0.15 per diluted share related to research and development tax credits discussed above (a reduction of $6.0 in income tax provision, interest income of $2.0 or $1.3 after-tax, and a charge of $1.7 or $1.1 after-tax in administrative expenses for fees related to tax planning).

On January 1, 2003, the Company adopted SFAS 143 and recorded an after-tax, non-cash charge of $13.6 ($0.34 per diluted share) reported as a cumulative effect of an accounting change.

Net earnings after the cumulative effect of the accounting change were $77.4 or $1.93 per diluted share.

Segment Results

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

Water and Industrial Process Chemicals

	2003	2002	Total % Change	% Change Price	Volume/
North America	$ 146.6	$ 139.9	5%	-3%	7%
Latin America	60.2	51.5	17%	1%	19%
Asia/Pacific	51.2	50.1	2%	-8%	-2%
Europe/Middle East/Africa	104.2	89.7	16%	-2%	4%
Total	$ 362.2	$ 331.2	9%	-3%	7%

Overall, sales increased 9%. Currency rate changes increased sales 5% with acquisitions adding 4%. Base volume increased 3%, and selling prices declined 3%. North American volumes increased 7% with the 2003 acquisitions of the metal extractant and aromatic phosphines product lines of Avecia accounting for 6%. Also, the Water Treatment product line selling volume was down as the Company exited certain low profit municipal business but this was offset by increased Phosphine gas sales. In Latin America, the volume growth of 19% was primarily in the mining chemicals product line as a result of higher demand in the alumina market and acquisitions accounting for 3%. Asia/Pacific volumes decreased 2%; 2002 volume included sales for an initial fill of the Company's solvent extraction product at one of the worlds largest cobalt nickel mines. Europe volumes increased 4% primarily in the Water Treatment product line. Currency rate changes were primarily the result of the weaker U. S. dollar, except in Latin America where the U. S. dollar remained strong for the first three quarters of 2003. Selling prices decreased in North America in all product lines due to customer mix and competitive pricing. Latin America pricing increased offsetting the impact of negative currency rate changes. Asia/Pacific selling prices decreased principally in mining chemicals where pricing is linked to the U. S. dollar with an offsetting effect due to currency rate changes.

Earnings from operations were $20.3, or 6% of net sales in 2003, compared to $26.2, or 8% of net sales, in 2002. Included in 2003 are increased savings from the 2002 restructuring initiative of $1.4 million as a result of planned personnel reductions. The impact from the increase in sales and restructuring savings was more than offset by higher raw material and energy costs of $3.2, higher freight, warehousing, employee benefit and insurance costs.

Performance Products

	2003	2002	Total % Change	Price
North America	$ 248.6	$ 242.9	2%	1%
Latin America	28.9	26.2	10%	5%
Asia/Pacific	86.6	72.3	20%	-2%
Europe/Middle East/Africa	125.7	110.9	13%	0%
Total	$ 489.8	$ 452.3	8%	1%

Overall, sales increased 8% with the 2003 acquisitions accounting for 3%. Currency rate changes increased sales 4%, principally from the stronger Euro offset somewhat by overall weakness in Latin American currencies. Base volumes for the year were flat and selling prices were up slightly. The Company experienced strong demand in the Asia/Pacific and Latin America regions although off a smaller base but this was almost all offset by lower demand in Europe and North America due to reduced economic activity in those regions. Selling prices were up in Latin America offsetting the negative impact of currency rate changes. Prices in Asia/Pacific were down 2% primarily in Polymer Additives due to continued competitive pricing initiatives.

Earnings from operations were $37.3, or 8% of net sales, in 2003 compared to $39.6, or 9% of net sales, in 2002. Included in 2003 are increased savings from the 2002 restructuring imitative of $1.1 million as a result of planned personnel reductions. The impact from the increase in sales and restructuring savings was more than offset by higher raw material and energy costs of $9.2, increased freight, warehousing, employee benefit and insurance costs.

Specialty Materials

	2003	2002	Total % Change	Price
North America	$ 292.3	$ 290.7	1%	0%
Latin America(1)	1.6	1.3	---	---
Asia/Pacific	15.5	14.7	4%	-2%
Europe/Middle East/Africa	99.3	88.8	12%	-3%
Total	$ 408.7	$ 395.5	3%	-1%

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

Selling volumes were up 3% overall. Sales to military and rotorcraft applications added 5% due to increased production levels for military aircraft and a high level of replacement parts for rotorcraft and restocking by certain customers from low 2002 year-end inventory levels. Sales to the commercial aerospace sector for large commercial aircraft, regional jets and business jets were down 2% from 2002. Sales to Boeing were down in line with the decrease in large commercial aircraft build rates but offset somewhat by increased sales to Airbus.

Earnings from operations were $66.3, or 16% of sales, in 2003 compared to $65.7, or 17% of sales, in 2002. Included in 2003 are increased savings from the 2002 restructuring initiative of $0.5 million as a result of planned personnel reductions. The impact from the increase in sales, restructuring savings and higher plant utilization was essentially offset by higher operating costs as the Company invested in its manufacturing plants and increased its selling and technical efforts.

Building Block Chemicals (Sales to external customers)

	2003	2002	Total % Change	% Ch Price	Volum
North America	$ 88.9	$ 68.9	29%	15%	
Latin America(1)	4.0	3.9	---	---	
Asia/Pacific	58.0	60.2	-4%	15%	
Europe/Middle East/Africa	60.2	34.2	76%	3%	
Total	$ 211.1	$ 167.2	26%	12%	

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

Selling volumes increased 10% overall. North American and European acrylonitrile volumes were up due to new business. Demand in Asia/Pacific for acrylonitrile was low principally in the second quarter of the year. Selling prices were up primarily related to acyrlonitrile due to tighter supply and increased input costs.

Earnings from operations were $20.3, or 7% of net sales, in 2003 compared to $5.6, or 3% of net sales, in 2002. The increased earnings were primarily the result of higher selling volumes and prices and the favorable impact of currency rate changes. Additionally, earnings increased due to lower plant spending of $3.2 and higher plant capacity utilization. The increase was partially offset by significantly higher raw material and energy costs of $24.0 which were primarily due to the higher cost of ammonia, propylene and natural gas.

YEAR ENDED DECEMBER 31, 2002, COMPARED WITH YEAR ENDED DECEMBER 31, 2001

Consolidated Results

Net sales for 2002 were $1,346.2 compared to $1,387.1 for 2001 with modest declines in prices and volume. Asia/Pacific had the only sales increase, which was due to strong volume growth. The Americas were down modestly due to lower volume and Europe/Middle East/Africa was slightly below last year.

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

In 2002 the Company recorded an aggregate restructuring charge of $16.0, which included the elimination of 135 positions worldwide. The charge was comprised of the following initiatives: reorganization of the Specialty Chemicals segments resulting in a reduction of 65 personnel and a charge of $5.1 for employee related costs; alignment of the Specialty Materials segment in connection with reduced demand in the commercial aerospace industry, resulting in a reduction of 47 personnel and a charge of $1.6 for employee related costs; closure of the Woodbridge, NJ, facility, resulting in the elimination of 23 positions and a charge of $1.6 for employee related and decommissioning costs; and the discontinuance of a minor unprofitable product line, resulting in a charge of $7.7 for the write-down of the net book value of the fixed assets and costs of decommissioning the facility. The restructuring costs were charged to the Consolidated Statement of Income as follows: manufacturing cost of sales, $11.6; selling and technical services, $2.6; research and process development, $1.0 and administrative and general, $0.8 and were charged to corporate. At the time the restructuring was initiated, the Company expected cumulative savings of $6.3 in 2002 and $9.5 in 2003. As of December, 2002, 105 positions were eliminated resulting in actual savings through December 31, 2002 of $6.1.

In addition, during 2002 the Company recorded charges of $0.4 in equity in earnings of associated companies for its 50% share of additional restructuring charges related to CYRO's shutdown of its Niagara Falls, Ontario, Canada facility in 2001.

In 2001 the Company recorded a restructuring charge of $5.4 related to the indefinite idling of the Fortier ammonia plant and the Company's share of the related personnel reduction of 67 positions at the Fortier facility. The restructuring costs were charged to the Consolidated Statement of Income as follows: manufacturing cost of sales of $4.6 and selling and technical services of $0.8 and were charged to corporate. The components of the restructuring charge included: employee severance costs, $4.3; asset write-downs, $0.9; and other costs, $0.2. During 2002 the Company reduced this restructuring accrual as a result of incurring less costs than originally estimated as a result of less than expected personnel reductions. As a result, the Company recognized a restructuring credit of $0.9 in the Consolidated Statement of Income as follows: manufacturing cost of sales, $0.8 and selling and technical services, $0.1. At the time the restructuring was initiated, the Company expected savings of $2.2 in 2001 and savings of $8.9 in 2002. The actual cumulative savings for 2001 were $2.1 and $8.5 in 2002.

In addition, during 2001 the Company recorded charges of $2.3 in equity in earnings of associated companies for its 50% share of CYRO's restructuring charges including $3.7 related to the shutdown of CYRO's manufacturing facility in Niagara Falls, Ontario, Canada, and $0.8 related to CYRO's share of the infrastructure restructuring at the Company's Fortier facility.

Manufacturing cost of sales was $1,020.4, or 75.8% of net sales, for 2002 and included net restructuring charges of $10.8 for plant closure and employee related costs and expenses associated with discontinuing a product line. Manufacturing cost of sales was $1,069.0, or 77.1% of net sales, for 2001, and included a restructuring charge of $4.6 related to the indefinite idling of the Fortier ammonia plant and the Company's share of the related personnel reductions at the Fortier facility. Restructuring savings increased $6.4 in 2002 compared to 2001. The remaining increase in gross profit margins was due to $20.9 lower raw material and energy costs and increased production levels in the Company's Specialty Chemicals segments.

Pension expense increased $3.6 principally as a result of a decrease in the discount rate that was used to determine pension expense to reflect market rates available on fixed-income securities. The Company also lowered its long term return on assets assumption from 8.8% to 8.3%. The resulting increase in pension expense was partly offset by plan changes to the retirement medical plans adopted by the Company in 2002 which reduced expense by $2.7. See Critical Accounting Policies, Retirement Plans, below for further discussion on how changes in discount rates and return on asset assumptions can impact annual expense.

Selling and technical services expenses increased $8.3, research and process development expenses increased $1.3, and administrative and general expenses increased $2.2. Included in 2002 were net restructuring charges of $2.5, $1.0 and $0.8 in selling and technical services, research and process development and administrative and general expenses, respectively, that primarily related to employee reductions in the Specialty Chemicals and Specialty Materials segments. Restructuring savings increased $1.3 in 2002. Also included in administrative and general expenses for 2002 were charges of $1.7 for fees incurred in connection with a favorable cash settlement of prior years' research and development tax credits claim with the IRS. Included in selling and technical services expenses for 2001 was a restructuring charge of $0.8 related to the personnel reductions at the Fortier facility. Selling and technical services also increased due to head count additions in certain regions and $1.7 for severance and relocation costs, mostly in Europe and North America as the Company realigned its selling and customer service organizations and costs incurred to implement the Specialty Chemicals North American logistics network. Operating expenses also included an increase of $5.9 compared to 2001 for accruals for incentive-based compensation. Incentive compensation is performance based, and for 2002 the Company exceeded several of its 2002 annual targets, whereas in 2001 economic conditions prevented the Company from attaining several of its 2001 performance targets and incentive-based compensation expenses were reduced accordingly.

Amortization of acquisition intangibles was $3.1, down $9.7 from the prior year period, as goodwill was no longer amortized effective January 1, 2002, under SFAS 142.

Other income, net, was $1.2 for 2002 and included currency gains of $2.8. Other income, net, was $6.8 for 2001 and included gains of $7.0 related to the sale of reclaimed land in Florida and the settlement of a royalty issue concerning mineral rights associated with a former phosphate rock mining joint venture also in Florida.

Equity in earnings of associated companies was $6.1 for 2002, compared to $0.1 for 2001. Included in 2002 and 2001 were restructuring charges of $0.4 and $2.3, respectively, related to CYRO's shutdown of its Niagara Falls, Ontario, Canada facility, and CYRO's share of infrastructure restructuring at the Company's Fortier facility. The increase in equity earnings of associated companies reflects higher sales and the benefits of the restructuring initiatives at CYRO. Sales at associated companies were $307.5 for 2002, an increase of 5% after excluding sales of the former AC Molding Compounds joint venture which was shut down in November 2001. Included in 2002 was a charge of $1.7 to reduce to zero the carrying value of the Company's net investment in the one-third owned PA.com joint venture. Accordingly, the Company no longer recognized its share of the joint venture's expected future losses. The terms of the joint venture agreement required the Company to make an additional contribution of $0.5 during 2002, and this required contribution was included in the amount of the charge recognized in 2002.

Interest expense, net, was $16.5 for 2002 compared to $19.6 for 2001. Included in 2002 was interest income of $2.0 received in connection with a favorable cash settlement of prior years' research and development tax credit claims with the IRS. The remainder of the decrease was due to increased interest income attributable to higher cash balances during 2002.

The income tax provision was $30.9 for 2002 and included a reduction of $6.0 in connection with a cash settlement of prior years' research and development tax credits claim.

Net earnings for 2002 were $79.3, or $1.96 per diluted share, compared to $71.1, or $1.59 per diluted share, for 2001. Included in 2002 were after-tax net restructuring charges of $9.4, or $0.23 per diluted share, and a net credit of $6.2, or $0.15 per diluted share, related to prior year's research and development tax credits broken down as follows: a reduction of $6.0, or $0.15 per diluted share, in income tax expense, after-tax interest income of $1.3, or $0.03 per diluted share, and an after-tax charge of $1.1 million, or $0.03 per diluted share, in administrative expenses for external costs associated with such tax planning. Included in 2001 were after-tax restructuring charges of $5.0, or $0.12 per diluted share, an after-tax extraordinary gain of $4.9, or $0.12 per diluted share, related to the acquisition of the assets of the carbon fibers product line of BP, and after-tax goodwill amortization of $6.4, or $0.15 per diluted share, that is no longer required under SFAS 142

Segment Results

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

Water and Industrial Process Chemicals

	2002	2001	Total % Change	% Chang Price	Volu
North America	$ 139.9	$ 156.0	-10%	0%	-
Latin America	51.5	57.2	-10%	10%	-
Asia/Pacific	50.1	36.6	37%	-3%	
Europe/Middle East/Africa	89.7	85.2	5%	-2%	
Total	$ 331.2	$ 335.0	-1%	0%	

The decreases in selling volumes were due to 8% lower water treatment sales in the North American market, primarily the municipal water market, that the Company was de-emphasizing in favor of industrial markets. The paper and oilfield markets reflect lower levels of economic activity. Selling volumes for mining chemicals in the North and Latin American regions were lower 11% each due to lower economic activity. In the Asia/Pacific region selling volumes for mining chemicals were up 23% due to increased demand in the copper and cobalt nickel markets, and in particular an initial fill at one of the world's largest cobalt nickel mines. In Europe Phosphine sales were $4.5 lower in Europe as a result of a certain customer experiencing reduced demand in their end market that resulted in lower purchases of the Company's products offset by growth of $6.5 in the Water Treatment product line due to new business.

Earnings from operations were $26.2, or 7.9% of net sales, in 2002, compared to $25.2, or 7.5% of net sales, in 2001. The improvement in earnings from operations was primarily the result of $4.8 lower overall raw material and energy costs, savings from restructuring of $1.8, and lower amortization expense of $1.1 from adopting SFAS No. 142, partially offset by the impact of lower sales.

Performance Products

	2002	2001	Total % Change	Price	Vo
North America	$ 242.9	$ 238.0	2%	-1%	
Latin America	26.2	27.2	-4%	3%	
Asia/Pacific	72.3	65.7	10%	-6%	
Europe/Middle East/Africa	110.9	103.8	7%	-2%	
Total	$ 452.3	$ 434.7	4%	-2%	

Sales volumes increased in all product lines, particularly in the Asia/Pacific region where sales benefited from improved market conditions. In the United States, demand in the automotive and general industrial markets improved as compared to 2001. The lower selling prices were primarily in the polymer additives product line, down 7% globally.

Earnings from operations were $39.6, or 8.8% of net sales, in 2002, compared to $16.4, or 3.8% of net sales, in 2001. The improvement in earnings from operations is the result of the leverage achieved from higher selling volumes, lower raw material and energy costs of $10.0 savings from restructuring of $2.1, and lower operating costs. Also benefiting earnings was lower amortization expense of $1.2 from adopting SFAS No. 142.

Specialty Materials

	2002	2001	Total % Change	Price
North America	$ 290.7	$ 320.4	-9%	0%
Latin America(1)	1.3	1.9	-	-
Asia/Pacific	14.7	16.8	-13%	-2%
Europe/Middle East/Africa	88.8	111.1	-20%	-1%
Total	$ 395.5	$ 450.2	-12%	0%

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

The overall decrease in selling volume, which includes a 2.7% increase from acquisitions, reflects the significant decrease in demand for commercial aircraft. This affected sales in all regions and was partially offset by higher growth in the military sector, mainly North America and the high performance auto sector in Europe.

Earnings from operations were $65.7, or 16.6% of net sales, in 2002, compared to $97.2, or 21.6% of net sales, in 2001. The decline in earnings from operations reflects the decrease in selling volumes, which were partially offset by efforts to keep costs aligned with demand, savings from restructuring of $2.2, and lower amortization expense of $7.4 from adopting SFAS No. 142.

Building Block Chemicals (Sales to external customers)

	2002	2001	Total % Change	% Price	V

North America	$ 68.9	$ 82.6	-16%	-5%
Latin America(1)	3.9	4.7	-	-
Asia/Pacific	60.2	51.6	17%	-1%
Europe/Middle East/Africa	34.2	28.3	21%	6%
Total	$ 167.2	$ 167.2	0%	-3%

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

The overall decrease in selling prices was primarily due to lower acrylonitrile and acrylamide selling prices during the first half of 2002. Demand for acrylonitrile improved with the recovery of certain of the Asia/Pacific economies and acrylamide sales were higher in Europe. Most of the sales volume decline in the North America region was due to the idling of the ammonia plant in April 2001. Ammonia sales were $11.2 in 2001.

Earnings from operations were $5.6 in 2002, compared to losses from operations of $18.7 in 2001. The improvement was due to higher acrylonitrile margins driven by increased demand in the export markets for acrylonitrile, by competitors' supply disruptions, and by lower energy costs of $3.1, principally natural gas in the United States and restructuring savings of $6.5.

LIQUIDITY AND FINANCIAL CONDITION

At December 31, 2003, the Company's cash balance was $251.1, compared to $210.0 at year end 2002.

Net cash flows provided by operating activities were $132.4 in all of 2003, compared to $211.6 in 2002.

Accounts receivable decreased $13.6 and days outstanding declined by approximately two days as more effort was put into collections in 2003. Other receivables increased $7.9 primarily from receivables for anticipated insurance and litigation recoveries. Inventories increased $12.2 and days increased by approximately four days. Much of this increase is due to production campaigning at certain of our production sites and higher levels of inventory in Asia and Latin America. Accounts payable is down $13.4 due primarily to timing of payments, compared to the end of the year in 2002. Accrued expenses decreased due primarily to higher accruals for incentive compensation cash payments for 2002 performance than the accrual for 2003 performance, thereby reducing the accrual balance by approximately $2.5, and restructuring payments of $1.9. Other liabilities decreased $44.0 due to environmental remediation spending of $9.3 and retiree medical payments, net of the accrual, of $16.4 and pension contributions, net of the accrual, of $14.6.

Net cash flows used for investing activities were $195.3 in 2003 compared to $56.4 in 2002.

In the third quarter of 2003, the Company used $101.6 to complete two previously announced acquisitions. In July, the Company acquired Avecia's MEP and I&S product lines and in September, the Company completed the dissolution of its joint venture with Mitsui Chemicals Inc. The Company now owns 100% of the former venture's existing coating resins product line and certain technology rights associated with the water treating product line in most of Asia, while Mitsui retains the former venture's existing water treating product line.

Capital spending for 2003 was $93.8 compared to $62.2 for 2002. The ongoing renovation of the Specialty Chemicals research facility and the expansion of the advanced composites manufacturing facility in Germany were the main factors in the increase in capital spending. These projects will continue into 2004. For the full year 2004, the Company expects capital spending to be approximately $90.0- $95.0.

The Company believes that, based on its expected operating results for 2004, it will be able to fund operating cash requirements and planned capital expenditures and dividends through the end of 2004 from its internal cash generation.

Net cash flows provided by financing activities totaled $85.4 for 2003 compared to a net use of $36.7 for 2002. In March 2003, the Company repaid $100.0 of its 6.50% debt then due. In June 2003, the Company sold $200.0 principal amount of 4.60% Notes due July 1, 2013. Proceeds to the Company from the sale of the notes were $198.9. Proceeds from stock option exercises totaled $14.5 in 2003 compared to $3.1 for the same period of 2002. The total number of treasury shares reissued because of option exercises was 1,079,800 for 2003 compared to 293,650 shares reissued for the same period in 2002.

In 2003 the Company announced an authorization to repurchase up to an additional $100.0 of its outstanding common stock. The repurchases are being made from time to time on the open market or in private transactions and the shares obtained under this authorization are anticipated to be utilized for stock option plans, benefit plans and other corporate purposes. During 2003, the Company repurchased 838,200 shares of stock at a cost of $27.7 that completed its previous stock repurchase authorization and included the purchase of approximately 512,000 shares at a cost of $18.1 under its new authorization.

In January, 2004, the Board of Directors approved the initiation of a common stock quarterly cash dividend program and declared a $0.10 per share cash dividend, payable on February 25, 2004 to shareholders of record as of February 10, 2004. The Company is restricted from paying dividends in excess of certain amounts determined in accordance with the terms of its Series C Cumulative Preferred Stock ("Series C Stock"). See Note 15 of the Notes to Consolidated Financial Statements.

In April 2002, the Company executed a $100.0, three-year unsecured revolving credit agreement and a $100.0, 364-day unsecured revolving credit agreement with a one-year term out option that was renewed in April 2003. Revolving loans under the agreements are available for the general corporate purposes of the Company and its subsidiaries, including without limitation, for purposes of making acquisitions. The credit agreements contain covenants customary for such facilities. The Company was in compliance with all terms, covenants and conditions of its credit facilities. The Company also has available U. S. dollar equivalents of approximately $6.6 under non-U. S. dollar denominated overdraft facilities. There are no outstanding borrowings under these facilities at December 31, 2003 or 2002.

In 2003, the Company entered into short-term loan agreements relating to the acquisition of MCY's coatings resins product line (See Note 2 of the Notes to Consolidated Financial Statements), aggregating approximately 2 billion yen. The U. S. dollar equivalent debt balance outstanding under these agreements at December 31, 2003 is $9.3 and is included in short-term borrowings. In January 2004, the company cancelled one of these agreements and reduced the total amount outstanding by 1 billion yen.

At December 31, 2003 and 2002, long-term debt, including the current portion, consisted of the following:

	2003		
	Face	Carrying Value	F
6.50% Notes Due March 15, 2003	-	-	$
6.75% Notes Due March 15, 2008	$100.0	$ 97.7	
6.846% Mandatory Par Put Remarketed Securities	120.0	118.9	
4.60% Notes Due July 1, 2013	200.0	199.6	
	420.0	416.2	
Less: Current maturities	-	-	
Long-term debt	$420.0	$416.2	$

See Note 9 of the Notes to Consolidated Financial Statements for additional detail.

The Company has not guaranteed any indebtedness of its unconsolidated associated company.

The Company must maintain certain financial covenants contained in its Series C Stock, as modified. Under such covenants, the Company would have the ability to incur up to an additional $699.1 in debt at December 31, 2003 and make additional restricted payments (which include common stock dividends and repurchases of common stock) of $92.5. (For further information about the Series C Stock and financial covenants contained therein, see Note 15 of the Notes to Consolidated Financial Statements).

The impact of inflation on the Company is considered insignificant since the rate of inflation has remained relatively low in recent years and investments in areas of the world where inflation poses a risk are limited.

Contractual Obligations and Commercial Commitments

The following tables set forth our contractual obligations as of December 31, 2003:

Payments Due by Period

Contractual Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years
Short-term borrowings	$ 9.3	$ 9.3		
Long-term debt	420.0	-	$ 120.0	$ 100.0
Operating leases	41.6	9.8	10.1	5.2
Purchase obligations	13.4	6.0	5.3	2.1
Unfunded employee benefits	14.2	1.5	2.6	2.8
Total	$ 498.5	$ 26.6	$ 138.0	$ 110.1

The Company had net contractual commitments under currency forward contracts in U. S. dollar equivalent amounts of $33.4 that all settle in less than one year. At December 31, 2003, the Company also had $13.8 of natural gas forward contracts that settle in less than one year. (See Note 4 of the Notes to Consolidated Financial Statements).

The Company had $24.6 of outstanding letters of credit, surety bonds and bank guarantees at December 31, 2003 that are issued on the Company's behalf in the ordinary course of business to support certain performance obligations and commitments of the Company. The instruments are typically renewed on an annual basis.

The Company does 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 the Company's potential exposures to market risk arising from changes in currency rates, commodity prices, interest rates and equity price changes. Actual results could differ materially from those projected in this forward-looking analysis.

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, the Company is exposed to various market risks, including fluctuations in currency rates, commodity prices and interest rates. To manage the exposure related to these risks, the Company may engage in various derivative transactions in accordance with Company-established policies. The Company does not hold or issue financial instruments for trading or speculative purposes. Moreover, the Company enters into financial instrument transactions with either major financial institutions or highly-rated counterparties and makes reasonable attempts to diversify transactions among counterparties, thereby limiting exposure to credit related and performance related risks.

Currency Risk: The risk of adverse currency rate fluctuations is mitigated by the fact that there is no concentration of currency exposure outside the U. S. In addition, the Company periodically enters into currency forward contracts primarily to hedge currency fluctuations of transactions denominated in currencies other than the functional currency of the business. At December 31, 2003, the principal transactions hedged involved accounts receivable, accounts payable and intercompany loans. When hedging currency exposures, the Company's practice is to hedge such exposures with forward contracts 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, 2003, the currency and net contractual amounts of the Company's forward contracts translated into U. S. dollar equivalent amounts were as follows:

	Buy		
Sell	Euro	Norwegian Krone	Canadian Dollar
U. S. dollar	$10.1	$ 2.2	$4.5
Pound sterling	4.0	1.0	-
Euro	-	10.7	-
Other	0.8	0.1	-

The fair value of currency contracts, based on forward exchange rates at December 31, 2003, exceeded contract values by approximately $0.6. 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 change in the fair value of all outstanding contracts at year-end would be a decrease of approximately $3.4. 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.

Commodity Price Risk: The Company frequently uses natural gas forward contracts and swaps to reduce the volatility of natural gas costs used for utility purposes at certain of its facilities. These contracts typically correlate highly to the actual purchases of the commodity and have the effect of securing predetermined prices that the Company pays for the underlying commodity. While these contracts are primarily structured to limit the Company's exposure to increases in commodity prices, they can also limit the potential benefit the Company might have otherwise received from decreases in commodity prices.

At December 31, 2003, the Company had outstanding natural gas forward contracts with a notional value of $13.8 and delivery dates of January through October 2004 and outstanding natural gas swaps with a fair value gain of $0.3, which will be reclassified into manufacturing cost of sales in the period the hedged natural gas purchases affect earnings. At December 31, 2003, based on year-end NYMEX prices, the Company had net unrealized gains on its natural gas forward contracts of $0.8. Assuming that year-end prices were to decrease by a hypothetical 10%, the above gain would be reduced by approximately $1.2.

Interest Rate Risk: In March 2003 the Company repaid $100.0 of its outstanding borrowings. In June 2003, the Company sold $200.0 principal amount of 4.6% Notes due July 1, 2013. At December 31, 2003, the outstanding borrowings of the Company consisted of fixed rate long-term debt, which had a car