

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2001  
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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 1-3970  
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HARSCO CORPORATION

-----  
(Exact name of registrant as specified in its charter)

Delaware

23-1483991

-----  
(State of incorporation)

(I.R.S. Employer Identification No.)

Camp Hill, Pennsylvania

17001-8888

-----  
(Address of principal executive offices)

(Zip Code)

Registrant's Telephone Number (717) 763-7064  
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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  NO

Title of Each Class  
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Outstanding Shares at July 31, 2001  
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Common Stock Par Value \$1.25  
Preferred Stock Purchase Rights

39,871,431  
39,871,431

HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF INCOME  
(Unaudited)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Three Months Ended June 30		Six Months Ended June 30	
	2001	2000	2001	2000
<b>REVENUES:</b>				
Service sales (1)	\$ 332,185	\$ 256,328	\$ 657,249	\$ 487,577
Product sales (1)	200,027	209,248	401,175	435,453
Other	132	236	558	439
<b>TOTAL REVENUES</b>	<b>532,344</b>	<b>465,812</b>	<b>1,058,982</b>	<b>923,469</b>
<b>COSTS AND EXPENSES:</b>				
Cost of services sold (1)	237,635	190,453	475,278	369,547
Cost of products sold (1)	160,893	165,635	329,052	349,360
Selling, general, and administrative expenses	79,937	56,265	163,303	110,059
Research and development expenses	893	1,441	1,478	3,088
Other expense (income)	2	(650)	4,042	(276)
<b>TOTAL COSTS AND EXPENSES</b>	<b>479,360</b>	<b>413,144</b>	<b>973,153</b>	<b>831,778</b>
<b>OPERATING INCOME</b>	<b>52,984</b>	<b>52,668</b>	<b>85,829</b>	<b>91,691</b>
Equity in income (loss) of affiliates, net	190	(588)	(2,048)	(438)
Interest income	1,197	1,262	2,419	2,450
Interest expense	(14,262)	(8,727)	(28,818)	(16,217)
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTEREST</b>	<b>40,109</b>	<b>44,615</b>	<b>57,382</b>	<b>77,486</b>
Provision for income taxes	14,038	15,615	20,084	27,120
<b>INCOME BEFORE MINORITY INTEREST</b>	<b>26,071</b>	<b>29,000</b>	<b>37,298</b>	<b>50,366</b>
Minority interest in net income	1,366	769	2,452	1,933
<b>NET INCOME</b>	<b>\$ 24,705</b>	<b>\$ 28,231</b>	<b>\$ 34,846</b>	<b>\$ 48,433</b>
Average shares of common stock outstanding	39,828	39,964	39,818	39,989
<b>BASIC EARNINGS PER COMMON SHARE</b>	<b>\$ .62</b>	<b>\$ .71</b>	<b>\$ .88</b>	<b>\$ 1.21</b>
Diluted average shares of common shares outstanding	39,933	40,048	39,906	40,067
<b>DILUTED EARNINGS PER COMMON SHARE</b>	<b>\$ .62</b>	<b>\$ .70</b>	<b>\$ .87</b>	<b>\$ 1.21</b>
CASH DIVIDENDS DECLARED PER COMMON SHARE	\$ .24	\$ .235	\$ .48	\$ .47

(1) In order to comply with Emerging Issues Task Force (EITF) Issue No. 00-10, all shipping and handling costs have been classified as cost of services sold or as cost of products sold rather than as reductions of sales. The income statements for the three months and six months ended June 30, 2000 have been reclassified to reflect this change. The reclassifications have no effect on previously reported operating income or net income for the three months and six months ended June 30, 2000.

See accompanying notes to consolidated financial statements.

HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED BALANCE SHEET  
(Unaudited)

(IN THOUSANDS)	JUNE 30 2001	December 31 2000
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 57,152	\$ 56,422
Receivables, less allowance for doubtful accounts of \$27,783 in 2001 and \$26,078 in 2000	436,711	413,654
Inventories	202,051	199,117
Other current assets	54,830	57,222
<b>TOTAL CURRENT ASSETS</b>	<b>750,744</b>	<b>726,415</b>
Property, plant and equipment, at cost	1,753,530	1,771,494
Allowance for depreciation	897,293	874,713
Cost in excess of net assets of businesses acquired, net	856,237	896,781
Other assets	354,736	369,199
	176,175	188,553
<b>TOTAL ASSETS</b>	<b>\$ 2,137,892</b>	<b>\$ 2,180,948</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Notes payable and current maturities	\$ 63,513	\$ 62,295
Accounts payable	156,243	192,148
Accrued compensation	39,182	46,591
Income taxes	40,956	34,783
Other current liabilities	203,595	200,362
<b>TOTAL CURRENT LIABILITIES</b>	<b>503,489</b>	<b>536,179</b>
Long-term debt	769,287	774,450
Deferred income taxes	91,571	88,480
Other liabilities	105,734	107,660
<b>TOTAL LIABILITIES</b>	<b>1,470,081</b>	<b>1,506,769</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock and additional paid-in capital	173,627	172,887
Accumulated other comprehensive income (expense)	(132,204)	(109,377)
Retained earnings	1,230,388	1,214,659
Treasury stock	(604,000)	(603,990)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>667,811</b>	<b>674,179</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 2,137,892</b>	<b>\$ 2,180,948</b>

See accompanying notes to consolidated financial statements.

HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(Unaudited)

(IN THOUSANDS)	SIX MONTHS ENDED JUNE 30	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 34,846	\$ 48,433
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	79,508	64,651
Amortization	8,718	6,753
Equity in (income) loss of affiliates, net	2,048	438
Dividends or distributions from affiliates	108	587
Deferred income taxes	4,843	9,194
Other, net	4,615	(551)
Changes in assets and liabilities, net of acquisitions and dispositions of businesses:		
Accounts receivable	(32,211)	4,968
Inventories	(7,087)	(18,332)
Accounts payable	(22,072)	(4,976)
Disbursements related to discontinued defense business	(468)	(617)
Other assets and liabilities	(5,235)	(18,869)
NET CASH PROVIDED BY OPERATING ACTIVITIES	67,613	91,679
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(77,850)	(78,046)
Proceeds from sale of property, plant and equipment	13,923	2,402
Purchase of business, net of cash acquired	(4,880)	(263,711)
Proceeds from sale of business	3,650	9,745
Other investing activities	50	101
NET CASH (USED) BY INVESTING ACTIVITIES	(65,107)	(329,509)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term borrowings, net	6,891	268,561
Current maturities and long-term debt:		
Additions	107,331	59,971
Reductions	(90,188)	(46,212)
Cash dividends paid on common stock	(19,109)	(18,808)
Common stock issued-options	659	853
Common stock acquired for treasury	(50)	(3,768)
Other financing activities	(2,280)	(3,114)
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,254	257,483
Effect of exchange rate changes on cash	(5,030)	(2,737)
Net increase in cash and cash equivalents	730	16,916
Cash and cash equivalents at beginning of period	56,422	51,266
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 57,152	\$ 68,182

See accompanying notes to consolidated financial statements.

HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Continued)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
(Unaudited)

(IN THOUSANDS)	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2001	2000	2001	2000
Net income	\$ 24,705	\$ 28,231	\$ 34,846	\$ 48,433
Other comprehensive income (expense):				
Foreign currency translation adjustments	(5,103)	(10,996)	(22,708)	(18,623)
Net gains (losses) on cash flow hedging instruments, net of deferred income taxes	36	-	(124)	-
Pension liability adjustments, net of deferred income taxes	(7)	-	5	-
Other comprehensive (expense)	(5,074)	(10,996)	(22,827)	(18,623)
TOTAL COMPREHENSIVE INCOME	\$ 19,631	\$ 17,235	\$ 12,019	\$ 29,810

See accompanying notes to consolidated financial statements.

HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Continued)

REVIEW OF OPERATIONS BY SEGMENT  
(Unaudited)

(IN MILLIONS)

THREE MONTHS ENDED JUNE 30, 2001	INFRASTRUCTURE	MILL SERVICES	GAS AND FLUID CONTROL	S3NETWORKS LLC	GENERAL CORPORATE	CONSOLIDATED TOTALS
NET SALES TO UNAFFILIATED CUSTOMERS	\$ 225.8	\$ 185.2	\$ 121.2	\$ -	\$ -	\$ 532.2
OPERATING INCOME	\$ 23.3	\$ 21.6	\$ 8.1	\$ -	\$ -	\$ 53.0
EQUITY IN INCOME (LOSS) OF AFFILIATES, NET	0.4	-	-	(0.2)	-	0.2
INTEREST INCOME	0.1	1.0	0.1	-	-	1.2
INTEREST EXPENSE	(8.9)	(2.5)	(0.5)	-	(2.4)	(14.3)
INCOME TAX (EXPENSE) BENEFIT	(6.1)	(6.1)	(2.7)	0.1	0.8	(14.0)
MINORITY INTEREST IN NET INCOME	(0.1)	(1.3)	-	-	-	(1.4)
SEGMENT NET INCOME (LOSS)	\$ 8.7	\$ 12.7	\$ 5.0	\$ (0.1)	\$ (1.6)	\$ 24.7

THREE MONTHS ENDED JUNE 30, 2000	INFRASTRUCTURE	MILL SERVICES	GAS AND FLUID CONTROL	S3NETWORKS LLC	GENERAL CORPORATE	CONSOLIDATED TOTALS
Net sales to unaffiliated customers (1)	\$ 138.3	\$ 197.3	\$ 130.0	\$ -	\$ -	\$ 465.6
Operating income	\$ 14.5	\$ 27.2	\$ 10.7	\$ -	\$ 0.3	\$ 52.7
Equity in income (loss) of affiliates, net	-	0.3	-	(0.9)	-	(0.6)
Interest income	0.2	1.0	-	-	-	1.2
Interest expense	(2.3)	(2.3)	(1.0)	-	(3.1)	(8.7)
Income tax (expense) benefit	(4.5)	(8.7)	(3.5)	0.3	0.8	(15.6)
Minority interest in net income	(0.1)	(0.7)	-	-	-	(0.8)
Segment net income (loss)	\$ 7.8	\$ 16.8	\$ 6.2	\$ (0.6)	\$ (2.0)	\$ 28.2

(1) In order to comply with Emerging Issues Task Force (EITF) Issue No. 00-10, all shipping and handling costs have been classified as cost of services sold or as cost of products sold rather than as reductions of sales. The income statement for the three months ended June 30, 2000 has been reclassified to reflect this change. The reclassification has no effect on previously reported operating income or net income for the three months ended June 30, 2000.

See accompanying notes to consolidated financial statements.

HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (Continued)

REVIEW OF OPERATIONS BY SEGMENT  
(Unaudited)

(IN MILLIONS)

SIX MONTHS ENDED JUNE 30, 2001	INFRASTRUCTURE	MILL SERVICES	GAS AND FLUID CONTROL	S3NETWORKS LLC	GENERAL CORPORATE	CONSOLIDATED TOTALS
NET SALES TO UNAFFILIATED CUSTOMERS	\$ 440.9	\$ 368.3	\$ 249.2	\$ -	\$ -	\$1,058.4
OPERATING INCOME (LOSS)	\$ 31.5	\$ 40.1	\$ 14.4	\$ -	\$ (0.2)	\$ 85.8
EQUITY IN INCOME (LOSS) OF AFFILIATES, NET	0.8	0.1	-	(2.9)	-	(2.0)
INTEREST INCOME	0.3	2.0	0.1	-	-	2.4
INTEREST EXPENSE	(18.0)	(4.7)	(0.8)	-	(5.3)	(28.8)
INCOME TAX (EXPENSE) BENEFIT	(5.9)	(11.3)	(5.1)	1.0	1.2	(20.1)
MINORITY INTEREST IN NET INCOME	(0.1)	(2.4)	-	-	-	(2.5)
SEGMENT NET INCOME (LOSS)	\$ 8.6	\$ 23.8	\$ 8.6	\$ (1.9)	\$ (4.3)	\$ 34.8

SIX MONTHS ENDED JUNE 30, 2000	INFRASTRUCTURE	MILL SERVICES	GAS AND FLUID CONTROL	S3NETWORKS LLC	GENERAL CORPORATE	CONSOLIDATED TOTALS
Net sales to unaffiliated customers (1)	\$ 262.1	\$ 390.8	\$ 270.1	\$ -	\$ -	\$ 923.0
Operating income (loss)	\$ 23.3	\$ 47.0	\$ 21.8	\$ -	\$ (0.5)	\$ 91.6
Equity in income (loss) of affiliates, net	-	0.5	-	(0.9)	-	(0.4)
Interest income	0.2	2.1	0.1	-	-	2.4
Interest expense	(4.1)	(4.4)	(2.0)	-	(5.7)	(16.2)
Income tax (expense) benefit	(6.9)	(15.4)	(7.3)	0.3	2.2	(27.1)
Minority interest in net income	(0.1)	(1.8)	-	-	-	(1.9)
Segment net income (loss)	\$ 12.4	\$ 28.0	\$ 12.6	\$ (0.6)	\$ (4.0)	\$ 48.4

(1) In order to comply with Emerging Issues Task Force (EITF) Issue No. 00-10, all shipping and handling costs have been classified as cost of services sold or as cost of products sold rather than as reductions of sales. The income statement for the six months ended June 30, 2000 has been reclassified to reflect this change. The reclassification has no effect on previously reported operating income or net income for the six months ended June 30, 2000.

See accompanying notes to consolidated financial statements.

HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OPINION OF MANAGEMENT

Financial information furnished herein, which is unaudited, reflects in the opinion of management all adjustments (all of which are of a recurring nature) that are necessary to present a fair statement of the interim period. This unaudited interim information should be read in conjunction with the Company's annual Form 10-K filing for the year ended December 31, 2000.

INVENTORIES

(in thousands)	JUNE 30 2001	December 31 2000
Finished goods	\$ 75,558	\$ 68,519
Work-in-process	36,168	36,751
Raw materials and purchased parts	68,754	73,265
Stores and supplies	21,571	20,582
	\$ 202,051	\$ 199,117

COMMITMENTS AND CONTINGENCIES

Discontinued Defense Business - Contingencies

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

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

The settlement does not resolve the claim by the Internal Revenue Service ("IRS") that, contrary to the Company's position, certain cargo truck models sold by the Company should be considered to have gross vehicle weights in excess of the 33,000 pound threshold under FET law, are not entitled to an exemption from FET under any other theory, and therefore are

HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Continued)

taxable. In 1999, the IRS assessed an increase in FET of \$30.4 million plus penalties and applicable interest currently estimated to be \$12.4 million and \$56.7 million, respectively. In October 1999, the Company posted an \$80 million bond required as security by the IRS. This increase in FET takes into account offsetting credits of \$9.2 million, based on a partial allowance of the Company's \$31.9 million claim that certain truck components are exempt from FET. The IRS disallowed in full the Company's additional claim that it is entitled to the entire \$52 million of FET (plus applicable interest currently estimated by the Company to be \$51.4 million) the Company has paid on the five-ton trucks, on the grounds that such trucks qualify for the FET exemption applicable to certain vehicles specially designed for the primary function of off-highway transportation. In the event that the Company ultimately receives from the IRS a refund of tax (including applicable interest) with respect to which the Company has already received reimbursement from the Army, the refund would be allocated between the Company and the Army. In August 2000, the Company filed legal action against the Government in the U.S. Court of Federal Claims challenging the assessment and seeking a refund of all FET that the Company has paid on five-ton trucks. That action is proceeding. Although there is risk of an adverse outcome, both the Company and the Army believe that the cargo trucks are not taxable. No recognition has been given in the accompanying financial statements for the Company's claims with the IRS.

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

Even if the cargo trucks are ultimately held to be taxable, the Army's contribution of \$24.6 million toward payment of the tax (but not interest or penalty, if any), would result in a net maximum liability for the Company of \$5.8 million plus penalties and applicable interest currently estimated to be \$12.4 million and \$56.7 million, respectively. The Company believes it is unlikely that resolution of this matter will have a material adverse effect on the Company's financial position; however, it could have a material effect on quarterly or annual results of operations.

Environmental

The Company is involved in a number of environmental remediation investigations and clean-ups and, along with other companies, has been identified as a "potentially responsible party" for certain waste disposal sites. While each of these matters is subject to various uncertainties, it is probable that the Company will agree to make payments toward funding certain of these activities and it is possible that some of these matters will be decided unfavorably to the Company. The Company has evaluated its potential liability, and its financial exposure is dependent upon such factors as the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the allocation of cost among potentially responsible parties, the years of remedial activity

HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (Continued)

required and the remediation methods selected. The Consolidated Balance Sheet at June 30, 2001 and December 31, 2000 includes an accrual of \$3.2 million and \$3.5 million, respectively, for environmental matters. The amounts charged against pre-tax earnings related to environmental matters totaled \$0.6 million for the first six months of 2001, and \$1.2 million for the first six months of 2000.

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

**Other**

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

**FINANCIAL INSTRUMENTS AND HEDGING**

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

As of January 1, 2001, the company adopted the Financial Accounting Standards Board (FASB) Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). The cumulative effect adjustment as of January 1, 2001 was comprised of other comprehensive expense of \$33 thousand related to mark-to-market adjustments on derivatives in hedge relationships, and \$12 thousand of income related to mark-to-market adjustments on embedded derivatives recorded in current earnings. Principally all of the transition adjustment related to cash flow hedges included in other comprehensive income was reclassified into earnings in the first six months of 2001.

The Company executes foreign currency forward exchange contracts to hedge transactions of its non-U.S. subsidiaries for firm purchase commitments, to hedge variable cash flows of forecasted transactions and for export sales denominated in foreign currencies. These contracts generally are for 90 to 180 days or less. For those contracts that are designated as qualified cash flow hedges, gains or losses are recorded in other comprehensive income. Amounts recorded in other comprehensive income are reclassified into earnings in the same

HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
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ITEM 1. FINANCIAL STATEMENTS (Continued)

period or periods during which the hedged forecasted transaction affects earnings. The cash flows from these contracts are classified consistent with the cash flows from the transaction being hedged. The Company also enters into certain forward exchange contracts not designated as hedges under SFAS 133. Gains and losses on these contracts are recognized in income based on fair market value. For fair value hedges of a firm commitment, the gain or loss on the derivative and the offsetting loss or gain on the hedged firm commitment are recognized currently in income. As of June 30, 2001, the notional total of all forward exchange contracts amounted to \$6.3 million.

The Company has several hedges of net investment recorded in accordance with SFAS 133. In the first six months of 2001, the Company recorded a credit of \$2.0 million in the foreign currency translation adjustments line of other comprehensive income related to hedges of net investments.

RECONCILIATION OF BASIC AND DILUTED SHARES

(In thousands, except amounts per share)	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2001	2000	2001	2000
Net income	\$ 24,705	\$ 28,231	\$ 34,846	\$ 48,433
Average shares of common stock outstanding used to compute basic earnings per common share	39,828	39,964	39,818	39,989
Additional common shares to be issued assuming exercise of stock options, net of shares assumed reacquired	105	84	88	78
Shares used to compute dilutive effect of stock options	39,933	40,048	39,906	40,067
Basic earnings per common share	\$ .62	\$ .71	\$ .88	\$ 1.21
Diluted earnings per common share	\$ .62	\$ .70	\$ .87	\$ 1.21

NEW FINANCIAL ACCOUNTING STANDARDS ISSUED

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS 140), which replaced SFAS No. 125 (SFAS 125) with the same title. It revises the standards for securitizations and other transfers of financial assets and collateral and requires additional disclosures, but otherwise retains most of SFAS 125's provisions. The Company adopted SFAS 140 as of April 1, 2001. The implementation of SFAS 140 has not had a material effect on the Company's financial position or results of operations.

HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (Continued)

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" (SFAS 141), which supercedes Accounting Principles Board Opinion No. 16 "Business Combinations" (APB 16) and SFAS No. 38 "Accounting for Preacquisition Contingencies of Purchased Enterprises" (SFAS 38). It is expected that SFAS 141 will improve the transparency of the accounting and reporting for business combinations by requiring that all business combinations be accounted for under the purchase method. Use of the pooling-of-interests method is no longer permitted. The Company will adopt SFAS 141 in the third quarter of 2001. The adoption of SFAS 141 is not expected to have a material effect on the Company's financial position or results of operations since the Company does not use the pooling-of-interests method of accounting.

In July 2001, the FASB issued SFAS No. 142 "Goodwill and Other Intangible Assets" (SFAS 142), which supercedes APB No. 17 "Intangible Assets". SFAS 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. It is expected that this change will provide investors with greater transparency regarding the economic value of goodwill and its impact on earnings. The Company will adopt SFAS 142 effective January 1, 2002. The Company recognized \$6.2 million and \$8.1 million of goodwill amortization expense for the six months ended June 30, 2000 and 2001, respectively. These amounts are disclosed for informational purposes only and are not necessarily reflective of future reductions to amortization expense. The impact of adopting SFAS 142 has not yet been determined.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The standard is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. The Company has not yet determined the timing of adoption or the impact of SFAS 143.

## ACQUISITIONS

On June 16, 2000 the Company obtained majority ownership of SGB Group Plc ("SGB") and subsequently acquired 100% of the shares. SGB, based in the UK, is one of Europe's largest suppliers of scaffolding, forming and related access products and services. SGB also has operations in North America, the Middle East and the Asia-Pacific region. SGB had 1999 sales of 282.9 million British pounds sterling (approximately \$398.5 million using a June 30, 2001 exchange rate).

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

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ITEM 1. FINANCIAL STATEMENTS (Continued)

The purchase price of SGB has been allocated as follows:

(in millions)	
Working capital, other than cash	\$ 19.3
Property, plant and equipment	210.9
Other assets	45.3
Cost in excess of net assets acquired	130.2
Non-current liabilities	(133.8)
	-----
Purchase price, net of cash received	\$ 271.9
	=====

The following unaudited pro forma summary combines the consolidated results of operations of the Company and SGB as if the acquisition had occurred on January 1, 2000 for the six months ended June 30, 2000.

(in millions, except per share data)	
	PRO FORMA SIX MONTHS ENDED JUNE 30, 2000
Total revenues	\$1,123.9
Net income	41.5
Diluted earnings per share	\$1.04
	=====

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

The unaudited pro forma information includes the actual results of SGB prior to the acquisition date. These results do not reflect the effect of reorganization actions, synergies, cost reductions and other benefits resulting from the combination. Additionally, the unaudited pro forma information reflects amortization of the cost in excess of net assets acquired and interest expense on assumed borrowings for the acquisition for the full period presented.

DIVESTITURE

On April 13, 2001, the Company divested its 49% interest in S3Networks, LLC. In 2001 the Company recorded \$2.9 million of losses related to its investment in S3Networks. The divestiture will eliminate any future dilution to the Company's earnings as a result of S3Networks.

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This section focuses on material changes and presumes that the reader is familiar with the Company's annual Form 10-K filing for the year ended December 31, 2000.

LIQUIDITY AND CAPITAL RESOURCES

The major changes in liquidity and capital resources are as follows:

(DOLLARS ARE IN MILLIONS)	JUNE 30 2001	DECEMBER 31 2000	INCREASE/ (DECREASE)
Current assets	\$ 750.7	\$ 726.4	\$ 24.3
Current liabilities	503.5	536.2	(32.7)
Working capital	\$ 247.2	\$ 190.2	\$ 57.0
Current ratio	1.5:1	1.4:1	
Notes payable and current maturities	\$ 63.5	\$ 62.3	\$ 1.2
Long-term debt	769.3	774.4	(5.1)
Total debt	832.8	836.7	(3.9)
Total equity	667.8	674.2	(6.4)
Total capital	\$ 1,500.6	\$ 1,510.9	\$ (10.3)
Total debt to total capital	55.5%	55.4%	

A \$30.1 million decrease in debt was achieved in the second quarter of 2001, as compared to the first quarter of 2001. Debt reduction remains the principal strategic objective for the remainder of 2001. The Company's strategies for debt reduction include the sale of underperforming assets and a reduction in working capital and capital spending.

WORKING CAPITAL POSITION

The change in the Company's working capital position and current ratio during the first six months of 2001 is due principally to a reduction in accounts payable of \$35.9 million, and a \$23.1 million increase in receivables. Accounts payable decreases are due partially to the Company's exit of S3Networks. The Company had previously been obligated to invest an additional \$10.0 million in S3Networks which was cancelled as part of the divestiture. Accounts receivable increases are due to seasonal increases in sales, especially in the Infrastructure and Mill Services Segments when compared with December 2000.

CASH INVESTING AND FINANCING ACTIVITIES

The Company's debt as a percent of total capital increased slightly in the first six months of 2001 due to foreign currency translation adjustments of \$22.7 million that decreased equity. These currency adjustments were partially offset by an increase in retained earnings and a decrease in debt. The foreign currency translation adjustments were principally due to a 10% decrease in the translated value of the euro, a 6% decrease in the British pound sterling, a 15% decrease in the

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Brazilian real and a 6% decrease in the South African rand from December 31, 2000 to June 30, 2001.

Capital investments for the first six months of 2001 were \$77.9 million, down slightly from the first six months of 2000. This decrease was despite the inclusion in 2001 of capital investments by SGB which was acquired June 16, 2000. Excluding SGB, capital investments declined 26%. Investments were made predominantly for the services businesses.

The Company's history of strategic acquisitions, share repurchases and cash dividends, paid at the same or increased rates for the 204th consecutive quarter in May 2001, demonstrate the Company's continued commitment to creating value through strategic investments and return of capital to shareholders. Additionally, the Company declared a 24 cents per share dividend in June 2001, to shareholders of record July 16, 2001, payable August 15, 2001.

In the first six months of 2001, the Company realized \$17.6 million in cash from asset sales and sales of businesses. This represents significant progress on the Company's strategic goal of producing substantial cash flows from the sale of underperforming assets.

SIX MONTH FINANCIAL STATISTICS

	FOR THE PERIOD ENDED JUNE 30 2001	FOR THE PERIOD ENDED JUNE 30 2000
Harsco stock price high-low	\$29.25 - \$23.60	\$31.63 - \$24.00
Annualized return on average equity	10.4%	14.9%
Annualized return on average assets	8.0%	10.7%
Annualized return on average capital	7.0%	9.8%

The Company's lower annualized return on average equity was due principally to lower income in the first six months of 2001 compared with the first six months of 2000. Lower annualized returns on average assets and capital were due to the combination of lower income and the increased assets and capital related to the SGB acquisition. SGB's operating income has historically peaked in the third and fourth quarters. The company's book value per share decreased to \$16.76 per share at June 30, 2001 from \$16.94 at December 31, 2000 due principally to a decrease in equity related to foreign currency translation adjustments recorded as part of accumulated other comprehensive expense.

In the first quarter of 2001, the Company engaged Stern Stewart & Co. to assist in the implementation of the Economic Value Added (EVA(R)) measurement and management system. Significant progress was made in the second quarter toward implementation of EVA(R). Training is underway within all operations of the Company, new EVA(R)-based financial models are being implemented, and an EVA(R) incentive compensation plan is being developed to begin January 1, 2002. These efforts are expected to generate improved returns on invested capital in future periods.

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CASH FROM OPERATING ACTIVITIES

(In millions)	FOR THE SIX MONTHS ENDED JUNE 30 2001	FOR THE SIX MONTHS ENDED JUNE 30 2000
-----		
Net cash provided by operating activities:	\$67.6	\$91.7

Operating cash flows were \$24.1 million less in the first six months of 2001 than the first six months of 2000. The decrease in cash from operating activities was due principally to the timing of receipts and payments for accounts receivable and accounts payable, causing a decrease in cash flows of \$37.2 million and \$17.1 million, respectively, from the first six months of 2000. In the second quarter of 2000, the Infrastructure Segment had unusually high collections on some very large orders which significantly improved cash flows. On a comparative basis, this negatively impacted the first six months of 2001 cash flows by \$15.1 million. These decreases were partially offset by increased cash flows resulting from the Company's timing of payments for inventories. Looking to the second half of 2001, the Company expects cash provided by operating activities to improve based on historically strong increases during that period.

CREDIT AND EQUITY FINANCING FACILITIES

The Company has a revolving credit facility in the amount of \$350 million through a syndicate of 13 banks. This facility serves as back-up to the Company's commercial paper programs. The facility is in two parts. One part amounts to \$131,250,000 and is a 364-day credit agreement that permits borrowings outstanding at expiration to be repaid no later than September 28, 2002. The second part is for \$218,750,000 and is a 5-year credit agreement that expires on September 29, 2005 at which time all borrowings are due. The first part of the facility is expected to be renegotiated in the third quarter of 2001 to extend the expiration date. As of June 30, 2001 there were no borrowings outstanding under this facility.

In the first quarter of 2001, the Company executed two \$50 million bilateral credit facility agreements with European-based banks. These agreements serve as back-up to the Company's commercial paper programs and also help finance the Company's European operations. Borrowings under these facilities, which expire in December 2001 and January 2002, are available in Eurocurrencies or U.S. dollars at interest rates based upon LIBOR plus a margin. Borrowings outstanding at expiration may be repaid over the succeeding 4 years. As of June 30, 2001 there was \$12.1 million outstanding on these credit facilities.

The Company has a U.S. commercial paper borrowing program under which it can issue up to \$350 million of short-term notes in the U.S. commercial paper market. In addition, the Company has a three billion Belgian franc commercial paper program, equivalent to approximately U.S. \$63 million at June 30, 2001. In June 2001, the Company supplemented its Belgian franc commercial paper program by adding a 250 million euro program, equivalent to approximately U.S. \$211 million at June 30, 2001. The new program was established in London through the offices of the Royal Bank of Scotland plc and Citibank International plc. The program is expected to lower the Company's cost of borrowing and will replace existing sources of credit. The program has been assigned an A-2 rating by Standard & Poor's and a P-2 rating from Moody's Investors Service,

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consistent with the ratings assigned to Harsco's US-based commercial paper program. The European-based programs provide the capacity for the Company to borrow euros and British pounds to fund its European operations more efficiently.

The Company limits the aggregate commercial paper, syndicated credit facility and bilateral facilities borrowings at any one time to a maximum of \$450 million. At June 30, 2001, the Company had \$237.8 million of U.S. commercial paper debt outstanding, and \$60.3 million outstanding under its European-based programs.

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

CREDIT RATINGS AND OUTLOOK

The Company's outstanding long-term notes are rated A- by Standard & Poor's, A- by Fitch and A-3 by Moody's. The Company's commercial paper is rated A-2 by Standard & Poor's, F-2 by Fitch and P-2 by Moody's.

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

RESULTS OF OPERATIONS

SECOND QUARTER OF 2001 COMPARED WITH SECOND QUARTER OF 2000

(DOLLARS ARE IN MILLIONS, EXCEPT PER SHARE)	2001	2000	AMOUNT INCREASE (DECREASE)	PERCENT INCREASE (DECREASE)
-----	----	----	-----	-----
Revenues	\$532.3	\$465.8	\$66.5	14%
Cost of services and products sold	398.5	356.1	42.4	12
Selling, general and administrative expenses	79.9	56.3	23.6	42
Operating income	53.0	52.7	0.3	1
Provision for income taxes	14.0	15.6	(1.6)	(10)
Net income	24.7	28.2	(3.5)	(12)
Diluted earnings per common share	.62	.70	(.08)	(11)

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COMPARATIVE ANALYSIS OF RESULTS

REVENUES

Second quarter 2001 revenues were up 14% from last year's comparable period to a record level. This is attributable to the Company's SGB scaffolding and access service business that was acquired in June 2000. This increase was augmented by increased rentals in the existing domestic scaffolding services business. Additionally, sales of grating products and process equipment increased, while sales for certain product lines of the Gas and Fluid Control and Mill Services Segments decreased. Adjusting for the unfavorable effect of foreign currency translation, sales would have increased 17%.

COST OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Costs of services and products sold increased but at a lower rate than the increase in total revenues, despite the continued impact of increased energy costs. Selling, general and administrative expenses increased due to the Company's acquisition of SGB in June of 2000. The Mill Services Segment recorded increased provisions for uncollectible accounts receivable as several customers in the steel industry have experienced financial difficulties and have filed for bankruptcy protection. Additionally, on a comparative basis, bad debt expense increased in the Infrastructure Segment due principally to a collection of a previously written-off receivable in 2000.

Excluding the effects of business acquisitions less divestitures of non-core business, selling, general and administrative expenses for the second quarter of 2001 approximated the second quarter of 2000. The Company's continued cost reduction, process improvement and reorganization efforts continue to contribute towards slowing the rate of growth of these costs.

OPERATING INCOME

The increase in operating income is attributable to the Company's acquisition of SGB, and the railway maintenance-of-way and domestic scaffolding access businesses. The strong performance of these businesses was negatively impacted by an economic slowdown in the United States that began in the second half of 2000. This has resulted in reduced demand for manufactured products of the Infrastructure and the Gas and Fluid Control Segments and lower steel production in North America affecting the Mill Services Segment. Additionally, an increase of \$2.6 million in provisions for uncollectible accounts receivable, unfavorable foreign currency translation and higher energy costs affected results in all three segments.

PROVISION FOR INCOME TAXES

The effective income tax rate for both the second quarter of 2001 and 2000 was 35%.

NET INCOME

Net income for the second quarter of 2001 was below last year's comparable period despite record sales and increased operating income. This is principally due to interest expense of \$14.3 million, an increase of \$5.6 million over last year's comparable period. Interest expense on the acquisition of SGB is principally responsible for this increase. However, SGB was accretive to earnings in the quarter.

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SEGMENT ANALYSIS

INFRASTRUCTURE SEGMENT  (DOLLARS ARE IN MILLIONS) -----	THREE MONTHS ENDED JUNE 30 -----		AMOUNT INCREASE -----	PERCENT INCREASE -----
	2001 ----	2000 ----		
Sales	\$225.8	\$138.3	\$87.5	63%
Operating income	23.3	14.5	8.8	61
Segment net income	8.7	7.8	0.9	12

The significant quarter-over-quarter sales increase for the Infrastructure Segment results primarily from the June 2000 acquisition of SGB. This increase was augmented by increased rentals in the existing domestic scaffolding services business.

Operating income increases are attributable to strong performances by all business units with the exception of industrial grating. The domestic and international scaffolding and access businesses experienced strong demand for their services during the quarter. Improved performance of the railway maintenance-of-way business resulted from increased international orders, a higher level of contract services, and lower operating expenses due to stringent cost controls. Increased provisions for uncollectible accounts of \$1.3 million impacted operating income as well.

The strong performances noted above were impacted by higher interest expense resulting from the financing of the SGB acquisition. This reduced net income for 2001 compared to 2000.

MILL SERVICES SEGMENT  (DOLLARS ARE IN MILLIONS) -----	THREE MONTHS ENDED JUNE 30 -----		AMOUNT (DECREASE) -----	PERCENT (DECREASE) -----
	2001 ----	2000 ----		
Sales	\$185.2	\$197.3	\$(12.1)	(6)%
Operating income	21.6	27.2	(5.6)	(21)
Segment net income	12.7	16.8	(4.1)	(24)

Despite strong international results, second quarter sales, operating income, and net income of the Mill Services Segment continued to be negatively impacted by foreign currency translation, difficult market conditions and reduced steel mill production in North America. The difficult market condition in North America contributed to customer financial difficulties that resulted in additional provisions for uncollectible accounts receivable of \$1.2 million compared to the second quarter 2000. The effect of foreign currency translation reduced sales and operating income by approximately \$11.4 million and \$1.3 million, respectively.

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GAS AND FLUID CONTROL SEGMENT  (DOLLARS ARE IN MILLIONS) -----	THREE MONTHS ENDED JUNE 30 -----		AMOUNT (DECREASE) -----	PERCENT (DECREASE) -----
	2001 ----	2000 ----		
Sales	\$121.2	\$130.0	\$(8.8)	(7)%
Operating income	8.1	10.7	(2.6)	(24)
Segment net income	5.0	6.2	(1.2)	(19)

Sales, operating income, and net income of the Gas and Fluid Control Segment continued to be negatively impacted by soft market conditions affecting demand for all manufactured products including most gas control and containment equipment product lines. This declining demand is partially offset by increased demand for heat exchangers and cylinders for natural gas vehicles.

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SERVICES AND ENGINEERED PRODUCTS ANALYSIS

In addition to the segment reporting previously presented, the Company is a diversified industrial services and engineered products company. The Company is committed towards increasing its presence and strategic growth in services-related businesses. This is evidenced by the June 2000 acquisition of SGB, which is principally a services business. The acquisitions of Scafform Ltd. and Mastclimbers Ltd. in May 2001 have also increased the Company's service revenue base. Sales and operating income for the second quarter of 2001 and 2000 are presented in the following table:

(DOLLARS ARE IN MILLIONS)	THREE MONTHS ENDED JUNE 30, 2001		THREE MONTHS ENDED JUNE 30, 2000	
	AMOUNT -----	PERCENT -----	AMOUNT -----	PERCENT -----
SALES -----				
Services	\$332.2	62%	\$256.3	55%
Engineered products	200.0 -----	38 -----	209.2 -----	45 ---
Total sales	\$532.2 =====	100% ===	\$465.5 =====	100% ===
OPERATING INCOME -----				
Services	\$ 37.1	70%	\$ 33.6	64%
Engineered products	15.9 -----	30 -----	18.8 -----	36 ---
Total segment operating income	\$ 53.0 =====	100% =====	\$ 52.4 =====	100% ===
EBITDA* -----				
Services	\$ 73.4	75%	\$ 61.4	70%
Engineered products	23.9 -----	25 -----	26.2 -----	30 -----
Total segment EBITDA	\$ 97.3 =====	100% =====	\$ 87.6 =====	100% =====

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

Second quarter 2001 sales, operating income and EBITDA for services increased substantially from the comparable period in 2000. The increases reflect principally the SGB acquisition and the favorable effects of cost reductions, process improvements and reorganization efforts.

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RESULTS OF OPERATIONS

SIX MONTHS OF 2001 COMPARED WITH SIX MONTHS OF 2000

(DOLLARS ARE IN MILLIONS, EXCEPT PER SHARE) -----	2001 ----	2000 ----	AMOUNT INCREASE (DECREASE) -----	PERCENT INCREASE (DECREASE) -----
Revenues	\$1,059.0	\$923.5	\$135.5	15%
Cost of services and products sold	804.3	718.9	85.4	12
Selling, general and administrative expenses	163.3	110.1	53.2	48
Other Expenses	4.0	(0.3)	4.3	1,433
Operating income	85.8	91.7	(5.9)	(6)
Equity in (loss) of affiliates	(2.0)	(0.4)	(1.6)	400
Provision for income taxes	20.1	27.1	(7.0)	(26)
Net income	34.8	48.4	(13.6)	(28)
Diluted earnings per common share	.87	1.21	(.34)	(28)

COMPARATIVE ANALYSIS OF RESULTS

REVENUES

Revenues for the first six months of 2001 were up 15% from last year's comparable period due to the SGB acquisition. In addition, higher sales were also recorded for other access services and products as well as process equipment. These increases were somewhat offset by decreases in certain product lines of the Gas and Fluid Control and Mill Services Segments. Adjusting for the unfavorable effect of foreign currency translation, sales would have increased 17%.

COST OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Cost of services and products sold increased but at a lower rate than the increase in total revenues despite an increase in energy costs. Selling, general and administrative expenses increased due principally to the costs related to acquired companies, but also included increased provisions for uncollectible accounts receivable, particularly in the Mill Services Segment where several customers in the steel industry have experienced financial difficulties.

Excluding the effects of business acquisitions less divestitures of non-core business, selling, general and administrative expenses decreased approximately 2%. The Company's continuing cost reduction, process improvement and reorganization efforts continue to contribute towards slowing the rate of growth of these costs.

OTHER EXPENSE (INCOME)

The Company incurred \$4.0 million of net other expense in the first six months of 2001 compared to a net \$0.3 million of income in the first six months of 2000. This income statement classification principally includes employee termination benefits costs, impaired asset write-downs, and costs to exit activities, partially offset by net gains on the disposal of non-core assets.

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Expenses for the first six months of 2001 include \$4.1 million of employee termination benefits expense principally in the Mill Services and Infrastructure Segments related to operations in the United States and Germany. Additionally, \$1.5 million of expense was incurred in the first six months of 2001 due to impaired asset write-downs. Finally, \$1.3 million of costs to exit activities were incurred in the period. These expenses were offset by gains of \$2.9 million, principally from the sales of non-core assets in the United States, resulting in a net \$4.0 million expense.

In the first six months of 2000, \$2.4 million of gains on the disposal of two non-core businesses and certain redundant assets more than offset other expenses.

Employee termination benefits costs consist principally of severance arrangements to employees terminated as a result of management reorganization actions. Under these reorganization actions, the Company and its management have established and approved specific plans of termination. The affected employees have been notified prior to recognition of related provisions. The following tables provide details related to reorganization actions:

EMPLOYEE TERMINATION BENEFITS COSTS AND PAYMENTS

(In millions)	SUMMARY OF ACTIVITY				
	2001		2000		1999 AND 1998
	SIX MONTHS ENDING JUNE 30	SIX MONTHS ENDING JUNE 30	JULY 1 - DEC 31		
Original reorganization action period:					
Employee termination benefits expense:	\$ 4.1	\$ 1.2	\$ 2.7	\$ 9.4	
Disbursements:(1)					
In 1998 and 1999	-	-	-	(7.5)	
In January - June 2000	-	(1.2)	-	(0.7)	
In July - December 2000	-	-	(2.1)	(0.3)	
In 2001	(2.9)	-	(0.7)	(0.1)	
Total disbursements:	(2.9)	(1.2)	(2.8)	(8.6)	
Other:	-	-	0.3	(0.8)	
Remaining payments as of June 30, 2001(2):	\$ 1.2	\$ -	\$ 0.2	\$ -	

(1) Disbursements are categorized according to the original reorganization action period to which they relate (2001, 2000, or prior to 2000).

(2) Remaining payments are categorized according to the original reorganization action period to which they relate (2001 or 2000).

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EMPLOYEE TERMINATIONS - NUMBER OF EMPLOYEES

	SUMMARY OF ACTIVITY			1999 AND 1998
	2001 SIX MONTHS ENDING JUNE 30	2000 SIX MONTHS ENDING JUNE 30	JULY 1 - DEC 31	
Original reorganization action period:				
Employees affected by reorganization actions:	418	72	222	890
Employee Terminations:				
In 1998 and 1999	-	-	-	(873)
In January - June 2000	-	(66)	-	(31)
In July - December 2000	-	(6)	(210)	(9)
In 2001	(372)	-	(12)	(3)
Total terminations:	(372)	(72)	(222)	(916)
Other:	-	-	-	26
Remaining terminations as of June 30, 2001:	46	-	-	-

OPERATING INCOME

Operating income for the second quarter of 2001 improved significantly over the first quarter of 2001; nonetheless, year-to-date operating income for 2001 is below 2000. An economic slowdown in the United States that began in the second half of 2000 adversely affected results in the first six months of 2001. This resulted in reduced demand for the Company's manufactured products of the Infrastructure and the Gas and Fluid Control Segments and lower steel production in North America affecting the Mill Services Segment.

A strong performance from the Company's international operations, which accounted for 48% of the Company's sales but approximately 58% of operating earnings in the first six months of 2001, favorably impacted results in 2001. In last year's comparable period, only 41% of the Company's operating income was from international operations. Strong international Mill Services Segment performance partially offset the effects of services volume decreases resulting from reduced steel mill capacity utilization in North America. The Company's strategic diversification decisions to expand its international presence and reduce its exposure to the United States economic environment were affirmed in the first six months of 2001.

Pre-tax charges of \$6.9 million for reorganization, asset write-downs, and costs to exit activities and \$4.9 million in provisions for uncollectible accounts receivable impacted operating income during the 2001 period. Additionally, unfavorable foreign currency translation and higher energy costs affected results in all three segments, as compared to 2000.

EQUITY IN LOSS OF AFFILIATES

Equity in loss of affiliates increased from \$0.4 million in the first six months of 2000 to a loss of \$2.0 million in the first six months of 2001. This includes \$2.9 million of pre-tax losses (\$1.9 million net of income taxes) associated with the Company's S3Networks investment, which the Company exited in April 2001.

PROVISION FOR INCOME TAXES

The effective income tax rate for the first six months of 2001 and 2000 was 35%.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

NET INCOME AND EARNINGS PER SHARE

Net income and earnings per share for the first six months of 2001 were below last year's comparable period despite increased revenues. This was primarily due to interest expense being significantly higher than the 2000 comparable period due to additional borrowings principally as a result of the SGB acquisition. However, SGB was accretive to earnings in the period. Increased interest rates also contributed to the increase in interest expense.

SEGMENT ANALYSIS

INFRASTRUCTURE SEGMENT

(DOLLARS ARE IN MILLIONS)	SIX MONTHS ENDED JUNE 30		AMOUNT INCREASE (DECREASE)	PERCENT INCREASE (DECREASE)
	2001	2000		
Sales	\$440.9	\$262.1	\$178.8	68%
Operating income	31.5	23.3	8.2	35
Segment net income	8.6	12.4	(3.8)	(31)

The significant increase in sales for the Infrastructure Segment results from the June 2000 acquisition of SGB. This was partially offset by a decrease in sales of railway track maintenance-of-way equipment and repair parts as well as industrial grating which reflected lower capital spending by United States railroads and reduced manufacturing activity in the United States, respectively.

Operating income of the Infrastructure Segment also increased significantly. This was due to higher income from the rentals and sales of scaffolding and other access products due principally to the SGB acquisition. SGB's operating income is seasonal in nature and has historically peaked in the third and fourth quarters. Lower income for railway track maintenance-of-way equipment and repair parts, an operating loss for grating compared with a profit in 2000 and increased charges of \$0.8 million for facilities discontinuance and reorganization, mainly in the railway track maintenance-of-way equipment and services product line, partially offset the increase in operating income. Additionally an increase of \$2.6 million of provisions for uncollectible accounts receivable impacted operating income.

The decrease in net income was due to higher interest expense resulting from financing the SGB acquisition.

HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS (Continued)

MILL SERVICES SEGMENT

(DOLLARS ARE IN MILLIONS)	SIX MONTHS ENDED JUNE 30		AMOUNT (DECREASE)	PERCENT (DECREASE)
	2001	2000		
Sales	\$368.3	\$390.8	\$(22.5)	(6)%
Operating income	40.1	47.0	(6.9)	(15)
Segment net income	23.8	28.0	(4.2)	(15)

Excluding the unfavorable effect of foreign currency translation, 2001 sales of the Mill Services Segment would have slightly increased over the 2000 comparable period.

Operating income for the first six months of 2001 of the Mill Services Segment decreased principally due to lower income in United States and due to the effects of foreign currency translation. Excluding the unfavorable effect of foreign currency translation, operating income in the Mill Services Segment would have decreased only 7%. The strong performance from the Company's international mill services operations partially mitigated the unfavorable effects of reduced steel mill production and its impact on capacity utilization at many mills in North America. This adversely affected the volume of services provided by the Company. This also contributed to customer financial difficulties that resulted in an increase of \$2.9 million in provisions for uncollectible accounts receivable during the 2001 period including amounts for customers in the United States who have filed for bankruptcy protection. Additionally, operating income was negatively impacted by \$2.6 million of increased charges for reorganization, asset write-downs and facilities discontinuance.

Net income of the Mill Services Segment was below the comparable period in 2000 due to the factors previously mentioned.

GAS AND FLUID CONTROL SEGMENT

(DOLLARS ARE IN MILLIONS)	SIX MONTHS ENDED JUNE 30		AMOUNT (DECREASE)	PERCENT (DECREASE)
	2001	2000		
Sales	\$249.2	\$270.1	\$(20.9)	(8)%
Operating income	14.4	21.8	(7.4)	(34)
Segment net income	8.6	12.6	(4.0)	(32)

In the first six months of 2001, sales, operating income and net income of the Gas and Fluid Control Segment were below 2000's comparable period due to soft manufacturing sector market conditions, primarily in the United States, affecting demand for most gas control and containment equipment product lines. Additionally, operating income was negatively impacted by \$1.2 million of increased charges for facilities discontinuance and reorganization. Higher income for heat exchangers reflected improvement in the gas and oil exploration industry.

HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS (Continued)

SERVICES AND ENGINEERED PRODUCTS ANALYSIS

The Company is a diversified services and engineered products company. The Company is committed to increasing its presence and strategic growth in services-related businesses. This is evidenced by the service business acquisitions of SGB and Bergslagens in the first half of 2000 and Scafform Ltd. and Mastclimbers Ltd. in May of 2001.

(DOLLARS ARE IN MILLIONS)	SIX MONTHS ENDED JUNE 30, 2001		SIX MONTHS ENDED JUNE 30, 2000	
	AMOUNT -----	PERCENT -----	AMOUNT -----	PERCENT -----
SALES -----				
Services	\$ 657.2	62%	\$487.6	53%
Engineered products	401.2	38	435.4	47
	-----	-----	-----	---
Total sales	\$ 1,058.4	100%	\$ 923.0	100%
	=====	=====	=====	=====
OPERATING INCOME -----				
Services	\$ 63.7	74%	\$ 56.5	61%
Engineered products	22.3	26	35.7	39
	-----	-----	-----	-----
Total segment operating income	\$ 86.0	100%	\$ 92.2	100%
	=====	=====	=====	=====
EBITDA* -----				
Services	\$ 134.9	78%	\$ 111.5	69%
Engineered products	38.7	22%	51.0	31
	-----	-----	-----	-----
Total segment EBITDA	\$ 173.6	100%	\$ 162.5	100%
	=====	=====	=====	=====

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

For the first six months of 2001 sales, operating income and EBITDA for services increased substantially from the first six months of 2000. The increases reflect principally the SGB acquisition, as well as improvement in certain international markets served by the company and the favorable effects of cost reductions, process improvements and reorganization efforts.

Decreases for engineered products result from the previously discussed economic slowdown in the United States.

HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS (Continued)

FORWARD LOOKING STATEMENTS

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

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

HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART I - FINANCIAL INFORMATION

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to foreign currency risk in its international operations. The Company conducts business in 40 countries and approximately 42%, 36%, and 37% of the Company's net revenues for the years ended December 31, 2000, 1999, and 1998, respectively, were derived from the Company's operations outside the United States. In the first six months of 2001, the following significant currency decreases in relation to the U.S. dollar impacted the Company:

Brazilian real	Declined 15%
euro	Declined 10%
British pound sterling	Declined 6%
South African rand	Declined 6%

These and other foreign currency exposures increase the risk of income statement, balance sheet and cash flow volatility.

To illustrate the effect of foreign currency exchange rate changes due to the strengthening of the U.S. dollar, in the first six months of 2001, sales would have been approximately 2.5% or \$25.9 million greater using the average exchange rates for the first six months of 2000. A similar comparison for the year 2000 shows that sales would have increased by approximately 1.7% if the average exchange rates for 1999 had remained the same in 2000.

The Company seeks to reduce exposures to foreign currency fluctuations through the use of forward exchange contracts. At June 30, 2001, these contracts amounted to \$6.3 million and all mature within 2001. The Company does not hold or issue financial instruments for trading purposes, and it is the Company's policy to prohibit the use of derivatives for speculative purposes.

The Company's cash flows and earnings are subject to changes in interest rates. Total debt of \$832.8 million as of June 30, 2001 was approximately 54.9% at fixed rates of interest. The weighted average interest rate of total debt was approximately 5.8%. At current debt levels a one-percentage increase/decrease in interest rates would increase/decrease interest expense by approximately \$3.8 million per year.

An economic slowdown in the United States that began in the second half of 2000 continued to adversely affect results in the first six months of 2001. This resulted in reduced demand for the Company's manufactured products and mill services in North America. Certain steel producers, including certain Company customers, have been forced to file for bankruptcy protection. There is a risk that the Company's future results of operations or financial condition could be adversely affected if the United States steel industry and manufacturing sector problems continue. This risk is somewhat mitigated since approximately 80% of the Company's mill services sales are generated outside the United States. The future financial impact on the Company associated with these risks cannot be estimated.

HARSCO CORPORATION AND SUBSIDIARY COMPANIES  
PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information on legal proceedings is included under Part I, Item 1., the section labeled "Commitments and Contingencies."

ITEM 5. OTHER INFORMATION

DIVIDEND INFORMATION

On June 26, 2001, the Board of Directors declared a quarterly cash dividend of 24 cents per share, payable August 15, 2001, to shareholders of record on July 16, 2001.

ITEM 6(a). EXHIBITS

The following exhibits are attached:

Exhibit No. 10(a) Harsco Corporation Deferred Compensation Plan for Non-Employee Directors as Amended and Restated June 26, 2001.

Exhibit No. 10(b) Commercial Paper Dealer Agreement Dated June 7, 2001, Between Citibank International plc, National Westminster Bank plc, The Royal Bank of Scotland plc and Harsco Finance B.V.

ITEM 6(b). REPORTS ON FORM 8-K

There were no reports filed on Form 8-K during the second quarter ending June 30, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HARSCO CORPORATION

-----  
(Registrant)

DATE August 13, 2001  
-----

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

DATE August 13, 2001  
-----

/S/ Stephen J. Schnoor  
-----  
Stephen J. Schnoor  
Vice President and Controller

## HARSCO CORPORATION

DEFERRED COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS  
(AS AMENDED AND RESTATED JUNE 26, 2001)

Harsco Corporation (the "Corporation") hereby adopts this Deferred Compensation Plan for Non-Employee Directors (the "Plan") pursuant to which eligible members of its Board of Directors may elect to defer receipt of all or any portion of the compensation payable to them for services rendered to the Corporation as Directors.

1. Eligible Directors. The Directors of the Corporation eligible to make deferral elections under this Plan shall be those Directors who are not actively employed officers or employees of the Corporation or of any of its subsidiaries or affiliates (hereinafter referred to individually as a "Non-Employee Director" and collectively as the "Non-Employee Directors").

2. Deferrable Compensation. A Non-Employee Director may elect to defer receipt of all, any part or none of the aggregate compensation payable by the Corporation for services rendered as a Director, including the annual base retainer, Committee Chairman annual retainer increment, attendance fees for board and committee meetings, and other fees for special services (in the aggregate, the "Director's Fees").

3. Election to Defer. A Non-Employee Director who desires to defer receipt of all or a portion of his Director's Fees in any calendar quarter shall so notify the Corporation's Pension Committee in writing before the first day of the calendar quarter, specifying on a form supplied by the Committee (a) the dollar amount or percentage of the Director's Fees to be deferred, (b) the deferral period, (c) the form of payment, and (d) the notional investment direction. Elections to take effect with respect to the initial year of this Plan may be made by Non-Employee Directors until the first regularly scheduled Board of Directors meeting in 1995. A newly-appointed Non-Employee Director shall be eligible to defer payment of future Director's Fees by so notifying the

Pension Committee on the appropriate form at any time within 30 days of his appointment to the Board of Directors. The elections made pursuant to this Paragraph shall be irrevocable with respect to those Director's Fees to which such elections pertain and shall also apply to Director's Fees payable in subsequent quarterly periods unless the Non-Employee Director notifies the Pension Committee in writing, before the first day of the calendar quarter, that different elections shall apply with respect to Director's Fees payable during such calendar quarter. Such new elections shall likewise continue in effect and apply to subsequent calendar quarters until similarly changed.

4. Non-Deferred Compensation. Any Director's Fees not deferred under this Plan shall be paid in accordance with normal Corporation policy.

5. Deferred Compensation Accounts and Notional Investment Directions.

(a) Accounts: At the time a Non-Employee Director elects to defer the receipt of compensation pursuant to Paragraph 3 above, he shall also direct the amount of the deferral to be notionally invested in an Interest-Bearing Account and the amount to be notionally invested in a Harsco Stock Account. Pursuant to such investment direction, the deferral amounts shall be credited to the appropriate accounts as set forth below:

(i) Interest-Bearing Account: To the extent that a Non-Employee Director elects a notional investment in an Interest-Bearing Account, the Corporation shall, on the business day the Director's Fees would have been paid absent the deferral election, credit an Interest-Bearing Account established in his name with the amount of the deferred Director's Fees to be so invested.

(ii) Harsco Stock Account: To the extent that a Non-Employee Director elects a notional investment in a Harsco Stock Account, the Corporation shall, on the business day the Director's Fees would have been paid absent the deferral election, credit a Harsco Stock Account established in his name with units (including

fractions), the number of which shall be obtained by dividing the amount of the deferred Director's Fees to be so invested by the Fair Market Value of the Corporation's common stock. These units, thus calculated, are hereinafter referred to as "Stock Equivalents." For purposes of the Plan, Fair Market Value of a share of the Corporation's common stock on any date shall be equal to the mean between the high and low prices at which such shares were traded on the New York Stock Exchange ("NYSE") on such date, or, if no sales were quoted on such date, on the most recent preceding date on which sales were quoted. In the event of any change in the common stock of the Corporation by reason of any stock dividend, recapitalization, reorganization, merger, consolidation, split-up, combination or exchange of shares, or a rights offering to purchase common stock at a price substantially below Fair Market Value, or of any similar change affecting the common stock, the value and attributes of each Stock Equivalent shall be appropriately adjusted consistent with such change to the same extent as if such Stock Equivalents were issued and outstanding shares of common stock of the Corporation.

(b) Earnings: The Corporation shall credit earnings to each account as follows:

(i) Interest-Bearing Account: As of the last day of each calendar month, the Corporation shall credit as earnings to each Interest-Bearing Account established on behalf of a Non-Employee Director an amount equal to the Five Year U.S. Treasury Note Percentage Rate multiplied by the average daily balance in such Interest-Bearing Account during such calendar month. Such Five Year U.S. Treasury Note Percentage Rate shall be equal to one twelfth (1/12) of the yield on U.S. Treasury Notes having a maturity date five (5) years hence as listed in The Wall Street Journal or any successor publication, as of market closing on the first day of the calendar quarter which includes that month.

(ii) Harsco Stock Account: As of each quarterly dividend payment date, the Corporation shall credit as earnings to each Harsco Stock Account an amount equal to the cash dividends payable on such date with respect to that number of shares

(including fractional shares) of its common stock equal to the number of Stock Equivalents credited to the Harsco Stock Account on the relevant dividend record date. The amount so credited shall then be converted into additional Stock Equivalents in the manner described earlier using the dividend payment date as the valuation date.

(c) Account Transfers: A Non-Employee Director may transfer all or part of the amount in one account to the other account by irrevocable written notice to the Corporation's Pension Committee. Any such transfer will be effective upon the date that the Corporation receives the written notice, and the value of the Harsco Stock Account for purposes of the transfer shall be calculated using the Fair Market Value on the date of the transfer. No Non-Employee Director, may make a transfer between accounts within six months of any previous transfer by such Director or within six months of any other transaction in Company stock that could cause liability under Section 16(b) of the Securities and Exchange Act of 1934, and any notice of transfer in contravention of this provision will be void.

6. Deferral Period. At the time a Non-Employee Director elects to defer the receipt of compensation pursuant to Paragraph 3 above, he shall indicate the deferral period applicable to such deferred compensation by specifying the year (the "Payment Year") in which the deferred amounts are to be paid in a lump sum or in which installment payments shall commence; provided, however, that in no event shall the Payment Year be later than the year following the year in which the Non-Employee Director will attain age 72.

7. Form of Payment of Deferred Compensation. Initial payments made under the Plan shall be based upon the aggregate balance in a Non-Employee Director's account(s) determined on the first business day of the Payment Year. The balance in the Non-Employee Director's Interest-Bearing Account shall be the dollar amount credited to such account as of the first business day of the Payment Year. The balance in the Non-Employee Director's Stock Account shall be the dollar amount determined by multiplying the Stock Equivalents credited to such account on the first

business day of the Payment Year by the Fair Market Value of a share of common stock of the Corporation on such date. The aggregate balance as thus determined shall be paid to him in cash either in a lump sum within 30 days following the first business day of the Payment Year or in up to ten (10) annual installments commencing with the Payment Year as specified in the election to defer made pursuant to Paragraph 3 above. If an election to receive installment payments is made, the Non-Employee Director shall receive the first installment within 30 days following the first business day of the Payment Year in an amount equal to the aggregate balance in his account(s) divided by the number of years in the installment payment period. Subsequent installments shall be computed and paid in similar fashion; provided, however, that pending distributions in the second through final years of the installment payment period, the aggregate balance in the Non-Employee Director's account(s) shall be deemed to be invested in an Interest-Bearing Account and in a Harsco Stock Account, as applicable, in the same proportion as deferred amounts under the Plan were notionally invested on the first business day of the Payment Year, and increased by earnings accordingly. Exhibit A attached hereto presents an example illustrating how such a calculation is made.

8. Early Withdrawal.

(a) In the event of an "Early Withdrawal", all or part of the amounts credited to the account(s) of a Non-Employee Director under the Plan, net of the forfeited amount described in (c) below, shall be payable to the Non-Employee Director in a single lump sum notwithstanding the deferral period and form of payment specified pursuant to Paragraph 3 above.

(b) For purposes of the Plan, an "Early Withdrawal" shall have occurred if:

(i) Written Notice: A Non-Employee Director notifies the Corporation's Pension committee in writing at least 30 days in advance of the proposed withdrawal date that he wishes to make an Early Withdrawal.

(ii) Designation of Amounts: The notice described in (a) above shall be made on a form supplied by the Pension Committee which shall require, at minimum, that the Non-Employee Director specify the amount of the withdrawal (subject to the limitations in (iii) below) and whether the full amount of the withdrawal is to be taken from the Non-Employee Director's Interest-Bearing Account or Harsco Stock Account or apportioned between them.

(iii) Minimum Amount: The amount to be withdrawn shall equal at least fifty-percent (50%) of the aggregate balance of the Non-Employee Director's account(s) determined as of the first business day of the calendar month immediately preceding the calendar month of the withdrawal date. Such minimum amount shall be determined without regard to the forfeited amount described in (c) below.

(c) In the event of an Early Withdrawal, the Non-Employee Director shall forfeit from the amount withdrawn an amount equal to ten-percent (10%) of the amount withdrawn. The Non-Employee Director and the Non-Employee Director's designated beneficiary shall not have any right or claim to the forfeited amount, and the Corporation shall have no obligation whatsoever to the Non-Employee Director, the Non-Employee Director's designated beneficiary or any other person with regard to the forfeited amount.

(d) If a Non-Employee Director seeks to make an Early Withdrawal at a time when the Non-Employee Director is subject to Section 16 of the Securities Exchange Act ("Exchange Act"), the Non-Employee Director shall be responsible for determining whether such Early Withdrawal may be considered a nonexempt sale under Section 16 of the Exchange Act and shall be subject to any liability which may result therefrom.

#### 9. Change in Control.

(a) In the event of a "Change in Control" of the Corporation followed by a Non-Employee Director's cessation of service to the Corporation as a Director, all amounts credited to the account(s) of the Non-Employee Director under the Plan shall be immediately due and payable to the Non-Employee Director in a single lump sum notwithstanding the deferral period and form of payment specified pursuant to Paragraph 3 above.

(b) For purposes of this Plan, a "Change in Control" shall have occurred if:

(i) Stock Acquisition. Any "person" (as such term is used in Section 13(d) and 14(d) (2) of the Exchange Act), other than the Corporation or a corporation a majority of whose outstanding stock entitled to vote is owned, directly or indirectly, by the Corporation, is or becomes, other than by purchase from the Corporation or such a corporation, the "beneficial owner" (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing 20% or more of the combined voting power of the Corporation's then outstanding voting securities. Such a Change in Control shall be deemed to have occurred on the first to occur of the business day immediately preceding the date securities are first purchased by a tender or exchange offer, or the date on which the Corporation first learns of the acquisition of 20% of such securities, or the earlier of the business day immediately preceding the effective date of an agreement for the merger, consolidation or other reorganization of the Corporation or the date of approval thereof by the stockholder of the Corporation, as the case may be.

(ii) Change in Board. During any period of two consecutive years, individuals who at the beginning of such period were members of the Board of Directors, and any new director whose election by the Board or nomination for election by the Corporation's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any

reason to constitute at least a majority of the Board of Directors. Such a Change in Control shall be deemed to have occurred on the date upon which the requisite majority of directors fails to be elected by the stockholders of the Corporation.

(iii) Other Events. There occurs a change in control of the Corporation of a nature that would be required to be reported as such in response to Item 1(a) of the Current Report on Form 8-K pursuant to Section 13 of 15(d) of the Exchange Act, or any successor provision to such Item relating to a "change in control," or in any other filings under the Exchange Act.

10. Designation of Beneficiary. If a Non-Employee Director dies prior to receiving the entire balance of his account(s) under the Plan, any balance remaining in his account(s) shall be paid in a lump sum as soon as practicable to the Non-Employee Director's designated beneficiary or, if the Non-Employee Director has not designated a beneficiary or the designated beneficiary is dead, then to his estate. Any designation of a beneficiary may be revoked or modified at any time by the Non-Employee Director, except that no designation shall be recognized as valid unless properly filed with the Pension Committee during the lifetime of the Non-Employee Director while he is legally competent.

11. Withholding of Taxes. The rights of a Non-Employee Director to payments or credits under this all be subject to the Corporation's obligations, if any, to withhold income or other taxes from such payments.

12. Status of Plan. This Plan is a nonqualified deferred compensation plan covering no employees of the Corporation. As such, the Plan is exempt from the requirements of the Employee Retirement Income Security Act of 1974, as amended. The Corporation intends that the Plan shall at all times be maintained on an unfunded basis for federal income tax purposes. Hence, all payments from this Plan shall be made from the general assets of the Corporation. This Plan shall not require the Corporation to set aside, segregate, earmark, pay into a trust or special account or

otherwise restrict the use of its assets in the operation of its business. A Non-Employee Director (or, if applicable, his designated beneficiary) shall have no greater right or status than as an unsecured general creditor of the Corporation with respect to any amounts owed hereunder.

13. Rights Nonassignable. All payments to persons entitled to benefits hereunder shall be made to such persons and shall not be grantable, transferable or otherwise assignable in anticipation of payment thereof, in whole or in part, by the voluntary or involuntary acts of any such persons or by operation of law subject to garnishment, execution, attachment or any other similar legal process of creditors of such persons.

14. Administration. Full power and authority to construe, interpret and administer this Plan shall be vested in the Corporation's Pension Committee. The Pension Committee shall have full power and authority to make each determination provided for in this Plan. All determinations made by the Pension Committee shall be conclusive and binding upon the Company and any other party claiming rights hereunder.

15. Termination. The Board of Directors may, in its discretion, terminate this Plan at any time. Upon termination of the Plan, benefits shall be paid in accordance with the deferral elections made by the Non-Employee Director; provided, however, that the Pension Committee shall have the right to determine the total amount payable to each Non-Employee Director (or, if applicable, his beneficiary) and to cause the amount so determined to be paid in lump sum, thereby discharging the Corporation from any further liability or obligation under this Plan.

16. Amendment. The Board of Directors may, in its discretion, amend this Plan from time to time. In addition, the Pension Committee may from time to time amend this Plan to make such administrative changes as it may deem necessary or desirable. No such amendment shall divest any Non-Employee Director (or person

claiming through him) of any rights to amounts previously credited to his accounts hereunder.

17. Incompetency. If a person to receive payment hereunder is deemed by the Pension Committee or is adjusted to be legally incompetent, the payments shall be made to the duly appointed guardian of such incompetent, or they may be made to such person or persons who the Pension Committee believes are caring for or supporting such incompetent; and the receipt thereof by such person or persons shall constitute complete satisfaction of the Company's obligations under this Plan.

18. Expenses. The expenses of administering this Plan shall be borne by the Corporation.

19. Gender. The masculine pronoun shall be deemed to include the feminine, and the singular to include the plural, unless a different meaning is plainly required by context.

20. Governing Law. This Plan shall be construed, administered and enforced according to the laws of the Commonwealth of Pennsylvania.

21. Effective Date. The effective date of this Plan is January 1, 1995 and shall apply with respect to the Director's Fees payable by the Corporation in respect of services performed on or after such date.

Executed this 9th day of July, 2001.

ATTEST:

HARSCO CORPORATION

/s/ Paul C. Coppock

/s/ Derek C. Hathaway

-----  
Paul C. Coppock  
Senior Vice President, Chief Administrative  
Officer, General Counsel and Secretary

-----  
Derek C. Hathaway  
Chairman, President and  
Chief Executive Officer

## "Exhibit A"

Deferred Compensation Plan  
for Non-Employee Directors

## Example

This example, prepared for illustrative purposes only, describes the operation of the installment payout option set forth in Paragraph 7 of the Plan.

Director Green, age 62, elects to defer all of his Director Fees until the year following the year he attains age 72. During his service as a Director, Green directs 60% of his Fees to be invested in the Harsco Stock Account (HSA) and 40% to be invested in the Interest-Bearing Account (IBA). Pursuant to Green's prior direction, his accounts are to be paid out in three annual installments. If Green attains age 72 in 2004 his installment should be calculated and paid as follows:

## 1st Installment

- When paid - Within 30 days of the first business day (assume January 2) in 2005.

- How much - First installment equals one-third of the aggregate dollar value of Green's accounts as of January 2, 2005. Assume Green's HSA on January 2, 2005 is credited with 1,000 Stock Equivalents and the FMV of a share of Harsco common stock on such date is \$60, thus giving his HSA a value of \$60,000. Assume further, that as of January 2, 2005, Green's IBA is credited with \$30,000 (representing his prior deferrals plus interest). Accordingly, Green's first installment should equal \$30,000 (\$90,000 aggregate account balance value divided by 3).

- Balance in Account after 1st Installment - In order to continue the 60/40 proportionality going forward, the \$60,000 in remaining value under the Plan should result in the HSA holding 60% of that value and the IBA holding the remaining 40%. Thus, as of January 2, 2005, the HSA is debited 333.33 shares leaving 666.66 shares (which at \$60 FMV equal \$40,000) and the IBA is debited \$10,000, thus leaving \$20,000.

## 2nd Installment

- When paid - Within 30 days of January 2, 2006.

- How much - Second installment equals one-half of the aggregate dollar value of Green's accounts as of January 2, 2006. Assume that as of this date, Green's HSA was credited with 700 Stock Equivalents (666.66 from prior year plus 33.34 new units attributable to dividends in the interim) and that the FMV of a share of Harsco stock on that date was \$62. Thus, Green's HSA would be worth \$43,400 at

January 2, 2006. Assume further that Green's IBA was worth \$21,000 (\$20,000 from prior year plus interim interest of \$1,000). Green's second installment would thus equal \$32,200 ( $(\$43,400 + \$21,000) \div 2$ ).

- Balance is Accounts after 2nd Installment - The same methodology would be used again to retain the 60/40 proportionality. As of January 2, 2006, the combined value of HSA and the IBA was worth \$64,400, and after the payout of half this amount, the combined value was \$32,200. This means that the HSA would have 60% of the total value (or \$19,320) and the IBA should have 40% (or \$12,880). Thus, the HSA should be debited 38.39 shares (representing \$24,080 or  $3888.39 \times \$62$  FMV/share) leaving 311.61 shares (or \$19,320 in value). The IBA should be debited \$8,120, leaving \$12,880.

#### 3rd and Last Installment

- When paid - Within 30 days of January 2, 2007.

- How much - Calculate value of both HSA and IBA as of January 2, 2007 (as described above) and pay out total.

Dated: 7 JUNE 20017 JUNE 2001  
FMDCM/Y17007/HMH/PMS

Dealer Agreement

between

Harsco Finance B.V. (a private company with limited liability incorporated under the laws of The Netherlands and with its statutory seat in Amsterdam, The Netherlands)  
as Issuer

Harsco Corporation  
as Guarantor

The Royal Bank of Scotland plc  
as Arranger

and

Citibank International plc, National Westminster Bank Plc and The Royal Bank of Scotland plc  
as Dealers

relating to

an EUR 250,000,000  
Euro-Commercial Paper Programme

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THIS AGREEMENT is dated 7 June 2001 and made

BETWEEN:

- (1) HARSCO FINANCE B.V., a private company with limited liability incorporated under the laws of The Netherlands and with its statutory seat in Amsterdam, The Netherlands in its capacity as an issuer of Notes under the Programme (as defined below);
- (2) HARSCO CORPORATION, in its capacity as the guarantor of the Notes under the Programme;
- (3) THE ROYAL BANK OF SCOTLAND PLC, as arranger (the "Arranger"); and
- (4) CITIBANK INTERNATIONAL plc, NATIONAL WESTMINSTER BANK PLC AND THE ROYAL BANK OF SCOTLAND PLC, (the "Dealers").

IT IS HEREBY AGREED as follows

1. INTERPRETATION

1.1 DEFINITIONS

In this Agreement:

"Additional Dealer" means any institution appointed as a Dealer (either generally or in respect of a single issue of Notes) in accordance with clause 8.2.

"Affiliate" means, in relation to any person, any entity controlled, directly or indirectly, by such person, any entity that controls, directly or indirectly, such person, or any entity under common control with such person.

"Agency Agreement" means the issue and paying agency agreement, dated the date of this Agreement, between the Issuer, the Guarantor, and the Issue Agent and Paying Agent providing for the issue of, and payment under, the Notes (and as such agreement may be amended, restated or replaced from time to time).

"Agreements" means this Agreement (as amended, restated or replaced from time to time), any agreement for a Note Transaction, the Guarantee, the Deed of Covenant and the Agency Agreement.

"Arranger" means The Royal Bank of Scotland plc.

"AU\$", "AU Dollars" and "AUD" denote the lawful currency of Australia; and "AUD Note" means a Note denominated in Australian Dollars.

"Clearing System" means Clearstream, Luxembourg, Euroclear or any other recognised clearing system from time to time agreed in writing between the Dealers and the Issuer.

"Clearstream, Luxembourg" means Clearstream Banking, societe anonyme or any successor entity.

"Control" of any entity or person means ownership of a majority of the voting power of such entity or person;

"Dealers" means the institution or institutions specified as a Dealer in the Programme Summary, together with any Additional Dealer(s) but excluding any institution or institutions whose appointment has been terminated under clause 8.1.

"Dealer Accession Letter" means a letter substantially in the form of Schedule 4, delivered to the Additional Dealer in accordance with clause 8.2

"Deed of Covenant" means a Deed of Covenant, dated the date of this Agreement, executed by the Issuer in respect of Global Notes issued under the Agency Agreement (and as such deed may be amended, restated or replaced from time to time).

"Definitive Note" means a security printed Note in definitive form.

"Disclosure Documents" means, at any particular date:

- (A) the Information Memorandum;
- (B) the most recently published audited financial statements of the Guarantor and any subsequent interim financial statements; and
- (C) any other document delivered by the Issuer or the Guarantor to the Dealer(s) which the Issuer or the Guarantor has expressly authorised to be distributed in connection with the transactions contemplated by this Agreement.

"Dollars", "US\$" and "U.S.\$" denote the lawful currency of the United States of America; and "Dollar Note" means a Note denominated in Dollars.

"EUR Equivalent" means, on any day:

- (A) in relation to any Euro Note, the principal amount of such Note; and
- (B) in relation to any Note denominated or to be denominated in any currency other than the Euro, the amount of Euro which would be required to purchase the principal amount of that Note as expressed in such other currency at the spot rate of exchange for the purchase of such other currency with Euro quoted by the Issue Agent at or about 11.00am (London time) on that day.

"Euro" and "EUR" denote the single currency of participating member states of the European Union, as contemplated by the Treaty on European Union and "Euro Note" means a Note denominated in Euro.

"Euroclear" means Euroclear Bank S.A./N.V., as operator of the Euroclear System or any successor entity.

"Global Note" means a bearer promissory Note in global form, representing an issue of promissory notes of a like maturity which may be issued by the Issuer under the Agency Agreement and which is exchangeable with Definitive Notes subject to and in accordance with its terms.

"Group" means, in relation to a person, that person and its Subsidiaries.

"Guarantee" means the deed of guarantee executed by the Guarantor dated 7 June 2001 pursuant to which the Guarantor guarantees the Issuer's obligations in respect of each

Note and under the Deed of Covenant (and as such deed may be amended, restated or replaced from time to time).

"Information Memorandum" means the most recent information memorandum, as the same may be amended or supplemented from time to time, containing information about the Issuer, the Guarantor and the Notes, the text of which has been prepared by or on behalf of the Issuer and the Guarantor for use by the Dealer(s) in connection with the transactions contemplated by this Agreement.

"Issue Agent" and "Paying Agent" mean, respectively, the person or persons specified as such in the Programme Summary and any successor issue agent or, as the case may be, paying agent appointed in accordance with the Agency Agreement.

"Issue Date" means, in relation to any Note, the date for the issue of that Note as agreed between the Issuer and the relevant Dealer.

"Issuer" means Harsco Finance B.V., in its capacity as the issuer of Notes pursuant to this Agreement and the Agency Agreement.

"Maturity Date" means, in relation to any Note, the date of maturity of that Note in accordance with the terms of that Note.

"Maximum Amount" means the maximum amount of Notes which, when aggregated with the Notes for the time being outstanding under the Programme, are permitted to be outstanding, being at the date hereof EUR 250,000,000 (or its equivalent in other currencies).

"Note" means a bearer promissory note of the Issuer purchased or to be purchased by a Dealer under this Agreement, in global or definitive form, in the respective forms set out in Schedule 1 to the Agency Agreement or such other form as may be agreed from time to time between the Issuer, the Guarantor, that Dealer, the Issue Agent and the Paying Agent and, unless the context otherwise requires, the promissory notes represented by the Global Notes.

"Notices" means the Bank of England Notice dated 18 March 1997 entitled "The Banking Act 1987 (Exempt Transactions) Regulations 1997 and issues of Commercial Paper" and "Explanatory Memorandum - Issues of Commercial Paper and Debt Securities of one year or over under The Banking Act 1987 (Exempt Transactions) Regulations 1997" respectively and, in each case, relating to the Regulations (as the same may be amended and/or replaced from time to time).

"Note Transaction" means the sale by the Issuer and the purchase by a Dealer of Notes in accordance with clause 2.

"Programme" means the uncommitted euro-commercial paper programme to be managed by the Dealers for the Issuer and established by the Agreements.

"Programme Summary" means the programme summary set out in schedule 5, as such summary may be amended or superseded from time to time.

"Regulations" means The Banking Act (Exempt Transactions) 1997 which came into force on 3 April 1997 (as the same may be amended, varied or replaced from time to time).

"relevant jurisdiction" means any one or more of the United Kingdom, the jurisdiction of incorporation of the Issuer and the Guarantor, any jurisdiction from or through which any payment under or in respect of any Note or any Agreement may be made and any jurisdiction in which the Issuer or the Guarantor is or becomes subject to taxes generally.

"Relevant Notes" means any Notes the purchase price or issue proceeds in respect of which are accepted by the Issuer in the United Kingdom and shall include, without limitation, Sterling Notes where the context so admits.

"Relevant Party" means, in relation to a person, any director, officer, employee, affiliate or agent of such person.

"Securities Act" means the United States Securities Act of 1933 (as amended from time to time);

"Sterling" and "L" denote the lawful currency of the United Kingdom; and "Sterling Note" means a Note denominated in Sterling.

"Subsidiary" means, in respect of any person (the "first person") at any particular time, any other person (the "second person"):

- (A) CONTROL: who the first person controls or has the power to control, directly or indirectly, through the ownership of voting securities entitling it to elect a majority of the members of the governing body of the second person or otherwise; or
- (B) CONSOLIDATION: whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first person.

"Swiss Francs" and "CHF" denote the lawful currency of Switzerland; and "CHF Note" means a Note denominated in Swiss Francs.

"Third Party" means any person other than a member of the Group.

"Treaty on European Union" means the Treaty of Rome of 25 March 1957, as amended by the Single European Act 1986 and the Maastricht Treaty (which was signed at Maastricht on 07 February, 1992 and came into force on 01 November 1993) as amended from time to time.

"Yen" and "Y" denote the lawful currency of Japan; and "Yen Note" means a Note denominated in Yen.

## 1.2

## CONSTRUCTION

- (A) In this Agreement, unless the contrary intention appears, a reference to:
  - (1) a provision of a law is a reference to that provision as amended or re-enacted;
  - (2) a clause or a schedule is a reference to a clause of or a schedule to this Agreement;
  - (3) a person includes any individual, company, body corporate, corporation sole or aggregate, government, state or agency of a state, firm, partnership, joint

venture, association, organisation or trust (in each case, whether or not having separate legal personality and irrespective of the jurisdiction in or under the law of which it was incorporated or exists) and references to any person shall include its respective successors and assigns; and

(4) this Agreement or any of the other Agreements or other documents is a reference to that Agreement or that other document as amended, novated, restated or supplemented from time to time.

(B) The index to and the headings in this Agreement are for convenience only and are to be ignored in construing this Agreement.

(C) Words denoting the singular number only shall include the plural number also and vice versa and words denoting one gender only shall include the other gender.

(D) Any terms not expressly defined in clause 1.1 shall have the meanings set out in the Programme Summary.

## 2. ISSUE

### 2.1 THE PROGRAMME

The Programme is uncommitted. Accordingly, the Issuer shall not be under any obligation to issue and sell any Notes, and the Dealers shall not be under any obligation to purchase or procure the purchase of any Notes, until such time as an agreement for a Note Transaction has been reached.

### 2.2 ISSUE OF NOTES

(A) Subject to the terms of this Agreement, the Issuer may issue and sell Notes to the Dealers from time to time at such prices and upon such terms as the Issuer and the relevant Dealer may agree. The Issuer acknowledges that the Dealers may resell Notes purchased by such Dealers.

(B) Each issue of Notes will be of an aggregate principal amount as may be agreed between the Issuer and the relevant Dealer and each Note issued will be represented initially by one or more Global Notes or, in the case of Sterling Notes, may be represented by Definitive Notes in the denominations stated in the Programme Summary or (in the case of Global Notes) an integral multiple thereof. Sterling Global Notes will be exchangeable, in accordance with their terms, for Sterling Definitive Notes upon request, upon a default by the Issuer or if Euroclear or Clearstream, Luxembourg or any other Clearing System is closed for a continuous period of 14 days or more (other than by reason of weekends or public holidays, statutory or otherwise) or if Euroclear or Clearstream, Luxembourg or any other Clearing System announces an intention to cease permanently to do business or does in fact permanently so cease to do business. Global Notes issued in any other currency pursuant to this Agreement will be exchangeable, in accordance with their terms, for Definitive Notes denominated in that currency only upon default by the Issuer or if Euroclear or Clearstream, Luxembourg or any other Clearing System is closed for a continuous period of 14 days or more (other than by reason of weekends or public holidays, statutory or otherwise) or if Euroclear or Clearstream, Luxembourg or any other Clearing System announces an intention to cease permanently to do business or does in fact permanently so cease to do business.

- (C) The tenor of each Note shall not be less than the Minimum Term nor greater than the Maximum Term specified in the Programme Summary calculated from (and including) the Issue Date to (but excluding) the Maturity Date of that Note.
- (D) Definitive Notes (if any) shall be issued in the denominations specified in the Programme Summary.
- (E) In addition to the requirements of this clause 2.2 above and subject to clause 2.5 below:
  - (1) Notes to be denominated in Sterling will be issued in denominations of at least L100,000 and Relevant Notes to be denominated in any currency other than Sterling will be issued in denominations of at least the amount calculated by the Issue Agent to be the equivalent of L100,000 in the relevant currency on the basis of the spot rate of exchange for the purchase of the relevant currency with Sterling quoted by the Issue Agent at or about 11.00 am (London time) on the Issue Date; and
  - (2) the terms of any Global Note to be denominated in Sterling will be such that interests therein will be transferable in a minimum amount of L100,000 or an integral multiple thereof and the terms of any Relevant Notes to be denominated in any currency other than Sterling will be such that interests therein will be transferable in an amount calculated by the Issue Agent to be at least the equivalent of L100,000 in the relevant currency on the basis of the spot rate of exchange for the purchase of the relevant currency with Sterling quoted by the Issue Agent at or about 11.00 am (London time) on the Issue Date thereof.

### 2.3 AGREEMENT FOR NOTE TRANSACTIONS

Subject as provided in this Agreement, and in particular (but without limitation) in clause 2.2 above, if the Issuer and any Dealer shall agree on the terms of the purchase of any Note by that Dealer (including agreement with respect to the Issue Date, aggregate principal amount, denomination, currency, purchase price, Maturity Date, interest rate and discount, and, in the case of Sterling Notes only, whether that Note will be a Definitive Note or a Global Note), then:

- (A) the Issuer shall cause such Note to be issued and delivered in accordance with the terms of the Agency Agreement;
- (B) the relevant Dealer shall cause the purchase price of such Note to be paid on the date of issue:
  - (1) in the case of a Dollar Note, by transfer of funds settled through the New York Clearing House Interbank Payments System (or such other same-day funds as at the time shall be customary for the settlement in New York City of international banking transactions denominated in Dollars) to the account in New York as the Issue Agent shall from time to time have specified for this purpose; or
  - (2) in the case of a Sterling Note, by transfer of same-day funds to the Sterling account in the City of London as the Issue Agent shall from time to time have specified for this purpose; or

- (3) in the case of a Euro Note, by transfer of funds settled through the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System to such account of the Issue Agent outside the United Kingdom denominated in Euro as the Issue Agent shall have specified for this purpose; or
  - (4) in all other cases by transfer of freely transferable same-day funds in the relevant currency to the account of the Issue Agent at the bank in the principal domestic financial centre for such currency as the Issue Agent may from time to time have specified for this purpose; and
- (C) the relevant Dealer shall notify the Issue Agent of the delivery instructions applicable to such Note in accordance with prevailing market practice and in sufficient time to enable the Issue Agent to deliver such Note (or make the same available for collection) on its Issue Date.

#### 2.4 FAILURE TO ISSUE

If, for any reason (including, without limitation, the failure of the relevant trade), a Note in a Note Transaction is not to be issued, the Issuer and the relevant Dealer shall immediately notify the Issue Agent of that failure.

#### 2.5 OPTIONAL CURRENCIES

Any Note Transaction or agreement therefor in respect of a Note denominated in a currency other than Euro, Dollars, Sterling, Swiss Francs, Yen or Australian Dollars shall be conditional upon:

- (A) it being lawful and in compliance with all requirements of any relevant central bank and any other relevant fiscal, monetary, regulatory or other authority, for deposits to be made in such currency and for such Note to be issued, offered for sale, sold and delivered;
- (B) such other currency being freely transferable and freely convertible into Euro; and
- (C) any appropriate amendments which the relevant Dealer or the Issuer shall require having been made to this Agreement and/or the Agency Agreement.

#### 2.6 INCREASE IN MAXIMUM AMOUNT

The Issuer and the Guarantor may from time to time increase the Maximum Amount by:

- (A) giving at least ten days' notice by letter in substantially the form of Schedule 3 to each Dealer and to the Issue Agent and the Paying Agent; and
- (B) delivering to each Dealer the documents referred to in that letter, in each case in form and substance acceptable to each Dealer.

#### 2.7 FLOATING RATE INTEREST NOTES

- (A) If Floating Rate Interest Notes are to be issued, a person (being a reputable bank or other financial institution experienced in acting as calculation agent, which may be a Dealer) agreed between the Issuer and the Dealers will be appointed as the calculation agent in respect of such Floating Rate Interest Notes.

- (B) If a Dealer or any other nominated person is to be the calculation agent, its appointment as such shall be on substantially the terms of the form of agreement set out in Schedule 3 to the Agency Agreement, but with such amendments as the Dealer and the Issuer shall agree.
- (C) If the Agent is to be the calculation agent, its appointment as such shall be on the terms set out in schedule 3 to the Agency Agreement.

### 3. REPRESENTATIONS AND WARRANTIES

3.1 The Issuer (in respect of itself) and the Guarantor (in respect of itself and the Issuer) make the following representations and warranties in this Clause 3 to each Dealer:

(A) ISSUER INCORPORATION:

that the Issuer has been duly incorporated and is an existing corporation in good standing under the laws of The Netherlands, has full power and authority (corporate and other) to conduct its business as described in the Disclosure Documents and is duly qualified to do business in each jurisdiction in which it owns or leases real property or in which the conduct of its business requires such qualification except where the failure to be so qualified, considering all such cases in the aggregate, does not involve a material risk to the business, properties, financial position, or results of operations of the Issuer;

(B) GUARANTOR INCORPORATION:

that the Guarantor and each of its Subsidiaries has been duly incorporated and is an existing corporation in good standing under the laws of the State of Delaware, has full power and authority (corporate and other) to conduct its business as described in the Disclosure Documents and is duly qualified to do business in each jurisdiction in which it owns or leases real property or in which the conduct of its business requires such qualification except where the failure to be so qualified, considering all such cases in the aggregate, does not involve a material risk to the business, properties, consolidated financial position, or consolidated results or operations of the Guarantor and its Subsidiaries; and all of the outstanding shares of capital stock of each such Subsidiary have been duly authorised and validly issued, are fully paid and non-assessable and (except as otherwise stated in the Information Memorandum) are beneficially owned, directly or indirectly, by the Guarantor subject to no security interests, other encumbrance or adverse claim;

(C) NO BREACH, APPROVALS, CAPACITY AND AUTHORISATION:

that (i) the creation and issue of Notes by the Issuer, the giving of the Guarantee by the Guarantor, the execution of this Agreement and the Agency Agreement by the Issuer and the Guarantor and the execution of the Deed of Covenant by the Issuer and the consummation of the transactions herein and therein contemplated will not result in a breach or violation of any of the terms and provisions of, or constitute a default under, the laws of The Netherlands or of the United States of America, any statute, any agreement or instrument to which the Issuer or the Guarantor is a party or by which the Issuer or the Guarantor is bound or to which any of the property of the Issuer or the Guarantor is subject, the Issuer's or the Guarantor's constitutive documents, or any order, rule, or regulation of any court or governmental agency or body having jurisdiction over the Issuer or the Guarantor or any of their respective properties; (ii) no consent, approval, authorisation, or

order of, or filing with, any court or governmental agency or body is required for the creation and issue of the Notes, the execution of this Agreement or the Agency Agreement by the Issuer and the Guarantor, the execution of the Guarantee by the Guarantor and the execution of the Deed of Covenant by the Issuer, the consummation of the transactions contemplated by this Agreement, the Guarantee, the Deed of Covenant or the Agency Agreement (except such as may be required under the Securities Act or state securities laws of the United States of America) and any consents, approvals and authorisations required for the distribution of the Disclosure Documents in accordance with the provisions set out in Schedule 2 to this Agreement have been obtained and are in full force and effect; and (iii) the Issuer has full power and capacity to create and issue the Notes, to execute this Agreement, the Agency Agreement and the Deed of Covenant and to undertake and perform the obligations expressed to be assumed by it herein and therein, and the Issuer has taken all necessary action to approve and authorise the same and the Guarantor has full power and capacity to give the Guarantee, to execute this Agreement, the Agency Agreement and the Guarantee and to undertake and perform the obligations expressed to be assumed by it herein and therein, and the Guarantor has taken all necessary action to approve and authorise the same;

(D) LEGAL, VALID, BINDING AND ENFORCEABLE:

(i) that this Agreement constitutes and, upon due execution by or on behalf of the Issuer and (in the case of the Notes) due authentication and delivery, each of the Agency Agreement, the Deed of Covenant and the Notes will constitute, valid and legally binding obligations of the Issuer, enforceable in accordance with their terms, subject, as to enforcement, to bankruptcy, insolvency, fraudulent transfer, reorganisation, moratorium and other laws of general applicability relating to or affecting creditors' rights and to general equitable principles and (ii) that this Agreement constitutes and upon due execution by or on behalf of the Guarantor, each of this Agreement, the Agency Agreement and the Guarantee will constitute, valid and legally binding obligations of the Guarantor enforceable in accordance with their terms, subject, as to enforcement, to bankruptcy, insolvency, fraudulent transfer, reorganisation, moratorium and other laws of general applicability relating to or affecting creditors' rights and to general equitable principles;

(E) STATUS:

that each of the Notes and the Guarantee will constitute direct, general and unconditional obligations of the Issuer and the Guarantor, respectively which (a) rank pari passu among themselves and (b) will at all times rank at least pari passu with all other present and future unsecured and unsubordinated obligations of or guarantees by the Issuer and the Guarantor, respectively, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application;

(F) TAXATION:

that all payments of principal and interest in respect of the Notes by the Issuer, all payments by the Issuer under the Deed of Covenant and all payments by the Guarantor in respect of the Guarantee and all payments by the Issuer and the Guarantor under this Agreement and the Agency Agreement, may be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by The Netherlands or the United States of

America, respectively, or any political subdivision or authority thereof or therein having power to tax;

(G) ACCURACY OF DISCLOSURE DOCUMENTS:

that the Disclosure Documents contain all information which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in the Disclosure Documents are honestly held or made and are not misleading in any material respect; the Disclosure Documents do not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made by the Issuer and the Guarantor to ascertain or verify the foregoing;

(H) FINANCIAL STATEMENTS:

that the financial statements of the Guarantor and its respective Subsidiaries included in the Disclosure Documents fairly present the financial condition of the Guarantor and its respective Subsidiaries in each case as of the dates indicated and the results of the operations and cash flows for the periods therein specified in conformity with generally accepted accounting principles in the United States of America, respectively, consistently applied throughout the periods involved (except as otherwise stated therein);

(I) COMPLETENESS OF DISCLOSURE DOCUMENTS:

that the Disclosure Documents contain all such information as investors and their professional advisers would reasonably require, and reasonably expect to find there, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and of the rights attaching to the Notes and of the Guarantor and the rights attaching to the Guarantee;

(J) ABSENCE OF LITIGATION:

that except as disclosed in note 10 of the audited annual consolidated financial statements of the Guarantor included in the Guarantor's Form 10-K dated March 19, 2001, and in the notes to the unaudited quarterly financial statements of the Guarantor included in the Guarantor's Form 10-Q dated May 15, 2001, which forms were filed with the U.S. Securities and Exchange Commission, there are no litigation or arbitration proceedings against or affecting the Issuer or the Guarantor or any of their respective Subsidiaries or any of their respective assets or revenues, nor is the Issuer or the Guarantor aware of any pending or threatened proceedings of such kind, which are or might be material in the context of the issue of the Notes or of the giving of the guarantee;

(K) NO MATERIAL ADVERSE CHANGE:

that subsequent to the respective dates as of which information is given in the Disclosure Documents, neither the Issuer nor the Guarantor (nor any of their respective Subsidiaries) has incurred any liabilities or obligations, direct or contingent, or entered into any transactions, not in the ordinary course of business, that are material (in the case of the Issuer) to the Issuer or (in the case of the

Guarantor and its Subsidiaries) to the Guarantor and its Subsidiaries taken as a whole and there has not been any material change in the capital stock or short-term debt and long-term debt of the Issuer or of the Guarantor or its Subsidiaries, or any material adverse change, or any development involving a prospective material adverse change, in the condition (financial or other), business, prospects, net worth, or results of operations of the Issuer, or of the Guarantor and its Subsidiaries considered as a whole;

(L) U.S. TREASURY REGULATIONS:

that the Notes will be issued under the provisions of U.S. Treasury Regulations section 1.163-5(c)(2)(1)(D) (the "D RULES") and the Issuer will not offer or sell the Notes in the United States or its possessions or to United States persons (terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder, including the D Rules);

(M) REGULATION D:

that neither the Issuer, nor the Guarantor, nor any of their respective affiliates (as defined in Rule 501(b) of Regulation D under the Securities Act) has directly, or through any agent, sold, offered for sale, solicited offers to buy or otherwise negotiated in respect of, any security (as defined in the Securities Act) which is or will be integrated with the sale of the Notes in a manner what would require the registration under the Securities Act of the offering contemplated by the Disclosure Documents or engaged in any form of general solicitation or general advertising in connection with the offering of the Notes;

(N) REGULATION S:

that none of the Issuer, the Guarantor or any affiliate, either of them or any person acting on its or their behalf has engaged or will engage in any directed selling efforts (as defined in Regulation S under the Securities Act) with respect to the Notes and it and they have complied and will comply with the offering restrictions requirement of Regulation S under the Securities Act;

(O) U.S. INVESTMENT COMPANY ACT:

that neither the Issuer nor the Guarantor is an "investment company" or an entity "controlled" by an "investment company" as such terms are defined in the United States Investment Company Act of 1940, as amended and that it is not necessary in connection with the offer, sale and delivery of the Notes in the manner contemplated by this Agreement to register the Notes under the Securities Act;

- (P)
- (1) that no present or future indebtedness of the Issuer, the Guarantor or any of their respective Subsidiaries has become due and payable prior to its stated maturity by reason of a default (howsoever described) otherwise than at the option of the Issuer, the Guarantor relevant Subsidiaries, as the case may be; and
  - (2) that no present or future indebtedness of the Issuer, the Guarantor or any Subsidiary has not been paid when due or (as the case may be) within any applicable grace period originally provided therefor; and

- (3) that none of the Issuer, the Guarantor or any of their respective Subsidiaries has failed to pay when due or (as the case may be) within any applicable grace period originally provided therefor any amount payable by it under any present or future guarantee (other than a guarantee issued in the ordinary course of business and relating to indebtedness of less than U.S.\$20,000,000 in aggregate) or indemnity in respect of any present or future indebtedness in respect of which demand has been made therefor (unless the giver of the guarantee or indemnity is contesting in good faith its liability thereunder); and
- (4) that no mortgage, charge, pledge, lien or other encumbrance present or future securing any present or future indebtedness, guarantee or indemnity created or assumed by the Issuer, the Guarantor or any Subsidiary has become enforceable (and the holder thereof has taken steps to enforce the same),

such that (for the purpose of sub-paragraphs (1) to (4) above) the aggregate of the principal amounts of all such indebtedness of the Issuer, the Guarantor and all their respective Subsidiaries (taken together) of either of them and the amounts payable by the Issuer, the Guarantor and all Subsidiaries (taken together) either of them under any such guarantee and/or indemnity exceeds U.S.\$20,000,000 (or its equivalent in any other currency or currencies).

### 3.2 MAXIMUM AMOUNT

The aggregate outstanding principal amount of the Notes on the date of issue of any Note does not and will not exceed the Maximum Amount set out in the Programme Summary (as increased from time to time under Clause 2.6). The principal amount outstanding in relation to any Note denominated or to be denominated in a currency other than Dollars will be calculated by taking the Dollar Equivalent of that principal amount as at the date of calculation.

### 3.3 STERLING NOTES AND OTHER RELEVANT NOTES

In relation to any issue of Sterling Notes and any other Relevant Notes the Issuer is, or will be prior to the date on which the first Sterling Notes or Relevant Notes are issued pursuant to this Agreement, eligible to issue commercial paper under the legal and regulatory requirements (including, without limitation, the Regulations, the Notices and any other requirements or guidelines of the Bank of England) in or of the United Kingdom from time to time applicable thereto, and has complied with all such requirements and each such Note will be issued in compliance with those requirements.

### 3.4 TIMES FOR MAKING REPRESENTATIONS AND WARRANTIES

The representations and warranties set out in this Clause 3:

- (A) are made on the date of this Agreement; and
- (B) are deemed to be repeated on each date upon which a Note Transaction is agreed and each date upon which Notes are, or are to be, issued.

## 4. COVENANTS AND AGREEMENTS

## 4.1 DURATION

The undertakings in this clause 4 remain in force from the date of this Agreement for so long as any amount is or may be outstanding under the Agreements.

## 4.2 INFORMATION

Whenever the Issuer or the Guarantor shall publish or make available to its shareholders or to the public (by filing with any regulatory authority, securities exchange or otherwise) any information which could reasonably be expected to be material in the context of this Agreement, the Notes, the Guarantee and the transactions contemplated hereby and thereby, the Issuer or the Guarantor (as appropriate) shall:

- (A) notify each Dealer as to the nature of such information;
- (B) make a reasonable number of copies of such information available to each Dealer upon request to permit distribution to investors and prospective investors; and
- (C) take such action as may be necessary to ensure that the representation and warranty contained in clause 3.1(G) is true and accurate on the dates when it is made as contemplated by clause 3.

## 5. INDEMNITY

5.1 Without prejudice to the other rights or remedies of the Dealers, each of the Issuer and the Guarantor (each an "indemnifying person") undertakes with the Dealers and each of them that, if that Dealer or any Relevant Party relating to such Dealer incurs any losses, liabilities, claims, actions or demands which it may incur or which may be made against it as a result of or in relation to:

- (A) any failure by the Issuer to issue on the agreed Issue Date any Notes which a Dealer has agreed to purchase; or
- (B) any breach or alleged breach of any of the representations, warranties, covenants, agreements or undertakings made by the Issuer or by the Guarantor in this Agreement or any materially untrue statement or alleged materially untrue statement of any material fact contained in the Disclosure Documents or the omission or alleged omission to state therein a material fact necessary in order to make the statements therein, in the light of the circumstances on which they were made, not misleading in any material respect,

the Issuer (or as the case may be), the Guarantor shall pay to such Dealer an amount equal to any such losses, liabilities, claims, actions or demands and the indemnity shall extend to include all costs, charges and expenses (including legal expenses) which that Relevant Party may pay or incur in investigating, disputing or defending any claim or action in respect of which an indemnity may be sought against the Issuer or the Guarantor under this clause.

The liability of the Issuer and of the Guarantor under the foregoing indemnity includes (without limitation) any loss or expense arising directly on account of funds borrowed, contracted for or utilised by the Relevant Party to fund any amount payable under the Notes and not received in breach of this Agreement.

- 5.2 In case any action shall be brought against any Relevant Party in respect of which an indemnity may be sought from an indemnifying person, the relevant Dealer shall promptly notify the indemnifying person in writing and the indemnifying person shall have the option to assume the defence thereof and to retain lawyers reasonably satisfactory to the Relevant Party in which case the indemnifying person shall be liable to pay the fees and expenses of such lawyers relating to such proceedings.
- 5.3 In any such proceedings, the Relevant Party shall have the right to retain its own lawyers, but the fees and expenses of such lawyers shall be at the expense of the indemnified person unless:
- (A) the Relevant Party has defences additional to or different from the indemnifying person; or
  - (B) the indemnifying person and the Relevant Party have mutually agreed to the retention of such lawyers; or
  - (C) the indemnifying person has failed to employ legal advisers reasonably satisfactory to the Relevant Party within a reasonable period of time after notice by the indemnified person of the commencement of such proceedings.
- 5.4 Subject as set out in clause 5.3 above, in no event shall the indemnifying person be liable for the fees and expenses of more than one legal adviser or firm of legal advisers of any Relevant Party in any jurisdiction in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegation or circumstances.
- 5.5 The indemnifying person shall not be liable to indemnify any Relevant Party for any settlement of any proceeding effected without the authority and written consent of the indemnifying person (which consent shall not be unreasonably withheld or delayed).

5.6 COSTS AND EXPENSES

The Issuer, failing which the Guarantor, will:

- (A) pay, or reimburse the Arranger for, all reasonable out-of-pocket costs and expenses (including, without limitation, United Kingdom value added tax and any other taxes or duties and fees and disbursements of counsel to the Arranger) incurred by the Arranger in connection with the preparation, negotiation, printing, execution and delivery of the Agreements, all documents contemplated by the Agreements and the Notes;
- (B) pay, or reimburse each Dealer for, all reasonable out-of-pocket costs and expenses (including, without limitation, United Kingdom value added tax and any other taxes or duties and fees and disbursements of counsel to such Dealer) incurred by that Dealer in connection with the enforcement or protection of its rights under this Agreement, all documents contemplated by this Agreement, the Notes, any Note Transaction, the Deed of Covenant and the Guarantee; and
- (C) pay any stamp duty or other taxes (including, without limitation, any penalties and interest in respect thereof) payable in The Netherlands, the United States of America, the United Kingdom, Belgium, Luxembourg and any jurisdiction in which the Issuer is or becomes subject to taxes in connection with the execution, delivery

and performance of this Agreement, any Note Transaction, the Deed of Covenant, the Agency Agreement, the Guarantee or any Notes.

#### 5.7 CHANGES TO THE PROGRAMME

- (A) The Issuer, failing which the Guarantor, will notify each Dealer of:
- (1) any change in the Issue Agent and/or the Paying Agent or any change in any of the offices of such Issue Agent and/or such Paying Agent; and
  - (2) any material change or amendment to or termination of the Agency Agreement, the Guarantee or the Deed of Covenant,
- in any case not later than ten days prior to the making of any such change, amendment or termination.
- (B) Neither the Issuer nor the Guarantor will permit to become effective any such change, amendment or termination as referred to in Clause 5.7(A) above which could reasonably be expected to affect adversely the interests of any Dealer or the holder of any Notes then outstanding.

#### 5.8 CONTINUING OBLIGATIONS

The Issuer and the Guarantor will take such steps (in conjunction with the Dealer(s), where appropriate) to ensure that any laws and regulations or requirements of any governmental agency, authority or institution which may from time to time be applicable to any Notes shall be fully observed and complied with, and in particular (but without limitation):

- (A) that the monitoring requirements set out in paragraph 9(i) of the Notice issued by the Bank of England on 18 March 1997 as the same may be amended or superseded from time to time shall be fully observed and complied with; and
- (B) in respect of Yen Notes, subject to clause 5.10, the Issuer and the Guarantor will comply with any applicable laws, regulations and guidelines of Japanese governmental and regulatory authorities relevant in the context of the issue of Yen Notes, as amended from time to time, and shall submit (or procure the submission on its behalf of) such reports or information as may be required for compliance with such laws, regulations and guidelines from time to time within the applicable time period.

#### 5.9 U.S. SELLING RESTRICTIONS

Each of the Issuer and the Guarantor represents, warrants and agrees that neither it, nor any of its affiliates, nor any person acting on its behalf or on behalf of any of its affiliates has engaged or will engage in any directed selling efforts with respect to the Notes, and that it and its affiliates have complied and will comply with the offering restrictions requirement of Regulation S. Terms used in this clause 5.9 have the meanings given to them by Regulation S under the U.S. Securities Act of 1933, as amended.

#### 5.10 YEN NOTES

Yen Notes may be offered or sold in circumstances which would not be so permissible at the date of this Agreement if permitted by any change or amendment which is made after

the date of this Agreement in such rules, regulations and guidelines or in such laws or directives as are applicable to Yen Notes from time to time.

## 6. OBLIGATIONS OF THE DEALERS

### 6.1 SELLING RESTRICTIONS

Each Dealer represents, covenants and agrees that it has complied and will comply with the selling restrictions set out in schedule 2. Subject to those restrictions, each Dealer is authorised by the Issuer and the Guarantor to circulate the Disclosure Documents or any other publicly available information in relation to the Issuer or the Guarantor to purchasers or potential purchasers of the Notes.

### 6.2 OBLIGATIONS SEVERAL

The representations, warranties, agreements and obligations of each Dealer under this Agreement are several.

### 6.3 ARRANGER'S CAPACITY

Each of the Dealers agrees that the Arranger has only acted in an administrative capacity to facilitate the establishment and/or maintenance of the Programme and has no responsibility to it for:

- (A) the adequacy, accuracy, completeness or reasonableness of any representation, warranty, undertaking, agreement, statement or information in the Information Memorandum, this Agreement or any information provided in connection with the Programme; or
- (B) the nature and suitability to it of all legal, tax and accounting matters and all documentation in connection with the Programme or any Notes.

## 7. CONDITIONS PRECEDENT

### 7.1 CONDITIONS PRECEDENT

- (A) At least three business days (being a day (other than a Saturday or Sunday) on which banks are open for business in London) before the date upon which the Issuer and any Dealer shall first agree terms for a Note Transaction, the Issuer and the Guarantor jointly and severally covenant and agree with the Dealers that they shall deliver to the relevant Dealer each of the documents listed in schedule 1, in form and substance satisfactory to such Dealer.
- (B) Any Dealer may at its discretion waive compliance with the obligation of the Issuer to deliver any document under clause 7.1(A) above, and any document so waived shall be deemed to have been satisfied for that Dealer only.

### 7.2 FURTHER CONDITIONS PRECEDENT

The obligations of any Dealer in respect of any agreement for a Note Transaction shall be conditional upon:

- (A) the representations and warranties of the Issuer and the Guarantor contained in clause 3 being true and correct:

- (1) on each date upon which an agreement for a Note Transaction is made; and
  - (2) on each date on which Notes are issued,
- by reference to the facts and circumstances then subsisting; and

(B) there being no material breach as at the relevant Issue Date in the performance of the obligations of the Issuer or the Guarantor under any of the Agreements (including, without limitation, under the Guarantee) or any Note.

## 8. TERMINATION AND APPOINTMENT

### 8.1 TERMINATION

The Issuer and the Guarantor (acting together) may terminate the appointment of the Arranger or any Dealer, and the Arranger or any Dealer may resign, on not less than thirty days' written notice to the Arranger, the relevant Dealer or the Issuer and the Guarantor, as the case may be. The other Dealer(s), the Issue Agent and the Paying Agent will be promptly informed by the Issuer of such termination or resignation. The rights and obligations of each party to this Agreement shall not terminate in respect of any rights or obligations accrued or incurred before the date on which such termination or resignation takes effect or which shall accrue thereafter in respect of any act or omission which occurred prior to such date and the provisions of clauses 5.1 to 5.7 inclusive shall survive termination of this Agreement or termination of the appointment of the Arranger or any Dealer or resignation of the Arranger or any Dealer and delivery against payment for any of the Notes.

### 8.2 APPOINTMENT OF DEALERS

(A) The Issuer and the Guarantor (acting together) may appoint one or more Additional Dealers upon the terms of this Agreement (either generally or in respect of a single issue of Notes) by sending to the Additional Dealer a Dealer Accession Letter substantially in the form set out in schedule 4. The appointment will only become effective if the Additional Dealer confirms acceptance of its appointment to the Issuer and the Guarantor in or substantially in the form of the acceptance set out in the Dealer Accession Letter.

(B) The Additional Dealer shall, subject to the proviso set out below in the case of an Additional Dealer appointed in respect of a single issue of Notes, become a party to this Agreement on the later of:

- (1) the date that the Issuer and the Guarantor (and if received on different dates by the Issuer and the Guarantor, on the later of such dates) receive the confirmation in clause 8.2(A) above; and
- (2) the date specified in the Dealer Accession Letter as the date of appointment,

and the Additional Dealer shall then be vested with all the authority, rights, powers, duties and obligations as if originally named as a Dealer under this Agreement, provided that, in the case of an Additional Dealer appointed in respect of a single issue of Notes, following the issue of the relevant Global Note or Definitive Notes, the relevant Additional Dealer shall have no further such authority, rights, duties or obligations except such as may have accrued or been incurred prior to, or in

connection with, the issue of such Global Note (and the Notes represented thereby) or such Definitive Notes.

- (C) The Issuer and the Guarantor shall, in the case of an Additional Dealer appointed generally to the Programme, promptly notify the Issue Agent and the Paying Agent and the other Dealer(s) of any such appointment. No such notification shall be required to be given in the case of the appointment of an Additional Dealer in respect of a single issue of Notes.
- (D) Without prejudice to the foregoing provisions of this Clause 8.2, the Issuer and the Guarantor agree that if, at any time, a Dealer shall transfer all or substantially all of its Euro-commercial paper business to any affiliate then, on the date such transfer becomes effective, such affiliate shall become the successor to such Dealer under this Agreement without the execution or filing of any paper or any further act on the part of the parties hereto so that the Issuer and the Guarantor and such affiliate shall acquire and become subject to the same rights and obligations between themselves as if they had entered into an agreement in the form (the relevant changes having been made) of this Agreement. After the said effective date all references in this Agreement to such original Dealer shall be deemed to be references to such affiliate. A Dealer shall, as soon as reasonably possible, give notice of any such transfer as is referred to in this Clause 8.2(D) to the Issuer and the Guarantor.

## 9. COMMUNICATIONS

- 9.1 Each communication to be made under this Agreement shall, unless otherwise agreed between the relevant parties, be made by facsimile, letter or telephone (in the case of a communication by telephone, to be confirmed promptly by facsimile or letter).
- 9.2 Any communication (unless made by facsimile or telephone) shall be made to the intended recipient and marked for the attention of the person, or any one of them, at the relevant address specified in the Programme Summary or otherwise from time to time designated by that party to the other parties hereto for the purpose of this Agreement and shall be deemed to have been made upon delivery (in the case of any communication made by letter).
- 9.3 Any communication to be made by facsimile or telephone shall be made to the intended recipient at the relevant facsimile or telephone number specified in the Programme Summary or otherwise from time to time designated by that party to the other parties hereto for the purpose of this Agreement and shall be deemed to have been received when made (in the case of any communication by telephone) or (in the case of any communication by facsimile) when transmission of that telefax communication has been completed.

## 10. COUNTERPARTS

This Agreement may be signed in counterparts, all of which when taken together shall constitute a single agreement.

## 11. THIRD PARTY RIGHTS

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement, but this does not affect any right or remedy of a third party that exists or is available apart from that Act.

## 12. GOVERNING LAW, SUBMISSION TO JURISDICTION AND SERVICE OF PROCESS

## 12.1 GOVERNING LAW

This Agreement, any agreement for a Note Transaction and the Notes shall be governed by, and construed in accordance with, English law.

## 12.2 SUBMISSION TO JURISDICTION

For the benefit of the Dealers, each of the Issuer and the Guarantor irrevocably agrees:

- (A) that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with this Agreement, any agreement for a Note Transaction or the Notes and that accordingly any suit, action or proceedings (together "PROCEEDINGS") so arising may be brought in such courts;
- (B) to waive any sovereign or other immunity to which it or its assets may now or after the date of this Agreement be entitled, and any objection which it may now or hereafter have to the laying of the venue of any Proceedings in such courts and any claim that such Proceedings have been brought in an inconvenient or inappropriate forum; and
- (C) that a judgment in any Proceedings brought in the English courts may be enforced in the courts of any other jurisdiction.

Nothing in this Agreement shall limit the right of any Dealer to take Proceedings in any other court of competent jurisdiction. The taking of Proceedings in any one or more jurisdictions shall not preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

## 12.3 SERVICE OF PROCESS

The Issuer and the Guarantor each hereby irrevocably appoints Hekett MultiServ PLC whose address at the date hereof is specified in the Programme Summary as its agent to accept service of process in any Proceedings in England in connection with this Agreement. If for any reason the agent for service of process ceases to be so appointed or shall otherwise cease to act as agent for service of process, the Issuer and the Guarantor each hereby irrevocably agrees promptly to appoint another agent in England to accept service of process acceptable to each Dealer and to notify the Dealers of the appointment or, if the Issuer, or Guarantor fails to appoint another agent in England to accept service of process within 15 days, any Dealer Account Holder shall be entitled to appoint such person by written notice to the Issuer or the Guarantor (as the case may be). Nothing in this Agreement shall affect or restrict the right of any party to serve process on the Issuer or the Guarantor in any other manner permitted by law.

IN WITNESS whereof the parties hereto have executed this Agreement on the date which appears first on page 1.

## SCHEDULE 1: CONDITIONS PRECEDENT DOCUMENTS

1. A certified copy of the Issuer's and the Guarantor's constitutional documents.
2. Certified copies of all board, management or other resolutions and other documents evidencing the internal authorisations and approvals required to be granted by each of the Issuer and the Guarantor in connection with the Programme and the Agreements to which it is a party and (in the case of the Issuer) the Notes.
3. Certified copies of any governmental or other consents or filings required by the Issuer or the Guarantor (as the case may be) in connection with the Programme including (without limitation) a copy of the notification sent to the Bank of England of the establishment of the Programme.
4. Certified copies of:
  - (A) this Agreement, as executed;
  - (B) the Agency Agreement, as executed;
  - (C) the Deed of Covenant, as executed;
  - (D) the Guarantee, as executed; and
  - (E) written confirmation of the acceptance of appointment from the agent for service of process for the Issuer and the Guarantor;
 together with confirmation that the original Deed of Covenant and the original Guarantee have each been delivered to the Paying Agent.
5. Legal opinions from:
  - (A) Simmons & Simmons, English legal advisers to the Dealers;
  - (B) De Brauw Blackstone Westbroek, Dutch legal advisers to the Issuer;
  - (C) Kirkpatrick & Lockhart LLP, legal advisers to the Guarantor as to the laws of the State of Delaware and the Federal laws of the United States of America; and
  - (D) internal counsel of the Guarantor.
6. The Information Memorandum.
7. A list of the names and titles and specimen signatures of the persons authorised:
  - (A) to sign and execute on behalf of the Issuer and the Guarantor (as applicable) this Agreement, the Deed of Covenant, the Agency Agreement, the Guarantee and the Notes (as applicable);
  - (B) to sign and execute on behalf of the Issuer and the Guarantor (as applicable) all notices and other documents to be delivered in connection therewith; and

(C) to take any other action on behalf of the Issuer and the Guarantor (as applicable) in relation to the Programme.

8. Confirmation from the Issuer or the Issue Agent that the relevant forms of Sterling Definitive Note will be security printed and that the relevant forms of Global Note have been prepared and the same delivered to the Issue Agent.
9. Confirmation that ratings of A2 and P2 have been granted by Standard & Poor's Rating Services, a Division of the McGraw-Hill Companies and Moody's Investors Service, respectively, for the Programme.

## SCHEDULE 2: SELLING RESTRICTIONS

## 1. GENERAL

By its purchase and acceptance of Notes issued under the Agreement to which these Selling Restrictions are scheduled (the "Dealer Agreement"), each Dealer represents, warrants and agrees that it will comply with all applicable laws and regulations in any jurisdiction in which it may offer, sell, or deliver Notes; and it will not directly or indirectly offer, sell, resell, re-offer or deliver Notes or distribute any Disclosure Document, circular, advertisement or other offering material in any country or jurisdiction except under circumstances that will result, to the best of its knowledge and belief, in compliance with all applicable laws and regulations. The Issuer acknowledges that the Dealers do not have any practical or legal means at their disposal to seek to enforce any restrictions on the secondary trading of Notes, nor to monitor or control the activities of the participants in such secondary market.

## 2. UNITED STATES OF AMERICA

The Notes and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "Securities Act") and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer represents and agrees that it has offered and sold, and will offer and sell, Notes only outside the United States to non-U.S. persons in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, each Dealer represents and agrees that neither it, nor any of its affiliates nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to the Notes, and that it has and they have complied and will comply with the offering restrictions requirement of Regulation S under the Securities Act. Each Dealer also agrees that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it a confirmation or notice to substantially the following effect:

"The securities covered hereby have not been registered under the United States Securities Act of 1933, as amended (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. Terms used above have the meanings given to them by Regulation S under the Securities Act."

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

## 3. THE NETHERLANDS

Each Dealer represents and agrees and each further Dealer appointed under the Programme will represent and agree that it will in accordance with the Netherlands Savings Certificate Act of 21 May 1985, as amended (Wet inzake spaarbewijzen, the "Savings Certificates Act"), not transfer or accept any Notes which fall within the definition of savings certificates (spaarbewijzen) in the Savings Certificate Act, unless the transfer and acceptance is done through the mediation of either the Issuer or a securities institution which is admitted to the trade or settlement on or through one or more of the exchanges or systems held by the Amsterdam Exchanges N.V. (toegelaten instelling). The aforesaid prohibition does not apply (i) to the transfer and acceptance by individuals not acting in the conduct of their business or profession, or (ii) to the initial issue of the Notes qualifying as savings certificates to the first holders thereof. Pursuant to the

Savings Certificate Act, certain identification requirements in relation to the issue of, transfer of, acceptance of, or payment on the Notes, qualifying as savings certificates, have to be complied with. The Savings Certificate Act is not applicable to the issue and trading of the Notes if the Notes are physically issued outside The Netherlands and are not immediately thereafter distributed within The Netherlands or to residents in the course of primary trading.

In addition each dealer acknowledges that Notes issued by the Issuer in respect of which no recognition of the Information Memorandum as referred to in EC Directive 89/298/EEC has been confirmed by the Dutch Securities Board (Stichting Toezicht Effectenverkeer) (the "Securities Board) shall, if the prohibition referred to in article 3, paragraph 1 of the Dutch 1995 Act on the supervision of the securities trade (Wet toezicht effectenverkeer 1995) applies, only be issued and offered in individual denomination of at least NLG 100,000 or the equivalent in any other currency.

4. THE UNITED KINGDOM

Each Dealer represents and agrees that it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom and, furthermore that it is a person of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended), and it will only issue or pass on in the United Kingdom any publication or document received by it in connection with the issue of Notes to a person who falls within Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such publication or document may otherwise be lawfully issued or passed on.

5. JAPAN

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan and each Dealer has agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to or for the benefit of any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan and any other applicable laws, regulations and ministerial guidelines of Japan.

6. SWITZERLAND

Each Dealer agrees in respect of Swiss Franc Notes that it will comply with any laws, regulations or guidelines in Switzerland from time to time, including, but not limited to, any made by the Swiss National Bank, in relation to the offer, sale, delivery or transfer of Swiss Franc Notes or the distribution of any offering material in respect of such Swiss Franc Notes.

To: The Royal Bank of Scotland plc (as Arranger) and the Dealers referred to below

cc - (as Issue Agent and Paying Agent)

[Date]

Dear Sirs

EUR [ ] EURO-COMMERCIAL PAPER PROGRAMME (THE "PROGRAMME")

We refer to a dealer agreement dated 7 June 2001 (as the same may be amended and supplemented from time to time, the "Dealer Agreement") between Harsco Finance B.V. as Issuer, Harsco Corporation as Guarantor, The Royal Bank of Scotland plc as Arranger and the persons appointed thereunder as Dealers (the "Dealers") relating to the Programme. Terms used in the Dealer Agreement shall have the same meaning in this letter.

In accordance with clause 2.6 of the Dealer Agreement, we hereby notify each of the addressees listed above that the Maximum Amount is to be increased from EUR [-] to EUR [-] with effect from [Date], subject to delivery to the Dealers, the Arranger and the Issue Agent and [Principal] Paying Agent of the following documents:

1. certificates from a duly authorised officer of each of the Issuer and the Guarantor confirming that no changes have been made to the constitutional documents of the Issuer or the Guarantor (respectively) since the date of the Dealer Agreement which would have a material effect on the Programme or, if there has been such a change, a certified copy of the constitutional documents currently in force;
2. certified copies of all board, management or other resolutions and other documents evidencing the internal authorisation and approval required to be given by the Issuer and the Guarantor for such an increase in the Maximum Amount;
3. certified copies of [specify any applicable governmental or other consents required by the Issuer and the Guarantor];
4. legal opinions in form and substance satisfactory to the Dealers from Simmons & Simmons, the Dealers' English legal advisers and from legal advisers in The Netherlands and the United States of America acceptable to the Dealers; and
5. confirmation that Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies and Moody's Investors Service are maintaining their current ratings for the Programme; and

- 6. a list of names, titles and specimen signatures of the persons authorised to sign on behalf of the Issuer all notices and other documents to be delivered in connection with such increase in Maximum Amount (including, without limitation, this letter).

Yours faithfully

.....  
for and on behalf of  
Harsco Finance B.V. as Issuer

.....  
for and on behalf of  
Harsco Corporation as Guarantor

SCHEDULE 4: DEALER ACCESSION LETTER

[On Letterhead of Issuer/Guarantor]

[Date]

To: [Name of Dealer]

Dear Sirs

EUR [ ] EURO-COMMERCIAL PAPER PROGRAMME

We refer to a dealer agreement dated 7 June 2001 (as the same may be amended and supplemented from time to time, the "Dealer Agreement") between Harsco Finance B.V. as Issuer, Harsco Corporation as Guarantor, The Royal Bank of Scotland plc as Arranger and the persons appointed thereunder as Dealers (the "Dealers") relating to the Programme. Terms used in the Dealer Agreement shall have the same meaning in this letter.

In accordance with clause 8.2 of the Dealer Agreement, we hereby appoint you as an Additional Dealer [1for the Programme/in respect of the issue of [specify principal amount] Notes due [specify Maturity Date] (Series No: [-]) (the "Issue")] upon the terms of the Dealer Agreement with [immediate effect/effect from [Date]]. Copies of each of the condition precedent documents set out in schedule 1 to the Dealer Agreement have been sent to you.

Please confirm acceptance of your appointment upon such terms by signing and returning to us the enclosed copy of this letter, whereupon you will, in accordance with clause 8.2 of the Dealer Agreement, become a party to the Dealer Agreement 2[in relation to the Issue] vested with all the authority, rights, powers, duties and obligations as if originally named as a Dealer thereunder.

Yours faithfully

.....

.....

for and on behalf of  
HARSCO FINANCE B.V.

for and on behalf of  
HARSCO CORPORATION

- - - - -
- 1 Delete as appropriate
- 2 Delete if Additional Dealer appointed for the Programme

We hereby confirm acceptance of our appointment as a Dealer upon the terms of the Dealer Agreement referred to above. For the purposes of clause 9 of the Dealer Agreement our contact details are as follows:

[NAME OF DEALER]

Address: -

Telephone: -

Telex: -

Facsimile: -

Contact: -

Dated: .....

Signed: .....

for [Name of Additional Dealer]

## SCHEDULE 5: PROGRAMME SUMMARY

ISSUER: HARSCO  
FINANCE B.V.  
GUARANTOR:  
HARSCO  
CORPORATION  
Address:  
Wenckebachstraat  
1 Address: 350  
Poplar Church  
Road 1951 JZ  
Velsen-Noord  
P.O. Box 8888  
Postbus 83 Camp  
Hill, PA 17001-  
8888 1970 AB  
IJmuiden The  
Netherlands  
Telephone: 001  
717 763 6409  
Facsimile: 001  
717 763 6424  
Contact: Robert  
G. Yocum  
Telephone: +31  
251 262 520  
Facsimile: + 31  
251 228 312  
Contact:  
Financial  
Manager DEALER  
AND ARRANGER:  
THE ROYAL BANK  
OF SCOTLAND Plc  
DEALER:  
CITIBANK  
INTERNATIONAL  
plc Address:  
135 Bishopsgate  
Address:  
Citigroup  
Centre London  
EC2M 3UR 33  
Canada Square  
Canary Wharf  
Telephone: 020  
7588 3968  
London E14 5LB  
Telex: 913000  
NWGTCMG  
Facsimile: 020  
7334 1900  
Telephone: 020  
7986 9070  
Contact:  
Commercial  
Paper Group  
Telex:  
299831CITIUK G  
Facsimile: 020  
7986 6837  
Contact:  
Commercial  
Paper Desk  
DEALER:  
NATIONAL  
WESTMINSTER  
BANK Plc ISSUE  
AGENT AND  
PAYING AGENT:  
THE CHASE  
MANHATTAN BANK  
Address: 135  
Bishopsgate  
Address:  
Trinity Tower  
London EC2M 3UR  
9 Thomas More  
Street London  
E1W 1YT  
Telephone: 020  
7588 3968  
Telex: 913000  
NWGTCMG  
Telephone:  
01202 34 7431  
Facsimile: 020  
7334 1900  
Facsimile:  
01202 34 7601  
Contact:  
Commercial  
Paper Group  
Contact:  
Manager,  
Institutional  
Trust Services

MAXIMUM AMOUNT  
DENOMINATIONS  
EUR 250,000,000  
US\$500,000 EUR  
1,000,000  
L500,000  
L1,000,000  
CHF1,000,000  
Y100,000,000  
AUD 1,000,000  
(or other  
conventionally  
accepted  
denominations  
in other  
currencies  
subject as  
provided in the  
Dealer  
Agreement.  
Provided that  
Notes in any  
currency must  
have a minimum  
denomination of  
NLG 100,000 (or  
its equivalent  
in any other  
currency) as at  
the date of  
agreement  
between the  
Issuer and the  
relevant Dealer  
to issue such  
Note thereof)

GOVERNING  
LAW FORM OF  
NOTES

Agreements  
and Notes:  
English  
Security  
printed  
Definitive  
Notes  
(Sterling  
Notes only)  
Exchangeable  
Global Notes  
with  
Definitive  
Notes  
available  
upon request  
(subject to  
certain  
conditions)  
(Sterling  
Notes only)  
or on  
default or  
closure of  
clearing  
system.

Exchangeable  
Multicurrency  
Global Notes  
with  
Definitive  
Notes only  
available on  
default.  
Notes will  
be issued at  
a discount  
to face  
value or may  
bear  
interest.

MINIMUM

TERM:

MAXIMUM

TERM: All

currencies

All

currencies 1

day 364 days

CLEARING

SYSTEMS:

SELLING

RESTRICTIONS:

Euroclear

U.S.A.

Clearstream,

Luxembourg

United

Kingdom or

any other

recognised

clearing

Japan system

agreed by

the Issuer,

the

Switzerland

Guarantor

and the

relevant

Dealers The

Netherlands

AGENT FOR

SERVICE OF

PROCESS

Issuer, and

Guarantor:

Heckett

MultiServ

PLC Address:

Commonwealth

House 2

Chalkhill

Road London

W6 8DW

Telephone:

020 7314

1491

Facsimile:

020 7314

1480

Contact:

Graham T.

Goulding



HARSCO FINANCE B.V

as Issuer

By:

By:

HARSCO CORPORATION

as Guarantor

By:

THE ROYAL BANK OF SCOTLAND PLC

as Arranger and a Dealer

By:

CITIBANK INTERNATIONAL plc

as a Dealer

By:

NATIONAL WESTMINSTER BANK PLC

as Dealer

By: