Annual Report 2000

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Profile

Harsco Corporation (NYSE: HSC) is a diversified, multinational provider of industrial services and products serving the worldwide infrastructure development, steel, railway transportation, gas and energy industries. Harsco's operations are organized in three core business segments: Infrastructure, Mill Services, and Gas and Fluid Control.

Mission

The Mission of Harsco Corporation is to achieve consistent, superior financial returns from operations complemented by targeted and prudent growth in markets and technologies familiar to the Company. Enhanced stockholder value will be obtained by developing and maintaining lead industry positions in the markets served through the delivery of products and services that provide the best value to the customer.

Operations

Harsco employs approximately 20,000 people at more than 400 service, manufacturing, sales, and distribution locations in 38 countries.

Argentina
Australia
Bahrain
Belgium
Brazil
Canada
Chile
China
Czech Republic
Denmark
Egypt
Finland
France
Germany
India
Indonesia
Italy
Luxembourg
Malaysia
Mexico
Netherlands
New Zealand
Norway
Portugal
Qatar
Saudi Arabia
Singapore
Slovakia
South Africa
Spain
Sweden
Taiwan
Thailand
Trinidad
United Arab Emirates
United Kingdom
United States
Venezuela

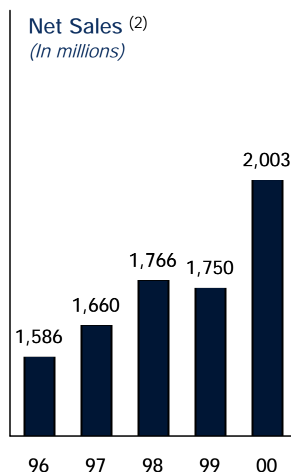
Financial Highlights

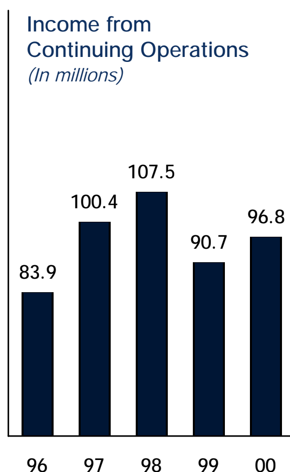
(All dollars in thousands, except per share amounts)	2000 (1)	1999
Operating Information		
Net Sales (2)	$ 2,003,387	$ 1,749,888
Net Income	96,803	90,713
Earnings Before Interest, Income Taxes, Minority Interest, Depreciation and Amortization (3)	351,807	305,589
Effective Income Tax Rate	31.5%	35.0%
Financial Position		
Working Capital	$ 190,236	$ 182,439
Current Ratio	1.4:1	1.4:1
Total Assets	2,180,948	1,659,823
Shareholders' Equity	674,179	650,121
Total Debt to Total Capital	55.4%	41.2%
Per Share Information		
Diluted Earnings Per Share	$ 2.42	$ 2.21
Book Value Per Share	16.94	16.22
Cash Dividends Declared Per Share	.945	.91
Other Information		
Diluted Average Shares Outstanding	40,021,803	41,017,067
Capital Expenditures	$ 180,048	$ 175,248
Return on Average Capital	9.6%	10.0%
Return on Average Equity	14.7%	13.9%
Return on Average Assets	10.0%	10.7%

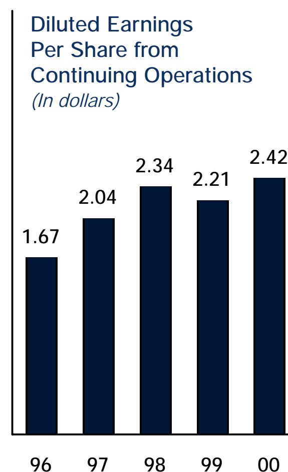
(1) Includes SGB Group Plc, since date of acquisition.

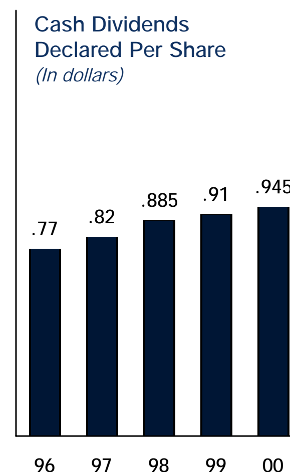
(2) In order to comply with EITF Issue No. 00-10, all shipping and handling costs have been classified as cost of services sold or as cost of products sold rather than as reductions of sales. Sales for 1999 have been reclassified to reflect this change.

(3) Earnings before interest, income taxes, minority interest, depreciation and amortization (EBITDA) is not a measure of performance under generally accepted accounting principles; however, the Company and the investment community consider it an important calculation.









Report to Stockholders

We are optimistic that our double-digit performance improvements in 2000 signal a return to the steady, year-over-year progress that has been our custom.

With the mid-year acquisition of SGB Group Plc, 2000 revenues increased to a record $2.005 billion, up nearly 15 percent over the preceding year. Diluted earnings per share grew to $2.42, a 10 percent improvement over last year's $2.21 per share. Operating cash flows, one of Harsco's principal strengths, reached a record $271 million, 18 percent ahead of last year's $229 million, adjusted for disbursements related to the discontinued defense business.

Our progress is the result of carefully executed strategies which we believe give Harsco a solid foundation for future earnings stability and long-term growth. Since the mid-1990s, we have refashioned the Company, building substantial leadership positions on a worldwide basis in important niche markets. In the same way that Harsco's predecessor companies of the 18th through the 20th centuries continually reinvented themselves to take on increasingly valuable roles in the industrial and economic growth of their era, our latest reformation has elevated Harsco to a significant multinational position within some of the world's largest and most enduring industries.

The twin pillars of international expansion and industrial services growth are much in evidence in our 2000 results. The continuing difficulties in the North American steel industry and the disappointing softness in certain markets of our gas and fluid containment and control business were offset by strong international performance in our mill services business, record results in our domestic access equipment and services unit, and the international expansion of our railway track maintenance business. These encouraging indicators underscore the operating balance that has been our goal.

Industrial services now account for about 60 percent of our revenues, giving higher margin, long-term sustainability to our performance. At year-end 2000, the value of our mill services contracts, adjusted for foreign currency translation, stood at an estimated $3.5 billion, providing a high degree of recurring, annuity-type revenue streams on a global basis. Noteworthy also is that for the first time in Harsco's history, we expect our 2001 revenues will

Organizationally we are demonstrating our ability to successfully manage as a multinational corporation.

be evenly split between our domestic and international markets, providing further evidence of our successful transformation and reduced sensitivity to national and regional business cycles.

Many are predicting reduced activity levels in the U.S. economy in 2001, and the global environment in which we operate is not without its challenges. While we cannot completely immunize ourselves from market cyclicality or the periodic pressures on national economies and their currencies, we believe we are better balanced today, both geographically and operationally, to sustain and accelerate our positive forward momentum. Our goals for 2001 include double-digit gains in Earnings Per Share and improving operating margins, return on invested capital, and EBITDA.

Organizationally we are demonstrating our ability to successfully manage as a multinational corporation. SGB facilitated the expansion of our scaffolding and access equipment business, giving it the broad international market presence and industry-leading service and product portfolio already in place in our mill services, gas and fluid control, and railway track maintenance services and equipment businesses. SGB is one of the best-known and most respected names throughout Western Europe for scaffolding, formwork, shoring and other access services and products. It is also an increasingly significant player in the Middle East and Asia. The combined strengths of SGB and Patent Construction Systems give us the requisite resources to service major construction and maintenance projects anywhere in the world. We are confident that SGB will be a substantial contributor to Harsco's future, and are taking the necessary steps to energize and re-tool the company for the improved quality of earnings and long-term growth of which it is capable.

The international expansion of our railway track maintenance services and equipment business recognizes that over 80 percent of the world's 750,000 route miles (1.2 million kilometers) of railway track lies outside the United States. While the post-merger U.S. railroads continue to prioritize their operational issues and long-term maintenance requirements, we have begun accelerating our international advance, where it is estimated that the annual outlays for rail track maintenance services and equipment exceed $1 billion. We made good headway in this regard during 2000, winning new orders for track renewal, rail grinding, rail flaw detection and other specialized equipment and services from the UK, China, India,

Harsco's strong balance sheet, underpinned by excellent cash flows, sensible debt levels, and investment-grade credit ratings, will remain an inherent characteristic.

South America and Eastern Europe, all regions with substantial railroad infrastructures and thus opportunities for our future business growth.

Nowhere is the transformation of Harsco more evident than in our Mill Services Group. In the early 1990s, our mill services operations were concentrated primarily in the North American market, generating about $165 million in annual revenues. Today, the business operates in more than 30 countries, producing annual revenues of more than $750 million, of which approximately 75 percent are generated outside the United States. As in each of our three core operating segments, our mill services operations represent a significant participation in a vital industrial sector. Steel is a worldwide business, and we serve many of its foremost producers. Among our near-term goals is to expand our service to the growing international stainless steel sector, an objective that we advanced last year with our acquisition of the Scandinavia-based Bergslagens specialty stainless operations.

The majority of our manufacturing is now concentrated in our Gas and Fluid Control Group, where our strategies have been to expand our product and market penetration through selected, smaller acquisitions and to divest lower-margin, non-core product lines. There is much room for improvement from the Group's 2000 results, and we hope to see encouraging signs of market recovery in several product areas and geographic regions in the nearer term.

With regard to Harsco's future, a primary emphasis in 2001 will be to reduce the increased level of debt incurred to support our recent growth objectives. Historically we have demonstrated our ability to pay down debt, lower our overall debt-to-capital ratio, and reduce interest expense. The sale this year of certain assets will generate additional discretionary cash to accomplish our debt reduction objectives, without impeding our operating momentum and long history of cash dividends. Harsco's strong balance sheet, underpinned by excellent cash flows, sensible debt levels, and investment-grade credit ratings, will remain an inherent characteristic.

We also intend to improve the return on the considerable amount of capital we have invested to grow and strengthen our business units. These past several years have seen an acceleration of our investment in selected acquisitions and internal development projects offering the potential for long-term contribution to Harsco's growth. In a few instances, the results have not yet lived up to our

expectations. The reasons, some legitimate, are numerous, but it is our shareholders who suffer when capital investments underperform. We feel the time is right to begin introducing the EVA® value improvement methodology throughout Harsco to better ensure that we are allocating our capital and resources in the most effective ways to generate shareholder value. The EVA framework incentivizes operations to produce long-term returns well above their cost of capital.

We will continue to:

- Concentrate on our long range objectives
- Focus on industrial services businesses with recurring revenue streams
- Expand our market leadership positions domestically and internationally
- Prudently use our increasing level of discretionary cash flows in value-creating opportunities
- Maintain a strong balance sheet
- Improve returns on invested capital
- Go for certainty
- Deliver on our commitments.

/s/

Derek C. Hathaway
Chairman, President and Chief Executive Officer

February 27, 2001

Operations Profile

Harsco's strategic transformation has

sharpened our operating focus and

expanded our international horizon.

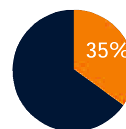
No longer a domestic manufacturing organization,

today's Harsco is delivering

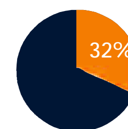
high-value industrial services and products to

global customers on a **global scale**.

Infrastructure Group



Net Sales
$703.6M



Operating Income
$62.3M

www.sgb.co.uk www.pcshd.com

Access Services and Equipment

Our June 2000 acquisition of SGB Group expands Harsco's access services and equipment business to a worldwide level. SGB pioneered the introduction of traditional scaffolding and is still the UK's largest supplier. The company serves the construction, infrastructure, and industrial maintenance markets throughout Europe, the Middle East, and Asia with a full range of scaffolding, concrete formwork, shoring, and other construction-related services and products. SGB complements our Patent Construction Systems division's market leadership in North America to deliver Total Access Solutions to customers on a worldwide basis, with increased geographic coverage and one of the broadest portfolios of services and equipment in the industry.

Both founded in the early 1900s, SGB and Patent Construction Systems are the industry's most experienced access equipment organizations, recognized for playing major roles in some of the largest and most complex projects of the modern era, including the modernization of the Empire State Building and construction of the massive Hong Kong International Airport.

www.harscotrack.com

Railway Track Maintenance

Harsco Track Technologies combines Fairmont Tamper and Pandrol Jackson, two leading railway track maintenance companies, to form one of the largest and most comprehensive track maintenance and equipment organizations in the world. Harsco Track Technologies provides contract services to major railroads, short lines, and urban mass transit systems, and is a single source for over 140 types and models of work equipment used in the maintenance, renewal, and new construction of railway track.

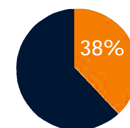
Already North America's leading track maintenance and equipment company, Harsco Track Technologies continues to expand internationally, where rail infrastructure improvements are receiving heightened investment to support economic expansion and increased rail transportation efficiency and safety.

www.ikgindustries.com

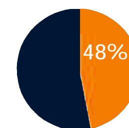
Industrial Grating

IKG Industries is the United States' leading manufacturer of specialized industrial grating and bridge decking, making every type of grating available on the market today. IKG's steel, aluminum, and fiberglass grating products are used by industrial plants, public utilities, and others for maintenance walkways, non-skid safety flooring, drain grating, security enclosures, and a range of other applications. For refurbishment of existing bridges, IKG's grid-reinforced concrete bridge deck and open grid deck provide lightweight, low-maintenance solutions. The precast and prefabricated panels arrive at the bridge ready to be installed, minimizing traffic disruption. Under new leadership as part of the Patent Construction Systems division since 1998, IKG Industries is focused on improved profitability and operational performance, and enhanced service to the large national steel service centers and structural steel fabricators in North America.

Mill Services Group



Net Sales
$757.4M



Operating Income
$92.6M

Metals Industry Services

www.heckettmultiserv.com

Heckett MultiServ is the world's largest provider of outsourced, on-site mill services to the international steel and metals industry. Heckett MultiServ's experience, financial resources, and broad geographic coverage are important qualities to leading metals producers, who increasingly look to Heckett MultiServ's specialized services and technologies to enhance their productivity, product quality, environmental compliance and commercial competitiveness.

Heckett MultiServ provides its services on a long-term contract basis, supporting each stage of the metal-making process from initial raw material handling to post-production by-product processing and recycling. Working exclusively as a specialized, high-value services provider, Heckett MultiServ does not trade steel or scrap, or at any time take ownership of its customers' raw materials or finished products. The company's multi-year contracts, with an estimated value in excess of $3.5 billion, provide Harsco with a substantial financial base of long-term, annuity-type revenues. Heckett MultiServ's geographic reach – more than 160 mills in over 30 countries – and its increasing range of services provide financial and operating balance across differing regional production levels.

Heckett MultiServ will continue to emphasize its margin improvement objectives while focusing its research and development investments on key customers and major contracts. Further market penetration will be pursued through the addition of new customers and the expansion of services to existing customers.

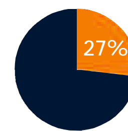
Slag Abrasives and Granules

www.reedminerals.com

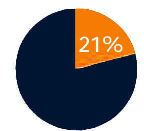
The Reed Minerals unit of Heckett MultiServ is a pioneer in the recycling of electric utility coal slag into aesthetically pleasing, competitively priced roofing shingle granules and low-free-silica sandblast abrasives. Reed Minerals sells these products under the well-known Black Beauty® product name.

Reed Minerals is the United States' largest manufacturer of slag abrasives and the third largest manufacturer of roofing granules, operating from 16 production facilities in 13 states. A new slag abrasives facility opening in Houston, Texas strengthens Reed's market presence in that area, shortening distribution channels and facilitating shipments to regional customers.

Gas and Fluid Control Group



Net Sales
$542.4M



Operating Income
$41.1M

Gas & Fluid Control Group
Harsco

www.taylorwharton.com
www.sherwoodvalve.com
www.sherwoodscuba.com
www.awtank.com
www.scicomposites.com
www.capitolcamco.com
www.airx.com

Gas Containment and Control Products

The Harsco Gas and Fluid Control Group manufactures the broadest range of gas and fluid containment and control equipment in the world. Its market-leading businesses include Taylor-Wharton cryogenic gas containers, high pressure gas cylinders, and acetylene cylinders; Sherwood valves for industrial, commercial, and recreational use, including Superior Refrigeration Products; American Welding & Tank propane gas tanks; Structural Composites Industries (SCI) composite pressure vessels and structures; Air-X-Changers heat exchangers for the natural gas industry; and Capitol Manufacturing fluid fittings.

The Group's manufacturing and service facilities in the USA, Europe, Australia, Malaysia, and China comprise the industry's largest integrated manufacturing network for gas containment and control products. This global operating presence provides significant economies of scale and multiple code production capability, enabling the Gas and Fluid Control Group to serve as a single source to the world's leading industrial gas producers and distributors, as well as regional and local customers on a worldwide basis.

As the industry's most comprehensive gas containment and control equipment leader, the Gas and Fluid Control Group is well-positioned to support the projected growth in demand for industrial and natural gases. Potential opportunities include increased demand for heat exchangers to support the international expansion in natural gas production; new market opportunities for composite gas tanks such as natural gas-powered vehicles; new applications for industrial gases requiring specialty cylinders and valves, including semiconductor manufacturing, medical valves and regulators, and laser fabrication; and emerging international markets for beverage carbonation requiring cryogenic liquid cylinders.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

(Dollars are in millions)	Dec. 31 2000	Dec. 31 1999	Increase
Current Assets	$ 726.4	$ 612.9	$113.5
Current Liabilities	536.2	430.5	105.7
Working Capital	$ 190.2	$ 182.4	$ 7.8
Current Ratio	1.4:1	1.4:1	
Notes Payable and Current Maturities	$ 62.3	$ 36.6	$ 25.7
Long-term Debt	774.4	418.5	355.9
Total Debt	836.7	455.1	381.6
Total Equity	674.2	650.1	24.1
Total Capital	$1,510.9	$1,105.2	$405.7
Total Debt to Total Capital	55.4%	41.2%	

The change in the components of the Company's working capital during 2000 is due principally to the strategic acquisition of SGB Group Plc (SGB) in June 2000. Current assets and current liabilities at December 31, 2000 include SGB amounts of $150.9 million and $110.6 million, respectively.

The Company is continuing its strategic focus on the reduction of capital employed, including inventory and receivable levels. As a result of this focus, excluding acquisitions, in 2000 the Company reduced accounts receivable by $15.9 million and inventories by $9.4 million.

Long-term debt increased in 2000 principally as a result of financing the acquisitions of SGB, Bergslagens Stalservice AB and Bergslagens Suomi Oy (collectively Bergslagens) and, to a lesser extent, capital investments. In October 2000, the Company financed the SGB acquisition with 200 million of British pound sterling 7.25% notes issued at 98.463% (approximately $294.1 million using the December 31, 2000 foreign exchange rate). The Bergslagens acquisition was financed by a private placement bond issued in June 2000.

Capital investments in 2000 were a record $180.0 million. These investments were made for new mill services contracts, for SGB access equipment, other business growth initiatives and for productivity improvements.

The strategic acquisitions, capital investments and cash dividends, which have been paid at the same or increased rates for the 203rd consecutive quarter in February 2001, demonstrate the Company's continued commitment to creating shareholder value.

Cash Utilization for the Year Ended December 31

(In millions)	2000	1999	1998	1997	1996
Strategic Acquisitions	$302.5	$ 48.9	$158.3	$ 8.5	$ 21.1
Share Repurchases	7.9	71.9	169.3	113.2	30.7
Cash Dividends	37.6	37.0	40.3	39.1	37.9
Capital Investments	180.0	175.2	159.8	143.4	150.3
Total	$528.0	$333.0	$527.7	$304.2	$240.0

The Company's debt as a percent of total capital increased as a result of the debt incurred to finance the strategic acquisitions. Also contributing to the change is a $28.3 million decrease in equity from foreign currency translation adjustments. These adjustments are principally due to a 6% decrease in the translated value of the euro, an 8% decrease in the British pound sterling and a 19% decrease in the South African rand from December 31, 1999 to December 31, 2000. To improve the debt to capital ratio, the Company has initiated a debt reduction program that is further described later in this section.

Financial Statistics for the Year Ended December 31

	2000	1999
Harsco stock price high-low	$31.63 - $17.69	$34.38 - $23.06
Return on average equity	14.7%	13.9%
Return on average assets	10.0%	10.7%
Return on average capital	9.6%	10.0%

Higher return on average equity is due to increased income in 2000 compared with 1999. Lower returns on average assets and average capital are due to the effect of the recent SGB acquisition which increased total assets and capital. The company's book value per share increased to $16.94 per share at December 31, 2000 from $16.22 at December 31, 1999 due principally to an increase in retained earnings resulting from increased income that was partially offset by foreign currency translation adjustments. These adjustments are recorded as part of other comprehensive income (expense).

In the first quarter of 2001, the Company engaged Stern Stewart & Co. to assist in the implementation of the Economic Value Added (EVA®) measurement and management system. The EVA® program will result in a worldwide focus by employees to add shareholder value by increasing the return on capital.

(In millions)	2000	1999	1998
Net Cash Provided by Operations:	$259.4	$214.0	$189.3

Cash provided by operations in 2000 was a record $259.4 million, $45.4 million greater than in 1999. The increase in cash is due principally to the timing of receipts and payments for accounts receivable and accounts payable of $46.0 million and $11.4 million, respectively. Also affecting cash from operations was an increase in income before depreciation and amortization of $29.3 million and a $22.6 million increase in deferred income taxes. Partially offsetting these favorable variances was a $46.2 million use of cash related to other assets and liabilities and a $15.0 million variance related to the timing of payments for inventories. The decrease in other assets and liabilities is principally due to decreases in accrued taxes, payments related to facilities discontinuance and reorganizations including acquisitions, reduction of advance payments on contracts, and decreases in other current liabilities.

The Company has a U.S. commercial paper borrowing program under which it can issue up to $350 million of short-term notes in the U.S. commercial paper market. In addition, the Company has a three billion Belgian franc commercial paper program, equivalent to approximately U.S. $70 million at December 31, 2000. The Belgian program provides the capacity for the Company to borrow euros to fund its European operations more efficiently. The Company limits the aggregate commercial paper and syndicated credit facility borrowings at any one time to a maximum $350 million. At December 31, 2000, the Company had $216.8 million of U.S. commercial paper debt outstanding, and $52.0 million of commercial paper debt outstanding under the Belgian program.

In September 2000, the Company renewed its revolving credit facility in the amount of $350 million through a syndicate of 13 banks. This facility serves as back-up to the Company's U.S. commercial paper program. The facility is in two parts. One part amounts to $131,250,000 and is referred to as a 364-day credit agreement that extends maturity of any borrowings for up to two years. The second part is for $218,750,000 and is referred to as a 5-year credit agreement that extends the maturity date of the facility for up to five years. As of December 31, 2000, there were no borrowings outstanding under this facility.

Subsequent to December 31, 2000, the Company executed two $50 million credit facility agreements with European-based banks. Borrowings under these facilities, which expire in December 2001 and January 2002, are available in Eurocurrencies or U.S. dollars and will be primarily used to finance the Company's European operations. Borrowings outstanding at expiration may be repaid over the succeeding 4 years. Interest rates are based upon LIBOR plus a margin.

A Form S-3 shelf registration is on file with the Securities and Exchange Commission for the possible issuance of up to an additional $200 million of new debt securities, preferred stock or common stock.

Due to the Company's increased debt level resulting from the SGB acquisition, Standard & Poor's and Fitch lowered the Company's credit ratings slightly. Moody's ratings were unchanged. The Company's outstanding long-term notes are now rated A- by Standard & Poor's, A- by Fitch and A-3 by Moody's. The Company has undertaken a debt reduction program that includes working capital reductions through process improvements and the use of software tools, divestitures of non-core businesses and non-performing assets, and a complete reevaluation of the capital expenditure program. These actions are expected to enable the Company to reduce debt levels in 2001.

The Company's financial position and debt capacity should enable it to meet current and future requirements. As additional resources are needed, the Company should be able to obtain funds readily and at competitive costs. The Company is positioned to continue to invest strategically in high-return projects and acquisitions, and to pay cash dividends as a means to enhance shareholder value. In the near-term, the Company intends to use future discretionary cash flow principally for debt reduction.

Management's Discussion and Analysis (continued)

Results of Operations
2000 Compared with 1999

(Dollars are in millions, except per share)	2000	1999	Amount Increase	Percent Increase
Revenues	$2,004.7	$1,751.0	$253.7	14%
Operating income	194.7	166.7	28.0	17
Net income	96.8	90.7	6.1	7
Diluted earnings per common share	2.42	2.21	.21	10

Summary Analysis of Results

The Company's revenues, operating income, operating income margin, net income and diluted earnings per share improved in 2000 compared with 1999. Results improved despite the negative impact on sales and earnings of the foreign currency translation effect of the strong U.S. dollar, the sale of six non-core businesses in 1999 and 2000 and the unfavorable effect of higher energy costs. On a comparative basis with 1999, the unfavorable effects of foreign currency translation reduced the Company's 2000 revenues and net income by approximately $45 million and $4.8 million, respectively. Net income in 2000 benefited from a lower effective income tax rate, principally on international earnings.

Sales and operating income for 2000 benefited significantly from the results of the SGB acquisition in the second quarter of 2000 and the Pandrol Jackson acquisition in the fourth quarter of 1999. Increased sales and income were due in part to increased demand for services from the Company's worldwide mill services business, which generates approximately 75% of its revenues from outside the United States. Improved performance from the non-U.S. mill services operations allowed the Company to post increased results in 2000, despite a second half slowdown in the domestic steel industry. Additionally, increased demand for services and products in the domestic non-residential construction market favorably affected sales and income.

Sales for most product lines in the Gas and Fluid Control Segment were below 1999 levels due to reduced demand and competitive pricing restraints due to a significant slowdown in the manufacturing sector in the fourth quarter of 2000. Additionally, the disposition of three non-core businesses contributed to the decrease in sales. The decrease in sales, as well as higher product cost of sales, resulted in lower operating income for the Gas and Fluid Control Segment.

Interest expense in 2000 was significantly greater than in 1999, principally as a result of increased debt used to finance the SGB and Pandrol Jackson acquisitions. This increase offset a significant portion of the operating income increase.

Comparative Analysis of Consolidated Results

Revenues

Revenues for 2000 were significantly above those recorded in 1999. Sales increased principally due to the addition of acquired companies. The improvement also resulted from increased demand in mill services and non-residential construction markets in the United States. Sales decreased in the United States for railway track maintenance contract services and equipment (excluding acquisitions) as well as for products in the Gas and Fluid Control Segment. These decreases principally resulted from softening demand due to high energy costs and the unfavorable effects of a fourth quarter 2000 economic slowdown in the United States manufacturing sector. Excluding the unfavorable foreign currency translation effect of the strengthening U.S. dollar, particularly relative to the euro, revenues increased by more than 17%.

Cost of Sales and Selling, General and Administrative Expenses

Cost of services and products sold increased, but at a lower rate than the increase in revenues, despite a significant increase in energy costs. Selling, general and administrative expenses increased due to the costs related to acquired companies. The Company's continuing cost reduction, process improvement and reorganization efforts slowed the growth rate of these costs. Excluding the net effects of business acquisitions and dispositions, selling, general and administrative expenses decreased approximately 3%.

On a comparative basis, 2000 was unfavorably affected by higher product costs of $8 million due to LIFO inflation. This was offset by a one-time employee benefit plan change that reduced pre-tax costs by approximately $5.3 million, and by lower pension costs.

Other Income and Expenses

In 2000, the Company incurred $1.3 million of net other expenses compared with $6 million in 1999. This income statement classification principally includes impaired asset write-downs, employee termination benefit costs and costs to exit activities, offset by net gains on the disposal of non-core assets. The decreased net expenses for 2000 principally result from a $3.8 million increase in net gains from asset disposals.

Interest Expense

Interest expense in 2000 was higher than in 1999 due principally to additional borrowings as a result of business acquisitions, principally SGB and Pandrol Jackson. Higher interest rates also contributed to the increase.

Provision for Income Taxes

The effective income tax rate for 2000 was 31.5% versus 35% for 1999. The reduction in the income tax rate is due principally to lower rates on international earnings.

Net Income and Earnings Per Share

Net income of $96.8 million and diluted earnings per share of $2.42 were above 1999 due to the factors previously disclosed.

Segment Analysis

Infrastructure Segment

(Dollars are in millions)	2000	1999	Amount Increase	Percent Increase
Sales	$703.6	$432.5	$271.1	63%
Operating income	62.3	41.2	21.1	51
Segment net income	26.1	22.5	3.6	16

The significant increase in sales and operating income of the Infrastructure Segment for 2000 is due to the acquisition of SGB in the second quarter of 2000 and Pandrol Jackson in the fourth quarter of 1999. The acquisitions resulted in increased sales of scaffolding, shoring, and forming services and railway track maintenance contracting services and equipment.

Excluding acquisitions, the operating income of the Infrastructure Segment decreased by $7.7 million in 2000. The decrease reflects reduced demand for railway track maintenance contracting services and equipment. This was experienced particularly in the United States where the Company's customers were confronted with a manufacturing sector economic slowdown in the fourth quarter of 2000 as well as significantly higher energy costs. Railroad customers delayed the purchase of equipment and deferred their maintenance programs for most of the year. Additionally, a pre-tax non-recurring asset write-down of $3.0 million was incurred in the third quarter of 2000 for the railway track maintenance business. Despite higher sales, operating income for the grating product line decreased due to higher material costs. The decrease in the Segment's operating income excluding acquisitions was partially offset by improved income for scaffolding services due to a continuing strong United States non-residential construction market.

Net income of the Infrastructure Segment increased due to the conditions previously discussed.

Mill Services Segment

(Dollars are in millions)	2000	1999	Amount Increase	Percent Increase
Sales	$757.4	$737.8	$19.6	3%
Operating income	92.6	78.2	14.4	18
Segment net income	58.5	45.1	13.4	30

Sales of the Mill Services Segment in 2000 were above 1999 despite the unfavorable effect of foreign exchange translation and the disposition of two non-core businesses. Excluding these factors and the effects of an acquisition, sales increased by 10% in 2000. However, by year-end 2000 an oversupply of steel in the United States and Canada, due principally to a high level of imports, unfavorably affected prices, shipments and the profitability of many steel mills; consequently the demand for mill services began to decline and sales began to decrease. Economic conditions in the steel industry are forecasted to improve by the second half of 2001.

Operating income of the Mill Services Segment for 2000 was significantly above 1999. The increase reflects the improved operating and economic environment for mill services in the first half of 2000 and the favorable effects of continuous process improvement programs and reorganization efforts that more than offset significantly higher energy costs. Excluding the unfavorable foreign currency translation effect of the strong U.S. dollar, the disposition of two non-core businesses and a business acquisition, operating income increased by approximately 28%.

Net income of the Mill Services Segment for 2000 was also significantly above 1999. The increase reflects the conditions previously discussed. Additionally, a lower effective income tax rate in 2000 favorably affected international earnings.

Management's Discussion and Analysis (continued)

Gas and Fluid Control Segment

(Dollars are in millions)	2000	1999	Amount (Decrease)	Percent (Decrease)
Sales	$542.4	$579.6	$(37.2)	(6)%
Operating income	41.1	47.5	(6.4)	(13)
Segment net income	23.9	27.0	(3.1)	(11)

The decrease in 2000 sales of the Gas and Fluid Control Segment is due principally to reduced demand and to competitive pricing restraints for most product lines, as well as the disposition of three non-core businesses.

The decreases in operating income and net income reflect the unfavorable effect of lower sales which more than offset net gains associated with the sale of non-core businesses. Additionally, higher manufacturing production costs contributed to the decrease in income.

Services and Engineered Products Analysis

The Company is a diversified services and engineered products company. Over the last several years, management has transformed the Company into a global services company. This is evidenced by recent acquisitions of service companies and related capital equipment. Sales, operating income and EBITDA for 2000 and 1999 are presented in the following table:

	2000		1999	
(Dollars are in millions)	Amount	Percent	Amount	Percent
Sales				
Services	$1,140.9	57%	$ 866.8	50%
Engineered products	862.5	43	883.1	50
Total sales	$2,003.4	100%	$1,749.9	100%
Operating Income				
Services	$ 122.7	63%	$ 84.9	51%
Engineered products	73.3	37	82.0	49
Total segment operating income	$ 196.0	100%	$ 166.9	100%
EBITDA*				
Services	$ 248.0	71%	$ 191.1	63%
Engineered products	103.3	29	110.3	37
Total segment EBITDA	$ 351.3	100%	$ 301.4	100%

* Earnings before interest, income taxes, depreciation and amortization (EBITDA) is not a measure of performance under generally accepted accounting principles; however, the Company and the investment community consider it an important calculation.

Service sales, operating income and EBITDA in 2000 increased significantly from 1999. The increase reflects the effects of acquired companies, principally SGB and Pandrol Jackson, as well as improved economic conditions in certain markets served by the Company.

Operating income for 2000 for engineered products was down from 1999 due to reduced margins for certain products, principally grating and industrial fittings.

Results of Operations
1999 Compared with 1998

(Dollars are in millions, except per share)	1999	1998	Amount (Decrease)	Percent (Decrease)
Revenues	$1,751.0	$1,766.1	$(15.1)	(1)%
Operating income	166.7	190.5	(23.8)	(12)
Net income	90.7	107.5	(16.8)	(16)
Diluted earnings per common share	2.21	2.34	(.13)	(6)

Summary Analysis of Results

Despite improving conditions in the steel industry during the last six months of 1999, the Company's results for the full year of 1999 reflect the adverse effects of a steel industry affected by overcapacity, reduced prices and weak demand in certain parts of the world. These problems contributed to reduced steel production and financial stress at several steel mills. Certain customers in the United States were forced to file for bankruptcy protection. In the second half of 1999, increased levels of domestic steel production and capacity utilization favorably affected the Company's results. Second half net income and earnings per share for 1999 exceeded the same period of 1998.

Soft market conditions in the industrial gas and oil industries contributed to lower results for 1999. However, the significant increase in crude oil prices that was experienced in late 1999 contributed to improved results for the second half. The Company's order backlog in the Gas and Fluid Control Segment as of December 31, 1999 was 27% higher than as of December 31, 1998, reflecting improved business conditions.

In 1999, the strong U.S. dollar adversely impacted the foreign currency translation effect on results of operations in many countries in which the Company operates.

Additionally, pre-tax pension expense for 1999, calculated in accordance with SFAS No. 87, was $10.6 million higher than 1998. The increase unfavorably impacted cost of services and products sold as well as selling, general, and administrative expenses.

Comparative Analysis of Consolidated Results

Revenues

Revenues for 1999 were $1.75 billion, slightly below 1998. The decrease reflects principally the unfavorable effects of market conditions in the steel, oil and gas industries during the first six months of 1999. Improvements in market conditions in the second half of 1999, as well as higher sales from acquisitions, net of dispositions of non-core businesses, partially offset the lower sales reported in the first six months of 1999. Excluding the adverse foreign exchange translation effect of the strengthening U.S. dollar, particularly relative to the Brazilian real, the euro, the South African rand and the British pound, revenues exceeded 1998.

Cost of Sales and Selling, General and Administrative Expenses

Costs of services and products sold for 1999 approximated that of 1998. As a result of divesting certain non-core businesses and the Company's continuing cost reduction, process improvement, and reorganization efforts, selling, general, and administrative expenses decreased despite the inclusion of acquired companies. The total of cost of sales plus selling, general, and administrative expenses was lower than 1998, despite a significant increase in pension expense.

Other Income and Expenses

In 1999, the Company incurred $6.0 million of other expenses compared with $4.3 million of other income in 1998. This income statement classification principally includes impaired asset write-downs, employee termination benefit costs and costs to exit activities, offset by net gains on the disposal of non-core assets.

Expenses for 1999 included $2.9 million of impaired asset write-downs, principally for the Company's investment in Bio-Oxidation Services Inc. which is included in the Gas and Fluid Control Segment. Additionally, $2.9 million of expense was incurred for employee termination benefits principally in the Mill Services Segment related to arrangements which included operations in France and the United Kingdom. In 1999, the Company did not benefit from any large gains related to either the sale of non-core businesses or redundant facilities or equipment.

Other income for 1998 included a pre-tax net gain of $27 million recorded on the October 1998 sale of the Nutter Engineering unit of the Gas and Fluid Control Segment. This was substantially offset by $14.4 million of impaired asset write-downs including $6.1 million for the Company's investment in Bio-Oxidation Services Inc., as well as $6.1 million for principally buildings and equipment in the Mill Services Segment related primarily to the Company's operation in Russia. Also during 1998, $6.5 million of employee termination benefit expense was incurred principally in the Mill Services Segment, primarily in South Africa, United States, France and Germany.

Employee Termination Benefit Costs and Payments

(In millions)	Summary of Activity	
Original reorganization action period	**1999**	**1998**
Employee termination benefits expense	$2.9	$6.5
Disbursements:		
In 1998	–	(2.4)
In 1999 (1)	(1.8)	(3.3)
Total disbursements	(1.8)	(5.7)
Other	–	(0.4)
Remaining payments as of December 31, 1999 (2)	$1.1	$0.4

(1) Disbursements in 1999 are categorized according to the original reorganization action period to which they relate (1999 or 1998).

(2) Remaining payments are categorized according to the original reorganization action period to which they relate (1999 or 1998).

Employee Terminations – Number of Employees

(In millions)	Summary of Activity	
Original reorganization action period	**1999**	**1998**
Employees affected by new reorganization actions	220	670
Employee terminations:		
In 1998	–	(349)
In 1999	(172)	(352)
Total terminations	(172)	(701)
Other	(9)	35
Remaining terminations as of December 31, 1999	39	4

Interest Expense

The Company's defense business was sold in the fourth quarter of 1997. This resulted in $344 million of pre-tax cash proceeds. The availability of a substantial portion of this cash in 1998 resulted in additional interest income, as well as reduced interest expense compared to 1999. Additionally, interest expense for 1999 was higher than 1998 as a result of increased borrowings for record capital

investments, the Company's share repurchase program and an acquisition in the fourth quarter of 1999. Capital investments, $175.2 million in 1999, were made for new mill services contracts, other business growth initiatives, information technology, new processes, and productivity improvements.

Provision for Income Taxes

The effective income tax rate for 1999 was 35% versus 37.5% for 1998. The reduction in the income tax rate is due principally to lower effective income tax rates on domestic earnings.

Net Income and Earnings Per Share

Net income of $90.7 million was below 1998. Diluted earnings per common share were $2.21, down from $2.34 in 1998.

Segment Analysis

Infrastructure Segment

(Dollars are in millions)	1999	1998	Amount Increase	Percent Increase
Sales	$432.5	$399.2	$33.3	8%
Operating income	41.2	32.9	8.3	25
Segment net income	22.5	18.6	3.9	21

The Infrastructure Segment's sales for 1999 exceeded 1998 due to increased sales of scaffolding, shoring and forming services, as well as sales of railway track maintenance equipment and contracting services which included the effect of an acquisition in the fourth quarter of 1999.

Operating income of the Infrastructure Segment was significantly above 1998. Excluding other income and expenses, operating income was $41.2 million compared with $34.8 million in 1998. The increase was due principally to improved margins on sales of grating products and, to a lesser extent, higher income for scaffolding, shoring and forming services. Additionally, the fourth quarter of 1998 included $2.9 million of principally inventory valuation adjustments due to a reorganization of the grating products business.

Segment net income was above 1998 due principally to improved margins on sales of grating products. Additionally, increased income was recorded for scaffolding, shoring and forming services. Excluding other income and expenses, net income in 1999 was $22.5 million compared with $19.9 million in 1998.

Mill Services Segment

(Dollars are in millions)	1999	1998	Amount Increase (Decrease)	Percent Increase (Decrease)
Sales	$737.8	$761.1	$(23.3)	(3)%
Operating income	78.2	82.9	(4.7)	(6)
Segment net income	45.1	43.3	1.8	4

Sales of the Mill Services Segment were below 1998. The inclusion of sales from an acquired company for the full year 1999 was partially offset by the 1998 disposition of a non-core business. The decrease also reflects the unfavorable effects of foreign exchange translation and overcapacity in the steel industry which adversely affected worldwide steel prices and production. This is particularly true in the United States where the steel industry filed complaints with the government due to alleged unfairly low-priced imports. Lower steel production adversely affected volume and margins at most steel mills in the United States including many of the Company's customers. However, during the last six months of 1999, steel production and capacity utilization in the United States trended upwards reflecting the highest levels since the second quarter of 1998. Additionally, certain other key countries in which the Company conducts business also experienced upward trends in steel production in 1999. The Mill Services Segment fourth quarter 1999 results reflected this trend as revenues and income, excluding other income and expenses, exceeded the same period of 1998.

Operating income of the Mill Services Segment was below 1998. Results in 1998 included other expenses of $6.5 million of pre-tax, non-cash write-downs of assets, principally property, plant and equipment and $4.9 million of employee termination benefit costs. Excluding other income and expenses, operating income was $81.5 million in 1999 compared with $95.0 million in 1998.

The decrease in income for 1999 reflected the adverse effects of lower steel production and prices in the first half of 1999. Results for 1999 include a foreign currency transaction gain in Brazil, while in 1998, net foreign currency translation exchange losses were incurred. The transaction gain in Brazil partially offset the net unfavorable foreign currency impact associated with translation of the results of operations of the Mill Services Segment.

Net income of the Mill Services Segment was above 1998. Excluding other income and expenses, net income in 1999 was $47.3 million compared with $50.8 million in 1998, reflecting the conditions previously disclosed.

Gas and Fluid Control Segment

(Dollars are in millions)	1999	1998	Amount (Decrease)	Percent (Decrease)
Sales	$579.6	$605.2	$(25.6)	(4)%
Operating income	47.5	72.3	(24.8)	(34)
Segment net income	27.0	40.9	(13.9)	(34)

Sales of the Gas and Fluid Control Segment decreased from 1998. The inclusion of a full year's sales of three acquired companies was more than offset by lower sales of process equipment due in part to the disposition of three non-core businesses. Reduced sales of gas control and containment equipment and process equipment also reflected decreased demand in the industrial gas and oil industries. In late 1999, these industries were favorably affected by rising crude oil prices.

Operating income of the Gas and Fluid Control Segment was below 1998 principally due to the inclusion in 1998 of gains on the disposal of two businesses. Excluding other income and expenses, operating income was $50.0 million in 1999 compared with $54.1 million in 1998. The decrease reflected the adverse effects of reduced demand from customers in the industrial gas and oil industries.

Segment net income was below 1998 principally due to the inclusion in 1998 of gains on the disposal of two businesses. Net income for 1999 was adversely affected, but to a lesser extent than 1998, by valuation provisions related to the write-down of assets held for disposal. Excluding other income and expenses, net income in 1999 was $28.6 million compared with $30.0 million in 1998.

Services and Engineered Products Analysis

In addition to the segment reporting previously presented, the Company is a services and engineered products company. Total service sales include mill services, as well as scaffolding, shoring, and forming services and railway track maintenance services. Engineered products principally include product sales of the Infrastructure and the Gas and Fluid Control Segments.

(Dollars are in millions)	1999 Amount	1999 Percent	1998 Amount	1998 Percent
Sales				
Services	$ 866.8	50%	$ 870.0	49%
Engineered products	883.1	50	895.5	51
Total sales	$1,749.9	100%	$1,765.5	100%
Operating Income				
Services	$ 84.9	51%	$ 78.8	42%
Engineered products	82.0	49	109.3	58
Total segment operating income	$ 166.9	100%	$ 188.1	100%

Services operating income in 1999 was $84.9 million compared with $78.8 million in 1998. Excluding losses and impaired asset write-downs associated with the medical waste disposal service business, services operating income was $87.2 million and $88.6 million for 1999 and 1998, respectively.

Operating income for engineered products in 1998 included a pre-tax net gain of $27 million.

Economic Environment

The Company has currency exposures for its international operations which are subject to volatility, such as the foreign exchange fluctuations relative to the U.S. dollar experienced for the euro and British pound sterling in 2000 and for the Brazilian real and the euro in 1999. Such exposures may result in reduced sales, income, and cash flows. The aforementioned situations are not expected to have a material adverse impact on the Company's financial position or results of operations. However, these and similar risks could result in a material impact on the Company's financial position or results of operations in the future, if the currencies would continue to weaken in relation to the U.S. dollar. Balance sheet translation adjustments for the European and Brazilian operations generally do not affect results of operations.

In the second half of 2000 the worldwide steel industry experienced selling price reductions and production curtailments at many steel producers, particularly in the United States and Canada. The United States steel industry was unfavorably affected by imports of low-priced foreign steel and a worldwide oversupply of steel. In 2000, United

States steel imports were second only to the crisis year of 1998. Certain steel producers, including certain Company customers, were forced to file for bankruptcy protection. There is a risk that the Company's future results of operations or financial condition could be adversely affected if the steel industry's problems were to continue. This risk is mitigated since approximately 75% of the Company's mill services sales are generated outside the United States. The Mill Services Segment provides services at steel mills throughout the world. The future financial impact on the Company associated with these risks cannot be estimated.

Research and Development

The Company invested $5.7 million in internal research and development programs in 2000. Internal funding for the Infrastructure Segment amounted to $3.0 million, principally for railway track maintenance equipment and services. Expenditures for the Mill Services and Gas and Fluid Control Segments were $2.0 million and $0.7 million, respectively.

Backlog

As of December 31, 2000, the Company's order backlog, exclusive of long-term mill services contracts, was $258.9 million compared with $231.6 million as of December 31, 1999, a 12% increase. The Infrastructure Segment order backlog at December 31, 2000 was $181.7 million, an increase of 20% over the December 31, 1999 backlog of $151.6 million. This increase is principally due to an increase in railway track maintenance equipment and services. Backlog for scaffolding, shoring and forming services of the Infrastructure Segment is excluded from the reported amounts. These amounts are generally not quantifiable due to the nature of the products and services provided.

Mill services contracts have an estimated value of $3.5 billion at December 31, 2000, which is slightly below the $3.6 billion at December 31, 1999, principally due to the effect of foreign currency translation.

Dividend Action

The Company paid four quarterly cash dividends of $.235 per share in 2000, for an annual rate of $.94. This is an increase of 4.4% from 1999. At the November 2000 meeting, the Board of Directors increased the dividend 2.1% to an annual rate of $.96 per share. The Board normally reviews the dividend rate periodically during the year and annually at its November meeting. There are no material restrictions on the payment of dividends.

The Company is proud of its history of paying dividends. The Company has paid dividends each year since 1939. The February 2001 payment marked the 203rd consecutive quarterly dividend paid at the same or at an increased rate. During the five-year period ended December 31, 2000, dividends paid were increased five times. In 2000, the dividend payout rate was 39%. The Company is philosophically committed to maintaining or increasing the dividend at a sustainable level.

Forward Looking Statements

The nature of the Company's operations and the many countries in which it operates subject it to changing economic, competitive, regulatory, and technological conditions, risks, and uncertainties. In accordance with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary remarks regarding important factors which, among others, could cause future results to differ materially from the forward-looking statements, expectations, and assumptions expressed or implied herein. These include statements about our management confidence and strategies for performance; expectations for new and existing products, technologies, and opportunities; and expectations for market segment and industry growth, sales, earnings, and other financial performance measures.

These factors include, but are not limited to: (1) changes in the worldwide business environment in which the Company operates, including general economic conditions, particularly in the mill services, infrastructure and industrial gas markets; currency exchange rates; interest rates; and capital costs; (2) changes in governmental laws and regulations, including taxes; (3) market and competitive changes, including pricing pressures, market demand and acceptance for new products, services, and technologies; (4) effects of unstable governments and business conditions in emerging economies; and (5) other risk factors listed from time to time in the Company's SEC reports. The Company does not intend to update this information and disclaims any legal liability to the contrary.

Five-Year Statistical Summary

(All dollars in thousands, except per share amounts)	2000 [(a)]	1999	1998	1997	1996
Income Statement Information					
Net sales [(b)]	$ 2,003,387	$ 1,749,888	$ 1,765,546	$ 1,659,729	$ 1,586,108
Income from continuing operations before interest, income taxes, and minority interest	192,708	169,736	191,901	179,888	166,057
Income from continuing operations	96,803	90,713	107,513	100,400	83,903
Income from discontinued defense business	–	–	–	28,424[(c)]	35,106
Gain on disposal of discontinued defense business	–	–	–	150,008	–
Net income	96,803	90,713	107,513	278,832	119,009
Financial Position and Cash Flow Information					
Working capital	$ 190,236	$ 182,439	$ 112,619	$ 341,160	$ 214,519
Total assets	2,180,948	1,659,823	1,623,581	1,477,188	1,324,419
Long-term debt	774,450	418,504	309,131	198,898	227,385
Total debt	836,745	455,111	363,738	225,375	253,567
Depreciation and amortization	159,099	135,853	131,381	116,539	109,399
Capital expenditures	180,048	175,248	159,816	143,444	150,294
Cash provided by operating activities	259,448	213,953	189,260	148,541	217,202
Cash provided (used) by investing activities	(459,052)	(194,674)	(233,490)	196,545	(153,225)
Cash provided (used) by financing activities	210,746	(8,928)	(134,324)	(167,249)	(92,944)
Ratios					
Return on net sales [1]	4.8%	5.2%	6.1%	6.0%	5.3%
Return on average equity [2]	14.7%	13.9%	14.3%	15.1%	14.0%
Return on average assets [3]	10.0%	10.7%	12.9%	14.3%	13.7%
Current ratio	1.4:1	1.4:1	1.2:1	1.9:1	1.7:1
Total debt to total capital [4]	55.4%	41.2%	34.7%	22.4%	27.1%
Per Share Information [(d)]					
Diluted - Income from continuing operations	$ 2.42	$ 2.21	$ 2.34	$ 2.04	$ 1.67
- Income from discontinued defense business	–	–	–	.58[(c)]	.70
- Gain on disposal of discontinued defense business	–	–	–	3.05	–
- Net income	2.42	2.21	2.34	5.67	2.37
Book value	16.94	16.22	16.22	16.64	13.73
Cash dividends declared	.945	.91	.885	.82	.77
Other Information					
Basic average number of shares outstanding [(d)]	39,964,228	40,882,153	45,568,256	48,754,212	49,894,515
Diluted average number of shares outstanding [(d)]	40,021,803	41,017,067	45,910,531	49,191,872	50,317,664
Number of employees	19,700	15,700	15,300	14,600	14,200
Backlog [(e)]	$ 258,858	$ 231,557	$ 188,594	$ 225,575	$ 211,734

(a) Includes SGB Group Plc, since date of acquisition.

(b) In order to comply with EITF Issue No. 00-10, all shipping and handling costs have been classified as cost of services sold or as cost of products sold rather than as reductions of sales. Sales for the five years have been reclassified to reflect this change.

(c) Includes income through August 1997 (the measurement date) from the discontinued defense business.

(d) Reflects two-for-one stock split to shareholders of record January 15, 1997.

(e) Excludes the estimated value of long-term mill service contracts, which had an estimated value of $3.5 billion at December 31, 2000.

1 "Return on net sales" is calculated by dividing income from continuing operations by net sales.

2 "Return on average equity" is calculated by dividing income from continuing operations by quarterly weighted average equity.

3 "Return on average assets" is calculated by dividing income from continuing operations before interest expense, income taxes, and minority interest by quarterly weighted average assets.

4 "Total debt to total capital" is calculated by dividing the sum of debt (short-term borrowings and long-term debt including current maturities) by the sum of equity and debt.

Management's Report on Financial Statements

To the Shareholders of Harsco Corporation:

Primary responsibility for the integrity and objectivity of the Company's financial statements rests with management. These statements are prepared in conformity with generally accepted accounting principles and, accordingly, include amounts that are based on management's best estimates and judgments. Non-financial information included in the Annual Report has also been prepared by management and is consistent with the financial statements.

The Company's internal control framework maintains systems, supported by a code of conduct, designed to provide reasonable assurance, at reasonable cost, that its assets and resources are safeguarded against loss from unauthorized use or disposition and that transactions are executed and recorded in accordance with established procedures. These systems are implemented through clear and accessible written policies and procedures, employee training, and appropriate delegation of authority and segregation of responsibilities. These systems of internal control are reviewed, modified, and improved as changes occur in business conditions and operations and as a result of suggestions from managers, internal auditors, and independent accountants. These systems are the responsibility of the management of the Company.

The independent accountants are engaged to perform an audit of the consolidated financial statements in accordance with generally accepted auditing standards. Their report appears below.

The Audit Committee of the Board of Directors is comprised entirely of individuals who are not employees of the Company. This Committee meets periodically and privately with the independent accountants, with the internal auditors, and with the management of the Company to review matters relating to the quality of the financial reporting, the internal control framework, and the scope and results of audit examinations.

/s/

Derek C. Hathaway
Chairman, President and Chief
Executive Officer

/s/

Salvatore D. Fazzolari
Senior Vice President, Chief
Financial Officer and Treasurer

Report of Independent Accountants

To the Shareholders of Harsco Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity, comprehensive income, and cash flows present fairly, in all material respects, the financial position of Harsco Corporation and Subsidiary Companies at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
January 30, 2001

Consolidated Balance Sheet

(In thousands, except share amounts)

December 31	2000	1999
Assets		
Current assets		
Cash and cash equivalents	$ 56,422	$ 51,266
Accounts receivable, net	413,654	331,123
Inventories	199,117	172,198
Other current assets	57,222	58,368
Total current assets	726,415	612,955
Property, plant and equipment, net	896,781	671,546
Cost in excess of net assets of businesses acquired, net	369,199	258,698
Other assets	188,553	116,624
Total assets	$2,180,948	$1,659,823
Liabilities		
Current liabilities		
Short-term borrowings	$ 47,676	$ 32,014
Current maturities of long-term debt	14,619	4,593
Accounts payable	192,148	132,394
Accrued compensation	46,591	46,615
Income taxes	34,783	44,154
Dividends payable	9,553	9,417
Other current liabilities	190,809	161,329
Total current liabilities	536,179	430,516
Long-term debt	774,450	418,504
Deferred income taxes	88,480	52,932
Insurance liabilities	46,988	37,097
Other liabilities	60,672	70,653
Total liabilities	1,506,769	1,009,702
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, Series A junior participating cumulative preferred stock	–	–
Common stock, par value $1.25, issued 66,309,651 and 66,221,544 shares as of December 31, 2000 and 1999, respectively	82,887	82,777
Additional paid-in capital	90,000	88,101
Accumulated other comprehensive expense	(109,377)	(80,538)
Retained earnings	1,214,659	1,155,586
	1,278,169	1,245,926
Treasury stock, at cost (26,504,479 and 26,149,759 shares, respectively)	(603,990)	(595,805)
Total shareholders' equity	674,179	650,121
Total liabilities and shareholders' equity	$2,180,948	$1,659,823

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

(In thousands, except per share amounts) **Years ended December 31**	**2000**	**1999**	**1998**
Revenues			
Service sales [1]	$1,140,922	$ 866,839	$ 869,987
Product sales [1]	862,465	883,049	895,559
Other	1,354	1,119	582
Total revenues	2,004,741	1,751,007	1,766,128
Costs and expenses			
Cost of services sold	840,501	669,364	670,389
Cost of products sold	688,385	693,368	689,041
Selling, general and administrative expenses	274,079	207,765	213,438
Research and development expenses	5,714	7,759	6,977
Other (income) and expenses	1,334	6,019	(4,264)
Total costs and expenses	1,810,013	1,584,275	1,575,581
Operating income	194,728	166,732	190,547
Equity in income (loss) of affiliates, net [2]	(2,020)	3,004	1,354
Interest income	5,987	4,662	8,378
Interest expense	(50,104)	(26,968)	(20,504)
Income before income taxes and minority interest	148,591	147,430	179,775
Provision for income taxes	46,805	51,599	67,361
Income before minority interest	101,786	95,831	112,414
Minority interest in net income	4,983	5,118	4,901
Net income	$ 96,803	$ 90,713	$ 107,513
Basic earnings per common share	$ 2.42	$ 2.22	$ 2.36
Average shares of common stock outstanding	39,964	40,882	45,568
Diluted earnings per common share	$ 2.42	$ 2.21	$ 2.34
Diluted average shares of common stock outstanding	40,022	41,017	45,911

See accompanying notes to consolidated financial statements.

(1) In order to comply with Emerging Issues Task Force (EITF) Issue No. 00-10, all shipping and handling costs have been classified as cost of services sold or as cost of products sold rather than as reductions of sales. The income statements for the twelve months ended December 31, 1999 and 1998 have been reclassified to reflect this change. The reclassification has no effect on previously reported operating income or net income for the twelve months ended December 31, 1999 and 1998.

(2) Equity in income (loss) of affiliates is now separately reported. Previously these amounts were included in operating income as other revenues. Amounts previously reported as operating income for the twelve months ended December 31, 1999 and 1998 were $169,736 and $191,901, respectively.

Consolidated Statement of Cash Flows

(In thousands)

Years ended December 31	2000	1999	1998
Cash flows from operating activities			
Net income	$ 96,803	$ 90,713	$ 107,513
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	141,128	122,777	119,044
Amortization	17,971	13,076	12,337
Equity in (income) loss of affiliates, net	2,020	(3,004)	(1,354)
Dividends or distributions from affiliates	1,729	3,369	1,494
Deferred income taxes	22,806	193	3,893
Other (income) and expenses	3,397	6,019	24,843
Gain on sale of businesses	(2,226)	–	(29,107)
Other, net	1,422	5,205	5,260
Changes in assets and liabilities, net of acquisitions and dispositions of businesses:			
Accounts receivable	17,811	(28,157)	(15,718)
Inventories	966	15,934	(24,991)
Accounts payable	10,193	(1,238)	8,379
Net disbursements related to discontinued defense business	(12,012)	(14,605)	(13,642)
Other assets and liabilities	(42,560)	3,671	(8,691)
Net cash provided by operating activities	259,448	213,953	189,260
Cash flows from investing activities			
Purchases of property, plant and equipment	(180,048)	(175,248)	(159,816)
Purchase of businesses, net of cash acquired*	(302,461)	(48,907)	(158,291)
Proceeds from sale of businesses	11,512	17,718	39,500
Proceeds from sale of property, plant and equipment	10,957	14,381	13,033
Investments available-for-sale: Maturities	–	–	40,000
Investments held-to-maturity: Maturities	–	–	4,010
Other investing activities	988	(2,618)	(11,926)
Net cash (used) by investing activities	(459,052)	(194,674)	(233,490)
Cash flows from financing activities			
Short-term borrowings, net	146,552	(10,546)	16,131
Current maturities and long-term debt: Additions	562,993	214,133	172,709
Reductions	(448,366)	(103,410)	(116,163)
Cash dividends paid on common stock	(37,594)	(37,022)	(40,287)
Common stock issued–options	1,792	2,272	3,885
Common stock acquired for treasury	(7,917)	(71,860)	(169,258)
Other financing activities	(6,714)	(2,495)	(1,341)
Net cash provided (used) by financing activities	210,746	(8,928)	(134,324)
Effect of exchange rate changes on cash	(5,986)	(647)	(1,449)
Net increase (decrease) in cash and cash equivalents	5,156	9,704	(180,003)
Cash and cash equivalents at beginning of year	51,266	41,562	221,565
Cash and cash equivalents at end of year	$ 56,422	$ 51,266	$ 41,562
***Purchase of businesses, net of cash acquired**			
Working capital, other than cash	$ (20,249)	$ 18,078	$ 11,159
Property, plant and equipment	(215,065)	(36,417)	(89,182)
Other noncurrent assets and liabilities, net	(67,147)	(30,568)	(80,268)
Net cash used to acquire businesses	$ (302,461)	$ (48,907)	$ (158,291)

See accompanying notes to consolidated financial statements.

Consolidated Statement of Shareholders' Equity

(In thousands, except share amounts)	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Expense)				Retained Earnings
	Issued	Treasury		Trans-lation	Net Unrealized Investment Gains (Losses)	Pension Liability	Total	
Balances, January 1, 1998	$82,318	$(362,772)	$79,360	$ (49,677)	$(28)	$(1,269)	$ (50,974)	$1,033,770
Net income								107,513
Cash dividends declared, $.885 per share								(39,455)
Translation adjustments				(1,714)			(1,714)	
Unrealized investment gains, net of ($18) deferred income taxes					28		28	
Pension liability adjustments, net of $1,544 deferred income taxes						(2,385)	(2,385)	
Acquired during the year, 4,989,483 shares		(168,405)						
Stock options exercised, 221,293 shares	276		5,913					
Restricted stock, net, 40,324 shares		1,649	110					
Other, 1,658 shares		66	1					
Balances, December 31, 1998	82,594	(529,462)	85,384	(51,391)	–	(3,654)	(55,045)	1,101,828
Net income								90,713
Cash dividends declared, $.91 per share								(36,955)
Translation adjustments				(27,273)			(27,273)	
Pension liability adjustments, net of ($1,277) deferred income taxes						1,780	1,780	
Acquired during the year, 2,326,798 shares		(66,441)						
Stock options exercised, 146,164 shares	183		2,740					
Other, 2,497 shares		98	(23)					
Balances, December 31, 1999	82,777	(595,805)	88,101	(78,664)	–	(1,874)	(80,538)	1,155,586
Net income								96,803
Cash dividends declared, $.945 per share								(37,730)
Translation adjustments				(28,327)			(28,327)	
Pension liability adjustments, net of $295 deferred income taxes						(512)	(512)	
Acquired during the year, 355,695 shares		(8,209)						
Stock options exercised, 88,107 shares	110		1,900					
Other, 975 shares		24	(1)					
Balances, December 31, 2000	$82,887	$(603,990)	$90,000	$(106,991)	$ –	$(2,386)	$(109,377)	$1,214,659

Consolidated Statement of Comprehensive Income

(In thousands)

Years ended December 31	2000	1999	1998
Net Income	**$96,803**	$90,713	$107,513
Other comprehensive income (expense):			
Foreign currency translation adjustments	**(28,327)**	(27,273)	(1,714)
Unrealized investment gains, net of deferred income taxes	**–**	–	28
Pension liability adjustments, net of deferred income taxes	**(512)**	1,780	(2,385)
Other comprehensive expense	**(28,839)**	(25,493)	(4,071)
Total comprehensive income	**$67,964**	$65,220	$103,442

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Consolidation
The consolidated financial statements include the accounts of Harsco Corporation and its majority-owned subsidiaries (the "Company"). Investments in unconsolidated entities (all of which are 20-50% owned) are accounted for under the equity method.

Cash and Cash Equivalents
Cash and cash equivalents include cash on hand, demand deposits, and short-term investments which are highly liquid in nature and have an original maturity of three months or less.

Inventories
Inventories are stated at the lower of cost or market. Inventories in the United States are accounted for using principally the last-in, first-out (LIFO) method. Other inventories are accounted for using the first-in, first-out (FIFO) or average cost methods.

Depreciation
Property, plant and equipment is recorded at cost and depreciated over the estimated useful lives of the assets using principally the straight-line method. When property is retired from service, generally the cost of the retirement is charged to the allowance for depreciation to the extent of the accumulated depreciation, and the balance is charged to income. Long-lived assets to be disposed are not depreciated while they are held for disposal.

Intangible Assets
Intangible assets consist principally of cost in excess of net assets of businesses acquired, which is amortized on a straight line basis over a period not to exceed 30 years. Accumulated amortization was $91.0 and $74.9 million at December 31, 2000 and 1999, respectively.

Impairment of Long-Lived Assets
Long-lived assets, including cost in excess of net assets of businesses acquired and other intangible assets, used in the Company's operations are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. The Company's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of the expected undiscounted future cash flows resulting from use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets to be disposed are reported at the lower of the carrying amount or fair value less cost to sell.

Revenue Recognition
Revenue is recognized for product sales generally when title and risk of loss transfer. Service sales are generally recognized over the contractual period or as services are performed. Both product sales and service revenues are recognized when they are realized or realizable and when earned. Revenue generally is realized or realizable and earned when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the Company's price to the buyer is fixed or determinable and collectibility is reasonably assured.

Income Taxes
United States federal and state income taxes and non-U.S. income taxes are provided currently on the undistributed earnings of international subsidiaries and unconsolidated affiliated entities, giving recognition to current tax rates and applicable foreign tax credits, except when management has specific plans for reinvestment of undistributed earnings which will result in the indefinite postponement of their remittance. Deferred taxes are provided using the asset and liability method for temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Accrued Insurance and Loss Reserves
The Company retains a significant portion of the risk for workers' compensation, automobile, general, and product liability losses. Reserves have been recorded which reflect the undiscounted estimated liabilities including claims incurred but not reported. Changes in the estimates of the reserves are included in net income in the period determined. Amounts estimated to be paid within one year have been classified as Other current liabilities, with the remainder included in Insurance liabilities.

Foreign Currency Translation
The financial statements of the Company's subsidiaries outside the United States, except for those subsidiaries located in highly inflationary economies, are principally measured using the local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the exchange rates as of the balance sheet date. Resulting translation adjustments are recorded in the cumulative translation adjustment, a separate component of Other comprehensive income (expense). Income and expense items are translated at average monthly exchange rates. Gains and losses from foreign currency transactions are included in net income. For subsidiaries operating in highly inflationary economies, gains and losses on foreign currency transactions and balance sheet translation adjustments are included in net income.

Notes to Consolidated Financial Statements (continued)

The functional currency for the Company's operations in Mexico was the U.S. dollar for 1997 and 1998. Effective January 1999, the three-year cumulative rate of inflation fell below 100%. As of January 1, 1999, the Company measures the financial statements of its Mexican entities using the Mexican new peso as the functional currency.

Effective January 1998, the Company's operations in Brazil were no longer accounted for as a highly inflationary economy, because the three-year cumulative rate of inflation fell below 100%. The Company measures the financial statements of its Brazilian entities using the Brazilian real as the functional currency.

Financial Instruments and Hedging

The Company has subsidiaries principally operating in North America, South America, Europe, and Asia-Pacific. These operations are exposed to fluctuations in related foreign currencies in the normal course of business. The Company seeks to reduce exposure to foreign currency fluctuations through the use of forward exchange contracts. The Company does not hold or issue financial instruments for trading purposes, and it is the Company's policy to prohibit the use of derivatives for speculative purposes. The Company has a Foreign Currency Risk Management Committee that meets periodically to monitor foreign currency risks.

The Company executes foreign currency forward exchange contracts to hedge transactions of its non-U.S. subsidiaries for firm purchase commitments, to hedge variable cash flows of forecasted transactions and for export sales denominated in foreign currencies. These contracts generally are for 90 to 180 days or less. For those contracts that hedge an identifiable transaction, gains or losses are deferred and accounted for as part of the underlying transaction. The cash flows from these contracts are classified consistent with the cash flows from the transaction being hedged. The Company also enters into foreign currency forward exchange contracts for intercompany foreign currency commitments. These forward exchange contracts do not qualify as hedges. Therefore, gains and losses are recognized in income based on fair market value.

Options for Common Stock

The Company uses the intrinsic value method to account for options granted to employees for the purchase of common stock. No compensation expense is recognized on the grant date, since at that date, the option price equals the market price of the underlying common stock. The Company discloses the pro forma effect of accounting for stock options under the fair value method.

Earnings Per Share

Basic earnings per share is calculated using the average shares of common stock outstanding, while diluted earnings per share reflects the potential dilution that could occur if stock options were exercised.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to prior years' amounts to conform with current year classifications.

New Financial Accounting Standards Issued

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), with an amended date effective for fiscal years beginning after June 15, 2000. SFAS No. 133 was amended by SFAS No. 138 (SFAS 138). SFAS 133 requires that an entity recognize all derivative instruments as either assets or liabilities on its balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction, and, if it is, the type of hedge transaction. The Company has adopted SFAS 133 and SFAS 138 as of January 1, 2001. Due to the Company's limited use of derivative instruments, SFAS 133 and SFAS 138 did not have a material effect on the financial position or results of operations of the Company. The net cumulative effect adjustment as of January 1, 2001 was an expense of $21 thousand.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS 140), which replaces SFAS No. 125 (SFAS 125) with the same title. It revises the standards for securitizations and other transfers of financial assets and collateral and requires additional disclosures, but otherwise retains most of SFAS 125's provisions. The Company will adopt SFAS 140 in the second quarter of 2001. The adoption of SFAS 140 is not expected to have a material effect on the Company's financial position or results of operations.

New Staff Accounting Bulletin Issued

In December 1999, the Securities and Exchange Commission (the "Commission") issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101), which provides guidance on the recognition, presentation, and disclosure of revenue in financial statements filed with the Commission. The Company adopted SAB 101 in the fourth quarter of 2000 with no material effect on revenue.

New Emerging Issues Task Force (EITF) Consensus

In July and September 2000, the EITF reached a consensus in EITF Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs", by agreeing that shipping and handling fees billed to a customer in a sales transaction must be classified as revenues and that shipping costs should not be netted against sales. The EITF also requires that all costs incurred for shipping and handling be classified as expenses, preferably in cost of sales.

It was determined that certain operations of the Company had previously recorded shipping and handling costs by netting them against revenues. The Company has reclassified these costs to cost of services sold or cost of products sold, as applicable. As a result, $34 million, $33 million, and $32 million of shipping and handling costs associated with the sales of the Company's products and services for 2000, 1999, and 1998, respectively, have been reclassified. Pre-tax income, net income and earnings per share are not affected by this change.

2. Discontinued Defense Business

On August 25, 1997, the Company and FMC Corporation signed an agreement to sell United Defense, L.P. for $850 million, and the sale was completed on October 6, 1997. Prior to the sale, FMC had been the managing general partner and 60% owner of United Defense, L.P., while the Company owned the balance of 40% as the limited partner. United Defense supplies ground combat and naval weapons systems for the U.S. and military customers worldwide.

Disbursements related to the discontinued defense business, principally claim settlements and legal fees, are shown separately on the Consolidated Statement of Cash Flows for 2000, 1999, and 1998.

3. Acquisitions and Dispositions

Acquisitions

On June 16, 2000 the Company received all required regulatory approvals and declared its offer to acquire SGB Group Plc ("SGB") wholly unconditional. Harsco took majority ownership in SGB and subsequently acquired 100% of the shares. SGB, based in the UK, is one of Europe's largest suppliers of scaffolding, forming and related access products and services. SGB also has operations in North America, the Middle East and the Asia-Pacific region. SGB had 1999 sales of 283 million British pounds sterling (approximately $423 million using a December 31, 2000 exchange rate).

The acquisition of SGB has been accounted for using the purchase method of accounting, and accordingly, the operating results of SGB have been included in the consolidated results of the Company since the date of acquisition. The purchase price allocation is based upon appraisal values and management estimates.

The purchase price of SGB has been allocated as follows:

(In millions)	
Working capital, other than cash	$ 21.3
Property, plant and equipment	211.6
Other assets	45.3
Cost in excess of net assets acquired	127.1
Non-current liabilities	(133.4)
Purchase price, net of cash received	$ 271.9

The purchase price allocation was reclassified in the fourth quarter of 2000. The reclassification was due principally to the netting of deferred income taxes in the countries of origin. Additionally, cost in excess of net assets acquired increased by $14.2 million since September 30, 2000 due principally to a decrease in pension assets based upon an actuarial study.

In May 2000, the Company completed the acquisitions of Bergslagens Stalservice AB and Bergslagens Suomi Oy (collectively Bergslagens). The two companies provide specialized slag processing and metal recovery services to steel mills in Sweden and Finland, respectively. The two organizations together recorded 1999 sales of nearly $10 million.

In October 1999, the Company acquired Charter plc's Pandrol Jackson railway track maintenance business. The transaction was completed for approximately $48 million in cash plus assumption of liabilities, for a total consideration of approximately $65 million. Pandrol Jackson manufactures and markets worldwide a wide range of equipment and services used in railway track maintenance. In December 1999, the Company completed the sale of the railway switch, crossing and transit grinding business obtained as part of the Pandrol Jackson railway maintenance acquisition. This business with annual sales of approximately $6 million was divested in accordance with an agreement with the Department of Justice as a condition to the acquisition of Pandrol Jackson.

In July 1999 and February 1999, respectively, the Company acquired certain assets and assumed certain liabilities of Structural Accessories, Inc. and Natural Gas Vehicle Systems, Inc. The purchase prices for these acquisitions approximated $2 million and $3 million, respectively.

All acquisitions have been accounted for using the purchase method of accounting with cost in excess of net assets of businesses acquired totaling $137.0 million in 2000 and $9.4 million in 1999. Results of operations are included in income since the dates of acquisition.

The following unaudited pro forma consolidated net sales, net income, and earnings per share data are presented as if the above businesses had been acquired at the beginning of the periods presented.

(In millions, except per share data)

Pro Forma Information for Years Ended December 31	2000	1999
Net sales	$2,208	$2,220
Net income	93	101
Basic earnings per share	2.27	2.47
Diluted earnings per share	2.27	2.47

The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the purchases been made at the beginning of the periods presented, or of the future results of the combined operations.

The unaudited pro forma information includes the actual results of the acquired businesses prior to the acquisition dates, which includes for the year 2000 approximately $4 million of non-tax deductible costs incurred by SGB in defense of the acquisition. These results do not reflect the effect of reorganization actions, synergies, cost reductions and other benefits resulting from the combinations. Additionally, the unaudited pro forma information reflects amortization of the cost in excess of net assets acquired and interest expense on assumed borrowings for acquisitions for the full periods presented.

In April 2000, the Company agreed to invest $20 million for a 49 percent ownership interest in S3Networks, LLC, a start-up company providing internet and e-business infrastructure consulting services primarily to Fortune 1000 corporations. Cash of $10 million has been invested through December 31, 2000 with an additional $10 million due to be paid over a period not to exceed fifteen months from the initial investment date. The investment is being accounted for under the equity method. Since the Company is the principal provider of initial capital for S3Networks, LLC, the Company is recording 100% of net losses to the extent of its initial $20 million investment. However, the Company will also record 100% of subsequent net income until the entire initial investment amount is reinstated. Subsequent to reinstatement of the initial investment amount, the Company will record net income to the extent of its ownership percentage of S3Networks, LLC.

Dispositions

In June 2000, the Company completed the sales of Gunness Wharf Limited and Flixborough Wharf Limited, and in March 2000 completed the sale of its natural gas vehicle automotive valve product line. The Company completed the sales of the Manchester truck dealership in September 1999; the pavement marking and vegetation control business of Chemi-Trol in August 1999; and Astralloy Wear Technology in March 1999.

Pending Divestitures

The Company announced on September 27, 2000 that its Board of Directors had approved plans to divest three non-core operations as part of Harsco's continuing strategic repositioning as a leading worldwide industrial services company.

The operations include Capitol Manufacturing, which produces pipe fittings and related products for the industrial plumbing, electrical, and other markets; Patterson-Kelley, a manufacturer of industrial and commercial boilers, water heaters, and blenders; and Faber Prest Distribution, a UK-based materials transport business which Harsco acquired in 1998 as part of mill services provider Faber Prest Plc.

In the first quarter of 2001, due to changing economic conditions, the Company reversed its decision to divest Capitol Manufacturing.

4. Accounts Receivable and Inventories

Accounts receivable are net of an allowance for doubtful accounts of $26.1 million and $13.3 million at December 31, 2000 and 1999, respectively. The acquisition of SGB increased the allowance for doubtful accounts by $15.8 million as of December 31, 2000.

Inventories consist of:

(In thousands)	2000	1999
Finished goods	$ 68,519	$ 37,715
Work-in-process	36,751	37,198
Raw materials and purchased parts	73,265	76,911
Stores and supplies	20,582	20,374
	$199,117	$172,198
Valued at lower of cost or market:		
LIFO basis	$124,189	$132,366
FIFO basis	12,898	16,483
Average cost basis	62,030	23,349
	$199,117	$172,198

Inventories valued on the LIFO basis at December 31, 2000 and 1999 were approximately $33.2 million and $28.4 million, respectively, less than the amounts of such inventories valued at current costs.

As a result of reducing certain inventory quantities valued on the LIFO basis, net income increased from that which would have been recorded under the FIFO basis of valuation by $0.03 million, $1.1 million, and $0.2 million in 2000, 1999, and 1998, respectively.

5. Property, Plant and Equipment

Property, plant and equipment consists of:

(In thousands)	2000	1999
Land and improvements	$ 46,609	$ 28,847
Buildings and improvements	168,719	147,742
Machinery and equipment	1,489,906	1,243,437
Uncompleted construction	66,260	79,797
	1,771,494	1,499,823
Less accumulated depreciation	874,713	828,277
	$ 896,781	$ 671,546

The estimated useful lives of different types of assets are generally:

Land improvements	5 to 20 years
Buildings and improvements	10 to 50 years
Certain plant, buildings and installations (principally Mill Services Segment)	3 to 10 years
Machinery and equipment	3 to 20 years

6. Debt and Credit Agreements

On October 27, 2000, the Company issued 200 million British pounds sterling (U.S. $294 million) 7.25% notes due 2010. The interest payable annually commences on October 27, 2001. The net proceeds of the issue were used to refinance certain bank debt that was used to fund the acquisition of SGB Group.

The Company has a $350 million credit facility through a syndicate of 13 banks. Borrowings under this agreement are available in U.S. dollars or Eurocurrencies and the credit facility serves as back-up to the Company's U.S. commercial paper program. The facility is in two parts. The first part, referred to as the 364-day credit agreement, permits borrowings up to $131 million and expires in September 2001. Borrowings outstanding at expiration may be repaid over the succeeding 12 months. The second part, referred to as the five-year credit agreement, permits borrowings up to $219 million and expires in September 2005. All borrowings under the five-year credit agreement are due at expiration. Interest rates are either negotiated, based upon the U.S. federal funds interbank market, prime, or based upon the London Interbank Offered Rate (LIBOR) plus a margin. The Company pays a facility fee (.0825% per annum as of December 31, 2000) that varies based upon its credit ratings. Prior to renegotiating the terms of its credit facility in September 2000, the Company formerly had a $400 million facility that would have matured in July 2001. At December 31, 2000 and 1999, there were no borrowings outstanding under either facility.

The Company can also issue up to $350 million of short-term notes in the U.S. commercial paper market. In addition, the Company has a three billion Belgian franc commercial paper program (approximately U.S. $70 million at December 31, 2000) which is used to fund the Company's international operations. The Company limits the aggregate commercial paper and credit facility borrowings at any one time to a maximum of $350 million. Commercial paper interest rates, which are based on market conditions, have been lower than comparable rates available under the credit facility. At December 31, 2000 and 1999, $268.8 million and $233.7 million of commercial paper was outstanding, respectively. Commercial paper is classified as long-term debt at December 31, 2000 and 1999, because the Company has the ability and intent to refinance it on a long-term basis through existing long-term credit facilities.

Subsequent to December 31, 2000 the Company executed two $50 million credit facility agreements with European-based banks. Borrowings under these facilities, which expire in December 2001 and January 2002, are available in Eurocurrencies or U.S. dollars and will be primarily used to finance the Company's European operations. Borrowings outstanding at expiration may be repaid over the succeeding 4 years. Interest rates are based upon LIBOR plus a margin.

Short-term debt amounted to $47.7 million and $32.0 million at December 31, 2000 and 1999, respectively. The weighted average interest rate for short-term borrowings at December 31, 2000 and 1999 was 5.7% and 4.6%, respectively.

Long-term debt consists of:

(In thousands)	2000	1999
7.25% notes due October 27, 2010	$294,087	$ –
6.0% notes due September 15, 2003	150,000	150,000
Commercial paper borrowings, with a weighted average interest rate of 7.0% as of December 31, 2000	268,794	233,746
Faber Prest loan notes due October 31, 2008 with interest based on Sterling LIBOR minus .75% (5.5% at December 31, 2000)	12,898	16,285
Industrial development bonds, payable in varying amounts from 2001 to 2010 with a weighted average interest rate of 6.2% as of December 31, 2000	13,400	11,400
Other financing payable in varying amounts to 2007 with a weighted average interest rate of 5.8% as of December 31, 2000	49,890	11,666
	789,069	423,097
Less: current maturities	14,619	4,593
	$774,450	$418,504

The credit facility and certain notes payable agreements contain covenants restricting, among other things, the amount of debt, as defined in the agreement, that can be issued. At December 31, 2000, the Company was in compliance with these covenants.

The maturities of long-term debt for the four years following December 31, 2001 are:

(In thousands)

2002	$ 71,321	2004	$ 7,517
2003	$154,870	2005	$226,442

Cash payments for interest on all debt were (in millions) $44.7, $25.0, and $20.0 in 2000, 1999, and 1998, respectively. Capitalized interest was (in thousands) $2, $893, and $10 in 2000, 1999, and 1998, respectively.

The Company has on file with the Securities and Exchange Commission a Form S-3 shelf registration for the possible issuance of up to an additional $200 million of new debt securities, preferred stock, or common stock.

7. Leases

The Company leases certain property and equipment under noncancelable operating leases. Rental expense under such operating leases was (in millions) $30.3, $16.9, and $17.6 in 2000, 1999, and 1998, respectively. Approximately $9.3 million of the increase for 2000 is due to the inclusion of the SGB acquisition as of June 2000.

Future minimum payments under operating leases with noncancelable terms are:

(In thousands)	
2001	$ 33,142
2002	27,056
2003	21,051
2004	21,808
2005	6,509
After 2005	23,816

8. Employee Benefit Plans

Pension Benefits

The Company has pension and profit sharing retirement plans, most of which are noncontributory, covering substantially all of its employees. The benefits for salaried employees generally are based on years of service and the employee's level of compensation during specified periods of employment. Plans covering hourly employees generally provide benefits of stated amounts for each year of service. The multi-employer plans in which the Company participates provide benefits to certain unionized employees. The Company's funding policy for qualified plans is consistent with statutory regulations and customarily equals the amount deducted for income tax purposes. The Company's policy is to amortize prior service costs over the average future service period of active plan participants.

A change to the pension information presented for 2000 is the inclusion of SGB pension income, obligations and pension assets acquired in June 2000.

(In thousands)	U.S. Plans			International Plans		
Pension Expense	**2000**	**1999**	**1998**	**2000**	**1999**	**1998**
Defined benefit plans:						
Service cost	$ 8,017	$ 9,514	$ 7,971	$ 8,559	$ 6,369	$ 5,814
Interest cost	12,069	11,427	10,339	18,727	11,622	11,027
Expected return on plan assets	(22,448)	(20,012)	(21,227)	(30,054)	(16,836)	(18,632)
Recognized prior service costs	1,368	1,309	1,219	949	742	88
Recognized (gains) or losses	(1,853)	272	(2,026)	(953)	5	(2,008)
Amortization of transition asset	(1,834)	(1,834)	(1,834)	(567)	(613)	(618)
Curtailment losses	360	–	542	–	–	–
	(4,321)	676	(5,016)	(3,339)	1,289	(4,329)
Multi-employer plans	4,334	3,853	3,011	1,039	1,069	1,043
Defined contribution plans	1,401	1,165	2,673	4,386	3,301	3,370
Pension expense	$ 1,414	$ 5,694	$ 668	$ 2,086	$ 5,659	$ 84

The change in the financial status of the pension plans and amounts recognized in the Consolidated Balance Sheet at December 31, 2000 and 1999 are:

Pension Benefits	**U.S. Plans**		**International Plans**	
(In thousands)	**2000**	**1999**	**2000**	**1999**
Change in benefit obligation:				
Benefit obligation at beginning of year	$159,055	$170,167	$203,913	$201,287
Service cost	8,017	9,514	8,558	6,368
Interest cost	12,069	11,427	18,728	11,621
Plan participants' contributions	–	–	2,673	1,887
Amendments	1,127	1,076	298	4,340
Actuarial (gain)	(10,692)	(35,638)	(2,044)	(6,828)
Curtailment loss	360	–	–	–
Benefits paid	(6,672)	(6,065)	(12,952)	(9,164)
Obligations of acquired companies	–	8,574	229,608	–
Effect of foreign currency	–	–	(14,931)	(5,598)
Benefit obligation at end of year	$163,264	$159,055	$433,851	$203,913
Change in plan assets:				
Fair value of plan assets at beginning of year	$239,030	$211,785	$276,899	$246,456
Actual return on plan assets	6,506	24,522	38,420	43,170
Employer contributions	2,709	731	2,629	694
Plan participants' contributions	–	–	2,673	1,887
Benefits paid	(6,672)	(6,065)	(12,808)	(9,038)
Plan assets of acquired companies	–	8,057	269,787	–
Effect of foreign currency	–	–	(20,738)	(6,270)
Fair value of plan assets at end of year	$241,573	$239,030	$556,862	$276,899
Funded status:				
Funded status at end of year	$ 78,310	$ 79,975	$ 123,011	$ 72,985
Unrecognized net (gain)	(42,621)	(49,724)	(49,173)	(43,092)
Unrecognized transition (asset)	(8,244)	(10,078)	(2,262)	(3,144)
Unrecognized prior service cost	10,900	11,142	12,683	14,392
Net amount recognized	$ 38,345	$ 31,315	$ 84,259	$ 41,141
Amounts recognized in the Consolidated Balance Sheet consist of:				
Prepaid benefit cost	$ 47,235	$ 40,066	$ 89,171	$ 45,848
Accrued benefit liability	(14,416)	(13,639)	(5,825)	(5,268)
Intangible asset	2,178	2,027	539	561
Accumulated other comprehensive income	3,348	2,861	374	–
Net amount recognized	$ 38,345	$ 31,315	$ 84,259	$ 41,141

Plan assets include equity and fixed-income securities. At December 31, 2000 and 1999, 732,640 shares of the Company's common stock with a fair market value of $18.1 million and $23.3 million, respectively, are included in plan assets. Dividends paid on such stock amounted to $0.7 million in both 2000 and 1999.

The actuarial assumptions used for the defined benefit pension plans are:

	U.S. Plans			**International Plans**		
	2000	**1999**	**1998**	**2000**	**1999**	**1998**
Weighted average assumed discount rates	8.0%	7.75%	6.75%	6.2%	6.2%	6.0%
Weighted average expected long-term rates of return on plan assets	9.5%	9.50%	9.50%	7.9%	7.5%	7.1%
Rates of compensation increase	4.0%	4.00%	4.50%	4.4%	4.4%	4.2%

For the U.S. plans, the projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were $22.7 million, $21.9 million, and $9.0 million, respectively, as of December 31, 2000, and $24.8 million, $24.7 million, and $12.3 million, respectively, as of December 31, 1999.

For the international plans, the projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were $9.8 million, $8.8 million, and $3.9 million, respectively, as of December 31, 2000, and $8.9 million, $7.7 million, and $3.4 million, respectively, as of December 31, 1999.

Postretirement Benefits

The Company has postretirement life insurance benefits for a number of employees, and postretirement health care benefits for a limited number of employees mainly under plans related to acquired companies. The cost of life insurance and health care benefits are accrued for current and future retirees and are recognized as determined under the projected unit credit actuarial method. Under this method, the Company's obligation for postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits. The Company's postretirement health care and life insurance plans are unfunded.

The postretirement benefit expense (health care and life insurance) was $0.7 million in 2000, $0.4 million in 1999, and $0.3 million in 1998. The components of these expenses are not shown separately as they are not material.

The changes in the postretirement benefit liability recorded in the Consolidated Balance Sheet are:

Postretirement Benefits

(In thousands)	2000	1999
Change in benefit obligation:		
Benefit obligation at beginning of year	$10,304	$ 6,421
Service cost	182	129
Interest cost	761	466
Actuarial loss	231	319
Plan participants contributions	32	–
Benefits paid	(660)	(325)
Plan amendments	403	–
Obligation of acquired company	–	3,294
Benefit obligation at end of year	$ 11,253	$ 10,304
Funded status:		
Funded status at end of year	$(11,253)	$(10,304)
Unrecognized prior service cost	367	(39)
Unrecognized net actuarial (gain)	(902)	(1,328)
Net amount recognized as accrued benefit liability	$(11,788)	$(11,671)

The actuarial assumptions used for postretirement benefit plans are:

(Dollars in thousands)	2000	1999	1998
Assumed discount rate	8.00%	7.75%	6.75%
Health care cost trend rate	7.50%	7.50%	8.30%
Decreasing to ultimate rate	6.50%	6.50%	5.50%
Effect of one percent increase in health care cost trend rate:			
On cost components	$ 41	$ 21	$ 21
On accumulated benefit obligation	$510	$415	$185

For 2000, a one percent decrease in the health care cost trend rate would decrease the cost component by $43 thousand and decrease the accumulated benefit obligation by $480 thousand.

It is anticipated that the health care cost trend rate will decrease from 7.5% in 2001 to 6.5% in the year 2003.

Savings Plan

The Company has a 401(k) savings plan which covers substantially all U.S. employees with the exception of employees represented by a collective bargaining agreement, unless the agreement expressly provides otherwise. Employee contributions are generally determined as a percentage of covered employee's compensation. The expense for contributions to the plan by the Company was (in millions) $4.9, $4.4, and $4.8 for 2000, 1999, and 1998, respectively.

Other Employee Benefit Plans

The Company offers various other benefit plans to its employees. In 2000, the Company amended certain plans in the United States which resulted in a one-time pre-tax cost reduction of approximately $5.3 million.

Executive Incentive Compensation Plan

Under the 1995 Executive Incentive Compensation Plan, the Management Development and Compensation Committee awarded 60% of the value of any earned annual incentive compensation award to be paid to participants in the form of cash and 40% in the form of restricted shares of the Company's common stock. Upon the request of the participant, the Committee was authorized to make the incentive award payable all in cash, subject to a 25% reduction in the total amount of the award. Awards were made in February of the following year. The Company accrued amounts based on performance reflecting the value of cash and common stock which was anticipated to be earned for the year. Compensation expense relating to these awards was (in millions) $5.6, $3.8, and $3.7 in 2000, 1999, and 1998, respectively.

Effective January 1, 1999, the restricted stock portion of the compensation plan was discontinued and the terms of the plan were amended to provide for payment of the incentive compensation all in cash. On January 6, 1999, the Company repurchased from the participants, at the original award value, the restricted shares awarded in 1998. For all other shares, the restrictions were removed effective January 6, 1999.

9. Income Taxes

Income before income taxes and minority interest in the Consolidated Statement of Income consists of:

(In thousands)	2000	1999	1998
United States	$ 68,000	$ 78,689	$121,091
International	80,591	68,741	58,684
	$148,591	$147,430	$179,775
Provision for income taxes:			
Currently payable:			
Federal	$ 5,113	$ 22,474	$ 37,297
State	(536)	1,743	2,835
International	21,803	25,203	23,468
	26,380	49,420	63,600
Deferred federal and state	17,375	3,890	6,552
Deferred international	3,050	(1,711)	(2,791)
	$ 46,805	$ 51,599	$ 67,361

Cash payments for income taxes were (in millions) $19.3, $50.7, and $38.8, for 2000, 1999, and 1998, respectively. Approximately $5.4 million of the taxes paid in 1998 are related to the gain on the disposal of the defense business.

The following is a reconciliation of the normal expected statutory U.S. federal income tax rate to the effective rate as a percentage of Income before income taxes and minority interest as reported in the Consolidated Statement of Income:

	2000	1999	1998
U.S. federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	.4	1.6	1.6
Export sales corporation benefit	(.3)	(.5)	(.6)
Losses for which no tax benefit was recorded	1.3	.3	1.3
Difference in effective tax rates on international earnings and remittances	(5.7)	(1.9)	(1.3)
Nondeductible acquisition costs	1.9	2.1	2.0
Other, net	(1.1)	(1.6)	(.5)
Effective income tax rate	31.5%	35.0%	37.5%

The tax effects of the primary temporary differences giving rise to the Company's deferred tax assets and liabilities for the years ended December 31, 2000 and 1999 are:

(In thousands)	2000		1999	
Deferred income taxes	**Asset**	**Liability**	**Asset**	**Liability**
Depreciation	$ –	$48,918	$ –	$36,580
Expense accruals	29,796	–	34,975	–
Inventories	3,224	–	5,294	–
Provision for receivables	2,211	–	3,867	–
Postretirement benefits	2,975	–	4,221	–
Deferred revenue	–	4,181	–	4,196
Unrelieved foreign tax credits	6,566	–	1,264	–
Unrelieved foreign tax losses	4,749	–	6,694	–
Unrelieved domestic tax losses	2,085	–	2,424	–
Pensions	–	37,653	–	22,923
Other	459	–	–	1,913
	52,065	90,752	58,739	65,612
Valuation allowance	(11,659)	–	(5,309)	–
Total deferred income taxes	$40,406	$90,752	$53,430	$65,612

At December 31, 2000 and 1999, Other current assets included deferred income tax benefits of $29.8 million and $35.0 million, respectively.

At December 31, 2000, certain of the Company's subsidiaries had total available net operating loss carryforwards ("NOLs") of approximately $27.1 million, of which approximately $14.8 million may be carried forward indefinitely and $12.3 million have varying expiration dates. Included in the total are $10.7 million of preacquisition NOLs.

At December 31, 2000, certain of the Company's subsidiaries had total available foreign tax credit carryforwards of approximately $6.6 million, of which approximately $5.3 million may be carried forward five years and $1.3 million have varying expiration dates.

During 2000 and 1999, $1.0 million and $2.3 million, respectively, of preacquisition NOLs were utilized by the Company, resulting in tax benefits of $0.4 million and $0.8 million, respectively.

The valuation allowance of $11.7 million and $5.3 million at December 31, 2000 and 1999, respectively, relates principally to cumulative unrelieved foreign tax credits and tax losses which are uncertain as to realizability. To the extent that the preacquisition NOLs are utilized in the future and the associated valuation allowance reduced, the tax benefit will be allocated to reduce the cost in excess of net assets of businesses acquired.

The change in the valuation allowances for 2000 and 1999 results primarily from the utilization of international tax loss carryforwards, generation of foreign tax credit carryforwards and the release of valuation allowances in certain international jurisdictions based on the Company's revaluation of the realizability of future benefits. The release of valuation allowances in certain jurisdictions was allocated to reduce the cost in excess of net assets of businesses acquired by $0.2 million, and $0.3 million in 2000 and 1999, respectively.

10. Commitments and Contingencies

Discontinued Defense Business – Contingencies

Federal Excise Tax and Other Matters Related to the Five-Ton Truck Contract

In 1995, the Company, the United States Army ("Army"), and the United States Department of Justice concluded a settlement of Harsco's previously reported claims against the Army relating to Federal Excise Tax (FET) arising under a completed 1986 contract for the sale of five-ton trucks to the Army. On September 27, 1995, the Army paid the Company $49 million in accordance with the settlement terms. The Company released the Army from any further liability for those claims, and the Department of Justice released the Company from a threatened action for damages and civil penalties based on an investigation conducted by the Department's Commercial Litigation Branch that had been pending for several years.

The settlement preserves the rights of the parties to assert claims and defenses under the Internal Revenue Code, and rights of the Army and the Company to claim certain amounts that may be owed by either party to reconcile possible underpayments or overpayments on the truck contract as part of the formal contract close-out process.

The settlement does not resolve the claim by the Internal Revenue Service (IRS) that, contrary to the Company's position, certain cargo truck models sold by the Company should be considered to have gross vehicle weights in excess of the 33,000 pound threshold under FET law, are not entitled to an exemption from FET under any other theory, and therefore are taxable. In 1999, the IRS assessed an increase in FET of $30.4 million plus penalties of $9.3 million and applicable interest currently estimated to be $53.7 million. In October 1999, the Company posted an $80 million bond required as security by the IRS. This increase in FET takes into account offsetting credits of $9.2 million, based on a partial allowance of the Company's $31.9 million claim that certain truck components are exempt from FET. The IRS disallowed in full the Company's additional claim that it is entitled to the entire $52 million of FET (plus applicable interest currently estimated by the Company to be $48.2 million) the Company has paid on the five-ton trucks, on the grounds that such trucks qualify for the FET exemption applicable to certain vehicles specially designed for the primary function of off-highway transportation. In the event that the Company ultimately receives from the IRS a refund of tax (including applicable interest) with respect to which the Company has already received reimbursement from the Army, the refund would be allocated between the Company and the Army. In August 2000, the Company filed legal action against the Government in the U.S. Court of Federal Claims challenging the assessment and seeking a refund of all FET that the Company has paid on five-ton trucks. That action is proceeding. Although there is risk of an adverse outcome, both the Company and the Army believe that the cargo trucks are not taxable. No recognition has been given in the accompanying financial statements for the Company's claims with the IRS.

The settlement agreement with the Army preserved the Company's right to seek reimbursement of after-imposed tax from the Army in the event that the cargo trucks are determined to be taxable, but the agreement limited the reimbursement to a maximum of $21 million. Additionally, in an earlier contract modification, the Army accepted responsibility for $3.6 million of the potential tax, bringing its total potential responsibility up to $24.6 million. As of September 30, 2000, the Army paid Harsco this entire amount and Harsco paid those funds to the IRS, subject to its pending refund claim. Thus, the Company has satisfied a portion of the disputed tax assessment. If the Company succeeds in its refund claim against the IRS, it will owe the Army the amount recovered that corresponds to the $24.6 million.

Even if the cargo trucks are ultimately held to be taxable, the Army's contribution of $24.6 million toward payment of the tax (but not interest or penalty, if any), would result in a net maximum liability for the Company of $5.8 million plus penalties and applicable interest currently estimated to be $11.5 million and $53.7 million, respectively. The Company believes it is unlikely that resolution of this matter will have a material adverse effect on the Company's financial position; however, it could have a material effect on quarterly or annual results of operations.

Other Defense Business Litigation

In 1992, the United States Government through its Defense Contract Audit Agency commenced an audit of certain contracts for sale of tracked vehicles by the Company to foreign governments, which were financed by

the United States Government through the Defense Security Assistance Agency. The U.S. Attorney's Office then commenced an investigation of those contracts. In December 1999, the Company announced that it reached agreement with the U.S. Government on behalf of its former BMY-Combat Systems Division ("BMY") to settle the matter. Under the agreement, BMY pled guilty to a one-count misdemeanor relating to submitting advance payment certifications which resulted in BMY receiving a portion of the payments for the contract prematurely. In accordance with the settlement, Harsco paid the Government a $200,000 fine in June 2000 and in July 2000 paid the $10.8 million in damages for a total of $11 million. The settlement ends the Government's investigation and releases Harsco and BMY from further liability for the issues under investigation. Harsco charged the payment against an existing liability, resulting in no charge to the Company's earnings.

Environmental

The Company is involved in a number of environmental remediation investigations and clean-ups and, along with other companies, has been identified as a "potentially responsible party" for certain waste disposal sites. While each of these matters is subject to various uncertainties, it is probable that the Company will agree to make payments toward funding certain of these activities and it is possible that some of these matters will be decided unfavorably to the Company. The Company has evaluated its potential liability, and its financial exposure is dependent upon such factors as the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the allocation of cost among potentially responsible parties, the years of remedial activity required and the remediation methods selected. The Consolidated Balance Sheet at December 31, 2000 and 1999 includes an accrual of $3.5 million and $3.0 million, respectively, for environmental matters. The amounts affecting pre-tax earnings related to environmental matters totaled $1.8 million of expense in 2000, $0.7 million of income in 1999, and $0.8 million of expense in 1998.

The liability for future remediation costs is evaluated on a quarterly basis. Actual costs to be incurred at identified sites in future periods may vary from the estimates, given inherent uncertainties in evaluating environmental exposures. The Company does not expect that any sum it may have to pay in connection with environmental matters in excess of the amounts recorded or disclosed above would have a material adverse effect on its financial position or results of operations.

Other

The Company is subject to various other claims, legal proceedings, and investigations covering a wide range of matters that arose in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance or by accruals, and if not so covered, are without merit or are of such kind, or involve such amounts, as would not have a material adverse effect on the financial position or results of operations of the Company.

11. Capital Stock

The authorized capital stock consists of 150,000,000 shares of common stock and 4,000,000 shares of preferred stock, both having a par value of $1.25 per share. The preferred stock is issuable in series with terms as fixed by the Board of Directors. None of the preferred stock has been issued. On June 24, 1997, the Company adopted a revised Shareholder Rights Plan. Under the new Plan, the Board declared a dividend to shareholders of record on September 28, 1997, of one right for each share of common stock. The rights may only be exercised if, among other things, a person or group has acquired 15% or more, or intends to commence a tender offer for 20% or more, of the Company's common stock. Each right entitles the holder to purchase 1/100th share of a new Harsco Junior Participating Cumulative Preferred Stock at an exercise price of $150. Once the rights become exercisable, if any person acquires 20% or more of the Company's common stock, the holder of a right will be entitled to receive common stock calculated to have a value of two times the exercise price of the right. The rights, which expire on September 28, 2007, do not have voting power, and may be redeemed by the Company at a price of $.05 per right at any time until the 10th business day following public announcement that a person or group has accumulated 15% or more of the Company's common stock. At December 31, 2000, 750,000 shares of $1.25 par value preferred stock were reserved for issuance upon exercise of the rights.

In January 1999, the Board of Directors authorized the purchase, over a one-year period, of 2,000,000 shares of the Company's common stock. In January 2000, the Board of Directors extended the share purchase authorization through January 25, 2001 for the 856,354 shares remaining on the original authorization. In 2000, 351,200 shares were purchased under this authorization. In January 2001, the Board of Directors extended the share purchase authorization through January 22, 2002 for the 505,154 shares still remaining as of December 31, 2000 from the original authorization.

In 2000, additional purchases of 3,520 shares, net of issues, were made principally as part of the 1995 Executive Compensation Plan.

Common Stock Summary

Balances	Shares Issued	Treasury Shares	Shares Outstanding
Dec. 31, 1997	65,854,087	18,877,957	46,976,130
Dec. 31, 1998	66,075,380	23,825,458	42,249,922
Dec. 31, 1999	66,221,544	26,149,759	40,071,785
Dec. 31, 2000	66,309,651	26,504,479	39,805,172

The following is a reconciliation of the average shares of common stock used to compute basic earnings per common share to the shares used to compute diluted earnings per common share as shown on the Consolidated Statement of Income:

(Amounts in thousands, except per share data)	2000	1999	1998
Net income	$96,803	$90,713	$107,513
Average shares of common stock outstanding used to compute basic earnings per common share	39,964	40,882	45,568
Additional common shares to be issued assuming exercise of stock options, net of shares assumed reacquired	58	135	343
Shares used to compute dilutive effect of stock options	40,022	41,017	45,911
Basic earnings per common share	$2.42	$2.22	$2.36
Diluted earnings per common share	$2.42	$2.21	$2.34

12. Stock-Based Compensation

The Company's net income and net income per common share would have been reduced to the pro forma amounts indicated below if compensation cost for the Company's stock option plan had been determined based on the fair value at the grant date for awards in accordance with the provisions of SFAS No. 123.

(In thousands, except per share)	2000	1999	1998
Net income:			
As reported	$96,803	$90,713	$107,513
Pro forma	94,395	89,113	105,736
Basic earnings per share:			
As reported	2.42	2.22	2.36
Pro forma	2.36	2.18	2.32
Diluted earnings per share:			
As reported	2.42	2.21	2.34
Pro forma	2.36	2.17	2.30

The fair value of the options granted during 2000, 1999, and 1998 is estimated on the date of grant using the binomial option pricing model. The weighted-average assumptions used and the estimated fair value are as follows:

	2000	1999	1998
Expected term	4 years	4 years	4 years
Expected stock volatility	30.5%	25.0%	16.0%
Risk-free interest rate	6.44%	4.65%	5.65%
Dividend	$ .94	$ .91	$ .88
Rate of dividend increase	5%	5%	5%
Fair value	$7.13	$5.18	$6.68

The Company has granted stock options to officers, certain key employees, and directors for the purchase of its common stock under two shareholder-approved plans. The 1995 Executive Incentive Compensation Plan authorizes the issuance of up to 4,000,000 shares of the Company's common stock for use in paying incentive compensation awards in the form of stock options. The 1995 Non-Employee Directors' Stock Plan authorizes the issuance of up to 300,000 shares of the Company's common stock for stock option awards. Options are granted at fair market value at date of grant and become exercisable commencing one year later. The options expire ten years from the date of grant. Upon shareholder approval of these two plans in 1995, the Company terminated the use of the 1986 stock option plan for granting of stock option awards. At December 31, 2000, there were 2,368,060 and 206,000 shares available for granting stock options under the 1995 Executive Incentive Compensation Plan and the 1995 Non-Employee Directors' Stock Plan, respectively.

Changes during 2000, 1999, and 1998 in options outstanding were:

	Shares Under Option	Weighted Average Exercise Price
Outstanding, Jan. 1, 1998	1,085,461	$26.06
Granted	275,100	38.30
Exercised	(221,293)	24.93
Terminated and expired	(16,500)	35.73
Outstanding, Dec. 31, 1998	1,122,768	29.14
Granted	428,400	26.92
Exercised	(146,164)	19.06
Terminated and expired	(68,400)	31.36
Outstanding, Dec. 31, 1999	1,336,604	28.97
Granted	539,247(1)	28.18
Exercised	(88,107)	22.11
Terminated and expired	(105,052)	33.01
Outstanding, Dec. 31, 2000	1,682,692	$29.18

(1) Included in the 2000 grant are 61,097 options granted to SGB key employees as part of the Company's acquisition of SGB. These options are not a part of the 1995 Executive Incentive Plan, or the 1995 Non-Employee Directors' Stock Plan.

Options to purchase 1,162,947 shares, 932,704 shares and 857,168 shares were exercisable at December 31, 2000, 1999, and 1998, respectively. The following table summarizes information concerning outstanding and exercisable options at December 31, 2000.

	Options Outstanding			Options Exercisable	
Range of Exercisable Prices	Number Outstanding	Remaining Contractual Life In Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$14.10 - $21.00	127,480	5.4	$19.63	77,480	$18.78
21.63 - 30.49	1,107,356	7.5	27.39	637,611	26.09
32.81 - 46.16	447,856	6.6	36.31	447,856	36.31
	1,682,692			1,162,947	

During 2000, 1999, and 1998, the Company had non-cash transactions related to stock option exercises of $0.1 million, $0.5 million, and $1.6 million, respectively, whereby old shares were exchanged for new shares.

As of January 1, 1999, the restricted stock portion of the 1995 Executive Incentive Compensation Plan was discontinued.

The following table summarizes the restricted stock activity for 1998:

	1998
Restricted shares awarded	40,702
Restricted shares forfeited	378
Weighted average market value of stock on grant date	$43.22

During 1998, the Company recorded $0.1 million in compensation expense related to restricted stock.

13. Financial Instruments

Off-Balance Sheet Risk

As collateral for performance and to ceding insurers, the Company is contingently liable under standby letters of credit and bonds in the amount of $181.6 million and $165.9 million at December 31, 2000 and 1999, respectively. These standby letters of credit and bonds are generally in force for up to three years. Certain issues have no scheduled expiration date. The Company pays fees to various banks and insurance companies that range from 0.08 to 1.9 percent per annum of their face value. If the Company were required to obtain replacement standby letters of credit and bonds as of December 31, 2000 for those currently outstanding, it is the Company's opinion that the replacement costs would not vary significantly from the present fee structure.

At December 31, 2000 and 1999, the Company had $3.1 million and $19.2 million, respectively, of foreign currency forward exchange contracts outstanding. These contracts are part of a worldwide program to minimize foreign currency exchange operating income and balance sheet exposure. The unsecured contracts mature within 12 months and are with major financial institutions. The Company is exposed to credit loss in the event of nonperformance by the other parties to the contracts. The Company evaluates the credit worthiness of the counterparties' financial condition and does not expect default by the counterparties.

Foreign Exchange Risk Management

The Company generally has currency exposures in 38 countries. The Company's primary foreign currency exposures are in United Kingdom, France, Canada, South Africa, Brazil, Germany, Australia, and Mexico.

Foreign currency forward exchange contracts are used to hedge commitments, such as foreign currency debt, firm purchase commitments, and foreign currency cash flows for certain export sales transactions.

The following tables summarize by major currency the contractual amounts of the Company's forward exchange contracts in U.S. dollars as of December 31, 2000 and 1999. The "Buy" amounts represent the U.S. dollar equivalent of commitments to purchase foreign currencies, and the "Sell" amounts represent the U.S. dollar equivalent of commitments to sell foreign currencies.

(In thousands)	As of December 31, 2000				
	Type	U.S. Dollar Equivalent	Maturity	Recognized Gain (Loss)	Unrealized Gain (Loss)
Forward exchange contracts:					
British pounds	Buy	$1,938	Various in 2001	$(74)	$ –
British pounds	Sell	501	Various in 2001	(2)	–
Australian dollars	Buy	199	Various in 2001	–	2
Japanese yen	Buy	186	Jan. 4, 2001	–	(12)
Euros	Buy	160	Jan. 4, 2001	–	7
British pounds	Sell	70	Jan. 4, 2001	–	2
		$3,054		$(76)	$ (1)

At December 31, 2000, the Company had executed forward exchange contracts in British pounds, which were used to hedge certain future payments between the Company and its various subsidiaries. These forward contracts do not qualify as hedges for financial reporting purposes. At December 31, 2000, the Company had recorded net losses of $0.1 million on these contracts. The Company also had forward exchange contracts in British pounds, Japanese yen, euros and Australian dollars, which were used to hedge equipment purchases. Since these contracts hedge identifiable foreign currency firm commitments, the losses were deferred and will be accounted for as part of the underlying transactions.

(In thousands)	As of December 31, 1999				
	Type	U.S. Dollar Equivalent	Maturity	Recognized Gain (Loss)	Unrealized Gain (Loss)
Forward exchange contracts:					
Euros	Buy	$17,339	Jan. 18, 2000	$(661)	$ –
British pounds	Buy	1,506	Various in 2000	79	–
French francs	Buy	229	Various in 2000	–	(13)
British pounds	Buy	93	Various in 2000	–	(2)
		$19,167		$(582)	$(15)

At December 31, 1999, the Company had executed forward exchange contracts in euros and British pounds, which were used to hedge certain future payments between the Company and its various subsidiaries. These forward contracts did not qualify as hedges for financial reporting purposes. At December 31, 1999, the Company had recorded net losses of $0.6 million on these contracts. In January 2000, the euro contract was extended to

March 18, 2000. The Company also had forward exchange contracts in French francs and British pounds, which were used to hedge equipment purchases. Since these contracts hedge identifiable foreign currency firm commitments, the losses were deferred and were accounted for as part of the underlying transactions.

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents, investments, and accounts receivable. The Company places its cash and cash equivalents with high quality financial institutions and, by policy, limits the amount of credit exposure to any one institution. Concentrations of credit risk with respect to accounts receivable are limited due to the Company's large number of customers and their dispersion across different industries and geographies. The Company generally does not require collateral or other security to support customer receivables.

Fair Value of Financial Instruments

The major methods and assumptions used in estimating the fair values of financial instruments are:

Cash and cash equivalents

The carrying amount approximates fair value due to the relatively short period to maturity of these instruments.

Long-term debt

The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities.

Foreign currency exchange contracts

The fair value of foreign currency exchange contracts are estimated by obtaining quotes from brokers.

The carrying amounts and estimated fair values of the Company's financial instruments as of December 31, 2000 and 1999 are:

(In thousands)	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 56,422	$ 56,422	$ 51,266	$ 51,266
Long-term debt	789,069	790,070	423,097	416,925
Foreign currency exchange contracts	3,054	2,973	19,167	18,571

14. Information by Segment and Geographic Area

The Company reports information about its operating segments according to the "management approach." This approach is based on the way management organizes the segments within the enterprise for making operating decisions and assessing performance.

The Company's reportable segments are identified based upon differences in products, services, and markets served. The Company's business units are aggregated into three reportable segments. These segments and the type of products and services offered include:

Infrastructure

Major products and services include scaffolding, powered access equipment, shoring, concrete forming products, erection and dismantling services and a variety of other access equipment; railway track maintenance equipment and services; industrial grating and bridge decking; and process equipment, including industrial blenders, dryers, mixers, water heaters, and boilers.

Products and services are provided to the oil, chemical and petrochemical industries; commercial and industrial construction firms; public utilities; industrial plants; private and government-owned railroads worldwide; urban mass transit operators; process industries; bridge repair companies; and infrastructure repair and maintenance markets. Other customers include the chemical, food processing, and pharmaceutical industries; and the institutional building and retrofit markets.

Mill Services

This segment provides mill services, principally for the global steel industry. Mill services include slag processing, marketing, and disposal; metal reclamation; slab management systems; materials handling and scrap management programs; in-plant transportation; and a variety of other services. Similar services are provided to non-ferrous metallurgical industries, such as aluminum, nickel, and copper. Also, slag recovery services are provided to electric utilities from which granules for asphalt roofing shingles and slag abrasives for industrial surface preparation are derived.

Gas and Fluid Control

Major products and services are gas containment cylinders and tanks including cryogenic equipment; valves, regulators, and gauges, including scuba and life support equipment; industrial pipe fittings; and air-cooled heat exchangers.

Major customers include various industrial markets; hardware, plumbing, and petrochemical sectors; natural gas and process industries; propane, compressed gas, life support, scuba, and refrigerant gas industries; gas equipment companies; welding distributors; medical laboratories; beverage carbonation users; and the animal husbandry industry.

Other Information

The measurement basis of segment profit or loss is net income. Interest income is recorded by each segment as incurred. Interest expense is allocated to the segments based on actual interest expense incurred by international operations and based on internal borrowings at estimated weighted average interest rates for domestic operations.

Income taxes are allocated to the segments based on actual income tax expense incurred or, where aggregated for tax purposes, based on the effective income tax rates for the countries in which they operate. Sales of the Company in the United States and the United Kingdom exceed 10% of consolidated sales with 58% and 14%, respectively. No single customer represented 10% or more of the Company's sales during 2000, 1999, or 1998.

There are no significant inter-segment sales.

Corporate assets include principally cash, investments, prepaid pension costs, and United States deferred taxes. Assets in the United Kingdom represent 26% of total segment assets as of December 31, 2000, and 12% of total segment assets as of December 31, 1999, and are disclosed separately in the geographic area information.

Segment Information

(In millions)	Infrastructure [(4)]	Mill Services	Gas and Fluid Control	S3 Networks LLC	General Corporate	Consolidated Total
Twelve Months Ended December 31, 2000						
Net sales to unaffiliated customers [(1)]	$ 703.6	$ 757.4	$ 542.4	$ –	$ –	$2,003.4
Operating income (loss)	$ 62.3	$ 92.6	$ 41.1	$ –	$ (1.3)	$ 194.7
Equity in income (loss) of affiliates, net [(2)]	0.6	0.8	–	(3.4)	–	(2.0)
Interest income	1.3	4.5	0.1	–	0.1	6.0
Interest expense	(24.1)	(10.7)	(3.6)	–	(11.7)	(50.1)
Income tax (expense) benefit	(13.8)	(23.9)	(13.7)	1.2	3.4	(46.8)
Minority interest in net (income) loss	(0.2)	(4.8)	–	–	–	(5.0)
Segment net income (loss)	$ 26.1	$ 58.5	$ 23.9	$(2.2)	$ (9.5)	$ 96.8
Twelve Months Ended December 31, 1999 [(3)]						
Net sales to unaffiliated customers [(1)]	$ 432.5	$ 737.8	$ 579.6	$ –	$ –	$1,749.9
Operating income (loss)	$ 41.2	$ 78.2	$ 47.5	$ –	$ (0.2)	$ 166.7
Equity in income of affiliates, net [(2)]	–	3.0	–	–	–	3.0
Interest income	0.2	4.3	0.1	–	0.1	4.7
Interest expense	(6.3)	(10.8)	(4.8)	–	(5.1)	(27.0)
Income tax (expense) benefit	(12.6)	(24.4)	(15.9)	–	1.3	(51.6)
Minority interest in net (income) loss	–	(5.2)	0.1	–	–	(5.1)
Segment net income (loss)	$ 22.5	$ 45.1	$ 27.0	$ –	$ (3.9)	$ 90.7
Twelve Months Ended December 31, 1998 [(3)]						
Net sales to unaffiliated customers [(1)]	$ 399.2	$ 761.1	$ 605.2	$ –	$ –	$1,765.5
Operating income	$ 32.9	$ 82.9	$ 72.3	$ –	$ 2.4	$ 190.5
Equity in income of affiliates, net [(2)]	–	1.4	–	–	–	1.4
Interest income	0.4	4.8	0.2	–	3.0	8.4
Interest expense	(5.4)	(11.0)	(4.1)	–	–	(20.5)
Income tax expense	(9.3)	(29.9)	(27.5)	–	(0.7)	(67.4)
Minority interest in net income	–	(4.9)	–	–	–	(4.9)
Segment net income	$ 18.6	$ 43.3	$ 40.9	$ –	$ 4.7	$ 107.5

(1) In order to comply with Emerging Issues Task Force (EITF) Issue No. 00-10, all shipping and handling costs have been classified as cost of services sold or as cost of products sold rather than as reductions of sales. The income statement for the 12 months ended December 31, 1999 and 1998 have been reclassified to reflect this change. The reclassification had no effect on previously reported operating income or net income for the 12 months ended December 31, 1999 and 1998.

(2) Equity in income (loss) of affiliates is now separately reported. In prior years these amounts were classified in operating income. Amounts previously reported as operating income for the 12 months ended December 31, 1999 and 1998 were $81.2 million and $84.3 million, respectively for Mill Services Segment and a consolidated total of $169.7 million and $191.9 million, respectively. Reported operating income amounts for the other segments are unchanged.

(3) Segment information reflects the first quarter 1999 reorganization of the Patterson-Kelley division. Segment information for 1998 has been reclassified to reflect this change. The reorganization resulted in the realignment of the heat transfer and industrial blending equipment product lines from the Gas and Fluid Control Segment to the Infrastructure Segment. Sales of these product lines were $27.3 million, $26.9 million, and $29.2 million for the years 2000, 1999, and 1998, respectively.

(4) The SGB scaffolding and access service business was acquired in June 2000 and is included as part of the Infrastructure Segment.

	Assets			Depreciation and Amortization			Capital Expenditures		
(In millions)	2000	1999	1998	2000	1999	1998	2000	1999	1998
Infrastructure (a) (b)	$ 906.4	$ 325.7	$ 241.1	$ 38.0	$ 17.0	$ 15.9	$ 53.8	$ 17.9	$ 26.1
Mill Services (c)	900.9	934.6	922.7	97.7	99.5	98.2	116.5	134.9	102.7
Gas and Fluid Control	312.3	347.9	380.9	19.6	18.1	16.1	9.4	21.4	30.6
Segment totals	2,119.6	1,608.2	1,544.7	155.3	134.6	130.2	179.7	174.2	159.4
Corporate	61.3	51.6	78.9	3.8	1.3	1.2	0.3	1.0	0.4
Total	$2,180.9	$1,659.8	$1,623.6	$159.1	$135.9	$131.4	$180.0	$175.2	$159.8

(a) The Pandrol Jackson railway track maintenance business was acquired in October 1999 and is included as part of the Infrastructure Segment.

(b) The SGB scaffolding and access service business was acquired in June 2000 and is included as part of the Infrastructure Segment.

(c) A non-cash amount of $26.6 million of loan notes was issued for the Faber Prest acquisition related to the Mill Services Segment in 1998.

Information by Geographic Area (1)

Geographic Area	Net Sales to Unaffiliated Customers			Segment Assets		
(In millions)	2000 (2)(3)	1999 (3)	1998 (3)	2000 (2)	1999	1998
United States	$1,152.6	$1,126.4	$1,114.6	$ 810.6	$ 797.1	$ 721.2
United Kingdom	286.5	156.6	128.2	558.6	186.2	180.7
All Other	564.3	466.9	522.7	750.4	624.9	642.8
Segment Totals	$2,003.4	$1,749.9	$1,765.5	$2,119.6	$1,608.2	$1,544.7

(1) Revenues are attributed to individual countries based on the location of the facility generating the revenue.

(2) Included in above amounts are sales and assets of SGB Group that was acquired in June 2000 with a major portion of sales and assets located in the United Kingdom.

(3) In order to comply with EITF Issue No. 00-10, all shipping and handling costs have been classified as cost of services sold or as cost of products sold rather than as reductions of sales. Sales for 1999 and 1998 have been reclassified to reflect this change.

15. Other (Income) and Expenses

In the years 2000, 1999, and 1998, the Company recorded Other (income) and expenses of $1.3 million, $6.0 million, and $(4.3) million, respectively:

	Other (Income) and Expenses		
(In thousands)	2000	1999	1998
Net gains	$(4,325)	$ (560)	$(29,107)
Impaired asset write-downs	1,876	2,878	14,410
Employee termination benefit costs	3,854	2,889	6,543
Costs to exit activities	590	502	2,792
Other	(661)	310	1,098
Total	$ 1,334	$6,019	$ (4,264)

Net Gains

Net gains for 2000 reflect gains in all three operating segments recorded principally on the sales of non-core product lines and redundant properties, primarily land, buildings and related equipment. Net gains for 1998 consist principally of a pre-tax net gain of $27 million recorded on the October 1998 sale of the Nutter Engineering unit of the Gas and Fluid Control Segment. Such gains are reflected as adjustments to reconcile net income to net cash provided by operating activities in the Consolidated Statement of Cash Flows. Total proceeds associated with these gains are included in Proceeds from the sale of businesses and Proceeds from sale of property, plant and equipment in the investing activities section of the Consolidated Statement of Cash Flows. Total proceeds associated with 1998 gains were $42.9 million. Other related information concerning dispositions is discussed in Note 3, Acquisitions and Dispositions.

Impaired Asset Write-downs

Impaired asset write-downs for 2000, 1999, and 1998 include $1.9 million, $1.9 million and $6.1 million, respectively, of pre-tax, non-cash, write-downs of the Company's investment in Bio-Oxidation Services Inc., which is held for disposal. Bio-Oxidation Services Inc. is included in the Gas and Fluid Control Segment. The write-down amounts were measured on the basis of the lower of carrying amount or fair value less costs to sell. Fair value was determined using available information based upon the estimated amount at which the assets could be sold in a current transaction between willing parties. The investment carrying values were $4.4 million, $6.6 million and $7.6 million as of December 31, 2000, 1999, and 1998, respectively. For the years 2000, 1999, and 1998, Bio-Oxidation Services Inc. recorded pre-tax losses of $1.9 million, $2.3 million and $9.8 million, respectively. The Company estimates that disposal will occur during 2001.

Impaired asset write-downs for 1998 also include a $6.1 million pre-tax, non-cash, write-down of assets, principally property, plant and equipment in the Mill Services Segment. The write-down became necessary as a result of significant adverse changes in the international economic environment and the steel industry. The impairment loss was measured as the amount by which the carrying amount of assets exceeded their estimated fair value. Fair value was estimated based upon the expected future realizable net cash flows. In September 1999, assets associated with a substantial portion of this provision were sold in conjunction with the termination settlement of a contract in Russia.

Non-cash impaired asset write-downs are included in Other (income) and expenses in the Consolidated Statement of Cash Flows as adjustments to reconcile net income to net cash provided by operating activities.

Employee Termination Benefit Costs

Employee termination benefit costs consist principally of severance arrangements to employees terminated as a result of management reorganization actions. Under these reorganization actions, the Company's management has established and approved specific plans of termination. Details of the termination benefit plans have been communicated to the affected employees prior to recognition of related provisions. Non-cash charges for employee termination benefit costs are included as adjustments to reconcile net income to net cash provided by operating activities in the Consolidated Statement of Cash Flows.

During 2000, $3.9 million of employee termination benefit costs were incurred, principally in the Mill Services Segment, primarily in Holland, Belgium and Italy. Additionally, termination benefit costs were incurred in the United States in the Gas and Fluid Control Segment as well as at corporate headquarters. In 2000, approximately 294 employees were included in employee termination arrangements initiated by the Company, and approximately $3.3 million of cash payments were made under such arrangements. The payments are reflected as uses of operating cash in the Consolidated Statement of Cash Flows.

During 1999, $2.9 million of expense related to employee termination benefits was incurred, principally in the Mill Services Segment, primarily in France and the United Kingdom. In 1999, approximately 220 employees were included in employee termination arrangements initiated by the Company, and approximately $1.8 million of cash payments were made under such arrangements. An additional $0.8 million was disbursed in 2000 for the 1999 reorganization actions.

During 1998, $6.5 million of expense related to employee termination benefits was incurred, principally in the Mill Services Segment primarily in South Africa, United States, France, and Germany. In 1998, approximately 670 employees were included in employee termination arrangements initiated by the Company, and approximately $2.4 million of cash payments were made under such arrangements. An additional $0.2 million and $3.3 million were disbursed in 2000 and 1999, respectively, for the 1998 reorganization actions.

Employee Termination Benefit Costs and Payments

(In millions)	Summary of Activity		
Original reorganization action period	**2000**	**1999**	**1998**
Employee termination benefits expense	$ 3.9	$ 2.9	$ 6.5
Disbursements: (1)			
In 1998	–	–	(2.4)
In 1999	–	(1.8)	(3.3)
In 2000	(3.3)	(0.8)	(0.2)
Total disbursements	(3.3)	(2.6)	(5.9)
Other	0.3	(0.3)	(0.4)
Remaining payments as of December 31, 2000 (2)	$ 0.9	$ –	$ 0.2

(1) Disbursements are categorized according to the original reorganization action period to which they relate (2000, 1999 or 1998). Cash severance payments in 2000 occurred principally in the Mill Services Segment primarily in Europe. Cash severance payments in 1999 occurred principally in the Mill Services Segment in South Africa principally for 1998 reorganization actions.

(2) Remaining payments are categorized according to the original reorganization action period to which they relate (2000 or 1998).

Employee Terminations – Number of Employees

	Summary of Activity		
Original reorganization action period	**2000**	**1999**	**1998**
Employees affected by new reorganization actions	294	220	670
Employee terminations:			
In 1998	–	–	(349)
In 1999	–	(172)	(352)
In 2000	(282)	(39)	(1)
Total terminations	(282)	(211)	(702)
Other	–	(9)	35
Remaining terminations as of December 31, 2000	12	–	3

Costs to Exit Activities

Costs to exit activities consist of incremental direct costs of reorganization actions and lease run-out costs. Such costs are recorded when a specific exit plan is approved by management. Relocation expenses, such as employee moving costs, are classified as exit costs and are expensed as incurred. Other costs classified in this category are generally expensed as incurred.

During 1998, $1.0 million and $0.8 million of exit costs, principally relocation expenses, were included in the Mill Services and Infrastructure Segments, respectively.

Quarterly Financial Data

Summarized unaudited quarterly financial data for 2000 and 1999 follows:

(In millions except per share amounts)	Net Sales[1]	Gross Profit[2]	Net Income	Diluted Earnings Per Share
2000				
First Quarter	$457.5	$ 92.6	$ 20.2	$ .50
Second Quarter	465.6	108.7	28.2	.70
Third Quarter	541.4	133.0	22.3	.56
Fourth Quarter	538.9	133.2	26.1	.65
1999				
First Quarter	$412.1	$ 82.8	$ 14.8	$ .35
Second Quarter	438.8	94.7	23.8	.58
Third Quarter	432.1	93.7	26.1	.64
Fourth Quarter	466.9	102.2	26.0	.65

(1) In order to comply with EITF Issue No. 00-10, all shipping and handling costs have been classified as cost of services sold or as cost of products sold rather than as reductions of sales. Sales for the first three quarters of 2000 and for the year 1999 have been reclassified to reflect this change.

(2) Gross profit is defined as Net sales less Cost of sales, Other (income) and expenses, and Research and development expenses.

Share Prices and Dividends

Quarterly share prices and declared dividends for the common stock are shown in the following table. Harsco common shares are listed on the New York Stock Exchange and also on the Pacific, Boston and Philadelphia exchanges.

	Market Price Per Share		Dividends Declared
	High	Low	Per Share
2000			
First Quarter	$31 5/8	$24	$.235
Second Quarter	30	25 31/64	.235
Third Quarter	29 7/8	21 1/4	.235
Fourth Quarter	26 3/4	17 11/16	.24
1999			
First Quarter	$33	$25	$.225
Second Quarter	34 3/8	23 1/16	.225
Third Quarter	32 5/16	25 3/8	.225
Fourth Quarter	31 7/8	26	.235

Information for Stockholders

Communications to Stockholders

Notice of the Annual Meeting, the Proxy Statement and Proxy Form are mailed with the Annual Report in March. Form 10-K, the annual report filed with the Securities and Exchange Commission (SEC), is available in March, while each Form 10-Q, the quarterly report filed with the SEC, is available following the close of the first, second and third quarters. Copies of the reports can be obtained free of charge by accessing them via Harsco's website at www.harsco.com.

Company News

Company information and archived news releases are available 24 hours a day, 7 days a week at www.harsco.com. To request copies of Harsco financial mailings, call the Harsco Financial Mailings Request Line at 717.612.5656.

Securities analysts, portfolio managers, representatives of institutional investors and other interested parties seeking information about the Company should contact:
Eugene M. Truett
Director – Investor Relations and Specialized Finance
Phone: 717.975.5677
Fax: 717.763.6402
E-mail: etruett@harsco.com

Annual Meeting

April 24, 2001, 10:00 am
Radisson Penn Harris Hotel & Convention Center
1150 Camp Hill Bypass
Camp Hill, PA

Dividend Reinvestment Plan

Stockholders can choose from among three dividend payment plans. You may receive your dividends through the mail, have them deposited electronically into your checking or savings accounts, or reinvest them through Harsco's Dividend Reinvestment Plan. All three options are offered free of charge.

The Dividend Reinvestment Plan provides stockholders with a simple and convenient way to increase your investment in Harsco without paying brokerage or service fees. In addition to the automatic reinvestment of dividends, the Plan allows for additional cash investments as often as once a month. The minimum cash investment is $10.00 per month; there are no limitations on the maximum amount. For further information, contact Mellon Investor Services LLC at the address below.

Registrar, Transfer and Dividend Disbursing Agent

Mellon Investor Services LLC
85 Challenger Road
Ridgefield Park, NJ 07660
Mail: P.O. Box 3315
South Hackensack, NJ 07606
Inside the United States: 800.851.9677
Outside the United States: 201.329.8660
TDD for hearing impaired: 800.231.5469
Website: www.mellon-investor.com

Registered stockholders can now view current information regarding their stockholder account online through Investor Service Direct at https://vault.mellon-investor.com/isd/. Each investor's account is password-protected and available 24 hours a day, 7 days a week.

Directors

Derek C. Hathaway, 56
Chairman, President and CEO
Director since 1991

Jerry J. Jasinowski, 62
President, National Association of Manufacturers
Director since 1999

Robert F. Nation, 74
Retired President, Penn Harris Company
Director since 1983

Carolyn F. Scanlan, 53
President and CEO, The Health Alliance of Pennsylvania
Director since 1998

James I. Scheiner, 56
President and COO
Benatec Associates, Inc.
Director since 1995

Andrew J. Sordoni, III, 57
Chairman, Sordoni Construction Services, Inc.
Director since 1988

Joseph P. Viviano, 62
Retired Vice Chairman, Hershey Foods Corporation
Director since 1999

Dr. Robert C. Wilburn, 57
President, Gettysburg National Battlefield Museum Foundation
Director since 1986

Heckett MultiServ Plc International Advisory Board – London

Derek C. Hathaway

Geoffrey D. H. Butler

Salvatore D. Fazzolari

Robert F. Nation

Dr. Robert C. Wilburn

Harold Homer
Retired Director, British Steel

Rt. Hon. Baroness Jill Knight of Collingtree, DBE
Member, House of Lords

Kenneth L. Mansell
Former Director, SGB Group Plc

Giles D. Slaughter
Retired Educator

Committees of the Board

Executive

D. C. Hathaway, Chairman
R. F. Nation
J. I. Scheiner
A. J. Sordoni, III
R. C. Wilburn

Management Development & Compensation

R. F. Nation, Chairman
R. C. Wilburn, Vice Chairman
C. F. Scanlan
A. J. Sordoni, III

Audit

J. I. Scheiner, Chairman
J. J. Jasinowski
C. F. Scanlan
J. P. Viviano

Nominating

A. J. Sordoni, III, Chairman
J. J. Jasinowski
R. C. Wilburn

Officers

Derek C. Hathaway, 56
Chairman, President and Chief Executive Officer
34 years of service

Paul C. Coppock, 50
Senior Vice President, Chief Administrative Officer,
General Counsel and Secretary
19 years of service

Salvatore D. Fazzolari, 48
Senior Vice President, Chief Financial Officer and Treasurer
20 years of service

Geoffrey D. H. Butler, 55
Senior Vice President – Operations
12 years of service

Ronald W. Kaplan, 49
Senior Vice President – Operations
21 years of service

Stephen J. Schnoor, 47
Vice President and Controller
12 years of service

Warren A. Weisel, 48
Vice President – Taxes
17 years of service

Harsco Corporation

350 Poplar Church Road
Camp Hill, PA 17011
Mail: P.O. Box 8888
Camp Hill, PA 17001-8888

Telephone: 717.763.7064
Fax: 717.763.6424
E-mail: info@harsco.com
Website: www.harsco.com

Harsco