ENGELHARD CORP
Form 10-K
March 30, 2001

2000
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2000

OR

--- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-8142

ENGELHARD CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	22-1586002
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
101 WOOD AVENUE, ISELIN, NJ	08830
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code (732) 205-5000

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $1 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes |X|.

Number of shares of common stock outstanding as of March 23, 2001 - 129,969,342.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference to the Proxy Statement for the 2001 Annual Meeting of Shareholders, which will be filed by April 30, 2001.

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PART I

Item 1. Business

Engelhard Corporation (which together with its Subsidiaries, is collectively referred to as the Company) was formed under the laws of Delaware in 1938 and became a public company in 1981. The Company's principal executive offices are located at 101 Wood Avenue, Iselin, NJ, 08830 (telephone number (732) 205-5000).

The Company develops, manufactures and markets technology-based performance products and engineered materials for a wide spectrum of industrial customers. It also provides services to precious and base-metal customers.

The Company employed approximately 6,420 people as of January 1, 2001 and operates on a worldwide basis with corporate, operating headquarters, principal manufacturing facilities and mineral reserves in the United States and other operations in the Asia-Pacific region, Canada, the European Community, the Russian Federation, South Africa and South America.

The Company's businesses are organized into four reportable segments - Environmental Technologies, Process Technologies, Appearance and Performance Technologies and Materials Services.

The following information on the Company is included in Note 16, "Business Segment and Geographic Area Data," of the Notes to Consolidated Financial Statements: net sales to external customers, special and other charges, operating earnings/(loss), net interest expense, depreciation, depletion and amortization, equity in earnings/ (losses) of affiliates, total assets, equity investments and capital expenditures.

ENVIRONMENTAL TECHNOLOGIES

The Environmental Technologies segment markets cost-effective compliance with environmental regulations enabled by sophisticated emission-control technologies and systems.

Environmental catalysts are used in applications such as the abatement of carbon monoxide, oxides of nitrogen and hydrocarbons emissions from gasoline, diesel and alternate-fueled vehicles. These catalysts also are used to remove odors, fumes and pollutants associated with a variety of process industries; co-generation and gas-turbine power generation; household appliances and lawn and garden power tools.

The Company also participates in the manufacture and supply of automotive emission-control catalysts through equity affiliates serving the Asia-Pacific region: N.E. Chemcat Corporation (Japan) - 38.8%-owned; and Heesung-Engelhard (South Korea) - 49%-owned, both of which also produce other catalysts and products. Results of N.E. Chemcat are included in the Company's All-Other segment, whereas results from Heesung-Engelhard are included in Environmental Technologies.

The products of the Environmental Technologies segment compete in the marketplace on the basis of value performance and cost. No single competitor is dominant in the markets in which the Company operates.

The manufacturing operations of the Environmental Technologies segment are carried out in the United States, Germany, India, South Africa, South America, China, Thailand and the United Kingdom with equity investments located in the United States and South Korea. The products are sold principally through the Company's sales organizations or those of its equity investments, supplemented by independent distributors and representatives.

Principal raw materials used by the Environmental Technologies segment include precious metals, procured by the Materials Services segment, and a variety of minerals and chemicals that are generally readily available.

As of January 1, 2001, the Environmental Technologies segment had approximately 1,570 employees worldwide.

PROCESS TECHNOLOGIES

The Process Technologies segment enables customers to make their processes more productive, efficient, environmentally sound and safer through the supply of advanced chemical-and polymerization-process catalysts and sorbents. In addition, the segment's advanced cracking and hydroprocessing technologies enable petroleum refiners to more efficiently produce gasoline, transportation fuels and heating oils.

Process Technologies' chemical catalysts are used in the manufacture of a variety of products and intermediates made by chemical, petrochemical, pharmaceutical and agricultural-chemical producers. Petroleum catalysts are used by refiners to provide economies in petroleum processing and to meet increasingly stringent fuel-quality requirements. Polymerization catalysts are used in the production of polyproylene and polyethelyne, which are used in a wide range of products, including food packaging, carpets, toys and automobile bumbers. Sorbents are used to purify and decolorize naturally occurring fats and oils for the manufacture of shortenings, margarines and cooking oils. The segment's catalyst products are based on the Company's proprietary technology and often are application-specific.

In September 2000, the Company acquired a polyolefin catalyst business located in Tarragona, Spain from Targor GmbH, a subsidiary of BASF AG, for approximately $35 million. As part of the acquisition, the Company obtained a supply agreement to become the exclusive supplier of polyolefin catalysts to Novolen Technology Holdings C.V. See Note 3, "Acquisitions and Divestitures," for further detail.

The products of the Process Technologies segment compete in the marketplace on the basis of value performance and cost. No single competitor is dominant in the markets in which the Company operates.

The manufacturing operations of the segment are carried out in the United States, Italy, The Netherlands and Spain. The products are sold principally through the Company's sales organizations supplemented by independent distributors and representatives.

The principal raw materials used by the segment include metals, procured by the Materials Services segment and third parties; kaolin supplied by the Appearance and Performance Technologies segment; and a variety of other minerals and chemicals that are generally readily available.

As of January 1, 2001, the Process Technologies segment had approximately 1,750 employees worldwide. Most hourly employees are covered by collective bargaining agreements. Employee relations have generally been good.

APPEARANCE AND PERFORMANCE TECHNOLOGIES

The Appearance and Performance Technologies segment provides pigments and performance additives that enable its customers to market enhanced image and functionality in their products. The segment serves a broad array of end markets including coatings, plastics, cosmetics, construction and paper. The segment's products help customers improve the look, performance and overall cost of their products. This segment is also the internal supply source of precursors for the Company's petroleum catalysts.

The segment's principal products include special-effect pigments, color pigments and dispersions, paper pigments and extenders, specialty performance additives and iridescent and specialty films. The segment's pearlescent pigments provide a range of aesthetic, special effects in coatings, personal care and cosmetics products, packaging, plastics, inks and other applications. Color pigments include a broad range of organic and inorganic pigments, pigment dispersions and universal colorants that impart color and special effects to automotive finishes, coatings, plastics and inks. Paper pigments are used as coating and extender pigments to improve the opacity, brightness, gloss and printability of coated and uncoated papers. Specialty performance additives are used to improve the functionality, appearance and value of liquid and powder coatings, plastics, rubber, adhesives, inks, concrete and cosmetics. Iridescent and specialty films are used to visually enhance a variety of products in such applications as product packaging, labels, glitter, gift wrap and textiles.

The products of the Appearance and Performance Technologies segment compete on the basis of value performance and cost. No single competitor is dominant in the markets in which the Company competes.

Appearance and Performance Technologies manufacturing operations are carried out in the United States, South Korea and Finland. Subsidiary sales and distribution centers are located in France, Hong Kong, Japan, Mexico, The Netherlands, and Turkey. An equity investment located in the Ukraine was written off in 2000 (See Note 4, "Special and Other Charges", for further detail). Products are sold through the Company's sales organization supplemented by independent distributors and representatives.

The principal raw materials used by the Appearance and Performance Technologies segment include naturally occurring minerals such as kaolin, attapulgite and mica, which are mined from mineral reserves owned or leased by the Company, and a variety of other minerals and chemicals which are readily available.

As of January 1, 2001, the Appearance and Performance Technologies segment had approximately 2,305 employees worldwide. Most hourly employees are covered by collective bargaining agreements. Employee relations have generally been good.

MATERIALS SERVICES

The Materials Services segment provides a full array of services to the Company's technology businesses and their customers who rely on certain precious and base metals as raw materials for their products. This is a distribution and materials services business that purchases and sells precious metals, base metals and related products and services. It does so under a variety of pricing and delivery arrangements structured to meet the logistical, financial and price-risk management requirements of the Company, its customers and suppliers. Additionally, it offers related services for precious-metal refining and produces salts and solutions.

The Materials Services segment is responsible for procuring precious and base metals to meet the requirements of the Company's operations and its customers. Supplies of newly mined platinum group metals are obtained primarily from South Africa and the Russian Federation, and to a lesser extent, from the United States and Canada, the only four regions that are known significant sources. Most of these platinum group metals are obtained pursuant to a number of contractual arrangements with different durations and terms. Gold and silver are purchased from various sources. In addition, in the normal course of business, certain customers and suppliers deposit significant quantities of precious metals with the Company under a variety of arrangements. Equivalent quantities of precious metals are returnable as product or in other forms.

Offices are located in the United States, Italy, Japan, the Russian Federation, Switzerland and the United Kingdom. As of January 1, 2001, the Materials Services segment had approximately 115 employees worldwide.

MAJOR CUSTOMERS

For the years ended December 31, 2000, 1999 and 1998, Ford Motor Company, a customer of the Environmental Technologies and Materials Services segments, accounted for more than 10% of the Company's net sales. Sales to this customer included both fabricated products and precious metals and were therefore significantly influenced by fluctuations in precious-metal prices as was the quantity and type of metal purchased. In such cases, market price fluctuations, quantities and types purchased can result in material variations in sales reported, but do not usually have a direct or significant effect on earnings.

RESEARCH AND PATENTS

The Company currently employs approximately 545 scientists, technicians and auxiliary personnel engaged in research and development in the fields of surface chemistry and material science. These activities are conducted in the United States and abroad. Research and development expenses were $82.8 million in 2000, $77.9 million in 1999 and $69.8 million in 1998.

Research facilities include fully staffed instrument analysis laboratories that the Company maintains in order to achieve the high level of precision necessary for its technology businesses and to assist customers in understanding how Engelhard's products and services add value to their businesses.

The Company owns or is licensed under numerous patents secured over a period of years. It is the policy of the Company to normally apply for patents whenever it develops new products or processes considered to be commercially viable and, in appropriate circumstances, to seek licenses when such products or processes are developed by others. While the Company deems its various patents and licenses to be important to certain aspects of its operations, it does not consider any significant portion or its business as a whole to be materially dependent on patent protection.

ENVIRONMENTAL MATTERS

With the oversight of environmental agencies, the Company is currently preparing, has under review, or is implementing environmental investigations and cleanup plans at several currently or formerly owned and/or operated sites, including Plainville, Massachusetts and Salt Lake City, Utah. The Company is continuing to investigate contamination at Plainville under a 1993 agreement with the United States Environmental Protection Agency (EPA) and is awaiting approval of a decommissioning plan by the State of Massachusetts under authority delegated by the Nuclear Regulatory Commission. Investigation of the environmental status at the Salt Lake City site continues under a 1993 agreement with the Utah Solid and Hazardous Waste Control Board.

In addition, as of December 31, 2000, eleven sites have been identified at which the Company believes liability as a potentially responsible party (PRP) is probable under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, or similar state laws (collectively referred to as Superfund) for the cleanup of contamination resulting from the historic disposal of hazardous substances allegedly generated by the Company, among others. Superfund imposes strict, joint and several liability under certain circumstances. In many cases, the dollar amount of the claim is unspecified and claims have been asserted against a number of other entities for the same relief sought from the Company. Based on existing information, the Company believes that it is a de minimis contributor of hazardous substances at a number of the sites referenced above. Subject to the reopening of existing settlement agreements for extraordinary circumstances or natural resource damages, the Company has settled a number of other cleanup proceedings. The Company has also responded to information requests from EPA and state regulatory authorities in connection with other Superfund sites.

The accruals for environmental cleanup-related costs recorded in the consolidated balance sheets at December 31, 2000 and 1999 were $24.7 million and $31.3 million, respectively, including $0.6 million and $0.8 million, respectively, for Superfund sites. These amounts represent those costs that the Company believes are probable and reasonably estimable. Based on currently available information and analysis, the Company's accrual represents approximately 46% of what it believes are the reasonably possible environmental cleanup-related costs of a noncapital nature. The estimate of reasonably possible costs is less certain than the probable estimate upon which the accrual is based.

Cash payments for environmental cleanup-related matters were $1.7 million, $2.4 million and $4.1 million for 2000, 1999 and 1998, respectively. The amounts accrued in connection with environmental cleanup-related matters were not significant over this time period.

For the past three-year period, environmental-related capital projects have averaged less than 10% of the Company's total capital expenditure programs, and the expense of environmental compliance (e.g. environmental testing, permits, consultants and in-house staff) was not material.

There can be no assurances that environmental laws and regulations will not become more stringent in the future or that the Company will not incur significant costs in the future to comply with such laws and regulations. Based on existing information and currently enacted environmental laws and regulations, cash payments for environmental cleanup-related matters are projected to be $5.8 million for 2001, which has already been accrued. Further, the Company anticipates that the amounts of capitalized environmental projects and the expense of environmental compliance will approximate current levels. While it is not possible to predict with certainty, Management believes that environmental cleanup-related reserves at December 31, 2000 are reasonable and adequate, and environmental matters are not expected to have a material adverse effect on financial condition. These matters, if resolved in a manner different from the estimates, could have a material adverse effect on the Company's operating results or cash flows.

Item 2. Properties

The Company leases a building on approximately seven acres of land with a combined area of approximately 271,000 square feet in Iselin, NJ. This building serves as the principal executive and administrative office of the Company and its operating segments. The Company owns approximately 15 acres of land and three buildings with a combined area of approximately 150,000 square feet in Iselin, NJ. These buildings serve as the major research and development facilities for the Company's operations. The Company also owns research facilities in Gordon, GA; Union, NJ; Buchanan and Ossining, NY; Beachwood, OH; Pasadena, TX; Hannover, Germany and DeMeern, The Netherlands.

The Environmental Technologies segment owns and operates plants in Huntsville, AL; East Windsor, CT; Daytona and Deerfield Beach, FL; Wilmington, MA; Hiram, OH; Duncan, SC; Newark, NJ; Nienburg, Germany; Madras, India; Port Elizabeth, South Africa; Indiatuba, Brazil; Shanghai, China; Rayoung, Thailand and Coleford and Cinderford in the United Kingdom.

The Process Technologies segment owns and operates plants in Attapulgus and Savannah, GA; Elyria, OH; Erie, PA; Seneca, SC; Pasadena, TX; Rome, Italy; DeMeern, The Netherlands; and Tarragona, Spain.

The Appearance and Performance Technologies segment owns and operates attapulgite processing plants in Quincy, FL near the area containing its attapulgite reserves, plus a mica mine and processing facilities in Hartwell, GA. In addition, the segment owns and operates five kaolin mines and five milling facilities in Middle Georgia, which serve an 85-mile network of pipelines to three processing plants. It also owns land containing kaolin and leases on a long-term basis kaolin mineral rights to additional acreage. The segment also owns sales and manufacturing facilities in Helsinki, Kotka; Rauma, Finland and Tokyo, Japan, in addition to owning and operating color, pearlescent pigment and film manufacturing facilities in Sylmar, CA; Louisville, KY; Eastport, ME; Peekskill, NY; Elyria, OH; Charleston, SC; and Inchon, South Korea. Management believes the Company's attapulgite and mica reserves will be sufficient to meet its needs for the foreseeable future.

The Materials Services segment's operations are conducted at leased facilities in Iselin and Carteret, NJ; Lincoln Park, MI; Tokyo, Japan; Moscow, Russia; Zug, Switzerland; and London, United Kingdom. In addition, the segment's operations are conducted at owned facilities in Seneca, SC and Rome, Italy.

Management believes that the Company's processing and refining facilities, plants and mills are suitable and have sufficient capacity to meet its normal operating requirements for the foreseeable future.

Item 3. Legal Proceedings

Various lawsuits, claims and proceedings are pending against the Company.

The Company is one of a number of defendants in numerous proceedings that allege that the plaintiffs contracted cancer and/or suffered other injuries from exposure to "toxic" substances purportedly supplied by the Company and other defendants. The Company is also subject to a number of environmental contingencies (see Note 18, "Environmental Costs," for further detail) and is a defendant in a number of lawsuits covering a wide range of other matters. In some of these matters, the remedies sought or damages claimed are substantial. While it is not possible to predict with certainty the ultimate outcome of these lawsuits or the resolution of the environmental contingencies, Management believes, after consultation with counsel, that resolution of these matters is not expected to have a material adverse effect on financial condition. These matters, if resolved in a manner different from Management's current expectations, could have a material adverse effect on the Company's operating results or cash flows.

In 1998, Management learned that Engelhard and several other companies operating in Japan had been victims of a fraudulent scheme involving base-metal inventory held in third-party warehouses in Japan. The inventory loss was approximately $40 million in 1997 and $20 million in 1998. The Company is vigorously pursuing various recovery actions. These actions include negotiations with the various third parties involved and, in several instances, the commencement of litigation. In the first quarter of 1998, Engelhard recorded a receivable from the insurance carriers and third parties for approximately $20 million. This amount represents Management's and counsel's best estimate of the minimum probable recovery from the various insurance policies and other parties involved in the fraudulent scheme.

The Company is involved in a value-added tax dispute in Peru. Management believes the Company was targeted by corrupt officials within the former Peruvian Government. On December 2, 1999, Engelhard Peru, S.A., a wholly owned subsidiary, was denied refund claims of approximately $28 million. The Peruvian tax authority also determined that Engelhard Peru, S.A. is liable for approximately $63 million in refunds previously paid, fines and interest as of December 31, 1999. Interest and fines continue to accrue at rates established by Peruvian law. Engelhard Peru, S.A. is contesting these determinations vigorously, and Management believes, based on consultation with counsel, that Engelhard Peru, S.A. is entitled to all refunds claimed and is not liable for these additional taxes, fines or interest. In late October 2000, a criminal proceeding alleging tax fraud and forgery related to this value-added tax dispute was initiated against two Lima-based officials of Engelhard Peru, S.A. Although Engelhard Peru, S.A. is not a defendant, it may be civilly liable for criminal conduct of its representatives and Engelhard Peru is assisting in the vigorous defense of this proceeding. Management believes the maximum economic exposure is limited to the aggregate value of all assets of Engelhard Peru, S.A., including unpaid refunds, which is approximately $30 million.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

As of March 23, 2001, there were 5,857 holders of record of the Company's common stock, which is traded on the New York Stock Exchange (ticker symbol "EC"), as well as on the London and Swiss stock exchanges.

The range of market prices and cash dividends for each quarterly period were as follows:

	NYSE Market Price High	NYSE Market Price Low	Cash dividends per share
2000			
First quarter	$19.19	$12.56	$0.10
Second quarter	19.00	14.31	0.10
Third quarter	19.75	15.06	0.10
Fourth quarter	21.50	16.00	0.10

1999			
First quarter	$20.81	$16.50	$0.10
Second quarter	23.69	16.25	0.10
Third quarter	23.00	18.19	0.10
Fourth quarter	19.25	16.31	0.10

Item 6. Selected Financial Data
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Selected Financial Data
($ in millions, except per share amounts)

OPERATING RESULTS	2000	1999	1998	1997
OPERATING RESULTS				
Net sales	$5,542.6	$4,488.0	$4,246.6	$3,716.
Net earnings(1)	168.3	197.5	187.1	47.
Basic earnings per share	1.33	1.49	1.30	0.3
Diluted earnings per share	1.31	1.47	1.29	0.3
Total assets	3,166.8	2,920.5	2,866.3	2,586.
Long-term debt	248.6	499.5	497.4	373.
Shareholders' equity	874.6	764.4	901.6	785.
Cash dividends paid per share	0.40	0.40	0.40	0.3
Return on average shareholders' equity	20.5%	23.7%	22.2%	5.9

Unless otherwise indicated, all per-share amounts are presented as diluted earnings per share, as under SFAS No. 128, "Earnings Per Share".

(1) Results in 2000 include the following: fourth-quarter special and other charges of $75.1 mill

share) for a variety of events (see Note 4, "Special and Other Charges," for further detail), a t
charge of $16.9 million ($0.13 per share) related to the write-down of goodwill and fixed assets
HexCore business unit, net gains of $12.9 million ($0.10 per share) on sales of investments and l
($0.02 per share) on the sale of inventory accounted for under the LIFO method and a gain of $4.4
($0.03 per share) related to the partial liquidation of precious metal inventories of Engelhard-C
joint venture.

Results in 1999 include net gains of $6.0 million ($0.04 per share) on sales of investments and l
of $2.2 million ($0.02 per share) on the sale of inventory accounted for under the LIFO method an
gain of $1.3 million ($0.01 per share) related to the partial liquidation of precious metal inven
Engelhard-CLAL.

Results in 1998 include a gain of $4.9 million ($0.03 per share) on the sale of inventory account
under the LIFO method.

Results in 1997 include special and other charges of $117.7 million ($0.81 per share) for a varie
events (including restructuring actions and a loss from the base-metal fraud in Japan). In additi
include a gain of $2.0 million ($0.01 per share) on the sale of inventory accounted for under the
method.

Results in 1996 include a gain of $3.3 million (0.02 per share) on the sale of inventory accounte
under the LIFO method.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless otherwise indicated, all per-share amounts are presented as diluted earnings per share, as calculated under Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share."

RESULTS OF OPERATIONS

Net earnings of $168.3 million ($1.31 per share) in 2000 include fourth-quarter special and other charges of $75.1 million ($0.59 per share) for a variety of events (see Note 4, "Special and Other Charges" for further detail), a third-quarter impairment charge of $16.9 million ($0.13 per share) relating to HexCore and net gains on asset sales of $12.9 million ($0.10 per share - see "Gain on Sale of Investments and Land, Net" section on page 20 for further detail). Excluding these items, the Company would have reported net earnings of $247.4 million and diluted earnings per share of $1.93 in 2000.

Net earnings of $197.5 million ($1.47 per share) in 1999 include net gains on asset sales of $6.0 million ($0.04 per share - see "Gain on Sale of Investments and Land, Net" section on page 20 for further detail). Excluding these net gains, the Company would have reported net earnings of $191.5 million and diluted earnings per share of $1.43 in 1999.

The information in the discussion of each segment's results is derived from that segment's internal financial reporting system used for Management purposes. Items allocated to each segment's results include the majority of corporate overhead charges. Unallocated items include net interest expense, royalty income, sale of inventory accounted for under the last-in, first-out (LIFO) method, certain special and other charges and other miscellaneous corporate items.

In the fourth quarter of 2000, the Company created a new technology segment called Appearance and Performance Technologies by combining the former Specialty Pigments and Additives and Paper Pigments and Additives segments. In addition, the Materials Services segment was created from the former Industrial Commodities Management segment. Certain historical segment data has been reclassified to conform with these internal organizational changes.

ENVIRONMENTAL TECHNOLOGIES

The Environmental Technologies segment markets cost-effective compliance with environmental regulations enabled by sophisticated emission-control technologies and systems.

2000 Performance

Sales increased 9% to $636.7 million, and operating earnings increased 29% to $131.8 million excluding the impact of special and other charges of $15.4 million. Operating earnings increased 14% including the impact of these charges.

Discussion (before the impact of special and other charges)

The majority of this segment's sales and operating earnings are derived from technologies designed to control pollution from mobile sources, including gasoline- and diesel-powered passenger cars, sport-utility vehicles, trucks, buses and off-road vehicles. Sales and earnings increased primarily from higher volumes of auto-emission catalysts in North America, as the business benefited from increased volumes with General Motors and Nissan. Earnings benefited from lower manufacturing costs and the elimination of losses from the segment's sensor technologies business sold in February 2000. These earnings increases were partially offset by costs related to the start-up of new manufacturing facilities in Brazil and China and expansion of a facility in India.

Sales and earnings derived from the segment's non-automotive markets increased due to continued high demand for emission-control systems for gas turbines and heavy-duty diesel-engine retrofits for bus fleets. These increases were partly offset by the absence of three months' results from the segment's metal-joining products business sold in September 2000. Earnings from these non-automotive markets were also partially offset by higher research and administrative costs.

Outlook

This segment expects growth in sales and operating earnings to continue as emission-control regulations become stricter around the world and address a much broader range of emission sources. Demand from the automotive market is expected to increase in response to the Company's development of several new technologies. Demand also is expected to accelerate from the diesel-bus retrofit market. Programs are underway in Paris, London, Hong Kong, the state of California and a number of other cities.

Sales of advanced catalysts for medium-and heavy-duty diesel trucks are expected to expand beginning in the second half of 2003 as new regulations begin to take effect. The Company expects sales to start in the second half of 2003 for engines going into the California market. The European light-duty diesel passenger vehicle segment is growing at a greater rate than the gasoline segment, thus creating an opportunity to expand the segment's market position. The medium-and heavy-duty engine sectors are to have new U.S. regulations beginning in 2004.

The segment also anticipates continued growth from non-mobile applications of its technology driven by increased demand for power generation and the need to comply with emission-reduction regulations.

The segment's joint venture in Thailand (ECTL), which is a partnership with its N.E. Chemcat joint venture in Japan, has completed construction of a new plant and will commence shipments in the second half of 2001.

1999 compared with 1998

Sales increased 6% to $584.8 million, and operating earnings increased 15% to $102.4 million.

Sales and operating earnings increases were primarily driven by strength in auto-emission catalysts for North America and a surge in volume of diesel-engine retrofit kits. These increases were partly offset by costs related to the start-up of new manufacturing plants in India and Brazil. Operating earnings also were favorably impacted by reduced material costs resulting from supply-chain management initiatives.

PROCESS TECHNOLOGIES

The Process Technologies segment enables customers to make their processes more productive, efficient, environmentally sound and safer through the supply of advanced chemical-and polymerization-process catalysts and sorbents. In addition, the segment's advanced cracking and hydroprocessing technologies enable petroleum refiners to more efficiently produce gasoline, transportation fuels and heating oils.

2000 Performance

Sales increased 9% to $566.6 million, and operating earnings increased 6% to $86.5 million excluding the impact of special and other charges of $5.5 million. Operating earnings decreased 1% including the impact of these charges.

Discussion (before the impact of special and other charges)

Earnings growth from petroleum and polypropylene catalysts was offset by a slight decline in earnings from chemical catalysts.

The increase in earnings from catalyst sales to the petroleum market was primarily due to increased volumes of fluid cracking catalysts and reduced costs from supply-chain management initiatives and productivity improvements. These increases were partly offset by higher energy costs. Earnings from polypropylene catalysts increased primarily from the continued strong demand for Lynx 1000 polypropylene catalysts and the inclusion of results from the polyolefin catalyst business of Targor GmbH, acquired in September 2000. Lynx 1000 catalysts are used to produce polypropylene, which is used in a wide range of products, including car battery cases, carpets, toys and automobile bumpers.

Earnings from catalyst sales to chemical-processing markets were down slightly primarily due to higher raw material costs and an unfavorable foreign currency translation.

Outlook

Sales and earnings growth in this segment is expected to come from custom process catalysts, high value-add petroleum refining catalysts, increased market penetration for polypropylene catalysts and a favorable comparison from the full-year inclusion of results of the acquired Targor polyolefin catalyst business. Additional growth is expected from continued cost management, productivity improvements and product technology advances. New capacity for polypropylene catalysts was added in 2000.

Overall weakness in the chemical industry, significantly higher energy and raw material costs and relatively flat demand for petroleum cracking catalysts are expected to continue for most of 2001. In the petroleum refining industry, consolidations and more efficient refining operations are the primary drivers influencing cracking catalyst demand. The segment will continue to aggressively manage costs and emphasize high-value products and services. Included in the segment's new product offerings are catalysts capable of significantly improving petroleum refining yields.

1999 compared with 1998

Sales increased 3% to $521.8 million, and operating earnings increased 12% to $81.9 million.

Sales growth was due to the full-year inclusion of results from the catalyst businesses of Mallinckrodt Inc., acquired in May 1998. Excluding these results, net sales for the segment would have declined slightly, primarily due to lower demand for petrochemical catalysts and petroleum cracking catalysts. Reduced costs from supply-chain management initiatives and productivity improvements were the primary drivers of operating earnings growth.

APPEARANCE AND PERFORMANCE TECHNOLOGIES

The Appearance and Performance Technologies segment provides pigments and performance additives that enable its customers to market enhanced image and functionality in their products. The segment serves a broad array of end markets including coatings, plastics, cosmetics, construction and paper. The segment's products help customers improve the look, performance and overall cost of their products. This segment is also the internal supply source of precursors for the Company's petroleum catalysts.

2000 Performance

Sales increased 1% to $684.4 million, and operating earnings decreased 8% to $80.2 million excluding the impact of special and other charges of $49.7 million. Operating earnings decreased 65% including the impact of these charges.

Discussion (before the impact of special and other charges)

Earnings declined as increased profits, driven by higher sales volumes from special-effect pigments, were more than offset by declines from pigments sold to the paper market. In spite of slightly higher volumes, earnings from the paper market declined as a result of significantly higher energy costs and lower selling prices.

Overall segment performance reflected the benefit of supply-chain management initiatives and productivity improvements.

Outlook

Sales growth is expected to continue from both established and new product offerings. New offerings include: Lumina (trademark) colors, a new generation of mica-based special effect pigments for automotive coatings; Scintillating Silver (trademark) bright metallic-silver pigments for nail enamels; ShimmerSilk (trademark) high-strength film for textile use; an array of rightfitted organic pigments for use in plastics applications; and Mirafilm (trademark) and Mirana (trademark) engineered pigments for paper. No growth is expected in the segment's paper markets.

In addition, the segment will continue efforts to improve productivity, control operating and manufacturing costs in spite of expected continued higher energy costs and pursue benefits from supply-chain initiatives. The segment also plans to shift productive resources to markets that offer the highest value.

1999 compared with 1998

Sales increased 3% to $675.3 million, and operating earnings increased 12% to $86.9 million.

Strong worldwide demand, including a rebound in the Asia-Pacific region, drove sales increases for several of the segment's major product lines, including effect pigments, specialty kaolin-based products and iridescent films. The cosmetics, industrial, agricultural, construction, coatings and decorative markets all contributed to the growth. These sales increases were partially offset by decreased sales of color pigments, which resulted from product-supply issues associated with the start-up of a new manufacturing process, and lower sales for the paper markets.

Operating earnings increased driven by record-level sales growth in most market segments, combined with savings from supply-chain management initiatives and productivity improvements. Operating earnings were negatively impacted by depressed pricing and a less favorable product mix for the paper market.

MATERIALS SERVICES

The Materials Services segment provides a full array of services to the Company's technology businesses and their customers who rely on certain precious and base metals as raw materials for their products. This is a distribution and materials services business that purchases and sells precious metals, base metals and related products and services. It does so under a variety of pricing and delivery arrangements structured to meet the logistical, financial and price-risk management requirements of the Company, its customers and suppliers. Additionally, it offers related services for precious-metal refining and produces salts and solutions.

2000 Performance

Sales increased 39% to $3.6 billion, and operating earnings increased 226% to $129.3 million.

Discussion

Sales for this segment include substantially all of the Company's sales of metals to industrial customers of all segments. Sales also include fees invoiced for services rendered (e.g. refining and handling charges) plus the metal content of refineables purchased and immediately hedged. Because of the logistical and hedging nature of much of this business and the significant precious metal values included in both sales and cost of sales, gross margins tend to be low in relation to the Company's other manufacturing businesses as does capital employed. This effect will also dampen the gross margin percentages of the Company as a whole, but improves the return on investment.

While most customers for the Company's platinum-group-metal catalysts purchase the metal from Materials Services, some choose to deliver metal from other sources prior to the manufacture of the catalysts. In such cases, precious metal values are not included in sales. The mix of such arrangements and the extent of market price fluctuations can significantly affect the reported level of sales and cost of sales, but there is no direct correlation between year-to-year changes in reported sales and operating earnings.

The sales increase for the year resulted primarily from higher platinum-group-metals prices and continued strong industrial demand for these metals. Operating earnings increased significantly due to a combination of higher volumes, prices and price volatility for all platinum group metals, as well as growth in the recycling (refining) of these metals. Volatility not only increases the spreads on transactions, but also provides opportunities to benefit from strong and prudent physical positions (see the "Commodity Price Risk" section on page 23 for further details).

Outlook

While a sustainable level of base business is anticipated, market volatility cannot be assured. The benefits of such volatility represent an opportunity for this segment above its sustainable base business. The results of this segment are much more likely to approximate the levels produced in 1998 and 1999 rather than the exceptional results reported in 2000.

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1999 compared with 1998

Sales increased 11% to $2.6 billion, and operating earnings decreased 18% to $39.6 million.

Sales increased primarily from higher volumes as well as higher palladium and rhodium prices. Operating earnings decreased due to significantly lower volatility in platinum group metals during the first half of 1999 as compared with high volatility in 1998. Variability of shipments from Russia contributed to high volatility in 1998.

Acquisitions

Other Party	Business Arrangement	Transaction Date	Business Opportunity
Targor GmbH	Acquired the polyolefin catalyst business for $35 million	September 2000	Expansion of catalyst business
ISP	Acquired the bismuth product line for $11.5 million	March 1999	Expansion of effect pigments for cosmetics
Mallinckrodt Inc.	Acquired the chemical catalyst businesses (Mallinckrodt businesses) for $210 million	May 1998	Expansion of catalyst business
Semo Chemical Company	Acquired the pearlescent pigments business for $13.5 million	January 1998	Asian expansion into effect pigments marke

CONSOLIDATED GROSS PROFIT

Gross profit as a percentage of sales was 13.2% in 2000, compared with 14.4% in 1999 and 15.3% in 1998. Excluding the impact of special and other charges of $27.1 million in 2000, gross profit as a percentage of sales was 13.7% in 2000. The decrease was driven by the relatively lower margins earned on metal sales by the Materials Services segment. Sales from this segment increased 39% in 2000 to $3.6 billion and provided a gross profit of 5%, while 2000 sales from the other reportable segments increased 6% and provided a gross profit of 29%. Excluding the impact of special and other charges of $27.1 million in 2000, the other reportable segments provided a gross profit of 30% in 2000. As described earlier, the lower margins on Materials Services sales are driven by the inclusion of the value of precious metals in both sales and cost of sales.

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SELLING, ADMINISTRATIVE AND OTHER EXPENSES

Selling, administrative and other expenses were $382.3 million in 2000, compared with $328.2 million in 1999 and $340.6 million in 1998. The 2000 amount includes $23.8 million in special and other charges, and the 1998 amount reflects the acquisition of the Mallinckrodt businesses in May 1998.

EQUITY EARNINGS

Equity in earnings of affiliates was $24.2 million in 2000, compared with equity earnings of $16.3 million in 1999 and $10.1 million in 1998. The earnings in 2000 reflect special and other charges of $0.8 million related to the write-off of the Company's investment in its Dnipro Kaolin 50%-owned joint venture. The increase in 2000 was primarily due to higher equity earnings from

Engelhard-CLAL, a 50%-owned precious-metal-fabrication joint venture. The Company's share of earnings from Engelhard-CLAL included a gain of $6.7 million related to the partial liquidation of precious metal inventories as the joint venture is in the process of selling off business units. Higher equity earnings were also reported for Heesung-Engelhard, a 49% Korean-owned environmental catalyst joint venture. The increase in 1999 was primarily due to higher earnings from Heesung-Engelhard; higher equity earnings from N.E. Chemcat Corporation, a 38.8%-owned, publicly traded Japanese corporation that is a leading producer of automotive and chemical catalysts; and the absence of losses from Acreon Catalysts, a hydroprocessing joint venture sold in the first quarter of 1999.

GAIN ON SALE OF INVESTMENTS AND LAND, NET

In the first quarter of 2000, the Company recorded a loss of $6.0 million ($4.1 million after tax or $0.03 per share) associated with the divestiture of the International Dioxide, Inc. (IDI) business unit.

In the third quarter of 2000, the Company sold its metal-joining products business located in Warwick, Rhode Island and recorded a gain of $24.8 million ($17.0 million after tax or $0.13 per share).

In the first quarter of 1999, the Company sold its investment in Acreon Catalysts, a hydroprocessing joint venture. The Company recorded a gain of $1.0 million ($0.7 million after tax or less than $0.01 per share).

In the second quarter of 1999, the Company sold its metal-plating business and recorded a gain of $9.3 million ($6.5 million after tax or $0.05 per share). In addition, the Company reduced the carrying value of its investment in Engelhard Highland Private Ltd., an India-based venture, to its estimated net realizable value of $1.0 million. Accordingly, the Company recorded a loss of $4.6 million ($3.2 million after tax or $0.02 per share).

In the third quarter of 1999, the Company sold its Mearlcrete concrete foaming agent business. The Company recorded a gain of $1.1 million ($0.7 million after tax or less than $0.01 per share). In addition, the Company sold land and certain mineral rights located in Talladega County, Alabama. The Company recorded a gain of $1.8 million ($1.3 million after tax or $0.01 per share).

INTEREST

Net interest expense was $62.6 million in 2000, compared with $56.6 million in 1999 and $58.9 million in 1998. Net interest expense in 1999 included a reduction of $7.1 million resulting from the settlement of treasury lock positions that were entered into to hedge anticipated long-term borrowings that never occurred. Excluding this reduction from 1999, net interest expense in 2000 decreased due to decreased borrowings, partially offset by increased interest rates; exclusive of the reduction from treasury locks, net interest expense in 1999 increased from 1998 levels primarily due to increased borrowings related to a major share repurchase in May 1999 and an increase in interest rates.

The Company capitalized interest of $3.9 million in 2000, $2.6 million in 1999 and $1.9 million in 1998.

Interest income was $2.1 million in 2000, $2.9 million in 1999 and $2.3 million in 1998.

TAXES

The worldwide income tax expense was $77.4 million in 2000, compared with $86.7 million in 1999 and $73.5 million in 1998. The effective income tax rate was 31.5% in 2000, 30.5% in 1999 and 28.2% in 1998.

The increase in the worldwide effective tax rate in 2000 primarily resulted from the Company's mix of income in jurisdictions with higher tax rates and the mix of income from businesses with fewer tax benefits. The 1998 worldwide effective tax rate reflected the reversal of certain valuation allowances established against deferred tax assets arising from special charges recorded in 1997.

FINANCIAL CONDITION AND LIQUIDITY

The working capital deficit was $85.0 million at December 31, 2000, compared with a deficit of $67.5 million at December 31, 1999. The current ratio was 1.0 in 2000 and 1999. The year-end market value of the Company's precious-metal inventories accounted for under the LIFO method exceeded carrying cost by $254.1 million at December 31, 2000, compared with $115.3 million at December 31, 1999. The increase in excess value reflects higher market values that more than offset the impact of slightly reduced inventory volumes (see Note 5, "Inventories" for further detail).

The Company's total debt decreased to $750.7 million at December 31, 2000 from $951.5 million at December 31, 1999. The ratio of total debt to total capital decreased to 46% at December 31, 2000 from 55% at December 31, 1999, primarily due to decreased long-term borrowings and increased retained earnings.

The Company currently has a $600 million, five-year committed credit facility and a $200 million, one-year committed credit facility with a group of major U.S. and overseas banks. Additional unused, uncommitted lines of credit exceeded $680 million at December 31, 2000.

In July 1998, the Company filed a shelf registration for $300 million. Plans to issue debt under the shelf registration are under consideration by Management.

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Operating activities provided net cash of $180.1 million in 2000 compared with $349.0 million in 1999 and $176.7 million in 1998. The variance in cash flows from operating activities primarily occurred in the Materials Services segment and reflects changes in metal positions used to facilitate requirements of the Company, its metals customers and suppliers. Materials Services routinely enters into a variety of arrangements for the sourcing of metals. Generally, all such transactions are hedged on a daily basis (see Note 1, "Summary of Significant Accounting Policies"). Hedging is accomplished primarily through forward, future and option contracts. Hedged metal obligations (primarily amounts payable for metal purchased forward as an economic hedge) are considered financing activities and are included in that section of the Company's "Consolidated Statements of Cash Flows." These transactions generally cover Materials Services sourcing requirements. Materials Services works to ensure that the Company and its customers have an uninterrupted source of metals, primarily platinum group metals, utilizing supply contracts and commodities markets around the world. Cash flows from operating activities in 2000 were also negatively impacted by higher receivables related to increased prices of platinum group metals.

The cash provided from operations other than the change in metal-related assets and liabilities exceeded $245 million in 2000, 1999 and 1998.

The variance in cash flows from investing activities is primarily due to proceeds received from the sale of the Company's metal-joining products business in September 2000, the acquisition of the Targor polyolefin catalyst business in September 2000, proceeds received from the sale and leaseback of the Company's principal executive and administrative offices in December 1998 and the acquisition of the Mallinckrodt businesses in May 1998.

The variance in cash flows from financing activities was impacted by the repayment of long-term debt in the third quarter of 2000 and increased short-term borrowings in 1999 to fund a major share repurchase.

Management believes that existing sources of capital, together with cash flows from operations, will be sufficient to meet foreseeable cash flow requirements.

MARKET-RISK SENSITIVE TRANSACTIONS

The Company is exposed to market risks arising from adverse changes in interest rates, foreign currency exchange rates and commodity prices. In the normal course of business, the Company uses a variety of techniques and instruments, including derivatives, as part of its overall risk management strategy. The Company enters into derivative agreements with a diverse group of major financial and other institutions with individually determined credit limits to reduce exposure to the risk of nonperformance by counterparties.

INTEREST RATE RISK

The Company uses sensitivity analysis to assess the market risk of its debt-related financial instruments and derivatives. Market risk is defined here as the potential change in the fair value of debt resulting from an adverse movement in interest rates. The fair value of the Company's total debt was $739.9 million at December 31, 2000 and $931.0 million at December 31, 1999 based on average market quotations of price and yields provided by investment banks. A 100 basis-point increase in interest rates could result in a reduction in the fair value of total debt of $17.3 million at December 31, 2000 compared with $21.8 million at December 31, 1999.

Also, the Company uses interest-rate derivatives to help achieve its fixed and floating rate debt objectives. In 2000, the Company did not enter into any interest rate derivative agreements. During 1999, the Company entered into two forward treasury lock agreements with a total notional value of $100 million, which were settled in September and October of 1999. As of December 31, 1998, the Company had two forward treasury lock agreements with a total notional value of $100 million, both of which were settled in March 1999.

FOREIGN CURRENCY EXCHANGE RATE RISK

The Company uses a variety of strategies, including foreign currency forward contracts, to minimize or eliminate foreign currency exchange rate risk associated with substantially all of its foreign currency transactions, including metal-related transactions denominated in other than U.S. dollars. In selected circumstances, the Company may enter into foreign currency forward contracts to hedge the U.S. dollar value of its foreign investments.

The Company uses sensitivity analysis to assess the market risk associated with its foreign currency transactions. Market risk is defined here as the potential change in fair value resulting from an adverse movement in foreign currency exchange rates. A 10% adverse movement in foreign currency rates could result in a net loss of $23.6 million at December 31, 2000 compared with $9.1 million at December 31, 1999 on the Company's foreign currency forward contracts. However, since the Company limits the use of foreign currency derivatives to the hedging of contractual foreign currency payables and receivables, this loss in fair value for those instruments generally would be offset by a gain in the value of the underlying payable or receivable.

A 10% adverse movement in foreign currency rates could result in an unrealized loss of $103.6 million at December 31, 2000 compared with $79.4 million at December 31, 1999 on the Company's net investment in foreign subsidiaries and affiliates. However, since the Company views these investments as long term (except for Engelhard-CLAL as the Company is in the process of liquidating all or part of its investment in this joint venture), the Company would not expect such a loss to be realized in the near term.

COMMODITY PRICE RISK

In closely monitored situations, for which exposure levels and transaction size limits have been set by senior management, the Company from time to time holds large, unhedged industrial commodity positions that are subject to future market fluctuations. Such positions may include varying levels of derivative commodity instruments. All unhedged industrial commodity transactions are monitored and marked-to-market daily, as necessary. All other industrial commodity transactions are hedged on a daily basis, using forward, future, option or swap contracts to substantially eliminate the exposure to price risk.

The Company has performed a "value-at-risk" analysis on all of its commodity assets and liabilities. The "value-at-risk" calculation is a statistical model that uses historical price and volatility data to predict market risk on a one-day interval with a 95% confidence level. While the "value-at-risk" models are relatively sophisticated, the quantitative information generated is limited by the historical information used in the calculation. For example, the volatility in the platinum and palladium markets in 2000 and 1999 was greater than historical norms. Therefore, the Company uses this model only as a supplement to other risk management tools and not as a substitute for the experience and judgment of senior management and dealers who have extensive knowledge of the markets and adjust positions and revise strategies as the markets change. Based on the "value-at-risk" analysis, the maximum potential one-day loss in fair value was approximately $4.8 million as of December 31, 2000 compared with $3.9 million as of December 31, 1999.

CAPITAL EXPENDITURES, COMMITMENTS AND CONTINGENCIES

Capital projects are designed to maintain capacity, expand operations, improve efficiency or protect the environment. Capital expenditures amounted to $136.6 million in 2000, $102.0 million in 1999 and $116.5 million in 1998. Capital expenditures in 2001 are expected to be approximately $165 million. For information about commitments and contingencies, see Note 18, "Environmental

Costs" and Note 19, "Litigation and Contingencies."

DIVIDENDS AND CAPITAL STOCK

The annualized common stock dividend rate at the end of 2000, 1999 and 1998 was $0.40 per share.

JAPAN FRAUD UPDATE/PERU UPDATE

See Note 19, "Litigation and Contingencies," for a discussion of Japan and Peru.

SPECIAL AND OTHER CHARGES

See Note 4, "Special and Other Charges," for a discussion of the Company's special and other charges.

OTHER MATTERS

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." SFAS No. 137 delayed the required adoption of SFAS No. 133 to all fiscal quarters of all fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities (an amendment of FASB Statement No. 133)." These standards require that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in earnings or comprehensive income, depending on the designation of the derivative.

Adoption of these statements in the first quarter of 2001 did not have a material effect on the Company's results of operations, financial position, cash flows or equity. The Company does not expect them to have a material effect on results of operations, financial position, cash flows or equity.

While the Company engages in economic hedging of metal positions, it does not plan to avail itself of the hedge accounting provisions of the new statements. Accordingly, present accounting policies are relatively unchanged by the new statements.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to the future prospects, developments and business strategies. These forward-looking statements are identified by their use of terms and phrases such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will" and similar terms and phrases, including references to assumptions. These forward-looking statements involve risks and uncertainties that may cause Engelhard's actual future activities and results of operations to be materially different from those suggested or described in this document.

These risks include: competitive pricing or product development activities; Engelhard's ability to achieve and execute internal business plans; global economic trends; worldwide political instability and economic growth; markets, alliances and geographic expansions developing differently than anticipated; fluctuations in the supply and prices of precious and base metals; government legislation and/or regulation (particularly on environmental issues); technology, manufacturing and legal issues; and the impact of any economic downturns and inflation. Investors are cautioned not to place undue reliance upon these forward-looking statements, which speak only as of their dates. Engelhard disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ENGELHARD CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS

Year ended December 31 (in thousands, except per-share amounts)	2000	1999
Net sales	$ 5,542,648	$ 4,488,007
Cost of sales	4,812,450	3,843,950
Gross profit	730,198	644,057
Selling, administrative and other expenses	382,287	328,242
Special charge	82,548	-
Operating earnings	265,363	315,815
Equity in earnings of affiliates	24,187	16,266
Gain on sale of investments and land, net	18,786	8,592
Interest expense, net	(62,649)	(56,555
Earnings before income taxes	245,687	284,118
Income tax expense	77,391	86,656
Net earnings	$ 168,296	$ 197,462
Basic earnings per share	$ 1.33	$ 1.49
Diluted earnings per share	$ 1.31	$ 1.47
Average number of shares outstanding - basic	126,351	132,432
Average number of shares outstanding - diluted	128,141	134,590

See accompanying Notes to Consolidated Financial Statements.

ENGELHARD CORPORATION
CONSOLIDATED BALANCE SHEETS

December 31 (in thousands)	2000	1999
Assets		
Cash	$ 33,534	$ 54,375
Receivables, net of allowances of $6,534 and $5,217, respectively	459,753	394,338
Committed metal positions	720,659	467,768
Inventories	371,767	359,153
Other current assets	155,992	121,672
Total current assets	1,741,705	1,397,306
Investments	200,070	182,184
Property, plant and equipment, net	767,687	871,900
Intangible assets, net	302,843	325,544
Other noncurrent assets	154,527	143,590
Total assets	$3,166,832	$2,920,524
Liabilities and Shareholders' Equity		
Short-term borrowings	$ 502,172	$ 452,029
Accounts payable	220,827	246,016
Hedged metal obligations	676,460	497,800
Other current liabilities	427,240	268,978
Total current liabilities	1,826,699	1,464,823
Long-term debt	248,566	499,466
Other noncurrent liabilities	217,000	191,845
Total liabilities	2,292,265	2,156,134
Shareholders' equity:		
Preferred stock, no par value, 5,000 shares authorized and unissued	-	-
Common stock, $1 par value, 350,000 shares authorized and 147,295 shares issued	147,295	147,295
Retained earnings	1,122,377	1,000,473
Treasury stock, at cost, 20,662 and 21,414 shares, respectively	(344,036)	(352,282)
Accumulated other comprehensive loss	(51,069)	(31,096)
Total shareholders' equity	874,567	764,390
Total liabilities and shareholders' equity	$3,166,832	$2,920,524

See accompanying Notes to Consolidated Financial Statements.

ENGELHARD CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 (in thousands)	2000	1999
Cash flows from operating activities		
Net earnings	$168,296	$197,462
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and depletion	103,326	98,328
Amortization of intangible assets	13,733	13,296
Gain on sale of investments and land, net	(18,786)	(8,592
Equity results, net of dividends	(19,823)	(13,835
Net change in assets and liabilities		
Metal related	(115,569)	83,033
All other	48,878	(20,685
Net cash provided by operating activities	180,055	349,007
Cash flows from investing activities		
Capital expenditures	(136,579)	(101,957
Proceeds from sale of investments and land	52,811	12,764
Proceeds from sale and leaseback	-	-
Acquisitions and other investments	(40,095)	(3,142
Other	838	368
Net cash used in investing activities	(123,025)	(91,967
Cash flows from financing activities		
Increase in short-term borrowings	77	102,825
Increase/(decrease) in hedged metal obligations	69,188	(79,525
Proceeds from issuance of long-term debt	-	100,773
Repayment of long-term debt	(104,132)	(4,500
Purchase of treasury stock	(71)	(298,032
Stock bonus and option plan transactions	11,400	7,455
Dividends paid	(51,002)	(52,658
Net cash (used in)/provided by financing activities	(74,540)	(223,662
Effect of exchange rate changes on cash	(3,331)	(1,342
Net (decrease)/increase in cash	(20,841)	32,036
Cash at beginning of year	54,375	22,339
Cash at end of year	$ 33,534	$ 54,375

See accompanying Notes to Consolidated Financial Statements.

ENGELHARD CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands, except per-share amounts)	Common stock	Retained earnings	Treasury stock	Comprehensive income/(loss)	Acc comp inco
Balance at December 31, 1997	$147,295	$726,082	$(45,992)		$(
Comprehensive income/(loss):					
Net earnings		187,084		$187,084	
Other comprehensive income/(loss):					
Foreign currency translation adjustments				12,067	
Minimum pension liability adjustment				(3,916)	
Other comprehensive income				8,151	
Comprehensive income				195,235	
Dividends ($0.40 per share)		(57,842)			
Treasury stock acquired			(8,411)		
Adoption of Rabbi Trust		(3,603)	(20,103)		
Stock bonus and option plan transactions		1,528	9,493		
Balance at December 31, 1998	147,295	853,249	(65,013)		(
Comprehensive income/(loss):					
Net earnings		197,462		197,462	
Other comprehensive income/(loss):					
Foreign currency translation adjustments				(18)	
Minimum pension liability adjustment				2,896	
Other comprehensive income				2,878	
Comprehensive income				200,340	
Dividends ($0.40 per share)		(52,658)			
Treasury stock acquired			(298,032)		
Stock bonus and option plan transactions		2,420	10,763		
Balance at December 31, 1999	147,295	1,000,473	(352,282)		(
Comprehensive income/(loss):					
Net earnings		168,296		168,296	
Other comprehensive income/(loss):					
Foreign currency translation adjustments				(20,993)	
Minimum pension liability adjustment				1,020	
Other comprehensive loss				(19,973)	(
Comprehensive income				$148,323	

Dividends ($0.40 per share)		(51,002)		
Treasury stock acquired			(71)	
Stock bonus and option plan transactions		4,610	8,317	
Balance at December 31, 2000	$147,295	$1,122,377	$(344,036)	$(

See accompanying Notes to Consolidated Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION
The accompanying consolidated financial statements include the accounts of Engelhard Corporation and its wholly owned subsidiaries (collectively referred to as Engelhard or the Company). All significant intercompany transactions and balances have been eliminated in consolidation. Certain prior-year amounts have been reclassified to conform with the current-year presentation.

USE OF ESTIMATES
The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

CASH AND CASH EQUIVALENTS
Cash equivalents include all investments purchased with an original maturity of three months or less and have virtually no risk of loss in value.

INVENTORIES
Inventories are stated at the lower of cost or market. The elements of cost include direct labor and materials, variable overhead and fixed manufacturing overhead. The cost of owned precious-metal inventories is determined using the last-in, first-out (LIFO) method of inventory valuation. The cost of other inventories is principally determined using either the average cost or the first-in, first-out (FIFO) method.

PROPERTY, PLANT AND EQUIPMENT
Property, plant, and equipment are stated at cost. Depreciation of buildings and equipment are provided primarily on a straight-line basis over the estimated useful lives of the assets. Buildings and building improvements are depreciated over 20 years, while machinery and equipment is depreciated based on lives varying from 3 to 10 years. Depletion of mineral deposits and mine development are provided under the units-of-production method. When assets are sold or retired, the cost and related accumulated depreciation is removed from the accounts, and any gain or loss is included in earnings. The Company continually evaluates the reasonableness of depreciation of its fixed assets. If it becomes probable that expected future undiscounted cash flows associated with these assets are less than their carrying value, the assets are written down to their fair value.

INTANGIBLE ASSETS
Identifiable intangible assets, such as patents and trademarks, are amortized using the straight-line method over their estimated useful lives. Goodwill is amortized over periods up to 40 years using the straight-line method. The Company recorded amortization expense of $13.7 million in 2000, $13.3 million in 1999 and $12.6 million in 1998. Accumulated amortization amounted to $60.4 million and $46.7 million at December 31, 2000 and December 31, 1999, respectively. Included in intangible assets is net goodwill that

amounted to $248.4 million and $290.1 million at December 31, 2000 and December 31, 1999, respectively. The Company continually evaluates the reasonableness of its amortization of intangibles. In addition, if it becomes probable that expected future undiscounted cash flows associated with intangible assets are less than their carrying value, the assets are written down to their fair value.

In 2000, the Company wrote-off goodwill of $30.4 million as follows: in the first quarter, the Company wrote-off $6.0 million of goodwill associated with the divestiture of its International Dioxide, Inc. (IDI) business unit; in the third quarter, the Company wrote-off $21.9 million of goodwill related to the impairment of its HexCore business unit; and, in the fourth quarter, the Company wrote-off $2.5 million of goodwill as part of its fourth-quarter special charge related to the impairment of its colors business.

COMMITTED METAL POSITIONS AND HEDGED METAL OBLIGATIONS
Committed metal positions reflect the fair value of metal owned by the Company (other than LIFO inventory) and the fair market value of contracts undertaken to economically hedge price exposures related to a portion of these metals (see Note 8, "Committed Metal Positions and Hedged Metal Obligations" for further detail). Hedged metal obligations are valued at fair value and are comprised of amounts due for metal purchased forward as an economic hedge and amounts representing losses under forward sales and similar derivative transactions undertaken as economic hedges.

To the extent metal prices increase subsequent to a spot purchase that has been hedged, the Company will record a gain while marking the spot metal to market and recognize a loss related to the fair value of the derivative instrument. The aggregate fair value of derivataives in a loss position will be classified as part of hedged metal obligations at the balance sheet date while the spot gains will be included in committed metal positions. Should the reverse occur and the metal prices decrease, the resultant gain on the derivative will be offset against the spot loss within committed metal positions. The reason for this seemingly divergent treatment is that a liability to the counterparty will have been incurred with respect to any derivative instrument in a loss position.

Both spot metal and the so-called derivative instruments used in hedging (e.g. forwards, futures, swaps and options) are stated at market or fair value. Fair value is generally based on listed market prices. If listed market prices are not available or if liquidating the Company's positions would reasonably be expected to impact market prices, fair value is determined based on other relevant factors, including dealer price quotations and price quotations in different markets, including markets located in different geographic areas. Any change in value, realized or unrealized, is recognized in gross profit in the period of the change.

In closely monitored situations, for which exposure levels and transaction size limits have been set by senior management, the Company from time to time holds large unhedged industrial commodity positions that are subject to future market fluctuations. Such positions may include varying levels of derivative commodity instruments. All unhedged industrial commodity transactions are monitored and marked-to-market daily, as necessary. The portion of this metal that has not been hedged is therefore subject to price risk and is disclosed in Note 8, "Committed Metal Positions and Hedged Metal Obligations."

ENVIRONMENTAL COSTS
In the ordinary course of business, like most other industrial companies, the Company is subject to extensive and changing federal, state, local and foreign environmental laws and regulations and has made provisions for the estimated financial impact of environmental cleanup-related costs. The Company's policy is to accrue environmental cleanup-related costs of a noncapital nature

when those costs are believed to be probable and can be reasonably estimated. Environmental cleanup costs are deemed probable when litigation has commenced or a claim or an assessment has been asserted, or, based on available information, commencement of litigation or assertion of a claim or an assessment is probable, and, based on available information, it is probable that the outcome of such litigation, claim or assessment will be unfavorable. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, advancements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement. For certain matters, the Company expects to share costs with other parties. The Company does not include anticipated recoveries from insurance carriers or other third parties in its accruals for environmental liabilities.

REVENUE RECOGNITION
Revenues are recognized on sales of product at the time the goods are shipped or when risks of ownership have passed to the customer. In limited situations, revenue is recognized on a bill-and-hold basis as title passes to the customer before shipment of goods. These bill-and-hold sales meet the criteria for revenue recognition. Sales recognized on a bill-and-hold basis were approximately $13.6 million in 2000, $12.9 million in 1999 and $10.8 million in 1998.

In accordance with EITF 00-10, "Accounting for Shipping and Handling Fees and Costs," adopted by the Company in the fourth quarter of 2000, the Company reports amounts billed to customers for shipping and handling fees as sales in the Company's "Consolidated Statements of Earnings." Costs incurred by the Company for shipping and handling fees are reported as cost of sales.

SALES AND COST OF SALES
Some of the Company's businesses use precious metals in their manufacturing processes. Precious metals are included in sales and cost of sales if the metal has been supplied by the Company. Often, customers supply the precious metals for the manufactured product. In those cases, precious-metals values are not included in sales or cost of sales. The mix of such arrangements and the extent of market-price fluctuations can significantly affect the reported level of sales and cost of sales, but there is no direct correlation between year-to-year changes in reported sales and operating earnings.

In addition, sales and purchases of precious metals to/from industrial and refining customers are transacted through the Company's Materials Services segment and are recorded in sales and cost of sales. Secondarily, and usually as a consequence of the above transactions, the Company also engages in precious-metals sourcing with other counterparties. In these cases, the precious-metals values are generally included in sales and cost of sales only to the extent that the Company has added value by changing the physical form of the metal. For all Materials Services activities, an unrealized gain or loss is recorded as an element of cost of sales based on changes in the market value of the Company's positions.

INCOME TAXES
Deferred income taxes reflect the differences between the assets and liabilities recognized for financial reporting purposes and amounts recognized for tax purposes. Deferred taxes are based on tax laws as currently enacted.

EQUITY METHOD OF ACCOUNTING
The Company's investments in 20%-to 50%-owned companies in which it has the ability to exercise significant influence over operating and financial policies

are accounted for using the equity method. Accordingly, the Company's share of the earnings of these companies is included in consolidated net income. Investments in other companies are carried at cost.

FOREIGN CURRENCY TRANSLATION
The functional currency for the majority of the Company's foreign operations is the applicable local currency. The translation from the applicable foreign currencies to U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted-average exchange rate during the period. The resulting translation adjustments are recorded as a component of shareholders' equity. Gains or losses resulting from foreign currency transactions are included in the Company's "Consolidated Statements of Earnings."

DERIVATIVE INSTRUMENTS
The Company enters into foreign exchange contracts as a hedge against monetary assets and/or liabilities that are denominated in currencies other than the functional currency of the entity holding those assets or liabilities. The ultimate maturities of the contracts are timed to coincide with the expected liquidation of the underlying monetary balances. Gains and losses on the ultimate settlement of the contracts are offset against the losses and gains realized on those underlying monetary accounts.

Interest rate swaps, treasury locks and similar arrangements are used by the Company to lock in interest rates and/or convert floating rates to fixed and vice versa. The differential to be paid or received is accrued as interest rates change and is recognized over the life of the underlying debt agreements.

Natural gas futures contracts are used as a hedge to protect a portion of manufacturing costs against the volatility of natural gas pricing over future periods. The ultimate maturities of the contracts are timed to coincide with the expected usage of natural gas in the Company's manufacturing operations.

The use of derivative metal instruments is discussed on page 31 under "Committed Metal Positions and Hedged Metal Obligations." To the extent that the maturities of these instruments are mismatched, the Company may be exposed to cash interest rates. This exposure is mitigated through use of Eurodollar futures that are marked-to-market daily along with the underlying commodity instruments.

STOCK OPTION PLANS
The Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123) in 1997. In conjunction with the adoption, the Company will continue to apply the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" with pro forma disclosure of net income and earnings per share as if the fair-value-based method prescribed by SFAS 123 had been applied. In general, no compensation cost related to these plans is recognized in the Company's "Consolidated Statements of Earnings."

RESEARCH AND DEVELOPMENT COSTS
Research and development costs are charged to expense as incurred and were $82.8 million in 2000, $77.9 million in 1999 and $69.8 million in 1998. These costs are included within "selling, administrative and other expenses" in the Company's "Consolidated Statements of Earnings."

NEW ACCOUNTING PRONOUNCEMENTS
In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). In June 1999, the FASB issued

SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." SFAS No. 137 delayed the required adoption of SFAS No. 133 to all fiscal quarters of all fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities (an amendment of FASB Statement No. 133)." These standards require that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in earnings or comprehensive income, depending on the designation of the derivative.

Adoption of these statements in the first quarter of 2001 did not have a material effect on the Company's results of operations, financial position, cash flows or equity. The Company does not expect them to have a material effect on results of operations, financial position, cash flows or equity.

While the Company engages in economic hedging of metal positions, it does not plan to avail itself of the hedge accounting provisions of the new statements. Accordingly, present accounting policies are relatively unchanged by the new statements.

2. SIGNIFICANT SHAREHOLDER TRANSACTION

In May 1999, the Company purchased approximately 18 million of its shares owned by Minorco, which represented approximately 13% of the Company's total shares outstanding at that time. The remainder of Minorco's stake (28 million shares) was sold in a secondary public offering. Minorco compensated the Company for costs and other expenses related to the secondary offering and the purchase of the shares. The Company financed the share repurchase with short-term debt.

3. ACQUISITIONS AND DIVESTITURES

During 2000, the Company recorded a gain of $24.8 million ($17.0 million after tax or $0.13 per share on a diluted basis) on the sale of its metal-joining products business located in Warwick, Rhode Island. In addition, the Company recorded a loss of $6.0 million ($4.1 million after tax or $0.03 per share on a diluted basis) associated with the divestiture of the International Dioxide, Inc. (IDI) business unit.

In September 2000, the Company acquired a polyolefin catalyst business located in Tarragona, Spain from Targor GmbH, a subsidiary of BASF AG, for approximately $35 million. As part of the acquisition, the Company obtained a supply agreement to become the exclusive supplier of polyolefin catalysts to Novolen Technology Holdings C.V. This acquisition was recorded under the purchase method of accounting. The results of operations of this acquisition, integrated into the Process Technologies segment, are included in the accompanying consolidated financial statements from the date of acquisition. A portion of the purchase price has been allocated to assets acquired and liabilities assumed based on their fair values, while the remaining balance was recorded as an intangible asset and is being amortized over 15 years. Pro forma information is not provided since the impact of the acquisition does not have a material effect on the Company's results of operations, cash flows or financial position.

During 1999, the Company sold its hydroprocessing joint venture, its metal-plating business, its Mearlcrete concrete foaming agent business, and certain land and mineral rights located in Talladega County, Alabama. These sales resulted in gains of $13.2 million ($9.2 million after tax or $0.06 per share on a diluted basis). In addition, the Company reduced the carrying value of its investment in Engelhard Highland Private Ltd. to its estimated net realizable value of $1.0 million and accordingly recorded a loss of $4.6 million ($3.2 million after tax or $0.02 per share on a diluted basis).

In March 1999, the Company acquired the effect-pigment product line of ISP for approximately $11.5 million. This acquisition expanded the Company's effect-pigments line. The excess of the purchase price over the fair value of net assets acquired has been recorded as goodwill and is being amortized on a straight-line basis over 20 years. The results of operations of this product line, integrated into the Appearance and Performance Technologies segment, are included in the accompanying consolidated financial statements from the date of acquisition.

In May 1998, the Company acquired the chemical catalyst businesses of Mallinckrodt Inc. for approximately $210 million in cash. The Company financed the acquisition with a combination of commercial paper and bank borrowings. The purchase price exceeded the assessment of the fair value of net assets acquired by approximately $90 million, which is being amortized on a straight-line basis over 40 years. The results of operations of the Mallinckrodt businesses, integrated into the Process Technologies segment, are included in the accompanying consolidated financial statements from the date of acquisition.

In January 1998, the Company acquired the pearlescent pigments business of Semo Chemical Company for approximately $13.5 million. This acquisition expanded the Company's effect-pigments business. The excess of the purchase price over the fair value of net assets acquired has been recorded as goodwill and is being amortized on a straight-line basis over 25 years. The results of operations of this business, integrated into the Appearance and Performance Technologies segment, are included in the accompanying consolidated financial statements from the date of acquisition.

4. SPECIAL AND OTHER CHARGES

The Company recorded special and other charges of $134.2 million ($92.0 million after tax or $0.72 per share on a diluted basis) in 2000 for a variety of events. The following table sets forth the impact of these charges in the Company's 2000 "Consolidated Statements of Earnings:"

FINANCIAL IMPACT (in millions, except per share amounts)	Third Quarter Special and Other Charges	Fourth Quarter Special and Other Charges	Tota
Cost of sales	$ -	$ (27.1)	$ (27.
Selling, administrative and other expenses	-	(23.8)	(23.
Special charge	(24.6)	(57.9)	(82.
Operating loss	(24.6)	(108.8)	(133.
Equity in losses of affiliates	-	(0.8)	(0.
Loss before income taxes	(24.6)	(109.6)	(134.
Income tax benefit	7.7	34.5	42.
Net loss	$ (16.9)	$ (75.1)	$ (92.
Diluted loss per share	$ (0.13)	$ (0.59)	$ (0.7

The 2000 special and other charges are described below:

The Environmental Technologies segment incurred charges of $15.4 million, primarily related to additional provisions for warranty costs associated with the segment's stationary-source, emission-control capital equipment business, which was sold in 1998.

The Process Technologies segment incurred charges of $5.5 million, primarily for the write-off of the unamortized balance of a customer supply agreement recognized in connection with the acquisition of the chemical catalyst businesses of Mallinckrodt Inc. in 1998. The Company does not expect future deliveries under the contract.

The Appearance and Performance Technologies segment incurred charges of $50.5 million, including the write-down of assets of $30.4 million in the segment's colors business, the write-off of $4.6 million of obsolete inventory within the segment's minerals business, charges of $3.6 million related to the Company's decision to divest its 50%-owned interest in the Dnipro Kaolin (Ukraine) joint venture, which had previously generated immaterial losses, charges of $3.5 million related to the write-off of an obsolete computer system and other charges of $8.4 million.

As a result of declining sales, a shift in product mix to higher volume, low-gross-profit products and severe price pressure for all product lines, the colors business continued operating at a loss in 2000. In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed Of," the Company performed an impairment review of its long-lived assets. During the fourth quarter of 2000, the Company determined that the estimated future undiscounted cash flows of the segment's colors business were below the carrying value of its assets. Accordingly, the Company adjusted the carrying value of the long-lived assets and goodwill to their estimated fair values. The estimated fair values of the machinery and equipment and goodwill were based on anticipated future cash flows discounted at a rate commensurate with the Company's estimated cost of capital. The resulting impairment charge consisted primarily of a write-down of machinery and equipment.

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Based on a reassessment of the volumes of usable crude kaolin contained in stockpiles in Middle Georgia, a determination was made to adjust quantities downward resulting in a charge of $4.6 million. Crude kaolin is used to produce high-quality pigments and additives for a variety of end markets.

Within the Company's "All Other" category, the Company incurred special and other charges of $62.8 million, primarily related to the decision to exit from its residual, desiccant-based, climate-control-system business. This business was comprised of the Company's HexCore subsidiary and a cost-based investment in Fresh Air Solutions, a limited partnership. These charges primarily result from asset write-offs and recognition of the Company's obligation under a guarantee. Revenues and net losses from the HexCore subsidiary were immaterial for each of the three years ended December 31, 2000.

In 1999, the Company recorded severance costs of $5.4 million and asset impairments of $3.7 million associated with a restructuring of the Company's business groups and for severance at three of the Company's manufacturing facilities. The severance charges related to the elimination of 72 positions. In 1999, the Company recognized charges of $3.7 million relating to closure costs at the Company's Salt Lake City facility of approximately $2.3 million, as well as an impairment to goodwill of $1.4 million relating to the sensor technologies business unit. The Company sold its sensor technologies business in February

2000. The proceeds of $6.5 million approximated the remaining net realizable value.

The Company's pre-1998 restructuring charge included a $5.0 million impairment relating to the Company's Salt Lake City facility and $3.8 million for environmental remediation costs for its Harvard-Denison site in Cleveland, Ohio. In 1999, the Company restored the carrying value of the Salt Lake City facility to its original book value of $5.0 million based on a third party offer and independent appraisal. In 2000, the Company sold a portion of this facility. With regard to Harvard-Denison, the Company believes the site qualifies for the Government's Formerly Utilized Sites Remedial Action Program (FUSRAP) and, as a result, the government would be responsible for future remediation. Accordingly, the Company reversed $3.8 million as a special credit in 1999.

The following table sets forth the components of the Company's reserves for restructuring and other costs:

RESTRUCTURING AND OTHER RESERVES	Separations			Other			
(in millions)	Pre-1998	1999	2000	Pre-1998	1999	2000	Tot
Balance at December 31, 1997	$11.2	$ --	$ --	$10.8	$ --	$ --	$22
Cash spending, net	(4.7)	--	--	(5.8)	--	--	(10
Asset write-offs	--	--	--	(1.9)	--	--	(1

Balance at December 31, 1998	6.5	--	--	3.1	--	--	9
Cash spending, net	(0.5)	(3.4)	--	(2.9)	--	--	(6
(Reversal)/provision	(4.8)	5.4	--	4.8	0.9	--	6
Balance at December 31, 1999	1.2	2.0	--	5.0	0.9	--	9
Cash spending, net	(0.9)	(1.4)	--	(4.1)	(0.6)	--	(7
Provision	--	--	1.1	--	--	31.4(a)	32
Balance at December 31, 2000	$0.3	$0.6	$1.1	$0.9	$0.3	$31.4	$34

(a) Primarily related to warranty and restructuring charges.

The non-separation-related cash spending for pre-1998 restructuring and other liabilities for each of the three years ended December 31, 2000, 1999, and 1998 consisted primarily of costs associated with the shutdown of the Union and Newark, New Jersey sites, the Attapulgus, Georgia attapulgite operations and the Plainville, Massachusetts site. The remaining balance in the pre-1998 restructuring and other reserves consists of shutdown costs for the Union, New Jersey, and Plainville, Massachusetts sites, as well as the attapulgite operations in Attapulgus.

The non-separation restructuring and other cost provision made prior to 1998 consists primarily of costs associated with the shutdown of the facilities to be closed in connection with the Process Technologies and Environmental Technologies segments and certain warranty obligations associated with the sold Environmental Technologies stationary-source, emission-control capital equipment business. Non-separation-related cash spending associated with these liabilities for the year ended December 31, 2000 consisted of payments concerning completion of the shutdown of the facilities and the satisfaction of warranty obligations.

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5. INVENTORIES

Inventories consist of the following:

INVENTORIES (in millions)	2000	1999
Raw materials	$ 81.1	$ 84.2
Work in process	76.7	53.0
Finished goods	190.8	195.7
Precious metals	23.2	26.3
Total inventories	$371.8	$359.2

The majority of the Company's physical metal is carried in committed metal positions with the remainder carried in inventory. All precious-metal inventories are stated at LIFO cost. The market value of the precious-metals inventories exceeded cost by $254.1 million and $115.3 million at December 31, 2000 and 1999, respectively. Net earnings include after-tax gains of $2.5 million in 2000, $2.2 million in 1999, and $4.9 million in 1998 from the sale of inventory accounted for under the LIFO method.

In the normal course of business, certain customers and suppliers deposit significant quantities of precious metals with the Company under a variety of arrangements. Equivalent quantities of precious metals are returnable as product or in other forms.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

PROPERTY, PLANT AND EQUIPMENT (in millions)	2000	1999
Land	$ 27.9	$ 30.4
Buildings and building improvements	203.3	213.2
Machinery and equipment	1,330.8	1,438.5
Construction in progress	101.3	67.1
Mineral deposits and mine development	74.3	80.4
	1,737.6	1,829.6
Accumulated depreciation and depletion	969.9	957.7
Property, plant and equipment, net	$ 767.7	$ 871.9

Mineral deposits and mine development consist of industrial mineral reserves such as kaolin, attapulgite and mica. The Company does not own any mining reserves or conduct any mining operations with respect to platinum, palladium or other metals.

In 2000, the Company entered into a sale-leaseback transaction for machinery and equipment that is used in the Process Technologies segment. This lease is being accounted for as an operating lease.

The Company capitalized interest of $3.9 million in 2000, $2.6 million in 1999 and $1.9 million in 1998.

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7. INVESTMENTS

The Company has investments in affiliates that are accounted for under the equity method. The more significant of these investments are Engelhard-CLAL, N.E. Chemcat Corporation (N.E. Chemcat) and Heesung-Engelhard. Engelhard-CLAL, a 50%-owned joint venture, manufactures and markets certain products containing precious metals. N.E. Chemcat is a 38.8%-owned, publicly traded Japanese corporation and a leading producer of automotive and chemical catalysts, electronic chemicals and other precious-metal-based products. Heesung-Engelhard, a 49% Korean-owned joint venture, manufactures and markets catalyst products for automobiles.

In the first quarter of 1999, the Company sold its investment in Acreon

Catalysts, a hydroprocessing joint venture. The Company recorded a gain of $1.0 million ($0.7 million after tax).

The summarized unaudited financial information below represents an aggregation of the Company's nonsubsidiary affiliates on a 100% basis, unless otherwise noted:

FINANCIAL INFORMATION (unaudited) (in millions)	2000	1999	1998
Earnings data:			
Revenue	$1,886.1	$1,553.2	$1,540.7
Gross profit	195.2	156.1	151.8
Net earnings	60.2	37.1	14.3
Engelhard's equity in net earnings of affiliates	24.2	16.3	10.1
Balance sheet data:			
Current assets	$ 609.2	$ 513.0	
Noncurrent assets	213.7	209.1	
Current liabilities	301.5	232.6	
Noncurrent liabilities	62.9	67.7	
Net assets	458.5	421.8	
Engelhard's equity in net assets	193.9	179.0	

The Company's share of undistributed earnings/losses of affiliated companies included in consolidated retained earnings were earnings of $60.3 million as of December 31, 2000 and $40.5 million as of December 31, 1999, and a loss of $5.4 million as of December 31, 1998. Dividends from affiliated companies were $4.4 million in 2000, $2.4 million in 1999 and $2.0 million in 1998.

As of December 31, 2000, the Company's accumulated other comprehensive loss included a foreign currency translation loss of approximately $13.5 million relating to its Engelhard-CLAL joint venture. The Company is currently in the process of liquidating all or a part of its Engelhard-CLAL joint venture. Upon complete liquidation of the Company's investment in Engelhard-CLAL, the Company will recognize the foreign currency translation amount relating to Engelhard-CLAL in current earnings with an offsetting credit to other comprehensive income in accordance with accounting principles generally accepted in the United States.

8. COMMITTED METAL POSITIONS AND HEDGED METAL OBLIGATIONS

The following table sets forth the Company's unhedged metal positions included in committed metal positions on the Company's "Consolidated Balance Sheets:"

METAL POSITIONS INFORMATION (in millions)	2000		1999	
	Gross Position	Value	Gross Position	Value

Platinum group metals	Long	$78.4	Long	$65.0
Gold	Flat	--	Long	0.2
Silver	Long	1.3	Long	1.6
Base metals	Long	5.0	Long	5.3
Total unhedged metal positions		$84.7		$72.1

The net mark-to-market adjustments related to open unhedged positions were $11.6 million at December 31, 2000 and $8.2 million at December 31, 1999. The net mark-to-market adjustments related to open unhedged positions were not material at December 31, 1998.

Derivative metal and foreign currency instruments used to hedge metal positions and obligations consist of the following:

METAL HEDGING INSTRUMENTS
(in millions)

	2000		1999	
	Buy	Sell	Buy	Sell
Metal forwards/futures	$1,244.0	$1,146.6	$1,495.6	$1,026.2
Eurodollar futures	115.7	104.3	52.9	66.3
Swaps	16.0	22.7	118.2	177.4
Options	39.3	8.7	90.2	5.4
Foreign exchange forwards/futures	-	171.2	77.5	-

9. FINANCIAL INSTRUMENTS

The Company's nonderivative financial instruments consist primarily of cash in banks, temporary investments, accounts receivable and debt. The fair value of financial instruments in working capital approximates book value. The fair value of long-term debt was $237.5 million as of December 31, 2000 and $479.1 million as of December 31, 1999 based on current interest rates, compared with a book value of $248.6 million as of December 31, 2000 and $499.5 million as of December 31, 1999.

The Company believes that its financial instruments do not represent a concentration of credit risk because the Company deals with a variety of major banks worldwide, and its accounts receivable are spread among a number of major industries, customers and geographic areas. In addition, a centralized credit committee reviews significant credit transactions and risk-management issues before the granting of credit, and an appropriate level of reserves is maintained. For the past three-year period, provisions to these reserves were not significant.

FOREIGN CURRENCY INSTRUMENTS
Aggregate foreign transaction gains and losses were not significant for any year presented. The following table sets forth, in U.S. dollars, the Company's open foreign currency forward contracts used for hedging other than metal-related transactions as of the respective year ends (see Note 8, "Committed Metal Positions and Hedged Metal Obligations" for further detail):

FOREIGN CURRENCY FORWARD CONTRACTS INFORMATION
(in millions)

2000	1999

	Buy	Sell	Buy	Sell
Deutsche mark	$ -	$ 27.7	$ -	$ 0.3
Japanese yen	-	-	10.7	16.1
French franc	-	3.0	-	-
Euro	11.0	142.4	-	50.8
Netherlands guilder	4.1	9.4	39.9	21.2
South African rand	-	4.8	-	-
Peru soles	-	-	-	10.0
Swedish krona	-	-	-	0.7
British pound	6.9	-	-	-
Italian lira	-	1.6	2.0	4.8
Total open foreign currency forward contracts	$22.0	$188.9	$52.6	$103.9

None of these contracts exceeds a year in duration, and the net amount of deferred income and expense on foreign currency forward contracts had no impact on the Company's financial position or results of operations in 2000, 1999 and 1998.

10. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

At December 31, 2000, the Company had unsecured committed revolving credit agreements for $600 million and $200 million with a group of major North American banks and foreign banks. The $600 million agreement expires in April 2002, and the $200 million agreement expires in May 2001. In connection with these credit facilities, the Company has agreed to certain covenants, none of which is considered by Management to be restrictive to the operations of the Company. Facility fees are paid to the bank group for these lines. Renewal of both agreements are under consideration by Management.

At December 31, 2000 and 1999, short-term bank borrowings were $153.0 million and $229.9 million, respectively. Weighted-average interest rates were 6.4%, 5.2% and 5.5% during 2000, 1999, and 1998, respectively. At December 31, 2000 and 1999, long-term debt due within one year was $150.1 million and $100.1 million, respectively.

At December 31, 2000 and 1999, commercial paper borrowings were $199.1 million and $122.0 million, respectively. Weighted-average interest rates were 6.3%, 5.1% and 5.5% during 2000, 1999 and 1998, respectively.

Additional unused, uncommitted lines of credit available exceeded $680 million at December 31, 2000. The Company