CYTEC

Cytec \ˈsī-tek\ *n* 1: a superior return on *stockholders'* investments 2: a relentless focus on serving *customers* 3: an environment of empowerment for *employees* 4: responsibility towards our *communities.*

1996 annual report

OUR VISION

"First we will be best, then we will be first."

Cytec Industries Inc. is a vertically integrated, specialty chemicals company that focuses on value-added specialty products. The Company develops, manufactures, and markets specialty chemicals, specialty materials, and building block chemicals serving a broad group of end users, including the water treatment, paper, mining, coatings, plastics, aerospace, automotive, and textile industries.

OUR VALUES

Safety We make safety our first priority—the core of all we do. *Environment* We are committed to protecting the health and well-being of the communities in which we conduct business. *Employees* We respect every employee, recognizing our mutual need to be safe, healthy, and successful. We value each other for our diverse ideas, experiences, and backgrounds. *Empowerment* We encourage our people to be innovative, to take action to make independent decisions, and to be accountable for their actions. *Leadership* Each of us strives to lead and motivate by example and consistently live by these core values. We coach, train, and empower employees to reach their full potential. *Teamwork* We work as groups and individuals toward our common goal in a spirited and selfless manner. *Continuous Improvement* We relentlessly pursue doing the right things better. *Technology* We are committed to providing the resources to develop technology that will build and sustain our businesses. *Ethics* We are fair, honest, and consistent in our business and personal practices.

CONTENTS

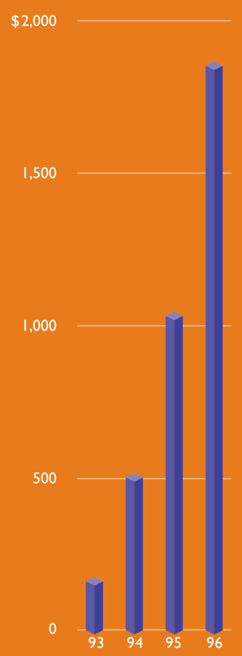
Cytec subscribes to the principles of Responsible Care® developed by the Chemical Manufacturers Association.

FINANCIAL HIGHLIGHTS

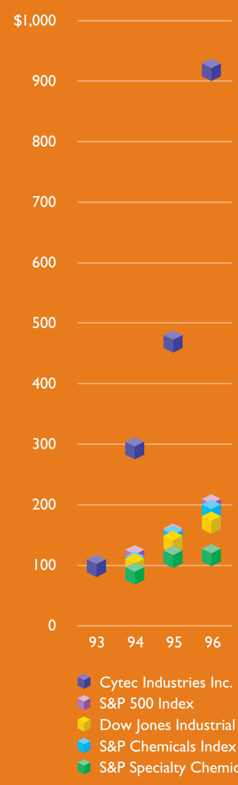
(In millions, except per share data)	Years Ended December 31, 1996	1995
OPERATING RESULTS		
Net sales	$1,259.6	$1,260.1
Research and process development expense	40.2	44.2
Depreciation and amortization	89.0	89.9
Earnings from operations	136.1	122.7
Earnings before income taxes	142.1	132.1
Equity in net earnings of associated companies	14.9	13.9
Dividends on preferred stock	0.0	(10.7)
Net earnings available for common stockholders	100.1	76.3
PER SHARE DATA		
Net earnings per common share (fully diluted)	2.01	1.43*
Stockholders' equity based on outstanding common shares	6.58	6.85*
OTHER DATA		
Capital additions for the year	72.5	97.2
Total assets	1,261.1	1,293.8
Total stockholders' equity	$ 314.4	$ 342.9

*Adjusted for the three-for-one stock split on July 23, 1996, in the form of a dividend to stockholders of record as of the close of business on July 2, 1996.

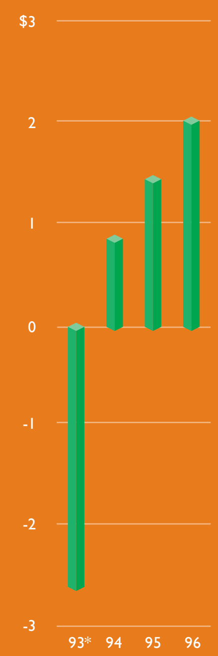
MARKET CAPITALIZATION AT YEAR END (In millions, based on common stock)



CYTEC TOTAL RETURN TO STOCKHOLDERS (In dollars; December 1993 base of $100)



FULLY DILUTED EARNINGS PER SHARE (In dollars; adjusted for three-for-one stock split paid on July 23, 1996)

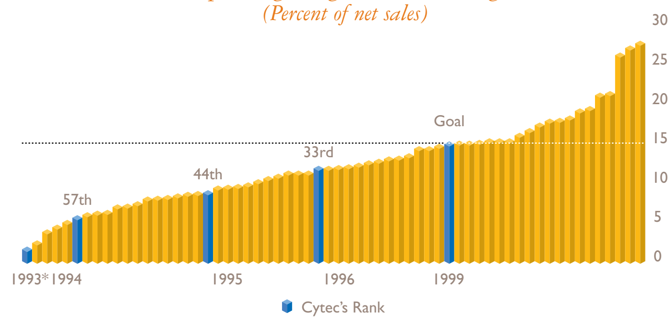


*Pro forma

TO OUR STOCKHOLDERS:

Cytec began with a commitment to achieving value for all stakeholders, and our success has been driven by a change in culture combined with challenging financial goals. The culture change started with a shared spirit and common sense of purpose. It has resulted in a company that is now 12 percent owned by employees who are self-motivated in their dedication to continuous improvement. Together we have taken a company that was internally focused, and we are transforming it into a more customer-driven company.

Operating Margin Benchmarking
(Percent of net sales)



*Spin-off pro forma, excluding $105.7 million environmental charge.

We set benchmarks so all employees can be part of Cytec's transformation, participating in our progress and sharing in our gains. We compare ourselves to peers and other standards of measure on everything from safety to the number of days it takes us to issue an earnings release after the close of a quarter.

Cytec has made significant progress among a peer group of 61 specialty chemical companies against which we benchmark our performance. In three years we have advanced from last place to rank 33rd.

Early on we set three fundamental financial targets for Cytec to attain by the end of 1999: an operating margin of 15 percent, an effective tax rate of 35 percent, and a sales mix in which international net sales account for 50 percent of total net sales. In addition to these targets, we earmarked our free cash flow for use in synergistic, bolt-on acquisitions or stock buy back. Most of these financial priorities were designed to provide rapid growth in earnings per share and to put Cytec in the upper quartile of the 61 specialty chemicals companies against which we benchmark our performance.

Cytec has made considerable progress. Our operating margin has increased from 2.2 percent in 1993 (on a spin-off pro forma basis) to 10.8 percent in 1996. This places Cytec about in the middle of our peer group of 61 specialty chemicals companies. Our operating margin target continues to be 15 percent by the end of 1999, and we believe we can achieve this through internal improvements and growth from our newer, higher margin products. Our effective tax rate in 1994 was 43 percent. We reduced it to 40 percent in 1996, which is still in the lower quartile of our benchmarking peer group. However, we are on track to our goal of 35 percent by the end of 1999. International net sales as a percentage of total net sales rose to 39 percent in 1996, up from 28 percent in 1993. Our free cash flow has been used primarily to fund the buy back of preferred stock in 1995 and common stock in 1996, resulting in a 20 percent reduction in fully diluted shares over the past two years.

Along with financial goals, we initiated a plan built around creating by 1996 a portfolio of businesses and products that we could improve and grow. In 1996 we withdrew from our technical chemicals business and sold our aluminum sulfate businesses. During late January of 1997, we completed the sale of our acrylic fibers business. Cytec now has the mix we want of vertically integrated specialty chemicals and specialty materials businesses.

With a historical eight percent compounded five-year annual growth rate for our continuing specialty businesses, we are confident of Cytec's ability to sustain good sales growth. In fact, this five-year history places us in the upper quartile of our peer group in terms of sales growth.

We, therefore, feel no pressure to make acquisitions in order to achieve growth. Nevertheless, we are also actively seeking acquisitions that are synergistic and not premium priced.

Even though Cytec has made much progress, we believe the cup is still only half full. In our thirst to be a premier specialty chemicals company, we were fortunate to start with high-end products and technologies, but we had inadequate costs and capacity in manufacturing and insufficient coverage in sales and marketing. Our products and technologies continue to look good and our pipeline is very favorable. We are, at best, halfway along in improving our manufacturing and market coverage. Improvements to date have been made by first establishing performance goals in each area and then making incremental investments as performance improves. We expect to continue this practice.

REVIEW OF OPERATIONS

Net sales for 1996 were $1,260 million, essentially flat in comparison with 1995. Earnings from operations increased 11 percent to $136 million, compared with $123 million in 1995. Net earnings available for common stockholders were $100 million, or $2.01 per common share on a fully diluted basis, compared with net earnings in 1995 of $76 million, or $1.43 per share on a fully diluted basis adjusted for a three-for-one stock split.

Even though Cytec has made much progress, we believe the cup is still only half full.

On July 23, 1996, Cytec's common stock split three for one. This split was both a tangible demonstration of Cytec's tremendous progress and an expression of our confidence in Cytec's future.

In Specialty Chemicals, sales were up 1.9 percent, which was lower than normal due to discontinuing some marginal products. Polymer Additives and Paper Chemicals were the high growth businesses in this area due to our global expansion and new products.

In Specialty Materials our aerospace sales were ahead due to the beginning of an upturn in build rates for commercial aircraft and the introduction of new products.

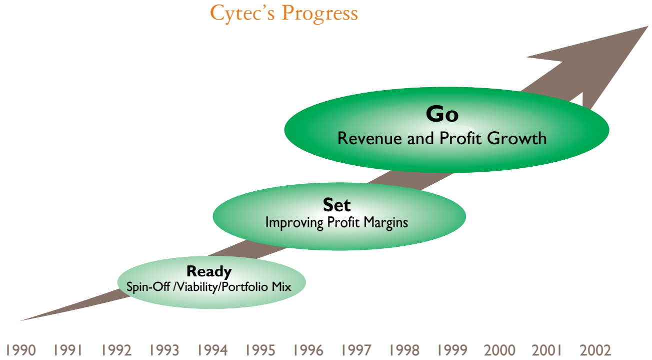
Sales of Building Block Chemicals were lower due to lower methanol and acrylonitrile sales. Methanol production was shut down for the month of January 1996 due to low selling prices and high natural gas costs and for most of the second quarter due to maintenance.

Our equity in the net earnings of associated companies increased primarily because of improved earnings from CYRO Industries, resulting from lower raw material costs and increased net sales due to capacity expansions. Offsetting this were reduced earnings from Criterion Catalyst due to start-up costs related to capacity expansions.

OUTLOOK FOR 1997

Cytec is more competitively positioned than ever, and we are optimistic that we can generate sustained growth over the long term. Although we expect our sales to be lower in 1997 as a consequence of our divestitures, we, nonetheless, will be exerting greater emphasis on sales growth as we launch our new products and increase our global coverage. Furthermore, the improvements we have been making in our product mix will help increase margins as well as reduce cyclicality.

Cytec's Progress



Streamlining efforts continue undiminished. During the latter part of 1996, we began a second phase of facility rationalization and batch process improvements that is expected to take place over the next two years. In addition, none of our plants has yet reached peak efficiency. Therefore, even after all the progress Cytec has made over the past three years, we believe that significant improvements in Cytec's cost position are still achievable.

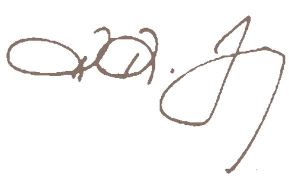
In January of 1997 Cytec's Board of Directors elected David Lilley to the newly created position of President and Chief Operating Officer. Mr. Lilley came to Cytec from American Home Products, where as a Vice President he was responsible for that company's Global Medical Device businesses. Previously he was Vice President and a member of the Executive Committee of American Cyanamid Company. Among the businesses he was responsible for at Cyanamid were Pharmaceutical, Medical Devices, Animal Health, and Specialty Chemicals. Mr. Lilley brings to Cytec a record of success in managing global businesses, a background in manufacturing, and knowledge of our businesses. We expect that he will make a significant contribution to sales growth, particularly outside the United States, and that he will be a major asset for the future of Cytec.

Cytec is more competitively positioned than ever, and we are optimistic that we can generate sustained growth over the long term.

During 1996 James P. Cronin was elected Executive Vice President by the Board of Directors in recognition of the major role he performs in the Company. He continues in his present position as Chief Financial Officer. Mr. Cronin had served as Vice President and Chief Financial Officer of Cytec since the Company's inception.

In January of 1997 Charles A. Ruibal, Executive Vice President of Cytec, retired after 28 years of distinguished service to Cytec and American Cyanamid. He made major contributions to many businesses and was instrumental in the start-up of Cytec. We thank him for his contributions.

Over the past three years, Cytec has created significant stockholder value by building the basics of capitalism into a strong culture of teamwork, quality, and customer service. We plan to stay with this formula for the future.



Darryl D. Fry
Chairman and Chief Executive Officer

Cytec's progress and our prospects for the future flow directly from the values shared by all employees as we work together to define and build Cytec. We have developed a strong culture of teamwork, quality, and service focused on our customers, knowing that a company is only as good as the shared values of its employees.

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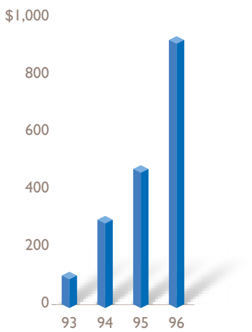
Return to Stockholders
(In dollars)



Stockholders have been rewarded for their investment through Cytec's superior stock market performance. $100 invested in 1993 increased to $920 by the end of 1996.

Our primary mission at Cytec is to become a premier, global, integrated specialty chemicals company that provides stockholders a superior return on their investments. Building stockholder value, therefore, is a basic commitment at Cytec. Since becoming an independent public company at the end of 1993, Cytec's stock has appreciated significantly, reflecting our dedication to delivering results to investors and earning the confidence of stockholders in the future of Cytec. An investment of $100 made at the end of 1993, when our stock was trading at $4.42 per share (adjusted for the three-for-one stock split), increased in value to $920 by December 31, 1996.

Cytec's initiatives to build stockholder value have focused on two fundamental areas: restructuring operations and financial re-engineering. We have restructured our operations by divesting underperforming, noncore businesses, while strengthening and improving the efficiency of our core businesses. Our driving motivation has been to improve Cytec's operating margin, while positioning the Company to grow and be more competitive in global markets.

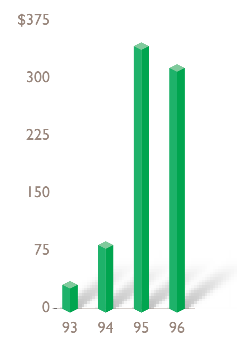
The restructuring of our core businesses has involved decentralizing and globalizing businesses along product lines and delayering and realigning management. In addition, we have invested significant capital in our manufacturing facilities and have implemented continuing cost reduction programs. As a result, Cytec's operating margin has improved significantly over the past three years, and we are making progress toward achieving our goal of a 15 percent operating profit margin by 1999. This would place Cytec among the upper quartile of specialty chemicals companies.

We have made significant strides in our financial re-engineering. Our strong cash flow, along with a renegotiated unsecured revolving credit line and a successful common stock offering, provided the financial muscle to restructure our balance sheet in 1995 through the repurchase of our Series A and B preferred stock. This transaction, which took place four years ahead of schedule, eliminated an annual dividend requirement of $14.6 million (offset in part by increased interest expense) and reduced our fully diluted shares outstanding by approximately 11 percent.

Our financial re-engineering has now entered a new phase in the tax planning area. When we became an independent public company, we established a worldwide legal entity structure that maximized our ability to bring cash back to the United States in order to repurchase our Series A and B preferred stock. This also had the impact of increasing our effective tax rate. Having accomplished the repurchase of Series A and B, we are now creating a more tax-efficient legal entity structure in order to invest and grow internationally, while maintaining a certain level of flexibility to support potential acquisitions and stock repurchases.

The combined result of Cytec's financial re-engineering and operations restructuring efforts to date is reflected in our stockholders' equity, which has expanded from a thin $31.2 million at the end of 1993 to $314.4 million at the end of 1996. The market capitalization of our common stock has grown from approximately $200 million at the end of 1993 to about $1.9 billion at the end of 1996.

Stockholders' Equity at Year End
(In millions)



Cytec's financial and operational strengths, as reflected in our stockholders' equity, have grown over the past three years. The decrease in 1996 primarily reflects $140.2 million of shares held in treasury from repurchase of the Company's common stock to enhance stockholder value.

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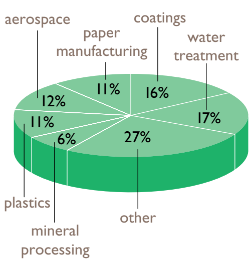
BRINGING VALUE TO CUSTOMERS

Cytec is dedicated to providing products and services that consistently meet or exceed the expectations of customers around the world. Our passion for the customer is manifested by our drive to understand customers' businesses thoroughly so that we may anticipate their needs and provide proactive solutions to their problems. We seek to forge strong, supportive, strategic partnerships with customers who appreciate the value-added service we provide to help them improve their products and productivity. Stated simply, passion for the customer creates customer value, which in turn, builds stockholder value.

Bringing value to customers often begins with the work of Cytec's applications research and product development scientists, who develop innovative solutions to customers' technical problems. Working in close partnership with the research teams of customers, we analyze their applications for Cytec's products and our customers' end products and their uses. Then we develop new or improved products or engineer improvements in customers' manufacturing processes that result in tangible benefits for customers and market advantages for Cytec.

We benefit customers with quality-driven manufacturing distinguished by our commitments to Total Quality Management,

Customer Diversification



Our broad base of customers in diverse markets is a fundamental factor in providing Cytec a better balance through economic cycles. This chart has been adjusted to reflect divestitures through January 31, 1997.

Continuous Improvement, and the Chemical Manufacturers Association's (CMA) Responsible Care® initiative. Cytec's quality standards have earned us preferred supplier standing with many customers. We have been consistently ahead of the rest of the chemical industry in implementing responsible practices and have contributed to the development of Responsible Care® codes. Our pioneering efforts in workplace safety helped the CMA in its development of Emergency Response and Incident Management programs, and with our safety record and procedures, we are at the forefront of our industry. Cytec's leadership in quality manufacturing is reflected in the pride of our employees, who strive every day to fulfill Cytec's Vision: First we will be best, then we will be first.

Our sales and marketing representatives and technical service teams are united toward one goal: customer satisfaction. As product stewards, they are on the front line in measuring the performance of Cytec's products, assessing customers' needs, uncovering technical problems, and importantly, supporting our applications-driven research and development. Through their work, they make valuable contributions to improving the quality of existing products and to developing our new product stream. Moreover, they create the links that result in Cytec's partnerships with customers.

We are proud of Cytec's record of success in introducing new products that bring value to customers by helping them improve the quality and performance of their own products and the productivity of their manufacturing processes.

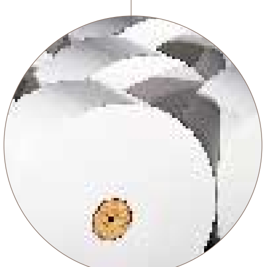
During 1996 Cytec was honored with awards from a number of customers for the quality and performance of our products or the excellence of our technical service. These awards reflect our efforts to become the supplier of choice in the markets we serve.

Water Treating Chemicals Cytec's chemicals for water and wastewater treatment are used to process potable water and especially in sewage treatment to dewater sludge by separating solid wastes from water. Our superior liquid-solids separation chemistry improves treatment productivity, reduces sludge volume, and produces cost savings in both treatment and disposal.

Our broad line of water treating products are used around the world to help municipalities achieve optimal performance in their wastewater treatment facilities and reduce total waste treatment costs.

Our water treating chemicals are used in production processes or wastewater treatment by a wide array of industrial customers for such applications as food processing, beverage production, and chemical and pharmaceutical manufacturing. Water treating chemicals comprise significant portions of our paper and mining chemicals businesses as well.

Cytec is a global leader in producing improved paper chemical technologies that can meet increasingly more demanding paper manufacturing requirements and more stringent environmental regulations.



Paper Chemicals We manufacture chemicals used in all the basic papermaking processes and for treating water and wastewater related to papermaking and paper recycling. Our alkaline and surface sizing agents produce papers with advanced performance qualities, such as high brightness and superior printing properties. Cytec's wet and dry strength resins enhance or maintain sheet strength in paper containing weaker recycled fibers, while our retention, drainage, and formation aids permit greater use of fillers and recycled fibers in papermaking and improve the efficiency of the papermaking process.

Mining Chemicals Cytec is the technology leader in mineral processing reagents that improve the recovery, concentration, and grade of certain minerals recovered from ores. We are also a leader in making chemicals for oil drilling and enhanced oil recovery. The superior effectiveness and efficiency provided by Cytec's mining chemicals helps the industry meet the challenges of declining ore quality and growing environmental concerns.

Coating and Resin Products Cytec is the global leader in melamine cross-linking coating resins used for automotive, wood, and metal finishes and in coatings for appliances, containers, and coils. In addressing more stringent regulations around the world, we have formulated more environmentally friendly products that also meet customer needs for greater durability, strength, and other performance qualities. We are also a leader in producing adhesion promoters used in the manufacture of steel-belted radial tires.

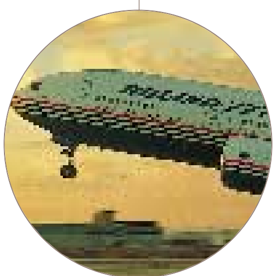
We make the most widely used resin for improving the chemical resistance and appearance of high performance automotive coatings, and our tire resins are used by leading tire manufacturers around the world.

Polymer Additives Growing global customer demand for higher performance light absorbers and stabilizers and antioxidants has enabled Cytec to become a significant supplier of polymer additives to the plastics industry. We produce formulations to meet the specific needs of our customers and provide technical support to ensure our customers achieve performance advantages with the products they make using our polymer additives. Typical end-use applications for Cytec's polymer additives include toys, lawn furniture, carpet fibers, spandex apparel, automotive components and coatings, and engineered plastics.

In outdoor toys and other products made from plastics, demand has grown for plastics that have greater resistance to degradation by heat, light, and air.

Other Specialty Chemicals Cytec's expertise in developing and manufacturing high quality specialty chemicals is applied in the production of a variety of specialty surfactants, monomers, and phosphines. Our market leadership in many of these products reflects our ability to meet or exceed customer expectations. Our surfactants and monomers improve the performance of end-use products, such as paints, paper coatings, adhesives, textile nonwoven binders, and thermoplastic molded components. In the demanding chemistry of phosphines, Cytec is the world leader. Our phosphine chemicals are used as collectors in mineral processing, solvent extractants for metals separation and organics recovery, and catalysts in chemical processing as well as in electronics applications such as the production of semiconductor chips.

SPECIALTY MATERIALS



Increasingly, it is structural adhesives and advanced composites that hold together today's aircraft, providing strength, durability, and toughness as well as temperature and impact resistance.

Aerospace Materials Our ability to meet the stringent qualifications required for supplying structural adhesives and advanced composites to aircraft manufacturers has made Cytec the major global supplier of many of these products. Every current major aircraft manufacturing program in the Western world uses Cytec's adhesives, and many use our advanced composites. Cytec's acknowledged technological leadership in this field is also attractive to customers who manufacture high performance sporting goods, boats, and automobiles that use structural adhesives and advanced composites. *Acrylic Fibers* This business was divested in the first quarter of 1997 to enable us to focus more strongly on our core strategic businesses. *Other Specialty Materials* Cytec is also a leading producer of polyester molding compounds for automotive, electrical, and consumer appliance niche market customers that manufacture high performance products. Our thermoset composites, for example, are used in manufacturing automotive valve and timing chain covers and are being introduced in manufacturing an array of other automotive components. Through Conap, Inc., one of our subsidiaries, we are an applications leader in formulated urethane and epoxy resin systems for electrical, electronic, and general industrial uses.

High performance under demanding conditions and exceptional strength and structural rigidity without adding weight are achieved by using Cytec structural adhesives and advanced composites.

BUILDING BLOCK CHEMICALS

Our building block chemicals are acrylonitrile, acrylamide, ammonia, hydrocyanic acid, melamine, methanol, and sulfuric acid. By producing these chemical intermediates used in the manufacture of many of Cytec's products, we attain vertical integration. We also gain strategic competitive strengths by reducing our operating costs and exposure to fluctuations in the prices for commodity chemicals, ensuring raw material availability, and enhancing our efficiency and quality—all of which ultimately bring value to our customers.

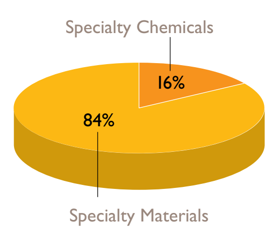
Cytec is one of a few specialty chemicals companies with significant vertical integration, which provides operating synergies and efficiencies to ensure our world class manufacturing.

Automotive parts made from polyester molding compounds combine rigidity at high temperature, superior impact strength, and other high performance characteristics that may soon lead to their use in a wider variety of under-the-hood applications.

ASSOCIATED COMPANIES

Cytec has a 50 percent ownership in each of five associated companies. All have significant market positions, enhancing our ability to meet customer needs around the world. CYRO Industries manufactures acrylic sheet products, molding and extrusion compounds, and methyl methacrylate primarily for North American markets. Criterion Catalyst is the largest global supplier of hydroprocessing catalysts used in processing petroleum as well as reforming catalysts for use in the manufacturing of gasoline. It also produces catalysts used in the production of styrene, a raw material for many plastics. Dyno-Cytec produces melamine cross-linking coating resins to serve our global coating customers in European markets. Mitsui-Cytec extends our reach into Japanese markets for water treating chemicals and melamine cross-linking coating resins. AC Molding Compounds serves North American markets with products used in the manufacture of electrical components and dinnerware.

Unconsolidated Associated Companies 1996 aggregate net sales: $600.7 million



3. Employees \im-ˌp

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CREATING A CULTURE OF VALUE WITH EMPLOYEES

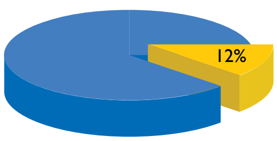
Along with restructuring Cytec's operations, we have made a fundamental shift in the way Cytec conducts business by creating a corporate culture focused on values. By fostering an environment of empowerment, Cytec has established a performance-oriented organization in which greater individual responsibility and accountability, leadership and teamwork, safety and ethics, and continuous improvement are emphasized and rewarded. These values are the standard by which all employees are measured. All of these corporate values are directed toward providing value to our customers and achieving total customer satisfaction in an environment where employees can add value to our businesses and share in Cytec's success.

Our commitment to continuous improvement—and Total Quality Management—is especially important because it is the driving force behind Cytec's Vision and Values. Through continuous improvement, new and better ways of doing things become routine at Cytec. This approach to the way we conduct business makes Cytec an innovative and agile organization, resourceful and quick in anticipating and responding to customer needs, evolving conditions in our global markets, and change in general.

By leveraging their talents, employees provide value to Cytec and our customers. In turn, Cytec provides employees with continual training to enhance their knowledge and skills. Each year employees who have made extraordinary contributions to Cytec are honored through a variety of quality recognition programs, such as the Circle of Excellence Award.

An example of how employees bring value to Cytec is our SAFE (Safe Attitudes From Empowerment) process, an employee-driven

Employee Ownership *(In percent)*



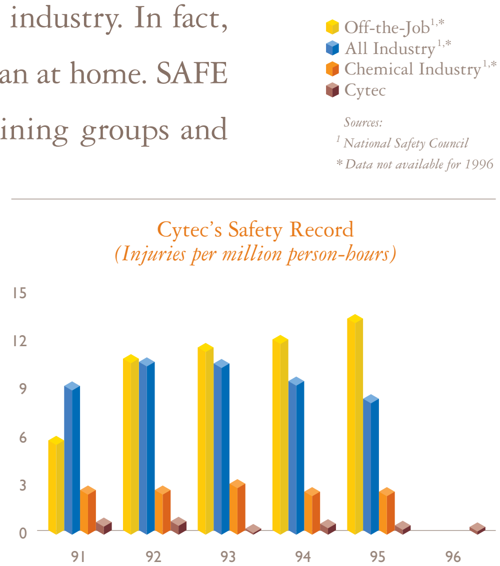
Employee ownership is higher at Cytec than at most Fortune 500 *companies. Approximately 12% of Cytec's common stock, excluding options, has been bought by employees. In contrast, the average employee ownership at other companies is about 3%.*

safety initiative to create a safe and productive workplace by identifying and eliminating behaviors and situations that place employees at risk of workplace injury. The dedication of Cytec employees to implementing the SAFE process is responsible for the Company achieving one of the most outstanding safety records in our industry. In fact, statistics show a Cytec employee is safer at work than at home. SAFE is being implemented by Cytec's collective bargaining groups and through the involvement of all our employees.

As part of Cytec's culture of value, executives participate in the Executives Basics Program, which promotes better management understanding of other levels of our organization by providing opportunities for management to work periodically in various functions within Cytec.

At Cytec, we believe a culture of value is also a culture that recognizes the inherent benefits of diversity in its most valuable resource—its people. Consequently, Cytec strives for workforce diversity, seeking to recruit and retain the best available talent without regard to age, ethnicity, gender, physical ability, race, religion, sexual orientation, or other perceived differences. The Company maintains an environment that respects differences and enables employees to develop professionally, while they work to make Cytec the best company in its industry. Through a newly developed program for recruiting professional and technical personnel, the employees hired by Cytec in 1996 were 16 percent minorities and 47 percent women.

To strengthen Cytec's culture and values, the Company in 1996 issued a Code of Employee Conduct. The purpose of this code is to reinforce the importance of adherence to the highest standards of ethical and legal behavior in all aspects of the Company's business.



The safety of our employees, local communities, and the environment is our first priority in everything we do. Our commitment to this has resulted in a superior safety record compared with any measure of injuries in the United States.

4. Communities

1. Our neighbors and employe

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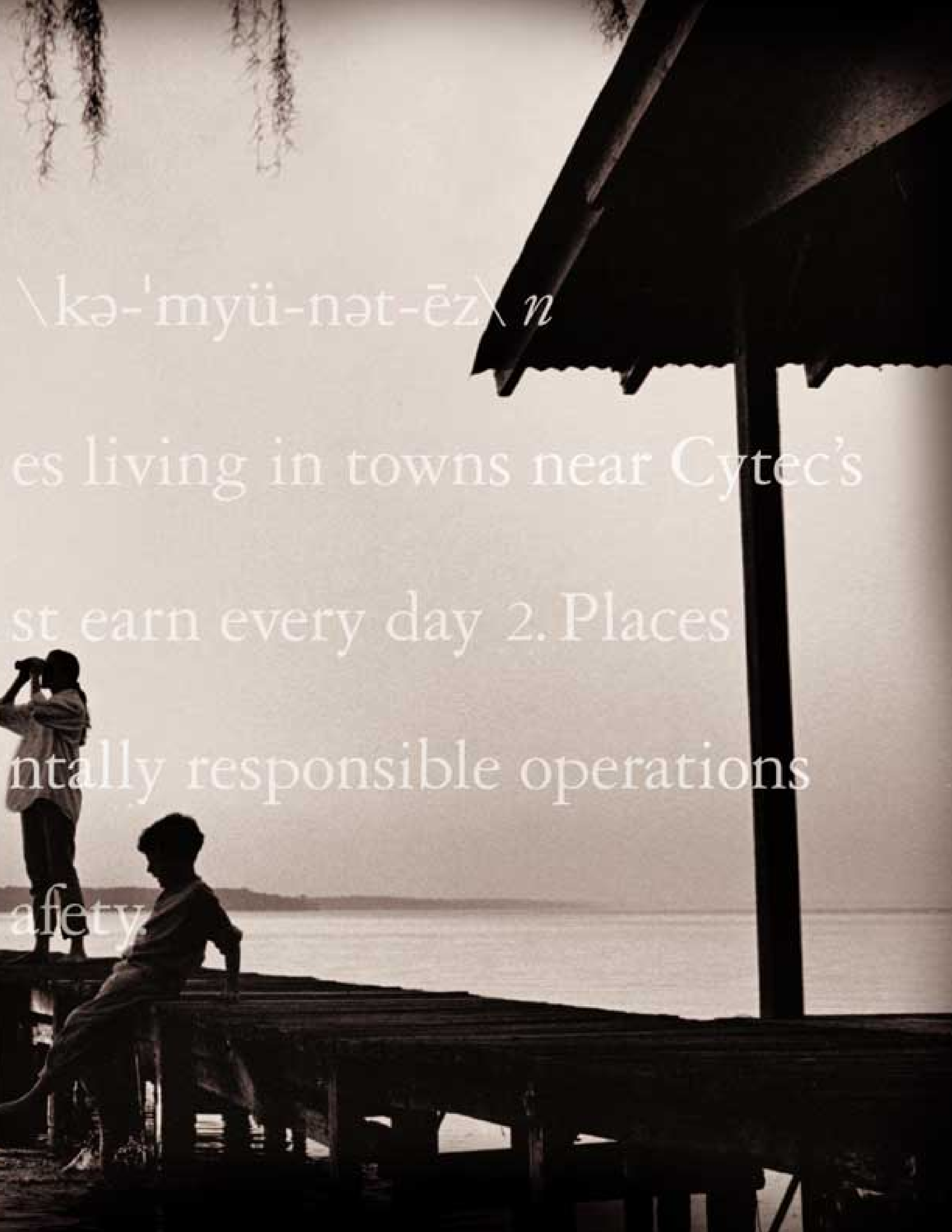
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es living in towns near Cytec's
st earn every day 2. Places
ntally responsible operations
afety.

A commitment to protecting the safety, health, and well-being of the communities that are home to Cytec operations is an integral part of Cytec's business. We believe that good corporate citizenship entails actively contributing to making these communities better places to live and work. Consequently, we support a variety of educational and mentoring programs, contribute to a wide range of local charities, sponsor community events, conduct open houses and outreach programs to foster the understanding and cooperation that exist between good neighbors, and most importantly, develop and implement safety, pollution prevention, and environmental protection programs.

Over the past three years, more than 4,700 children have visited the preserved recreational area at our Fortier complex in Louisiana where we have an ongoing archaeological dig uncovering the plantation that originally occupied the site.

At many Cytec locations there is now a Community Advisory Panel (CAP) composed of local residents and Cytec representatives. CAP provides a forum for reviewing matters that have an impact on the community, sponsors programs on environmental awareness and emergency preparedness, and conducts other programs that bring Cytec and members of the community together. During 1996 our Wallingford, Connecticut, plant introduced CAP on CALL, a telephone message response system designed to promote greater interaction between Cytec and local residents. The system gives residents a means to speak directly to any member of CAP, and it exemplifies Cytec's efforts to reach out to the community.

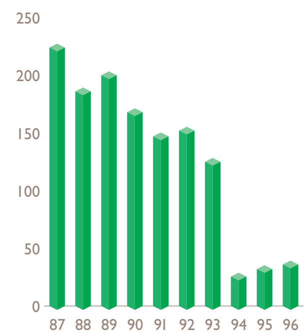
Cytec's concern for the environment has led us to develop some of the most stringent programs for the safe management and reduction of wastes. Our participation in the U.S. Environmental Protection Agency's (EPA) voluntary, nationwide 33/50 emission reduction program resulted in Cytec surpassing reduction targets well in advance of commitment deadlines. We have also made significant progress in voluntary reduction of SARA releases, which reflects Cytec's commitment to protecting environmental quality.

In 1996 our Fortier petrochemical complex in Louisiana received its second major environmental award in three years. The EPA singled out the facility with its Excellence in Pollution Prevention award for Fortier's superb record. Over the past four years, 120 employee innovations in waste reduction have resulted in an annual waste reduction of 500,000 tons. Since 1987 Fortier has reduced SARA emissions by 85 percent. As a consequence of Fortier's efforts over the past eight years, its waste-to-production ratio, a measure of process environmental efficiency, has improved 91 percent.

Employee-driven pollution prevention initiatives proliferate throughout Cytec. In May of 1996 the Company presented Environmental Excellence Awards to employees from four facilities for their outstanding achievements in pollution prevention. Their innovations have not only produced significant environmental benefits for their communities, but also save Cytec between $2 million and $3 million in annual costs. Pollution control efforts can also result in product reformulations that benefit Cytec's customers by providing them more environmentally friendly products.

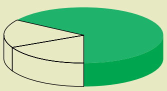
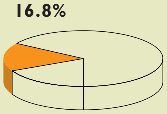
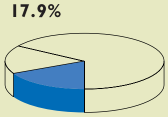
Our Wallingford plant was the first in New England and the second in the United States chosen by the EPA in 1996 to participate in its Pollution Prevention in Permitting Pilot Project, a collaboration between state and federal regulators and industry to streamline compliance with federal air-emissions standards. Cytec was chosen for our expertise in managing complex operations and our dedication to environmental responsibility.

Voluntary Reductions in SARA Releases
(In millions of pounds)



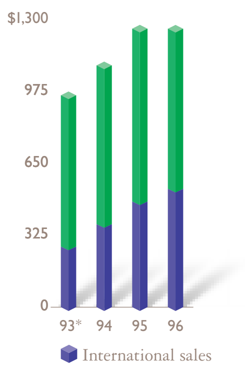
We have reduced releases by 84% since the program began in 1987. The increases in 1995 and 1996 correspond to an increase in overall chemical production.

BUSINESS PROFILE

PERCENT OF NET SALES *(Adjusted to reflect divestitures through January 31, 1997)*	PRODUCT LINES	MAJOR PRODUCTS	PRINCIPAL APPLICATIONS	MARKET POSITION	FACTORS AFFECTING GROWTH
SPECIALTY CHEMICALS **65.3%** 	Water Treating Chemicals	Organic flocculants	Water and waste-water treatment	One of the world's leaders	Increased regulation, regional growth, expanded capacity
	Paper Chemicals	Sizing agents, strength resins, retention aids, flocculants	Paper manufacturing	Major supplier	Alkaline papermaking, recycling
	Mining Chemicals	Reagents	Mineral processing	Global leader in selected products	Requirements for higher yields and improved productivity
	Coating and Resin Products	Melamine crosslinkers, urethanes	High performance automotive, coil, can, and wood coatings; radial tire adhesion promoters	Global leader for melamine crosslinkers	Shift to high solids, water-based and powder coatings
	Polymer Additives	Ultraviolet absorbers and stabilizers, antioxidants	Plastics, coatings, fibers	Number two in U.S.; growing rapidly internationally	Higher performance requirements, growth in plastics
	Other Specialty Chemicals	Surfactants, specialty monomers, phosphine derivatives	Surfactants and monomers for emulsion polymers and paints, phosphines for catalysts, electronics, mineral separation, and fire retardants	Strong competitor in surfactants and monomers; leader in phosphines	Higher performance requirements
SPECIALTY MATERIALS **16.8%** 	Aerospace Materials	Structural adhesives, advanced composites	Commercial and military aviation, high performance automobiles, sporting goods	Global leader in aerospace adhesives; number three in advanced composites	Acknowledged technological leadership
	Other Specialty Materials	Polyester molding compounds	Automotive engine and electrical components; appliances	Leader in U.S. automotive and electrical applications	Shifts to lightweight, high performance parts in automobiles
BUILDING BLOCK CHEMICALS **17.9%** 	Building Block Chemicals	Acrylonitrile, acrylamide, ammonia, hydrocyanic acid, melamine, methanol, sulfuric acid	Chemical intermediates for internal uses; merchant sales	One of a few specialty chemicals companies with significant vertical integration	Vertical integration and low cost production

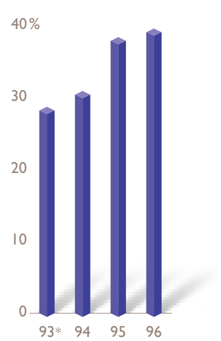
PERFORMANCE HIGHLIGHTS

Net Sales
(In millions)



**Pro forma basis*

Growth in
International Sales
(Percent of total net sales)



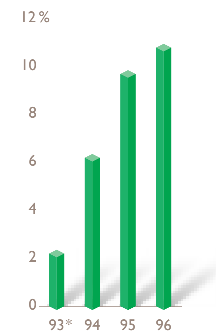
**Pro forma basis*

- International sales continue to expand as we strive to attain our goal of an equal distribution between domestic and international sales by 1999. In 1996 international sales accounted for 39.1% of total sales, up from 28.3% in 1993.

- In 1996 our operating margin was 10.8%, compared with 2.2% in 1993, on a pro forma basis excluding a $105.7 million environmental charge. Cytec's goal is to achieve a 15% margin by 1999.

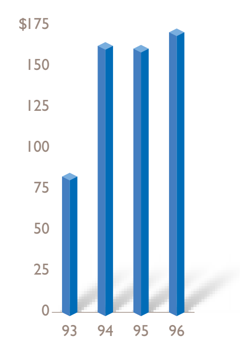
- Cash flow from operations was $170.8 million in 1996, a 106% increase from $82.8 million in 1993.

Operating Margin
(In percent)



**Spin-off pro forma, excluding a $105.7 million environmental charge*

Cash Flow from
Operations
(In millions)



Index to Consolidated Financial Statements

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 on pages 36 to 54. Dollars are in millions except share and per share amounts.

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,		
	1996	1995	1994
Net sales	**100.0%**	100.0%	100.0%
Manufacturing cost of sales	**71.3**	72.4	74.3
Gross profit	**28.7**	27.6	25.7
Selling and technical services	**11.2**	10.8	11.9
Research and process development	**3.2**	3.5	3.6
Administrative and general	**3.5**	3.6	4.0
Earnings from operations	**10.8**	9.7	6.2
Net earnings	**7.9**	22.4(1)	5.1
Excess of repurchase price over related book value of Series A Stock and Series B Stock	**–**	(15.5)	–
Dividends on preferred stock	**–**	(0.8)	(1.3)
Net earnings available for common stockholders	**7.9%**	6.1%	3.8%

(1) Includes the 15% effect of a partial reversal of the tax valuation allowance.

NET SALES BY PRODUCT CATEGORY

The Company's net sales by product category are set forth below.

	Years Ended December 31,		
	1996	1995	1994
Specialty Chemicals	**$ 744.7**	$ 731.0	$ 676.2
Specialty Materials	**320.5**	305.6	272.8
Building Block Chemicals(1)	**194.4**	223.5	152.3
	$1,259.6	$1,260.1	$1,101.3

(1) More than half of the Company's production of building block chemicals were used internally in the manufacture of specialty chemicals, specialty materials and other building block chemicals. Such internal usage is not reflected in net sales of building block chemicals.

The Company has a 50% interest in each of five unconsolidated associated companies with aggregate net sales of $600.7 in 1996, $601.3 in 1995 and $500.7 in 1994, of which approximately 16.0% were sales of specialty chemicals in 1996 and 19.0% in 1995 and 1994 and approximately 84.0% were sales of specialty materials in 1996 and 81.0% in 1995 and 1994.

YEAR ENDED DECEMBER 31, 1996, COMPARED WITH YEAR ENDED DECEMBER 31, 1995

Net sales for 1996 were $1,259.6, which was essentially flat in comparison with 1995 net sales of $1,260.1. The Company's specialty product lines grew 2.8% principally on higher volumes. Building Block Chemical net sales decreased 13.0% as a result of lower selling prices and selling volumes in certain products.

International net sales grew to 39.1% of total net sales in 1996 from 37.9% of total net sales in 1995. On a regional basis, sales in the United States declined primarily due to decreased methanol sales as a result of lower selling prices and volumes plus the effect of divested products in 1996. Earnings from operations were up significantly in the United States as a result of cost reduction programs and an improved product mix. Also included in 1995 results for the region were startup costs associated with the expanded acrylonitrile facility. Sales and earnings from operations in the Asia/Pacific region were down principally due to lower export acrylic fiber and acrylonitrile selling prices.

Specialty Chemicals net sales increased $13.7, or 1.9%, with the increase spread among all regions of the world. Also affecting net sales in 1996 was the effect of divesting certain minor product lines, which had a negative impact on the year to year comparison in net sales. The most significant sales increases were in paper chemicals, where sales increased principally in North America as a result of a rebound in paper industry production and new business. Europe and Latin American sales also had modest increases for the year. Mining chemical net sales improved in most regions as new customers converted over to higher technology products. Polymer Additives net sales increased primarily in the North American and Asia/Pacific regions. Selling prices were up less than 1.0% for Specialty Chemicals in 1996.

Specialty Materials net sales increased $14.9, or 4.9%. Aerospace Materials net sales increased 9.3% due to volume increases at existing accounts and new customers. In addition, aircraft build rates started to improve in late 1996, and this trend is expected to continue in 1997. Acrylic Fibers net sales increased 2.0%, but volume was up 11.0%. Selling prices for acrylic fibers were down with the bulk of the price decrease coming from export sales.

Building Block Chemical net sales decreased $29.1, or 13.0%, primarily due to acrylonitrile and methanol. Acrylonitrile volume was up due to the expanded plant being in service for a full year, but this was more than offset by lower selling prices. Methanol sales decreased as a result of lower selling prices in the first half of 1996. In addition, methanol volumes were down in the first half of 1996 as a result of production downtime due to repairs as well as a shutdown in January 1996 due to poor economic conditions caused by low selling prices coupled with high natural gas costs.

Manufacturing cost of sales improved to 71.3% of net sales from 72.4% of net sales for 1995. Much of the improvement resulted from cost reduction programs, improved plant efficiencies in batch operation facilities, and an improved product mix as the Company divested or de-emphasized low margin products. Raw materials were generally lower with the exception of natural gas, which was significantly higher than the year ago period. Natural gas prices are expected to remain well above 1995 levels in 1997. Selling prices were slightly higher in the specialty businesses with the exception of export acrylic fibers, where prices were down significantly. The Company does not plan on any significant price increases in 1997.

Selling and technical service expenses increased $5.0 and increased as a percent of sales to 11.2% from the 10.8% of sales experienced in 1995. The 1996 amount reflected the full year effect of certain investments the Company made in this area during 1995. In particular, investments in the international regions have increased, partially offset by reduced expenses in North America, where the Company has been able to rationalize its costs. This trend is expected to continue in 1997.

Research and process development expenses decreased $4.0 and were 3.2% of net sales in 1996. The decrease was the result of a reduction in non-value-added overhead costs at our research facilities completed in late 1995. Technical spending as it relates to our product lines increased from the prior year as planned.

Administrative and general expenses decreased $0.8 in 1996 and decreased as a percent of net sales to 3.5% from 3.6% in 1995. The Company continues to focus on tight cost controls in this area and expects spending for 1997 to remain at this level or possibly decrease.

Interest and other income (expense), net, decreased $0.4, principally as a result of reduced interest income on lower cash balances maintained during the year, partially offset by other income from royalties and technology sales and fees.

Interest expense increased $3.0 due to higher levels of debt outstanding primarily as a result of the Company's stock repurchase program.

The income tax provision for 1996 reflects an effective tax rate of 40.0%. This was a decrease of approximately 3.0%, excluding the effect of a tax valuation reversal in 1995. The lower effective rate was the result of a focused tax strategy designed to reduce, where applicable, the Company's tax burden. In addition, a one-time benefit of $1.4 was recorded in the fourth quarter to recognize the tax effect of a noncash transaction completed in December 1996.

Equity in net earnings of associated companies, all of which are 50% owned, represents the Company's after tax share of its associates' earnings. Such earnings increased $1.0 from 1995. Increased earnings were reported by CYRO Industries, reflecting the capacity expansions completed in the second half of 1995 plus lower raw material costs. Earnings of Dyno-Cytec improved over the prior year as a result of higher sales and lower raw material costs. Partially offsetting the above were reduced earnings from Criterion Catalyst Company. The lower earnings were the result of several factors: the purchase of high cost intermediate product from third parties due to capacity constraints, start-up costs related to capacity expansions and lower hydroprocessing catalyst selling prices.

Dividends on preferred stock were essentially eliminated as the Company repurchased all of its Series A Cumulative Adjustable Preferred Stock ("Series A Stock") and Series B Cumulative Convertible Preferred Stock ("Series B Stock") in the second half of 1995. Dividends on the outstanding Series C Cumulative Preferred Stock ("Series C Stock") were negligible.

Net earnings available for common stockholders increased $23.8, or 31.2%, over the year ago period.

YEAR ENDED DECEMBER 31, 1995, COMPARED WITH YEAR ENDED DECEMBER 31, 1994

In 1995, net sales were $1,260.1, an increase of $158.8, or 14.4%, as compared with 1994. The net sales increase was due primarily to improved sales volume and higher selling prices in the majority of the Company's product lines. International net sales grew to 37.9% of net sales in 1995 from 31.1% of net sales in 1994.

Specialty Chemicals net sales increased $54.8, or 8.1%, with the largest increases coming from international operations. The European net sales increase was widely spread among most product lines and was due to improved economies, market share gains and the favorable effect of exchange rates. Asia/Pacific net sales gains were made primarily in Korea, Taiwan and Australia and across most product lines. Latin American net sales increased as demand for the Company's higher technology products continued to grow. U.S. net sales of Specialty Chemicals increased $16.8, or 4.0%. U.S. net sales increases in the first half of 1995 were offset in part by decreases in the second half of 1995 as a result of what management believes to be a correction for high inventory levels by certain customers and a slower growth rate in the U.S. economy. This particularly impacted the polymer additives product line and coatings and resin product lines.

Specialty Materials net sales increased $32.8, or 12.0%. Aerospace Materials reported the largest increase in net sales principally due to new business in the aerospace sector. Acrylic fibers reported a strong gain due primarily to higher selling prices. Acrylic fiber selling volume was down in the fourth quarter due to sharply reduced exports to China.

Building Block Chemicals net sales increased $71.2, or 46.7%. Methanol sales accounted for $12.3 of the increase, since the methanol plant was still under construction until September 1994. Partially offsetting the higher sales volume were methanol selling prices that were much lower than during the fourth quarter of 1994 and unscheduled maintenance downtime in the methanol manufacturing facility in the third quarter of 1995. Acrylonitrile sales increased due to additional capacity available from the expanded acrylonitrile manufacturing plant, which started up in the second quarter of 1995. In addition, acrylonitrile selling prices were well above the prior year. Partially offsetting the higher acrylonitrile sales was unscheduled maintenance downtime in the acrylonitrile manufacturing facility in the third quarter of 1995. Acrylamide sales also increased over the prior year period, principally in the United States and Europe.

Manufacturing cost of sales improved to 72.4% of net sales in 1995 as compared with 74.3% of net sales for 1994. Much of the improvement was due to manufacturing cost efficiencies as costs, excluding raw materials and utilities, increased at a much lower rate than the growth in net sales. Overall, selling prices were up for the year, but not in all product lines due to competitive pressures. The bulk of the increase in selling prices occurred in the first nine months of 1995. Raw material costs started to decline in the third quarter of 1995 and continued through the fourth quarter, although not for all raw materials.

Selling and technical service expenses increased $4.9, but decreased as a percent of net sales to 10.8% from 11.9% in 1994. The increase in expenses primarily reflected the full-year effect of the increased investment in international markets. The decrease as a percent of net sales indicates that the Company has been able to leverage its investment in this area.

Research and process development expenses increased $4.2, but were slightly lower as a percent of net sales in 1995 as compared with 1994. The increase in expenses was the result of costs associated with certain patent litigation matters and higher spending on applications technology. The increase in spending on applications technology was in line with the Company's targeted spending for 1995.

Administrative and general expenses increased $1.2 in 1995, but decreased as a percent of net sales to 3.6% from 4.0% in 1994. The increase in expenses was the result of the full-year impact of costs added in the second half of 1994 as the Company started up certain functions as a result of becoming an independent public company.

Interest and other income (expense), net, decreased $1.8 principally as a result of decreased interest income on lower cash balances and a gain from the sale of certain assets related to a minor product line which was included in the third quarter of 1994.

Except for the partial reversal of the tax valuation allowance of $193.0 in the fourth quarter of 1995, the income tax provision in each period was based on the estimated effective tax rate for the full year.

Equity in net earnings of associated companies for 1995 increased $3.8 from 1994. Increased earnings were recorded by CYRO Industries as a result of higher selling prices and increased sales of methyl methacrylate monomer due to a plant expansion. Earnings from Criterion Catalyst Company also improved due to higher selling volume, particularly of new and improved products. These increases were partially offset by losses from Mitsui-Cytec due to expenses associated with the start-up of a new resins manufacturing facility and the shutdown of an existing resins facility.

Dividends on preferred stock were lower than the prior year period due to the repurchase of all of the Series A Stock and Series B Stock. The reduced dividends, offset in part by lower interest income and higher interest expense from these transactions as well as the reduced fully diluted common shares outstanding, had a positive impact of approximately $0.15 for the full year on fully diluted earnings per common share. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Financial Condition."

Net earnings available for common stockholders reflected a $195.2 reduction recorded in the fourth quarter of 1995 upon the completion of the repurchase of the Series B Stock. The $195.2 represented the excess of the repurchase price of the Series A Stock and Series B Stock over the related book value.

LIQUIDITY AND FINANCIAL CONDITION

At December 31, 1996, the Company's cash balance was $20.4, an increase of $8.4 from year end 1995.

Net cash flows provided by operating activities totaled $170.8 for the year ended December 31, 1996, compared with $160.8 in the same period of 1995. Cash was favorably impacted on by increased net earnings, after adjusting for the partial reversal of the tax valuation allowance in 1995, and improved accounts receivable due to lower days outstanding. Inventory levels increased primarily in the international regions as the Company expanded its presence outside of the United States. Other liabilities decreased primarily as a result of increased environmental spending in 1996 as more projects reached the remediation phase of activity.

Environmental remediation spending for the years ended December 31, 1996, 1995 and 1994, was $26.8, $22.1, and $15.7, respectively. There can be no assurances that the Company's annual cash expenditures will not be higher in the future.

While it is not feasible to predict the outcome of all pending environmental suits and claims, it is reasonably possible that there will be a necessity for future provisions for environmental costs which, in management's opinion, will not have a material 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. The Company cannot estimate any additional amount of loss or range of loss in excess of the recorded amount. Moreover, environmental liabilities are paid over an extended period, and the timing of such payments cannot be predicted with any confidence. See Note 9 of the Notes to the Consolidated Financial Statements with respect to environmental matters.

The Company is also a party to various other claims and routine litigation arising in the normal course of its business. Based on the advice of counsel, management believes that the resolution of such claims and litigation will not have a materially 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.

Net cash flows used for investing activities totaled $41.0. Capital expenditures for the year ended December 31, 1996 of $72.5 were lower than for the corresponding period in 1995 due primarily to the acrylonitrile expansion which was completed in 1995. Capital expenditures for the year 1997 are expected to be in the range of $90.0 to $95.0.

During 1996, the Company received $25.0 from its associated company, CYRO Industries, as a return of capital. CYRO Industries financed the distribution in part by bank borrowings of $40.0. Also during the fourth quarter of 1996, the Company sold the majority of the assets of its aluminum sulfate business and received approximately $11.0 in cash proceeds before taxes.

The Company believes that, based on internal cash generation and current levels of liquid assets, it will be able to fund operating cash requirements and planned capital expenditures in 1997.

Net cash flows used for financing activities totaled $121.5 compared with $161.0 in 1995. In 1995 the Company repurchased its Series A Stock and the Series B

Stock for a total of $395.1. Partially offsetting the above use of cash in 1995 were proceeds from the Company's stock offering, net of discount and expenses, of $181.2 and net borrowings of $66.0. The reduction in preferred stock dividend payments of $14.4 favorably affected net cash flows used for financing activities in 1996. Net cash flows used for financing activities in 1996 were principally affected by the purchase of treasury stock of $148.7. In February 1996, the Board of Directors approved a program to repurchase up to 1,700,000 (pre-split basis) shares of the Company's common stock, of which approximately 885,400 shares were repurchased prior to the Company's three-for-one stock split in July 1996. The remaining authorized balance was adjusted for the stock split to bring the total shares authorized for repurchase to approximately 3,329,200. Pursuant to this program, for the year ended December 31, 1996, the Company repurchased approximately 3,033,000 shares of its common stock on the open market (equivalent to 4,803,800 on a post-split basis) at a cost of approximately $148.7, leaving 296,200 shares remaining authorized to be repurchased. The Company anticipates completing its current stock repurchase program during the first quarter of 1997. Depending on the level, price and timing of repurchases, borrowings may be required. In connection with the repurchase program, the Company wrote put warrants on 1,500,000 shares of its common stock (on a post-split basis) for which it received premiums of approximately $1.7 in cash. At December 31, 1996, all warrants expired at no cost to the Company.

In June 1995, the Company executed a five-year (due on June 1, 2000) $150.0 unsecured revolving credit facility agreement (the "Credit Agreement"). Funds are available for general corporate purposes including, without limitation, for purposes of making acquisitions permitted under the Credit Agreement. At December 31, 1996 and 1995, outstanding borrowings under the Credit Agreement were $88.0 and $65.0, respectively. At December 31, 1996, the effective interest rate on borrowings was 5.876%, which was based on short-term London Interbank Offered Rate ("LIBOR") plus a .25% margin. The Credit Agreement contains covenants customary for such facilities, including a leverage ratio and fixed charge coverage ratio. Under the terms of the Credit Agreement, the Company had an additional $62.0 available at December 31, 1996. The Credit Agreement also provides that it is an event of default if any person other than American Home Products Corporation and its subsidiaries acquires more than 20% of the voting power of all voting stock of the Company. The Company was in compliance with all material terms, covenants and conditions of the Credit Agreement at December 31, 1996. Other debt was $1.0 at both December 31, 1996 and 1995.

Under the terms of its Series C Stock, the Company must maintain a debt-to-equity ratio of no more than 2-to-1 and must not incur more than $150.0 of debt unless the Company's equity is in excess of $200.0, in which case the Company may incur additional debt as long as its debt-to-equity ratio is not more than 0.75-to-1. At December 31, 1996, the Company had $89.0 in debt, $314.3 in equity, as defined in the Series C Stock covenants, and the ability to incur up to an additional $146.7 in debt under the terms of the Series C Stock.

The Company filed with the Securities and Exchange Commission during 1996 a shelf registration statement (which has yet to become effective) covering $300.0 of senior debt securities which may be offered by the Company from time to time. Proceeds of any sale can be used for general corporate purposes, which may include repayment of indebtedness and other liabilities, share repurchases, additions to working capital, capital expenditures and acquisitions.

During 1996 and 1995, the Company made contributions to its VEBA to fund certain employee and retiree health care benefits. The balance in the VEBA trusts at December 31, 1996 and 1995 was $25.2 and $20.0, respectively.

The Company had foreign currency contracts at December 31, 1996 and 1995. The contracts are utilized by the Company to hedge certain foreign currency denominated receivables and payables and are not used for speculation. All contracts are for periods of six months or less. At December 31, 1996, the Company had net contracts to sell $14.7 of primarily European currencies for U.S. dollars, and Dutch guilders having a value equivalent of $10.4 for other European currencies. At December 31, 1995, the Company had net contracts to sell $25.0 of primarily European currencies for U.S. dollars, and Dutch guilders having a value equivalent of $1.5 for other European currencies. In addition, the Company occasionally hedges to reduce its exposure to future price changes of natural gas used in the

Company's manufacturing activities. At December 31, 1996, the Company had contracts to buy natural gas at set future prices with settlement dates through March 31, 1997. The maturity of these contracts highly correlates to the actual purchases of the commodity. The contracts outstanding at December 31, 1996 and 1995, were not material to the Company's consolidated financial statements. During 1996, the Company entered into interest rate swap agreements to manage its debt portfolio. These agreements were immaterial to the Company's financial statements at December 31, 1996. There were no interest rate swaps outstanding at December 31, 1995.

The impact of inflation on the Company is considered insignificant as the rate of inflation has remained relatively low in recent years.

OTHER MATTERS

On January 31, 1997, the Company completed the sale of its Acrylic Fibers business to a subsidiary of Sterling Chemicals, Inc. The assets transferred include Cytec's plant located near Pensacola, Florida. The Company received approximately $88.0 in cash, subject to certain post-closing adjustments, and received other consideration including the assumption by Sterling of certain contingent and other liabilities, with a value of approximately $15.0. The Company expects to record a gain from this transaction in the first quarter of 1997. Cytec's Acrylic Fibers business had sales of approximately $138.7, $136.1 and $121.1 in 1996, 1995 and 1994, respectively.

On November 8, 1996, the Company announced a restructuring proposal for its Botlek, Netherlands plant. The restructuring would include a major reengineering of the plant organization, relocation of certain manufacturing operations to other Cytec sites and staff reductions. The proposal was subject to negotiations with the Works Council and the Unions. The negotiations were completed in February and the Company is moving forward with the restructuring. The Company expects to record a charge against earnings in the first quarter of 1997 related to this transaction.

On January 16, 1997, the Company announced the consolidation of its surfactant and docusate manufacturing at its Willow Island, West Virginia facility. As a result of this consolidation, the Company will close its Linden, New Jersey plant. The phasedown of the Linden facility will occur over approximately the next 18 months. The Company expects to record a charge against earnings in the first quarter of 1997 related to this transaction.

The Company believes that the impact of the above divestiture and restructurings will have an immaterial effect on the results of operations for 1997.

COMMENTS ON FORWARD-LOOKING STATEMENTS

A number of the statements made by the Company in this Management's Discussion and Analysis, or in other documents, including but not limited to the Company's Annual Report to Stockholders, its press releases and its 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 outlook for 1997, pricing trends and forces within the industry, cost reduction 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 are: changes in the general economy, in demand for the Company's products or in the costs and availability of its raw materials; the actions of competitors; technological change; changes in employee relations, including possible strikes; government regulations; litigation, including its inherent uncertainty; difficulties in plant operations and materials transportation; environmental matters; and other unforeseen circumstances. A number of these factors are discussed in the Company's filings with the Securities and Exchange Commission.

CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except share and per share amounts)	*December 31,* 1996	1995
ASSETS		
Current assets		
Cash and cash equivalents	$ 20.4	$ 12.0
Accounts receivable, less allowance for doubtful accounts of $11.1 in 1996 and $11.6 in 1995	206.5	216.8
Inventories	105.6	88.1
Deferred income taxes	65.1	74.5
Other current assets	18.7	12.6
Total current assets	416.3	404.0
Equity in net assets of and advances to associated companies	143.7	155.1
Plants, equipment and facilities, at cost	1,339.7	1,317.2
Less accumulated depreciation	(757.5)	(711.5)
Net plant investment	582.2	605.7
Intangibles resulting from business acquisitions, net of accumulated amortization	17.1	18.0
Deferred income taxes	89.6	107.1
Other assets	12.2	3.9
Total assets	$1,261.1	$1,293.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 101.3	$ 98.3
Accrued expenses	205.1	218.3
Income taxes payable	6.4	1.1
Total current liabilities	312.8	317.7
Long-term debt	89.0	66.0
Other noncurrent liabilities	544.9	567.2
Stockholders' equity		
Preferred stock, 20,000,000 shares authorized, issued and outstanding 4,000 shares, Series C, $.01 par value at liquidation value of $25 share	0.1	0.1
Common Stock $.01 par value per share, 75,000,000 shares authorized, issued 48,377,683 shares in 1996, 48,315,193 shares in 1995	0.5	0.2
Additional paid-in capital	229.7	222.6
Retained earnings	217.9	117.8
Unearned compensation	(2.4)	(2.6)
Additional minimum pension liability	–	(5.4)
Accumulated translation adjustments	8.8	10.3
Treasury stock, at cost, 2,883,485 shares in 1996, 6,917 shares in 1995	(140.2)	(0.1)
Total stockholders' equity	314.4	342.9
Total liabilities and stockholders' equity	$1,261.1	$1,293.8

Contingent Liabilities and Commitments (Notes 4 and 9)

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in millions, except per share amounts)	*Years Ended December 31,* 1996	1995	1994
Net sales	**$1,259.6**	$1,260.1	$1,101.3
Manufacturing cost of sales	**898.1**	912.2	817.9
Selling and technical services	**140.9**	135.9	131.0
Research and process development	**40.2**	44.2	40.0
Administrative and general	**44.3**	45.1	43.9
Earnings from operations	**136.1**	122.7	68.5
Interest and other income (expense), net	**10.0**	10.4	12.2
Interest expense	**4.0**	1.0	0.1
Earnings before income taxes	**142.1**	132.1	80.6
Income tax provision (benefit)	**56.9**	(136.2)	34.6
Earnings before earnings of associated companies	**85.2**	268.3	46.0
Equity in net earnings of associated companies	**14.9**	13.9	10.1
Net earnings	**100.1**	282.2	56.1
Dividends on preferred stock	**–**	(10.7)	(14.6)
Excess of repurchase price over related book value of Series A Stock and Series B Stock	**–**	(195.2)	–
Net earnings available for common stockholders	**$ 100.1**	$ 76.3	$ 41.5
Earnings per common share			
Primary	**$ 2.01**	$ 1.80	$ 1.05
Fully diluted	**$ 2.01**	$ 1.43	$ .84

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
(Dollars in millions)	1996	1995	1994
Cash flows provided by (used for) operating activities			
Net earnings	$ 100.1	$ 282.2	$ 56.1
Noncash items included in net earnings:			
Equity in undistributed net earnings of associated companies	(14.6)	(17.2)	(9.9)
Depreciation	79.7	83.0	78.1
Amortization	9.3	6.9	7.9
Deferred income taxes	23.7	(181.6)	(7.9)
Other	–	–	(1.2)
Changes in operating assets and liabilities:			
Accounts receivable	7.6	6.3	(18.7)
Inventories	(18.4)	(12.4)	0.5
Accounts payable	3.7	4.8	(10.8)
Accrued expenses	(3.2)	(9.4)	60.1
Income taxes payable	10.5	(4.2)	5.8
Other assets	(5.9)	11.1	4.4
Other liabilities	(21.7)	(8.7)	(1.9)
Net cash flows provided by operating activities	170.8	160.8	162.5
Cash flows provided by (used for) investing activities			
Additions to plants, equipment and facilities	(72.5)	(97.2)	(116.1)
Proceeds from dispositions of businesses and sale of assets	13.5	–	31.1
Return of capital from associated companies	25.0	–	–
Change in other assets	(7.0)	11.4	(11.2)
Net cash flows used for investing activities	(41.0)	(85.8)	(96.2)
Cash flows provided by (used for) financing activities			
Purchase of treasury stock	(148.7)	–	(0.1)
Change in long-term borrowings	23.0	66.0	–
Proceeds from exercise of stock options	2.5	1.3	–
Proceeds received on sale of put warrants	1.7	–	–
Proceeds from stock offering, net of discounts and expenses	–	181.2	–
Purchase of Series A Stock	–	(90.0)	–
Purchase of Series B Stock	–	(305.1)	–
Dividend payments on preferred stock	–	(14.4)	(11.5)
Net cash flows used for financing activities	(121.5)	(161.0)	(11.6)
Effect of exchange rate changes on cash and cash equivalents	0.1	0.3	(0.5)
Increase (decrease) in cash and cash equivalents	8.4	(85.7)	54.2
Cash and cash equivalents, beginning of year	12.0	97.7	43.5
Cash and cash equivalents, end of year	$ 20.4	$ 12.0	$ 97.7

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 1996, 1995 and 1994,

(Dollars in millions)	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned Compensation	Minimum Pension Liability	Accumulated Translation Adjustments	Treasury Stock	Total
Balance at December 31, 1993	$0.1	$0.1	$ 23.7	$ –	$ –	$ –	$ 7.3	$ –	$ 31.2
Net earnings	–	–	–	56.1	–	–	–	–	56.1
Dividends on preferred stock	–	–	–	(14.6)	–	–	–	–	(14.6)
Award of, and changes in, performance and restricted stock	–	–	10.5	–	(10.5)	–	–	–	–
Amortization of performance and restricted stock	–	–	–	–	6.4	–	–	–	6.4
Purchase of treasury stock	–	–	–	–	–	–	–	(0.1)	(0.1)
Translation adjustment	–	–	–	–	–	–	4.3	–	4.3
Balance at December 31, 1994	0.1	0.1	34.2	41.5	(4.1)	–	11.6	(0.1)	83.3
Net earnings	–	–	–	282.2	–	–	–	–	282.2
Dividends on preferred stock	–	–	–	(10.7)	–	–	–	–	(10.7)
Award of, and changes in, performance and restricted stock	–	–	4.9	–	(4.9)	–	–	–	–
Amortization of performance and restricted stock	–	–	–	–	6.4	–	–	–	6.4
Issuance of common stock from stock offering	–	0.1	181.1	–	–	–	–	–	181.2
Excess of repurchase price over related book value of Series A Stock and Series B Stock	–	–	–	(195.2)	–	–	–	–	(195.2)
Proceeds received from stock options	–	–	1.3	–	–	–	–	–	1.3
Tax benefit on stock options	–	–	1.1	–	–	–	–	–	1.1
Additional minimum pension liability	–	–	–	–	–	(5.4)	–	–	(5.4)
Translation adjustment	–	—	–	–	–	–	(1.3)	–	(1.3)
Balance at December 31, 1995	0.1	0.2	222.6	117.8	(2.6)	(5.4)	10.3	(0.1)	342.9
Net earnings	–	–	–	100.1	–	–	–	–	100.1
Award of, and changes in, performance and restricted stock	–	–	7.7	–	(8.2)	–	–	0.1	(0.4)
Amortization of performance and restricted stock	–	–	–	–	8.4	–	–	–	8.4
Three-for-one stock split	–	0.3	(0.3)	–	–	–	–	–	–
Purchase of treasury stock	–	–	–	–	–	–	–	(148.7)	(148.7)
Exercise of employee stock options	–	–	(8.5)	–	–	–	–	8.5	–
Proceeds received from stock options and put warrants	–	–	4.2	–	–	–	–	–	4.2
Tax benefit on stock options	–	–	4.0	–	–	–	–	–	4.0
Additional minimum pension liability	–	–	–	–	–	5.4	–	–	5.4
Translation adjustment	–	–	–	–	–	–	(1.5)	–	(1.5)
Balance at December 31, 1996	$0.1	$0.5	$229.7	$217.9	$ (2.4)	$ –	$ 8.8	$(140.2)	$ 314.4

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except share amounts, unless otherwise indicated)

1. GENERAL

On December 17, 1993 (the "Effective Date"), Cytec Industries Inc. (the "Company") was formed and became an independent public company. American Cyanamid Company ("Cyanamid") distributed all of the Company's common stock to existing Cyanamid stockholders (the "Distribution"). Cyanamid retained 100% of the preferred stock issued by the Company. In 1995, the Company repurchased all of its Series A Cumulative Adjustable Preferred Stock ("Series A Stock") and Series B Cumulative Convertible Preferred Stock ("Series B Stock"). Prior to the Effective Date, the Company was operated as Cytec Industries, a business unit of Cyanamid. In connection with the Distribution, the Company assumed substantially all of the assets and liabilities (including certain liabilities pertaining to environmental matters, retiree health care and life insurance obligations and pension liabilities) of Cyanamid's global chemicals businesses. During 1994 Cyanamid was acquired by American Home Products Corporation.

2. SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation. The financial statements include the accounts of the Company and its subsidiaries on a consolidated basis. All significant intercompany transactions and balances have been eliminated. Operations outside the United States, Canada and Europe are generally included on a fiscal year basis ending November 30. In prior years, European operations were also reported on a November 30 fiscal year basis. The effect of the change to current month reporting is reflected in other income for 1996 and is not considered material to the results of operations. The equity method of accounting is used for investments in associated companies (all 50% owned).

Foreign Currency Translation. For most of the Company's international operations, all elements of financial statements are translated into U.S. dollars using current exchange rates, with translation adjustments accumulated in stockholders' equity. For other international operations, certain financial statement amounts are translated at historical exchange rates with all other assets and liabilities translated at current exchange rates and the resultant translation adjustments for these operations recorded in earnings. These international operations are generally in hyperinflationary economies, all of which are in Latin America.

Depreciation and Amortization. Depreciation is provided primarily on a straight-line composite method over the estimated useful lives of various classes of assets. When such depreciable assets are sold or otherwise retired from service, their cost, less amounts realized on sale or salvage, is charged or credited to the accumulated depreciation account. Expenditures for maintenance and repairs are charged to current operating expenses. Acquisitions, additions and betterments either to provide necessary capacity, improve the efficiency of production units, modernize or replace older facilities or install equipment for protection of the environment, are capitalized. Intangibles resulting from business acquisitions are carried at cost and amortized over a period of up to 40 years unless, in the opinion of management, their lives are limited, or they have sustained a permanent diminution in value, in which case they are either immediately charged to operations or amortized over lesser periods.

Cash and Cash Equivalents. Securities with maturities of three months or less when purchased are considered to be cash equivalents.

Financial Instruments. The carrying values of financial instruments (principally cash and cash equivalents, accounts receivable, other assets, accounts payable and long-term debt) included in the Company's consolidated balance sheets approximated fair values at December 31, 1996 and 1995. Fair values were determined through a combination of management estimates and information obtained from independent third parties using the latest available market data. The Company also uses derivative, or off-balance sheet, financial instruments to manage exposure to fluctuations in interest rates, foreign exchange rates and certain raw material prices. Derivative financial instruments currently utilized by the Company include interest rate swaps, foreign currency exchange contracts and forward commodity contracts. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Interest rate swap agreements are used to manage the Company's debt portfolio and involve the exchange of fixed and floating rate interest payments periodically over the life of the agreements without the exchange of the underlying principal amounts. The interest differential to be paid or received on the Company's indebtedness is accrued as interest rates change and recognized as an adjustment to interest expense in the statement of income.

Foreign currency exchange contracts are utilized by the Company to hedge receivables and payables, primarily intercompany accounts denominated in a currency other than the functional currency of the business. The financial impact of contracts involving intercompany accounts are eliminated in consolidation. Other transactions' gains or losses are deferred and included in the basis of the transaction when it is settled.

Forward commodity contracts consist of natural gas contracts traded on organized exchanges for the purpose of hedging anticipated natural gas purchases. Gains and losses on these contracts are offset and are recognized as an adjustment of the purchase price of the hedged inventory item.

Inventories. Inventories are carried at the lower of cost or market. Cost is determined on the last-in, first-out (LIFO) method for substantially all inventories in the United States with all other inventories determined on the first-in, first-out (FIFO) or average cost method.

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

Income taxes have been provided for, assuming repatriation of substantially all of the undistributed earnings of the Company's foreign subsidiaries and associated companies.

Postretirement and Postemployment Benefits. The Company sponsors postretirement and postemployment benefit plans. The net periodic costs are recognized for these plans as employees render the service necessary to earn the related benefits.

Earnings per Share. Primary earnings per share are based on earnings after preferred stock dividend requirements and in 1995, the excess of the repurchase price over the related book value of Series A Stock and Series B Stock. The resulting net earnings available for common stockholders is divided by the weighted average number of shares of common stock outstanding adjusted for dilutive common stock equivalents (based on 49,678,000 in 1996, 42,368,000 in 1995 and 39,450,477 in 1994). Fully diluted earnings per share are computed as above, except that in 1995 the Series B Stock (through the date of redemption) was assumed to be converted into common stock as of the beginning of each period presented and the related dividend is added back to the primary earnings (based on 49,913,000 in 1996, 56,903,000 in 1995 and 57,116,100 in 1994).

Stock-Based Compensation. Effective as of January 1, 1996, the Company adopted Statement of Financial Accounting Standards ("SFAS") 123, "Accounting For Stock-Based Compensation." SFAS 123 encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting For Stock Issued to Employees," and related Interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price at the date of the grant over the amount an employee must pay to acquire the stock. Because the Company grants options at a price equal to the market price of the stock at the date of grant, no compensation expense is recorded. Compensation cost for performance and restricted stock is recorded based on the quoted market price of the Company's common stock at the end of the period through the date of vesting. The fair value of the stock is charged to stockholders' equity and amortized to expense over the performance periods. Compensation cost for stock appreciation rights payable in cash is amortized to expense over the maturity period. The Company, as required, has provided pro forma disclosures of compensation expense as determined under the provisions of SFAS 123.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of. The Company adopted the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," as of January 1, 1996. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the cost to sell. Adoption of this Statement did not have an impact on the Company's financial position or results of operations as the Company previously followed the basic tenets of this statement.

Risks and Uncertainties. The Company is engaged primarily in the manufacture and sale of a highly diversified line of chemical products throughout the world. The Company's revenues are 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, natural disasters and the need to comply with directives of government agencies. The occurrence of material operational problems, including but not limited to the above events, may have a materially 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 incidental to the production of industrial chemicals, including the use, handling, processing, storage and transportation of certain hazardous materials. These hazards can 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 involving the Company may result in the Company being named as a defendant in lawsuits potentially asserting large claims.

The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. No single customer accounted for more than 5% of the Company's net sales. The Company is exposed to credit losses in the event of nonperformance by counterparties on interest rate swaps and other risk management instruments. The counterparties to these transactions are major financial institutions and organized exchanges, thus the Company considers the risk of default to be minimal. The Company does not require collateral or other security to support the financial instruments with credit risk.

In conformity with generally accepted accounting principles, management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosures of contingent liabilities and pro forma compensation expense to prepare the Company's consolidated financial statements. Actual results could differ from these estimates.

3. DISPOSITIONS AND OTHER TRANSACTIONS

In April of 1994, the Company and its partner ("Partner") in its former phosphate mining business negotiated the early buyout of certain notes receivable from a third party, in which the Company received $18.3 for its share. In June of 1994, the Company and its Partner also sold certain assets related to the Company's former phosphate mining business. The Company received $22.3 as its share of the proceeds in the third quarter of 1994. In July of 1994, the Company received $13.3 from LaRoche Industries for a 50% interest in the Company's ammonia manufacturing facility. The result of this transaction was to create a manufacturing joint venture between subsidiaries of LaRoche Industries and the Company. These transactions did not have a material effect on the Company's 1994 operating results.

On December 6, 1996, the Company completed the sale of the majority of the assets of its aluminum sulfate business to GEO Specialty Chemicals, Inc., of Cleveland, Ohio. The transaction included seven manufacturing plants in the Southeast and a kaolin calcining plant and associated reserves in Andersonville, Georgia. The Company received cash proceeds of approximately $11.0 from the sale. This transaction did not have a material effect on the Company's 1996 operating results.

4. FINANCIAL INSTRUMENTS

The Company occasionally utilizes derivative, or off-balance sheet, financial instruments to manage its exposure to fluctuations in interest rates, foreign exchange rates and certain raw material prices. The Company does not hold or issue financial instruments for trading or speculative purposes. While these instruments are subject to the risk of loss from changes in exchange and interest rates, and commodity prices, these losses would generally be offset by gains on the related exposures.

Interest rate swap agreements are used to reduce the Company's exposure to fluctuations in interest rates. As of December 31, 1996, the Company was party to four interest rate swap agreements, each with notional values of $20.0 and maturity dates during 2001. Two of the swaps related to the debt on the Company's consolidated balance sheet and effectively changed its variable rate interest obligations to fixed rate interest obligations. The fixed rates were set at 6.25% and 6.16%, respectively. The two remaining swaps related to the Company's unconsolidated pro rata share of debt under the CYRO Industries joint venture. The first of these swaps changed its fixed interest rate exposure to floating interest rate and was subsequently offset by a swap that converted the variable rate debt back to a fixed rate of 6.37%. The variable interest rate employed on each of the swaps is equal to one-month London Interbank Offered Rate ("LIBOR") plus a margin. The latter two swaps are marked to market on a current basis. The notional amounts of interest rate swaps do not represent amounts exchanged by the parties and are not a measure of the Company's exposure to credit or market risk. The amounts exchanged are calculated on the basis of the notional amounts and the other terms of the agreements. Notional amounts are not included in the consolidated balance sheet. There were no interest rate swaps outstanding at December 31, 1995.

Foreign currency exchange contracts are utilized by the Company to hedge receivables and payables, primarily intercompany accounts denominated in currencies other than the functional currency of the business. At December 31, 1996, the Company had net contracts to sell $14.7 of primarily European currencies for U.S. dollars, and Dutch guilders having a value equivalent of $10.4 for other European currencies. All contracts are for periods of six months or less. At December 31, 1995, the Company had net contracts to sell $25.0 of primarily European currencies for U.S. dollars, and Dutch guilders having a value equivalent of $1.5 for other European currencies.

Forward commodity contracts consist of natural gas contracts traded on organized exchanges for the purpose of hedging anticipated natural gas purchases. The maturity of these contracts highly correlate to the actual purchases of the commodity. Any gains or losses on the contracts will be reflected in the cost of the commodity as it is actually purchased. The contracts outstanding at December 31, 1996 and 1995, were not material to the Company's consolidated financial statements.

The carrying amounts of derivative financial instruments were immaterial to the Company's consolidated financial statements at December 31, 1996 and 1995. The fair values of these financial instruments and the methods and assumptions used to determine such values are as follows:

Interest Rate Swaps: The fair values of the Company's interest rate swaps were estimated based on valuations from financial institutions and represent the estimated amounts that the Company would receive or pay to terminate the agreement at December 31. At December 31, 1996, these fair value valuations were immaterial to the Company's consolidated financial statements. There were no swaps outstanding at December 31, 1995.

Foreign Currency Exchange Contracts: The fair values of short-term foreign currency exchange contracts were $25.0 and $26.5 at December 31, 1996 and 1995, respectively, based on exchange rates at December 31.

Forward Commodity Contracts: The fair values of the Company's forward commodity contracts were estimated based on available quoted market prices at December 31. The fair values at December 31, 1996 and 1995 were immaterial to the Company's consolidated financial statements.

5. EQUITY IN NET ASSETS OF AND ADVANCES TO ASSOCIATED COMPANIES

The Company has a 50% interest in each of five associated companies: CYRO Industries, Criterion Catalyst Company, Mitsui-Cytec, Dyno-Cytec and AC Molding Compounds.

The aggregate cost of investments in associated companies accounted for under the equity method was $40.4 at December 31, 1996 and 1995. Summarized financial information for the Company's investments in and advances to associated companies as of and for the years ended December 31, 1996, 1995 and 1994, is as follows:

	Years Ended December 31,		
	1996	1995	1994
Net sales	**$600.7**	$601.3	$500.7
Gross profit	**154.1**	146.8	123.1
Net earnings	**52.2**	50.9	33.3
The Company's share of net earnings, less taxes provided by the Company	**$ 14.9**	$ 13.9	$ 10.1
Current assets	**$292.3**	$268.7	$251.5
Noncurrent assets	**304.4**	265.2	228.5
Total assets	**$596.7**	$533.9	$480.0
Current liabilities	**$144.9**	$114.9	$106.0
Noncurrent liabilities	**153.4**	103.3	96.4
Equity	**298.4**	315.7	277.6
Total liabilities and equity	**$596.7**	$533.9	$480.0
The Company's share of equity	**$149.2**	$157.9	$138.8

Sales to associated companies (primarily CYRO Industries) amounted to $40.0, $34.0 and $23.8 in 1996, 1995 and 1994, respectively. Purchases from associated companies were immaterial.

6. INVENTORIES

At December 31, 1996 and 1995, LIFO inventories comprised approximately 59% and 62%, respectively, of consolidated inventories.

	1996	1995
Finished goods	$ 85.7	$ 77.4
Work in progress	16.9	15.4
Raw materials and supplies	53.7	51.7
	156.3	144.5
Less reduction to LIFO cost	(50.7)	(56.4)
Total inventories	$105.6	$ 88.1

7. PLANTS, EQUIPMENT AND FACILITIES

	1996	1995
Land and land improvements	$ 42.6	$ 41.5
Buildings	143.8	149.0
Machinery and equipment	1,093.3	1,059.4
Construction in progress	60.0	67.3
Plants, equipment and facilities, at cost	$1,339.7	$1,317.2

8. LONG-TERM DEBT

In June 1995, the Company executed a five-year (due on June 1, 2000) $150.0 unsecured revolving credit facility agreement (the "Credit Agreement"). Funds are available for general corporate purposes of the Company and its subsidiaries including, without limitation, for purposes of making acquisitions permitted under the Credit Agreement. At December 31, 1996 and 1995, outstanding borrowings under the Credit Agreement were $88.0 and $65.0, respectively. At December 31, 1996, the effective interest rate on borrowings was 5.876%, which was based on short-term LIBOR rates plus a .25% margin. The Credit Agreement contains covenants customary for such facilities, including a leverage ratio and fixed charge coverage ratio. Under the terms of the Credit Agreement, the Company had an additional $62.0 available at December 31, 1996. The Credit Agreement also provides that it is an event of default if any person other than American Home Products Corporation and its subsidiaries acquires more than 20% of the voting power of all voting stock of the Company. The Company was in compliance with all material terms, covenants and conditions of the Credit Agreement at December 31, 1996. Other debt was $1.0 at both December 31, 1996 and 1995. The aggregate fair value of the Company's debt approximates its carrying value due to the variable nature and frequent repricing of the debt which is based on market conditions.

Under the terms of its Series C Cumulative Preferred Stock ("Series C Stock"), the Company must maintain a debt-to-equity ratio of no more than 2-to-1 and must not incur more than $150.0 of debt unless the Company's equity is in excess of $200.0, in which case the Company may incur additional debt as long as its debt-to-equity ratio is not more than 0.75-to-1. At December 31, 1996, the Company had $89.0 in debt, $314.3 in equity, as defined in the Series C Stock covenants, and the ability to incur up to an additional $146.7 in debt under the terms of the Series C Stock.

9. ENVIRONMENTAL MATTERS AND OTHER CONTINGENT LIABILITIES AND COMMITMENTS

The Company is subject to substantial costs arising out of environmental laws and regulations, which include obligations to remove or limit the effects on the environment of the disposal or release of certain wastes or substances at various sites. Liability for investigative, removal and remedial costs under certain federal and state laws is retroactive, strict and joint and several. The Company is currently a party to, or otherwise involved in, legal proceedings directed at the cleanup of approximately 65 Superfund sites. Since the laws pertaining to these sites provide for joint and several liability, a governmental plaintiff could seek to recover all remediation costs at a waste disposal site from any one of the potentially responsible parties ("PRPs") for such site, including the Company, despite the involvement of other PRPs. In some cases, the Company is one of several hundred identified PRPs, while in others it is the only one or one of only a few. Generally, where there are a number of financially solvent PRPs, liability has been apportioned, or the Company believes, based on its experience with such matters, that liability will be apportioned based on the type and amount of waste disposed by each PRP at such disposal site and the number of financially solvent PRPs. The Company is conducting remediation at, or is otherwise responsible for, a number of non-Superfund sites. Proceedings involving environmental matters, such as alleged discharge of chemicals or waste material into the air, water or soil, are pending against the Company in various states. In many cases, future environmental-related expenditures cannot be quantified with a reasonable degree of accuracy. In addition, from time to time in the ordinary course of its business, the Company is informed of, and receives inquiries with respect to, new sites which may contain environmental contamination for which the Company may be responsible.

It is the Company's policy to accrue and charge against earnings, environmental cleanup costs when it is probable that a liability has been incurred and an amount is reasonably estimable. As assessments and cleanups proceed, these accruals are reviewed periodically and adjusted, if necessary, as additional information becomes available. These accruals can change substantially due to such factors as additional information on the nature or extent of contamination, methods of remediation required, and other actions by governmental agencies or private parties. Cash expenditures often lag behind the period in which an accrual is recorded by a number of years.

In accordance with the above policies, as of December 31, 1996 and 1995, the aggregate environmental related accruals were $177.5 and $198.3, respectively, of which $25.0 was included in accrued expenses in 1996 and $23.0 in 1995, with the remainder included in other noncurrent liabilities. Environmental remediation spending for the years ended December 31, 1996, 1995 and 1994, was $26.8, $22.1 and $15.7, respectively. All accruals have been recorded without giving effect to any possible future insurance proceeds. Various environmental matters are currently being litigated and potential insurance recoveries are unknown at this time but are considered unlikely.

While it is not feasible to predict the outcome of all pending environmental suits and claims, it is reasonably possible that there will be a necessity for future provisions for environmental costs which, in management's opinion, will not have a material 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. The Company cannot estimate any additional amount of loss or range of loss in excess of the recorded amounts. Moreover, environmental liabilities are paid over an extended period and the timing of such payments cannot be predicted with any confidence.

The Company is also a party to various other claims and routine litigation arising in the normal course of its business. Based on the advice of counsel, management believes that the resolution of such claims and litigation 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.

Rental expense under property and equipment leases was $12.5 in 1996, $13.3 in 1995 and $13.4 in 1994. Estimated future minimum rental expenses under property and equipment leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 1996, are:

	Operating Leases
1997	$ 8.5
1998	7.0
1999	6.5
2000	6.1
2001	5.7
Thereafter	6.1
Total minimum lease payments	$39.9

At December 31, 1996 and 1995, the Company had $13.9 and $15.3, respectively, of letters of credit outstanding for environmental and insurance related matters.

10. INCOME TAXES

The income tax provision (benefit) for the years ended December 31, 1996, 1995 and 1994, is based on earnings before income taxes as follows:

	1996	1995	1994
Domestic	$116.8	$107.8	$61.8
Foreign	25.3	24.3	18.8
Total	$142.1	$132.1	$80.6

The components of the provision (benefit) for the years ended December 31, 1996, 1995 and 1994, are composed of the following:

	1996	1995	1994
Current:			
Federal	$20.2	$ 25.2	$28.1
Foreign	6.6	9.3	10.1
Other, principally state	2.2	6.9	6.3
Total	$29.0	$ 41.4	$44.5
Deferred:			
Federal	$22.2	$(157.9)	$ (8.4)
Foreign	1.3	1.1	(0.6)
Other, principally state	4.4	(20.8)	(0.9)
Total	$27.9	$(177.6)	$ (9.9)
Total income tax provision (benefit)	$56.9	$(136.2)	$34.6

Domestic and foreign earnings of consolidated companies before income taxes include all earnings derived from operations in the respective U.S. and foreign geographic areas, whereas provisions (benefits) for income taxes include all income taxes payable to (receivable from) U.S., foreign and other governments as applicable, regardless of the situs in which the taxable income (loss) is generated.

The temporary differences which give rise to a significant portion of deferred tax assets and liabilities as of December 31, 1996 and 1995, are as follows:

	1996	1995
Deferred tax assets:		
Allowance for bad debts	$ 4.7	$ 6.7
Employee benefit accruals	6.9	8.1
Insurance accruals	9.8	9.0
Operating accruals	23.7	25.1
Inventory	8.8	8.2
Environmental accruals	66.9	78.0
Postretirement obligations	157.0	157.4
Other	12.0	14.2
Gross deferred tax assets	289.8	306.7
Valuation allowance	(24.4)	(24.4)
Net deferred tax assets	265.4	282.3
Deferred tax liabilities:		
Plants, equipment and facilities	(99.3)	(89.3)
Other	(11.4)	(11.4)
Gross deferred tax liabilities	(110.7)	(100.7)
Net deferred tax assets	$ 154.7	$ 181.6

In the fourth quarter of 1995, the Company made a partial reversal of $193.0 of the previously established valuation allowance. The amount of this reversal represented the Company's best estimate of the tax benefits which, more likely than not, will be realized in future periods. Based on the Company's most recent review of its tax position, no adjustment of the valuation allowance was made in 1996.

A reconciliation between the Company's effective tax rate and the U.S. federal income tax rate is as follows:

	1996	1995	1994
Federal income tax rate	35.0%	35.0%	35.0%
Valuation allowance adjustment	–	(146.3)	–
Income subject to other than the federal income tax rate	0.2	1.8	1.3
State taxes, net of federal benefits	2.4	4.1	4.6
Tax on undistributed foreign earnings	–	0.2	3.0
Other, net	2.4	2.1	(0.9)
Effective tax rate	40.0%	(103.1)%	43.0%

11. RETIREMENT PLANS

The Company has defined benefit pension plans that cover employees in the United States and a number of foreign countries. A separate pension plan is maintained from which benefits solely attributable to Cyanamid service will be paid (the "Past Service Retirement Plan"). Under certain circumstances, the Company is obligated by the terms of the Series C Stock to make an annual contribution to the Past Service Retirement Plan. The Company has met the funding requirements for 1996 and 1995 and expects to fund the Past Service Retirement Plan in accordance with the terms of the Series C Stock.

Net periodic pension expense for the years ended December 31, 1996, 1995 and 1994, included the following components:

	1996	1995	1994
Service cost	$9.0	$ 7.4	$ 8.3
Interest cost on projected benefit obligation	15.5	14.2	11.7
Actual (return) loss on plan assets	(20.8)	(23.5)	3.5
Net amortization and deferral	7.3	10.5	(14.5)
Net periodic pension expense	$ 11.0	$ 8.6	$ 9.0

The funded status as of December 31, 1996 and 1995, for the Company's retirement plans are shown below.

Funded Status	1996	1995
Actuarial present value of benefit obligations:		
Vested benefit obligations	$174.3	$156.7
Accumulated benefit obligation	188.5	171.0
Projected benefit obligation	221.6	203.7
Plan assets at fair value, primarily marketable securities	192.0	162.2
Projected benefit obligation over plan assets	29.6	41.5
Unrecognized net loss	(24.1)	(37.0)
Unrecognized prior service cost	(3.3)	(3.8)
Unrecognized transition asset	2.2	2.5
Adjustment required to recognize minimum liability	–	9.8
Accrued pension cost recognized on the Company's balance sheet	$ 4.4	$ 13.0

The provisions of SFAS No. 87, "Employers' Accounting for Pensions," requires recognition in the balance sheet of an additional minimum liability when accumulated benefits are in excess of plan assets. In the fourth quarter of 1995, the Company recorded a $9.8 adjustment, to recognize the minimum liability required primarily under the Past Service Retirement Plan. The adjustment, which had no effect on 1995 earnings, was offset by recording a separate reduction to stockholders' equity of $5.4, net of taxes of $4.4. At December 31, 1996, the minimum liability adjustment of $9.8 was not needed and, accordingly was eliminated since the plan assets exceeded the accumulated benefits.

The following table sets forth the major assumptions used to determine the above information:

	1996	1995	1994
Assumed discount rate	7.50%	7.25%	8.25%
Assumed rates for future compensation increases	4.0–10.0%	3.0–10.0%	4.0–10.0%
Expected long-term rate of return on plan assets	9.0%	9.0%	9.0%

12. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Company sponsors postretirement and postemployment benefit plans. The postretirement plans provide medical and life insurance benefits to retirees who meet minimum age and service requirements. The postemployment plans provide salary continuation, disability related benefits, severance pay and continuation of health costs during the period after employment but before retirement.

Net periodic postretirement benefit costs for the years ended December 31, 1996, 1995 and 1994, included the following components:

	1996	1995	1994
Service cost	$ 1.6	$ 1.7	$ 1.1
Interest cost	22.1	26.3	25.2
Actual return on plan assets	(0.5)	(0.6)	(0.2)
Net amortization and deferral	(4.7)	(4.5)	(4.2)
	$18.5	$22.9	$21.9

The accrued postretirement benefit cost recognized in the Company's consolidated balance sheets at December 31, 1996 and 1995, includes $20.0 in accrued expenses and $364.7 and $364.6, respectively, in other noncurrent liabilities. The following table presents the plan's funded status at December 31, 1996 and 1995:

	1996	1995
Accumulated postretirement benefit obligation:		
Retirees and surviving spouses	$271.5	$300.5
Fully eligible active plan participants	38.0	32.5
Other active plan participants	8.7	9.2
Total accumulated postretirement benefit obligation	318.2	342.2
Fair value of plan assets	11.5	10.5
Accumulated postretirement benefit obligation over fair value of plan assets	306.7	331.7
Unrecognized net gain (loss)	18.9	(10.6)
Unrecognized negative prior service cost	59.1	63.5
Accrued postretirement benefit cost	$384.7	$384.6

Measurement of the accumulated postretirement benefit obligations ("APBO") was based on actuarial assumptions, including a discount rate of 7.50%, 7.25% and 8.25% at December 31, 1996, 1995 and 1994, respectively. The assumed rate of future increases in the per capita cost of health care benefits (health care cost trend rate) is 9.50% in 1997, decreasing evenly over 5 years to 5.0%, and remaining at that level thereafter. The health care cost trend rate has a significant effect on the reported amounts of APBO and related expense. For example, increasing the health care cost trend rate by one percentage point in each year would increase the APBO at December 31, 1996, and the 1997 aggregate service and interest cost by approximately $26.4 and $2.2, respectively.

13. OTHER FINANCIAL INFORMATION

Accrued expenses at December 31, 1996 and 1995, included the following:

	1996	1995
Pensions and other employee benefits	$ 27.7	$ 32.9
Other postretirement employee benefits	20.0	20.0
Salaries and wages	7.8	9.4
Environmental	25.0	23.0
Other	124.6	133.0
	$205.1	$218.3

Cash payments during the years ended December 31, 1996, 1995 and 1994, included interest of $4.0, $0.5 and $0.1, respectively. Income taxes paid in 1996, 1995 and 1994 were $49.2, $57.2 and $46.6, respectively. Income taxes paid include foreign taxes paid in 1996 and 1995 of $10.7 and $7.2, respectively. Foreign taxes paid in 1994 were considered immaterial.

Included in accounts receivable at December 31, 1996 and 1995, are miscellaneous receivables of approximately $32.2 and $41.6, respectively.

14. STOCKHOLDERS' EQUITY

Stock Split. In June 1996, the Company declared a three-for-one stock split of the Company's common stock effected in the form of a stock dividend. All share and per share data, including stock option information but excluding treasury shares through the date of the distribution of the stock dividend on July 23, 1996, have been restated to reflect the stock split.

Common Stock. The Company is authorized to issue 75 million shares of common stock with a par value of $.01 per share, of which 45,494,198 shares were outstanding at December 31, 1996. On January 27, 1997, the Board of Directors approved, subject to a vote of the stockholders, a proposal to increase the number of authorized shares of common stock to 150 million shares. At December 31, 1996, the Company had reserved approximately 11,714,355 shares for issuance under the 1993 Stock Award and Incentive Plan (the "1993 Plan") described below.

Stock Award and Incentive Plan. The 1993 Plan is administered by a committee of the Board of Directors (the "Committee"). The 1993 Plan provides for grants of a variety of awards, such as stock options (including incentive stock options and nonqualified stock options), stock appreciation rights (including limited stock appreciation rights), restricted stock (including performance shares), restricted stock units, deferred stock awards and dividend equivalents, and other stock or cash-based awards, to be made to selected employees and independent contractors of the Company and its subsidiaries and affiliates at the discretion of the Committee. In addition, automatic formula grants of restricted stock and nonqualified stock options are awarded to non-employee directors.

The stock option component of the 1993 Plan provides for the granting of nonqualified stock options to officers, directors and certain key employees at 100% of the market price on the date the option was granted. Options are generally exercisable in cumulative installments of 33⅓% per year commencing one year after the date of grant and annually thereafter, with contract lives of generally 10 years from the date of grant. A summary of the status of the Company's stock options as of December 31, 1996, 1995 and 1994, and changes during the year ended on those dates is presented below.

	1996		1995		1994	
	Shares	**Weighted Average Exercise Price**	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Shares Under Option:						
Outstanding at beginning of year	**4,487,037**	**$ 6.86**	3,924,900	$ 5.44	–	$ –
Granted	**876,130**	**25.14**	850,800	13.16	4,093,440	5.47
Exercised	**(429,059)**	**5.78**	(245,877)	5.47	–	–
Forfeited	**(27,912)**	**14.12**	(42,786)	9.62	(168,540)	5.42
Outstanding at end of year	**4,906,196**	**$10.18**	4,487,037	$ 6.86	3,924,900	$5.44
Options exercisable at year-end	**2,374,586**	**$ 6.39**	1,239,306	$ 5.46	21,810	$5.42
Weighted average fair value of options granted during the year		**$10.65**		$ 5.94		

The fair value of each stock option granted during 1996 and 1995 is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	1996	1995
Expected life (years)	**6.0**	6.0
Expected volatility	**30.69%**	30.69%
Expected dividend yield	**–**	–
Risk-free interest rate	**5.87%**	7.11%

The following table summarizes information about stock options outstanding at December 31, 1996:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 4.75–10.00	3,237,519	7.12 years	$ 5.44	2,084,389	$ 5.43
11.67–19.58	802,297	8.14 years	13.16	288,097	13.16
25.08–37.75	866,380	9.13 years	25.16	2,100	25.08
4.75–37.75	4,906,196	7.64 years	$10.18	2,374,586	$ 6.39

The Company has issued performance stock, a form of restricted stock, with restrictions related to the Company's financial performance for the applicable periods. Awards made in 1994 were for the 1994, 1995 and 1996 performance periods, while awards made in 1995 and 1996 were for the 1997 and 1998 performance periods, respectively. Restrictions lapse on the stock upon the attainment of performance criteria established by the Committee which, under certain circumstances, may be revised. The amount of unearned compensation recognized as expense was $8.4 in 1996 and $6.4 in 1995 and 1994, respectively. A summary of restricted stock award activity is as follows:

	1996	1995	1994
Outstanding awards – beginning of year	**357,936**	568,872	–
New awards granted	**58,107**	74,226	840,900
Shares with restrictions lapsed	**(255,123)**	(252,825)	(252,678)
Restricted shares forfeited	**(29,616)**	(32,337)	(19,350)
Outstanding awards – end of year	**131,304**	357,936	568,872
Weighted average market value of stock on award date	**$23.26**	$13.13	$5.47

Included within "Shares with restrictions lapsed" in 1996 above, are 193,935 shares which were forfeited by certain participants. The Company issued these participants equivalent deferred stock awards which will be distributed in the form of shares of common stock, generally, following termination of employment.

In late 1995, the Company implemented a stock appreciation plan for all eligible active employees which excluded those employees who customarily receive stock options. The stock appreciation units represent a potential payout to employees, in cash, of the difference between the base price of the Company's stock of $20.00 per share and the lesser of the price at term, or $33.33. The stock appreciation units mature 50% at December 31, 1997 and December 31, 1999. In December 1996, the plan was amended to provide for the immediate payout of five hundred dollars per participant which represented 25.0% of the total maximum payout. The compensation cost related to 1996 was $2.2 and was considered immaterial in 1995.

A summary of changes in common stock issued and treasury stock for the years ended December 31, 1996, 1995 and 1994 follows:

	Common Stock	Treasury Stock
Balance at December 31, 1993	36,842,377	–
Award of performance stock, net of forfeitures	791,550	–
Award of restricted stock	30,000	–
Purchase of treasury stock	–	6,917
Balance at December 31, 1994	37,663,927	6,917
Issuance pursuant to public offering	10,363,500	–
Issuance pursuant to stock option plan	245,877	–
Award of performance stock, net of forfeitures	41,889	–
Balance at December 31, 1995	48,315,193	6,917
Purchase of treasury stock	–	3,033,000
Issuance pursuant to stock option plan	235,389	(153,676)
Award of performance stock and restricted stock	50,652	(2,485)
Forfeitures and performance stock deferrals	(223,551)	(271)
Balance at December 31, 1996	48,377,683	2,883,485

Shares held in treasury prior to July 23, 1996 were not subject to the stock split.

There were no dividends declared on common stock in 1996 and 1995.

The Company applies Accounting Principles Board Opinion No. 25 and related Interpretations in accounting for its stock-based compensation plans. Accordingly, no compensation costs have been recognized for its stock option plan. The compensation costs that have been charged against income for its restricted stock awards and stock appreciation plan were noted above. Set forth as follows are the Company's net earnings and earnings per share, presented both "as reported" and "pro forma," as if compensation cost had been determined consistent with the provisions of SFAS 123:

	1996	1995
Net earnings available for common stockholders:		
As reported	$100.1	$76.3
Pro forma	98.0	75.3
Primary earnings per share:		
As reported	$ 2.01	$1.80
Pro forma	1.97	1.77
Fully diluted earnings per share:		
As reported	$ 2.01	$1.43
Pro forma	1.97	1.42

The effects of applying SFAS 123 in this pro forma disclosure are not indicative of future amounts. SFAS 123 does not apply for awards prior to 1995, and the Company anticipates granting additional awards in future years.

15. PREFERRED STOCK – REDEEMABLE AND NON-REDEEMABLE

The Company is authorized to issue 20 million shares of preferred stock with a par value of $.01 per share in one or more classes or series with rights and privileges as adopted by the Board of Directors. As of the Effective Date, the Company had issued to Cyanamid 8 million shares of preferred stock having an aggregate liquidation and redemption value of $200.0, which included shares of Series A Stock, par value $.01 per share, Series B Stock, par value $.01 per share, and Series C Stock, par value $.01 per share. During 1995, the Company repurchased all of its outstanding Series A Stock and Series B Stock (see "Preferred Stock Repurchase" below).

The Series C Stock, of which 4,000 shares are issued and outstanding, is perpetual, has a liquidation and redemption value of $0.1, an annual dividend of $1.83 per share (7.32%) and is redeemable at the Company's option under certain limited circumstances. Shares of Series C Stock are not transferable except to a subsidiary of Cyanamid. The Series C Stock provides Cyanamid with the right to elect one director to the Company's Board of Directors and contains certain covenants requiring the Company to satisfy its environmental remediation obligations, retiree health care and life insurance obligations and certain pension contribution obligations in a timely and proper manner, and certain other covenants requiring the Company to maintain specified financial ratios and restricting the Company from taking certain actions, including paying dividends on its common stock in certain circumstances, merging or consolidating or selling all or substantially all of the Company's assets or incurring indebtedness in violation of certain covenants, without the consent of Cyanamid as the holder of the Series C Stock. In the event that the Company fails to comply with certain of such covenants, Cyanamid, as the holder of the Series C Stock, will have additional rights which may include approval of the Company's capital expenditures and, in certain more limited circumstances, appointing additional directors to the Company's Board of Directors, which together with Cyanamid's existing representative, would constitute a majority of the Company's Board of Directors. The Company agreed with Cyanamid in the preferred stock repurchase agreement that it would not redeem the Series C Stock prior to December 16, 1999.

Preferred Stock Repurchase. In August 1995, the Company entered into a preferred stock repurchase agreement with Cyanamid pursuant to which the Company agreed to repurchase all outstanding shares of its Series A Stock and its Series B Stock from Cyanamid. The Company repurchased the Series A Stock on August 23, 1995, for $90.0 plus $1.2 of accrued dividends. On November 7, 1995, the Company repurchased the Series B Stock for $305.1 plus $0.6 of accrued dividends, which was financed by the proceeds of a stock offering of 9.6 million shares of the Company's common stock, $100.0 in borrowings under the Company's Credit Facility and available cash.

The Series A Stock had an aggregate liquidation value of $95.5 and an aggregate annual dividend of $8.4. The Series B Stock had an aggregate liquidation value of $104.4, an aggregate annual dividend of $6.3, and was also convertible at a conversion price of $6.26 per share into 16,660,611 shares of common stock, or approximately 29.6% of the common stock outstanding on a fully diluted basis (assuming conversion of the Series B Stock) prior to the repurchase.

The Company also agreed to pay to Cyanamid an additional amount if, during the two-year period commencing on November 7, 1995, any person announces an offer to acquire and thereafter acquires more than 50% of the Company's issued and outstanding common stock (a "Transaction").

The additional amount will be payable within 30 days following consummation of a Transaction and will equal, subject to antidilution adjustments, 6,297,111 multiplied by the excess, if any, of the purchase price per share of common stock paid in the Transaction over the greater of the average price of common stock during a defined period of time preceding announcement of the Transaction and $17.66. The additional amount payable will be proportionately reduced if the Transaction and any related transactions collectively constitute an offer to acquire less than 100% of the Company. In order to induce the Company to agree to pay such additional amount, Cyanamid agreed on behalf of itself and American Home Products Corporation that, during such two-year period, neither company would directly or indirectly take any action having the purpose of inducing any person to seek to acquire the Company, and Cyanamid further agreed that it would reject any request for a waiver, consent or approval in connection with an offer or possible offer to acquire the Company made to it, including any waiver, consent or approval under the Series C Stock.

After the repurchase, the shares of the Series A Stock and Series B Stock were retired and assumed the status of authorized but unissued shares of preferred stock, and the Company is not currently authorized to issue any additional shares of Series A Stock or Series B Stock.

16. SUBSEQUENT EVENTS (UNAUDITED)

On January 31, 1997, the Company completed the sale of its Acrylic Fibers business to a subsidiary of Sterling Chemicals, Inc. The assets transferred include Cytec's plant located near Pensacola, Florida. The Company received approximately $88.0 in cash, subject to certain post-closing adjustments, and received other consideration, including the assumption by Sterling of certain contingent and other liabilities, with a value of approximately $15.0. The Company expects to record a gain from this transaction in the first quarter of 1997. Cytec's Acrylic Fibers business had sales of approximately $138.7, $136.1 and $121.1 in 1996, 1995 and 1994, respectively.

On November 8, 1996, the Company announced a restructuring proposal for its Botlek, Netherlands plant. The restructuring would include a major reengineering of the plant organization, relocation of certain manufacturing operations to other Cytec sites and staff reductions. The proposal was subject to negotiations with the Works Council and the Unions. The negotiations were completed in February and the Company is moving forward with the restructuring. The Company expects to record a charge against earnings in the first quarter of 1997 related to this transaction.

On January 16, 1997, the Company announced the consolidation of its surfactant and docusate manufacturing at its Willow Island, West Virginia facility. As a result of this consolidation, the Company will close its Linden, New Jersey plant. The phasedown of the Linden facility will occur over approximately the next 18 months. The Company expects to record a charge against earnings in the first quarter of 1997 related to this transaction.

The Company believes that the impact of the above divestiture and restructurings will have an immaterial effect on the results of operations for 1997.

17. OPERATIONS BY GEOGRAPHIC AREAS

The Company is engaged primarily in the manufacture and sale of a highly diversified line of chemical products.

Net sales to unaffiliated customers presented below are based upon the sales destination which is consistent with management's view of the business.

U.S. exports included in net sales are also based upon the sales destination and represent direct sales of U.S.-based entities to unaffiliated customers outside the United States.

Earnings from operations are also based upon destination and consist of total net sales less operating expenses.

Identifiable assets are those assets used in the Company's operations in each geographic area. Unallocated assets are primarily miscellaneous receivables, construction in progress, and cash and cash equivalents.

OPERATIONS BY GEOGRAPHIC AREAS

	1996	1995	1994
Net sales			
United States	$ 766.6	$ 782.2	$ 758.7
Other Americas	110.9	100.3	94.5
Europe, Mideast, Africa	219.7	207.1	142.5
Asia/Pacific Rim	162.4	170.5	105.6
Total	$1,259.6	$1,260.1	$1,101.3
U.S. exports included in net sales above			
Other Americas	$ 34.3	$ 28.3	$ 20.7
Europe, Mideast, Africa	13.9	21.8	23.6
Asia/Pacific Rim	100.4	108.7	54.8
Total	$ 148.6	$ 158.8	$ 99.1
Earnings from operations			
United States	$ 91.9	$ 52.6	$ 28.8
Other Americas	19.7	13.2	12.5
Europe, Mideast, Africa	21.2	22.3	11.0
Asia/Pacific Rim	3.3	34.6	16.2
Total	$ 136.1	$ 122.7	$ 68.5
Interest, and other income (expense), net	$ 10.0	$ 10.4	$ 12.2
Interest expense	4.0	1.0	0.1
Earnings before income taxes	$ 142.1	$ 132.1	$ 80.6
Equity in net earnings of associated companies	$ 14.9	$ 13.9	$ 10.1
Identifiable assets			
United States	$ 574.1	$ 591.1	$ 529.8
Other Americas	106.1	101.2	95.9
Europe, Mideast, Africa	117.4	108.1	95.1
Asia/Pacific Rim	21.6	19.1	16.8
Total	$ 819.2	$ 819.5	$ 737.6
Equity in net assets of and advances to associated companies	$ 143.7	$ 155.1	$ 137.6
Unallocated assets	$ 298.2	$ 319.2	$ 324.2
Total assets	$1,261.1	$1,293.8	$1,199.4

MANAGEMENT STATEMENT

Your management has prepared and is responsible for the accompanying Consolidated Financial Statements. These statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances and necessarily include some amounts based on management's estimates and judgments. All financial information in this annual report is consistent with that in the Consolidated Financial Statements.

The Company's accounting systems include internal controls designed to provide reasonable assurance of the reliability of its financial records and the proper safeguarding and use of its assets. Such controls are based on established policies and procedures, and are implemented by trained, skilled personnel with an appropriate segregation of duties. The internal controls are complemented by the Company's internal auditors who conduct regular and extensive internal audits.

The Company's independent auditors, KPMG Peat Marwick LLP, have audited the Consolidated Financial Statements. Their audits were conducted in accordance with generally accepted auditing standards as indicated in their report.

The Board of Directors exercises its responsibility for these financial statements through its Audit Committee, composed solely of nonmanagement directors, which meets periodically with management, the internal auditors and the independent auditors to review internal accounting control, auditing and financial reporting matters. The independent auditors and the internal auditors have full and free access to the Audit Committee.

Darryl D. Fry
Chairman and Chief Executive Officer

James P. Cronin
Executive Vice President and Chief Financial Officer
West Paterson, NJ
January 27, 1997

INDEPENDENT AUDITOR'S REPORT

KPMG Peat Marwick LLP

The Board of Directors
and Stockholders
Cytec Industries Inc.:

We have audited the accompanying consolidated balance sheets of Cytec Industries Inc. and subsidiaries, as of December 31, 1996 and 1995, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cytec Industries Inc. and subsidiaries at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Short Hills, NJ
January 27, 1997

QUARTERLY DATA

(Dollars in millions, except per share amounts)	1Q	2Q	3Q	4Q	Year
1996					
Net sales	**$304.5**	**$318.1**	**$321.7**	**$315.3**	**$1,259.6**
Gross profit[1]	**86.9**	**91.7**	**92.1**	**90.8**	**361.5**
Net earnings	**22.6**	**25.4**	**26.0**	**26.1**	**100.1**
Earnings per common share[2]					
Primary	**$ .44**	**$ .51**	**$ .53**	**$ .54**	**$ 2.01**
Fully diluted	**$ .44**	**$ .51**	**$ .53**	**$ .54**	**$ 2.01**
1995					
Net sales	$310.7	$333.1	$320.3	$296.0	$1,260.1
Gross profit[1]	87.2	87.2	85.3	88.2	347.9
Net earnings[3]	22.1	22.6	22.4	215.1	282.2
Dividends on preferred stock	3.7	3.7	2.8	0.5	10.7
Excess of repurchase price over related book value of Series A Stock and Series B Stock[4]	–	–	–	195.2	195.2
Earnings per common share[2]					
Primary	$ .46	$ .47	$ .48	$ .41	$ 1.80
Fully diluted	$ .35	$ .36	$ .37	$ .37	$ 1.43

1 Gross profit is derived by subtracting manufacturing cost of sales from net sales.

2 The sum of the quarters may not equal the full year primary and fully diluted earnings per share as each period is calculated separately.

3 See Note 10 to the Consolidated Financial Statements for a discussion of the partial reversal of the deferred income tax valuation allowance recorded in the fourth quarter 1995.

4 See Note 15 to the Consolidated Financial Statements for a discussion of the repurchase of Series A Stock and Series B Stock.

QUARTERLY HIGH AND LOW STOCK PRICES

Cytec's common stock is traded on the New York Stock Exchange under the symbol CYT. At January 31, 1997, there were 19,057 holders of record.

The high and low stock prices for each quarter during 1996 and 1995, which were restated to reflect the three-for-one stock split, were:

	1Q	2Q	3Q	4Q
1996				
High	**29 11/24**	**31 5/12**	**39 1/2**	**40 7/8**
Low	**20 3/8**	**27**	**25 1/3**	**34 3/8**
1995				
High	13 11/12	13 11/12	20 7/24	21 5/12
Low	10 7/12	10 7/8	13 2/3	17 11/12

FIVE-YEAR SUMMARY

(Dollars in millions, except per share amounts)	**1996**	1995	1994	1993	1992
Statement of operations data:					
Net sales	**$1,259.6**	$1,260.1	$1,101.3	$1,008.1	$1,044.7
Manufacturing cost of sales	**898.1**	912.2	817.9	959.9	819.9
Research and process development	**40.2**	44.2	40.0	42.7	34.1
Selling and technical services, and administrative and general	**185.2**	181.0	174.9	176.7	171.1
Earnings (loss) from operations	**136.1**	122.7	68.5	(171.2)[1]	19.6
Interest and other income (expense), net	**10.0**	10.4	12.2	0.1	(7.0)
Interest expense	**4.0**	1.0	0.1	2.3	1.2
Income tax provision (benefit)	**56.9**	(136.2)	34.6	126.6[2]	(7.1)
Earnings (loss) before earnings of associated companies	**85.2**	268.3	46.0	(300.0)	18.5
Equity in net earnings of associated companies	**14.9**	13.9	10.1	14.3	9.1
Earnings (loss) before cumulative effect of accounting changes	**100.1**	282.2	56.1	(285.7)	27.6
Cumulative effect of accounting changes	**–**	–	–	(219.8)[3]	–
Net earnings (loss)	**100.1**	282.2	56.1	(505.5)	27.6
Dividends on preferred stock	**–**	(10.7)	(14.6)	(0.6)	–
Excess of repurchase price over related book value of Series A Stock and Series B Stock	**–**	(195.2)	–	–	–
Net earnings (loss) available for common stockholders	**$ 100.1**	$ 76.3	$ 41.5	$ (506.1)	$ 27.6
Net earnings per common share					
Primary	**$ 2.01**	$ 1.80	$ 1.05	$ –	$ –
Fully diluted	**$ 2.01**	$ 1.43	$ .84	$ –	$ –

Other data					
(At end of period, unless otherwise noted):					
Additions to plants, equipment and facilities for the year ended December 31	**$ 72.5**	$ 97.2	$ 116.1	$ 110.6	$ 100.8
Current assets	**416.3**	404.0	439.0	331.0	255.7
Current liabilities	**312.8**	317.7	320.1	262.1	203.1
Working capital	**103.5**	86.3	118.9	68.9	52.6
Plants, equipment and facilities	**1,339.7**	1,317.2	1,247.5	1,333.3	1,316.4
Net depreciated cost	**582.2**	605.7	586.7	581.4	576.5
Total assets	**1,261.1**	1,293.8	1,199.4	1,082.1	1,020.7
Long-term debt	**89.0**	66.0	–	–	5.7
Other noncurrent liabilities	**544.9**	567.2	596.1	588.8	160.1
Redeemable preferred stock	**–**	–	199.9	199.9	–
Total stockholders' equity	**314.4**	342.9	83.3	31.4	651.8

See accompanying Notes to Consolidated Financial Statements.

1 Includes provisions for environmental remediation of $162.3 recorded in the third quarter of 1993 and the ongoing effect of a change in accounting principle related to postretirement benefit expenses of $24.0.

2 In addition to the charges discussed above in Note 1, a valuation allowance of $193.0 was recorded as part of the 1993 income tax provision relating to certain deferred tax assets existing as of December 31, 1993.

3 Includes charge of $230.4 related to adoption of SFAS No. 106, "Accounting for Postretirement Benefit Obligations other than Pensions" and benefit of $10.6 related to the adoption of SFAS No. 109, "Accounting for Income Taxes."

CORPORATE DIRECTORY

CORPORATE INFORMATION

Corporate Headquarters
Cytec Industries Inc.
Five Garret Mountain Plaza
West Paterson, NJ 07424
201-357-3100
Website: http://www.cytec.com

Stock Transfer Agent and Registrar
ChaseMellon
Shareholder Services, L.L.C.
P.O. Box 3315
South Hackensack, NJ 07606
800-647-4273
http://www.cmssonline.com

Independent Auditors
KPMG Peat Marwick LLP
150 John F. Kennedy Parkway
Short Hills, NJ 07078

SEC Forms 10-K and 10-Q
Copies of Cytec Industries Inc. SEC Forms 10-K and 10-Q, as filed with the Securities and Exchange Commission, are available without charge to stockholders upon request. Copies of exhibits attached to Form 10-K or 10-Q will be made available at a charge. Requests should be made by calling Cytec Investor Relations at: 1-800-44-CYTEC

Stock Exchange Listing
The common stock of Cytec Industries Inc. is traded on the New York Stock Exchange under the symbol CYT.

Annual Meeting
The annual meeting of stockholders of Cytec Industries Inc. will be held at 11:00 a.m. on May 12, 1997 at:
Sheraton Crossroads Hotel
Crossroads Corporate Center
Route 17 North
Mahwah, NJ 07495
Stockholders of record as of March 13, 1997 will be entitled to vote at this meeting.

CORPORATE OFFICERS

Darryl D. Fry*
Chairman and
Chief Executive Officer

David Lilley*
President and
Chief Operating Officer

Stephen M. Crum*
Executive Vice President

James P. Cronin*
Executive Vice President and
Chief Financial Officer

James W. Hirsch
Vice President–
Employee Resources

Edward F. Jackman
Vice President, General
Counsel and Secretary

Harold Porosoff
Vice President and
Chief Technology Officer

Kumar Shah
Vice President–
Corporate Development and Planning;
Investor Relations

David M. Drillock
Controller

Thomas P. Wozniak
Treasurer

*Executive Committee

BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD

Darryl D. Fry◆
Chairman of the Board and
Chief Executive Officer

David Lilley
President and
Chief Operating Officer

Frederick W. Armstrong●□
Director,
MGI Pharma, Inc.;
Retired Vice President,
American Cyanamid Company

Gene A. Burns▲●
Retired Executive Vice President,
Chief Financial Officer and
Director, CPC International Inc.

L.L. Hoynes, Jr.◆
Senior Vice President and
General Counsel,
American Home
Products Corporation

William P. Powell▲□
Managing Director,
Dillon, Read & Co. Inc.

Jerry R. Satrum●
President, Chief Executive Officer,
and Director, Georgia Gulf Corporation;
Director, NationsBank, N. A.

▲ Audit Committee

● Compensation and Management Development Committee

□ Pension Committee

◆ Environmental, Health and Safety Committee

Front row, left to right:
Darryl D. Fry, David Lilley
Second row, left to right:
James P. Cronin, Stephen M. Crum

OPERATIONS MANAGEMENT

William N. Avrin
Vice President & General Manager– Paper, Water Treating, Mineral, and Alumina Chemicals and President–Cytec Latin America

Jeanne M. Burnell
Vice President & General Manager– Coatings & Resin Products

Charles C. Corcoran
President–Cytec Asia/Pacific

Jeffrey D. Leman
Vice President & General Manager– Building Block Chemicals

Michael Molyneux
Vice President & General Manager– Engineered Materials

Myles S. Odaniell
Vice President & General Manager– Surfactants & Specialty Monomers

Frank Wiseman
Vice President & General Manager– Polymer Additives and President–Cytec Europe/Middle East/Africa

Joseph Carfora
General Manager– Polyester Molding Compounds

James B. Gallivan
General Manager– Phosphine Chemicals

Gerret Peters, Jr.
President– Conap, Inc.

ADMINISTRATIVE SUPPORT

Richard T. Ferguson
Director of Taxes

Raymond L. Hillard
Director of Environmental Technology Services

Raymond C. Zizik
Vice President, Procurement

Cytec Industries Inc.
Five Garret Mountain Plaza
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201-357-3100

http://www.cytec.com

To learn more about Cytec's products, investor relations, employment opportunities, news releases, and other information, visit our site on the World Wide Web.

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