HERCULES INC
Form 10-K405/A
October 31, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K/A

AMENDMENT NO. 1 TO

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

For the fiscal year ended December 31, 2000 Commission file number 1-496

HERCULES INCORPORATED

A DELAWARE CORPORATION
I.R.S. EMPLOYER IDENTIFICATION NO. 51-0023450
HERCULES PLAZA
1313 NORTH MARKET STREET
WILMINGTON, DELAWARE 19894-0001
TELEPHONE: 302-594-5000

Securities registered pursuant to Section 12(b) of the Act
(Each class is registered on the New York Stock Exchange, Inc.)

Title of each class

Common Stock ($25/48 Stated Value)
8% Convertible Subordinated Debentures due August 15, 2010
9.42% Trust Originated Preferred Securities ($25 liquidation amount),
issued by Hercules Trust I
and guaranteed by Hercules Incorporated
Preferred Share Purchase Rights

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

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

As of March 6, 2001, registrant had 108,115,824 shares of common stock, $25/48 stated value ("Common Stock") outstanding, which is registrant's only class of common stock.

The aggregate market value of registrant's Common Stock held by non-affiliates based on the closing price on March 6, 2001 was approximately $1.5 billion.

DOCUMENTS INCORPORATED BY REFERENCE
(SPECIFIC PAGES INCORPORATED ARE IDENTIFIED UNDER THE APPLICABLE ITEM HEREIN.)

Portions of the registrant's definitive Proxy Statement dated April 12, 2001 (the "Proxy Statement") are incorporated by reference in Part III of this Report. Other documents incorporated by reference in this report are listed in the Exhibit Index (see page 357).

EXPLANATORY NOTE

This Amendment No. 1 to Hercules Incorporated's Annual Report on Form 10-K for the year ended December 31, 2000 filed with the Securities and Exchange Commission on April 17, 2001 is being filed to amend Part II, Item 8, Financial Statements and Supplementary Data, to add the recently completed audited financial statements of certain subsidiaries and to add Exhibit 23, Consent of PricewaterhouseCoopers LLP.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA:

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY DATA
HERCULES INCORPORATED

CONSOLIDATED FINANCIAL STATEMENTS

SUPPLEMENTARY DATA

SUBSIDIARY FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
Hercules Incorporated
Wilmington, Delaware

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Hercules Incorporated and subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14(a)(2) on page 69 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 23, on April 5, 2001 the Company received waivers from certain of its lenders of debt covenant violations at March 31, 2001. The debt covenant violations, conditions of the waivers, management's outlook as to future debt covenant compliance and plans should they not be in compliance in the future are discussed in Note 23.

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
April 10, 2001

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HERCULES INCORPORATED
CONSOLIDATED STATEMENTS OF INCOME

	2000	1999	1998
	(Dollars in millions, except per share)		
Net sales	$ 3,152	$ 3,309	$ 2,145
Cost of sales	1,784	1,831	1,287
Selling, general and administrative expenses	810	787	377
Research and development	80	85	61
Goodwill and intangible asset amortization	80	79	22
Purchased in-process research and development (Note 16)	--	--	130
Other operating (income) expenses, net (Note 17)	(46)	47	76
Profit from operations	444	480	192
Equity in income (loss) of affiliated companies	(2)	1	10
Interest and debt expense (Note 18)	164	185	101
Preferred security distributions of subsidiary trusts	96	51	2
Other income (expense), net (Note 19)	(18)	(2)	(22)
Income before income taxes	164	243	77
Provision for income taxes (Note 20)	66	75	68
Net income	$ 98	$ 168	$ 9
Earnings per share (Note 21)			
Basic:	$ 0.91	$ 1.63	$ 0.10
Diluted:	$ 0.91	$ 1.62	$ 0.10

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

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HERCULES INCORPORATED
CONSOLIDATED BALANCE SHEET

(Dollars millions)

	December 2000
ASSETS	
Current assets	
Cash and cash equivalents	$ 54
Accounts receivable, net (Note 2)	626
Inventories (Note 3)	305
Deferred income taxes (Note 20)	37
Total current assets	1,022
Property, plant, and equipment, net (Note 12)	1,104
Investments (Note 4)	53
Goodwill and other intangible assets, net (Note 13)	2,391
Prepaid pension (Note 15)	246
Deferred charges and other assets	493
Total assets	$ 5,309
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities	
Accounts payable	$ 259
Short-term debt (Note 5)	261
Accrued expenses (Note 12)	402
Total current liabilities	922
Long-term debt (Note 6)	2,342
Deferred income taxes (Note 20)	187
Other postretirement benefits (Note 15)	122
Deferred credits and other liabilities	298
Total liabilities	3,871
Commitments and contingencies (Note 25)	--
Company-obligated preferred securities of subsidiary trusts (Note 7)	622
Stockholders' equity	
Series preferred stock (Note 8)	--
Common stock, $25/48 par value (Note 9) (shares issued: 2000 - 159,984,444; 1999 - 159,976,730)	83
Additional paid-in capital	726
Unearned compensation (Note 10)	(115)
Other comprehensive losses	(143)
Retained earnings	2,157
	2,708
Reacquired stock, at cost (shares: 2000 - 52,442,393; 1999 - 53,587,365)	1,892
Total stockholders' equity	816
Total liabilities and stockholders' equity	$ 5,309

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

HERCULES INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOW

	(Dollars in mil	
	2000	1999
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	$ 98	$ 168
Adjustments to reconcile net income to net cash provided from operations:		
Depreciation	132	144
Amortization	114	106
Write-off of in-process research and development	--	--
Gain on disposals	(142)	(23)
Noncash charges (credits)	105	(13)
Other	--	--
Accruals and deferrals of cash receipts and payments:		
Affiliates' earnings in excess of dividends received	2	(1)
Accounts receivable	48	(69)
Inventories	(3)	(7)
Accounts payable and accrued expenses	(190)	(27)
Noncurrent assets and liabilities	(94)	2
Net cash provided by operations	70	280
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures	(187)	(196)
Proceeds of investment and fixed asset disposals	418	50
Acquisitions, net of cash acquired	(6)	(10)
Other, net	(12)	(37)
Net cash (used in) provided by investing activities	213	(193)
CASH FLOW FROM FINANCING ACTIVITIES:		
Long-term debt proceeds	1,889	279
Long-term debt repayments	(1,790)	(1,360)
Change in short-term debt	92	22
Payment of debt issuance costs and underwriting fees	(28)	(19)
Proceeds from issuance of subsidiary trusts preferred securities	--	792
Repayment of subsidiary trust preferred securities	(370)	--
Proceeds from issuance of warrants	--	90
Common stock issued	13	182
Common stock reacquired	(2)	(3)
Proceeds from issuance of subsidiary preferred stock	--	12
Dividends paid	(94)	(83)
Net cash (used in) provided by financing activities	(290)	(88)
Effect of exchange rate changes on cash	(2)	(4)
Net increase (decrease) in cash and cash equivalents	(9)	(5)
Cash and cash equivalents at beginning of year	63	68
Cash and cash equivalents at end of year	$ 54	$ 63
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest (net of amount capitalized)	$ 164	$ 184
Distributions on trust preferred securities	85	36
Income taxes paid, net	29	79

Noncash investing and financing activities:		
Conversion of notes and debentures	--	2
ESOP and incentive plan stock issuances	8	8
Assumed debt of acquired businesses	--	--
Acquisition of minority interest	(11)	--

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

HERCULES INCORPORATED
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Dollars

	Common Stock	Paid-in Capital	Unearne Compen sation
Balances at January 1, 1998	$ 80	$ 504	$-
(Common shares: issued, 154,357,015; reacquired, 58,289,376)			
Net income	--	--	--
Common dividends, $1.08 per common share	--	--	--
Foreign currency translation adjustment	--	--	--
Purchase of common stock, 2,361,390 shares	--	--	--
Issuance of common stock:			
Incentive plans, net, 764,201 shares from reacquired stock	--	(7)	--
ESOP, 5,890,873 shares from reacquired stock	--	--	(130)
Conversion of notes and debentures, 466,481 shares	1	7	--
Balances at December 31, 1998	$ 81	$ 504	$ (130)
(Common shares: issued, 154,823,496; reacquired, 53,995,692)			
Net income	--	--	--
Common dividends, $1.08 per common share	--	--	--
Foreign currency translation adjustment	--	--	--
Impact of allocation of shares held by ESOP	--	--	7
Purchase of common stock, 126,893 shares	--	--	--
Warrants issued in connection with CRESTS Units offering (Note 7)	--	88	--
Issuance of common stock:			
Incentive plans, net, 535,220 shares from reacquired stock	--		
Conversion of notes and debentures, 153,234 shares	--	2	--
Public offering, 5,000,000 shares	2	163	--
Balances at December 31, 1999	$ 83	$ 757	$ (123)
(Common shares: issued,159,976,730; reacquired, 53,587,365)			
Net income	--	--	--
Common dividends, $0.62 per common share	--	--	--
Foreign currency translation adjustment	--	--	--
Impact of allocation of shares held by ESOP	--	--	8
Purchase of common stock, 174,547 shares	--	--	--
Issuance of common stock:			
Incentive plans, net, 1,319,519 shares, from reacquired stock	--	(31)	--

Conversion of notes and debentures, 7,714 shares	--	--	--
Balances at December 31, 2000	$ 83	$ 726	$ (115)
(Common shares: issued,159,984,444; reacquired, 52,442,393)			

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

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HERCULES INCORPORATED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(Dollars in millions) Year Ended December 31	2000	1999
Net income	$ 98	$ 168
Foreign currency translation, net of tax	(99)	(31)
Comprehensive income (loss)	$ (1)	$ 137

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

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HERCULES INCORPORATED
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The Consolidated Financial Statements include the accounts of Hercules Incorporated and all majority-owned subsidiaries where control exists. Following the acquisition of BetzDearborn, the company continued BetzDearborn's practice of using a November 30 fiscal year-end for certain former BetzDearborn non-U.S. subsidiaries to expedite the year-end closing process. Investments in affiliated companies with a 20% or greater ownership interest are accounted for using the equity method of accounting and, accordingly, consolidated income includes Hercules' share of their income.

USE OF ESTIMATES

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

REVENUE RECOGNITION

The company recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer or services are performed in accordance with terms of the agreement, title and risk of loss have been transferred, collectibility is probable, and pricing is fixed and determinable. Accruals are made for sales returns and other allowances based on the company's experience. The corresponding shipping and handling costs are included in cost of sales.

ENVIRONMENTAL EXPENDITURES

Environmental expenditures that pertain to current operations or future revenues are expensed or capitalized according to the company's capitalization policy. Expenditures for remediation of an existing condition caused by past operations that do not contribute to current or future revenues are expensed. Liabilities are recognized for remedial activities when the cleanup is probable and the cost can be reasonably estimated.

CASH AND CASH EQUIVALENTS

Cash in excess of operating requirements is invested in short-term, income-producing instruments. Cash equivalents include commercial paper and other securities with original maturities of 90 days or less. Book value approximates fair value because of the short maturity of those instruments.

INVENTORIES

Inventories are stated at the lower of cost or market. Domestic inventories are valued predominantly on the last-in, first-out (LIFO) method. Foreign and certain domestic inventories, which in the aggregate represented 62% of total inventories at December 31, 2000, are valued principally on the average-cost method.

PROPERTY AND DEPRECIATION

Property, plant and equipment are stated at cost. The company changed to the straight-line method of depreciation, effective January 1, 1991, for newly acquired processing facilities and equipment. Assets acquired before then continue to be depreciated by accelerated methods. The company believes straight-line depreciation provides a better matching of costs and revenues over the lives of the assets. The estimated useful lives of depreciable assets are as follows: buildings - 30 years; plant machinery and equipment - 15 years; other machinery and equipment - 3 to 15 years.

Maintenance, repairs and minor renewals are charged to income; major renewals and betterments are capitalized. Upon normal retirement or replacement, the cost of property (less proceeds of sale or salvage) is charged to income.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets are amortized on a straight-line basis over the estimated future periods to be benefited, generally 40 years for goodwill, customer relationships and trademarks and tradenames and 5 to 15 years for other intangible assets.

LONG-LIVED ASSETS

The company reviews its long-lived assets, including goodwill and other intangibles, for impairment on an exception basis whenever events or changes in circumstances indicate carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If an impairment loss has occurred based on expected future cash flows (undiscounted), the loss is recognized in the income statement. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset. The fair value represents expected future cash flows from the use of the assets, discounted at the rate used to evaluate potential investments.

FOREIGN CURRENCY TRANSLATION

The financial statements of Hercules' non-U.S. entities are translated into U.S. dollars using current rates of exchange, with gains or losses included in the other comprehensive income (loss). The related allocation for income taxes is not significant.

DERIVATIVE INSTRUMENTS AND HEDGING

Derivative financial instruments have been used to hedge risk caused by fluctuating currency and interest rates. The company enters into forward-exchange contracts and currency swaps to hedge foreign currency exposure. Decisions regarding hedging are made on a case-by-case basis, taking into consideration the amount and duration of the exposure, market volatility, and economic trends. The company uses the fair-value method of accounting, recording realized and unrealized gains and losses on these contracts monthly. They are included in other income (expense), net, except for gains and losses on contracts to hedge specific foreign currency commitments, which are deferred and accounted for as part of the transaction. Gains or losses on instruments which have been used to hedge the value of investments in certain non-U.S. subsidiaries are included in the foreign currency translation adjustment. It is the company's policy to match the term of financial instruments with the term of the underlying designated item. If the designated item is an anticipated transaction no longer likely to occur, gains or losses from the instrument designated as a hedge are recognized in current period earnings. The company does not hold or issue financial instruments for trading purposes. In the Consolidated Statement of Cash Flow, the company reports the cash flows resulting from its hedging activities in the same category as the related item that is being hedged.

The company used interest rate swap agreements to manage interest costs and risks associated with changing rates. The differential to be paid or received is accrued as interest rates change and is recognized in interest expense over the life of the agreements. Counter parties to the forward exchange, currency swap, and interest rate swap contracts are major financial institutions. Credit loss from counter party nonperformance is not anticipated. During 2000 the interest rate swap portfolio was terminated due to the conversion of foreign denominated debt to U.S. dollar denominated debt in the first half of 2000; and the debt restructing in November 2000 that replaced variable rate debt with fixed rate debt.

STOCK-BASED COMPENSATION

Compensation costs attributable to stock option and similar plans are recognized based on any excess of the quoted market price of the stock on the date of grant over the amount the employee is required to pay to acquire the stock (the intrinsic-value method under Accounting Principles Board Opinion 25 (APB 25). Such amount, if any, is accrued over the related vesting period, as appropriate. Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation," requires companies electing to continue to use the intrinsic-value method to make pro forma disclosures of net income and earnings per share as if the fair-value-based method of accounting had been applied.

COMPUTER SOFTWARE COSTS

Effective January 1, 1999, we adopted the American Institute of Certified Public Accountants Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). Our prior accounting was generally consistent with the requirements of SOP 98-1 and, accordingly, adoption of SOP 98-1 had no material effect. Computer software costs are being amortized over a period of 5 to 10 years.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133," and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," requires that all derivative instruments be recorded on the balance sheet at their fair value. SFAS 133, as amended, is effective for all fiscal quarters of fiscal years beginning after December 31, 2000. The Company adopted SFAS 133 effective January 1, 2001. As discussed in Notes 6 and 22, during 2000, the Company converted substantially all of its foreign currency denominated borrowings to fixed rate U.S. dollar denominated borrowings and closed most of its outstanding interest rate swaps. Based on these actions and a review of our contracts and agreements, the Company believes that the adoption of SFAS No. 133 will not have a material effect on its earnings or statement of financial position. However, due to certain provisions of our debt agreements, the results of operations could be materially affected in 2001 if it becomes more likely that a change of control will occur before November 15, 2001.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by Staff Accounting Bulletin Nos. 101A and 101B, was effective October 1, 2000. Adoption of SAB 101 did not have a material effect.

RECLASSIFICATIONS

Certain amounts in the 1999 and 1998 consolidated financial statements and notes have been reclassified to conform to the 2000 presentation.

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HERCULES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ACQUISITIONS

All acquisitions have been accounted for under the purchase method. The results of operations of the acquired businesses are included in the consolidated financial statements from the dates of acquisition.

BetzDearborn - On October 15, 1998, the company acquired all of the outstanding shares of BetzDearborn Inc., a global specialty chemical company engaged in the treatment of water and industrial process systems, for $2,235 million in cash and $186 million in common stock exchanged for the shares held by the BetzDearborn ESOP Trust. The shares were valued using the quoted market price of the stock at the time of exchange. In addition, the company assumed debt with a fair value of $117 million and repaid $557 million of other long-term debt held by BetzDearborn. This acquisition was financed with borrowings under a $3,650 million credit facility with a syndicate of banks (see Note 6).

During 1999, we completed the BetzDearborn purchase price allocation and increased goodwill by $96 million, to $2,170 million. The increase to goodwill results from adjustments to the fair value of net tangible assets acquired, completion of the evaluation of pre-acquisition contingencies related to litigation and claims, finalization of plans to exit BetzDearborn activities and foreign currency translation adjustments, net of related tax effects. Goodwill is determined as follows:

	(Dolla milli
Cash paid, including transaction costs	$2,23
Common stock exchanged for ESOP trust shares	18
Fair value of debt assumed	11
Payment of BetzDearborn long-term debt	55
	$3,09
Less: Fair value of net tangible assets acquired	65
Fair value of identifiable intangible assets acquired	72
Purchased in-process research and development	13
BetzDearborn goodwill as of the date of acquisition	$1,59

In accordance with the purchase method of accounting, the adjusted purchase price was allocated to the estimated fair value of net assets acquired, with the excess recorded as goodwill. Goodwill is amortized over 40 years on a straight-line basis. Identified intangibles are amortized over 10 to 40 years, on a straight-line basis. Additionally, approximately $130 million of the purchase price was allocated to purchased in-process research and development and was charged to expense at the date of acquisition (see Note 16).

As of the acquisition date, the company began to formulate plans to combine the operations of BetzDearborn and Hercules. We formed a program office, engaged outside consultants and established several functional integration teams to formulate and implement the plan and capture anticipated synergies. At December 31, 1998, the company had identified and approved various actions such as personnel reductions, consolidation of operations and support functions, closure of redundant or inefficient offices and facilities and relocation of former BetzDearborn employees. Accordingly, the company included a $98 million liability as part of the purchase price allocation. The liability included approximately $74 million related to employee termination benefits and $24 million for office and facility closures, relocation of BetzDearborn employees and other related exit costs (see Note 14).

FiberVisions L.L.C. - In July 1998, the company completed the acquisition of the 49% share of FiberVisions L.L.C. owned by its joint venture partner, Jacob Holm & Sons A/S, for approximately $230 million in cash, plus assumed debt of $188 million. The allocation of the purchase price resulted in $188 million of goodwill, which is being amortized over its estimated useful life of 40 years.

The following unaudited pro forma information presents a summary of consolidated results of operations of the company as if the BetzDearborn and FiberVisions acquisitions had occurred at the beginning of the year ended December 31, 1998:

(Dollars in millions, except per share)

	19
	--
Net sales	3,2
Income (loss) before effect of change in accounting principle	(
Net income (loss)	(
Net earnings per share:	
Basic	
Earnings before effect of change in accounting principle	(0.
Earnings per share	(0.
Diluted	
Earnings before effect of change in accounting principle	(0.
Earnings per share	(0.

The pro forma results of operations are for comparative purposes only and reflect increased amortization and interest expense resulting from the acquisitions described above, but do not include any potential cost savings from combining the acquired businesses with the company's operations. Consequently, the pro forma results do not reflect the actual results of operations had the acquisitions occurred on the dates indicated, and are not intended to be a projection of future results or trends.

Other - The company also made five other acquisitions; three in 1998, one in 1999 and one in 2000, for an aggregate purchase price of approximately $121 million in cash. These acquisitions included the worldwide paper chemicals group of Houghton International, Inc. and Citrus Colloids Ltd., a pectin manufacturer, in April 1998; Alliance Technical Products, Ltd., a rosin dispersions company, in September 1998; the Scripset(R) water-soluble polymer resin business of Solutia Inc. in July 1999; and Quaker Chemical Corporation's paper chemicals business in May 2000. Allocations of the purchase prices for these acquisitions resulted in approximately $75 million of goodwill, which is being amortized over estimated useful lives ranging from 30 to 40 years. Citrus Colloids Ltd. was subsequently divested in September 2000 as part of the Food Gums transaction.

2. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, consists of:

	(Dollars in millions)	
	2000	1999
	----	----

Trade	$562	$639
Other	91	143
Total	653	782
Less allowance for doubtful accounts	27	16
	$626	$766

At December 31, 2000, net trade accounts receivable from customers located in the United States, Europe, the Americas and Asia were $284 million, $170 million, $51 million and $30 million, respectively. At December 31, 1999, net trade accounts receivable from customers located in the United States, Europe, the Americas and Asia were $426 million, $151 million, $35 million and $11 million, respectively.

3. INVENTORIES

The components of inventories are:

	(Dollars in millions) 2000	1999
Finished products	$171	$187
Materials, supplies and work in process	134	193
	$305	$380

Inventories valued on the LIFO method were lower than if valued under the average-cost method, which approximates current cost, by $31 million at both December 31, 2000 and 1999.

4. INVESTMENTS

Total equity investments in affiliated companies were $40 million at December 31, 2000, and $10 million at December 31, 1999.

On September 29, 2000, we sold our Food Gums Division to CP Kelco, a joint venture with Lehman Brothers Merchant Banking Partners II, L.P. We retained a 28.6% equity position with a historical cost basis of $30 million in CP Kelco. During the fourth quarter of 2000, Lehman Brothers made an additional capital contribution to CP Kelco thereby reducing our equity position to approximately 23%.

Other investments, at cost or less, were $13 million and $37 million at December 31, 2000 and 1999, respectively. Included in these amounts are non-current marketable securities aggregating $12 million and $32 million for the corresponding years, classified as "available for sale." The value of these investments, based on market quotes, approximates book values.

5. SHORT-TERM DEBT

A summary of short-term debt follows:

	(Dollars in million	
	2000	1999
Banks	$118	$26
Current maturities of long-term debt	143	652
	$261	$678

Bank borrowings represent primarily foreign overdraft facilities and short-term lines of credit, which are generally payable on demand with interest at various rates. Book values of bank borrowings approximate market value because of their short maturity period.

At December 31, 2000, Hercules had $182 million of unused short-term lines of credit that may be drawn as needed, with interest at a negotiated spread over lenders' cost of funds. Lines of credit in use at December 31, 2000, were $118 million. Weighted-average interest rates on short-term borrowings at December 31, 2000 and 1999 were 5.88% and 6.04%, respectively.

6. LONG-TERM DEBT

A summary of long-term debt follows:

	(Dollars in millions)	
	2000	1999
6.15% notes due 2000	$ --	$ 100
6.60% notes due 2027 (a)	100	100
7.85% notes due 2000	--	25
6.625% notes due 2003 (b)	125	125
11.125% senior notes due 2007 (c)	400	--
8% convertible subordinated debentures due 2010 (d)	3	3
Term loan tranche A due in varying amounts through 2003 (e)	875	1,187
Term loan tranche C due 2000 (e)	--	318
Term loan tranche D due 2005 (e)	375	--
Revolving credit agreement due 2003 (e)	437	336
ESOP debt (f)	101	106
Term notes at various rates from 5.23% to 9.72% due in varying amounts through 2006 (g)	65	80
Variable rate loans	--	41
Other	4	8
	$ 2,485	$ 2,429
Current maturities of long-term debt	(143)	(652
Net long-term debt	$ 2,342	$ 1,777

HERCULES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(a) 30-year debentures with a 10-year put option, exercisable by bondholder at a redemption price equal to principal amount.

(b) Par value of $125 million issued June 1993.

(c) The senior notes accrue interest at 11 1/8% per annum, payable semi-annually commencing May 15, 2001. The senior notes are guaranteed by each of Hercules' current and future wholly owned domestic restricted subsidiaries. At any time prior to November 15, 2003, Hercules may on any one or more occasions, redeem up to 35% of the aggregate principal amount of the senior notes issued at a redemption price of 111.125% of the principal amount, plus accrued and unpaid interest and liquidated damages, if any, to the redemption date, with the net cash proceeds of one or more public equity offerings; provided that (i) at least 65% of the aggregate principal amount of the senior notes issued under the indenture remains outstanding immediately after the occurrence of such redemption (excluding notes held by Hercules and its Subsidiaries); and (ii) the redemption occurs within 45 days of the date of the closing of such public equity offering. At any time prior to November 15, 2001, Hercules may also redeem all or part of the senior notes upon the occurrence of a change of control at a redemption price equal to 111.125% of the principal amount of the senior notes redeemed, plus accrued and unpaid interest and liquidated damages, if any, to the date of redemption. Except as described above, the senior notes will not be redeemable at Hercules' option prior to maturity. Hercules is not required to make mandatory redemption or sinking fund payments with respect to senior notes. If a change of control occurs, each holder of the notes will have the right to require Hercules to repurchase all or any part of that Holder's notes pursuant to a change of control offer on the terms set forth in the indenture. In the change of control offer, Hercules will offer a change of control payment in cash equal to (i) if such change of control is prior to November 15, 2001, 111.125% of the aggregate principal amount of notes repurchased and (ii) if such change of control is after November 15, 2001, 101% of the aggregate principal amount of the notes repurchased plus, in each case, accrued and unpaid interest and Liquidated Damages, if any, on the notes repurchased, to the date of purchase. The 11 1/8% senior notes are subject to a registration rights agreement that requires Hercules to file an Exchange Offer registration statement with the Securities and Exchange Commission within 270 days (August 11, 2001) and to use its best efforts to have the registration statement declared effective within 330 days (see Note 23).

(d) Subordinated debentures are convertible into common stock at $14.90 per share and are redeemable at the option of the company at varying rates. The annual sinking fund requirement of $5 million, beginning in 1996, has been satisfied through conversions of debentures.

(e) The BetzDearborn acquisition was financed with borrowings under a $3,650 million credit facility with a syndicate of banks, and was consummated on October 15, 1998. The syndication included three tranches of varying maturity term loans totaling $2,750 million, of which $875 million was outstanding at year end 2000, and a $900 million revolving credit agreement of which $437 million was outstanding at year end 2000. On April 19, 1999, the credit agreement was amended to allow borrowings in euros, as well as U.S. dollars. Approximately U.S. $950 million of term loan tranche A domestic borrowings were converted into indebtedness denominated in euros during the second quarter 1999. In addition, a Canadian subsidiary of ours can borrow up to U.S. $100 million from select lenders in Canada in Canadian dollars that bears interest at Bankers' Acceptances Rate plus 2.25% at December 31, 2000. Interest rates are reset for one, three, or six month periods at the company's option. The company's credit agreement contains various restrictive covenants that, among other things, require maintenance of certain financial covenants: leverage, net worth and interest coverage, and provides that the entry of judgment or judgments involving aggregate liabilities of $50 million or more be vacated, discharged, stayed or bonded pending appeal within 60 days of entry. Issuance costs related to the financing are included in deferred charges and other assets and are being amortized over the term of the loans, using the effective interest method. As of December 31, 2000, $459 million of the $900 million multi-currency revolver is available for use. However, the actual availability under the revolving credit agreement is constrained by our ability to meet covenants in our senior credit facility. In July 2000, the credit agreement was amended to modify the maximum leverage ratio, defined as debt/EBITDA, for the period April 1, 2000 through June 30, 2000. During the third quarter of 2000, we were granted waivers of some of the financial covenants in our senior credit facility and our ESOP credit facility through November 15, 2000. Effective November 14, 2000, our senior credit facility and our ESOP credit facility were amended to (i) modify certain financial covenants; (ii) change the mandatory prepayment provisions; and (iii) provide for security, among other things. The senior credit facility amendments were conditioned upon, among other things, the issuance by us of the 11-1/8% senior notes and term loan tranche D (described below). The amendment to the senior credit facility increased the interest rate on amounts outstanding under the revolving credit agreement, term loan tranche A and term loan tranche C to LIBOR + 2.25% (8.90% at December 31, 2000). The senior credit facility and ESOP credit

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facility, as amended, are secured by liens on our property and assets (and those of our Canadian Subsidiaries), a pledge of the stock of substantially all of our domestic subsidiaries and 65% of the stock of foreign subsidiaries directly owned by us and a pledge of domestic intercompany indebtedness. In connection with the amendments to the senior credit facility and the ESOP credit facility, our 6.60% notes due 2027 and our 6.625% notes due 2003 were also secured as required by the indenture under which such notes were issued. As a result of the amendments, the company was in compliance with all of the covenants. On November 14, 2000, in conjunction with and conditioned upon the effectiveness of the third amendment, we borrowed $375 million under the senior credit facility (term loan tranche D) and we issued $400 million of 11-1/8% senior notes due 2007. Term loan tranche D initially bore interest at LIBOR + 2.75% (9.47% at December 31, 2000), matures on November 15, 2005, and will require only nominal principal payments prior to maturity. On January 23, 2001, our corporate credit rating was downgraded by Standard & Poor's Rating Services to BB which resulted in an increase to the interest rates on the term loan tranche A and term loan tranche D to LIBOR +2.75% and LIBOR + 3.25%, respectively (see Note 23).

(f) The company assumed a $94 million loan related to the BetzDearborn ESOP Trust. The proceeds of the loan were originally used by the ESOP Trust for the purchase of BetzDearborn preferred shares that, upon acquisition by Hercules, were converted into equivalent shares of Hercules common stock (see Note 10). The loan was recorded at a fair market value of $110 million at the date of acquisition, and the $16 million fair value step-up is being amortized over the term of the debt. The loan and guarantee mature in June 2009. During the third quarter of 2000, we were granted waivers of some of the financial covenants in our senior credit facility and our ESOP credit facility through November 15, 2000. Effective November 14, 2000, our senior credit facility was permanently amended. The senior credit facility and ESOP credit facility, as amended, are secured by liens on our property and assets (and those of our Canadian Subsidiaries), a pledge of the stock of substantially all of our domestic subsidiaries and 65% of the stock of foreign subsidiaries directly owned by us and a pledge of domestic intercompany indebtedness. Effective with the November 14, 2000 amendment, the rate was increased to 11.95%. Effective January 23, 2001, as a result of the lowered credit rating, the interest rate on the loan and guarantee increased to 12.95% (see Note 23).

(g) Debt assumed in conjunction with the acquisition of FiberVisions L.L.C. (see Note 1), net of repayments through December 31, 2000.

Long-term debt maturities during the next five years are $143 million in 2001, $328 million in 2002, $859 million in 2003, $25 million in 2004 and $385 million in 2005.

7. COMPANY-OBLIGATED PREFERRED SECURITIES OF SUBSIDIARY TRUST

Redeemable Hybrid Income Overnight Shares

In November 1998, Hercules Trust V, our wholly owned subsidiary, completed a private placement of $200 million Redeemable Hybrid INcome Overnight Shares (RHINOS). We repaid the RHINOS with a portion of the proceeds from the offering of 11-1/8% senior notes on November 14, 2000.

Trust Originated Preferred Securities

In March 1999, Hercules Trust I ("Trust I"), our wholly owned subsidiary trust, completed a $362 million underwritten public offering of 14,500,000 shares of 9.42% Trust Originated Preferred Securities. Trust I invested the proceeds from the sale of the Preferred Securities in an equal principal amount of 9.42% Junior Subordinated Deferrable Interest Debentures of Hercules due March 2029. We used these proceeds to repay long-term debt.

Trust I distributes quarterly cash payments it receives from Hercules on the Debentures to Preferred Security holders at an annual rate of 9.42% on the liquidation amount of $25 per Preferred Security. We may defer interest payments on the Debentures at any time, for up to 20 consecutive quarters. If this occurs, Trust I will also defer distribution payments on the Preferred Securities. The deferred distributions, however, will accumulate distributions at a rate of 9.42% per annum.

Trust I will redeem the Preferred Securities when the Debentures are repaid at maturity on March 31, 2029. Hercules may redeem the Debentures, in whole or, on or after March 17, 2004, in part, before their maturity at a price equal to 100% of the principal amount of the Debentures redeemed, plus accrued interest. When Hercules redeems any Debentures before their maturity, Trust I will use the cash it receives to redeem Preferred Securities and common securities as provided in the trust agreement. Hercules guarantees the obligations of Trust I on the Preferred Securities.

CRESTS Units

In July 1999, we completed a public offering of 350,000 CRESTS Units with Hercules Trust II, a wholly owned subsidiary trust ("Trust II"). This transaction provided net proceeds to Hercules and Trust II of $340.4 million. The preferred security component of the CRESTS Units was initially valued at $741.46 per unit and the warrant component of the CRESTS Units was initially valued at $258.54 per warrant. Each CRESTS Unit consists of one preferred security of Trust II and one warrant to purchase 23.4192 shares of Hercules common stock at an initial exercise price of $1,000 (equivalent to $42.70 per share). The preferred security and warrant components of each CRESTS Unit may be separated and transferred independently. The warrants may be exercised, subject to certain conditions, at any time before March 31, 2029, unless there is a reset and remarketing event. No reset and remarketing event will occur before July 27, 2004, unless all of our common stock is acquired in a transaction that includes cash for a price above a predetermined level. Trust II used the proceeds from the sale of its preferred securities to purchase junior subordinated deferrable interest debentures of Hercules ("debentures"). As of December 31, 2000, no warrants had been exercised.

We pay interest on the debentures, and Trust II pays distributions on its preferred securities. Both are paid quarterly at an annual rate of 6 1/2% of the scheduled liquidation amount of $1,000 per debenture and/or preferred security until the scheduled maturity date and redemption date of June 30, 2029, unless there is a reset and remarketing event. We guarantee payments by Trust II on its preferred securities. Trust II must redeem the preferred securities when the debentures are redeemed or repaid at maturity.

We used the proceeds from the CRESTS Units offering to repay long-term debt. Issuance costs related to the preferred security component of the CRESTS Units are being amortized over the life of the security and costs related to the warrants were charged to additional paid-in capital.

Floating Rate Preferred Securities

In December 1999, Hercules Trust VI, our wholly owned subsidiary trust ("Trust VI"), completed a $170 million private offering of 170,000 shares of Floating Rate Preferred Securities. We repaid the debentures with a portion of the proceeds from the offering of 11 1/8% senior notes on December 29, 2000.

8. SERIES PREFERRED STOCK

There are 2,000,000 shares of series preferred stock without par value authorized for issuance, none of which have been issued.

9. COMMON STOCK

Hercules common stock has a stated value of $25/48, and 300,000,000 shares are authorized for issuance. At December 31, 2000, a total of 27,960,812 shares were reserved for issuance for the following purposes: 402,253 shares for sales to the Savings Plan Trustee; 17,135,353 shares for the exercise of awards under the Stock Option Plan; 1,847,855 shares for awards under incentive compensation plans; 176,492 shares for conversion of debentures and notes; 202,139 shares for employee stock purchases; and 8,196,720 shares for exercise of the warrant component of the CRESTS Units.

For the company's stock repurchase program, from its start in 1991 through year-end 2000, the Board authorized the repurchase of up to 74,650,000 shares of company common stock. Of that total, 6,150,000 shares were intended to satisfy requirements of various employee benefit programs. During this period, a total of 66,792,032 shares of common stock were purchased in the open market at an average price of $37.29 per share.

In July 1999, we completed a public offering of 5,000,000 shares of our common stock, which provided us with proceeds of $171.5 million, net of underwriting fees of $3.5 million. We used the proceeds from the common stock offering for the partial repayment of a term loan under our credit facility. Issuance costs associated with the stock offering were charged to additional paid-in capital.

10. EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

In connection with the acquisition of BetzDearborn in 1998, the company acquired its ESOP and related trust as a long-term benefit for substantially all of BetzDearborn's U.S. employees. The plan is a supplement to BetzDearborn's 401(k) plan. The ESOP trust had long-term debt of $91 million and $93 million at December 31, 2000 and 1999, respectively, which is guaranteed by Hercules. Upon acquisition, the debt had a fair value in excess of its recorded amount for which a step-up was recorded to be amortized over the remaining term of the debt. The fair value, included in long-term debt, was $101 million and $106 million at December 31, 2000 and 1999, respectively. The proceeds of the original loan were used to purchase BetzDearborn convertible preferred stock, which, at the date of acquisition, was converted into Hercules common stock.

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Under the provisions of the BetzDearborn 401(k) program, employees may invest 2% to 15% of eligible compensation. The company's matching contributions, made in the form of Hercules common stock, are equal to 50% of the first 6% of employee contributions, and fully vest to employees upon the completion of 5 years of service. The company's matching contributions are included in ESOP expense. After satisfying the 401(k) matching contributions and the dividends on allocated shares, all remaining shares of ESOP stock are allocated to each eligible participant's account based on the ratio of each eligible participant's compensation to total compensation of all participants.

The company's contributions and dividends on the shares held by the trust are used to repay the loan, and the shares are allocated to participants as the principal and interest are paid. The company's common stock dividends were suspended during the fourth quarter of 2000. Long-term debt is reduced as payments are made on the third party financing. In addition, unearned compensation is also reduced as the shares are allocated to employees. The unallocated shares held by the trust are reflected in unearned compensation as a reduction in stockholders' equity on the balance sheet for $115 million and $123 million at December 31, 2000 and 1999, respectively.

	2000	1999
Allocated	1,858,459	1,807,
Unallocated	3,582,334	3,814,
Total shares held by ESOP	5,440,793	5,622,

The ESOP expense is calculated using the shares-allocated method and includes net interest incurred on the debt of $6 million and $5 million for 2000 and 1999, respectively. The company is required to make quarterly contributions to the plan, which enable the trust to service its indebtedness. Net ESOP expense is comprised of the following elements:

	(Dollars in millions) 2000	1999
ESOP expense	$ 13	$ 13
Common stock dividends (charged to retained earnings)	(3)	(6)
Net ESOP expense	$ 10	$ 7
ESOP Contributions	$ 10	$ 9

11. LONG-TERM INCENTIVE COMPENSATION PLANS

The company's long-term incentive compensation plans provide for the grant of stock options and the award of common stock and other market-based units to certain key employees and non-employee directors. Through 1994, shares of common stock awarded under these plans normally were either restricted stock or performance shares. During the restriction period, award holders have the rights of stockholders, including the right to vote and receive cash dividends, but they cannot transfer ownership.

In 1995, Hercules changed the structure of the long-term incentive compensation plans to place a greater emphasis on shareholder value creation through grants of regular stock options, performance-accelerated stock options, and Cash Value Awards (performance-based awards denominated in cash and payable in shares of common or restricted stock, subject to the same restrictions as restricted stock). Restricted stock and other market-based units are awarded with respect to certain programs. The number of awarded shares outstanding was 491,488 at December 31, 2000, and 926,689 and 1,083,613 at December 31, 1999 and 1998, respectively.

At December 31, 2000, under the company's incentive compensation plans, 1,847,855 shares of common stock were available for grant as stock awards or stock option awards. Stock awards are limited to approximately 15% of the total authorizations. Regular stock options are granted at the market price on the date of grant and are exercisable at various periods from one to five years after date of grant. Performance-accelerated stock options are also granted at

the market price on the date of grant and are normally exercisable at nine and one-half years. Exercisability may be accelerated based upon the achievement of predetermined performance goals. Both regular and performance-accelerated stock options expire 10 years after the date of grant.

Restricted shares, options and performance-accelerated stock options are forfeited and revert to the company in the event of employment termination, except in the case of death, disability, retirement, or other specified events.

The company applies APB Opinion 25 in accounting for its plans. Accordingly, no compensation cost has been recognized for the stock option plans. The cost of stock awards and other market-based units, which are charged to income over the restriction or performance period, amounted to $1 million for 2000, $3 million for 1999 and $5 million for 1998.

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HERCULES INCORPORATED
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Below is a summary of outstanding stock option grants under the incentive compensation plans during 1998, 1999 and 2000:

	Regular		Performa
	Number of Shares	Weighted-average Price	Number of Shares
January 1, 1998	4,001,288	$40.41	3,875,397
Granted	2,696,215	$32.75	1,170,890
Exercised	(279,795)	$24.93	-
Forfeited	(66,430)	$41.58	(15,035)
December 31, 1998	6,351,278	$37.83	5,031,252
Granted	1,705,335	$37.49	1,079,455
Exercised	(94,275)	$22.07	-
Forfeited	(158,780)	$37.80	(99,866)
December 31, 1999	7,803,558	$37.94	6,010,841
Granted	3,418,275	$16.75	187,500
Exercised	(28,500)	$11.83	-
Forfeited	(217,405)	$34.30	(38,916)
December 31, 2000	10,975,928	$31.49	6,159,425

The weighted-average fair value of regular stock options granted during 1998, 1999 and 2000 was $8.53, $8.18 and $7.19 respectively. The weighted-average fair value of performance-accelerated stock options granted during 1998, 1999 and 2000 was $9.24, $7.82 and $5.86 respectively.

Following is a summary of regular stock options exercisable at December 31, 1998, 1999, and 2000, and their respective weighted-average share prices:

Options Exercisable	Number of Shares	Weighted-average Exercise Price

December 31, 1998	3,300,628	$41.57
December 31, 1999	4,651,273	$39.95
December 31, 2000	6,237,147	$38.43

At December 31, 2000, there were 50,000 performance-accelerated stock options exercisable at a weighted average exercise price of $47.00 per share. There were no performance-accelerated stock options exercisable at December 31, 1998 and 1999.

Following is a summary of stock options outstanding at December 31, 2000:

	Outstanding Options			
Exercise Price Range	Number Outstanding at 12/31/00	Weighted-average Remaining Contractual Life	Weighted-average Exercise Price	E
Regular Stock Options				
$12 - $20	3,565,188	8.91	$16.72	
$20 - $30	1,778,275	7.31	$25.52	
$30 - $40	3,475,865	7.09	$38.20	
$40 - $50	1,436,400	6.07	$47.43	
$50 - $60	720,200	5.18	$55.09	
	10,975,928			
Performance-Accelerated Stock Options				
$14 - $40	2,289,405	7.84	$34.47	
$40 - $50	3,068,770	5.83	$47.09	
$50 - $61	801,250	5.08	$55.63	
	6,159,425			

The company currently expects that 100% of performance-accelerated stock options will eventually vest.

The company's Employee Stock Purchase Plan is a qualified non-compensatory plan, which allows eligible employees to acquire shares of common stock through systematic payroll deductions. The plan consists of three-month subscription periods, beginning July 1 of each year. The purchase price is 85% of the fair market value of the common stock on either the first or last day of that subscription period, whichever is lower. Purchases may range from 2% to 15% of an employee's base salary each pay period, subject to certain limitations. Currently, 202,139 shares of Hercules common stock are registered for offer and sale under the plan. Shares issued at December 31, 2000 and 1999, were 1,597,861 and 949,464, respectively. The company applies APB Opinion 25 and related interpretations in accounting for its Employee Stock Purchase Plan. Accordingly, no compensation cost has been recognized for the Employee Stock Purchase Plan.

Had compensation cost for the company's Stock-Based Incentive Plans and Employee Stock Purchase Plan been determined on the basis of fair value according to SFAS No. 123, the fair value of each option granted or share purchased would be estimated on the grant date using the Black-Scholes option pricing model.

The following weighted-average assumptions would be used in estimating fair value for 2000, 1999 and 1998:

Assumption	Regular Plan	Performance Accelerated Plan	Employee Stock Purchase Plan
Dividend yield	2%	3.4%	0.0%
Risk-free interest rate	5.88%	5.38%	5.41%
Expected life	7.1 yrs.	5 yrs.	3 mos.
Expected volatility	29.20%	27.31%	44.86%

The company's net income and earnings per share for 2000, 1999 and 1998 would approximate the pro forma amounts below:

	(Dollars in millions, except per sh		
	2000	1999	199
Net income			
As reported	$98	$168	$
Pro forma	$74	$149	$(5
Basic earnings per share			
As reported	$0.91	$1.63	$0.1
Pro forma	$0.69	$1.45	$(0.06
Diluted earnings per share			
As reported	$0.91	$1.62	$0.1
Pro forma	$0.69	$1.44	$(0.06

12. ADDITIONAL BALANCE SHEET DETAIL

	(Dollars in millions) 2000	1999
Property, plant, and equipment		
Land	$ 44	$ 58
Buildings and equipment	2,394	2,785
Construction in progress	126	135
Total	2,564	2,978
Accumulated depreciation and amortization	(1,460)	(1,657)

Net property, plant, and equipment	$ 1,104	$ 1,321

	(Dollars in millions) 2000	1999
Accrued expenses		
Payroll and employee benefits	$78	$63
Income taxes payable	17	35
Current portion of restructuring liability	34	66
Current portion of postretirement benefits	20	20
Accrued interest payable	30	44
Legal accrual	25	101
Environmental accrual	24	29
Dividends payable	-	28
Other	174	175
	$402	$561

13. GOODWILL AND OTHER INTANGIBLE ASSETS

At December 31, 2000 and 1999, the goodwill and other intangible assets were:

	(Dollars in millions) 2000	1999
Goodwill	$1,856	$1,915
Customer relationships	314	322
Trademarks and tradenames	238	244
Other intangibles	193	219
Total	2,601	2,700
Less accumulated amortization	(210)	(130)
Net goodwill and other intangible assets	$2,391	$2,570

14. RESTRUCTURING

The consolidated balance sheet reflects liabilities for employee severance benefits and other exit costs, primarily related to the plans initiated upon the acquisition of BetzDearborn in 1998. In addition, we terminated approximately 100 employees in connection with the sale of our nitrocellulose business (see Note 17). This resulted in the addition of approximately $4 million in severance benefits to the accrued liability. In the third quarter of 2000, we committed to plans relating to the restructuring of our Process Chemicals & Services segment and corporate realignment due to the divestiture of our non-core businesses. This resulted in the addition of approximately $13 million in severance benefits to the accrued liability (see Note 17). In the fourth quarter of 2000, we committed to a plan relating to the restructuring of several foreign entities in our Process Chemicals & Services segments. This resulted in the addition of approximately $1 million in severance benefits to the accrued liability. We estimate approximately 310 employees will be terminated in connection with the third and fourth quarter 2000 plans. As a result of these plans, we estimate approximately 1,705 employees will be terminated, of which approximately 1,360 employee terminations have occurred since inception of the aforementioned plans.

Approximately 375 employees were terminated during the year ended December 31, 2000. Cash payments during 2000 included $36 million for severance benefits and $9 million for other exit costs. We lowered the estimate for severance benefits and other exit costs related to the termination of both legacy Hercules and BetzDearborn employees by $4 million and $12 million, respectively.

Pursuant to the plans in place to merge the operations of BetzDearborn with Hercules and to rationalize the support infrastructure and other existing operations, approximately 600 employees were terminated and several facilities were closed during 1999. Cash payments during 1999 included $42 million for severance benefits and $14 million for other exit costs. As a result of the completion of plans to exit former BetzDearborn activities, an $8 million increase in exit costs related to facility closures and a $4 million reduction in employee severance benefits were reflected in the finalization of the purchase price allocation (see Note 1). We lowered the estimate of severance benefits related to the termination of Hercules employees by $4 million. The lower than planned severance benefits are the result of higher than anticipated attrition, with voluntary resignations not requiring the payment of termination benefits. Additionally in 1999, we incurred

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$3 million in severance charges related to a reduction in work force of approximately 20 manufacturing employees within the Chemical Specialties segment (see Note 17).

In 1998, Hercules incurred restructuring liabilities of $130 million in connection with the acquisition of BetzDearborn (see Notes 1 and 17). These liabilities included charges of $31 million for employee termination benefits and $5 million for exit costs related to facility closures. In addition, a $94 million liability was charged to goodwill as part of the purchase price allocation related to the acquisition of BetzDearborn, including $78 million for employee termination benefits and $16 million for office and facility closures, relocation of BetzDearborn employees and other related exit costs. Cash payments during 1998 included $15 million of severance benefits.

Cash payments of $1 million and $2 million for the 1997 Restructuring Plan are reflected in the table below in 2000 and 1999, respectively. Remaining amounts to be paid, with respect to this plan are $2 million at the end of 2001.

A reconciliation of activity with respect to the liabilities established for these plans is as follows:

	(Dollars in millions) 2000	1999
Balance at beginning of year	$77	$130
Cash payments	(45)	(56)
Additional termination benefits and exit costs	18	11
Reversals against goodwill	(12)	(4)
Reversals against earnings	(4)	(4)
Balance at end of year	$34	$77

Severance benefits payments are based on years of service and generally continue for 3 to 24 months subsequent to termination. Actions under the 1998 restructuring plans are substantially complete as of December 31, 2000. We anticipate that actions under the 1999 and 2000 restructuring plans will be substantially completed by the end of 2001.

15. PENSION AND OTHER POSTRETIREMENT BENEFITS

The company provides a defined benefit pension and postretirement benefit plans to employees. The following chart lists benefit obligations, plan assets and funded status of the plans.

	(Dollars in millions)			
	Pension Benefits		Other Postretire Benefits	
	2000	1999	2000	1
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at January 1	$1,343	$1,499	$ 181	$
Service cost	26	30	1	
Interest cost	101	97	14	
Amendments	--	6	(7)	
Assumption change	71	(147)	8	
Settlements	(6)	--	--	
Translation difference	(16)	(19)	--	
Actuarial loss (gain)	11	(8)	15	
Benefits paid from plan assets	(103)	(115)	(4)	
Benefits paid by company	--	--	(20)	
Benefit obligation at December 31	$1,427	$1,343	$ 188	$

CHANGE IN PLAN ASSETS				
Fair value of plan assets at January 1	$1,732	$1,589	$ 7	$
Actual return on plan assets	(44)	275	--	
Asset transfers and receivables	4	--	--	
Settlements	(4)	--	--	
Company contributions (refund)	2	2	--	
Translation difference	(19)	(19)	--	
Benefits paid from plan assets	(103)	(115)	(4)	
Fair value of plan assets at December 31	$1,568	$1,732	$ 3	$
Funded status of the plans	$ 142	$ 389	$(186)	$(
Unrecognized actuarial loss (gain)	71	(197)	66	
Unrecognized prior service cost (benefit)	32	36	(22)	
Unrecognized net transition obligation	1	(11)	--	
Amount included in accrued expenses--other	--	--	20	
Prepaid (accrued) benefit cost	$ 246	$ 217	$(122)	$(
AMOUNTS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION CONSIST OF:				
Prepaid benefit cost	$ 246	$ 217	$ --	$
Accrued benefit liability	--	--	(122)	(
	$ 246	$ 217	$(122)	$(
ASSUMPTIONS AS OF DECEMBER 31				
Weighted-average discount rate	7.50%	8.00%	7.50%	8
Expected return on plan assets	9.25%	9.25%	9.25%	9
Rate of compensation increase	4.50%	4.50%	4.50%	4

	Pension Benefits			Other Postretirement Benefits		
	2000	1999	1998	2000	1999	1998
Service cost	$ 26	$ 30	$ 20	$ 1	$ 2	$ 1
Interest cost	101	97	83	14	13	10
Return on plan assets (expected)	(142)	(134)	(114)	(1)	(1)	(1)
Amortization and deferrals	3	3	12	(2)	(2)	(4)
Amortization of transition asset	(11)	(14)	(14)	--	--	--
Benefit cost (credit)	$ (23)	$ (18)	$ (13)	$12	$12	$ 6

Other Postretirement Benefits

The non-pension postretirement benefit plans are contributory health care and life insurance plans. The assumed participation rate in these plans for future eligible retirees was 60% for health care and 100% for life insurance. In August 1993, a Voluntary Employees' Beneficiary Association Trust was established and funded with $10 million of company funds. The company periodically obtains reimbursement for union retiree claims, while other claims are paid from company assets. The participant contributions are immediately used to cover claim payments, and for this reason do not appear as contributions to plan assets.

The assumed health care cost trend rate was 8.0% for the year ended December 31, 2000. The assumed health care cost trend rate was 4.5% for the year ended December 31, 1999, and was 5% for those under age 65 and 4.75% for those over age 65 for the year ended December 31, 1998. The assumed health care cost trend rate will be 7% in 2001, decreasing to 4.5% by 2004 and for all subsequent years.

A one-percentage point increase or decrease in the assumed health care cost trend rate would increase or decrease the postretirement benefit obligation by $6 million or $4 million, respectively, and would not have a material effect on aggregate service and interest cost components.

16. PURCHASED IN-PROCESS RESEARCH AND DEVELOPMENT

Purchased in-process research and development (IPR&D) represents the value assigned in a purchase business combination to research and development projects of the acquired business that were commenced but not yet completed at the date of the acquisition, and which, if unsuccessful, have no alternative future use in research and development activities or otherwise. Amounts assigned to purchased IPR&D must be charged to expense at the date of consummation of the purchase business combination. Accordingly, the company charged approximately $130 million to expense during 1998 for IPR&D related to the BetzDearborn acquisition (see Note 1).

The IPR&D projects were principally included in the water treatment and paper process divisions of the acquired business. The former Water Management Group provided specialty water and process treatment programs for boiler, cooling, influent and effluent applications to markets such as refining, chemical, paper, electric utility, food, industrial, commercial and institutional establishments. Overall, the products are used to control corrosion, scale, deposit formation and microbiological growth, conserve energy and improve efficiency. Additionally, the former Paper Process Group (PPG) brought to market custom-engineered programs for the process-related problems associated with paper production. These problems include deposition, corrosion, microbiological and foam control, fouling, deinking and felt conditioning.

Due to the uniqueness of each of the projects, the costs and effort required were estimated based on the information available at the date of acquisition. However, there is a risk that certain projects may not be completed successfully for a variety of reasons, including change in strategies, inability to develop cost-efficient treatment and changes in market demand or customer requirements.

The IPR&D valuation charge was measured by the stage of completion method, primarily calculated by dividing the costs incurred to the date of acquisition by the total estimated costs. These percentages were applied to the results of project-by-project discounted cash flow models that estimated the present value of residual cash flows deemed attributable solely to the underlying IPR&D.

The projected revenues, costs and margins in the cash flow forecasts were consistent with projections by management based on available historical data. The revenue projections were based on an opportunity analysis for each project, which took into account market and competitive conditions, potential customers and strategic goals. The weighted-average cost of capital for the overall business was estimated at 11%, and the risk-adjusted discount rate used in the IPR&D project valuation model was 13%.

17. OTHER OPERATING EXPENSES (INCOME), NET

Other operating expenses (income), net, in 2000 include a gain of $168 million from the sale of the Food Gums division. On September 28, 2000, we sold our Food Gums division to CP Kelco, a joint venture with Lehman Brothers Merchant Banking Partners II, L.P., which contributed approximately $300 million in equity. We received approximately $395 million in cash proceeds, recorded certain selling and tax expenses of approximately $77 million initially retaining a 28.6% equity position in CP Kelco. CP Kelco simultaneously acquired Kelco biogums business of Pharmacia Corporation (formerly Monsanto Corporation).

Partially offsetting the gain from the sale of the Food Gums Division is $66 million of charges for asset impairments and write-offs, primarily in the FiberVisions business. Restructuring charges of $18 million, including $4 million (below) related to the nitrocellulose divestiture, were incurred for 2000 plans, primarily relating to severance and termination benefits for approximately 410 employee terminations in our Process Chemicals & Services segment and corporate realignment due to the divestitures of our non-core businesses (Food Gums, Resins, nitrocellulose). Offsetting these restructuring charges was $4 million of reversals relating to prior year plans. Environmental charges of $8 million were incurred, offset by $11 million in recoveries of insurance for environmental claims. Additionally, we incurred a loss of $25 million, including $4 million for severance and termination benefits (Note 14), associated with the sale of the nitrocellulose business, and $5 million associated with the integration of the BetzDearborn acquisition were incurred. Also reflected in 2000 are $16 million severance benefits and compensation expense not associated with restructuring plans and $1 million for other items. The asset impairments were triggered by significantly higher raw material costs and the loss of a facility's major customer.

Other operating expenses (income), net, in 1999 include integration charges of $36 million, primarily for employee incentive and retention, consulting, legal and other costs associated with the BetzDearborn acquisition. During 1999, the company recognized charges of approximately $36 million related to a legal settlement and asset write-downs and disposal costs including impairment losses of approximately $10 million in the Chemical Specialties segment. Additionally, we recognized an additional $3 million of severance benefits under a plan to terminate approximately 20 employees, primarily manufacturing personnel (see Note 14). The asset write-down and severance charges were incurred primarily as a result of our decisions to exit the nitrocellulose business and rationalize assets in our resins business, which will no longer be utilized. Also during 1999, we realized a $16 million gain on the sale of our Agar business, a $6 million net environmental insurance recovery and a $4 million reversal of restructuring charges (see Note 14).

Other operating expenses in 1998 included $65 million in restructuring charges and $11 million in integration charges associated with the acquisition of BetzDearborn (see Note 1). The restructuring charges include employee termination benefits of $31 million for approximately 350 employees, facility closure costs of $5 million (see Note 14) and asset write-downs of $29 million including impairment losses of $15 million in the Functional Products segment and $6 million in the Chemical Specialties segment. The termination benefits, exit costs and facility closure costs relate primarily to the acquisition of BetzDearborn during 1998 (see Note 1). Asset impairments in the Chemical Specialties and Functional Products segments resulted from adverse business negotiations, the BetzDearborn acquisition, and the loss of a customer.

18. INTEREST AND DEBT EXPENSE

Interest and debt costs are summarized as follows:

	(Dollars in millions) 2000	1999	1998
Costs incurred	$175	$197	$112
Amount capitalized	11	12	11
Amount expensed	$164	$185	$101

19. OTHER INCOME (EXPENSE), NET

Other income (expense), net, consists of the following:

	(Dollars in millions) 2000	1999	1998
Net gains (losses) on dispositions	$ (1)	$10	$ 23
Interest income, net	5	7	36
Legal settlements and accruals, net	(10)	(7)	(66)
Bank charges	(3)	(2)	(1)
Minority interests	-	(2)	-
Interest rate swap termination	-	-	(13)
Miscellaneous expense, net	(9)	(8)	(1)
	$(18)	$(2)	$(22)

Net gains (losses) on dispositions include a loss of $1 million from the sale of non-operating real estate and other investments in 2000, and gains of $10 million in 1999 and $11 million in 1998. Also, a gain of $12 million in 1998 was recorded from the sale of Alliant Techsystems common stock held by Hercules (see Note 24). Interest income in 1998 relates primarily to the $500 million note received upon completion of the Tastemaker monetization. The 1998 legal settlements and accruals relate primarily to settlements of Qui Tam ("Whistle Blower") lawsuits. Legal settlements and accruals in 2000 and 1999 primarily represent certain other legal expenses and settlements associated with former operations of the company. The 1998 loss from terminated interest rate swaps is related to the company's financing effort upon the acquisition of BetzDearborn.

20. INCOME TAXES

The domestic and foreign components of income before taxes and effect of change in accounting principle are presented below:

	(Dollars in millions)		
	2000	1999	1998
Domestic	$ (17)	$ 4	$(147)
Foreign	181	239	224
	$ 164	$ 243	$ 77

A summary of the components of the tax provision follows:

	(Dollars in millions)		
	2000	1999	1998
Currently payable			
U.S. federal	$ 14	$(25)	$(26)
Foreign	70	82	74
State	4	(4)	(4)
Deferred			
Domestic	(21)	15	17
Foreign	(1)	7	7
Provision for income taxes	$ 66	$ 75	$ 68

Deferred tax liabilities (assets) at December 31 consisted of:

	(Dollars in millions)	
	2000	1999
Depreciation	$ 232	$ 235

Prepaid pension	68	84
Inventory	11	8
Investments	88	83
Other	79	51
Gross deferred tax liabilities	$ 478	$ 461
Postretirement benefits other than pensions	$ (70)	$ (59)
Accrued expenses	(172)	(165)
Loss carryforwards	(10)	(24)
Other	(104)	(71)
Gross deferred tax assets	(356)	(319)
Valuation allowance	28	16
	$ 150	$ 158

A reconciliation of the U.S. statutory income tax rate to the effective rate follows:

	2000	1999
U.S. statutory income tax rate	35%	35%
Purchased in-process research and development (Note 16)	-	-
Goodwill amortization	14	9
Valuation allowances	8	-
Research and development credits	(6)	-
Tax rate differences on subsidiary earnings	(5)	-
Incremental tax on cash repatriations from non-US subsidiaries	2	3
State taxes	2	(2)
Utilization of capital losses	(5)	(7)
Reserves	(6)	(6)
Other	1	(1)
Effective tax rate	40%	31%

The net operating losses have indefinite carryforward periods, but may be limited in their use in any given year.

The company provides taxes on undistributed earnings of subsidiaries and affiliates included in consolidated retained earnings to the extent such earnings are planned to be remitted and not reinvested permanently. The undistributed earnings of subsidiaries and affiliates on which no provision for foreign withholding or U.S. income taxes has been made amounted to approximately $246 million and $505 million at December 31, 2000 and 1999, respectively. U.S. and foreign income taxes that would be payable if such earnings were distributed may be lower than the amount computed at the U.S. statutory rate because of the availability of tax credits.

HERCULES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. EARNINGS PER SHARE

The following table shows the amounts used in computing earnings per share and the effect on income and the weighted-average number of shares of dilutive potential common stock:

	(Dollars and shares in millions, except per share)		
	2000	1999	1998
Basic EPS computation:			
Net income	$ 98	$ 168	$ 9
Weighted-average shares outstanding	107.2	103.2	96.3
Earnings per share	$ 0.91	$ 1.63	$ 0.10
DILUTED EPS COMPUTATION:			
Net income	$ 98	$ 168	$ 9
Weighted-average shares outstanding	107.2	103.2	96.3
Options	0.0	0.4	0.6
Convertible debentures	0.2	0.3	0.5
Adjusted weighted-average shares	107.4	103.9	97.4
Earnings per share	$ 0.91	$ 1.62	$ 0.10

22. DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The company enters into forward-exchange contracts and currency swaps to hedge currency exposure. The company used interest rate swap agreements to manage interest costs and risks associated with changing rates.

Notional Amounts and Credit Exposure of Derivatives

The notional amounts of derivatives summarized below do not represent amounts exchanged by the parties and, thus, are not a measure of the exposure of the company through its use of derivatives. The amounts exchanged are calculated on the basis of the notional amounts and the other terms of the derivatives, which relate to interest rates or exchange rates.

Interest Rate Risk Management

During 2000, the interest rate swap portfolio, which replaced variable rate debt with fixed rate debt, was substantially terminated due to the conversion of foreign denominated debt to U.S. dollar denominated debt in the first half of 2000 and the November 2000 debt restructuring.

During 1999, the interest rate swap portfolio went through a series of adjustments to reflect the replacement of U.S. dollar debt with a variable euro debt. The series of outstanding interest rate swap agreements at December 31, 1999, with maturities from 2001 through September 2003, effectively converted floating-rate debt into debt with a fixed rate ranging from 5.36% to 6.23% per year for U.S. dollar debt and 2.76% to 3.18% per year for euro debt. These swaps acted as a hedge against the company's interest rate exposure on its outstanding variable rate debt. For the years 2000 and 1999, these contracts resulted in a less than 1% change in the effective interest rate on the weighted-average notional principal amounts outstanding. The aggregate notional principal amounts at the end of 2000 and 1999 were $20 million and $1.2 billion, respectively.

The following table indicates the types of swaps used and their weighted-average interest rates:

(Dollars in millions)	2000	1999
Pay fixed on swaps notional amount (at year-end)	$ 20	$1,160
Average pay rate	3.8%	4.0%
Average receive rate	4.3%	3.9%

Foreign Exchange Risk Management

The company has selectively used foreign currency forward contracts and currency swaps to offset the effects of exchange rate changes on reported earnings, cash flow, and net asset positions. The primary exposures are denominated in the euro, Danish kroner and British pound sterling. Some of the contracts involve the exchange of two foreign currencies, according to local needs in foreign subsidiaries. The term of the currency derivatives is rarely more than three months. At December 31, 2000 and 1999, the company had outstanding forward-exchange contracts to purchase foreign currencies aggregating $19 million and $59 million and to sell foreign currencies aggregating $39 million and $72 million, respectively. Non-U.S. dollar cross-currency trades aggregated $188 million and $410 million at December 31, 2000 and 1999, respectively. The foreign exchange contracts outstanding at December 31, 2000 will mature during 2001.

Fair Values

The following table presents the carrying amounts and fair values of the company's financial instruments at December 31, 2000 and 1999:

	(Dolla	
	2000	
	Carrying Amount	Fair Value
Investment securities (available for sale)	$ 11	$ 11
Long-term debt	(2,342)	(2,325)
Company-obligated preferred securities of subsidiary trusts	(622)	(492)
Foreign exchange contracts	(1)	(1)
Interest rate swap contracts	---	---

Fair values of derivative contracts are indicative of cash that would have been required had settlement been made at December 31, 2000 and 1999.

Basis of Valuation

- Investment securities: Quoted market prices.
- Long-term debt: Present value of expected cash flows related to existing borrowings discounted at rates currently available to the company for long-term borrowings with similar terms and remaining maturities.
- Company obligated preferred securities of subsidiary trusts: Year-end interest rates and company common stock price.
- Foreign exchange contracts: Year-end exchange rates.
- Currency swaps: Year-end interest and exchange rates.
- Interest rate swap contracts: Bank or market quotes or discounted cash flows using year-end interest rates.

23. SUBSEQUENT EVENTS

During March 2001, definitive purchase and sale agreements were signed for the sale of our hydrocarbon resins division and select portions of our rosin resins divisions (the "Eastman transaction") to Eastman Chemical Resins, Inc., a subsidiary of Eastman Chemical Company ("Eastman"). Also in March 2001, we entered into an agreement to sell the Peroxides portion of our Resins division (the "Peroxide transaction"). We anticipate closing both transactions prior to May 31, 2001.

Both our senior credit facility and our ESOP Trust loan (Note 6) require quarterly compliance with certain financial covenants, including leverage ratio ("debt/EBITDA ratio"), an interest coverage ratio and minimum net worth. In addition, we are required to deliver our annual audited consolidated financial statements to the lenders within 90 days of the Company's fiscal year end.

Due to the delay in closing the Eastman transaction, which in turn delayed the pay down of the debt, our debt as of March 31, 2001 was significantly higher than planned. As a result, the Company would have been out of compliance with the debt/EBITDA ratio covenant of its senior credit facility as of March 31, 2001. In addition, due to the fact that the Company has extended the filing date for this 10-K, the Company's annual audited financial statements were not provided to the lenders by March 31, 2001.

On April 5, 2001, in consideration for the payment of a fee, our senior credit facility bank syndicate and ESOP lender granted waivers with respect to: (1) compliance with the debt/EBITDA ratio as of March 31, 2001, and (2) an extension of time to deliver the December 31, 2000 audited financial statements to April 17, 2001. These statements have now been completed.

With respect to the covenant regarding the debt/EBITDA ratio, the waiver requires that the Eastman transaction be consummated on or before May 31, 2001. In addition, the Company must demonstrate, as of the last day of the month in which the Eastman transaction closes, that the leverage ratio does not exceed 4.75 to 1.00 after giving affect to the application of the net cash proceeds from the Eastman transaction to prepay the Tranche A Term loan and the ESOP Trust loan. The Company expects to achieve this leverage ratio, although it may be necessary to close the Peroxide transaction prior to or in the same month as the Eastman transaction.

A breach of any of the terms and conditions of the waiver would give the lenders the right to accelerate repayment of substantially all of our indebtedness if they choose to do so. Upon any such acceleration, the debt would become immediately due and payable and any loan commitments terminated. Although no assurances can be given in this regard, we anticipate closing the Eastman and Peroxides transactions prior to May 31, 2001. Using the net proceeds for repayment of debt, we expect that we will be in compliance with all debt covenants during the second quarter 2001 as well as the remainder of the year.

While, as indicated above, we expect to satisfy all conditions of the waiver and remain in compliance with our debt covenants, current and future compliance is dependent upon generating sufficient EBITDA and cash flow which are, in turn, impacted by business performance, economic climate, competitive uncertainties and possibly the resolution of contingencies, including those set forth in Note 25 to the consolidated financial statements.

In the event the Company is not in compliance with the debt covenants at the conditional date or thereafter, we would pursue various alternatives, which may include, among other things, refinancing of debt, debt covenant amendments, or debt covenant waivers. While we believe we would be successful in pursuing these alternatives, there can be no assurance that we would be successful.

On April 10, 2001, the United States Court of Appeals for the Eighth Circuit issued an opinion in the United States, et al. v. Vertac Corporation, et al., as described in Item 3. In that opinion, the Appeals Court reversed the Court's October 12, 1993 grant of partial summary judgment, which had held Hercules jointly and severally liable for costs incurred and to be incurred at the Jacksonville site, and remanded the case back to the U.S. District Court for the Eastern District of Arkansas for a determination of whether the harms at the site giving rise to the government's claims are divisible. The Appeals Court also vacated the Court's October 23, 1998 order granting the United States' summary judgment motion and the February 8, 2000 judgment finding Hercules liable for 97.4% of the costs at issue, ordering that these issues be revisited following further proceedings with respect to divisibility. Finally, the Appeals Court affirmed the judgment of liability against Uniroyal.

As a result of the Appellate rulings described above, Hercules will be allowed to present both facts and law to the Court in support of Hercules' belief that it should not be liable under CERCLA for some or all of the costs incurred by the government in connection with the site because those harms are divisible. Should Hercules prevail on remand, any liability to the government will be either eliminated or reduced (see Note 25).

24. DIVESTITURES

In December 1999, we sold our 70% interest in Algas Marinas, our Chilean Agar business, for approximately $27 million. The transaction resulted in a pre-tax gain of approximately $16 million. This unit was included in the Functional Products segment and contributed approximately $24 million of revenue to this segment in 1999.

On September 28, 2000, we sold our Food Gums division to CP Kelco, a joint venture we entered into with Lehman Brothers Merchant Banking Partners II, L.P., which contributed approximately $300 million in equity. We received approximately $395 million in cash proceeds, recorded certain selling and tax expenses of approximately $77 million and retained a 28.6% equity position in CP Kelco. CP Kelco simultaneously acquired Pharmacia's Kelco biogums business. The net proceeds from the sale of the Food Gums division have been used to permanently reduce borrowings under our senior credit facility. Food Gums had net sales of approximately $208 million in 1999.

In November 2000, the company announced it was exploring strategic alternatives for all or parts of the Company with the assistance of Goldman Sachs & Co. and Credit Suisse First Boston. Since this process is ongoing, any potential sale of all or part of the business may have a material impact on the estimates and assumptions used to prepare the amounts reported in the consolidated financial statements and accompanying notes. There can be no assurance that a transaction will occur.

The majority of the remaining portions of the Resins division, including the ink toner portion that one of our joint venture partners exercised a right of first refusal to purchase in June 2000, are expected to be sold during 2001. The Resins division, including those portions associated with the Eastman and Peroxides transactions, had approximately $450 million in net sales in 2000.

25. COMMITMENTS AND CONTINGENCIES

Leases

Hercules has operating leases (including office space, transportation and data processing equipment) expiring at various dates. Rental expense was $57 million in 2000, $55 million in 1999 and $35 million in 1998.

At December 31, 2000, minimum rental payments under noncancelable leases aggregated $289 million with subleases of $20 million. A significant portion of these payments relates to a long-term operating lease for corporate office facilities. The net minimum payments over the next five years are $43 million in 2001, $36 million in 2002, $29 million in 2003, $23 million in 2004 and $19 million in 2005.

Environmental

Hercules has been identified as a potentially responsible party (PRP) by U.S. federal and state authorities, or by private parties seeking contribution, for the cost of environmental investigation and/or cleanup at numerous sites. The estimated range of the reasonably possible share of costs for the investigation and cleanup is between $64 million and $240 million. The actual costs will depend upon numerous factors, including the number of parties found responsible at each environmental site and their ability to pay; the actual methods of remediation required or agreed to; outcomes of negotiations with regulatory authorities; outcomes of litigation; changes in environmental laws and regulations; technological developments; and the years of remedial activity required, which could range from 0 to 30 years.

Hercules becomes aware of sites in which it may be named a PRP in investigatory and/or remedial activities through correspondence from the U.S. Environmental Protection Agency, or other government agencies, or through correspondence from previously named PRPs, who either request information or notify us of our potential liability. We have established procedures for identifying environmental issues at our plant sites. In addition to environmental audit programs, we have environmental coordinators who are familiar with environmental laws and regulations and act as a resource for identifying environmental issues.

Litigation over liability at Jacksonville, Arkansas, the most significant site, has been pending since 1980. As a result of a pretrial Court ruling in October 1993, Hercules has been held jointly and severally liable for costs incurred, and for future remediation costs, at the Jacksonville site by the District Court, Eastern District of Arkansas (the Court). The case is captioned United States, et al, v. Vertac Corporation, et al, USDC No. LR-C-80-109 and LR-C-80-110 (E.D. Ark.)

Other defendants in this litigation have either settled with the government or, in the case of the Department of Defense (DOD), have been held not liable. We appealed the Court's order finding the DOD not liable. On January 31, 1995, the Eighth Circuit Court of Appeals upheld the Court's order. We filed a petition to the U.S. Supreme Court requesting review and reversal of the Eighth Circuit Court ruling. This petition was denied on June 26, 1995, and the case was remanded to the Court for further proceedings.

On May 21, 1997, the Court issued a ruling that Uniroyal was liable and that Standard Chlorine was not liable to Hercules for contribution. Through the filing of separate summary judgment motions, Hercules and Uniroyal raised a number of defenses to the United States' ability to recover its costs. On October 23, 1998, the Court denied those motions and granted the United States' summary judgment motion, ordering Hercules and Uniroyal to pay the United States approximately $103 million plus any additional response costs incurred or to be incurred after July 31, 1997. Trial testimony on the issue of allocation between Hercules and Uniroyal was completed on November 6, 1998.

On August 6, 1999, the Court issued a final judgment in which it reduced the $103 million from the previous ruling on summary judgment by approximately $7 million (the amount received by the United States in previous settlements with other parties) and added applicable interest to reach a final total adjudged liability of approximately $100.5 million. This final judgment was based on the Court's findings that (a) Hercules and Uniroyal were jointly and severally liable for approximately $89 million plus any additional response costs incurred or to be incurred after May 31, 1998, and (b) Hercules was solely liable for an additional amount of approximately $11 million. This judgment finalizes the Court's

1993 and 1997 non-final orders in which Hercules and Uniroyal were held jointly and severally liable for past and future remediation costs at the site. Hercules appealed these rulings to the United States Court of Appeals for the Eighth Circuit on December 16, 1999.

On February 8, 2000, the Court issued a final judgment on the allocation between Uniroyal and Hercules, finding Uniroyal liable for 2.6 percent and Hercules liable for 97.4 percent of the costs at issue. Hercules appealed that judgment on February 10, 2000. That appeal has been docketed and consolidated with the earlier mentioned appeal. Oral argument before the United States Court of Appeals for the Eighth Circuit was held on June 12, 2000.

On April 10, 2001, the United States Court of Appeals for the Eighth Circuit issued an opinion in the consolidated appeals described above. In that opinion, the Appeals Court reversed the Court's October 12, 1993 grant of partial summary judgment, which had held Hercules jointly and severally liable for costs incurred and to be incurred at the Jacksonville site, and remanded the case back to the U.S. District Court for the Eastern District of Arkansas for a determination of whether the harms at the site giving rise to the government's claims are divisible. The Appeals Court also vacated the Court's October 23, 1998 order granting the United States' summary judgment motion and the February 8, 2000 judgment finding Hercules liable for 97.4% of the costs at issue, ordering that these issues be revisited following further proceedings with respect to divisibility. Finally, the Appeals Court affirmed the judgment of liability against Uniroyal.

As a result of the Appellate rulings described above, Hercules will be allowed to present both facts and law to the Court in support of Hercules' belief that it should not be liable under CERCLA for some or all of the costs incurred by the government in connection with the site because those harms are divisible. Should Hercules prevail on remand, any liability to the government will be either eliminated or reduced.

In 1992, Hercules brought suit against its insurance carriers for past and future costs for cleanup of certain environmental sites (Hercules Incorporated v. Aetna Casualty & Surety Company, et al., Del. Super., C.A. No. 92C-10-105 and 90C-FE-195-CV (consolidated)). In April 1998, the trial regarding insurance recovery for the Jacksonville, Arkansas site (see discussion above) was completed. The jury returned a "Special Verdict Form" with findings that, in conjunction with the Court's other opinions, were used by the Court to enter a judgment in August 1999. The judgment determined the amount of Hercules' recovery for past cleanup expenditures and stated that Hercules is entitled to similar coverage for costs incurred since September 30, 1997 and in the future. Hercules has not included any insurance recovery in the estimated range of costs above. Since entry of the Court's August 1999 order, Hercules has entered into settlement agreements with several of its insurance carriers and has recovered certain settlement monies. The terms of those settlements and amounts recovered are confidential. Hercules has appealed certain of the trial court's rulings to the Delaware Supreme Court. Oral argument was held on February 13, 2001 before the Delaware Supreme Court, but no ruling has been issued.

At December 31, 2000, the accrued liability of $64 million for environmental remediation represents management's best estimate of the probable and reasonably estimable costs related to environmental remediation. The extent of liability is evaluated quarterly. The measurement of the liability is evaluated based on currently available information, including the process of remedial investigations at each site and the current status of negotiations with regulatory authorities regarding the method and extent of apportionment of costs among other PRPs. While it is not feasible to predict the outcome of all pending suits and claims, the ultimate resolution of these environmental matters could have a material effect upon the results of operations and the financial position of Hercules.

Litigation

Hercules is a defendant in numerous lawsuits that arise out of, and are incidental to, the conduct of its business. In these legal proceedings, no specifically identified director, officer or affiliate is a party or a named defendant. These suits concern issues such as product liability, contract disputes, labor-related matters, patent infringement, environmental proceedings, property damage and personal injury matters.

Hercules is a defendant in numerous asbestos-related personal injury lawsuits and claims which typically arise from alleged exposure to asbestos fibers from resin-encapsulated pipe and tank products which were sold by a former subsidiary of Hercules to a limited industrial market, or from alleged exposure to asbestos contained in facilities owned or operated by Hercules. Lawsuits are received and matters settled on a regular basis. In December 1999, Hercules entered into a Settlement Agreement to resolve the majority of these matters then pending. In connection with that settlement, Hercules entered into an agreement with several of its insurance carriers pursuant to which a majority of the amounts paid will be insured. The terms of both agreements are confidential. During 2000 and 2001, Hercules entered into additional settlement agreements. The terms of these settlements are also confidential. In accordance with the terms of the previously mentioned agreement with several of Hercules' insurance carriers, the majority of the amounts paid and to be paid pursuant to these various settlement agreements will be insured. Further, Hercules continues to pursue additional insurance coverage from carriers who were not part of the previously mentioned agreement.

Hercules was a defendant in three Qui Tam (Whistle Blower) lawsuits in the U. S. District Court for the Central District of Utah, brought by former employees of the Aerospace business sold to Alliant Techsystems Inc. in March 1995. All of these actions were settled in 1999. We recognized a $62 million charge in 1998 related to these settlements. There will be no future impacts to our results of operations or financial condition as a result of these settlements.

At December 31, 2000, the consolidated balance sheet reflects a current liability of approximately $25 million for litigation and claims. These amounts represent management's best estimate of the probable and reasonably estimable losses and recoveries related to litigation or claims. The extent of the liability and recovery is evaluated quarterly. While it is not feasible to predict the outcome of all pending suits and claims, the ultimate resolution of these matters could have a material effect upon the financial position of Hercules, and the resolution of any of the matters during a specific period could have a material effect on the quarterly or annual operating results for that period.

Other

At December 31, 2000, Hercules had $21 million in letters of credit outstanding with lenders, $4 million of which were issued under the senior credit facility (Note 6).

26. OPERATIONS BY INDUSTRY SEGMENT AND GEOGRAPHIC AREA

In 1998, Hercules adopted Statement of Financial Accounting Standards No. 131 (SFAS 131), "Disclosures about Segments of an Enterprise and Related Information." The statement established new standards for reporting information about operating segments in annual financial statements and required selected information about operating segments in interim financial reports. It also established standards for related disclosure about products and services, geographic area, and major customers. In compliance with SFAS 131, the company has identified three reportable segments.

Process Chemicals and Services: (Pulp and Paper and BetzDearborn.) Products and services in this segment are designed to enhance customers' processes and products, improve their manufacturing costs or environmental impact. Principal products and markets include performance additives and water and process treatment chemicals and related on-site services for a wide variety of industrial and commercial applications including pulp and paper mills, refineries, chemical plants, metals manufacturers, automobile assembly plants and makers of food and beverages.

Functional Products: (Aqualon.) Products from this segment are principally derived from natural resources and are sold as key raw materials to other manufacturers. Principal products and markets include water-soluble polymers and solvent-soluble polymers, used as thickeners, emulsifiers and stabilizers for water-based paints, oil and gas exploration, building materials, dairy and bakery products, cosmetic and oral hygiene products and producers of lacquers, inks and aviation fluids. Prior to September 28, 2000, this segment also included our Food Gums Division, which was sold to CP Kelco, a joint venture we entered with Lehman Brothers Merchant Banking Partners II, L.P.

Chemical Specialties: (Resins and FiberVisions.) Products in this segment provide low-cost, technology driven solutions to meet customer needs and market demands. Principal products and markets include rosin and hydrocarbon resins for adhesives used in nonwoven fabrics, textile fibers and adhesive tapes; thermal-bond polypropylene staple fiber for disposable diapers and other hygienic products; and yarns for decorative fabrics.

The company evaluates performance and makes decisions based primarily on "Profit from Operations" and "Capital Employed." Consolidated capital employed represents the total resources employed in the company and is the sum of total debt, company-obligated preferred securities of subsidiary trusts and stockholders' equity. Capital employed in each reportable segment represents the net operating assets employed to conduct business in that segment and generally includes working capital (excluding cash) and property, plant and equipment. Other assets and liabilities, primarily goodwill and other intangibles, not specifically allocated to business segments, are reflected in "Reconciling Items" in the table below.

Hercules has no single customer representing greater than 10% of its revenues.

GEOGRAPHIC REPORTING

For geographic reporting, no single country, outside the United States, is material for separate disclosure. However, because the company has significant foreign operations, revenues and long-lived assets are disclosed by geographic region.

Revenues are reported on a "customer basis," meaning that net sales are included in the geographic area where the customer is located. Long-lived assets are included in the geographic areas in which the producing entities are located.

Intersegment sales are eliminated in consolidation.

INDUSTRY SEGMENT	PROCESS CHEMICALS AND SERVICES	FUNCTIONAL PRODUCTS	CHEMICAL SPECIALTIES
2000			
Net sales	$ 1,717	$ 742	$ 695
Profit (loss) from operations	297	176	59
Equity in income of affiliated companies			
Interest and debt expense			
Preferred security distributions of subsidiary trusts			
Other expense, net			
Income before income taxes			
Capital employed(a)	632	219	308
Capital expenditures	39	76	36
Depreciation and amortization	51	26	25
1999			
Net sales	$ 1,725	$ 875	$ 711
Profit (loss) from operations	338	218	89
Equity in income of affiliated companies			
Interest and debt expense			
Preferred security distributions of subsidiary trusts			
Other expense, net			
Income before income taxes			
Capital employed(a)	735	372	379
Capital expenditures	51	74	39
Depreciation and amortization	66	33	30
1998			
Net sales	$ 717	$ 863	$ 566
Profit (loss) from operations	131	215	75
Equity in income of affiliated companies			
Interest and debt expense			
Preferred security distributions of subsidiary trusts			
Other expense, net			
Income before income taxes			

Capital employed(a)	756	392	388
Capital expenditures	44	53	36
Depreciation and amortization	22	32	19

(Dollars in millions)

GEOGRAPHIC AREAS	UNITED STATES	EUROPE	AMERICAS(e)	ASIA PACIFIC	TOTAL
2000					
Net sales	$1,702	$ 964	$ 215	$ 271	$3,152
Long-lived assets (f)	2,267	748	382	98	3,495
1999					
Net sales	$1,742	$1,074	$ 220	$ 273	$3,309
Long-lived assets (f)	2,264	948	529	150	3,891
1998					
Net sales	$ 944	$ 785	$ 258	$ 158	$2,145
Long-lived assets (f)	3,083	681	125	97	3,986

(a) Represents total segment assets net of operating liabilities

(b) Assets and liabilities not specifically allocated to business segments, primarily goodwill, intangibles, and other long-term assets net of liabilities.

(c) Includes integration expenses, severance costs, asset write-downs, and other charges net of litigation and insurance settlements, partially offset by a gain on the sale of a subsidiary and the reversal of restructuring charges (see Notes 14 and 17). Also included are amortization of goodwill and intangibles, corporate research and development and other corporate items not specifically allocated to business segments.

(d) Includes costs for purchased in-process research and development, facility closures and contract terminations, employee termination benefits, write-downs of property, plant and equipment, and other integration expenses (see Notes 16 and 17). Also included are amortization of goodwill and intangibles, corporate research and development and other corporate items not specifically allocated to business segments.

(e) Ex-U.S.A.

(f) Long-lived assets include property, plant and equipment, goodwill and other intangible assets. In 1998, the goodwill and other intangible assets related to the BetzDearborn acquisition are reflected in the United States region.

27. CONSOLIDATING CONDENSED FINANCIAL INFORMATION OF GUARANTOR SUBSIDIARIES

One of the amendments to our senior credit facility effective November 14, 2000 (see Note 6) included a guarantee by each of our current and future wholly owned domestic restricted subsidiaries (each, a "Guarantor Subsidiary"). The guarantee of each Guarantor Subsidiary is full and unconditional and joint and several. The indenture under which our registered 6.6% notes due 2027 and 6.625% notes due 2003 were issued requires the holders of such notes to be on the same basis as the holders of any other subsequently issued debt that provides either guarantees or pledges of collateral. As a result, the following wholly-owned domestic restricted subsidiaries jointly and severally, and full and unconditionally guarantee the senior credit facility, our registered 6.6% notes dues 2027, 6.625% notes due 2003 and our 11.125% notes due 2007.

Aqualon Company
Athens Holding Inc.
BetzDearborn China, Inc.
BetzDearborn Europe, Inc
BetzDearborn International, Inc
BetzDearborn Inc.
BL Chemicals Inc.
BL Technologies, Inc
BLI Holdings, Inc
Chemical Technologies India, Ltd.
Covington Holdings, Inc.
DRC, Ltd
East Bay Realty Services, Inc.
FiberVisions Incorporated
FiberVisions Products, Inc
FiberVisions, L.L.C
FiberVisions L.P.
Hercules Chemical Corporation
Hercules Country Club, Inc.
Hercules Credit, Inc
Hercules Euro Holdings, Inc.
Hercules Finance Company
Hercules Flavor, Inc.
Hercules International Limited
Hercules International Limited, L.L.C.
Hercules Investments L.L.C.
Hercules Shared Services Corp
HISPAN Corporation
WSP, Inc

The non-guarantor subsidiaries (the "Non-Guarantor Subsidiaries") include all of the Company's foreign subsidiaries and certain domestic subsidiaries. The Company conducts much of its business through and derives much of its income from its subsidiaries. Therefore the Company's ability to make required payments with respect to its indebtedness and other obligations depends on the financial results and condition of its subsidiaries and its ability to receive funds from its subsidiaries. There are no restrictions on the ability of any of the Guarantor Subsidiaries to transfer funds to the Company, however there may be restrictions for certain foreign Non-Guarantor Subsidiaries.

The following condensed consolidating financial information for the Company presents the financial information of Hercules, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries based on the Company's understanding of Securities and Exchange Commission's interpretation and application of Rule 3-10 under the Securities and Exchange Commission's Regulation S-X. The financial information may not necessarily be indicative of results of operations or financial position had the Guarantor Subsidiaries or Non-Guarantor Subsidiaries operated as independent entities.

In this presentation, Hercules consists of parent company operations. Guarantor Subsidiaries and Non-Guarantor Subsidiaries of Hercules are reported on an equity basis. For companies acquired during 1998, the goodwill and fair values of the assets and liabilities acquired have been presented on a "push-down" accounting basis.

Consolidating Condensed Statement of Operations
December 31, 2000

	(Millions		
	Unconsolidated		
	Parent	Guarantor Subsidiaries	Non-Guara Subsidia
Net sales	$ 606	$ 1,532	$ 1,70
Cost of sales	432	995	1,05
Selling, general, and administrative expenses	84	338	38
Research and development	33	35	1
Goodwill and intangible asset amortization	7	48	2
Other operating expenses (income), net	38	92	(17
Profit from operations	12	24	40
Equity in income (loss) from affiliated companies, net of tax	--	--	(
Equity in income from consolidated subsidiaries, net of tax	350	48	
Interest and debt expense	283	(129)	1
Preferred security distributions of subsidiary trusts	--	--	9
Other income (expense), net	(17)	(9)	
Income (loss) before income taxes	62	192	30
Provision for income taxes	(58)	68	5
Net income (loss)	$ 120	$ 124	$ 25

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HERCULES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidating Condensed Statement of Operations
December 31, 1999

	(Millions		
	Unconsolidated		
	Parent	Guarantor Subsidiaries	Non-Guara Subsidia
Net sales	$ 584	$ 1,570	$ 1,82
Cost of sales	424	974	1,10
Selling, general, and administrative expenses	118	365	30
Research and development	28	13	4
Goodwill and intangible asset amortization	9	53	1
Other operating expenses, net	23	23	
Profit (loss) from operations	(18)	142	36
Equity in income (loss) from affiliated companies, net of tax	2	--	(
Equity in income from consolidated subsidiaries, net of tax	331	143	
Interest and debt expense	261	(51)	(2
Preferred security distributions of subsidiary trusts	--	--	5
Other income (expense), net	(3)	(1)	
Income (loss) before income taxes	51	335	34
Provision for income taxes	(121)	89	11
Net income (loss)	$ 172	$ 246	$ 23

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HERCULES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidating Condensed Statement of Operations
December 31, 1998

(Millions

	Unconsolidated		
	Parent	Guarantor Subsidiaries	Non-Guara Subsidia
Net sales	$ 558	$ 963	$ 1,30
Cost of sales	400	707	85
Selling, general, and administrative expenses	80	119	17
Research and development	27	24	1
Purchased in-process research and development	--	130	-
Goodwill and intangible asset amortization	14	5	
Other operating expenses, net	40	24	1
Profit (loss) from operations	(3)	(46)	24
Equity in income of affiliated companies, net of tax	10	--	
Equity in income from consolidated subsidiaries, net of tax	119	67	
Interest and debt expense (income)	121	(32)	1
Preferred security distributions of subsidiary trusts	--	--	
Other income (expense), net	(70)	36	1
Income (loss) before income taxes	(65)	89	24
Provision for income taxes	(75)	59	8
Net income (loss)	$ 10	$ 30	$ 16

HERCULES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidating Condensed Balance Sheet
December 31, 2000

(Millions

	Unconsolidated		
	Parent	Guarantor Subsidiaries	Non-Guara Subsidia
ASSETS			
Current assets			
Cash and cash equivalents	$ 1	$ 7	$ 46
Accounts receivable, net	110	183	333
Intercompany receivables	37	81	79
Inventories	63	124	128
Deferred income taxes	28	2	7
Total current assets	239	397	593

Property, plant, and equipment, net	264	359	481
Investments in subsidiaries	4,357	1,578	69
Goodwill and other intangible assets, net	35	1,471	885
Deferred charges and other assets	648	36	108
Total assets	$ 5,543	$ 3,841	$ 2,136
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	121	14	122
Accrued expenses	132	130	140
Intercompany payables	45	68	84
Short-term debt	127	5	129
Total current liabilities	425	217	475
Long-term debt	2,063	97	182
Deferred income taxes	82	48	57
Other postretirement benefits and other liabilities	210	169	41
Company-obligated preferred securities of subsidiary trusts	--	--	622
Intercompany notes payable/(receivable)	1,947	(2,656)	719
Stockholders' equity	816	5,966	40
Total liabilities and stockholders' equity	$ 5,543	$ 3,841	$ 2,136

HERCULES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidating Condensed Balance Sheet
December 31, 1999

(Millions

	Unconsolidated		
	Parent	Guarantor Subsidiaries	Non-Guara Subsidia
ASSETS			
Current assets			
Cash and cash equivalents	$ 2	$ 23	$ 38
Accounts receivable, net	99	278	389
Intercompany receivable	22	24	78
Inventories	63	147	184
Deferred income taxes	119		10
Total current assets	305	472	699
Property, plant, and equipment, net	251	436	634

Investments in subsidiaries	4,190	1,776	68
Goodwill and other intangible assets, net	45	1,536	989
Deferred charges and other assets	517	44	106
Total assets	$ 5,308	$ 4,264	$ 2,496
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	48	125	147
Accrued expenses	148	250	163
Intercompany payable	31	57	36
Short-term debt	641	2	35
Total current liabilities	868	434	381
Long-term debt	1,611	107	59
Deferred income taxes	77	119	91
Other postretirement benefits and other liabilities	159	203	56
Company-obligated preferred securities of subsidiary trusts	--	--	992
Intercompany notes payable (receivable)	1,730	(1,189)	(541)
Stockholders' equity	863	4,590	1,458
Total liabilities and stockholders' equity	$ 5,308	$ 4,264	$ 2,496

Consolidating Condensed Statement of Cash Flows
December 31, 2000

	(Millions		
	Unconsolidated		
	Parent	Guarantor Subsidiaries	Non-Guara Subsidia
NET CASH PROVIDED BY (USED IN) OPERATIONS	$ (91)	$ (24)	$ 23
CASH FLOW FROM INVESTING ACTIVITIES:			
Capital expenditures	(37)	(38)	(11
Proceeds of investment and fixed asset disposals	--	14	40
Acquisitions, net of cash acquired	(6)	--	-
Other, net	(19)	(1)	
Net cash (used in) provided by investing activities	(62)	(25)	30
CASH FLOW FROM FINANCING ACTIVITIES:			
Long-term debt proceeds	1,858	27	
Long-term debt repayments	(1,756)	(27)	(

Change in short-term debt	--	--	9
Payment of debt issuance costs and underwriting fees	(28)	--	-
Repayment of subsidiary trust preferred securities	--	--	(37
Change in intercompany, noncurrent	161	33	(19
Common stock issued	13	--	-
Common stock reacquired	(2)	--	-
Dividends paid	(94)	--	(4
Net cash (used in) provided by financing activities	152	33	(52
Effect of exchange rate changes on cash	--	--	(
Net increase (decrease) in cash and cash equivalents	(1)	(16)	
Cash and cash equivalents at beginning of year	2	23	3
Cash and cash equivalents at end of year	$ 1	$ 7	$ 4

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HERCULES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidating Condensed Statement of Cash Flows
December 31, 1999

	(Millions		
	Unconsolidated		
	Parent	Guarantor Subsidiaries	Non-Guara Subsidia
NET CASH PROVIDED BY (USED IN) OPERATIONS	$(59)	$ 198	$ 243
CASH FLOW FROM INVESTING ACTIVITIES:			
Capital expenditures	(42)	(66)	(88
Proceeds of investment and fixed asset disposals	2	28	20
Acquisitions, net of cash acquired	(10)	--	--
Other, net	(24)	(15)	2
Net cash (used in) provided by investing activities	(74)	(53)	(66
CASH FLOW FROM FINANCING ACTIVITIES:			
Long-term debt proceeds	274	5	--
Long-term debt repayments	(1,344)	(16)	--
Change in short-term debt	99	(17)	(60
Payment of debt issuance costs and underwriting fees	--	--	(19
Proceeds from issuance of subsidiary trusts' preferred securities	--	--	792
Change in intercompany, noncurrent	915	(112)	(804
Proceeds from issuance of warrants	90	--	--
Common stock issued	182	--	--

Common stock reacquired	(3)	--	--
Proceeds from issuance of subsidiary preferred stock	--	12	--
Dividends paid	(83)	--	(101
Net cash (used in) provided by financing activities	130	(128)	(192
Effect of exchange rate changes on cash	--	--	(4
Net increase (decrease) in cash and cash equivalents	(3)	17	(19
Cash and cash equivalents at beginning of year	5	6	57
Cash and cash equivalents at end of year	$ 2	$ 23	$ 38

HERCULES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidating Condensed Statement of Cash Flows
December 31, 1998

	(Millions		
	Unconsolidated		
	Parent	Guarantor Subsidiaries	Non-Guara Subsidia
NET CASH PROVIDED BY (USED IN) OPERATIONS	$ 119	$ 32	$ 119
CASH FLOW FROM INVESTING ACTIVITIES:			
Capital expenditures	(39)	(52)	(66)
Proceeds of investment and fixed asset disposals	77	522	1
Acquisitions, net of cash acquired	(3,109)	--	--
Other, net	(14)	(11)	--
Net cash (used in) provided by investing activities	(3,085)	459	(65)
CASH FLOW FROM FINANCING ACTIVITIES:			
Long-term debt proceeds	2,960	151	--
Long-term debt repayments	(175)	(72)	--
Change in short-term debt	(212)	7	(23)
Payment of debt issuance costs and underwriting fees	(59)	--	(7)
Change in intercompany, noncurrent	665	(573)	(92)
Proceeds from trust preferred securities	--	--	200
Common stock issued	10	--	--
Common stock reacquired	(114)	--	--
Dividends paid	(104)	--	(89)
Net cash (used in) provided by financing activities	2,971	(487)	(11)
Effect of exchange rate changes on cash	--	--	(1)

Net increase (decrease) in cash and cash equivalents	5	4	42
Cash and cash equivalents at beginning of year	--	2	15
Cash and cash equivalents at end of year	$ 5	$ 6	$ 57

HERCULES INCORPORATED
SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

	1st Quarter 2000	1st Quarter 1999	2nd Quarter 2000	2nd Quarter 1999	3rd Quarter 2000	3rd Quarter 1999
Operating Results						
Net sales	$798	$806	$ 822	$833	$ 815	$ 828
Cost of sales	450	438	462	456	463	460
Selling, general, and administrative expenses	197	197	206	193	210	188
Research and development	21	21	20	20	20	21
Goodwill and intangible asset amortization	20	20	20	20	20	20
Other operating expenses (income), net	4	7	18	6	(105)	1
Profit (loss) from operations	$106	$123	$ 96	$138	$ 207	$ 138
Equity income	--	1	--	--	--	--
Interest and debt expense	32	60	42	47	42	38
Preferred security distributions of subsidiary trusts	23	5	23	12	23	16
Other income (expense), net	5	3	(6)	4	(13)	(2
Income (loss) before income taxes	$ 56	$ 62	$ 25	$ 83	$ 129	$ 82
Income taxes	20	24	9	27	54	25
Net income (loss)	$ 36	$ 38	$ 16	$ 56	$ 75	$ 57
Earnings per share**						
Basic						
Earnings (loss) per share	$0.34	$0.37	$0.15	$0.56	$0.70	$0.54
Diluted:						
Earnings (loss) per share	$0.34	$0.37	$0.15	$0.56	$0.70	$0.54

	Year 2000	Year 1999
Operating Results		
Net sales	$3,152	$3,309

Cost of sales	1,784	1,831
Selling, general, and administrative expenses	810	787
Research and development	80	85
Goodwill and intangible asset amortization	80	79
Other operating expenses (income), net	(46)	47
Profit (loss) from operations	$ 444	$ 480 *
Equity income	(2)	1
Interest and debt expense	164	185
Preferred security distributions of subsidiary trusts	96	51
Other income (expense), net	(18)	(2)
Income (loss) before income taxes	$ 164	$ 243
Income taxes	66	75
Net income (loss)	$ 98	$ 168
Earnings per share**		
Basic		
Earnings (loss) per share	$ 0.91	$ 1.63
Diluted:		
Earnings (loss) per share	$ 0.91	$ 1.62

* Includes net unusual credits of $56 million in 2000 and unusual charges of $62 million in 1999 (see Note 17).

** Earnings per share calculations for each of the quarters are based on the weighted-average number of shares outstanding for each period. The sum of the quarters may not necessarily be equal to the full year's earnings per share amounts.

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HERCULES INCORPORATED

PRINCIPAL CONSOLIDATED SUBSIDIARIES

ARGENTINA
Hercules Argentina S.A.

AUSTRALIA
BetzDearborn Australia Pty, Ltd.
Little H Pty Ltd.

AUSTRIA
Hercules Austria GmbH.

BAHAMAS
Hercules International Trade Corporation Limited

BELGIUM
BetzDearborn N.V.
Hercules Beringen B.V.B.A.
Hercules Doel B.V.B.A.

Hercules Europe B.V.B.A.
Hercules Holding B.V./B.V.B.A.

BERMUDA
Curtis Bay Insurance Co. Ltd.

BRAZIL
Hercules BetzDearborn Brasil Ltda.
Hercules do Brasil Produtos Quimicos Ltda.

CANADA
BetzDearborn Canada, Inc.
Hercules Canada Inc.
Hercules Canada (partnership)

CHILE
Hercules Quimica Chile Ltda

CHINA
Beijing Hercules Chemical Co. Ltd.*
BetzDearborn China, Ltd.
FiberVisions (Suzhou) Nonwovens Products Co. Ltd.
FiberVisions (China) Textile Products Ltd.
Shanghai Hercules Chemical Co., Ltd.*

COLOMBIA
Hercules de Colombia S.A.

CROATIA
BetzDearborn d.o.o.

CURACAO
BetzDearborn Caribbean N.V.

CZECH (REPUBLIC)
Hercules CZ s.r.o.

DENMARK
Hercules Denmark A/S
FiberVisions, A/S
Hercules Investment ApS

ECUADOR
BetzDearborn de Ecuador S.A.

FINLAND
Hercules Finland OY

FRANCE
Aqualon France B.V.
BetzDearborn SA
Hercules SA

GERMANY
Abieta Chemie, GmbH*
BetzDearborn Gmbh
Hercules Deutschland GmbH
Hercules GmbH

HONG KONG
Hercules China Limited

HUNGARY
BetzDearborn Hungary Kft

INDIA
Hercules Specialty Chemicals (India) Private Limited

INDONESIA
P.T. BetzDearborn Persada
P.T. Hercules Mas Indonesia

IRELAND
BetzDearborn Ireland Limited

ITALY
Hercules Italia SpA

JAPAN
Hercules Japan Ltd.
Nippon BetzDearborn K.K.*

KOREA
BetzDearborn Korea, Ltd.
Hercules Korea Chemical Co. Ltd.

LIECHTENSTEIN
Organa Trust

LUXEMBOURG
Hercules Investments S.a.r.l.
Hercules Luxembourg S.a.r.l.
Hercules European Participations S.a.r.l.

MALAYSIA
Hercules Chemicals (Malaysia) Sdn. BHD

MEXICO
BetzDearborn de Mexico S.A. de C.V.
Hercules Inc. Mexico, S.A. de C.V.
Hercules Mexico, S.A. de C.V.
Taloquimia S.A. de C.V.*

NETHERLANDS
Aqualon France B.V.
Betz Chemical Technologies B.V.
BetzDearborn B.V.
Hechem B.V.
Hercules B.V.

NORWAY
Hercules Norway A/S

PAKISTAN
Pakistan Gum Industries PVT Ltd.*

PERU
Hercules del Peru S.A.

POLAND
Hercules Polska Sp. zo.o

PORTUGAL
Misan Portuguesa, Ltda.

SINGAPORE
Hercules Chemicals Singapore Pte Ltd.

SOUTH AFRICA
Hercules Chemicals South Africa (Pty) Ltd.

SPAIN
Hercules Quimica, S.A.

SWEDEN
Betz KEMI AB
BetzDearborn AB
Hercules AB

SWITZERLAND
Fibervisions A.G./Fibervisions Ltd.

TAIWAN
Hercules Chemicals (Taiwan) Co., Ltd.

THAILAND
Hercules Chemicals (Thailand) Co., Ltd.

UNITED KINGDOM
BetzDearborn Limited
Hercules Investments Global Ltd.
Hercules Limited
Hercules GB Holdings Limited

URUGUAY
BetzDearborn de Uruguay S.A.

UNITED STATES
Aqualon Company, Delaware
Athens Holding Inc., Delaware
BetzDearborn China, Ltd., Delaware
BetzDearborn Europe, Inc., Delaware
BetzDearborn Inc., Pennsylvania
BetzDearborn International, Inc., Pennsylvania
BL Chemicals Inc., Delaware
BL Technologies, Inc., Delaware
BLI Holdings, Inc., Delaware
Chemical Technologies India, Ltd., Delaware
Covington Holdings Inc., Delaware
DRC., Ltd. Delaware
East Bay Realty Services, Inc., Delaware
FiberVisions Incorporated, Delaware
FiberVisions, L.L.C., Delaware
FiberVisions L.P., Delaware
FiberVisions Products, Inc., Georgia
Hercules Chemical Corporation, Delaware
Hercules Country Club, Inc., Delaware
Hercules Credit Inc., Delaware
Hercules Euro Holdings, L.L.C., Delaware
Hercules Finance Company, Delaware
Hercules Flavor, Inc., Delaware
Hercules International Limited, Delaware
Hercules International Limited, L.L.C., Delaware
Hercules Investments L.L.C., Delaware
HISPAN Corporation, Delaware
Hercules Shared Services Corporation, Delaware*

WSP, Inc., Delaware

VENEZUELA
Hercules BetzDearborn C.A.

VIRGIN ISLANDS
Hercules Islands Corporation *
Hercules Overseas Corp.

*This entity is owned in part by Hercules with the remaining interest held by a third party.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
Hercules Incorporated
Wilmington, Delaware

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and of cash flows present fairly, in all material respects, the financial position of Aqualon Company, a subsidiary of Hercules Incorporated, and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
October 10, 2001

AQUALON COMPANY

CONSOLIDATED STATEMENT OF INCOME

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN THOUSANDS)		

Sales to third parties	$274,775	$295,473	$349,179
Sales to Hercules Group	63,033	62,657	57,528
	337,808	358,130	406,707
Cost of sales	227,272	250,066	278,091
Selling, general, and administrative expenses	48,069	53,775	47,606
Research and development	11,780	12,078	11,588
Goodwill and intangible asset amortization	1,014	1,014	1,014
Other operating expenses, net (Note 12)	22,259	3,554	10,245
Profit from operations	27,414	37,643	58,163
Interest and debt expense	415	545	438
Other (income) expense, net	(1,199)	127	24
Net income	$ 28,198	$ 36,971	$ 57,701

The accompanying notes are an integral part of the consolidated financial statements.

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AQUALON COMPANY

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	2000	1999
	(DOLLARS IN THOUSANDS)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,494	$ 1,313
Accounts receivable, net (Note 3)	35,743	46,045
Notes receivable (Note 4)	3,600	--
Inventories (Note 5)	45,409	52,493
Other current assets	4,691	4,492
Total current assets	91,937	104,343
Property, plant, and equipment, net (Note 8)	91,742	92,062
Notes receivable (Note 4)	3,000	--
Goodwill, net (Note 9)	28,550	29,564
Deferred charges and other assets	5,256	5,548
Total assets	$220,485	$231,517
LIABILITIES AND NET PARTNERS' (HERCULES GROUP) INVESTMENT		
Current liabilities		
Accounts payable	$ 17,724	$ 24,323
Short-term debt (Note 6)	--	1,650
Accrued expenses (Note 8)	24,172	25,277
Total current liabilities	41,896	51,250
Pension and other postretirement benefits (Note 11)	110	(17)

Environmental and other liabilities	22,526	9,825
Total liabilities	64,532	61,058
Commitments and contingencies (Note 16)	--	--
Net partners' (Hercules Group) investment (Note 14)	155,953	170,459
Total liabilities and net partners' (Hercules Group) investment	$220,485	$231,517

The accompanying notes are an integral part of the consolidated financial statements.

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AQUALON COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
CASH FLOW FROM OPERATING ACTIVITIES:			
Net Income	$ 28,198	$ 36,971	$ 57,701
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	9,757	11,009	11,896
Amortization	1,014	1,014	1,014
Loss on disposal (Note 15)	6,854	6,500	--
Loss on impairment of fixed assets (Note 12)	--	2,000	15,300
Corporate and other cost allocations	15,313	21,444	16,424
Accruals and deferrals of cash receipts and payments:			
Accounts receivable and other assets	10,103	4,531	5,982
Inventories	7,084	5,112	(7,483)
Accounts payable and accrued expenses	(8,659)	(3,389)	(5,662)
Environmental and other assets and liabilities	800	3,743	3,719
Net cash provided by operations	70,464	88,935	98,891
CASH FLOW FROM INVESTING ACTIVITIES:			
Capital expenditures	(9,437)	(12,133)	(20,856)
Investment in affiliate	(179)	254	(63)
Net cash used in investing activities	(9,616)	(11,879)	(20,919)
CASH FLOW FROM FINANCING ACTIVITIES:			
Repayment of debt	(1,650)	--	(13)
Transfers to partners' (Hercules Group)	(58,017)	(79,877)	(74,040)
Net cash used in financing activities	(59,667)	(79,877)	(74,053)
Net increase (decrease) in cash and cash equivalents	1,181	(2,821)	3,919
Cash and cash equivalents at beginning of year	1,313	4,134	215
Cash and cash equivalents at end of year	$ 2,494	$ 1,313	$ 4,134

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 415	$ 545	$ 438
Noncash financing activities			
Issuance of note receivable	6,600	--	--
Corporate and other cost allocations	15,313	21,444	16,424

The accompanying notes are an integral part of the consolidated financial statements.

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AQUALON COMPANY

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Aqualon Company (Aqualon) is a U.S. partnership which is owned 99.4182% by Hercules Credit, Inc., a U.S. holding company and 0.5818% by WSP, Inc., a U.S. holding company. Hercules Credit, Inc. and WSP, Inc. are wholly owned subsidiaries of Hercules Incorporated (Hercules). Aqualon is engaged in providing products and services to manage the properties of aqueous (water-based) and non-aqueous systems. These products are principally derived from renewable natural raw materials and are sold as thickeners, emulsifiers, and stabilizers to other manufacturers, including makers of oral hygiene and personal care products, construction materials and latex paints, and are used in the oil and gas industry for drilling and recovery.

In June 2000, Aqualon sold its nitrocellulose operation in Parlin, NJ to Greentree Chemical Technologies, Inc.

Historically, separate company stand-alone financial statements were not prepared for Aqualon. In November 2000, Hercules amended its senior credit facility and ESOP credit facility (the "Facilities"). The Facilities, as amended, are secured by liens on Hercules' property and assets (and those of Hercules' Canadian Subsidiaries), a pledge of the stock and partnership interests of substantially all of Hercules' domestic subsidiaries (including Aqualon) and 65% of the stock of foreign subsidiaries directly owned by Hercules, and a pledge of Hercules' domestic intercompany indebtedness. These financial statements present the financial information on Aqualon, a collateral party to the Hercules debt, based on Hercules' understanding of Securities and Exchange Commission's interpretation and application of Rule 3-16 under the Securities and Exchange Commission's Regulation S-X. These statements were derived from historical accounting records.

Aqualon participates in Hercules' centralized cash management system. Accordingly, cash received from Aqualon operations is transferred to Hercules on a periodic basis, and Hercules funds all operational and capital requirements.

The financial statements of Aqualon reflect certain allocated support costs incurred by other entities in the Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in Aqualon's financial statements were based on either a direct cost pass-through for items directly identified as related to Aqualon's activities; a percentage allocation for such services provided based on factors such as sales, net assets, or cost of sales; or a relative weighting of geographic activity. Management believes that the allocation methods are reasonable.

During 1989, Hercules acquired the 50% shareholding held by Henkel [its joint venture partner] to make Aqualon a wholly owned subsidiary. These financial statements include the push-down of fair value adjustments to assets and liabilities, including goodwill, other intangible assets and property, plant, and equipment and their related amortization and depreciation adjustments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Aqualon and its wholly-owned subsidiary, Organa Trust. All intercompany transactions and profits have been eliminated.

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

Aqualon recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer or services are performed in accordance with terms of the agreement, title and risk of loss have been transferred, collectibility is probable, and pricing is fixed and determinable. Accruals are made for sales returns and other allowances based on Aqualon's experience. The corresponding shipping and handling costs are included in cost of sales.

Environmental Expenditures

Environmental expenditures that pertain to current operations or future revenues are expensed or capitalized according to Aqualon's capitalization policy. Expenditures for remediation of an existing condition caused by past operations that do not contribute to current or future revenues are expensed. Liabilities are recognized for remedial activities when the cleanup is probable and can be reasonably estimated.

Cash and Cash Equivalents

Cash equivalents include commercial paper and other securities with original maturities of 90 days or less. Book value approximates fair value because of the short maturity of those instruments.

Inventories

Inventories are stated at the lower of cost or market. Inventories are valued at standard cost which approximates the average cost method.

Property and Depreciation

Property, plant, and equipment are stated at cost and depreciated using the straight-line method. The estimated useful lives of depreciable assets are as follows: buildings -- 30 years; plant, machinery and equipment -- 15 years; other machinery and equipment -- 3 to 15 years.

Maintenance, repairs, and minor renewals are charged to income; major renewals and betterments are capitalized. Upon normal retirement or replacement, the cost of property (less proceeds of sale or salvage) is charged to income.

Goodwill

Goodwill and other intangible assets are amortized on a straight-line basis over the estimated future periods to be benefited, generally 40 years for goodwill, customer relationships, and trademarks and tradenames and 5 to 15 years for other intangible assets.

Long-lived Assets

Aqualon reviews its long-lived assets, including goodwill and other intangibles, for impairment on an exception basis whenever events or changes in circumstances indicate carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If an impairment loss has occurred based on expected future cash flows (undiscounted), the loss is recognized in the income statement. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset. The fair value represents expected future cash flows from the use of the assets, discounted at the rate used to evaluate potential investments.

Concentrations of Credit Risk

Financial instruments that potentially subject Aqualon to concentrations of credit risk consist principally of trade receivables. Concentrations of credit risk with respect to trade receivables are limited due to the Company's large number of customers and their dispersion across many different industries and locations.

Financial Instruments

Aqualon uses various non-derivative financial instruments, including letters of credit, and generally does not require collateral to support its financial instruments.

Stock-based Compensation

Compensation costs attributable to stock option and similar plans are recognized based on any excess of the quoted market price of the stock on the date of grant over the amount the employee is required to pay to acquire the stock (the intrinsic-value method under Accounting Principles Board Opinion 25 (APB 25)). Such amount, if any, is accrued over the related vesting period, as appropriate. Statement of Financial Accounting Standard No. 123, "Accounting for Stock-based Compensation," requires companies electing to continue to use the intrinsic-value method to make pro forma disclosures of net income as if the fair-value-based method of accounting had been applied.

Computer Software Costs

Effective January 1, 1999, Aqualon adopted the American Institute of Certified Public Accountants Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use" (SOP 98-1).

Our prior accounting was generally consistent with the requirements of SOP 98-1 and, accordingly, adoption of SOP 98-1 had no material effect. Computer software costs are being amortized over a period of 5 to 10 years.

Research and Development

Research and development expenditures are expensed as incurred.

Income Taxes

Income taxes have not been provided in the accompanying financial statements, as the tax effects of the operating partnership's operations accrue directly to the partners.

Net Partners' (Hercules Group) Investment

The net partners' (Hercules Group) investment account reflects the balance of Aqualon's historical earnings, intercompany amounts, post-employment liabilities and other transactions between Aqualon and the partners/Hercules Group.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133" and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," requires that all derivative instruments be recorded on the balance sheet at their fair value. This statement, as amended, is effective for all

fiscal quarters of fiscal years beginning after December 31, 2000. Aqualon adopted SFAS 133 effective January 1, 2001. The adoption of SFAS No. 133 did not have a material effect on its earnings or statement of financial position.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by SAB Nos. 101A and 101B, was to be effective October 1, 2000. Adoption of SAB 101 did not have a material effect on the Company's profit from operations.

In June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). For Aqualon, these statements will generally become effective January 1, 2002, although business combinations initiated after June

30, 2001 are subject to the non-amortization and purchase accounting provisions.

SFAS 142 stipulates that goodwill and other intangible assets with indefinite lives are no longer subject to amortization, but must be evaluated periodically for impairment beginning January 1, 2002. Aqualon is currently in the process of conducting an assessment of the actual impact of the non-amortization provision of SFAS 142. The assessment of goodwill for impairment is a complex issue in which the Company must determine, among other things, the fair value of each defined reporting unit. It is, therefore, not possible at this time to predict the impact, if any, that the impairment assessment provisions of SFAS 142 will have on Aqualon's financial statements.

In addition, in June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 establishes accounting standards for the recognition and measurement of legal obligations associated with the retirement of tangible long-lived assets. SFAS 143 will become effective for Aqualon in January 1, 2003 and requires recognition of a liability for an asset retirement obligation in the period in which it is incurred. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, consists of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Trade	$36,413	$46,865
Less allowance for doubtful accounts	(670)	(820)
Total	$35,743	$46,045

4. NOTE RECEIVABLE

Notes receivable as of December 31, 2000, consist of a $6,600 thousand 30-day demand note from Greentree Chemical Technologies, Inc. (Greentree), related to the divestiture of the Nitrocellulose business in June 2000. On January 8, 2001, Aqualon received $3,600 thousand in cash from Greentree and issued a new

unsecured demand note to Greentree for $3,000 thousand, due June 30, 2005. The new note carries an interest rate of 13.5% until May 1, 2001; thereafter, the interest rate is equal to Prime +7.5% for the remaining duration of the note.

5. INVENTORIES

The components of inventories are:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Finished products	$27,754	$34,330
Raw material and supplies	15,613	14,594
Work in process	2,042	3,569
Total	$45,409	$52,493

6. SHORT-TERM DEBT

Short-term debt of $1,650 thousand at December 31, 1999 consists of an Industrial Revenue Bond from the Industrial Development Authority of the city of Hopewell, Virginia. This debt carried an interest rate of 8%. The principal and interest was paid in June 2000.

7. LONG-TERM INCENTIVE COMPENSATION PLANS

Aqualon participates in long-term incentive compensation plans sponsored by Hercules. These plans provide for the grant of stock options and the award of common stock and other market-based units to certain key employees and non-employee directors.

In 1995, Hercules changed the structure of the long-term incentive compensation plans to place a greater emphasis on shareholder value creation through grants of regular stock options, performance-accelerated stock options, and cash value awards (performance-based awards denominated in cash and payable in shares of common or restricted stock, subject to the same restrictions as restricted stock). Restricted stock and other market-based units are awarded with respect to certain programs. The number of awarded shares outstanding was 491,488 at December 31, 2000, and 926,689 and 1,083,613 at December 31, 1999 and 1998, respectively.

At December 31, 2000, under the Company's incentive compensation plans, 1,847,855 shares of common stock were available for grant as stock awards or stock option awards. Stock awards are limited to approximately 15% of the total authorizations. Regular stock options are granted at the market price on the date of grant and are exercisable at various periods from one to five years after date of grant. Performance-accelerated stock options are also granted at the market price on the date of grant and are normally exercisable at nine and one-half years. Exercisability may be accelerated based upon the achievement of predetermined performance goals. Both regular and performance-accelerated stock options expire 10 years after the date of grant.

Restricted shares, options and performance-accelerated stock options are forfeited and revert to the Company in the event of employment termination, except in the case of death, disability, retirement, or other specified events.

The Company applies APB Opinion 25 in accounting for its plans. Accordingly, no compensation cost has been recognized for the stock option plans. There were no charges to income for the cost of stock awards over the restriction or performance period for 2000, 1999 and 1998, respectively.

AQUALON COMPANY

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Below is a summary of outstanding stock option grants under the incentive compensation plans during 2000, 1999 and 1998:

	REGULAR		PERFORMANCE-ACCELERA	
	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE	NUMBER OF SHARES	WEIGHTED-A PRICE
January 1, 1998	195,870	$42.18	72,000	$45.9
Granted	145,225	$35.84	64,645	$47.2
Exercised	--	--	--	-
Forfeited	(3,690)	$39.50	--	-
December 31, 1998	337,405	$39.48	136,645	$46.5
Granted	71,875	$37.73	69,980	$37.5
Exercised	(1,050)	$16.21	--	-
Forfeited	(3,910)	$39.50	--	-
December 31, 1999	404,320	$39.23	206,625	$43.5
Granted	129,800	$17.20	--	-
Exercised	--	--	--	-
Forfeited	(39,250)	$39.50	--	-
December 31, 2000	494,870	$33.43	206,625	$43.5

The weighted-average fair value of regular stock options granted during 2000, 1999 and 1998 was $8.85, $8.26 and $9.20 respectively. The weighted-average fair value of performance-accelerated stock options granted during 1999 and 1998 was $8.01 and $11.01, respectively. There were no performance-accelerated stock options granted during 2000.

Following is a summary of regular stock options exercisable at December 31, 2000, 1999, and 1998, and their respective weighted-average share prices:

OPTIONS EXERCISABLE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
December 31, 1998	95,194	$43.18
December 31, 1999	224,230	$40.49
December 31, 2000	293,370	$39.20

There were no performance-accelerated stock options exercisable at December 31, 2000, 1999 and 1998.

AQUALON COMPANY

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Following is a summary of stock options outstanding at December 31, 2000:

	OUTSTANDING OPTIONS			EXERCISAB
EXERCISE PRICE RANGE	NUMBER OUTSTANDING AT 12/31/00	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/00
Regular Stock Options				
$12 - $20	129,800	9.14	$17.20	2,950
$20 - $30	76,475	7.67	$25.56	63,700
$30 - $40	174,025	7.23	$38.77	130,900
$40 - $50	85,970	6.73	$47.27	74,720
$50 - $60	28,600	5.56	$54.03	21,100
	494,870			293,370
Performance-Accelerated Stock Options				
$14 - $40	104,655	7.69	$38.16	--
$40 - $50	81,270	6.70	$47.40	--
$50 - $61	20,700	5.18	$55.40	--
	206,625			--

The Company currently expects that 100% of performance-accelerated stock options will eventually vest.

Aqualon employees may also participate in the Hercules Employee Stock Purchase Plan ("ESPP"). The ESPP is a qualified non-compensatory plan, which allows eligible employees to acquire shares of common stock through systematic payroll deductions. The plan consists of three-month subscription periods, beginning July 1 of each year. The purchase price is 85% of the fair market value of the common stock on either the first or last day of that subscription period, whichever is lower. Purchases may range from 2% to 15% of an employee's base salary each pay period, subject to certain limitations. Currently, 202,139 shares of Hercules common stock are registered for offer and sale under the plan. Shares issued at December 31, 2000 and 1999, were 1,597,861 and 949,464, respectively. The Company applies APB Opinion 25 and related interpretations in accounting for its Employee Stock Purchase Plan. Accordingly, no compensation cost has been recognized for the Employee Stock Purchase Plan.

Had compensation cost for the Hercules' Stock-Based Incentive Plans and Employee Stock Purchase Plan been determined on the basis of fair value according to SFAS No. 123, the fair value of each option granted or share purchased would be estimated on the grant date using the Black-Scholes option pricing model.

The following weighted-average assumptions would be used in estimating fair value for 2000, 1999 and 1998:

ASSUMPTION	REGULAR PLAN	PERFORMANCE ACCELERATED PLAN	EMPLOYEE STOCK PURCHASE PLAN
Dividend yield	2%	3.4%	0.0%
Risk-free interest rate	5.88%	5.38%	5.41%
Expected life	7.1 yrs.	5 yrs.	3 mos.
Expected volatility	29.20%	27.31%	44.86%

The Company's net income for 2000, 1999 and 1998 would approximate the pro forma amounts below:

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Net income			
As reported	$28,198	$36,971	$57,701
Pro forma	$26,573	$35,422	$56,386

8. ADDITIONAL BALANCE SHEET DETAIL

	2000	1999
	(DOLLARS IN THOUSANDS)	
Property, plant, and equipment		
Land	$ 527	$ 527
Buildings and equipment	363,737	516,440
Construction in progress	11,909	5,503
Total	376,173	522,470
Accumulated depreciation and amortization	284,431	430,408
Net property, plant, and equipment	$ 91,742	$ 92,062
Accrued expenses		
Payroll and employee benefits	$ 4,685	$ 4,298
Nitrocellulose inventory disposal cost reserve	6,478	6,500
Current environmental reserve	4,686	4,670
Other	8,323	9,809
Total	$ 24,172	$ 25,277

9. GOODWILL

Goodwill relates to Hercules' 1989 purchase of Henkel's 50% ownership interest in Aqualon. At December 31, 2000 and December 31, 1999, goodwill was $28,550 thousand and $29,564 thousand, respectively, (net of accumulated amortization of $11,994 thousand and $10,980 thousand respectively). The amortization period for goodwill is 40 years.

10. RESTRUCTURING

In 2000 and 1999, Aqualon incurred $1,662 thousand and $1,912 thousand, respectively, related to employee reductions at Parlin, NJ, Louisiana, MO, and Hopewell, VA, manufacturing sites. There are no remaining amounts to be paid.

Severance benefits payments are based on years of service. A reconciliation of activity with respect to the liabilities established for these plans is as follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Balance at beginning of year	$ --	$1,466
Additional termination benefits and other exit costs	1,662	446
Cash payments	(1,662)	(1,912)
Balance at end of year	$ --	$ --

11. PENSION AND OTHER POSTRETIREMENT BENEFITS

Aqualon participates in a defined benefit pension plan sponsored by Hercules, which covers substantially all employees of Hercules in the U.S. Benefits under this plan are based on the average final pay and years of service. Hercules also provides post-retirement health care and life insurance benefits to eligible retired employees and their dependents.

Information on the actuarial present value of the benefit obligation and fair value of the plan assets is not presented as Hercules manages its U.S. employee benefit plans on a consolidated basis and such information is not maintained separately for the U.S. employees of the Company. The Company's statement of operations includes an allocation of the costs of the U.S. benefits plans. The pension costs were allocated based on percentage of pensionable wages, for each of the years presented, post-retirement benefit costs were allocated using factors derived from the relative net assets and revenues. Net pension income of Hercules allocated to the Company was $3,367 thousand, $3,810 thousand, and $4,069 thousand for the years ended December 31, 2000, 1999 and 1998, respectively, and post-retirement benefit expense was $2,462 thousand, $1,774 thousand, and $1,813 thousand for the years ended December 31, 2000, 1999 and 1998, respectively.

12. OTHER OPERATING EXPENSES, NET

Other operating expenses, net, consists of the following:

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Loss on disposal of Nitrocellulose	$25,241	$ 6,500	$ --
Asset impairments	--	2,000	15,300
Environmental charges	2,617	3,020	2,151
Restructuring charges	1,662	446	1,466
Royalties	(7,613)	(8,474)	(8,734)
Other	352	62	62
Total	$22,259	$ 3,554	$10,245

In 1998, the Nitrocellulose fixed assets at Parlin, NJ were deemed to be impaired; Nitrocellulose capital expenditures in 1999 were also impaired.

13. OTHER FINANCING ARRANGEMENTS

Hercules manages Aqualon's cash and indebtedness. The majority of the cash provided by or used by Aqualon is provided through this consolidated cash and debt management system. As a result, the amount of domestic cash or debt historically related to Aqualon is not determinable. For purposes of Aqualon's historical financial statements all of Aqualon's positive or negative cash flows have been treated as cash transferred to or from its partners (Hercules Group).

14. NET PARTNERS' (HERCULES GROUP) INVESTMENT

Changes in net partners' (Hercules Group) investment were as follows:

	(DOLLARS IN THOUSANDS)
Balance, January 1, 1998	$191,836
Net income	57,701
Intercompany transactions, net	(57,615)
Balance, December 31, 1998	191,922
Net income	36,971
Intercompany transactions, net	(58,434)
Balance, December 31, 1999	170,459
Net income	28,198
Intercompany transactions, net	(42,704)
Balance, December 31, 2000	$155,953

15. DIVESTITURES

In June 2000, Aqualon divested its Nitrocellulose operation at Parlin, NJ to Greentree Chemical Technologies, Inc. As a result of the transaction, Aqualon received a $6,600 thousand note (see note 4) and recorded a one-time pre-tax loss of $25,241 thousand, primarily for employee termination benefits, inventory transfer and disposal, environmental liabilities, and other miscellaneous expenses, of which $18,387 thousand has been expended. Aqualon terminated approximately 100 employees associated with the Nitrocellulose operation at Parlin, NJ, which resulted in severance payments of $4 million. Nitrocellulose revenues were $23,503 thousand, $58,526 thousand, and $59,944 thousand in 2000, 1999, and 1998, respectively.

16. COMMITMENTS AND CONTINGENCIES

Leases

Aqualon has operating leases (including office space, transportation, and data processing equipment) expiring at various dates. Rental expense was $528 thousand in 2000, $661 thousand in 1999, and $629 thousand in 1998.

At December 31, 2000, minimum rental payments under noncancelable leases aggregated $771 thousand. The net minimum payments over the next five years are $306 thousand in 2001, $250 thousand in 2002, $158 thousand in 2003, $36 thousand in 2004, and $20 thousand in 2005.

Litigation

Aqualon currently and from time to time is involved in litigation incidental to the conduct of its business. In the opinion of Aqualon's management, none of such litigation as of December 31, 2000 is likely to have a material adverse effect on the financial position and results of operations of Aqualon.

Environmental

Aqualon has established accruals for the estimated cost of environmental remediation and/or cleanup at various sites. The estimated range of the reasonable possible share of costs for investigation and cleanup is between $25 million and $46 million. The actual costs will depend upon numerous factors, including the number of parties found to be responsible at each environmental site and their ability to pay; the actual methods of remediation required or agreed to; the outcomes of negotiations with regulatory authorities;

outcomes of litigation; changes in environmental laws and regulations; technological developments; and the number of years of remedial activity required, which could range from 0 to 30 years. As of December 31, 2000, the accrued liability of $25 million for environmental remediation represents management's best estimate of the probable and reasonably estimable costs related to environmental remediation. Aqualon estimates that these liabilities will be paid over the next five years. The extent of liability is evaluated quarterly. The measurement of the liability is evaluated based on currently available information, including the process of remedial investigations at each site and the current status of negotiations with regulatory authorities regarding the method and extent of apportionment of costs among other potentially responsible parties. Aqualon is unaware of any unasserted claims and has not reflected them in the reserve. While it is not feasible to predict the outcome of all pending suits and claims, the ultimate resolution of these environmental matters could have a material effect upon the results of operations and the financial position of Aqualon.

Other

As of December 31, 2000, Aqualon had $4.3 million in letters of credit outstanding with lenders.

17. RELATED PARTY TRANSACTIONS

Aqualon has entered into certain agreements with affiliated entities. These agreements were developed in the context of parent/subsidiary relationship and therefore may not necessarily reflect the result of arms-length negotiations between independent parties. Aqualon records sales with affiliates based on a cost-plus formula developed and agreed-upon by both parties.

Corporate and other cost allocations: As discussed in Note 1, the financial statements of Aqualon reflect certain allocated support costs incurred by other entities in Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, research & development overhead, investor relations and other corporate services. Allocations and charges included in Aqualon's financial statements were based on either a direct cost pass-through for items directly identified as related to Aqualon's activities; a percentage allocation for such services provided based on factors such as revenues, net assets, costs of sales or a relative weighting of geographic activity. These allocations are reflected in the selling, general and administrative line item in our statement of operations. Such allocations and corporate charges totaled $15,313 thousand, $21,444 thousand, and $16,424 thousand in 2000, 1999 and 1998, respectively.

Royalties: Aqualon entered into a license agreement in respect of the use of manufacturing formulations and specifications by affiliated companies which are developed and owned by Aqualon. Aqualon received royalties in respect of this agreement of $7,613 thousand, $8,474 thousand, and $8,734 thousand in 2000, 1999 and 1998, respectively. The royalties are included as reductions to other operating expenses in the financial statements.

Purchases from affiliates: Aqualon purchases a broad range of products in the normal course of business from affiliated companies. Aqualon's purchases from affiliated companies were $23,457 thousand, $23,598 thousand, and $50,022 thousand in 2000, 1999 and 1998, respectively.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
Hercules Incorporated
Wilmington, Delaware

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income (loss) and of cash flows present fairly, in all material respects, the financial position of BetzDearborn Canada, Inc., a subsidiary of Hercules Incorporated, and its subsidiary at December 31, 2000 and 1999 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the

United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Mississauga, Ontario
June 15, 2001, except for note 2, New accounting pronouncements, which is as of October 19, 2001

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BETZDEARBORN CANADA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	YEAR ENDED DECEMBER 31, 2000	YEAR ENDED DECEMBER 31, 1999
	(THOUSANDS OF U.S. DOLLARS)	
Sales to third parties	$167,668	$158,833
Sales to Hercules Group	10,844	7,033
Net sales	178,512	165,866
Cost of sales	107,811	94,629
Selling, general and administrative expenses	40,979	48,114
Goodwill and intangible asset amortization	8,137	8,056
Other operating expense	6,487	5,203
Profit from operations	15,098	9,864
Interest and debt expense	5,075	7,717
Interest income	(1,090)	(529)
Other expense (income) (note 12)	540	(1,266)
Income before income taxes	10,573	3,942
Provision for income tax (note 13)	5,362	2,685
Income before minority interest	5,211	1,257
Minority interest -- held by affiliate	4,003	3,221
Net income (loss)	1,208	(1,964)
Translation adjustments	(8,897)	16,261
Comprehensive (loss) income	$ (7,689)	$ 14,297

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

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BETZDEARBORN CANADA, INC.

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2000	DECEMBER 31, 1999
	(THOUSANDS OF U.S. DOLLARS)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 4	$ 2,113
Accounts receivable -- net (note 3)	28,896	25,647
Inventories (note 4)	13,465	14,585
Income taxes receivable	--	1,100
Total current assets	42,365	43,445
Property, plant and equipment -- net (note 8)	21,595	22,380
Goodwill and other intangible assets -- net (note 9)	288,307	305,748
Pension and other post-retirement benefits (note 11)	5,095	4,851
Deferred charges and other assets	773	215
Total assets	$358,135	$376,639
LIABILITIES AND NET HERCULES GROUP INVESTMENT		
Current liabilities		
Bank overdraft (note 5)	$ 1,351	$ 2,321
Accounts payable	10,272	4,175
Accrued expenses (note 8)	4,415	5,993
Total current liabilities	16,038	12,489
Long-term debt (note 6)	83,434	86,174
Deferred income taxes (note 13)	2,449	1,729
Total liabilities	101,921	100,392
Commitments and contingencies (note 16)	--	--
Minority interest -- held by affiliate	11,874	14,713
Net Hercules Group investment (note 15)		
Accumulated other comprehensive income	4,842	13,739
Intercompany transactions (note 14)	239,498	247,795
Net Hercules Group investment	244,340	261,534
Total liabilities and net Hercules Group investment	$358,135	$376,639

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

BETZDEARBORN CANADA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31, 2000	YEAR ENDED DECEMBER 31, 1999
	(THOUSANDS OF U.S. DOLLARS)	
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 1,208	$ (1,964)
Adjustments to reconcile net income (loss) to net cash provided from operations:		
Minority interest -- held by affiliate	4,003	3,221
Depreciation	2,492	2,175
Amortization	8,137	8,056
Loss on disposals of property, plant and equipment	--	9
Write-off of property, plant and equipment	21	--
Deferred tax expense	776	1,902
Pension and other post-retirement benefits expense	496	895
Corporate and other cost allocations	3,067	5,738
Accruals and deferrals of cash receipts and payments		
Accounts receivables	(3,445)	(2,261)
Income taxes receivable/payable	2,888	(2,510)
Inventories	973	(1,797)
Prepaid expenses	--	320
Pension and other post-retirement benefit contributions	(902)	(785)
Accounts payable and accrued expenses	1,312	(1,453)
Non-current assets and liabilities	(558)	(11)
Transfers to/from Hercules Group	2,793	(3,517)
Net cash provided by operations	23,261	8,018
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures	(2,424)	(3,493)
Software expenditures	(114)	--
Proceeds of disposals of property, plant and equipment	--	295
Net cash used in investing activities	(2,538)	(3,198)
CASH FLOW FROM FINANCING ACTIVITIES:		
Transfers to/from Hercules Group	(13,566)	80,796
Long-term debt repayments	(54)	(87,510)
Payments to minority interest -- affiliated company	(7,904)	--
Increase (decrease) in bank overdraft	(970)	1,677
Net cash used in financing activities	(22,494)	(5,037)
Effect of exchange rate changes on cash	(338)	138
Net decrease in cash and cash equivalents	(2,109)	(79)
Cash and cash equivalents -- Beginning of year	2,113	2,192
Cash and cash equivalents -- End of year	$ 4	$ 2,113
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$ 5,256	$ 7,698

Income taxes...	1,747	3,051
Non-cash financing activities:		
Corporate and other cost allocations.....................	$ 3,067	$ 5,738

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

BETZDEARBORN CANADA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

BetzDearborn Canada, Inc. (BDCI or the Company) is 100% owned by BetzDearborn Inc., which in turn is 100% owned by Hercules Incorporated (Hercules). BDCI is engaged in providing products and services in the areas of process chemicals and services, functional products, and chemical specialties to the Canadian marketplace.

Historically, separate company stand-alone financial statements were not prepared for BDCI. In November 2000, Hercules amended its senior credit facility and ESOP credit facility (the Facilities). The Facilities, as amended, are secured by liens on Hercules' property and assets (and those of Hercules' Canadian subsidiaries, including BDCI), a pledge of the stock and partnership and member interests of substantially all of Hercules' U.S.A. subsidiaries and 65% of the stock of non-U.S.A. subsidiaries directly owned by Hercules, including BDCI, and a pledge of Hercules' U.S. intercompany indebtedness. These financial statements present the financial information on BDCI, a collateral party to the Hercules debt, based on Hercules' understanding of Securities and Exchange Commission's interpretation and application of Rule 3-16 under the Securities and Exchange Commission's Regulation S-X. These statements were derived from historical accounting records.

When Hercules acquired all of the outstanding shares of BetzDearborn Inc. on October 15, 1998, it paid $2,235 million in cash and $186 million in common stock exchanged for the shares held by the BetzDearborn ESOP Trust. As a result of this acquisition, Hercules initiated a global process of internal reorganization, in which the Company entered into an agreement with Hercules Canada, Inc. to transfer its business to a newly created partnership, Hercules Canada Partnership (HCP or the partnership). The Company has a 71.92% share of future profits from the partnership. Since this reorganization is under the common control of Hercules, the transactions have been accounted for in a manner similar to pooling of interest. The purchase price allocated to the Company and its subsidiary was approximately $295 million. During 1999, Hercules completed the purchase price allocation and the final determination of goodwill was $1,822 million of which the amount attributable to the Company was approximately $300 million. These financial statements include the push down of fair value adjustments to assets and liabilities, including goodwill, other intangible assets and property, plant and equipment and their related amortization and depreciation adjustments.

The financial statements of BDCI reflect certain allocated support costs incurred by other entities in the Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in BDCI's financial statements were based on either a direct cost pass-through for items directly identified as related to BDCI's activities; a percentage allocation for such services provided based on factors such as sales, net assets, or cost of sales; or a relative weighting of geographic activity. Management believes that the allocation methods are reasonable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of BetzDearborn Canada, Inc. and its majority controlled partnership, Hercules Canada Partnership. This partnership is located in Mississauga, Ontario, Canada. All material intercompany transactions and profits have been eliminated.

Use of estimates

Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue recognition

The Company recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer or services are performed in accordance with terms of the agreement, title and risk of loss have been transferred, collectibility is probable, and pricing is fixed and determinable. Accruals are made for sales returns and other allowances based on the Company's experience. The corresponding shipping and handling costs are included in cost of sales.

Cash and cash equivalents

Cash equivalents include commercial paper and other securities with original maturities of 90 days or less. Book value approximates fair value because of the short maturity of those instruments.

Inventories

Inventories are stated at the lower of cost or market. Cost includes the cost of raw materials, direct labor and an allocation of overhead. Inventories are valued on the standard cost method, which approximates average cost.

Property and depreciation

Property, plant and equipment are stated at cost and depreciated using the straight-line method. The estimated useful lives of depreciable assets are as follows: buildings -- 30 years; plant, machinery and equipment -- 15 years; other machinery and equipment -- 3 to 15 years.

Maintenance, repairs, and minor renewals are charged to income; major renewals and betterments are capitalized. Upon normal retirement or replacement, the cost of property (less proceeds of sale or salvage) is charged to income.

Goodwill and other intangible assets

Goodwill and other intangible assets are amortized on a straight-line basis over the estimated future periods to be benefited, generally 40 years for goodwill and 5 to 15 years for other intangible assets.

Long-lived assets

The Company reviews its long-lived assets, including goodwill and other intangibles, for impairment whenever events or changes in circumstances indicate carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If an impairment loss has occurred based on expected future cash flows (undiscounted), the loss is recognized in the statement of income. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset. The fair value represents expected future cash flows from the use of the assets, discounted at the rate used to evaluate potential investments.

Income taxes

The provisions for income taxes have been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred income taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred income taxes result from differences between the financial and tax basis of the Company's assets and liabilities and are adjusted for changes in tax rates and tax laws when

changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Foreign currency translation and transactions

The accompanying consolidated financial statements are reported in U.S. dollars. The Canadian dollar is the functional currency for the Company and the partnership. The translation of the functional currency into U.S. dollars (reporting currency) is performed for assets and liabilities using the current exchange rates in effect at the balance sheets dates, and for revenues, costs and expenses using average exchange rates prevailing during the reporting periods. Adjustments resulting from the translation of functional currency financial statements to reporting currency are accumulated and reported as other comprehensive income, a component of net Hercules Group investment.

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are expressed in the functional currency at the exchange rates in effect at the balance sheets dates. Revenues, costs and expenses are recorded using average exchange rates prevailing during the reporting periods. Gains or losses resulting from foreign currency transactions are included in the statements of operations.

Concentration of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. Concentrations of credit risk with respect to trade receivables are limited due to the Company's large number of customers and their dispersion across many different industries and locations.

Financial instruments

The Company uses various non-derivative financial instruments, including letters of credit, and generally does not require collateral to support its financial instruments.

Stock-based compensation

Compensation costs attributable to stock option and similar plans are recognized based on any excess of the quoted market price of the stock on the date of grant over the amount the employee is required to pay to acquire the stock (the intrinsic-value method under Accounting Principles Board Opinion 25 (APB 25)). Such amount, if any, is accrued over the related vesting period, as appropriate. Statement of Financial Accounting Standard No. 123, Accounting for Stock-based Compensation, requires companies electing to continue to use the intrinsic-value method to make pro forma disclosures of net income as if the fair value based method of accounting had been applied.

Net Hercules Group investment

The net Hercules Group investment account reflects the balance of BDCI's historical earnings, intercompany amounts, foreign currency translation and other transactions between BDCI and the Hercules Group.

New accounting pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133" and Statement No. 138,

"Accounting for Certain Derivative Instruments and Certain Hedging Activities", requires that all derivative instruments be recorded on the balance sheets at their fair value. SFAS 133, as amended, is effective for all fiscal quarters of fiscal years beginning after December 31, 2000. The Company adopted SFAS 133 effective January 1, 2001. The adoption of SFAS No. 133 did not have a material effect on the Company's earnings or financial position.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by SAB Nos. 101A and 101B, was effective October 1, 2000. Adoption of SAB 101 did not have a material effect on the Company's profit from operations.

In June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). For BDCI, these statements will generally become effective January 1, 2002, although business combinations initiated after June 30, 2001 are subject to the non-amortization and purchase accounting provisions.

SFAS 142 stipulates that goodwill and other intangible assets with indefinite lives are no longer subject to amortization, but must be evaluated periodically for impairment beginning January 1, 2002. BDCI is currently in the process of conducting an assessment of the actual impact of the non-amortization provision of SFAS 142. The assessment of goodwill for impairment is a complex issue in which the Company must determine, among other things, the fair value of each defined reporting unit. It is, therefore, not possible at this time to predict the impact, if any, that the impairment assessment provisions of SFAS 142 will have on BDCI's financial statements.

In addition, in June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 143 establishes accounting standards for the recognition and measurement of legal obligations associated with the retirement of tangible long-lived assets. SFAS 143 will become effective for BDCI from January 1, 2003 and requires recognition of a liability for an asset retirement obligation in the period in which it is incurred. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

3 ACCOUNTS RECEIVABLE -- NET

Accounts receivable -- net consists of:

	2000	1999
	(THOUSANDS OF U.S. DOLLARS)	
Trade	$27,225	$24,503
Other	2,672	2,085
Gross accounts receivable	29,897	26,588
Less: Allowance for doubtful accounts	1,001	941
Total	$28,896	$25,647

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BETZDEARBORN CANADA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

4 INVENTORIES

The components of inventories are:

	2000	1999
	(THOUSANDS OF U.S. DOLLARS)	
Finished products	$ 7,224	$ 8,286
Materials, supplies and work-in-process	6,241	6,299
Total	$13,465	$14,585

5 BANK OVERDRAFT

Bank borrowings represent primarily overdraft facilities and short-term lines of credit, which are payable on demand with interest at various rates. Book values of bank borrowings approximate market value because of their short maturity period.

At December 31, 2000, the Company had $5 million of unused lines of credit that may be drawn as needed, with interest at a negotiated spread over lenders' cost of funds. Lines of credit unused at December 31, 1999 totalled $6.8 million. Weighted average interest rates on short-term borrowings at December 31, 2000 and 1999 were 7.5% and 6.5%, respectively. Lines of credit are repayable in Canadian funds.

6 LONG-TERM DEBT

The Company's bank loan facility of up to the equivalent of US$100 million from select lenders in Canada is a component of the Hercules' $3,650 million credit facility with a syndicate of banks, which is due in 2003. The bank loan facility is drawn in the form of bankers' acceptances, is repayable in Canadian funds and bears interest at bankers' acceptance rates plus 2.25%. The interest prepaid on the bankers' acceptances is included in the net payable amount. The Company's assets and 65% of its common shares are pledged as collateral on the Hercules' credit facility.

The Company believes that the carrying value of other borrowings approximates fair market value, based on discounting future cash flows using rates currently available for debt of similar terms and remaining maturities.

Interest expense for the year on long-term debt was $5,256 thousand (1999 -- $7,698 thousand).

7 LONG-TERM INCENTIVE COMPENSATION PLANS

BDCI participates in long-term incentive compensation plans sponsored by Hercules. These plans provide for the grant of stock options and the award of common stock and other market-based units to certain key employees and non-employee directors.

In 1995, Hercules changed the structure of the long-term incentive compensation plans to place a greater emphasis on shareholder value creation through grants of regular stock options, performance-accelerated stock options, and Cash Value Awards (performance-based awards denominated in cash and payable in shares of common or restricted stock, subject to the same restrictions as restricted stock). Restricted stock and other market-based units are awarded with respect to certain programs. The number of awarded shares outstanding was 491,488 at December 31, 2000 and 926,689 at December 31, 1999.

At December 31, 2000, under Hercules' incentive compensation plans, 1,847,855 shares of common stock were available for grant as stock awards or stock option awards. Stock awards are limited to approximately 15% of the total authorizations. Regular stock options are granted at the market price on the date of grant and are exercisable at various periods from one to five years after date of grant. Performance-accelerated stock

options are also granted at the market price on the date of grant and are normally exercisable at nine and one-half years. Exercisability may be accelerated based upon the achievement of predetermined performance goals. Both regular and performance-accelerated stock options expire 10 years after the date of grant.

Restricted shares, options and performance-accelerated stock options are forfeited and revert to Hercules in the event of employment termination, except in the case of death, disability, retirement, or other specified events.

The Company applies APB Opinion 25 in accounting for plans participated in by BDCI employees. Accordingly, no compensation cost has been recognized for the stock option plans. There were no charges to income for the cost of stock awards over the restriction or performance period for 2000 or 1999.

Below is a summary of outstanding stock option grants under the incentive compensation plans during 2000 and 1999, which relate to stock options held by BDCI employees:

	REGULAR	
	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE
January 1, 1999	20,100	$39.71
Granted	33,850	37.75
Exercised	--	--
Forfeited	--	--
December 31, 1999	53,950	38.48
Granted	--	--
Exercised	--	--
Forfeited	--	--
December 31, 2000	53,950	$38.48

There were no performance-accelerated stock options granted or outstanding during 2000 and 1999.

The weighted-average fair value of regular stock options granted to BDCI employees during 2000 and 1999 was $nil and $8.26, respectively.

Following is a summary of regular stock options exercisable at December 31,

2000 and 1999 and their respective weighted-average share prices:

OPTIONS EXERCISABLE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
December 31, 1999	15,880	$39.60
December 31, 2000	33,540	38.89

Following is a summary of stock options outstanding at December 31, 2000:

	OUTSTANDING OPTIONS			EXERCISABLE	
EXERCISE PRICE RANGE	NUMBER OUTSTANDING AT DECEMBER 31, 2000	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DECEMBER 31, 2000	W
REGULAR STOCK OPTIONS					
$30 - $40	53,450	7.74	$38.39	33,140	
$40 - $50	500	7.35	47.81	400	
	53,950			33,540	

BETZDEARBORN CANADA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

BDCI employees may also participate in the Hercules Employee Stock Purchase Plan (ESPP). The ESPP is a qualified non-compensatory plan, which allows eligible employees to acquire shares of common stock through systematic payroll deductions. The plan consists of three-month subscription periods, beginning July 1 of each year. The purchase price is 85% of the fair market value of the common stock on either the first or last day of that subscription period, whichever is lower. Purchases may range from 2% to 15% of an employee's base salary each pay period, subject to certain limitations. Currently, 202,139 shares of Hercules common stock are registered for offer and sale under the plan. Shares issued at December 31, 2000 and 1999 were 1,597,861 and 949,464, respectively. BDCI applies APB Opinion 25 and related interpretations in accounting for the ESPP of Hercules. Accordingly, no compensation cost has been recognized for the ESPP.

Had compensation cost for Hercules' Stock-Based Incentive Plans and ESPP been determined on the basis of fair value according to SFAS No. 123, the fair value of each option granted or share purchased would be estimated on the grant date using the Black-Scholes option pricing model.

The following weighted-average assumptions would be used in estimating fair value for 2000 and 1999:

ASSUMPTION	REGULAR PLAN	PERFORMANCE-ACCELERATED PLAN	EMPLOYEE STOCK PURCHASE PLAN
Dividend yield	2.00%	3.40%	--
Risk-free interest rate	5.88%	5.38%	5.41%
Expected life	7.1 years	5 years	3 months
Expected volatility	29.20%	27.31%	44.86%

The Company's net income for 2000 and 1999 would approximate the pro forma amounts below:

	2000	1999
	(THOUSANDS OF U.S. DOLLARS)	
Net income		
As reported	$1,208	$(1,964)
Pro forma	1,130	(2,028)

8 ADDITIONAL BALANCE SHEET DETAIL

	2000	1999
	(THOUSANDS OF U.S. DOLLARS)	
Property, plant and equipment		
Land	$ 1,632	$ 1,685
Buildings and equipment	32,134	31,302
Construction-in-progress	1,838	1,172
Total	35,604	34,159
Less: Accumulated depreciation and amortization	14,009	11,779
Net property, plant and equipment	$21,595	$22,380
Accrued expenses		
Payroll and employees benefits	$ 934	$ 686
Income taxes payable	3,104	--
Restructuring liability (note 10)	212	2,562
Other	165	2,745
Total	$ 4,415	$ 5,993

BETZDEARBORN CANADA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

9 GOODWILL AND OTHER INTANGIBLE ASSETS -- NET

At December 31, 2000 and 1999, the goodwill and other intangible assets were:

	2000	1999
	(THOUSANDS OF U.S. DOLLARS)	
Goodwill	$298,734	$308,346
Other intangibles	6,672	6,821
Total	305,406	315,167
Less: Accumulated amortization	17,099	9,419
Net goodwill and other intangible assets	$288,307	$305,748

10 RESTRUCTURING

The consolidated balance sheets reflect liabilities for employee severance benefits and other exit costs, primarily related to the plans initiated upon the acquisition of BetzDearborn in 1998. In 1998 and 1999, BDCI incurred restructuring liabilities of $3.8 million in connection with the acquisition of BetzDearborn. These liabilities included $3.3 million for employee termination benefits and $0.5 million for exit costs related to facility closures. Thirty employees were terminated during the year ended December 31, 2000. Cash payments during 2000 included $2.3 million for severance benefits. Pursuant to the plans in place to merge the operations of BetzDearborn with Hercules and to rationalize the support infrastructure and other existing operations, nineteen employees were terminated during 1999. Cash payments during 1999 included $1.3 million for severance benefits.

A reconciliation of activity with respect to the liabilities established for these plans is as follows:

	2000	1999
	(THOUSANDS OF U.S. DOLLARS)	
Balance -- Beginning of year	$ 2,562	$ 883
Cash payments	(2,317)	(1,322)
Additional termination benefits and exit costs	--	2,915
Translation adjustment	(33)	86
Balance -- End of year	$ 212	$ 2,562

Severance benefit payments are based on years of service and generally continue for 3 to 24 months subsequent to termination. Actions under the 1998 restructuring plans are substantially complete as of December 31, 2000. The Company anticipates that actions under the 1999 restructuring plan will be substantially completed by the end of 2001.

BETZDEARBORN CANADA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

11 PENSION AND OTHER POST-RETIREMENT BENEFITS

The Company provides defined benefit pension and post-retirement benefit plans to employees. The following chart lists benefit obligations, plan assets, and funded status of the plans:

	PENSION BENEFITS		OTHER POST-RETIREMENT BENEFITS	
	2000	1999	2000	1999
	(THOUSANDS OF U.S. DOLLARS)			
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at January 1..................	$25,426	$24,858	$ 1,652	$ 1,634
Service cost....................................	1,086	1,027	42	45
Interest cost...................................	1,994	1,800	115	112
Assumption change...............................	1,371	1,493	--	--
Translation difference..........................	(876)	(2,731)	(52)	102
Actuarial gain..................................	(20)	--	(61)	(183
Benefits paid from plan assets..................	(889)	(1,021)	(61)	(58
Benefit obligation at December 31.................	$28,092	$25,426	$ 1,635	$ 1,652
CHANGE IN PLAN ASSETS				
Fair value of plan assets at January 1...........	$34,825	$27,959	$ --	$ --
Actual return on plan assets....................	1,856	5,605	--	--
Company contributions...........................	841	727	61	58
Translation difference..........................	(1,128)	1,555	--	--
Benefits paid from plan assets..................	(889)	(1,021)	(61)	(58
Fair value of plan assets at December 31...........	$35,505	$34,825	$ --	$ --
Funded status of the plans.........................	$ 7,413	$ 9,399	$(1,635)	$(1,652
Unrecognized actuarial gain........................	(1,922)	(4,107)	(292)	(240
Unrecognized prior service cost....................	269	--	--	--
Unrecognized net transition obligation.............	(26)	--	1,288	1,451
Prepaid (accrued) benefit cost.....................	$ 5,734	$ 5,292	$ (639)	$ (441
Assumptions as of December 31				
Weighted-average discount rate..................	7%	7%	7%	6.5
Expected return on plan assets..................	7%	7.5%	N/A	N/A
Rate of compensation increase...................	4%	4%	4%	4
Health-care trend rate..........................	N/A	N/A	4%	4
Funded status of plans in deficit position.........	(855)	(544)	(1,635)	(1,652

OTHER POST-RETIREMENT

	PENSION BENEFITS		BENEFITS	
	2000	1999	2000	1999
	(THOUSANDS OF U.S. DOLLARS)			
Service cost	$ 1,086	$ 1,027	$ 42	$ 45
Interest cost	1,994	1,800	115	112
Return on plan assets (expected)	(2,688)	(2,132)	--	--
Amortization and deferrals	16	112	--	--
Amortization of transition asset	(189)	(187)	120	118
Benefit cost	$ 219	$ 620	$ 277	$ 275

Other post-retirement benefits

The nonpension post-retirement benefit plans are contributory health-care and life insurance plans. The assumed participation rate in these plans for future eligible retirees was 95% for health care and 95% for life insurance. A one-percentage point increase or decrease in the assumed health-care cost trend rate would increase or decrease the post-retirement benefit obligation by $172 thousand or $152 thousand, respectively, and would not have a material effect on aggregate service and interest cost components.

12 OTHER EXPENSE (INCOME)

Other expense (income) consists of the following:

	2000	1999
	(THOUSANDS OF U.S. DOLLARS)	
Foreign exchange loss (gain)	$226	$ (927)
Miscellaneous expense (income)	314	(339)
	$540	$(1,266)

13 INCOME TAXES

A summary of the components of the tax provision follows:

	2000	1999
	(THOUSANDS OF U.S. DOLLARS)	

Current	$4,586	$ 783
Deferred	776	1,902
Provision for income taxes	$5,362	$2,685

The deferred income tax liability at December 31 is comprised of:

	2000	1999
	(THOUSANDS OF U.S. DOLLARS)	
Accrued expenses	$ 90	$ 741
Gross deferred tax assets	90	741
Depreciation	906	990
Prepaid pension and post-retirement benefits	1,599	1,402
Other	34	78
Gross deferred tax liabilities	2,539	2,470
Total deferred income tax liability	$2,449	$1,729

A reconciliation of the Canadian statutory income tax rate to the effective rate is as follows:

	2000	1999
Statutory income tax rate	40.14%	40.54%
Minority interest in income	(15.20)	(33.12)
Goodwill amortization	22.36	53.73
Non-deductible expenses	1.76	5.07
Large corporations tax	1.64	3.43
Other	0.01	(1.54)
Effective tax rate	50.71%	68.11%

14 INTERCOMPANY NOTES RECEIVABLE

In addition to current receivables and payables with the Hercules Group, BDCI has intercompany notes receivable from the Hercules Group in the amount of $23.088 million (1999 -- $12.614 million), which is included in the net Hercules Group investment balance as of December 31, 2000 and 1999. The weighted average rate on the intercompany notes receivable was 10% in 2000 and 1999. The notes receivable are due on demand. Interest income earned on intercompany notes receivable for the year was $1,090 thousand (1999 -- $529 thousand).

15 NET HERCULES GROUP INVESTMENT

Changes in net Hercules Group investment were as follows:

	(THOUSANDS OF U.S. DOLLARS)
Balance -- January 1, 1999	$170,317
Net loss	(1,964)
Other comprehensive income	16,261
Intercompany transactions -- net	76,920
Balance -- December 31, 1999	261,534
Net income	1,208
Other comprehensive loss	(8,897)
Intercompany transactions -- net	(9,505)
Balance -- December 31, 2000	$244,340

The Company includes accumulated other comprehensive income (loss) in net Hercules Group investment. At December 31, 2000 and 1999, accumulated other comprehensive income included $4,842 thousand and $13,739 thousand, respectively, of foreign currency translation adjustments.

16 COMMITMENTS AND CONTINGENCIES

Leases

The Company has operating leases (including facilities, transportation, and data processing equipment) expiring at various dates. Rental expense was $2,474 thousand in 2000 and $2,379 thousand in 1999.

At December 31, 2000, minimum rental payments under noncancelable leases aggregated $4,938, less subleases of $335. A significant portion of these payments relates to facilities and vehicles. The net minimum payments over the next five years are $2,188 thousand in 2001, $1,328 thousand in 2002, $798 thousand in 2003, $289 thousand in 2004 and $nil in 2005.

Litigation

The Company currently and from time to time is involved in litigation incidental to the conduct of its business. In the opinion of the Company's management, none of such litigation as of December 31, 2000 is likely to have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

17 RELATED PARTY TRANSACTIONS

BDCI has entered into certain agreements with affiliated entities. These agreements were developed in the context of parent/subsidiary relationship and, therefore, may not necessarily reflect the result of arm's

BETZDEARBORN CANADA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

length negotiations between independent parties. BDCI records sales with affiliates based on a cost-plus formula developed and agreed upon by both parties.

Corporate and other cost allocations

As discussed in note 1, the financial statements of BDCI reflect certain allocated support costs incurred by other entities in Hercules Group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, research and development overhead, investor relations and other corporate services. Allocations and charges included in BDCI's financial statements were based on either a direct cost pass-through for items directly identified as related to BDCI's activities, a percentage allocation for such services provided based on factors such as revenues, net assets, cost of sales or a relative weighting of geographic activity. These allocations are reflected in the selling, general and administrative line item in the statements of operations. Such allocations and corporate charges totalled $3,067 thousand and $5,738 thousand in 2000 and 1999, respectively.

Royalties

BDCI entered into a licence agreement in respect of the use of manufacturing formulations and specifications, which are developed and owned by affiliated companies. BDCI paid royalties in respect of this agreement of $5,998 thousand and $4,937 thousand in 2000 and 1999, respectively. The royalties are reflected in the other operating expense line item in the consolidated statements of operations.

Purchases

BDCI purchases products for resale in the normal course of business from affiliated companies. BDCI's purchases from affiliated companies were $7,056 thousand and $12,502 thousand in 2000 and 1999, respectively.

Other

BDCI reimburses affiliated companies for charges incurred on its behalf. These costs are reflected in the selling, general and administrative line item in the consolidated statements of income. The amount paid was $874 thousand and $58 thousand in 2000 and 1999, respectively. BDCI receives commissions for sales made on behalf of affiliated companies, which are reflected as a decrease to selling, general and administrative costs in the consolidated statements of operations. Total commissions earned from affiliates amounted to $422 thousand and $291 thousand in 2000 and 1999, respectively.

18 SUBSEQUENT EVENTS

On May 1, 2001, Hercules completed the sale of the hydrocarbon resins business and select portions of the rosin resins business to a subsidiary of Eastman Chemical Company for which Hercules received proceeds of approximately $244 million. On May 31, 2001, Hercules completed the sale of the peroxides business to GEO Specialty Chemicals, Inc. for which Hercules received proceeds of approximately $92 million. BDCI had third party sales of $12.3 million in the resins businesses and $265 thousand in the peroxide business during the year ended December 31, 2000.

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS OF
HERCULES INCORPORATED
WILMINGTON, DELAWARE

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive loss and of cash flows present fairly, in all material respects, the financial position of BetzDearborn Europe, Inc., a subsidiary of Hercules Incorporated, and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania

October 22, 2001

BETZDEARBORN EUROPE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	YEAR ENDED DECEMBER 31,	
	2000	1999
	(DOLLARS IN THOUSANDS)	
Sales to third parties	$160,386	$176,145
Sales to Hercules Group	60,782	64,952
	221,168	241,097
Cost of sales	134,438	142,608
Selling, general, and administrative expenses	55,405	63,242
Research and development	2,782	3,931
Goodwill and intangible asset amortization	6,126	6,696
Other operating expenses, net (Note 13)	12,432	13,814
Profit from operations	9,985	10,806
Equity in income of affiliated companies	3,716	3,104
Interest and debt expense (Note 14)	9,438	9,277

Other income (expense), net (Note 15)	998	1,666
Income before income taxes	5,261	6,299
Provision for income taxes (Note 16)	2,300	6,609
Net income	2,961	(310)
Translation adjustments	(28,564)	(11,658)
Comprehensive loss	$(25,603)	$(11,968)

The accompanying notes are an integral part of the consolidated financial statements.

BETZDEARBORN EUROPE INC

CONSOLIDATED BALANCE SHEET

	DECEMBER 31, 2000	DECEMBER 31, 1999
	(DOLLARS IN THOUSANDS)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,406	$ 3,113
Accounts receivable, net (Note 3)	44,476	47,247
Inventories (Note 4)	16,224	22,765
Deferred income taxes (Note 16)	1,716	5,481
Total current assets	64,822	78,606
Property, plant, and equipment, net (Note 9)	53,382	62,749
Investments in affiliates (Note 5)	152,468	145,921
Goodwill and other intangible assets, net (Note 10)	182,927	214,671
Prepaid pension (Note 12)	7,785	6,011
Deferred charges and other assets	1,289	700
Total assets	$462,673	$508,658
LIABILITIES AND NET HERCULES GROUP INVESTMENT		
Current liabilities		
Accounts payable	$ 17,511	$ 18,487
Short-term debt (Note 6)	5,730	10,382
Accrued expenses (Note 9)	21,477	23,599
Total current liabilities	44,718	52,468
Deferred income taxes (Note 16)	5,411	11,197
Deferred credits and other liabilities	30	48
Total liabilities	50,159	63,713
Commitments and Contingencies (Note 17)		
Net Hercules Group investment (Note 19)		
Accumulated other comprehensive losses	(54,068)	(25,504)
Intercompany transactions	466,582	470,449

Net Hercules Group investment	412,514	444,945
Total liabilities and net Hercules Group investment	$462,673	$508,658

The accompanying notes are an integral part of the consolidated financial statements.

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BETZDEARBORN EUROPE INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	2000	1999
	(DOLLARS IN THOUSANDS)	
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$ 2,961	$ (310)
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Depreciation and amortization of property, plant and equipment	7,037	6,538
Amortization of goodwill and other intangible assets	6,126	6,696
Deferred Income Tax	(372)	1,869
Loss on disposals	84	--
Equity in income of affiliates	(3,716)	(3,104)
Dividends from equity method investments	--	1,666
Corporate and other cost allocations	3,940	7,530
Accruals and deferrals of cash receipts and payments:		
Accounts receivable	(1,215)	2,332
Inventories	4,638	1,912
Accounts payable and accrued expenses	584	(7,881)
Noncurrent assets and liabilities	(2,850)	3,199
Net transfers from (to) Hercules Group	38,809	(13,632)
Net cash provided by operations	56,026	6,815
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures, net of proceeds from sale	(3,123)	2,590
Net cash (used in) provided by investing activities	(3,123)	2,590
CASH FLOW FROM FINANCING ACTIVITIES:		
Change in short-term debt	(4,341)	9,843
Net transfers to Hercules Group	(49,096)	(27,957)
Net cash used in financing activities	(53,437)	(18,114)
Effect of exchange rate changes on cash	(173)	(747)
Net decrease in cash and cash equivalents	(707)	(9,456)
Cash and cash equivalents at beginning of year	3,113	12,569

Cash and cash equivalents at end of year...................	$ 2,406	$ 3,113
	========	========
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest (net of amount capitalized)......................	$ 9,439	$ 9,215
Income taxes, net...	4,622	6,948
Noncash investing and financing activities:		
Corporate and other cost allocations......................	3,940	7,530
Corporate and other asset allocations.....................	4,609	3,551

The accompanying notes are an integral part of the consolidated financial statements.

BETZDEARBORN EUROPE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

BetzDearborn Europe Inc. (the "Company") is a wholly owned subsidiary of BetzDearborn Inc. (immediate parent) ("BetzDearborn") and Hercules Incorporated (ultimate parent) ("Hercules"). Hercules and its wholly owned subsidiaries comprise the Hercules Group. The Company supplies engineered chemical treatment programs for water and process systems in industrial, commercial and institutional establishments, offering a range of products and services for preserving or enhancing productivity, reliability and efficiency in plant operations and in complying with environmental regulations.

When Hercules acquired all of the outstanding shares of BetzDearborn Inc. on October 15, 1998 it paid $2,235 million in cash and $186 million in common stock exchanged for the shares held by the BetzDearborn ESOP Trust. The purchase price allocated to the Company and its subsidiaries was approximately $810 million. During 1999, Hercules completed the purchase price allocation and the final determination of goodwill was $1,822 million of which the amount attributable to the Company was approximately $204 million. These financial statements include the push down of fair value adjustments to assets and liabilities, including goodwill, other intangible assets and property, plant and equipment and their related amortization and depreciation adjustments.

As a result of this acquisition, the Company, as a part of an effort by Hercules, entered into several internal reorganization transactions during 2000 and 1999. The transactions included the Company selling several of its investments in subsidiaries to Hercules affiliates, purchasing several investments in subsidiaries from Hercules affiliates, merging companies, and acquiring certain investments in Hercules group companies that are valued at cost. As all investments in this reorganization are under the common control of Hercules, these transactions have been accounted for in a manner similar to pooling of interests.

Historically, separate company stand-alone financial statements were not prepared for the Company. In November 2000, Hercules amended its senior credit facility and ESOP credit facility (the "Facilities"). The Facilities, as amended, are secured by liens on Hercules' property and assets (and those of Hercules' Canadian Subsidiaries), a pledge of the stock of substantially all of Hercules' domestic subsidiaries (including the Company) and 65% of the stock of foreign subsidiaries directly owned by Hercules, and a pledge of Hercules' domestic intercompany indebtedness. These consolidated financial statements present the financial information of the Company, a collateral party to the Hercules debt, based on the Hercules' understanding of the Securities and

Exchange Commission's interpretation and application of Rule 3-16 under the Securities and Exchange Commission's Regulation S-X. These statements were derived from historical accounting records.

The consolidated financial statements of the Company reflect certain allocated support costs incurred by the Hercules Group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in the Company's consolidated financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on factors such as sales, net assets, or cost of sales; or a relative weighting of geographic activity. Management believes that the allocation method is reasonable. (See Note 18)

A number of the Company's operating companies participate in Hercules Holding BV/BVBA's (a Hercules Group affiliate) centralized cash management system. Accordingly, cash received from operations may be transferred to Hercules on a periodic basis, and Hercules funds operational and capital requirements upon request.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries where control exists. Following the acquisition of BetzDearborn by Hercules in 1998, the Company continued BetzDearborn's practice of using a November 30 fiscal year end for certain former BetzDearborn non-U.S. subsidiaries to expedite the year end closing process. All intercompany transactions and profits have been eliminated.

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer or services are performed in accordance with terms of the agreement, title and risk of loss have been transferred, collectibility is probable, and pricing is fixed and determinable. Accruals are made for sales returns and other allowances based on the Company's experience. The corresponding shipping and handling costs are included in cost of sales.

Research and Development Expenditures

Research and development expenditures are expensed as incurred.

Environmental Expenditures

Environmental expenditures that pertain to current operations or future revenues are expensed or capitalized according to the Company's capitalization policy. Expenditures for remediation of an existing condition caused by past operations that do not contribute to current or future revenues are expensed. Liabilities are recognized for remedial activities when the cleanup is probable and can be reasonably estimated.

Cash and Cash Equivalents

Cash in excess of operating requirements is invested in short-term, income producing instruments. Cash equivalents include commercial paper and other securities with original maturities of 90 days or less. Book value approximates fair value because of the short-term maturity of those instruments.

Inventories

Inventories are stated at the lower of cost or market. Inventories are valued on the average cost method.

Property and Depreciation

Property, plant, and equipment are stated at cost. The Company changed to the straight-line method of depreciation, effective January 1, 1991, for newly acquired processing facilities and equipment. Assets acquired before then continue to be depreciated by accelerated methods. The Company believes straight-line depreciation provides a better matching of costs and revenues over the lives of the assets. The estimated useful lives of depreciable assets are as follows: buildings -- 30 years; plant, machinery and equipment -- 15 years; other machinery and equipment -- 3 to 15 years.

Maintenance, repairs, and minor renewals are charged to income; major renewals and betterments are capitalized. Upon normal retirement or replacement, the cost of property (less proceeds of sale or salvage) is charged to income.

Investments

Investments in affiliated companies with a 20% or greater ownership interest in which the Company has significant influence are accounted for using the equity method of accounting. Accordingly, these investments are included in investments in affiliates on the Company's balance sheet and the income or loss from these investments is included in equity in (loss) income of affiliated companies in the Company's statement of income.

Investments in affiliated companies in which the Company does not have a controlling interest, or an ownership and voting interest so large as to exert significant influence, are accounted for using the cost method of accounting. Accordingly, these investments are included in investments in affiliates on the Company's balance sheet.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets are amortized on a straight-line basis over the estimated future periods to be benefited, generally 40 years for goodwill and 5 to 15 years for other intangible assets.

Long-lived Assets

The Company reviews its long-lived assets, including goodwill and other intangibles, for impairment on an exception basis whenever events or changes in circumstances indicate carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If an impairment loss has occurred based on expected future cash flows (undiscounted), the loss is recognized in the income statement. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset. The fair value represents expected future cash flows from the use of the assets, discounted at the rate used to evaluate potential investments.

Income Taxes

Income tax expense in the accompanying consolidated financial statements has been computed assuming the Company filed separate income tax returns.

The provisions for income taxes have been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax basis of the Company's assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

The company provides taxes on undistributed earnings of subsidiaries and affiliates included in consolidated retained earnings to the extent such earnings are planned to be remitted and not re-invested permanently. The undistributed earnings of subsidiaries and affiliates on which no provision for foreign withholding or US income taxes has been made amounted to approximately $5,290 thousand and $1,853 thousand at December 31, 2000 and 1999, respectively. US and foreign income taxes that would be payable if such

earnings were distributed may be lower than the amount computed at the US statutory rate because of the availability of tax credits.

Foreign Currency Translation and Transactions

The accompanying consolidated financial statements are reported in U.S. dollars. The U.S. dollar is the functional currency for the Company. The translation of the functional currencies of the Company's subsidiaries into U.S. dollars (reporting currency) is performed for assets and liabilities using the current exchange rates in effect at the balance sheet date, and for revenues, costs and expenses using average exchange rates prevailing during the reporting periods. Adjustments resulting from the translation of functional currency financial statements to reporting currency are accumulated and reported as other comprehensive income, a separate component of net Hercules Group investment.

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are expressed in the functional currency at the exchange rates in effect at the balance sheet date. Revenues, costs and expenses are recorded using average exchange rates prevailing during the reporting periods. Gains or losses resulting from foreign currency transactions are included in the statement of income.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables and receivables from affiliated companies, which are included in the net Hercules Group investment in the consolidated balance sheet. Concentrations of credit risk with respect to trade receivables are limited due to the Company's large number of customers and their dispersion across many different industries and locations.

Stock-based Compensation

Compensation costs attributable to stock option and similar plans are recognized based on any excess of the quoted market price of the stock on the date of grant over the amount the employee is required to pay to acquire the stock (the intrinsic-value method under Accounting Principles Board Opinion 25 (APB 25)). Such amount, if any, is accrued over the related vesting period, as appropriate. Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," requires companies electing to continue to use the intrinsic-value method to make pro forma disclosures of net income as if the fair-value-based method of accounting had been applied.

Net Hercules Group Investment

The Net Hercules Group Investment account reflects the balance of the Company's historical earnings, intercompany amounts, foreign currency translation and other transactions between the Company and the Hercules Group.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133" and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," requires that all derivative instruments be recorded on the balance sheet at their fair value. SFAS 133, as amended, is effective for all fiscal quarters of fiscal years beginning after December 31, 2000. The Company adopted SFAS 133 effective

January 1, 2001. The Company believes that the adoption of SFAS No. 133, as amended by SFAS 137 and 138, did not have a material effect on its earnings or statement of financial position.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by SAB Nos. 101A and 101B, was effective October 1, 2000. Adoption of SAB 101 did not have a material effect on profit from operations.

In June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). For the Company, these statements will generally become effective January 1, 2002, although business combinations initiated after June 30, 2001 are subject to the non-amortization and purchase accounting provisions.

SFAS 142 stipulates that goodwill and other intangible assets with indefinite lives are no longer subject to amortization, but must be evaluated periodically for impairment beginning January 1, 2002. The assessment of goodwill for impairment is a complex issue in which the Company must determine, among other things, the fair value of each defined reporting unit. It is, therefore, not possible at this time to predict the impact, if any, that the impairment assessment provisions of SFAS 142 will have on the Company's financial statements.

In addition, in June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 143 establishes accounting standards for the recognition and measurement of legal obligations associated with the retirement of tangible long-lived assts. SFAS 143 will become effective for the Company on January 1, 2003 and requires recognition of a liability for an asset retirement obligation in the period in which it is incurred. Management is currently in the process of evaluating the impact this standard will have on the Company's financial statements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, consists of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Trade	$39,830	$44,933
Other	7,413	4,157
	47,243	49,090
Less allowance for doubtful accounts	(2,767)	(1,843)
Total	$44,476	$47,247

Other accounts receivable mainly comprise VAT receivable.

4. INVENTORIES

The components of inventories are:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Finished products	$ 9,876	$14,422
Materials, supplies, and work in process	6,348	8,343
Total	$16,224	$22,765

5. INVESTMENTS

The Company has various equity investments in companies, as described below. Summarized financial information for these equity affiliates at December 31, and for the years then ended is as follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Current assets	$ 26,497	$ 32,009
Non-current assets	210,711	214,308
Current liabilities	$ 23,481	$ 35,630
Non-current liabilities	25,113	31,622
Net sales	$ 62,348	$ 62,860
Gross profit	18,142	17,930
Net earnings	8,393	6,699

At December 31, 2000, the Company's equity investments consist of a 38.97% ownership of Hercules Quimica S.A., a Hercules affiliate, a 50% ownership of BL Technologies, a Hercules affiliate and a 19.75% ownership of Hercules de Colombia S.A., a Hercules affiliate. The Company's carrying value for these investments at December 31, 2000 and 1999 equals its share of the underlying equity in net assets of the respective affiliates. Dividends paid to the Company from its equity investees were $1,666 thousand during 1999. No dividends were received by the Company from equity investees in 2000. Each of these entities operates in lines of business similar to the Company, supplying engineered chemical treatment programs for water and process systems in industrial, commercial and institutional establishments. The Company's cost investment consists of a 7.5% ownership of Hercules International Limited, a Hercules affiliate.

6. SHORT-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Short-term debt of $5,730 thousand and $10,382 thousand at December 31, 2000 and 1999, respectively, consists of bank borrowings primarily representing foreign overdraft facilities and short-term lines of credit, which are generally payable on demand with interest at various rates. Book values of bank borrowings approximate market value because of their short maturity period.

Short-term debt with affiliates of $26,856 thousand and $31,668 thousand at December 31, 2000 and 1999, respectively, is recorded in Net Hercules Group Investment in the consolidated balance sheet and is generally payable on demand with interest at various rates.

At December 31, 2000 and 1999, the Company had $28,300 thousand and $7,500 thousand, respectively, of unused lines of credit that may be drawn as needed, with interest at a negotiated spread over lenders' cost of funds.

Weighted-average interest rates on all third party and affiliate short-term borrowings at December 31, 2000 and 1999 were 6.3% and 6.8%, respectively.

7. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Long-term debt with affiliates at December 31, 2000 and 1999, which is recorded in Net Hercules Group Investment in the consolidated balance sheet, is summarized as follows:

	2000	1999
	(DOLLARS IN THOUSAND)	
7.11% variable rate affiliate note	$ 45,195	$ 51,558
4.81% variable rate affiliate note	27,063	30,724
6.00% variable rate affiliate note	26,278	31,220
7.56% variable rate affiliate note	5,022	5,729
7.99% variable rate affiliate note	2,196	2,442
4.81% variable rate affiliate note	1,766	1,947
8.47% variable rate affiliate note	--	1,131
3.70% variable rate affiliate note	--	804
10.00% variable rate affiliate note	--	77
Less current maturities	--	--
Total	$107,520	$125,632

All of the long-term debt with the Hercules Group has maturity dates after 2005. The fair values of the Company's long-term debt was $107,520 at December 31, 2000, and $125,632 and at December 31, 1999. The Company believes that the carrying value of long-term debt borrowings approximates fair value, based on discounting future cash flows using rates currently available for debt of similar terms and remaining maturities.

8. LONG-TERM INCENTIVE COMPENSATION PLANS

The Company participates in long-term incentive compensation plans sponsored by Hercules. These plans provide for the grant of stock options and the award of common stock and other market-based units to certain key employees and non-employee directors.

The Hercules long-term incentive compensation plans place a great emphasis on shareholder value creation through grants of regular stock options, performance-accelerated stock options, and Cash Value Awards (performance-based awards denominated in cash and payable in shares of common or restricted stock, subject to the same restrictions as restricted stock). Restricted stock and other market-based units are awarded with respect to certain programs. The number of awarded shares outstanding was 491,488 and 926,689 at December 31, 2000 and 1999, respectively.

At December 31, 2000, under Hercules' incentive compensation plans, 1,847,855 shares of common stock were available for grant as stock awards or stock option awards. Stock awards are limited to approximately 15% of the total authorizations. Regular stock options are granted at the market price on the date of grant and are exercisable at various periods from one to five years after date of grant. Performance-accelerated stock options are also granted at the market price on the date of grant and are normally exercisable at nine and one-half years. Exercisability may be accelerated based upon the achievement of predetermined performance goals. Both regular and performance-accelerated stock options expire 10 years after the date of grant.

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BETZDEARBORN EUROPE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Restricted shares, options and performance-accelerated stock options are forfeited and revert to Hercules in the event of employment termination, except in the case of death, disability, retirement, or other specified events.

The Company applies APB Opinion 25 in accounting for its plans. Accordingly, no compensation cost has been recognized for the stock option plans. There were no charges to income for the cost of stock awards over the restriction or performance period for 2000 and 1999.

Below is a summary of outstanding stock option grants under the incentive compensation plans during 2000 and 1999:

	REGULAR		PERFORMANCE-ACCELERATED	
	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE
January 1, 1999	17,750	$40.27	--	--
Granted	25,250	$37.73	1,350	$37.56
Exercised	--	--	--	--
Forfeited	--	--	--	--
December 31, 1999	43,000	$38.78	1,350	$37.56
Granted	3,850	$17.25	--	--
Exercised	--	--	--	--
Forfeited	--	--	--	--
December 31, 2000	46,850	$37.01	1,350	$37.56

The weighted-average fair value of regular stock options granted during 2000 and 1999 was $8.85 and $8.26, respectively. The weighted-average fair value of performance-accelerated stock options granted during 1999 was $8.01.

Following is a summary of regular stock options exercisable at December 31,

2000 and 1999, and their respective weighted-average share prices:

OPTIONS EXERCISABLE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
December 31, 1999	13,540	$39.91
December 31, 2000	27,520	$39.25

There were no performance-accelerated stock options exercisable at December 31, 2000 and 1999.

Following is a summary of stock options outstanding at December 31, 2000:

	OUTSTANDING OPTIONS			EXERCISABL
EXERCISE PRICE RANGE	NUMBER OUTSTANDING AT 12/31/00	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/00
REGULAR STOCK OPTIONS				
$12 - $20	3,850	9.13	$17.25	--
$30 - $40	41,350	7.67	$38.42	26,200
$40 - $50	1,650	7.35	$47.81	1,320
	46,850			27,520
PERFORMANCE-ACCELERATED STOCK OPTIONS				
$14 - $40	1,350	8.34	$37.56	--

The Company currently expects that 100% of performance-accelerated stock options will eventually vest.

The Company's employees may also participate in the Hercules Employee Stock Purchase Plan ("ESPP"). The ESPP is a qualified non-compensatory plan, which allows eligible employees to acquire shares of common stock through systematic payroll deductions. The plan consists of three-month subscription periods, beginning July 1 of each year. The purchase price is 85% of the fair market value of the common stock on either the first or last day of that subscription period, whichever is lower. Purchases may range from 2% to 15% of an employee's base salary each pay period, subject to certain limitations. Currently, 202,139 shares of Hercules common stock are registered for offer and sale under the plan. Shares issued at December 31, 2000 and 1999, were 1,597,861 and 949,464, respectively. The Company applies APB Opinion 25 and related interpretations in accounting for its Employee Stock Purchase Plan. Accordingly, no compensation cost has been recognized for the Employee Stock Purchase Plan.

Had compensation cost for Hercules' Stock-Based Incentive Plans and Employee Stock Purchase Plan been determined on the basis of fair value according to SFAS No. 123, the fair value of each option granted or share purchased would be estimated on the grant date using the Black-Scholes option pricing model.

The following weighted-average assumptions would be used in estimating fair value for 2000 and 1999:

ASSUMPTION	REGULAR PLAN	PERFORMANCE ACCELERATED PLAN	EMPLOYEE STOCK PURCHASE PLAN
Dividend yield...........................	2%	3.4%	0.0%
Risk-free interest rate..................	5.88%	5.38%	5.41%
Expected life............................	7.1 yrs...	5 yrs.	3 mos.
Expected volatility......................	29.20%	27.31%	44.86%

The Company's net income for 2000 and 1999 would approximate the pro forma amounts below:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Net income		
As reported...	$2,961	$ (310)
Pro forma...	$2,885	$ (370)

9. ADDITIONAL BALANCE SHEET DETAIL

	2000	1999
	(DOLLARS IN THOUSANDS)	
Property, plant, and equipment		
Land..	$ 5,221	$ 6,037
Buildings and equipment.................................	77,036	79,905
Construction in progress................................	--	1,717
Total...	82,257	87,659
Accumulated depreciation and amortization...................	(28,875)	(24,910)
Net property, plant, and equipment......................	$ 53,382	$ 62,749
Accrued expenses		
Payroll and employee benefits...........................	$ 1,432	$ 6,256

Income taxes payable	6,386	1,372
Restructuring	2,989	4,353
Other	10,670	11,618
	$ 21,477	$ 23,599

10. GOODWILL AND OTHER INTANGIBLE ASSETS

At December 31, 2000 and 1999, the goodwill and other intangible assets were:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Goodwill	$191,224	$217,419
Other intangibles	6,882	7,532
Total	198,106	224,951
Less accumulated amortization	(15,179)	(10,280)
Net goodwill and other intangible assets	$182,927	$214,671

Goodwill and other intangible assets primarily represent amounts capitalized from the Hercules acquisition of BetzDearborn (Note 1).

11. RESTRUCTURING

The consolidated balance sheet reflects liabilities for employee severance benefits and other exit costs, primarily related to the plans initiated upon the creation of the European Shared Service Center in 1997 and the acquisition of BetzDearborn in 1998. In the fourth quarter of 2000, we committed to a plan relating to the restructuring of several entities. This resulted in the addition in severance benefits to the accrued liability. As a result of these plans, we estimate approximately 113 employees will be terminated, of which approximately 96 employee terminations have occurred since inception of the aforementioned plans. These employees come from various parts of the business, including but not limited to manufacturing, support functions and research.

Pursuant to the plans in place to merge the operations of BetzDearborn with Hercules and to rationalize the support infrastructure and other existing operations, facilities were closed and approximately 82 employees were terminated during 1999. Cash payments for the year included $9.0 million for severance benefits and other exit costs. At the same time, we lowered the estimates of severance benefits related to the implementation of the shared service center by $304 thousand due to a suspension of implementations.

In 2000, 14 employees were terminated and $2.5 million of cash was paid in severance benefits and other exit costs. The estimate for the remaining plans was decreased by $444 thousand against goodwill due to lower than planned severance benefits as the result of higher than anticipated attrition, with voluntary resignations not requiring the payment of termination benefits. The estimate for the plans related to the shared services center were decreased by $626 thousand against operating expense.

Severance benefits payments are based on years of service and generally continue for 3 months to 24 months subsequent to termination. We expect to substantially complete remaining actions under the plans in 2001. A reconciliation of activity with respect to the liabilities established for these plans, which is included in accrued expenses in the consolidated balance sheet, is as follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Balance at beginning of year	$ 4,353	$11,721
Cash payments	(2,459)	(9,028)
Additional termination benefits and exit costs	2,165	1,964
Reversals against goodwill	(444)	--
Reversals against earnings	(626)	(304)
Balance at end of year	$ 2,989	$ 4,353

12. PENSIONS

The Company has a number of defined benefit pension plans in Europe, covering substantially all employees. The following chart lists benefit obligations, plan assets, and funded status of the plans.

	2000	1999
	(DOLLARS IN THOUSANDS)	
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at January 1	$75,968	$78,457
Service cost	2,092	2,313
Interest cost	4,189	4,326
Amendments	12	--
Employee contributions	760	624
Translation difference	(6,872)	(2,855)
Actuarial loss (gain)	3,154	(4,532)
Benefits paid from plan assets	(1,992)	(2,365)
Benefit obligation at December 31	$77,311	$75,968

	2000	1999
	(DOLLARS IN THOUSANDS)	
CHANGE IN PLAN ASSETS		
Fair value of plan assets at January 1	89,389	80,011
Actual return on plan assets	5,143	13,622
Employee contributions	760	624
Company contributions (refund)	1,789	446
Actuarial loss (gain)	(1,748)	--
Translation difference	(6,112)	(2,949)
Benefits paid from plan assets	(1,992)	(2,365)
Fair value of plan assets at December 31	$87,229	$89,389
Funded status of the plans	9,918	13,421
Unrecognized actuarial gain	(2,176)	(7,316)
Unrecognized prior service cost	217	76
Unrecognized net transition obligation	--	(170)
Plan amendments	(174)	--
Prepaid benefit cost	$ 7,785	$ 6,011
AMOUNTS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION CONSIST OF:		
Prepaid benefit cost	$ 7,785	$ 6,011
ASSUMPTIONS AS OF DECEMBER 31		
Weighted-average discount rate	6.50%	6.00%
Expected return on plan assets	7.00%	7.00%

COMPONENTS OF NET PERIOD PENSION COST

	PENSION BENEFITS	
	2000	1999
Service cost	$ 2,092	$ 2,313
Interest cost	4,189	4,326
Return on plan assets (expected)	(6,291)	(5,912)
Amortization and deferrals	(384)	269
Amortization of transition asset	(160)	(185)
Benefit (credit) cost	$ (554)	$ 811

During 1999 and up to March 1, 2000, the Company's Belgian employees participated in a multi-employer pension fund, which was administered by an affiliated company. Contribution amounts for this fund were $63 thousand and $427 thousand in 2000 and 1999, respectively and were allocated to the Company by the Plan administrator.

On March 1, 2000, the Company terminated its participation in the multi-employer pension fund and primarily all Belgian employees were transferred into a Company sponsored defined contribution plan on that date. The Company's cost of the defined contribution plan for the period March 1, 2000 through

December 31, 2000 was $248 thousand.

BETZDEARBORN EUROPE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

13. OTHER OPERATING EXPENSES, NET

Other operating expenses, net, in 2000 include Hercules Group affiliate royalty costs totaling $10,993 thousand, restructuring costs totaling $1,539 thousand, and foreign currency gains totaling $100 thousand.

Other operating expenses, net, in 1999 include Hercules Group affiliate royalty costs totaling $11,764 thousand, restructuring costs totaling $1,660 thousand and foreign currency losses totaling $390 thousand.

14. INTEREST AND DEBT EXPENSE

No interest and debt costs were capitalized during 1999 and 2000. The costs incurred are presented separately in the consolidated statement of income.

15. OTHER INCOME (EXPENSE), NET

Other income (expense), net, consists of the following:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Interest income, net	$ 359	$1,629
Miscellaneous income, net	639	37
	$ 998	$1,666

16. INCOME TAXES

The domestic and foreign components of income before taxes are presented below:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Domestic	$(3,779)	$(1,816)
Foreign	9,040	8,115
	$ 5,261	$ 6,299

A summary of the components of the tax provision follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Current		
Domestic	$ --	$1,478
Foreign	2,672	3,262
Deferred		
Domestic	(1,357)	--
Foreign	985	1,869
Provision for income taxes	$ 2,300	$6,609

BETZDEARBORN EUROPE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Deferred tax (liabilities) assets at December 31 consist of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Depreciation	$(4,678)	$ (5,029)
Intangible asset revaluation	(1,357)	(1,548)
Fixed asset revaluation	(1,181)	(1,442)
Pension	(2,061)	(1,708)
Other	--	(707)
Gross deferred tax liabilities	(9,277)	(10,434)
Loss carryforwards	$ 2,057	$ 1,140
Business transfer revenue	--	1,542
Restructuring expenses	1,580	2,050
Intangible asset	1,385	--
Other	737	349
Gross deferred tax assets	5,759	5,081
Valuation allowance	(177)	(363)
	$(3,695)	$ (5,716)

A reconciliation of the statutory income tax rate to the effective rate follows:

	2000	1999
Statutory income tax rate	35.0%	35.0%

Goodwill amortization	39.7%	47.2%
Nondeductible expenses	7.2%	7.4%
Tax rate differences on subsidiary earnings	(5.5)%	(9.1)%
Income from equity investments in affiliates	(24.7)%	(17.3)%
Cash dividends received from equity investments in affiliates	--	9.3%
Change in tax contingency accrual	(8.9)%	(2.5)%
Foreign dividends, net of credits	0.0%	33.5%
Other	0.9%	1.4%
Effective tax rate	43.7%	104.9%

The net operating losses have carryforward periods ranging from 10 years to indefinite, but may be limited in their use in any given year.

17. COMMITMENTS AND CONTINGENCIES

Leases

The Company has operating leases (including office space, transportation, and data processing equipment) expiring at various dates. Rental expense was $4,267 thousand in 2000 and $6,043 thousand in 1999.

At December 31, 2000, minimum rental payments under noncancelable leases aggregated $5,588 thousand. The net minimum payments over the next five years are $2,396 thousand in 2001, $1,931 thousand in 2002, $906 thousand in 2003, $354 thousand in 2004, and $1 thousand in 2005.

Litigation

The Company currently and from time to time is involved in litigation incidental to the conduct of its business. In the opinion of the Company's management, none of such litigation as of December 31, 2000 is likely to have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

Environmental

The Company has potential liability in connection with obligations to authorities of various EU countries in which it has manufacturing facilities, and to private parties pursuant to contract, for the cost of environmental investigation and/or cleanup at several sites. Potential costs will depend upon numerous factors, including the actual methods of remediation required or agreed to; outcomes of negotiations with regulatory authorities and private parties; changes in environmental laws and regulations; technological developments; and the years of remedial activity required, which could range from 0 to 30 years.

The Company becomes aware of its obligations relating to sites in which it may have liability for the costs of environmental investigations and/or remedial activities through correspondence from government authorities, or through correspondence from companies with which the Company has contractual obligations, who either request information or notify us of our potential liability. We have established procedures for identifying environmental issues at our plant sites. In addition to environmental audit programs, we have environmental coordinators who are familiar with environmental laws and regulations and act as a resource for identifying environmental issues.

Testing performed at the Herentals plant in Belgium in December 2000 for soil pollution, indicated that the soil is polluted. The Company will potentially be responsible for remediation activities. Testing is currently being performed to determine the extent of remediation activities required, if any.

At this moment no accrual is included in the balance sheet as of December 31, 2000, as a reliable estimate of the remediation costs cannot be made.

18. RELATED PARTY TRANSACTIONS

The Company has entered into certain agreements with affiliated entities. These agreements were developed in the context of a Hercules Group/subsidiary relationship and therefore may not necessarily reflect the result of arm's-length negotiations between independent parties. All transactions described below are eliminated on consolidation of Hercules.

Intercompany borrowing and interest: The Company has intercompany loans with Hercules affiliated entities. The loans with affiliates are presented in Net Hercules Group Investment in the consolidated balance sheet. Interest paid to affiliated entities was $8,490 thousand and $8,924 thousand in 2000 and 1999, respectively.

Corporate, regional and other allocations: As discussed in Note 1, the consolidated financial statements of the Company reflect certain allocated support costs incurred by other entities in the Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in the Company's consolidated financial statements were based either on a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on factors such as sales, net assets, cost of sales; or a relative weighting of geographic activity. These allocations are reflected in the selling, general and administrative line item in the consolidated statement of income. Such allocations and corporate charges totaled approximately $9,494 thousand and $12,295 thousand in 2000 and 1999, respectively.

Sales to affiliates: The Company sells raw material and finished goods inventory in the normal course of business to affiliated companies. The Company's revenues from sales to affiliated companies are presented separately in the consolidated statement of income.

Purchases from affiliates: The Company purchases in the normal course of business raw material and finished goods inventory from affiliated companies. The Company's purchases of inventory from affiliated companies is reflected in costs of sales in the consolidated statement of income and totaled $34,688 thousand and $40,153 thousand in 2000 and 1999, respectively.

Royalties: The Company entered into a license agreement in respect of the use of manufacturing formulations and specifications developed and owned by an affiliated entity. Total royalties accrued in respect of this agreement are included in the other operating expense line item in the consolidated statement of income and totaled $10,993 thousand and $11,764 thousand in 2000 and 1999, respectively.

19. NET HERCULES GROUP INVESTMENT

Changes in Net Hercules Group Investment were as follows:

	(DOLLARS IN THOUSANDS)
Balance, December 31, 1998	$483,857
Net loss	(310)
Other comprehensive loss	(11,658)
Intercompany transactions, net	(26,944)
Balance, December 31, 1999	444,945
Net income	2,961
Other comprehensive loss	(28,564)
Intercompany transactions, net	(6,828)
Balance, December 31, 2000	412,514

The Company includes accumulated other comprehensive income in Net Hercules Group Investment. At December 31, 2000 and 1999, accumulated other comprehensive income consisted only of foreign currency translation adjustments.

20. SUBSEQUENT EVENTS

On May 1, 2001, Hercules completed the sale of its hydrocarbon resins divisions and select portions of its rosin resins divisions to Eastman Chemical Company. In addition, on May 31, 2001, Hercules completed the sale of its peroxy chemicals business to GEO Specialty Chemicals, Inc.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
Hercules Incorporated
Wilmington, Delaware

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive loss and of cash flows present fairly, in all material respects, the financial position of BetzDearborn Inc., a subsidiary of Hercules Incorporated, and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
October 24, 2001

BETZDEARBORN INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE LOSS

	YEAR ENDED DECEMBER 31, 2000	1999
	(DOLLARS IN MILLIONS)	
Sales to third parties	$1,170	$1,203
Sales to Hercules Group	108	69
	1,278	1,272
Cost of sales	632	588
Selling, general, and administrative expenses	404	423
Corporate and other cost allocations	27	19
Research and development	20	36
Goodwill and intangible asset amortization	71	70
Other operating expenses, net (Note 14)	22	11
Profit from operations	102	125
Equity income (loss) of affiliated companies	--	--
Interest expense, net	30	37
Other expense, net (Note 16)	2	--
Income before income taxes and minority interest	70	88
Provision for income taxes (Note 19)	40	51
Income before minority interest	30	37
Minority interest	5	4
Net income	25	33
Translation adjustments	(46)	(47)
Comprehensive loss	$ (21)	$ (14)

The accompanying notes are an integral part of the consolidated financial statements.

BETZDEARBORN INC.

CONSOLIDATED BALANCE SHEET

DECEMBER 31,

	2000	1999
	(DOLLARS IN MILLIONS)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 21	$ 32
Accounts receivable, net (Note 3)	215	259
Miscellaneous receivable	15	70
Inventories (Note 4)	91	121
Deferred income taxes (Note 19)	20	53
Total current assets	362	535
Property, plant, and equipment, net (Note 9)	304	370
Investments in affiliates (Note 5)	156	156
Goodwill and other intangible assets, net (Note 10)	2,102	2,238
Prepaid pension (Note 13)	13	11
Deferred charges and other assets	57	28
Total assets	$2,994	$3,338
LIABILITIES AND NET HERCULES GROUP INVESTMENT		
Current liabilities		
Current income tax liability	$ 62	$ 73
Accounts payable	69	71
Short-term debt (Note 6)	26	27
Accrued expenses (Note 9)	93	195
Total current liabilities	250	366
Long term debt (Note 7)	181	188
Deferred income taxes (Note 19)	262	277
Pension and other postretirement benefits (Note 13)	34	31
Deferred credits and other liabilities	8	17
Total liabilities	735	879
Commitments and contingencies (Note 17)	--	--
Minority Interest	23	26
Net Hercules Group Investment (Note 15)		
Accumulated other comprehensive loss	(77)	(31)
Intercompany transactions, net	2,313	2,464
Total Net Hercules Group Investment	2,236	2,433
Total liabilities and Net Hercules Group Investment	$2,994	$3,338

The accompanying notes are an integral part of
the consolidated financial statements

BETZDEARBORN INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED
DECEMBER 31,

	2000	1999
	(DOLLARS IN MILLIONS)	
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income	$ 25	$ 33
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	48	45
Amortization	71	70
Loss on disposal	3	--
Deferred income taxes	19	9
Minority Interest	5	4
Corporate and other cost allocations	27	19
Other noncash charges (income)	5	(2)
Accruals and deferrals of cash receipts and payments:		
Accounts and miscellaneous receivables	91	(65)
Inventories	30	8
Accounts payable and accrued expenses	(66)	12
Noncurrent assets and liabilities	(67)	(6)
Transfers to/from Hercules Group from operations	(97)	12
Net cash provided by operations	94	139
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures	(27)	(28)
Proceeds from fixed asset disposals	13	9
Other, net	(13)	(10)
Net cash used in investing activities	(27)	(29)
CASH FLOW FROM FINANCING ACTIVITIES:		
Long-term debt proceeds	6	--
Long-term debt repayments	(9)	(82)
Changes in short-term debt	(2)	16
Transfers to/from Hercules Group	(75)	(33)
Net cash used in financing activities	(80)	(99)
Effect of exchange rate changes on cash	2	(4)
Net (decrease) increase in cash and cash equivalents	(11)	7
Cash and cash equivalents at beginning of year	32	25
Cash and cash equivalents at end of year	$ 21	$ 32
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$ 29	$ 37
Income taxes, net	34	14
Non-cash financing activities:		
Corporate and other lost allocations	27	19

The accompanying notes are an integral part of the consolidated financial statements.

BETZDEARBORN INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

BetzDearborn Inc. ("BetzDearborn" or the "Company") is a wholly owned subsidiary of Hercules Incorporated ("Hercules"). The Company is a global engineered specialty chemical company engaged in the treatment of water and industrial process systems operating in a wide variety of industrial and commercial applications with particular emphasis on the chemical, petroleum refining, paper, food processing, automotive, steel and power industries.

On October 15, 1998, Hercules acquired all of the outstanding shares of the Company for $2,235 million in cash and $186 million in common stock exchanged for the shares held by the BetzDearborn ESOP Trust. The shares were valued using the quoted market price of the stock at the time of exchange. In addition, Hercules assumed debt with a fair value of $117 million and repaid $557 million of other long-term debt held by the Company.

During 1999, Hercules completed the purchase price allocation and the final determination of goodwill was $1,822 million. Goodwill is determined as follows:

	(DOLLARS IN MILLIONS)
Cash paid, including transaction costs	$2,235
Common stock exchanged for ESOP trust shares	186
Fair value of debt assumed	117
Payment of BetzDearborn long-term debt	557
	$3,095
Less: Fair value of identifiable net assets acquired	1,143
Purchased in-process research and development	130
BetzDearborn goodwill as of the date of acquisition	$1,822

In accordance with the purchase method of accounting, the adjusted purchase price was allocated to the estimated fair value of net assets acquired, with the excess recorded as goodwill. Goodwill is amortized over 40 years on a straight-line basis. Identified intangibles are amortized over 10 to 40 years, on a straight-line basis. Additionally, approximately $130 million of the purchase price was allocated to purchased in-process research and development and was charged to expense at the date of acquisition.

As of the acquisition date, Hercules began to formulate plans to combine the operations of the Company and Hercules. Hercules formed a program office, engaged outside consultants and established several functional integration teams to formulate and implement the plan and capture anticipated synergies. At December 31, 1998, Hercules had identified and approved various actions such as personnel reductions, consolidation of operations and support functions, closure of redundant facilities and relocation of former BetzDearborn employees. Accordingly, the Company included a $98 million liability as part of the purchase price allocation. The liability included approximately $74 million related to employee termination benefits and $24 million for office and facility closures, relocation of former BetzDearborn employees and other related exit costs (see Note 11).

As a result of this acquisition the Company, as a part of a effort by

Hercules, entered into several internal reorganization transactions during 1999 and 2000. The transactions included the Company selling several of its investments in subsidiaries to Hercules affiliates, purchasing several investments in subsidiaries from Hercules affiliates, merging companies, and acquiring certain investments in Hercules group companies that are valued at cost. As all investments in this reorganization are under the common control of Hercules, these transactions have been accounted for in a manner similar to pooling of interests.

Separate company stand-alone financial statements were not prepared for the Company since its acquisition and subsequent reorganization within Hercules. In November 2000, Hercules amended its senior credit facility and ESOP credit facility (the "Facilities"). The Facilities, as amended, are secured by liens on Hercules' property and assets (and those of Hercules' Canadian Subsidiaries), a pledge of the stock and partnership and member interests of substantially all of Hercules' domestic subsidiaries (including the Company) and 65% of the stock of foreign subsidiaries directly owned by Hercules, and a pledge of Hercules' domestic intercompany indebtedness. These financial statements present the financial information on the Company, a collateral party to the Hercules debt, based on Hercules' understanding of Securities and Exchange Commission's interpretation and application of Rule 3-16 under the Securities and Exchange Commission's Regulation S-X. These statements were derived from historical accounting records.

The Company participates in Hercules' centralized cash management system. Accordingly, cash received from Company operations is transferred to Hercules on a periodic basis, and Hercules funds all operational and capital requirements.

The consolidated financial statements of the Company reflect certain allocated support costs incurred by other entities in the Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in the Company's financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on factors such as sales, net assets, or cost of sales; or a relative weighting of geographic activity. Management believes that the allocation methods are reasonable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries where control exists. Following the acquisition of the Company by Hercules, the Company continued its practice of using a November 30 fiscal year-end for certain non-U.S. subsidiaries to expedite the year-end closing process. All intercompany transactions and profits have been eliminated.

USE OF ESTIMATES

Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

REVENUE RECOGNITION

The Company recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer or services are performed in accordance with terms of the agreement, title and risk of loss have been transferred, collectibility is probable, and pricing is fixed and determinable. Accruals are made for sales returns and other allowances based on the Company's experience. The corresponding shipping and handling costs are included in cost of sales.

ENVIRONMENTAL EXPENDITURES

Environmental expenditures that pertain to current operations or future revenues are expensed or capitalized according to the Company's capitalization policy. Expenditures for remediation of an existing condition caused by past operations that do not contribute to current or future revenues are expensed. Liabilities are recognized for remedial activities when the cleanup is probable and can be reasonably estimated.

CASH AND CASH EQUIVALENTS

Cash equivalents include commercial paper and other securities with original maturities of 90 days or less. Book value approximates fair value because of the short maturity of those instruments.

INVENTORIES

Inventories are stated at the lower of cost or market. Domestic inventories are valued predominantly on the last-in, first-out (LIFO) method. Foreign and certain domestic inventories, which in the aggregate represent 45% of total inventories at December 31, 2000, are valued principally at standard cost, which approximates the average cost method.

PROPERTY AND DEPRECIATION

Property, plant, and equipment are stated at cost and depreciated using the straight-line method. The estimated useful lives of depreciable assets are as follows: buildings -- 30 years; plant, machinery and equipment -- 15 years; other machinery and equipment -- 3 to 15 years.

Maintenance, repairs, and minor renewals are charged to income; major renewals and betterments are capitalized. Upon normal retirement or replacement, the cost of property (less proceeds of sale or salvage) is charged to income.

INVESTMENTS

Investments in affiliated companies with a greater than 20% or 50% or less ownership interest are accounted for using the equity method of accounting. Accordingly, these investments are included in investments in affiliates on the Company's balance sheet and the income or loss from these investments is included in equity income (loss) of affiliated companies in the Company's statement of income.

Investments in affiliated companies in which the Company does not have a controlling interest, or an ownership and voting interest so large as to exert significant influence, are accounted for using the cost method of accounting. Accordingly, these investments are included in investments in affiliates on the Company's balance sheet.

GOODWILL

Goodwill and other intangible assets are amortized on a straight-line basis over the estimated future periods to be benefited, generally 40 years for goodwill, customer relationships, and trademarks and tradenames and 5 to 15 years for other intangible assets.

LONG-LIVED ASSETS

The Company reviews its long-lived assets, including goodwill and other intangibles, for impairment on an exception basis whenever events or changes in circumstances indicate carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If an impairment loss has occurred based on expected future cash flows (undiscounted), the loss is recognized in the income statement. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset. The fair value represents expected future cash flows from the use of the assets, discounted at the rate used to evaluate potential investments.

CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. Concentrations of credit risk with respect to trade receivables are limited due

to the Company's large number of customers and their dispersion across many different industries and locations.

DERIVATIVE INSTRUMENTS AND HEDGING

Derivative financial instruments have been used to hedge risk caused by fluctuating currency and interest rates. The Company enters into forward-exchange contracts and currency swaps to hedge foreign currency exposure. Decisions regarding hedging are made on a case-by-case basis, taking into consideration the amount and duration of the exposure, market volatility, and economic trends. The Company uses the fair-value method of accounting, recording realized and unrealized gains and losses on these contracts monthly. They are included in other income (expense), net, except for gains and losses on contracts to hedge specific foreign currency commitments, which are deferred and accounted for as part of the transaction. Gains or losses on instruments which have been used to hedge the value of investments in certain non-U.S. subsidiaries are included in the foreign currency translation adjustment. It is the Company's policy to match the term of financial instruments with the term of the underlying designated item. If the designated item is an anticipated transaction no longer likely to occur, gains or losses from the instrument designated as a hedge are recognized in current period earnings. The Company does not hold or issue financial instruments for trading purposes. In the Consolidated Statement of Cash Flow, the Company reports the cash flows resulting from its hedging activities in the same category as the related item that is being hedged.

The Company used interest rate swap agreements to manage interest costs and risks associated with changing rates. The differential to be paid or received is accrued as interest rates change and is recognized in interest expense over the life of the agreements. Counter parties to the forward exchange, currency swap, and interest rate swap contracts are major financial institutions. Credit loss from counter party nonperformance is not anticipated. During 2000 the interest rate swap portfolio was terminated due to the conversion of foreign denominated debt to U.S. dollar denominated debt and a debt restructing that replaced variable rate debt with fixed rate debt.

STOCK-BASED COMPENSATION

Compensation costs attributable to stock option and similar plans are recognized based on any excess of the quoted market price of the stock on the date of grant over the amount the employee is required to pay to acquire the stock (the intrinsic-value method under Accounting Principles Board Opinion 25 (APB 25)). Such amount, if any, is accrued over the related vesting period, as appropriate. Statement of Financial Accounting Standard No. 123, "Accounting for Stock-based Compensation," requires companies electing to continue to use the intrinsic-value method to make pro forma disclosures of net income as if the fair-value-based method of accounting had been applied.

COMPUTER SOFTWARE COSTS

Effective January 1, 1999, the Company adopted the American Institute of Certified Public Accountants Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). The Company's prior accounting was generally consistent with the requirements of SOP 98-1 and, accordingly, adoption of SOP 98-1 had no material effect. Computer software costs are being amortized over a period of 5 to 10 years.

INCOME TAXES

The Company's operations have since acquisition been included in the consolidated income tax returns filed by its parent. Income tax expense in the accompanying financial statements has been computed assuming the Company filed separate income tax returns. Differences between this calculation of income taxes currently payable and consolidated amounts reported in the consolidated financial statements of the parent have been reflected as net Hercules Group investment.

RESEARCH AND DEVELOPMENT

Research and development expenditures are expensed as incurred.

NET HERCULES GROUP INVESTMENT

The net Hercules Group investment account reflects the balance of the Company's historical earnings, intercompany amounts, income taxes, taxes accrued and deferred, post-employment liabilities, foreign currency translation and other transactions between the Company and the Hercules Group.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative

Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133" and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," requires that all derivative instruments be recorded on the balance sheet at their fair value. This statement, as amended, is effective for all fiscal quarters of fiscal years beginning after December 31, 2000. The Company adopted SFAS 133 effective January 1, 2001. The adoption of SFAS No. 133 did not have a material effect on its earnings or statement of financial position.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by SAB Nos. 101A and 101B, was to be effective October 1, 2000. Adoption of SAB 101 did not have a material effect on our profit from operations.

In June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). For The Company, these statements will generally become effective January 1, 2002, although business combinations initiated after June 30, 2001 are subject to the non-amortization and purchase accounting provisions.

SFAS 142 stipulates that goodwill and other intangible assets with indefinite lives are no longer subject to amortization, but must be evaluated periodically for impairment beginning January 1, 2002. The Company is currently in the process of conducting an assessment of the actual impact of the non-amortization provision of SFAS 142. The assessment of goodwill for impairment is a complex issue in which the Company must determine, among other things, the fair value of each defined component of its reporting units. It is, therefore, not possible at this time to predict the impact, if any, that the impairment assessment provisions of SFAS 142 will have on the Company's financial statements.

In addition, in June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 establishes accounting standards for the recognition and measurement of legal obligations associated with the retirement of tangible long-lived assts. SFAS 143 will become effective for the Company in January 1, 2003 and requires recognition of a liability for an asset retirement obligation in the period in which it is incurred. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The provisions of this statement

are effective for financial statements issued for fiscal years beginning after December 15, 2001. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, consists of:

	2000	1999
	(DOLLARS IN MILLIONS)	
Trade	$233	$269
Less allowance for doubtful accounts	(18)	(10)
Total	$215	$259

4. INVENTORIES

The components of inventories are:

	2000	1999
	(DOLLARS IN MILLIONS)	
Finished products	$54	$ 74
Materials, supplies and work in process	37	47
Total	$91	$121

Inventories valued on the LIFO method were the same as if valued under the average-cost method, which approximates current cost, at December 31, 2000, and were lower than if valued under the average cost method at December 31, 1999 by $1 million.

5. INVESTMENTS

Total investments in affiliated companies were as follows:

	2000	1999
	(DOLLARS IN MILLIONS)	
Investment in Hercules International Limited	$137	$137
Investment in Hercules Quimica SA	19	19
Total	$156	$156

At December 31, 2000 the Company's equity investment consist of a 38.97%

ownership of Hercules Quimica S.A., a Hercules affiliate, and a 16% ownership of Hercules International Limited, a Hercules affiliate. The Company's carrying value for these investments at December 31, 2000 and 1999 equals its share of the underlying equity in net assets of the affiliates. Each of these entities operates in lines of business similar to the Company, supplying engineered chemical treatment programs for water and process systems in industrial, commercial and institutional establishments.

6. SHORT-TERM DEBT

A summary of short-term debt follows:

	2000	1999
	(DOLLARS IN MILLIONS)	
Banks	$21	$23
Current maturities of long-term debt	5	4
	$26	$27

Bank borrowings represent primarily foreign overdraft facilities and short-term lines of credit, which are generally payable on demand with interest at various rates. These borrowings approximate market value because of their short maturity period.

At December 31, 2000, the Company had $54 million of unused short-term lines of credit that may be drawn as needed, with interest at a negotiated spread over lenders' cost of funds. Lines of credit in use at December 31, 2000, were $16 million. Weighted-average interest rates on short-term borrowings at December 31, 2000 and 1999 were 5.66% and 5.85%, respectively.

7. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Long-term debt with third parties at December 31, 2000 and 1999 is summarized below:

	2000	1999
	(DOLLARS IN MILLIONS)	
Canadian revolving loan facility(a)	$ 83	$ 86
ESOP debt(b)	101	106
Other	2	--
	$186	$192
Less current maturities of long-term debt	5	4
	$181	$188

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(a) The Company's Canadian subsidiary has a bank loan facility of up to the equivalent of US $100 million from select lenders in Canada, which is part of the Hercules $3,650 million credit facility with a syndicate of banks. The bank loan facility is repayable in Canadian funds and bears interest at bankers' acceptance rates plus 2.25%. The interest prepaid on the bankers' acceptances is included in the net payable amount. The Company's Canadian subsidiary's assets and 100% of its common shares are pledged as collateral to the Hercules credit facility.

(b) The proceeds of this loan were originally used by the BetzDearborn ESOP Trust for the purchase of BetzDearborn preferred shares that, upon acquisition by Hercules, were converted into equivalent shares of Hercules common stock. At the date of acquisition by Hercules, the loan was recorded at a fair market value of $110 million which included a $16 million fair value step-up that is being amortized over the life of the debt. The loan matures in June 2009. As of December 31, 2000, the interest rate was 11.95%. Effective January 23, 2001, the interest rate increased to 12.95%.

Both the senior credit facility and the ESOP Trust loan require compliance with certain financial covenants, including a debt/EBITDA ratio, an interest coverage ratio and minimum net worth.

Long-term debt maturities during the next five years are $5.3 million in 2001, $6 million in 2002, $90.2 million in 2003, $8.5 million in 2004 and $10.4 million in 2005 and $65.6 million thereafter.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

For the year ended 2000, the Company has $289 million of long term debt payable to affiliates that is primarily held by Hercules, Hercules Shared Services Center, Inc., and SA Hercules Europe NV. For the year ended 1999, the Company had $367 million in long-term debt payable to affiliates with the same parties. The long-term debt payable to affiliates primarily has no set payment schedule and carry interest rates ranging from 4.60% to 12.42%. The long term debt payable to affiliates is recorded in the Net Hercules Group Investment account in the financial statements.

Net interest expense in 2000 was $30 million of which $19 million was related party net interest expense. In 1999, the net interest expense was $37 million, which includes $25 million of related party net interest expense.

8. LONG-TERM INCENTIVE COMPENSATION PLANS

The Company participates in long-term incentive compensation plans sponsored by Hercules. These plans provide for the grant of stock options and the award of common stock and other market-based units to certain key employees and non-employee directors.

In 1995, Hercules changed the structure of the long-term incentive compensation plans to place a greater emphasis on shareholder value creation through grants of regular stock options, performance-accelerated stock options, and Cash Value Awards (performance-based awards denominated in cash and payable in shares of common or restricted stock, subject to the same restrictions as restricted stock). Restricted stock and other market-based units are awarded with respect to certain programs. The number of awarded shares outstanding was

491,488 at December 31, 2000, and 926,689 at December 31, 1999.

At December 31, 2000, under Hercules' incentive compensation plans, 1,847,855 shares of common stock were available for grant as stock awards or stock option awards. Stock awards are limited to approximately 15% of the total authorizations. Regular stock options are granted at the market price on the date of grant and are exercisable at various periods from one to five years after date of grant. Performance-accelerated stock options are also granted at the market price on the date of grant and are normally exercisable at nine and one-half years. Exercisability may be accelerated based upon the achievement of predetermined performance goals. Both regular and performance-accelerated stock options expire 10 years after the date of grant.

Restricted shares, options and performance-accelerated stock options are forfeited and revert to Hercules in the event of employment termination, except in the case of death, disability, retirement, or other specified events.

The Company applies APB Opinion 25 in accounting for its plans. Accordingly, no compensation cost has been recognized for the stock option plans. There were no charges to income for the cost of stock awards over the restriction or performance period for 2000 and 1999, respectively.

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BETZDEARBORN INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Below is a summary of outstanding stock option grants under the incentive compensation plans during 2000 and 1999:

	REGULAR		PERFORMANCE-ACCELERATED	
	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE
January 1, 1999........	48,625	$37.59	--	--
Granted................	219,750	$37.47	120,625	$37.29
Exercised..............	--	--	--	--
Forfeited..............	(28,000)	$35.02	(14,042)	$37.56
December 31, 1999......	240,375	$37.78	106,583	$37.26
Granted................	240,300	$17.13	--	--
Exercised..............	--	--	--	--
Forfeited..............	(9,100)	$37.56	(1,400)	$37.56
December 31, 2000......	471,575	$27.26	105,183	$37.26

The weighted-average fair value of regular stock options granted during 2000 and 1999 was $8.84 and $8.25, respectively. The weighted-average fair value of performance-accelerated stock options granted during 1999 was $7.99. There were no performance-accelerated stock options granted during 2000.

Following is a summary of regular stock options exercisable at December 31, 2000 and 1999, and their respective weighted-average share prices:

OPTIONS EXERCISABLE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
December 31, 1999	32,490	$39.04
December 31, 2000	143,115	$36.62

There were no performance-accelerated stock options exercisable at December 31, 2000 and 1999.

Following is a summary of stock options outstanding at December 31, 2000:

	OUTSTANDING OPTIONS			EXERCISABLE
EXERCISE PRICE RANGE	NUMBER OUTSTANDING AT 12/31/00	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/00
Regular Stock Options				
$12 - $20	240,300	9.15	$17.13	9,575
$30 - $40	228,325	8.18	$37.66	131,180
$40 - $50	2,950	7.35	$47.81	2,360
	471,575			143,115
Performance-Accelerated Stock Options				
$14 - $40	105,183	8.37	$37.26	--
	105,183			--

The Company currently expects that 100% of performance-accelerated stock options will eventually vest.

BetzDearborn employees may also participate in the Hercules Employee Stock Purchase Plan ("ESPP"). The ESPP is a qualified non-compensatory plan, which allows eligible employees to acquire shares of common stock through systematic payroll deductions. The plan consists of three-month subscription

periods, beginning July 1 of each year. The purchase price is 85% of the fair market value of the common stock on either the first or last day of that subscription period, whichever is lower. Purchases may range from 2% to 15% of an employee's base salary each pay period, subject to certain limitations. Currently, 202,139 shares of Hercules common stock are registered for offer and sale under the plan. Shares issued at December 31, 2000 and 1999 were 1,597,861 and 949,464, respectively. The Company applies APB Opinion 25 and related interpretations in accounting for its Employee Stock Purchase Plan. Accordingly, no compensation cost has been recognized for the Employee Stock Purchase Plan.

Had compensation cost for Hercules' Stock-Based Incentive Plans and

Employee Stock Purchase Plan been determined on the basis of fair value according to SFAS No. 123, the fair value of each option granted or share purchased would be estimated on the grant date using the Black-Scholes option pricing model.

The following weighted-average assumptions would be used in estimating fair value for 2000 and 1999:

ASSUMPTION	REGULAR PLAN	PERFORMANCE ACCELERATED PLAN	EMPLOYEE STOCK PURCHASE PLAN
Dividend yield...........	2%	3.4%	0.0%
Risk-free interest rate...	5.88%	5.38%	5.41%
Expected life............	7.1 yrs.	5 yrs.	3 mos.
Expected volatility.......	29.20%	27.31%	44.86%

The Company's net income for 2000 and 1999 would approximate the pro forma amounts below:

	2000	1999
	(DOLLARS IN MILLIONS)	
Net income		
As reported...	$25	$33
Pro forma...	$24	$33

9. ADDITIONAL BALANCE SHEET DETAIL

	2000	1999
	(DOLLARS IN MILLIONS)	
Property, plant, and equipment		
Land..	$ 22	$ 28
Buildings and equipment.................................	399	432
Construction in progress................................	16	23
Total...	437	483
Accumulated depreciation and amortization................	133	113
Net property, plant, and equipment......................	$304	$370
Accrued expenses		
Payroll and employee benefits...........................	$ 29	$ 25
Claims and litigation...................................	8	78
Restructuring reserves..................................	18	45
Other...	38	47
Total...	$ 93	$195

BETZDEARBORN INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

10. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

At December 31, 2000 and 1999, the goodwill and identified intangible assets, net were:

	2000	1999
	(DOLLARS IN MILLIONS)	
Goodwill	$1,558	$1,609
Customer relationships	318	324
Trademarks and tradenames	242	246
Other intangibles	137	141
Total	2,255	2,320
Less accumulated amortization	(153)	(82)
Net goodwill and other intangible assets	$2,102	$2,238

11. RESTRUCTURING

The consolidated balance sheet reflects liabilities for employee severance benefits and other exit costs related to the plans initiated upon the acquisition of BetzDearborn in 1998 to rationalize the support infrastructure and other existing operations. Accordingly, the Company included a $98 million liability as part of the purchase price allocation. The liability included approximately $74 million related to employee termination benefits and $24 million for office and facility closures, relocation of former BetzDearborn employees and other related exit costs (see Note 1). As a result of this acquisition the Company, as a part of an effort by Hercules, entered into several internal reorganization transactions during 1999 and 2000. As a result of these plans, we estimate approximately 1,370 employees will be terminated, of which approximately 1,180 employee terminations have occurred since the inception of the aforementioned plans.

Approximately 190 employees were terminated during the year ended December 31, 2000. Cash payments during 2000 included $16 million for severance benefits and $7 million for other exit costs. We lowered the estimate for severance benefits and other exit costs related to the termination of employees by $10 million and $2 million, respectively.

Pursuant to these plans, approximately 990 employees were terminated and several facilities were closed during 1999. Cash payments during 1999 included $29 million for severance benefits and $13 million for other exit costs. As a result of the completion of plans to exit former BetzDearborn activities, an $8 million increase in exit costs related to facility closures and a $4 million reduction in employee severance benefits were reflected in the finalization of the purchase price allocation (see Note 1). The lower than planned severance benefits are the result of higher than anticipated attrition, with voluntary resignations not requiring the payment of termination benefits.

A reconciliation of activity with respect to the liabilities established for these plans is as follows:

	2000	1999
	(DOLLARS IN MILLIONS)	
Balance at beginning of year	$56	$94
Cash payments	(23)	(42)
Additional termination benefits and exit costs	3	4
Reversals against goodwill	(12)	--
Balance at end of year	$24	$56

Severance benefits payments are based on years of service and generally continue for 3 to 24 months subsequent to termination. We anticipate the actions under these restructuring plans will be substantially complete by the end of 2001.

12. EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

In connection with the acquisition of BetzDearborn in 1998, Hercules acquired its ESOP and related trust as a long-term benefit for substantially all of BetzDearborn's U.S. employees. The plan is a supplement to BetzDearborn's 401(k) plan. The ESOP trust had long-term debt of $91 million and $93 million at December 31, 2000 and 1999, respectively, which is guaranteed by Hercules. Upon acquisition, the debt had a fair value in excess of its recorded amount for which a step-up was recorded to be amortized over the remaining term of the debt. The fair value, included in long-term debt, was $101 million and $106 million at December 31, 2000 and 1999, respectively. The proceeds of the original loan were used to purchase BetzDearborn convertible preferred stock, which, at the date of acquisition, was converted into Hercules common stock.

Under the provisions of the BetzDearborn 401(k) program, employees may invest 2% to 15% of eligible compensation. The Company's matching contributions, made in the form of Hercules common stock, are equal to 50% of the first 6% of employee contributions, and fully vest to employees upon the completion of 5 years of service. The Company's matching contributions are included in ESOP expense. After satisfying the 401(k) matching contributions and the dividends on allocated shares, all remaining shares of ESOP stock are allocated to each eligible participant's account based on the ratio of each eligible participant's compensation to total compensation of all participants.

The Company's contributions and dividends on the shares held by the trust are used to repay the loan, and the shares are allocated to participants as the principal and interest is paid. The Company's common stock dividends were suspended during the fourth quarter of 2000. Long-term debt is reduced as payments are made on the third party financing. In addition, unearned compensation is also reduced as the shares are allocated to employees. The unallocated shares held by the trust are reflected as a reduction in Net Hercules Group Investment of $115 million and $123 million at December 31, 2000 and 1999, respectively.

	2000	1999
Allocated	1,858,459	1,807,976
Unallocated	3,582,334	3,814,749
Total shares held by ESOP	5,440,793	5,622,725

The ESOP expense is calculated using the shares-allocated method and includes net interest incurred on the debt of $6 million and $5 million for 2000 and 1999, respectively. The Company is required to make quarterly contributions to the plan, which enable the trust to service its indebtedness. Net ESOP expense is comprised of the following elements:

	2000	1999
	(DOLLARS IN MILLIONS)	
ESOP expense	$13	$13
Common stock dividends (charged to retained earnings)	(3)	(6)
Net ESOP expense	$10	$ 7
ESOP Contributions	$10	$ 9

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BETZDEARBORN INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

13. PENSION AND OTHER POSTRETIREMENT BENEFITS

The Company participates in a defined benefit pension plan sponsored by Hercules, which covers substantially all employees of Hercules in the U.S. Benefits under this plan are based on the average final pay and years of service. Hercules also provides post-retirement health care and life insurance benefits to eligible retired employees and their dependents.

Information on the actuarial present value of the benefit obligation and fair value of the plan assets is not presented as Hercules manages its U.S. employee benefit plans on a consolidated basis and such information is not maintained separately for the U.S. employees of the Company. The Company's statement of operations includes an allocation of the costs of the U.S. benefits plans. The pension costs were allocated based on percentage of pensionable wages, for each of the years presented; post-retirement benefit costs were allocated using factors derived from the relative net assets and revenues. Net pension income (costs) of Hercules allocated to the Company were $8 million, $7 million, and ($1 million) for the years ended December 31, 2000, 1999 and 1998, respectively, and post-retirement benefit expense was $1 million, $.6 million, and $.2 million for the years ended December 31, 2000, 1999 and 1998, respectively.

The Company also has a number of defined pension plans which it provides to employees in locations other than the U.S. The following table lists benefit obligations, plan assets, and the funded status of these plans.

	PENSION BENEFITS	
	2000	1999
	(DOLLARS IN MILLIONS)	
CHANGE IN BENEFIT OBLIGATION		
Benefit Obligation at January 1	$104	$106
Service cost	4	4
Interest cost	6	6
Assumption change	1	1
Employee contributions	1	1
Translation adjustment	(8)	(6)
Actuarial loss (gain)	3	(5)
Benefits paid from plan assets	(3)	(3)
Benefit Obligation at December 31	$108	$104
CHANGE IN PLAN ASSETS		
Fair value of plan assets at January 1	$127	$110
Actual return plan assets	7	19
Employee contributions	1	1
Company contributions	3	1
Actuarial loss (gain)	(2)	--
Translation adjustment	(8)	(2)
Benefits paid from plan assets	(3)	(3)
Fair value of plan assets at December 31	$125	$126
Funded status of the plans	$ 17	$ 22
Unrecognized acturial (gain)/loss	(4)	(11)
Unrecognized net transition obligation	--	--
Prepaid (accrued) benefit cost	$ 13	$ 11
AMOUNTS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION CONSIST OF:		
Prepaid benefit cost	$ 13	$ 11
ASSUMPTIONS AS OF DECEMBER 31		
Weighted average discount rate	6.5%	6.3%
Expected return on plan assets	6.7%	6.8%
Rate of compensation increase	4.5%	4.5%
Health care term rate	N/A	N/A
Funded status of plans in deficit position	$ (1)	$ (1)

COMPONENTS OF NET PERIODIC PENSION COST:		
Service cost	$ 4	$ 4
Interest cost	6	6
Return on plan assets expected	(9)	(8)
Benefit cost	$ 1	$ 2

BETZDEARBORN INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

14. OTHER OPERATING EXPENSES, NET

Other operating expenses, net, consists of the following:

	2000	1999
	(DOLLARS IN MILLIONS)	
Loss on asset dispositions	$ 3	$--
Integration expenses	2	9
Royalties expense, net	16	(1)
Restructuring charges	1	2
Other	--	1
	$22	$11

15. NET HERCULES GROUP INVESTMENT

Changes in net parent investment were as follows:

	(DOLLARS IN MILLIONS)
Balance, January 1, 1999	$2,541
Net income	33
Other comprehensive income	(47)
Impact of shares held by ESOP	8
Intercompany transactions, net	(102)
Balance, December 31, 1999	2,433
Net income	25
Other comprehensive income	(46)
Impact of shares held by ESOP	7
Intercompany transactions, net	(183)
Balance, December 31, 2000	$2,236

The Company includes accumulated other comprehensive loss in net parent investment. At December 31, 2000 and 1999, accumulated other comprehensive loss included $77 million and $31 million of foreign currency translation adjustments, respectively.

16. OTHER EXPENSE, NET

Other expense, net, consists of foreign currency transaction losses of $5 million in both 2000 and 1999 and interest and miscellaneous income of $3 million and $5 million in 2000 and 1999, respectively.

17. COMMITMENTS AND CONTINGENCIES

Leases

The Company has operating leases (including office space, transportation, and data processing equipment) expiring at various dates. Rental expense was $22 million in 2000, $18 million in 1999, and $28 million in 1998.

At December 31, 2000, minimum rental payments under noncancelable leases aggregated $35 million. The net minimum payments over the next five years are $11 million in 2001, $9 million in 2002, $7 million in 2003, $6 million in 2004, and $1 million in 2005.

Litigation

The Company is a defendant in numerous lawsuits that arise out of, and are incidental to the conduct of its business. In these legal proceedings, no specifically identified officer or affiliate is a party or a named defendant. These suits concern issues such as product liability, labor-related matters, property damage and personal injury matters.

At December 31, 2000 and 1999, the consolidated balance sheet reflects a current liability of approximately $8 million and $78 million, respectively, for litigation and claims. Estimated insurance recoveries of approximately $46 million have been reflected in current assets. These amounts represent management's best estimate of the probable and reasonably estimable losses and recoveries related to litigation or claims. The extent of the liability and recovery is evaluated quarterly. While it is not feasible to predict the outcome of all pending suits and claims, the ultimate resolution of these matters could have a material effect upon the financial position of the Company, and the resolution of any of the matters during a specific period could have a material effect on the quarterly or annual operating results for that period.

Environmental

The Company becomes aware of sites in which it may be named a PRP in investigatory and/or remedial activities through correspondence from the U.S. Environmental Protection Agency, or other government agencies, or through correspondence from previously named PRPs, who either request information or notify us of our potential liability. We have established procedures for identifying environmental issues at our plant sites. In addition to environmental audit programs, we have environmental coordinators who are familiar with environmental laws and regulations and act as a resource for identifying environmental issues.

The Company has established accruals for the estimated cost of environmental remediation and/or cleanup at various sites. The estimated range of the reasonable possible share of costs for investigation and cleanup is between $1 million and $3 million at December 31, 2000. The actual costs will depend upon numerous factors, including the number of parties found to be responsible at each environmental site and their ability to pay; the actual methods of remediation required or agreed to; the outcomes of negotiations with regulatory authorities; outcomes of litigation; changes in environmental laws and regulations; technological developments; and the number of years of remedial activity required, which could range from 0 to 30 years. As of December 31, 2000, the accrued liability of $1 million for environmental remediation represents management's best estimate of the probable and reasonably estimable costs related to environmental remediation. The Company estimates that these liabilities will be paid over the next five years. The extent of liability is evaluated quarterly. The measurement of the liability is evaluated based on currently available information, including the process of remedial investigations at each site and the current status of negotiations with regulatory authorities regarding the method and extent of apportionment of costs among other potentially responsible parties. The Company is unaware of any unasserted claims and has not reflected them in the reserve. While it is not feasible to predict the outcome of all pending suits and claims, the ultimate resolution of these environmental matters could have a material effect upon the results of operations and the financial position of the Company.

Other

As of December 31, 2000, the Company had $5.9 million in letters of credit outstanding with lenders.

18. RELATED PARTY TRANSACTIONS

The Company has entered into certain agreements with affiliated entities. These agreements were developed in the context of parent/subsidiary relationship and therefore may not necessarily reflect the result

of arms-length negotiations between independent parties. The Company records sales with affiliates based on a cost-plus formula developed and agreed-upon by both parties.

Corporate and other allocations: As discussed in Note 1, the financial statements of the Company reflect certain allocated support costs incurred by other entities in Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, research & development overhead, investor relations and other corporate services. Allocations and charges included in the Company's financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on factors such as revenues, net assets, costs of sales or a relative weighting of geographic activity. These allocations are presented separately in the consolidated statement of income.

Royalty expense: The Company entered into license agreements with affiliated companies, which pertain to licensing rights for certain patents, trademarks and know-how (technology) related to manufacturing formulations and specifications of specialty chemical products. Fees are both earned by and paid outside of this consolidated group. Beginning in the year 2000 and for seven years thereafter certain fees are to be split between BL Technologies, Inc. (a member of this consolidated group) and Hercules on a declining rights basis favoring Hercules in the later years. The net royalty expense is included as part of other operating expenses in the financial statements.

Sales to affiliates: The Company sells raw material and finished goods inventory in the normal course of business to affiliated companies. The Company's revenues from sales to affiliated companies are presented separately in the consolidated statement of income.

Purchases from affiliates: The Company purchases certain raw material and finished goods inventory from affiliated companies in the normal course of business. These purchases of inventory from affiliated companies are reflected in cost of sales in the consolidated statement of income and totaled $62 million and $56 million for the years ended 2000 and 1999, respectively.

Intercompany borrowing and interest: The Company has $289 million and $367 million of intercompany loans with affiliated entities in 2000 and 1999, respectively. These intercompany loans are primarily with Hercules, the Hercules Shared Services Center, Inc., and SA Hercules Europe NV. The long-term debt payable to affiliates primarily has no set payment schedule and carry interest rates ranging from 4.60% to 12.42%. The loans with affiliates are recorded in the Net Hercules Group Investment in the consolidated balance sheet. Net interest paid to affiliated entities was $19 and $25 million in 2000 and 1999, respectively.

19. INCOME TAXES

The components of income before taxes are presented below:

	2000	1999
	(DOLLARS IN MILLIONS)	
Domestic	$46	$78
Foreign	24	10
	$70	$88

A summary of the components of the tax provision follows:

	2000	1999
	(DOLLARS IN MILLIONS)	
Currently payable		
Domestic	$11	$37
Foreign	10	5
Deferred		

Domestic	17	5
Foreign	2	4
Provision for income taxes	$40	$51

Deferred tax liabilities (assets) at December 31, consist of the following:

	2000	1999
	(DOLLARS IN MILLIONS)	
Depreciation	$ 36	$ 40
Amortization of intangible asset	249	257
Prepaid pension and post-retirement benefits	4	3
Other	2	3
Gross deferred tax liabilities	291	303
Pension and other postretirement benefits	(26)	(29)
Accrued expenses	(17)	(50)
Loss carryforwards	(15)	(12)
Other	(6)	(5)
Gross deferred tax assets	(64)	(96)
Valuation allowance	15	17
	$242	$224

A reconciliation of the statutory income tax rate to the effective rate follows:

	2000	1999
Statutory income tax rate	35.00%	35.00%
Goodwill amortization	20.73	17.76
Non-deductible expenses	2.88	2.97
Valuation allowance	2.87	4.82
Other	(4.35)	(2.60)
Effective tax rate	57.13%	57.95%

Unremitted foreign earnings were approximately $12 million and $3 million at December 31, 2000 and 1999, respectively.

20. SUBSEQUENT EVENT

On May 1, 2001, Hercules Incorporated completed the sale of its hydrocarbon resins divisions and select portions of its rosin resins divisions to Eastman Chemical Company. In addition, on May 31, 2001, Hercules completed the sale of its peroxy chemical business to GEO Specialty Chemicals, Inc.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
Hercules Incorporated
Wilmington, Delaware

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive loss and of cash flows present fairly, in all material respects, the financial position of BetzDearborn International Inc., a subsidiary of Hercules Incorporated, and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
August 31, 2001

BETZDEARBORN INTERNATIONAL INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	YEAR ENDED DECEMBER 31,	
	2000	1999
	(DOLLARS IN THOUSANDS)	
Sales to third parties	$183,628	$174,691
Sales to Hercules Group	3,097	1,902
	186,725	176,593
Cost of sales	85,489	75,354
Selling, general, and administrative expenses	79,316	75,731
Research and development	251	451
Goodwill amortization	5,527	5,864
Other operating expenses, net (Note 12)	5,952	7,098
	176,535	164,498
Profit from operations	10,190	12,095
Equity in (income) loss of affiliated companies	(245)	94
Interest expense (Note 6)	6,252	6,146

Other expense, net (Note 13)	5,596	6,932
Loss before income taxes and minority interest	(1,413)	(1,077)
Provision for income taxes (Note 15)	(1,611)	(3,020)
Net loss before minority interest	(3,024)	(4,097)
Minority interest	984	149
Net loss	(4,008)	(4,246)
Translation adjustments	(2,061)	(989)
Comprehensive loss	$ (6,069)	$ (5,235)

The accompanying notes are an integral part of the consolidated financial statements.

BETZDEARBORN INTERNATIONAL INCORPORATED

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2000	DECEMBER 31, 1999
	(DOLLARS IN THOUSANDS)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 13,622	$ 6,231
Accounts receivable, net (Note 3)	34,755	43,022
Inventories (Note 4)	19,261	21,731
Prepaid and other current assets	9,858	6,766
Deferred income taxes (Note 15)	1,260	296
Total current assets	78,756	78,046
Property, plant, and equipment, net (Note 8)	41,191	44,798
Goodwill, net (Note 9)	197,496	209,489
Investment in affiliates	1,691	1,739
Deferred charges and other assets	5,783	2,376
Total assets	$324,917	$336,448
LIABILITIES AND NET HERCULES GROUP INVESTMENT		
Current liabilities		
Accounts payable	$ 11,692	$ 11,978
Short-term debt (Note 5)	14,262	10,787
Accrued expenses (Note 8)	17,264	14,582
Current tax liability (Note 15)	2,575	2,907
Total current liabilities	45,793	40,254
Long-term debt (Note 6)	956	--
Deferred credits and other liabilities	4,278	5,967

Total liabilities	51,027	46,221
Commitments and contingencies (Note 16)	--	--
Minority Interest	11,489	10,831
Net Hercules Group Investment (Note 14)		
Accumulated other comprehensive income	(22,969)	(20,908)
Intercompany transactions, net	$285,370	300,304
Net Hercules Group Investment	$262,401	279,396
Total liabilities and Net Hercules Group Investment	$324,917	$336,448

The accompanying notes are an integral part of the consolidated financial statements.

BETZDEARBORN INTERNATIONAL INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	2000	1999
	(DOLLARS IN THOUSANDS)	
CASH FLOW FROM OPERATING ACTIVITIES:		
Net loss	$ (4,008)	$ (4,246)
Adjustments to reconcile net loss to net cash provided by operations:		
Minority interest	984	149
Depreciation	8,387	8,538
Amortization	5,527	5,864
Provision for bad debts	(188)	394
Equity in affiliated companies (income) loss	(245)	94
Deferred income taxes	(964)	114
Corporate and other cost allocations	6,055	6,262
Loss on the disposal of assets	1,484	1,016
Accruals and deferrals of cash receipts and payments:		
Accounts receivable	8,455	(8,315)
Inventories	2,470	(1,732)
Prepaid and other current assets	(3,092)	(219)
Accounts payable and accrued expenses	2,064	(1,490)
Noncurrent assets and liabilities	(5,096)	2,137
Transfers to/from Hercules Group	(4,674)	4,388
Net cash provided by operations	17,159	12,954
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures	(10,760)	(10,452)
Proceeds from the disposal of property, plant and equipment	4,497	2,954
Net cash used in investing activities	(6,263)	(7,498)

CASH FLOW FROM FINANCING ACTIVITIES:		
Long-term debt proceeds	956	--
Long term repayments	--	(130)
Change in short-term debt	3,475	4,090
Transfers to/from Hercules Group	(8,175)	(12,795)
Net cash used in financing activities	(3,744)	(8,835)
Effect of exchange rate changes on cash	239	(287)
Net increase (decrease) in cash and cash equivalents	7,391	(3,666)
Cash and cash equivalents at beginning of year	6,231	9,897
Cash and cash equivalents at end of year	$ 13,622	$ 6,231
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$ 685	$ 1,543
Income taxes, net	(1,776)	(54)
Noncash financing activities		
Corporate and other cost allocations	6,055	6,262

The accompanying notes are an integral part of the consolidated financial statements.

BETZDEARBORN INTERNATIONAL INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

BetzDearborn International Inc. (the "Company"), a subsidiary of Hercules Inc. (Hercules), is engaged in the engineered specialty chemical treatment of water and industrial process systems operating in a wide variety of industrial and commercial applications. The Company develops, produces and markets a broad range of specialty chemical products. The Company also monitors changing water, process and plant operating conditions so as to prescribe the appropriate treatment programs. Operations are conducted primarily in Asia-Pacific, South America and Mexico.

Historically, separate company stand-alone financial statements were not prepared for the Company. In November 2000, Hercules amended its senior credit facility and ESOP credit facility (the "Facilities"). The Facilities, as amended, are secured by liens on Hercules' property and assets (and those of Hercules' Canadian Subsidiaries), a pledge of the stock of substantially all of Hercules' domestic subsidiaries (including the Company) and 65% of the stock of foreign subsidiaries directly owned by Hercules, and a pledge of Hercules' domestic intercompany indebtedness. These financial statements present the financial information on the Company, a collateral party to the Hercules debt, based on Hercules' understanding of Securities and Exchange Commission's interpretation and application of Rule 3-16 under the Securities and Exchange Commission's Regulation S-X. These statements were derived from historical accounting records.

As an operating division of Hercules, the Company participates in Hercules' centralized cash management system. Accordingly, cash received from the Company's operations is transferred to Hercules on a periodic basis, and Hercules funds all operational and capital requirements.

The financial statements of the Company reflect certain allocated support costs incurred by other entities in the Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in the Company's financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on factors such as sales, net assets, or cost of sales; or a relative weighting of geographic activity. Management believes that the allocation methods are reasonable.

When Hercules acquired all of the outstanding shares of BetzDearborn Inc. on October 15, 1998 it paid $2,235 million in cash and $186 million in common stock exchanged for the shares held by the BetzDearborn ESOP Trust. The purchase price allocated to the Company and its subsidiaries was approximately $232 million. During 1999, Hercules completed the purchase price allocation and the final determination of goodwill was $1,822 million of which the amount attributable to the Company was approximately $216 million. These financial statements include the push down of fair value adjustments to assets and liabilities, including goodwill, property, plant and equipment and their related amortization and depreciation adjustments.

As a result of this acquisition the Company, as a part of an effort by Hercules, entered into several internal reorganization transactions during 1999 and 2000. The transactions included the Company selling several of its investments in subsidiaries to Hercules affiliates, purchasing several investments in subsidiaries from Hercules affiliates, merging companies, and acquiring certain investments in Hercules group companies that are valued at cost. As all investments in this reorganization are under the common control of Hercules, these transactions have been accounted for in a manner similar to pooling of interest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries where control exits; following the acquisition of BetzDearborn; the Company continued BetzDearborn's practice of using a November 30 fiscal year-end for certain former BetzDearborn non-U.S. subsidiaries to expedite the year-end closing process. Investments in affiliated companies with a 20% to 50% ownership interest are accounted for using the equity method of accounting and, accordingly, consolidated

income includes the Company's share of their net income. All intercompany transactions and profits have been eliminated. The following tables represent the Company's principal consolidated subsidiaries.

SUBSIDIARY	DOMICILE	FUNCTIONAL CURRENCY
Hercules Argentina S.A.	Argentina	Dollar U.S.
BetzDearborn Australia Pty, Ltd.	Australia	Dollar Australian

Hercules BetzDearborn Brazil Ltda.........................	Brazil	Real
Hercules Quimica Chile Ltda...............................	Chile	Peso
BetzDearborn Caribbean N.V.	Aruba	Dollar U.S.
BetzDearborn de Ecuador S.A...............................	Ecuador	Dollar U.S.
Hercules Specialty Chemicals (India) Private Limited........	India	Rupee
P.T. BetzDearborn Persada.................................	Indonesia	Rupiah
BetzDearborn Korea Ltd....................................	Korea	Won
Hercules Chemicals (Malaysia) Sdn. BHD.....................	Malaysia	Rinnggit
BetzDearborn de Mexico S.A. de C.V.........................	Mexico	Peso
Hercules del Peru S.A.....................................	Peru	Newsol
Hercules Chemicals Singapore Pte. Ltd......................	Singapore	Dollar Singapore
Hercules Chemicals (Taiwan) Co. Ltd........................	Taiwan	Dollar Taiwan
Hercules Chemicals (Thailand) Co. Ltd......................	Thailand	Baht
BetzDearborn de Uruguay S.A...............................	Uruguay	Peso
Hercules BetzDearborn C.A.	Venezuela	Dollar U.S.

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer or services are performed in accordance with terms of the agreement, title and risk of loss have been transferred, collectibility is probable, and pricing is fixed and determinable. Accruals are made for sales returns and other allowances based on the Company's experience. The corresponding shipping and handling costs are included in cost of sales.

Environmental Expenditures

Environmental expenditures that pertain to current operations or future revenues are expensed or capitalized according to the Company's capitalization policy. Expenditures for remediation of an existing condition caused by past operations that do not contribute to current or future revenues are expensed. Liabilities are recognized for remedial activities when the cleanup is probable and can be reasonably estimated.

Cash and Cash Equivalents

Cash in excess of operating requirements is invested in short-term, income-producing instruments. Cash equivalents include time deposits and other securities with original maturities of 90 days or less. Book value approximates fair value because of the short maturity of those instruments.

Inventories

Inventories are stated at the lower of cost or market. Inventories are valued on the average cost method.

Property and Depreciation

Property, plant and equipment is recorded at cost. Depreciation is computed principally by the straight-line method over the estimated useful lives of the related assets. The estimated useful lives of depreciable assets are as follows: buildings -- 30 years; plant machinery and equipment -- 15 years; other machinery and equipment -- 3 to 15 years.

The Company is engaged in several projects related to process or plant improvements. Costs are capitalized until the project is ready for intended use. The cost of business process reengineering, whether done internally or by a third party is expensed as incurred.

Maintenance, repairs, and minor renewals are charged to income; major renewals and betterments are capitalized. Upon normal retirement or replacement, the cost of property (less proceeds of sale or salvage) is expensed.

Goodwill

Goodwill is amortized on a straight-line basis over 40 years, which is the estimated future period to be benefited.

Long-lived Assets

The Company reviews its long-lived assets, including goodwill for impairment on an exception basis whenever events or changes in circumstances indicate carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If an impairment loss has occurred based on expected future cash flows (undiscounted), the loss is recognized in the income statement. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset. The fair value represents expected future cash flows from the use of the assets, discounted at the rate used to evaluate potential investments.

Foreign Currency Translation and Transactions

The accompanying consolidated financial statements are reported in U.S. dollars. The U. S. dollar is the functional currency for the Company and its domestic subsidiaries and associated companies. However, the currencies listed previously are the functional currencies for its foreign subsidiaries located in the indicated countries. The translation of the functional currencies into U.S. dollars (reporting currency) is performed for assets and liabilities using the current exchange rates in effect at the balance sheet date, and for revenues, costs and expenses using average exchange rates prevailing during the reporting periods. Adjustments resulting from the translation of functional currency financial statements to reporting currency are accumulated and reported as other comprehensive income.

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are expressed in the functional currency at the exchange rates in effect at the balance sheet date. Revenues, costs and expenses are recorded using average exchange rates prevailing during the reporting periods. Gains or losses resulting from foreign currency transactions are included in the statements of operations.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of short-term cash investments and trade receivables. The Company places its short-term cash investments of $7,029 thousand at December 31, 2000 and $2,696 thousand at December 31, 1999 in securities with maturities of 90 days or less. These securities were concentrated in Brazil and Chile, which

together held $6,945 thousand and $2,591 thousand for 2000 and 1999, respectively. These securities are primarily denominated in the respective local currencies. Cost approximates market for these securities. Concentrations of credit risk with respect to trade receivables are limited due to the Company's large number of customers and their dispersion across many different industries and locations.

Stock-based Compensation

Compensation costs attributable to stock option and similar plans are recognized based on any excess of the quoted market price of the stock on the date of grant over the amount the employee is required to pay to acquire the stock (the intrinsic-value method under Accounting Principles Board Opinion 25 (APB 25)). Such amount, if any, is accrued over the related vesting period, as appropriate. Statement of Financial Accounting Standard No. 123, "Accounting for Stock-based Compensation," requires companies electing to continue to use the intrinsic-value method to make pro forma disclosures of net income as if the fair-value-based method of accounting had been applied.

Computer Software Costs

Effective January 1, 1999, the Company adopted the American Institute of Certified Public Accountants Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). The Company's prior accounting was generally consistent with the requirements of SOP 98-1 and, accordingly adoption of SOP 98-1 had no material effect. Computer software costs are being amortized over a period of 5 to 10 years.

Research and Development

Research and development expenditures are expensed as incurred.

Income Taxes

The Company's operations have historically been included in the consolidated income tax returns filed by its parent. Income tax expense in the accompanying financial statements has been computed assuming the Company filed separate income tax returns. Differences between this calculation of income taxes currently payable and consolidated amounts reported in the consolidated financial statements of the parent have been reflected as Net Hercules Group Investment.

Net Hercules Group Investment

The Net Hercules Group Investment account reflects the balance of the Company's historical earnings, intercompany amounts, income taxes, taxes accrued and deferred, post-employment liabilities, foreign currency translation and other transactions between the Company and the Hercules Group.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative

Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133" and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," requires that all derivative instruments be recorded on the balance sheet at their fair value. This statement, as amended, is effective for all fiscal quarters of fiscal years beginning after December 31, 2000. The Company adopted SFAS 133 effective January 1, 2001. The adoption of SFAS No. 133 did not have a material effect on our earnings or statement of financial position.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the

recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by SAB Nos. 101A and 101B, was to be effective October 1, 2000. Adoption of SAB 101 did not have a material effect on the Company's profit from operations.

In June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). For the Company, these statements will generally become effective January 1, 2002, although business combinations initiated after June 30, 2001 are subject to the non-amortization and purchase accounting provisions.

SFAS 142 stipulates that goodwill and other intangible assets with indefinite lives are no longer subject to amortization, but must be evaluated periodically for impairment beginning January 1, 2002. The Company is currently in the process of conducting an assessment of the actual impact of the non-amortization provision of SFAS 142. The assessment of goodwill for impairment is a complex issue in which the Company must determine, among other things, the fair value of each defined reporting unit. It is, therefore, not possible at this time to predict the impact, if any, that the impairment assessment provisions of SFAS 142 will have on the Company's financial statements.

In addition, in June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 establishes accounting standards for the recognition and measurement of legal obligations associated with the retirement of tangible long-lived assts. SFAS 143 will become effective for the Company from January 1, 2003 and requires recognition of a liability for an asset retirement obligation in the period in which it is incurred. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, consists of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Trade	$38,575	$47,030
Less allowance for doubtful accounts	(3,820)	(4,008)
Total	$34,755	$43,022

4. INVENTORIES

The components of inventories are:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Finished products	$ 9,502	$ 9,324
Materials, supplies, and work in process	9,759	12,407
Total	$19,261	$21,731

5. SHORT-TERM DEBT

A summary of short-term debt follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Lines of credit	$13,776	$10,787
Current maturities of long-term debt	486	--
Total	$14,262	$10,787

Lines of credit primarily represent foreign overdraft facilities and short-term lines of credit, which are generally payable on demand with interest at various rates. Book values of bank borrowings approximate market value because of their short maturity period.

At December 31, 2000 and 1999 the Company had $23,467 thousand and $10,580 thousand, respectively, of unused lines of credit that may be drawn as needed, with interest at a negotiated spread over the lenders' cost of funds. Weighted-average interest rates on short-term borrowings at December 31, 2000 and 1999 were 5.66% and 5.84%, respectively.

6. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Long-term debt with third parties at December 31, 2000 is summarized below. There was no long-term debt with third parties at December 31, 1999.

	2000
	(DOLLARS IN THOUSANDS)
Construction loan -- Bank of Hong Kong at 13.5%	$1,442
Less current maturities	(486)
Total	$ 956

The construction loan with Hong Kong bank has an additional availability of $1,122 thousand and payments are due through 2007. The loan features a clause, which allows for no payments to be made for the years 2002 and 2003.

Scheduled annual maturities of long-term debt outstanding in the successive five-year period are summarized as follows:

	2000
	(DOLLARS IN THOUSANDS)
2001	$ 486
2002	--
2003	--
2004	120
2005	239
Thereafter	597
Total	$1,442
Less current maturities	(486)
Total	$ 956

The Company believes that the carrying value of borrowings approximates fair market value, based on discounting future cash flows using rates currently available for debt of similar terms and remaining maturities.

As of December 31, 2000, the Company had $58,259 thousand of long term debt payable to affiliates that was primarily held by Hercules Shared Services Corporation, BetzDearborn Inc. and by Hercules Europe B.V.B.A., all wholly owned subsidiaries of Hercules. As of December 31, 1999, the Company had $64,066 thousand in long-term debt payable to affiliates, of which $14,000 thousand was payable to Hercules Shared Services Corporation and BetzDearborn Inc. The remaining debt was primarily held by BetzDearborn N.V. a wholly subsidiary of Hercules and transferred to Hercules Europe B.V.B.A. during the year. The long-term debt payable to affiliates primarily has no set payment schedule and carry interest rates ranging from 4.5% to 10.5%. The long term debt payable to affiliates is recorded in the Net Hercules Group Investment account in the financial statements.

Interest expense in 2000 was $6,252 thousand, of which $4,391 thousand was related party interest. There was no capitalized interest during the period. Interest expense in 1999 was $6,146 thousand, of which $4,639 thousand was related party interest. There was no capitalized interest during the period.

7. LONG-TERM INCENTIVE COMPENSATION PLANS

The Company participates in long-term incentive compensation plans sponsored by Hercules. These plans provide for the grant of stock options and the award of common stock and other market-based units to certain key employees and non-employee directors.

In 1995, Hercules changed the structure of the long-term incentive compensation plans to place a greater emphasis on shareholder value creation through grants of regular stock options, performance-accelerated stock options, and Cash Value Awards (performance-based awards denominated in cash and payable in shares of common or restricted stock, subject to the same restrictions as restricted stock). Restricted stock and other market-based units are awarded with respect to certain programs. The number of awarded shares outstanding was 491,488 at December 31, 2000 and 926,689 at December 31, 1999.

At December 31, 2000, under Hercules' incentive compensation plans, 1,847,855 shares of common stock were available for grant as stock awards or stock option awards. Stock awards are limited to approximately 15% of the total authorizations. Regular stock options are granted at the market price on the date of grant and are exercisable at various periods from one to five years after date of grant. Performance-accelerated stock options are also granted at the market price on the date of grant and are normally exercisable at nine and one-half years. Exercisability may be accelerated based upon the achievement of predetermined performance goals. Both regular and performance-accelerated stock options expire 10 years after the date of grant.

Restricted shares, options and performance-accelerated stock options are forfeited and revert to Hercules in the event of employment termination, except in the case of death, disability, retirement, or other specified events.

The Company applies APB Opinion 25 in accounting for its plans. Accordingly, no compensation cost has been recognized for the stock option plans. There were no charges to income for the cost of stock awards over the restriction or performance period for 2000 and 1999.

Below is a summary of outstanding stock option grants under the incentive compensation plans during 2000 and 1999:

	REGULAR		PERFORMANCE-ACCELERA	
	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE	NUMBER OF SHARES	WEIGHTED-A PRICE
January 1, 1999	9,800	$40.60	--	-
Granted	48,200	$37.72	13,150	$37.7
Exercised	--	--	--	-
Forfeited	--	--	--	-
December 31, 1999	58,000	$38.21	13,150	$37.7
Granted	37,675	$17.25	--	-
Exercised	--	--	--	-
Forfeited	--	--	--	-
December 31, 2000	95,675	$29.95	13,150	$37.7

The weighted-average fair value of regular stock options granted during 2000 and 1999 was $8.85 and $8.26, respectively. The weighted-average fair value of performance-accelerated stock options granted during 1999 was $8.01 There were no performance-accelerated stock options granted in 2000.

Following is a summary of regular stock options exercisable at December 31, 2000, and 1999, and their respective weighted-average share prices:

OPTIONS EXERCISABLE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
December 31, 1999	7,320	$40.09
December 31, 2000	28,820	$38.61

There were no performance-accelerated stock options exercisable at December 31, 2000 and 1999.

Following is a summary of stock options outstanding at December 31, 2000:

	OUTSTANDING OPTIONS			EXERCISAB
EXERCISE PRICE RANGE	NUMBER OUTSTANDING AT 12/31/00	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/00
Regular Stock Options				
$12 - $20	37,675	9.13	$17.25	--
$30 - $40	56,700	8.13	$37.99	27,780
$40 - $50	1,300	7.35	$47.81	1,040
	95,675			28,820

Performance-Accelerated Stock Options				
$14 - $40	13,150	8.36	$37.70	--
	=======			=======

The Company currently expects that 100% of performance-accelerated stock options will eventually vest.

The Company's employees may also participate in the Hercules Employee Stock Purchase Plan ("ESPP"). The ESPP is a qualified non-compensatory plan, which allows eligible employees to acquire shares of common stock through systematic payroll deductions. The plan consists of three-month subscription periods, beginning July 1 of each year. The purchase price is 85% of the fair market value of the common stock on either the first or last day of that subscription period, whichever is lower. Purchases may range from 2% to 15% of an employee's base salary each pay period, subject to certain limitations. Currently, 202,139 shares of Hercules common stock are registered for offer and sale under the plan. Shares issued at

December 31, 2000 and 1999, were 1,597,861 and 949,464, respectively. The Company applies APB Opinion 25 and related interpretations in accounting for its Employee Stock Purchase Plan. Accordingly, no compensation cost has been recognized for the Employee Stock Purchase Plan.

Had compensation cost for Hercules' Stock-Based Incentive Plans and Employee Stock Purchase Plan been determined on the basis of fair value according to SFAS No. 123, the fair value of each option granted or share purchased would be estimated on the grant date using the Black-Scholes option pricing model.

The following weighted-average assumptions would be used in estimating fair value for 2000 and 1999.

ASSUMPTION	REGULAR PLAN	PERFORMANCE ACCELERATED PLAN	EMPLOYEE STOCK PURCHASE PLAN
Dividend yield	2%	3.4%	0.0%
Risk-free interest rate	5.88%	5.38%	5.41%
Expected life	7.1 yrs	5 yrs.	3 mos.
Expected volatility	29.20%	27.31%	44.86%

The Company's net loss for 2000 and 1999 would approximate the pro forma amounts below:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Net loss		

As reported	$(4,008)	$(4,246)
Pro forma	$(4,213)	$(4,335)

8. ADDITIONAL BALANCE SHEET DETAIL

	2000	1999
	(DOLLARS IN THOUSANDS)	
Property, plant, and equipment		
Land	$ 7,085	$ 7,241
Buildings and equipment	48,455	48,848
Construction in progress	4,123	826
Total	59,663	56,915
Accumulated depreciation and amortization	(18,472)	(12,117)
Net property, plant, and equipment	$ 41,191	$ 44,798
Accrued expenses		
Payroll and related taxes	$ 3,623	$ 3,184
Incentives/bonus	2,222	1,174
Current portion of restructuring liability	3,861	1,646
Pension	682	355
Other	6,876	8,223
	$ 17,264	$ 14,582

9. GOODWILL

Goodwill at December 31, 2000 and 1999, was:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Goodwill	$209,973	$216,439
Less accumulated amortization	(12,477)	(6,950)
Total	$197,496	$209,489

10. RESTRUCTURING

The consolidated balance sheet reflects liabilities for employee severance benefits and other exit costs, primarily related to plans initiated upon the acquisition of BetzDearborn by Hercules in 1998.

Pursuant to the plans in place to merge the operations of BetzDearborn with Hercules and to rationalize the support infrastructure and other existing operations, a $1,328 thousand reserve was established by the Company in 1998 and further increased by $4,499 thousand in 1999. 35 people were terminated in 1999 and 17 in 2000. The majority of the terminations were administrative, sales and marketing personnel. Cash payments made during 2000 and 1999 include $665 thousand and $1,528 thousand, respectively, for severance benefits and $125 thousand and $118 thousand, respectively, for other exit costs.

Severance benefit payments are based on years of service and generally continue for 3 months to 24 months subsequent to termination. We expect to substantially complete remaining actions under the plans in 2001. A reconciliation of activity with respect to the liabilities established for these plans is as follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Balance at beginning of year	$4,554	$ 1,328
Acquisition-related accrual	--	4,499
Additional termination benefits and exit costs	124	531
Cash payments	(790)	(1,646)
Currency effects	(27)	(158)
Balance at end of year	$3,861	$ 4,554

BETZDEARBORN INTERNATIONAL INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

11. PENSION BENEFITS

The Company provides defined benefit plans for approximately 370 employees. The Company funds the plans primarily through trust arrangements where the assets of the fund are held separately from the employer. The following table lists benefit obligations, plan assets, and funded status of the plans.

	PENSION BENEFITS	
	2000	1999
	(DOLLARS IN THOUSANDS)	
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at January 1	$2,854	$2,388
Service cost	289	245
Interest cost	157	143
Benefits paid from plan assets	(489)	--
Translation adjustments	(146)	78
Benefit obligation at December 31	$2,665	$2,854
CHANGE IN PLAN ASSETS		

Fair value of plan assets at January 1	2,381	2,107
Actual return on plan assets	144	109
Company contributions	122	101
Benefits paid from plan assets	(463)	--
Translation adjustments	(114)	64
Fair value of plan assets at December 31	$2,070	$2,381
Funded status of the plans	(595)	(473)
Unrecognized net loss	540	--
Unrecognized net transition obligation	--	603
(Accrued) prepaid benefit cost	$ (55)	$ 130
AMOUNTS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION CONSIST OF:		
Prepaid benefit cost	$ --	$ 336
Accrued benefit liability	(55)	(206)
	$ (55)	$ 130
ASSUMPTIONS AS OF DECEMBER 31		
Weighted-average discount rate	6.00%	6.00%
Expected return on plan assets	6.00%	6.00%
Rate of compensation increase	6.00%	6.00%

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BETZDEARBORN INTERNATIONAL INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

	PENSION BENEFITS	
	2000	1999
	(DOLLARS IN THOUSANDS)	
Components of net periodic benefit cost:		
Service cost	$ 289	$ 245
Interest cost	157	143
Return on plan assets (expected)	(144)	(109)
Amortization of net (gain) loss	--	22
Amortization of transition asset	34	(16)
Benefit cost	$ 336	$ 285

The Company also participates in defined contribution plans, which supplements the local government pension plans. The Company's employees may contribute from 5% to 12% of their annual compensation to the plan each calendar year. The Company's matching contribution was approximately $520 thousand for 2000 and $460 thousand for 1999.

12. OTHER OPERATING EXPENSES, NET,

Other operating expenses, net in 2000 primarily includes $5,599 thousand in royalty expense, $68 thousand for integration costs and $124 thousand additional charges to the restructuring accrual.

Other operating expenses, net in 1999 primarily includes $4,901 thousand in royalty expense, $1,118 thousand for integration costs and $531 thousand additional charges to the restructuring accrual.

13. OTHER EXPENSE, NET

Other Expense, net, consists primarily of exchange and transaction losses for 2000 and 1999.

14. NET HERCULES GROUP INVESTMENT

Changes in Net Hercules Group Investment were as follows:

	(DOLLARS IN THOUSANDS)
Balance, December 31, 1998	$286,177
Net loss	(4,246)
Other comprehensive income	(989)
Intercompany transactions, net	(1,546)
Balance, December 31, 1999	279,396
Net loss	(4,008)
Other comprehensive income	(2,061)
Intercompany transactions, net	(10,926)
Balance, December 31, 2000	$262,401

The Company includes accumulated other comprehensive income in Net Hercules Group Investment. At December 31, 2000 and 1999, accumulated other comprehensive income included ($22,969) thousand and ($20,908) thousand, of foreign currency translation adjustments.

15. INCOME TAXES

The components of income before taxes are presented below.

	2000	1999
	(DOLLARS IN THOUSANDS)	
Domestic	$(4,904)	$ 1,042
Foreign	3,491	(2,119)
	$(1,413)	$(1,077)

A summary of the components of the tax provision follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Currently payable		
Domestic	$ --	$1,890
Foreign	2,575	1,017
Deferred		
Domestic	(698)	133
Foreign	(266)	(20)
Provision for income taxes	$1,611	$3,020

Deferred tax assets (liabilities) at December 31 consisted of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Depreciation	$ (977)	$ (575)
Investments	(57)	--
Other	540	(412)
Gross deferred tax liabilities	$ (494)	$ (987)
Postretirement benefits other than pensions	$ 1,047	$ 827
Inventory	316	582
Accrued expenses	5,591	5,427
Loss carryforwards	9,175	7,352
Gross deferred tax assets	16,129	14,188
Valuation allowance	(14,375)	(12,905)
	$ 1,260	$ 296

BETZDEARBORN INTERNATIONAL INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

A reconciliation of the statutory income tax rate to the effective rate follows:

	2000	1999
Statutory income tax rate	(35)%	(35)%
Goodwill amortization	121	168

Meals and entertainment	11	17
Foreign dividends net of credits	--	9
Valuation allowance	80	146
Cash repatriations from non-US subsidiaries	(84)	(41)
Travel expense	5	8
Other	16	8
Effective tax rate	114%	280%

The net operating losses have indefinite carryforward periods, but may be limited in their use in any given year.

The Company provides taxes on undistributed earnings of subsidiaries and affiliates included in Net Hercules Group Investment to the extent such earnings are planned to be remitted and not reinvested permanently. The undistributed earnings of subsidiaries and affiliates on which no provision for foreign withholding or domestic income taxes has been made was $0 for 2000 and 1999, respectively. U.S. and foreign income taxes that would be payable if such earnings were distributed may be lower than the amount computed at the domestic statutory rate because of the availability of tax credits.

16. COMMITMENTS AND CONTINGENCIES

Leases

The Company has operating leases (including office space, transportation, and data processing equipment) expiring at various dates. Rental expense was $3,065 thousand in 2000 and $2,726 thousand in 1999.

Future minimum lease payments under noncancellable operating leases are as follows:

	2000 (DOLLARS IN THOUSANDS)
2001	$2,575
2002	1,618
2003	679
2004	249
2005	268
Thereafter	241
	$5,630

Litigation

The Company currently and from time to time is involved in litigation to the conduct of its business. In the opinion of the Company's management none of such litigation as of December 31, 2000 is likely to have a material adverse effect on the financial position and results of operations of the Company.

17. RELATED PARTY TRANSACTIONS

The Company has entered into certain agreements with affiliated entities.

These agreements were developed in the context of parent/subsidiary relationship and therefore may not necessarily reflect the result

of arms-length negotiations between independent parties. The Company records sales with affiliates generally based on a cost-plus formula developed and agreed-upon by both parties.

Corporate and other allocations: As discussed in Note 1, the financial statements of the Company reflect certain allocated support costs incurred by other entities in Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, research & development overhead, investor relations and other corporate services. Allocations and charges included in the Company's financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on factors such as revenues, net assets, costs of sales or a relative weighting of geographic activity. These allocations are reflected in the selling, general and administrative line item in our statement of operations. Such allocations and corporate charges totaled $6,055 thousand and $6,262 thousand in 2000 and 1999, respectively.

The Company has net advances to affiliates at December 31, 2000 of $16,210 thousand. These advances are to BetzDearborn Inc. and BetzDearborn Europe Inc. There were no advances to affiliates outstanding in 1999. The advances are also recorded as part of the Net Hercules Group Investment account.

Royalty expense: The Company entered into a license agreement, which pertains to foreign licensing rights for certain patents, trademarks, and know-how (technology) related to the manufacture of specialty chemical products. The royalties are payable to BL Technologies, Inc., a related party 50% owned by BetzDearborn Inc. and 50% owned by BetzDearborn Europe, Inc. Royalty expense for 2000 was $5,599 thousand and $4,901 thousand in 1999. Beginning in the year 2000 and for seven years thereafter, the fees are to be split between BL Technologies and Hercules on a declining rights basis favoring Hercules in the "out years". The royalty expense is included as part of other operating expenses in the financial statements.

The Company from time to time will purchase finished or semi finished product from affiliated companies. For the years ended December 31, 2000 and 1999, these purchases totaled $7,171 thousand and $605 thousand, respectively.

18. SUBSEQUENT EVENT:

On May 1, 2001, Hercules completed the sale of its hydrocarbon resins divisions and select portions of its rosin resins divisions to Eastman Chemical Company. In addition, on May 31, 2001, Hercules completed the sale of its peroxy chemicals business to GEO Specialty Chemicals, Inc. Results of operations for the Company include net sales of approximately $2,122 thousand and $2,841 thousand, respectively, in 2000 and 1999 relating to these divested businesses.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
BL Technologies, Inc.

In our opinion, the accompanying balance sheets and the related statements of income and of cash flows present fairly, in all material respects, the financial position of BL Technologies, Inc., a subsidiary of Hercules Incorporated, at December 31, 2000 and 1999, and the results of its operations and of its cash flows for each of the two years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
October 16, 2001

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BL TECHNOLOGIES, INC.

STATEMENT OF INCOME

	YEAR ENDED DECEMBER 31, 2000	1999
	(DOLLARS IN THOUSANDS)	
Royalty income	$ 172	$ 139
Royalty income -- affiliates	20,972	22,785
	21,144	22,924
Selling, general, and administrative expenses	13	15
Corporate and other cost allocations	2,188	2,941
Amortization of licensing rights	11,358	13,250
Profit from operations	7,585	6,718
Other income, net (Note 4)	211	36
Income before income taxes	7,796	6,754
Provision for income taxes (Note 5)	2,729	2,363
Net income	$ 5,067	$ 4,391

The accompanying notes are an integral part of the financial statements.

BL TECHNOLOGIES, INC.

BALANCE SHEETS

	DECEMBER 31 2000	DECEMBER 31 1999
	(DOLLARS IN THOUSANDS)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 19	$ 26
Foreign currency contract receivable (Note 6)	--	113
Total current assets	19	139
Investment in Hercules International Limited	72,962	72,962
Licensing rights, net (Note 3)	28,392	39,750
Total assets	$101,373	$112,851
LIABILITIES AND NET HERCULES GROUP INVESTMENT		
Liabilities		
Income taxes payable	$ 6,704	$ 7,001
Deferred income taxes (Note 5)	9,937	13,913
Total liabilities	16,641	20,914
Commitments and contingencies (Note 7)	--	--
Net Hercules Group Investment (Note 9)		
Intercompany transactions, net	84,732	91,937
Net Hercules Group Investment	84,732	91,937
Total liabilities and net Hercules Group investment	$101,373	$112,851

The accompanying notes are an integral part of the financial statements.

BL TECHNOLOGIES, INC.

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31 2000	YEAR ENDED DECEMBER 31 1999
	(DOLLARS IN THOUSANDS)	
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income	$ 5,067	$ 4,391

Adjustments to reconcile net income to net cash provided by operations:		
Amortization of licensing rights	11,358	13,250
Deferred income taxes	(3,975)	(4,638)
Corporate and other allocations	2,188	2,941
Accruals and deferrals of cash receipts and payments:		
Foreign currency contract receivable	113	(113)
Income taxes payable	(297)	2,830
Transfers to/from Hercules Group	--	4,171
Net cash provided by operations	14,454	22,832
CASH FLOW FROM FINANCING ACTIVITIES:		
Transfers to/from Hercules Group	(14,461)	(24,020)
Net cash used in financing activities	(14,461)	(24,020)
Net decrease in cash and cash equivalents	(7)	(1,188)
Cash and cash equivalents at beginning of year	26	1,214
Cash and cash equivalents at end of year	$ 19	$ 26
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$ --	$ --
Income taxes	--	--
Noncash financing activities:		
Corporate and other cost allocations	2,188	2,941

The accompanying notes are an integral part of the financial statements.

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BL TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

BL Technologies, Inc. ("BL Tech" or the "Company") was incorporated in 1994 in the state of Delaware as an Investment Holding Company for the purpose of providing certain financial services to its majority shareholder and former parent company, BetzDearborn Inc. (BetzDearborn). BL Tech and BetzDearborn are wholly owned subsidiaries of Hercules Incorporated ("Hercules"). The Company's primary business activity is the licensing of technologies (e.g., patents, trademarks, and formulations) and the collection of royalties therefrom to foreign based affiliates of the Hercules Group.

When Hercules acquired all of the outstanding shares of BetzDearborn Inc. on October 15, 1998, it paid $2,235 million in cash and $186 million in common stock in exchange for the shares held by the BetzDearborn ESOP Trust. The purchase price allocated to the Company was approximately $53 million. During 1999, Hercules completed the purchase price allocation and the final determination of goodwill was $1,822. These financial statements include the pushdown of fair value adjustments to assets and liabilities including other intangible assets and the related amortization adjustment.

Effective January 1, 2000, Hercules began funding all research and development costs and became the owner of all future technologies. The Company continues to have economic rights to license the technologies in existence prior to January 1, 2000 and receive annual royalties related to such rights from Hercules and its affiliates. Accordingly, as part of recording the acquisition under the purchase accounting method, the Company remeasured the value of its licensing rights giving consideration to the future cash flows thereby reflecting the licensing rights at fair value.

As a result of the acquisition, during 1999, the Company was a party to one of several reorganization transactions initiated by Hercules. The transaction included the Company exchanging an investment in a BetzDearborn subsidiary for an 8.5% investment in Hercules International Limited. As this investment is under the common control of Hercules, it has been accounted for at book value and consolidated on an "as if" pooling basis for all periods presented.

The Company also has a .001% investment in the stock of Hercules de Colombia S.A., an affiliate.

Historically, separate company stand-alone financial statements were not prepared for the Company. In November 2000, Hercules amended its senior credit facility and ESOP credit facility (the "Facilities"). The Facilities, as amended, are secured by liens on Hercules' property and assets (and those of Hercules' Canadian Subsidiaries), a pledge of the stock of substantially all of Hercules' domestic subsidiaries (including the Company) and 65% of the stock of foreign subsidiaries directly owned by Hercules, and a pledge of Hercules' domestic intercompany indebtedness. These financial statements present the financial information of the Company, a collateral party to the Hercules debt, based on the Hercules' understanding of the Securities and Exchange Commission's interpretation and application of Rule 3-16 under the Securities and Exchange Commission's Regulation S-X. These statements were derived from historical accounting records.

The financial statements of the Company reflect certain allocated support costs incurred by other entities in the Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in the Company's financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on net assets; or a relative weighting of geographic activity. Management believes that the allocation methods are reasonable.

BL Tech participates in Hercules' centralized cash management system. Accordingly, cash received from BL Tech operations is transferred to Hercules on a periodic basis, and Hercules funds all operational requirements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

Royalty income is based on a fixed percentage of the licensee's sales. The Company recognizes royalty revenue when the earnings process is complete. This generally occurs when the licensee has shipped product to the customer. Accruals are made for royalty refunds and other allowances based on the Company's experience.

Cash and Cash Equivalents

Cash in excess of operating requirements is invested in short-term, income-producing instruments. Cash equivalents include securities with original maturities of 90 days or less. Book value approximates fair value because of the short maturity of those instruments.

Licensing Rights

Licensing rights are amortized on a sum-of-years digits basis during the economic life of such rights, which is seven years.

Foreign Currency Transactions

Transactions in foreign currency, primarily royalty payments, are recorded at the exchange rate prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are expressed in the functional currency at the exchange rates in effect at the balance sheet date. Revenues, costs and expenses are recorded using average exchange rates prevailing during the reporting periods. Gains or losses resulting from foreign currency transactions are included in the statement of operations.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of short-term cash investments and receivables from affiliated companies. The Company places its short-term cash investments in a highly-liquid money market account at a large financial institution.

Derivative Instruments and Hedging

The Company has entered into forward-exchange contracts to hedge foreign currency exposure. Decisions regarding hedging have been made on a case-by-case basis, taking into consideration the amount and duration of the exposure, market volatility, and economic trends. The Company uses the fair-value method of accounting, recording realized and unrealized gains and losses on these contracts monthly. They are included in other income (expense), net. It is the Company's policy to match the term of financial instruments with the term of the underlying designated item. The Company does not hold or issue financial instruments for trading purposes. In the Statement of Cash Flows, the Company reports the cash flows resulting from its hedging activities in the same category as the related item that is being hedged.

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BL TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Income Taxes

The Company's operations have historically been included in the consolidated income tax returns filed by its parent. Income tax expense in the accompanying financial statements has been computed assuming the Company filed separate income tax returns. Differences between this calculation of income taxes currently payable and consolidated amounts reported in the consolidated financial statements of the parent have been reflected as net Hercules Group investment.

Net Hercules Group Investment

The net Hercules Group investment account reflects the balance of BL Tech's historical earnings, intercompany amounts, income taxes, taxes accrued and deferred, foreign currency translation and other transactions between the Company and the Hercules Group.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133" and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," requires that all derivative instruments be recorded on the balance sheet at their fair value. This statement, as amended, is effective for all fiscal quarters of fiscal years beginning after December 31, 2000. The Company adopted SFAS 133 effective January 1, 2001. The adoption of SFAS No. 133 did not have a material effect on its earnings or statement of financial position.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by SAB Nos. 101A and 101B, was to be effective October 1, 2000. Adoption of SAB 101 did not have a material effect on our profit from operations.

In June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). For BL Tech, these statements will generally become effective January 1, 2002, although business combinations initiated after June 30, 2001 are subject to the non-amortization and purchase accounting provisions.

SFAS 142 stipulates that goodwill and other intangible assets with indefinite lives are no longer subject to amortization, but must be evaluated periodically for impairment beginning January 1, 2002. The impairment assessment provisions of SFAS 142 will not have an impact on the Company's financial statements.

3. LICENSING RIGHTS

The Company has a exclusive right to license Hercules technologies for a seven year period from its date of acquisition on October 15, 1998. At December 31, 2000 and 1999, licensing rights were:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Licensing rights	$ 53,000	$53,000
Less accumulated amortization	(24,608)	(13,250)
Licensing rights, net	$ 28,392	$39,750

4. OTHER INCOME (EXPENSE), NET

Other income (expense), net, consists of the following:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Interest income, net	$ 1	$11
Foreign exchanges gains	210	25
	$211	$36

5. INCOME TAXES

A summary of the components of the tax provision follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Currently payable	$ 6,704	$ 7,001
Deferred	(3,975)	(4,638)
Provision for income taxes	$ 2,729	$ 2,363

Deferred tax liabilities at December 31 consist of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Intangible assets	$9,937	$13,913
Gross deferred tax liabilities	9,937	13,913
Valuation allowance	--	--
	$9,937	$13,913

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A reconciliation of the statutory income tax rate to the effective rate follows:

	2000	1999
Statutory income tax rate	35%	35%
Effective tax rate	35%	35%

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BL TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

6. DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT

The Company has selectively used foreign currency forward contracts to offset the effects of exchange rate changes cash flow. The primary exposures have been denominated in the euro, Canadian dollar and the British pound sterling. The term of the currency derivatives is rarely more than three months. At December 31, 1999, the Company had outstanding forward-exchange contracts to purchase foreign currencies aggregating $9.5 million and to sell foreign currencies aggregating $13.3 million. These notional amount do not represent amounts exchanged by the parties and, thus, are not a measure of the exposure of the Company through its use of derivatives. The amounts exchanged are calculated on the basis of the notional amounts and the other terms of the derivatives, which relate to exchange rates.

The following table presents the carrying amounts and fair values of the Company's financial instruments at December 31, 1999:

	1999	
	CARRYING AMOUNT*	*FAIR VALUE
Foreign exchange contracts	$113	$113

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*The carrying amount represents the net unrealized gain associated with the contracts at the end of the period.

Fair values of derivative contracts are indicative of cash that would have been received had settlement occurred on December 31, 1999, using quoted exchange rates.

7. COMMITMENTS AND CONTINGENCIES

The Company has an operating lease for office space which expires September 30, 2001. Rental expense was $2 thousand in 2000 and $1 thousand in 1999. The net minimum payments required to be paid during 2001 is approximately $2 thousand.

8. RELATED PARTY TRANSACTIONS

BL Tech has entered into certain agreements with affiliated entities. These agreements were developed in the context of parent/subsidiary relationship and therefore may not necessarily reflect the result of arms-length negotiations between independent parties.

Corporate and other allocations: As discussed in Note 1, the financial statements of BL Tech reflect certain allocated support costs incurred by other entities in Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, research & development overhead, investor relations and other corporate services. Allocations and charges included in BL Tech's financial statements were based on either a direct cost pass-through for items directly identified as related to BL Tech's activities; a percentage allocation for such services provided based on factors such as revenues, net assets, or a relative weighting of geographic activity. These allocations are reflected in the corporate and other cost allocations line in our statement of income. Such allocations and corporate charges totaled $2,188 thousand and $2,941 thousand in 2000 and 1999, respectively.

Royalties: BL Tech has an exclusive right to license Hercules technologies to foreign based affiliates of the Hercules Group and enters into a licensing agreements in respect of the use of manufacturing formulations and specifications with affiliated companies which are developed and owned by Hercules. BL Tech received

royalties in respect of this agreement of $20,972 thousand and $22,785 thousand in 2000 and 1999, respectively.

9. NET HERCULES GROUP INVESTMENT

Changes in net parent investment were as follows:

	(DOLLARS IN THOUSANDS)
Balance, January 1, 1999	$104,454
Net income	4,391
Intercompany transactions, net	(16,908)
Balance, December 31, 1999	91,937
Net income	5,067
Intercompany transactions, net	(12,272)
Balance, December 31, 2000	$ 84,732

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
Hercules Incorporated
Wilmington, Delaware

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive (loss) income and of cash flows present fairly, in all material respects, the financial position of FiberVisions A/S, a subsidiary of Hercules Incorporated, and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the two years ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America that require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers

Skive, Denmark
October 22, 2001

FIBERVISIONS A/S

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

	YEAR ENDED DECEMBER 31,	
	2000	1999
	(DOLLARS IN THOUSANDS)	
Sales to third parties	$ 94,405	$112,804
Sales to affiliates	13,414	--
Sales to Hercules Group	36,471	30,919
	144,290	143,723
Cost of sales	128,103	120,999
Selling, general, and administrative expenses	4,586	6,321
Research and development	1,017	1,004
Impairment of long lived assets (Note 13)	28,169	--
Other operating expenses, net (Note 14)	2,745	2,350
(Loss) profit from operations	(20,330)	13,049
Equity in income of affiliated companies	2,617	12,716
Interest expense, net (Note 12)	2,234	4,755

(Loss) income before income taxes	(19,947)	21,010
Provision for income taxes (Note 15)	3,430	8,055
Net (loss) income	(23,377)	12,955
Translation adjustments, net of tax of $557 and $384	1,299	897
Comprehensive (loss) income	$(22,078)	$ 13,852

The accompanying notes are an integral part of the consolidated financial statements.

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FIBERVISIONS A/S

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	2000	1999
	(DOLLARS IN THOUSANDS)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,629	$ 5,129
Accounts receivable, net	18,939	17,538
Receivables from affiliates (Note 5)	2,815	--
Inventories (Note 4)	6,143	7,952
Total current assets	31,526	30,619
Property, plant, and equipment, net (Notes 9 and 13)	95,030	123,030
Investments (Note 6)	18,140	15,677
Goodwill and other intangible assets, net (Note 10)	98,058	103,467
Deferred charges and other assets	198	268
Total assets	$242,952	$273,061
LIABILITIES AND NET HERCULES GROUP INVESTMENT		
Current liabilities		
Accounts payable	$ 12,927	$ 13,484
Current maturities of long-term debt (Note 7)	11,588	10,288
Accrued expenses (Note 9)	6,585	8,438
Total current liabilities	31,100	32,210
Long-term debt -- third parties (Note 7)	53,919	70,141
Deferred income taxes (Note 15)	18,737	17,493
Total liabilities	103,756	119,844
Commitments and contingencies (Note 17)	--	--
Net Hercules Group investment (Note 16)		
Accumulated other comprehensive income	2,351	1,052
Intercompany transactions	136,845	152,165
Net Hercules Group Investment	139,196	153,217
Total liabilities and net Hercules Group Investment	$242,952	$273,061

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The accompanying notes are an integral part of the consolidated financial statements.

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FIBERVISIONS A/S

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31, 2000	1999
	(DOLLARS IN THOUSANDS)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$(23,377)	$ 12,955
Adjustments to reconcile net (loss) income to net cash provided from operations:		
Depreciation	10,054	11,863
Provision for impairment of long-lived assets	28,169	--
Amortization of goodwill	2,696	2,790
Bad debt expense	216	--
Nonoperating loss on disposals	--	74
Affiliates' earnings in excess of dividends received	94	(12,716)
Corporate and other cost allocations	426	1,747
Deferred income taxes	1,642	5,182
Accruals and deferrals of cash receipts and payments:		
Accounts receivable	(1,611)	(1,604)
Receivable from affiliates, net	(5,030)	--
Transfers from/(to) Hercules Group, net	1,481	7,556
Inventories	1,416	(1,046)
Accounts payable and accrued expenses	(2,263)	421
Noncurrent assets and liabilities	294	11
Net cash provided by operating activities	14,207	27,233
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(11,350)	(9,970)
Acquisition of subsidiaries, net of cash acquired	(355)	--
Other, net	47	(171)
Net cash used in investing activities	(11,658)	(10,141)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term debt repayments, third parties	(9,726)	(11,092)
Transfers from/(to) Hercules Group, net	6,150	(6,134)
Change in short-term debt	(9)	--
Net cash used in financing activities	(3,585)	(17,226)
Effect of exchange rate changes on cash	(464)	(140)
Net decrease in cash and cash equivalents	(1,500)	(274)
Cash and cash equivalents at beginning of year	5,129	5,403

Cash and cash equivalents at end of year..................	$ 3,629	$ 5,129
	========	========
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest (net of amount capitalized).....................	$ 4,727	$ 5,662
Income taxes, net..	1,424	380
Noncash financing activities		
Corporate and other cost allocations.....................	426	1,747

The accompanying notes are an integral part of the consolidated financial statements.

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FIBERVISIONS A/S

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

FiberVisions A/S, based in Varde, Denmark, ("FiberVisions A/S" or the "Company") serves worldwide markets for polypropylene fiber used to make disposable hygiene products. The Company is a wholly owned subsidiary of FiberVisions, L.L.C. ("FiberVisions"). Hercules Inc. acquired the 49% share of FiberVisions from their joint venture partner in July 1998, making FiberVisions a wholly owned subsidiary of Hercules, Inc.

Historically, separate company stand-alone financial statements were not prepared for the Company. In November 2000, Hercules amended its senior credit facility and ESOP credit facility (the "Facilities"). The Facilities, as amended, are secured by liens on Hercules' property and assets (and those of Hercules' Canadian Subsidiaries), a pledge of the stock of substantially all of Hercules' domestic subsidiaries (including FiberVisions A/S) and 65% of the stock of foreign subsidiaries directly owned by Hercules, and a pledge of Hercules' domestic intercompany indebtedness. These financial statements present the financial information on the Company, a collateral party to the Hercules debt, based on the Hercules' understanding of Securities and Exchange Commission's interpretation and application of Rule 3-16 under the Securities and Exchange Commission's Regulation S-X. These statements were derived from historical accounting records.

The financial statements of the Company reflect certain allocated support costs incurred by other entities in the Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in the Company's financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on factors such as sales, net assets, or cost of sales; or a relative weighting of geographic activity. Management believes that the allocation methods are reasonable.

During 1998, Hercules acquired the Company to make this a wholly owned subsidiary. These financial statements include the push-down of fair value adjustments to assets and liabilities, including goodwill, other intangible assets and property, plant, and equipment and their related amortization and depreciation adjustments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries where control exits (see below). Investments in affiliated companies with a greater than 20% and 50% or less ownership interest are accounted for using the equity method of accounting and, accordingly, consolidated income includes the Company share of their income. All intercompany transactions and profits have been eliminated.

SUBSIDIARY	DOMICILE	FUNCTIONAL CURRENCY
FiberVisions Products, Inc....................	United States	US Dollar
FiberVisions GmBH.............................	Germany	German Mark
FiberVisions (China) A/S......................	Denmark	Danish Kroner
FiberVisions A.G.	Switzerland	Swiss Franc
FiberVisions (China) Textiles Products Ltd. ...	China	Chinese Renmimbi
FiberVisions (Suzhou) Nonwovens Products Ltd.	China	Chinese Renmimbi
FiberVisions, LP..............................	United States	US Dollar
Athens Holding, Inc.	United States	US Dollar
FV Holdings, Inc.	United States	US Dollar
ES FiberVisions Holdings ApS..................	Denmark	Danish Kroner
ES FiberVisions, Inc.	United States	US Dollar

SUBSIDIARY	DOMICILE	FUNCTIONAL CURRENCY
ES FiberVisions LP............................	United States	US Dollar
ES FiberVisions ApS...........................	Denmark	Danish Kroner
ES FiberVisions Hong Kong Ltd.	Hong Kong	Hong Kong Dollar

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer or services are performed in accordance with the terms of the agreement, title and risk of loss have been transferred, collectibility is probable, and pricing is fixed and determinable. Accruals are made for sales returns and other allowances based on the Company's experience. The corresponding shipping and handling costs are included in cost of sales.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less. Cash in excess of operating requirements is transferred to Hercules or invested in interest bearing bank accounts.

Inventories

Inventories are stated at the lower of cost or market using the average cost method.

Property and Depreciation

Property, plant, and equipment are stated at cost. The company uses the straight-line method of depreciation. The company believes straight-line depreciation provides a better matching of costs and revenues over the lives of the assets. The estimated useful lives of depreciable assets are as follows: buildings -- 30 years; plant, machinery and equipment -- 15 years; other machinery and equipment -- 3 to 15 years.

Maintenance, repairs, and minor renewals are charged to income; major renewals and betterments are capitalized. Upon normal retirement or replacement, the cost of property (less proceeds of sale or salvage) is charged to income.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets are amortized on a straight-line basis over the estimated future periods to be benefited, generally 40 years for goodwill and 10 years for other intangible assets. Goodwill arises in connection with acquisitions. The purchase price is allocated to the fair value of the assets acquired and liabilities assumed with the excess recorded as goodwill.

Impairment of Long Lived Assets

The company reviews its long-lived assets, including goodwill and other intangibles, for impairment on an exception basis whenever events or changes in circumstances indicate carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If an impairment loss has occurred based on expected future cash flows (undiscounted), the loss is recognized in the income statement. The amount of the

impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset. The fair value represents expected future cash flows from the use of the assets, discounted at the rate used to evaluate potential investments. During 2000 the company had long-lived asset impairments of $28,169 thousand (see note 13).

Foreign Currency Translation and Transactions

The accompanying consolidated financial statements are reported in U.S. dollars. The Danish kroner is the functional currency for the Company and its domestic subsidiaries and associated companies. However, the U.S. dollar, Chinese renmimbi, German mark and the Swiss franc are the functional currencies for its foreign subsidiaries located in the United States, China, Germany and Switzerland, respectively. The translation of the functional currencies into U.S. dollars (reporting currency) is performed for assets and liabilities using the current exchange rates in effect at the balance sheet date, and for revenues, costs and expenses using average exchange rates prevailing during the reporting periods.

Adjustments resulting from the translation of functional currency financial statements to reporting currency are accumulated and reported as other comprehensive income.

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are expressed in the functional currency at the exchange rates in effect at the balance sheet date. Revenues, costs and expenses are recorded using average exchange rates prevailing during the reporting periods. Gains or losses resulting from foreign currency transactions are included in the statements of income.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. Concentrations of credit risk with respect to trade receivables are limited due to insurance coverage for customers of the Company. As of December 31, 2000 and 1999, the Company's accounts include cash, bank borrowings, trade receivables and accounts payable which are denominated in currencies other than the U.S. Dollar. Wherever possible the Group attempts to limit the exchange rate exposure by matching the receivables, borrowings and payables in the same currency. Operating results, however, are affected by significant fluctuations in exchange rates. Financial instruments, which potentially subject the group to a concentration of credit risk principally, consist of trade receivables. Approximately 87% and 70% of trade receivables were concentrated with 10 customers as of December 31, 2000 and 1999, respectively. There was one customer that accounted for 21% and 10% of total trade receivables as of December 31, 2000 and 1999.

The Company has deposited its cash and cash equivalents with reputable financial institutions and believes the risk of loss due to non-performance by the counter party to be remote.

Stock-based Compensation

Compensation costs attributable to stock option and similar plans are recognized based on any excess of the quoted market price of the stock on the date of grant over the amount the employee is required to pay to acquire the stock (the intrinsic-value method under Accounting Principles Board Opinion 25 (APB 25)). Such amount, if any, is accrued over the related vesting period, as appropriate. Statement of Financial Accounting Standard No. 123, "Accounting for Stock-based Compensation," requires companies electing to continue to use the intrinsic-value method to make pro forma disclosures of net income as if the fair-value-based method of accounting had been applied.

Net Hercules Group Investment

The net Hercules Group investment account reflects the balance of the Company's historical earnings, foreign currency translation, intercompany amounts, income tax, and other transactions between the Company and the Hercules Group.

Research and Development

Research and development expenditures are expensed as incurred.

Income Taxes

The provisions for income taxes has been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax basis of the Company's assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

The company provides taxes on undistributed earnings of subsidiaries and affiliates included in consolidated retained earnings to the extent such earnings are planned to be remitted and not re-invested permanently. The undistributed earnings of subsidiaries and affiliates on which no provision for foreign withholding or US income taxes has been made amounted to approximately $62,410 thousand and $61,343 thousand at December 31 2000 and 1999, respectively. US and foreign income taxes that would be payable if such earnings were distributed may be lower than the amount computed at the US statutory rate because of the availability of tax credits.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133" and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," requires that all derivative instruments be recorded on the balance sheet at their fair value. This statement, as amended, is effective for all fiscal quarters of fiscal years beginning after December 31, 2000. The Company adopted SFAS 133 effective January 1, 2001. The adoption of SFAS No. 133 did not have a material effect on its earnings or statement of financial position.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by SAB Nos. 101A and 101B, is to be effective October 1, 2000. Adoption of SAB 101 did not have a material effect on our profit from operations.

In June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). For the Company, these statements will generally become effective January 1, 2002, although business combinations initiated after June 30, 2001 are subject to the non-amortization and purchase accounting provisions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

SFAS 142 stipulates that goodwill and other intangible assets with indefinite lives are no longer subject to amortization, but must be evaluated periodically for impairment beginning January 1, 2002. The assessment of goodwill for impairment is a complex issue in which the Company must determine, among other things, the fair value of each defined reporting unit. It is, therefore, not possible at this time to predict the impact, if any, that the impairment assessment provisions of SFAS 142 will have on the Company's financial statements.

In addition, in June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 establishes accounting standards for the recognition and measurement of legal obligations associated with the retirement of tangible long-lived assts. SFAS 143 will become effective for the Company from January 1, 2003 and requires recognition of a liability for an asset retirement obligation in the period in which it is incurred. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, consists of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Trade	$15,220	$14,574
Rebates from suppliers	2,820	2,626
Other	1,260	483
	19,300	17,683
Less allowance for doubtful accounts	(361)	(145)
Total	$18,939	$17,538

4. INVENTORIES

The components of inventories are:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Finished products	$2,647	$4,065

Materials, supplies, and work in process	3,496	3,887
Total	$6,143	$7,952

5. RECEIVABLES FROM AFFILIATES

Trade receivables from affiliates, consists of $5,030 thousands due from ES FiberVisons, net of $2,215 thousand of accumulated losses of unconsolidated companies in excess of investments (see Note 6).

6. INVESTMENTS IN AFFILIATED COMPANIES

The equity investments in affiliated companies consist of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Investment in FiberVisions, LP	$18,140	$15,677

On January 1, 2000 the Company and Chisso Polypro Fiber Co., Ltd formed a 50/50 joint venture, ES FiberVisions, combining their bicomponent fibers businesses outside of Japan. While the Company has a 50% equity interest, it's share of joint venture operations is 67%. The venture extends the Company's strategy to continue globalization of bicomponent fiber by establishing sales support facilities in key regions. Both parent companies supply fiber to the joint venture under manufacturing agreements. The Company manufactures bicomponent fibers for the joint venture at the Varde, Denmark and Athens, Georgia locations. The annual sales of the venture were approximately $48 million in fiscal 2000,and the Company's share of net income for 2000 was $153 thousand.

In 1998, the Company's majority owned subsidary FiberVisions Products, Inc. entered into a 50% joint venture with FiberVisions Inc., a wholly owned subsidary of FiberVisions. FiberVisions Products Inc. and FiberVisions Inc. manufacture products for the joint venture, FiberVisions LP, under a manufacturing agreement. FiberVisions Products' share of the net income was $2,464 thousand and $12,716 thousand in 2000 and 1999, respectively.

Summarized financial information for the equity affiliates at December 31, and the years then ended is as follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Current assets	$ 38,614	$ 27,878
Non Current assets	9,925	3,475

Current liabilities	10,803	--
Net sales	$197,417	$150,450
Gross profit	13,418	27,730
Net earnings	5,150	25,432

The majority of the investments are partnerships which require the associated tax benefit or expense to be recorded by the parent.

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FIBERVISIONS A/S

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

7. LONG-TERM DEBT

Long-term at December 31, 2000 and 1999 is summarized as follows:

	2000	1999
	(DOLLARS IN THOUSAND)	
Unibank A/S term note due in varying amounts through 2005 with an average interest rate of 5.82%	$ 19,428	$ 21,221
Finansierings Instituttet for Industri og Handvoerk A/S (FIH) term notes at various rates from 7.90% to 9.60% and due in varying amounts through 2006	15,447	22,043
Danmark Finansiering Institut A/S (DFI) term notes at various rates from 6.48% to 9.72% and due in varying amounts through 2006	23,482	28,943
Mortgage at a fixed rate of 7.16% and due in varying amounts through 2014	4,490	5,121
Industrialization Fund for Developing Countries (IFU) at a fixed rate of 5.23% and due in 2001	2,410	2,851
Lease purchase obligation	250	250
	65,507	80,429
Less current maturities	(11,588)	(10,288)
Total	$ 53,919	$ 70,141

FIH term notes are collateralized by land, buildings, and plant and machinery of approximately $28,932 thousand. The DFI loan is collateralized by a letter of indemnification regarding land, buildings and plant and machinery of approximately $18,706 thousand. The mortgage is collateralized by land and buildings of approximately $4,490 thousand.

In December 1996 the Company entered into a long-term lease purchase obligation with The Athens-Clark County Industrial Development Authority to purchase land. The interest rate is fixed at 1% per annum and the due date of the obligation is December 2020. The balance of the obligation was $250 thousand at December 31, 2000 and 1999.

Scheduled annual maturities of long-term debt outstanding at December 31, 2000 in the successive five-year period are summarized as follows:

	(DOLLARS IN THOUSAND)
2001	$11,588
2002	7,773
2003	12,737
2004	12,705
2005	13,169
Thereafter	7,535
Total	$65,507

8. ADDITIONAL BALANCE SHEET DETAIL

	2000	1999
	(DOLLARS IN THOUSANDS)	
Property, plant, and equipment		
Land	$ 628	$ 646
Buildings and equipment	191,940	188,046
Construction in progress	4,979	6,447
Total	197,547	195,139
Accumulated depreciation and amortization	(102,517)	(72,109)
Net property, plant, and equipment	$ 95,030	$123,030
Accrued expenses		
Payroll and employee benefits	$ 2,168	$ 1,957
Accrued interest payable	365	312
Miscellaneous	4,052	6,169
	$ 6,585	$ 8,438

10. GOODWILL AND OTHER INTANGIBLE ASSETS

At December 31, 2000 and 1999, the goodwill and other intangible assets were:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Goodwill from Hercules acquisition	$104,411	$104,411
Other Goodwill	--	2,849
Other intangibles	1,598	1,658

Total	106,009	108,918
Less accumulated amortization	(7,951)	(5,451)
Net goodwill and other intangible assets	$ 98,058	$103,467

In July 1998, Hercules completed the acquisition of 49% share of FiberVisions L.L.C. owned by its joint venture partner, Jacob Holm & Son A/S, for approximately $230 million in cash, plus assumed debt of $188 million. The allocation of the purchase price resulted in $188,051 thousand of goodwill for the FiberVisions group, which is being amortized over its estimated useful life of 40 years. Goodwill of $43,290 thousand and $61,121 thousand was assigned to FiberVisions Products, Inc. and FiberVisions A/S, respectively.

As described in note 13, the other Goodwill of $2,849 thousand was included in the impairment of the Suzhou, China facility.

11. OTHER FINANCING ARRANGEMENTS

Hercules manages the Company's cash and indebtedness. The majority of the cash provided by or used by the Company is provided through this consolidated cash and debt management system. As a result, the amount of domestic cash or debt historically related to the Company is not determinable. For the purposes of the Company's historical financial statements all of its positive or negative cash flows have been treated as cash transferred to or from its parent.

The Company has an intercompany receivable with the Hercules Group in the amount of $16,258 thousand and $17,378 thousand which is included in the net Hercules Group investment balance at

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FIBERVISIONS A/S

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

December 31, 2000 and 1999, respectively. During 2000 and 1999 the weighted average interest rate on the intercompany borrowings was 7.4% and 6.4%, respectively.

12. INTEREST EXPENSE, NET

Interest and debt costs are summarized as follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Interest expense	$2,383	$5,667
Amount capitalized	(132)	(11)
Amount expensed	2,251	5,656
Interest income	(17)	(901)
Interest expense, net	$2,234	$4,755

13. IMPAIRMENT OF LONG LIVED ASSETS

In the third quarter of 2000, the Company recorded assets impairments of $28,169 thousand. Management determined that revised growth projections for the China hygiene non-woven market would indefinitely delay the feasibility of expanding the production capability of the facility. Estimated future cash flows related to this facility without the planned expansion indicated that an impairment had occurred. The impairment charge was required to write off approximately 90% of the net book value of the existing Suzhou, China facility as well as the investment in the new fiber line.

14. OTHER OPERATING EXPENSES, NET

Other operating expenses, net, consists of the following:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Amortization of goodwill	$2,644	$2,660
Foreign currency transactions expense (income)	106	(327)
Miscellaneous (income) expense, net	(5)	17
	$2,745	$2,350

15. INCOME TAXES

The domestic and foreign components of income before taxes and effect of change in accounting principle are presented below:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Domestic	$ 98	$ 9,845
Foreign	(20,045)	11,165
	$(19,947)	$21,010

A summary of the components of the tax provision follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Currently payable		

Domestic	$ (438)	$ (169)
Foreign	2,225	3,042
Deferred		
Domestic	1,009	4,218
Foreign	634	964
Provision for income taxes	$3,430	$8,055

Deferred tax liabilities (assets) at December 31 consist of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Depreciation	$ 20,091	$19,372
Accrued expenses	1,093	1,370
Gross deferred tax liabilities	21,184	20,742
Amortization	$ (1,345)	$ (451)
Inventory	(108)	(67)
Impairment of assets	(3,704)	--
Loss carryforwards	(5,273)	(3,179)
Other comprehensive income	1,005	448
Other	(691)	--
Gross deferred tax assets	(10,116)	(3,249)
Valuation allowance	7,669	--
Total deferred income tax	$ 18,737	$17,493

A reconciliation of the statutory income tax rate to the effective rate follows:

	2000	1999
Statutory income tax rate	35.00%	35.00%
Foreign Rate Differential	(24.87)	1.80
Valuation Allowance	(28.78)	--
Reserves	(1.91)	(1.45)
Goodwill	(3.15)	2.59
Other	6.52	0.40
Effective tax rate	(17.19)%	38.34%

FIBERVISIONS A/S

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

16. NET HERCULES GROUP INVESTMENT

Changes in net Hercules Group Investment were as follows:

	(DOLLARS IN THOUSANDS)
Balance at January 1, 1999	$136,196
Comprehensive income for the year ended December 31, 1999	13,852
Intercompany transactions, net	3,169
Balance at December 31, 1999	153,217
Comprehensive income for the year ended December 31, 2000	(22,078)
Intercompany transactions, net	8,057
Balance at December 31, 2000	$139,196

The Company includes accumulated other comprehensive income in net parent investment. At December 31, 2000 and 1999 accumulated other comprehensive income included $2,351 thousand and $1,052 thousand, respectively, of foreign currency translation adjustments.

17. COMMITMENTS AND CONTINGENCIES

Leases

FiberVisions A/S has operating leases (including office space, transportation, and data processing equipment) expiring at various dates. Rental expense was $34 thousand in 2000 and $50 thousand in 1999.

The net minimum future payments at December 31, 2000 are as follows:

	(DOLLARS IN THOUSANDS)
2001	$34
2002	29
2003	15
2004	6
2005	3
Total	$87

In the spring of 2001 the Danish tax authorities indicated that they intend to increase FiberVisions A/S' taxable income for the tax year 1997. The tax value of the declared increase amounts to approximately $1,400 thousand. Management does not agree with the assessment of the tax authorities, and the case will be appealed. Consequently, the final outcome of the case uncertain.

The Company currently and from time to time is involved in litigation incidental to the conduct of its business. In the opinion of the Company's management, none of such litigation as of December 31, 2000 is likely to have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

18. PENSION AND POSTRETIREMENT BENEFITS

FiberVisions Products, Inc. participates in a defined benefit pension plan sponsored by Hercules, which covers substantially all employees of Hercules in the U.S. Benefits under this plan are based on the average final pay and years of service. Hercules also provides postretirement health care and life insurance benefits to eligible retired employees and their dependents.

Information on the actuarial present value of the benefit obligation and fair value of the plan assets is not presented as Hercules manages its U.S. employee benefit plans on a consolidated basis and such information is not maintained separately for the U.S. employees of the Company. The Company's statement of operation includes an allocation of the costs of the U.S. benefits plans. The pension costs were allocated based on percentage of pensionable wages, for each of the years presented, postretirement benefit costs were allocated using factors derived from the relative net assets and revenues. Net pension expense (income) of Hercules allocated to FiberVisions Products, Inc was ($129) thousand for the year ended December 31, 2000. There was no allocation in 1999.

FiberVisions A/S maintains a contributory pension plan. The Company's matching contribution was $964 thousand and $977 thousand for 2000 and 1999, respectively. FiberVisions Products, Inc. maintains a 401(k) savings plan for its full-time employees in North America. Each participant in the plan may elect to contribute 1 % to 15 % of his or her annual salary to the plan subject to statutory limitations. The company matches employee contributions to the plan at the rate of 50% of the first 6% of salary contributed. The Company's matching contribution was $69 thousand and $79 thousand for 2000 and 1999, respectively. FiberVisions (China) Textiles Products, Ltd. provides a housing allowance for their employees. The Company's contribution was $160 thousand and $137 thousand in 2000 and 1999, respectively.

19. LONG TERM INCENTIVE COMPENSATION PLAN

FiberVisions A/S Denmark participates in long-term incentive compensation plans sponsored by Hercules. These plans provide for the grant of stock options and the award of common stock and other market-based units to certain key employees and non-employee directors.

In 1995, Hercules changed the structure of the long-term incentive compensation plans to place a greater emphasis on shareholder value creation through grants of regular stock options, performance-accelerated stock options, and Cash Value Awards (performance-based awards denominated in cash and payable in shares of common or restricted stock, subject to the same restrictions as restricted stock). Restricted stock and other market-based units are awarded with respect to certain programs. The number of awarded shares outstanding was 491,488 at December 31, 2000, and 926,689 at December 31, 1999.

At December 31, 2000, under Hercules' incentive compensation plans, 1,847,855 shares of common stock were available for grant as stock awards or stock option awards. Stock awards are limited to approximately 15% of the total authorizations. Regular stock options are granted at the market price on the date of grant and are exercisable at various periods from one to five years after date of grant. Performance-accelerated stock options are also granted at

the market price on the date of grant and are normally exercisable at nine and one-half years. Exercisability may be accelerated based upon the achievement of predetermined performance goals. Both regular and performance-accelerated stock options expire 10 years after the date of grant.

Restricted shares, options and performance-accelerated stock options are forfeited and revert to Hercules in the event of employment termination, except in the case of death, disability, retirement, or other specified events.

The Company applies APB Opinion 25 in accounting for its plans. Accordingly, no compensation cost has been recognized for the stock option plans. There were no charges to income for the cost of stock awards over the restriction or performance period for 2000 and 1999, respectively.

FIBERVISIONS A/S

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Below is a summary of outstanding stock option grants under the incentive compensation plans during 2000 and 1999:

	REGULAR	
	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE
December 31, 1999	--	--
Granted	6,875	$17.25
Exercised	--	--
Forfeited	--	--
December 31, 2000	6,875	$17.25

There were no performance-accelerated stock options granted or outstanding during 2000 and 1999. There were no regular stock options granted or outstanding during 1999. The weighted-average fair value of regular stock options granted during 2000 was $8.85.

There were no regular stock options exercisable at December 31, 2000 and 1999.

Following is a summary of stock options outstanding at December 31, 2000:

	OUTSTANDING OPTIONS			EXERCISAB
EXERCISE PRICE RANGE	NUMBER OUTSTANDING AT 12/31/00	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/00
Regular Stock Options				
$12 - $20	6,875	9.13	$17.25	--
	6,875			--

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FiberVisions A/S Denmark employees may also participate in the Hercules Employee Stock Purchase Plan ("ESPP"). The ESPP is a qualified non-compensatory plan, which allows eligible employees to acquire shares of common stock through systematic payroll deductions. The plan consists of three-month subscription periods, beginning July 1 of each year. The purchase price is 85% of the fair market value of the common stock on either the first or last day of that subscription period, whichever is lower. Purchases may range from 2% to 15% of an employee's base salary each pay period, subject to certain limitations. Currently, 202,139 shares of Hercules common stock are registered for offer and sale under the plan. Shares issued at December 31, 2000 and 1999, were 1,597,861 and 949,464, respectively. Hercules applies APB Opinion 25 and related interpretations in accounting for its Employee Stock Purchase Plan. Accordingly, no compensation cost has been recognized for the Employee Stock Purchase Plan.

Had compensation cost for Hercules' Stock-Based Incentive Plans and ESPP been determined on the basis of fair value according to SFAS No. 123, the fair value of each option granted or share purchased would be estimated on the grant date using the Black-Scholes option pricing model.

The following weighted-average assumptions would be used in estimating fair value for 2000 and 1999:

ASSUMPTION	REGULAR PLAN	PERFORMANCE ACCELERATED PLAN	EMPLOYEE STOCK PURCHASE PLAN
Dividend yield	2%	3.4%	0.0%
Risk-free interest rate	5.88%	5.38%	5.41%
Expected life	7.1 yrs	5 yrs.	3 mos.
Expected volatility	29.20%	27.31%	44.86%

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FIBERVISIONS A/S

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company's net (loss) income for 2000 and 1999 would approximate the pro forma amounts below:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Net income		
As reported	$(23,377)	$12,955
Pro forma	$(23,402)	$12,955

20. RELATED PARTY TRANSACTIONS

The Company has entered into certain agreements with affiliated entities. These agreements were developed in the context of parent/subsidiary relationship and therefore may not necessarily reflect the result of arm-length negotiations between independent parties. The terms of the agreements provide for the sale of product to the affiliated entities based on a cost-plus formula.

Corporate and other allocations

As discussed in Note 1, the financial statements of the Company reflect certain allocated support costs incurred by other entities in Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, safety, information management, health and environmental, investor relations and other corporate services. Allocations and charges included in the Company's financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities, or a percentage allocation for such services provided based on factors such as revenues, net assets, cost of sales and relative weighting of geographic activity. These allocations are reflected in the selling, general and administrative line item in our statements of income. In addition, the Company allocates certain of its own costs to other companies in the FiberVision group of companies. Such allocations and corporate charges totaled $426 thousand and $1,747 thousand in 2000 and 1999, respectively.

Sales to affiliates

The Company sells fiber in the normal course of business to affiliated companies. The Company's revenues from sales to affiliated companies were $49,885 thousand and $30,919 thousand in 2000 and 1999, respectively.

Purchases from Hercules Group

The Company also purchases finished product for resale in the normal course of business from the Hercules Group. The Company's purchases from the Hercules Group were $3,874 thousand and $9,994 thousand in 2000 and 1999, respectively. In addition, supplies are purchased in the normal course of business from the Hercules Group. The Company's purchases from Hercules Group were $7 thousand and $8 thousand in 2000 and 1999, respectively.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
Hercules Incorporated
Wilmington, Delaware

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and of cash flows present fairly, in all material respects, the financial position of FiberVisions, Inc., a subsidiary of Hercules Incorporated, and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America that require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
August 31, 2001

FIBERVISIONS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31, 2000	1999
	(DOLLARS IN THOUSANDS)	
Sales to Hercules Group	$105,724	$92,352
Cost of sales	99,026	82,854
Selling, general, and administrative expenses	3,570	4,643
Research and development	3,458	3,396
Impairment of long lived assets (Note 9)	25,372	--
Other operating expenses, net (Note 10)	4,451	4,739
Loss from operations	(30,153)	(3,280)
Equity in income of affiliated companies (Note 4)	2,463	12,716
Interest expense, net (Note 8)	5,209	3,796
(Loss) income before income taxes	(32,899)	5,640
(Benefit) provision for income taxes (Note 11)	(9,808)	2,740
Net (loss) income	$(23,091)	$ 2,900

The accompanying notes are an integral part of the consolidated financial statements.

FIBERVISIONS INC.

CONSOLIDATED BALANCE SHEET

	DECEMBER 31, 2000	1999
	(DOLLARS IN THOUSANDS)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,148	$ 26
Miscellaneous receivables	174	1,579
Inventories (Note 3)	11,850	14,466

Total current assets	13,172	16,071
Property, plant, and equipment, net (Notes 5 and 9)	26,936	56,133
Investment in affiliates (Note 4)	18,140	15,677
Goodwill and other intangible assets, net (Note 6)	101,638	106,336
Deferred charges and other assets	224	1,079
Total assets	$160,110	$195,296
LIABILITIES AND NET HERCULES GROUP INVESTMENT		
Current liabilities		
Accounts payable	$ 8,478	$ 10,415
Payables to affiliates (Note 7)	104	--
Accrued expenses (Note 5)	6,202	5,086
Total current liabilities	14,784	15,501
Deferred income taxes (Note 11)	1,368	12,549
Total liabilities	16,152	28,050
Commitments and contingencies (Note 13)	--	--
Net Hercules Group investment (Note 17)	143,958	167,246
Total liabilities and net Hercules Group investment	$160,110	$195,296

The accompanying notes are an integral part of the consolidated financial statements.

FIBERVISIONS INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31	
	2000	1999
	(DOLLARS IN THOUSANDS)	
CASH FLOW FROM OPERATING ACTIVITIES:		
Net (loss) income	$(23,091)	$ 2,900
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	5,604	5,543
Impairment of long lived assets	25,372	
Amortization of goodwill	4,698	4,742
Loss on disposal of fixed assets	--	15
Affiliates' earning in excess of dividends received	(2,463)	(12,716)
Corporate and other cost allocations	(1,444)	(2,865)
Deferred income taxes	(11,181)	(1,333)
Goodwill adjustment	--	(131)
Accruals and deferrals of cash receipts and payments:		
Miscellaneous receivable	1,405	(2,658)
Inventories	2,616	(2,413)
Transfers to/from Hercules Group	2,096	17,116

Accounts payable and accrued expenses	(821)	(2,325)
Payables to affiliates	104	--
Noncurrent assets and liabilities	855	(574)
Net cash provided by operations	3,750	5,301
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,779)	(5,398)
Net cash used in investing activities	(1,779)	(5,398)
CASH FLOW FROM FINANCING ACTIVITIES:		
Transfers to/from Hercules Group	(849)	(1,043)
Net cash used in financing activities	(849)	(1,043)
Net increase (decrease) in cash and cash equivalents	1,122	(1,140)
Cash and cash equivalents at beginning of year	26	1,166
Cash and cash equivalents at end of year	$ 1,148	$ 26
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Income taxes, net	$ 300	$ 4,836
Interest	2,253	2,825
Noncash financing activities		
Corporate and other cost allocations	(1,444)	(2,865)

The accompanying notes are an integral part of the consolidated financial statements.

FIBERVISIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

FiberVisions Inc. ("FiberVisions" or the "Company") serves worldwide markets for polypropylene nonwoven fiber used to make disposable hygiene products. FiberVisions also produces olefin fiber and yarn for domestic textile and industrial markets for use in fabrics, residential upholstery, geotextiles, carpets and asphalt. The company was formed on May 30, 1997 and is a wholly owned subsidiary of FiberVisions, L.L.C. ("FiberVisions"); itself a wholly owned subsidiary of Hercules Incorporated ("Hercules").

Historically, separate company stand-alone financial statements were not prepared for the Company. In November 2000, Hercules amended its senior credit facility and ESOP credit facility (the "Facilities"). The Facilities, as amended, are secured by liens on Hercules' property and assets (and those of Hercules' Canadian Subsidiaries), a pledge of the stock of substantially all of Hercules' domestic subsidiaries (including FiberVisions Inc.) and 65% of the stock of foreign subsidiaries directly owned by Hercules, and a pledge of Hercules' domestic intercompany indebtedness. These financial statements present the financial information on the Company, a collateral party to the Hercules debt, based on the Hercules' understanding of Securities and Exchange Commission's interpretation and application of Rule 3-16 under the Securities and Exchange Commission's Regulation S-X. These statements were derived from historical accounting records.

The Company participates in Hercules' centralized cash management system. Accordingly, cash received from the Company's operations is transferred to Hercules on a periodic basis, and Hercules funds all operational and capital requirements.

The financial statements of the Company reflect certain allocated support costs incurred by other entities in the Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in the Company's financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on factors such as sales, net assets, or cost of sales; or a relative weighting of geographic activity. Management believes that the allocation methods are reasonable.

During 1998, Hercules acquired FiberVisions, making the Company a wholly owned subsidiary. These financial statements include the push-down of fair value adjustments to assets and liabilities, including goodwill, other intangible assets and property, plant, and equipment and their related amortization and depreciation adjustments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the FiberVisions and its majority-owned subsidiaries where control exits (see chart below). Investments in affiliated companies with a greater than 20% and less than 50% ownership interest are accounted for using the equity method of accounting and, accordingly, consolidated income includes FiberVisons share of their income. All intercompany transactions and profits have been eliminated.

SUBSIDIARY	DOMICILE	PERCENTAGE OWNERSHIP	FUNCTIONAL CURRENCY
FiberVisions, LP	United States	50%	US Dollar
Covington Holdings, Inc.	United States	100%	US Dollar

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer or services are performed in accordance with the terms of the agreement, title and risk of loss have been transferred, collectibility is probable, and pricing is fixed and determinable. Accruals are made for sales returns and other allowances based on the Company's experience. The corresponding shipping and handling costs are included in cost of sales.

Cash and Cash Equivalents

Cash equivalents include commercial paper and other securities with original maturities of 90 days or less. Book value approximates fair value because of the short maturity of those instruments.

Inventories

Inventories are stated at the lower of cost or market using the average cost method.

Property and Depreciation

Property, plant, and equipment are stated at cost. The company uses the straight-line method of depreciation to depreciate assets over their useful lives. The estimated useful lives of depreciable assets are as follows: buildings -- 30 years; plant, machinery and equipment -- 15 years; other machinery and equipment -- 3 to 15 years.

Maintenance, repairs, and minor renewals are charged to income; major renewals and betterments are capitalized. Upon normal retirement or replacement, the cost of property (less proceeds of sale or salvage) is charged to income.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets are amortized on a straight-line basis over the estimated future periods to be benefited, generally 40 years for goodwill and 10 years for other intangible assets.

Long-lived Assets

The company reviews its long-lived assets, including goodwill and other intangibles, for impairment on an exception basis whenever events or changes in circumstances indicate carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If an impairment loss has occurred based on expected future cash flows (undiscounted), the loss is recognized in the income statement. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset. The fair value represents expected future cash flows from the use of the assets, discounted at the rate used to evaluate potential investments. During 2000 the company had long-lived asset impairments of $25,372 thousand (see note 10).

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of trade receivables with FiberVisions LP.

Stock-based Compensation

Compensation costs attributable to stock option and similar plans are recognized based on any excess of the quoted market price of the stock on the date of grant over the amount the employee is required to pay to acquire the stock (the intrinsic-value method under Accounting Principles Board Opinion 25 (APB 25)). Such amount, if any, is accrued over the related vesting period, as appropriate. Statement of Financial Accounting Standard No. 123, "Accounting for Stock-based Compensation," requires companies electing to continue to use the intrinsic-value method to make pro forma disclosures of net income as if the fair-value-based method of accounting had been applied.

Net Hercules Group Investment

The net Hercules Group investment account reflects the balance of the Company's historical earnings, intercompany amounts, post employment liabilities, and other transactions between the Company and the Hercules Group.

Income Taxes

The provisions for income taxes has been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax basis of the Company's assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Research and Development

Research and development costs are expensed as incurred.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133" and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," requires that all derivative instruments be recorded on the balance sheet at their fair value. This statement, as amended, is effective for all fiscal quarters of fiscal years beginning after December 31, 2000. The Company adopted SFAS 133 effective January 1, 2001. The adoption of SFAS No. 133 will not have a material effect on its earnings or statement of financial position.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by SAB Nos. 101A and 101B, is to be effective October 1, 2000. Adoption of SAB 101 did not have a material effect on our profit from operations.

In June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). For the Company, these statements will generally

FIBERVISIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

become effective January 1, 2002, although business combinations initiated after June 30, 2001 are subject to the non-amortization and purchase accounting provisions.

SFAS 142 stipulates that goodwill and other intangible assets with indefinite lives are no longer subject to amortization, but must be evaluated periodically for impairment beginning January 1, 2002. The assessment of goodwill for impairment is a complex issue in which the Company must determine, among other things, the fair value of each defined reporting units. It is, therefore, not possible at this time to predict the impact, if any, that the impairment assessment provisions of SFAS 142 will have on the Company's financial statements.

In addition, in June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 establishes accounting standards for the recognition and measurement of legal obligations associated with the retirement of tangible long-lived assts. SFAS 143 will become effective for the Company from January 1, 2003 and requires recognition of a liability for an asset retirement obligation in the period in which it is incurred. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

3. INVENTORIES

The components of inventories are:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Finished products	$ 4,813	$ 6,649
Raw materials and work-in-process	7,037	7,817
Total	$11,850	$14,466

4. INVESTMENT

In 1998, the Company entered into a 50% joint venture with FiberVisions Products, Inc. Both parties manufacture products for the joint venture, FiberVisions LP, under a manufacturing agreement. FiberVisions Inc.'s share of the net income was $2,463 thousand and $12,716 thousand in 2000 and 1999, respectively.

Summarized financial information for the equity affiliate at December 31, and the years then ended is as follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Current assets	$ 27,805	$ 27,878
Non Current assets	8,475	3,475
Net sales	$149,007	$150,450
Gross profit	5,898	27,730
Net earnings	4,927	25,432

The investment is a partnership which requires the associated tax benefit or expense to be recorded by the parent.

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FIBERVISIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

5. ADDITIONAL BALANCE SHEET DETAIL

	2000	1999
	(DOLLARS IN THOUSANDS)	
Property, plant, and equipment		
Land	$ 654	$ 684
Buildings and equipment	173,599	173,446
Construction in progress	11,075	9,421
Total	185,328	183,551
Accumulated depreciation and amortization	(158,392)	(127,418)
Net property, plant, and equipment	$ 26,936	$ 56,133
Accrued expenses		
Income taxes payable	$ 245	$ --
Miscellaneous	5,957	5,086
	$ 6,202	$ 5,086

6. GOODWILL AND OTHER INTANGIBLES ASSETS

At December 31, 2000 and 1999, the goodwill and other intangible assets were:

	2000	1999
	(DOLLARS IN THOUSANDS)	

Goodwill	$ 83,640	$ 83,640
Other intangible assets	29,752	29,752
Less accumulated amortization	(11,754)	(7,056)
Net goodwill and other intangible assets	$101,638	$106,336

In July 1998, Hercules Inc. completed the acquisition of 49% share of FiberVisions L.L.C. owned by its joint venture partner, Jacob Holm & Son A/S, for approximately $230 million in cash, plus assumed debt of $188 million. The allocation of the purchase price resulted in $188,051 thousand of goodwill for the FiberVisons group, which is being amortized over its estimated useful life of 40 years. $83,640 thousand of the goodwill was assigned to FiberVisions Inc. Other intangibles assets, related to the acquisition, amounted to $29,752 thousand.

7. PAYABLES TO AFFILIATES

Trade payables to affiliates, consists of $104 thousand due to ES FiberVisions.

8. INTEREST EXPENSE, NET

Interest costs were $5,209 thousand and $3,796 thousand, respectively, in 2000 and 1999.

9. IMPAIRMENT OF LONG LIVED ASSETS

In 2000, $25,372 was recorded to write-off the remaining net book value of the textiles plant in Covington, GA. The textiles business fundamentals have been deteriorating for the past few years. In 2000, the cost for the major raw material, polypropylene, had risen above historical price levels. The combination of the above factors has resulted in an irreversible loss of profitability for the textiles business. Estimated future cash flows related to this facility indicated full impairment had occurred.

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FIBERVISIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

10. OTHER OPERATING EXPENSES, NET

Other operating expenses, net, consists of the following:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Goodwill and intangible amortization	$4,698	$4,742
Miscellaneous (income) expense, net	(247)	(3)
	$4,451	$4,739

11. INCOME TAXES

The domestic and foreign components of income before (benefit) taxes and effect of change in accounting principle are presented below:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Domestic	$(32,901)	$5,650
Foreign	2	(10)
	$(32,899)	$5,640

A summary of the components of the tax (benefit) provision follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Current		
Domestic	$ 1,373	$3,545
Foreign	1	--
Deferred		
Domestic	(11,182)	(805)
(Benefit) provision for income taxes	$ (9,808)	$2,740

Deferred tax liabilities (assets) at December 31 consist of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Depreciation	$ 14,105	$15,482
Gross deferred tax liabilities	14,105	15,482
Amortization	(413)	(328)
Inventory	(2,595)	(2,269)
Impairment of Assets	(8,938)	0
Bad Debts/Other Accrueds	(791)	(336)
Gross deferred tax assets	(12,737)	(2,933)
Valuation allowance	0	0
	$ 1,368	$12,549

FIBERVISIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

A reconciliation of the statutory income tax rate to the effective rate follows:

	2000	1999
Statutory income tax rate	35.00%	35.00%
State taxes	0.85	(12.77)
Provision to return true-up	2.32	8.60
Goodwill	(5.00)	12.85
Reserves	(3.31)	4.20
Other	(0.04)	0.64
	29.81%	48.53%

12. LONG TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Hercules manages the Company's cash and indebtedness. The majority of the cash provided by or used by the Company is provided through this consolidated cash and debt management system. As a result, the amount of domestic cash or debt historically related to the Company is not determinable. For the purposes of the Company's historical financial statements all of its positive or negative cash flows have been treated as cash transferred to or from its parent.

The Company has intercompany loans with Hercules Group in the amount of $61,532 thousand and $60,399 thousand which is included in the net Hercules Group investment balance at December 31, 2000 and 1999, respectively. The weighted average rate on long term intercompany borrowing was 7.4% and 6.4% in 2000 and 1999, respectively. Interest expense was $5,209 thousand and $3,606 thousand in 2000 and 1999, respectively. Repayment terms of the loan are included as part of the Hercules cash management system as described in the previous paragraph.

13. COMMITMENTS AND CONTINGENCIES

The Company has operating leases (including office space, storage space, and data processing equipment) expiring at various dates. Rental expense was $540 thousand in 2000 and $434 thousand in 1999.

The net minimum future payments at December 31, 2000 are as follows:

	(DOLLARS IN THOUSANDS)
2001	$370
2002	255
2003	189
Total	$814

The Company currently and from time to time is involved in litigation incidental to the conduct of its business. In the opinion of the Company's management, none of such litigation as of December 31, 2000 is likely to have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

14. PENSION, OTHER POSTRETIREMENT BENEFITS AND OTHER BENEFITS

The Company participates in a defined benefit pension plan sponsored by Hercules, which covers substantially all employees of Hercules in the U.S. Benefits under this plan are based on the average final pay and years of service. Hercules also provides postretirement health care and life insurance benefits to eligible retired employees and their dependents.

Information on the actuarial present value of the benefit obligation and fair value of the plan assets is not presented as Hercules manages its U.S. employee benefit plans on a consolidated basis and such information is not maintained separately for the U.S. employees of the Company. The Company's statement of operations includes an allocation of the costs of the U.S. benefits plans. The pension costs were allocated based on percentage of pensionable wages, for each of the years presented, postretirement benefit costs were allocated using factors derived from the relative net assets and revenues. Net pension expense (income) of Hercules allocated to the Company was ($670) for the year ended December 31, 2000 and there was no allocation for 1999 as the Company did not participate in the plan.

The Company maintains a 401(k) savings plan for its full-time U.S. employees. Each participant in the plan may elect to contribute 1% to 15% of his or her annual salary to the plan subject to statutory limitations. The company matches employee contributions to the plan at the rate of 50% of the first 6% of salary contributed. The Company's matching contribution was $313 thousand and $334 thousand for 2000 and 1999, respectively.

15. LONG TERM INCENTIVE COMPENSATION PLAN

FiberVisions participates in long-term incentive compensation plans sponsored by Hercules. These plans provide for the grant of stock options and the award of common stock and other market-based units to certain key employees and non-employee directors.

In 1995, Hercules changed the structure of the long-term incentive compensation plans to place a greater emphasis on shareholder value creation through grants of regular stock options, performance-accelerated stock options, and cash value awards (performance-based awards denominated in cash and payable in shares of common or restricted stock, subject to the same restrictions as restricted stock). Restricted stock and other market-based units are awarded with respect to certain programs. The number of awarded shares outstanding was 491,488 at December 31, 2000, and 926,689 at December 31, 1999.

At December 31, 2000, under Hercules' incentive compensation plans, 1,847,855 shares of common stock were available for grant as stock awards or stock option awards. Stock awards are limited to approximately 15% of the total authorizations. Regular stock options are granted at the market price on the date of grant and are exercisable at various periods from one to five years after date of grant. Performance-accelerated stock options are also granted at

the market price on the date of grant and are normally exercisable at nine and one-half years. Exercisability may be accelerated based upon the achievement of predetermined performance goals. Both regular and performance-accelerated stock options expire 10 years after the date of grant.

Restricted shares, options and performance-accelerated stock options are forfeited and revert to Hercules in the event of employment termination, except in the case of death, disability, retirement, or other specified events.

The Company applies APB Opinion 25 in accounting for its plans. Accordingly, no compensation cost has been recognized for the stock option plans. There were no charges to income for the cost of stock awards over the restriction or performance period for 2000 and 1999, respectively.

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FIBERVISIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Below is a summary of outstanding stock option grants under the incentive compensation plans during 2000 and 1999:

	REGULAR		PERFORMANCE-ACCELERATED	
	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE
January 1, 1999................	--	--	--	--
Granted........................	69,000	$37.56	55,700	$37.56
Exercised......................	--	--	--	--
Forfeited......................	--	--	--	--
December 31, 1999..............	69,000	$37.56	55,700	$37.56
Granted........................	97,800	$17.25	--	--
Exercised......................	--	--	--	--
Forfeited......................	--	--	--	--
December 31, 2000..............	166,800	$25.65	55,700	$37.56

The weighted-average fair value of regular stock options granted during 2000 and 1999 was $8.85 and $8.08, respectively. The weighted-average fair value of performance-accelerated stock options granted during 1999 was $8.01.

Following is a summary of regular stock options exercisable at December 31, 2000 and 1999, and their respective weighted-average share prices:

OPTIONS EXERCISABLE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
December 31, 1999..	--	--
December 31, 2000..	37,850	$31.53

There were no performance-accelerated stock options exercisable at December

31, 2000 and 1999.

Following is a summary of stock options outstanding at December 31, 2000:

	OUTSTANDING OPTIONS			EXERCISABL
EXERCISE PRICE RANGE	NUMBER OUTSTANDING AT 12/31/00	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/00
REGULAR STOCK OPTIONS				
$12 - $20..............	97,800	9.13	$17.25	11,250
$30 - $40..............	69,000	8.34	$37.56	26,600
	166,800			37,850
PERFORMANCE-ACCELERATED STOCK OPTIONS				
$14 - $40..............	55,700	8.34	$37.56	--
	55,700			--

The Company currently expects that 100% of performance-accelerated stock options will eventually vest.

The company's employees may also participate in the Hercules Employee Stock Purchase Plan ("ESPP"). The ESPP is a qualified non-compensatory plan, which allows eligible employees to acquire shares of common stock through systematic payroll deductions. The plan consists of three-month subscription periods, beginning July 1 of each year. The purchase price is 85% of the fair market value of the common

stock on either the first or last day of that subscription period, whichever is lower. Purchases may range from 2% to 15% of an employee's base salary each pay period, subject to certain limitations. Currently, 202,139 shares of Hercules common stock are registered for offer and sale under the plan. Shares issued at December 31, 2000 and 1999, were 1,597,861 and 949,464, respectively. The Company applies APB Opinion 25 and related interpretations in accounting for its Employee Stock Purchase Plan. Accordingly, no compensation cost has been recognized for the Employee Stock Purchase Plan.

Had compensation cost for Hercules' Stock-Based Incentive Plans and Employee Stock Purchase Plan been determined on the basis of fair value according to SFAS No. 123, the fair value of each option granted or share purchased would be estimated on the grant date using the Black-Scholes option pricing model.

The following weighted-average assumptions would be used in estimating fair value for 2000 and 1999:

ASSUMPTION	REGULAR PLAN	PERFORMANCE ACCELERATED PLAN	EMPLOYEE STOCK PURCHASE PLAN
Dividend yield	2%	3.4%	0.0%
Risk-free interest rate	5.88%	5.38%	5.41%
Expected life	7.1 yrs	5 yrs.	3 mos.
Expected volatility	29.20%	27.31%	44.86%

The Company's net (loss) income for 2000 and 1999 would approximate the pro forma amounts below:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Net income		
As reported	$(23,091)	$2,900
Pro forma	$(23,521)	$2,745

16. RELATED PARTY TRANSACTIONS

The Company has entered into certain agreements with affiliated entities. These agreements were developed in the context of parent/subsidiary relationship and therefore may not necessarily reflect the result of arm-length negotiations between independent parties. The terms of the agreements provide for the sale of product to the affiliated entities based on a cost-plus formula.

Corporate and other allocations

As discussed in Note 1, the financial statements of the Company reflect certain allocated support costs incurred by other entities in Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, safety, information management, health and environmental, investor relations and other corporate services. Allocations and charges included in the Company's financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities; or a percentage allocation for such services provided based on factors such as revenues, net assets, cost of sales and relative weighting of geographic activity. In addition, the Company allocates certain of its own costs to other companies in the FiberVision group of companies. These allocations are reflected in the selling, general and administrative line item in our statement of operations. Such allocations and corporate charges totaled ($1,444) thousand and ($2,865) thousand in 2000 and 1999, respectively.

Sales to Hercules Group

The Company sells fiber in the normal course of business to affiliated companies. Company's revenues from sales to affiliated companies were $105,724 thousand and $92,352 thousand in 2000 and 1999, respectively.

Purchases from Hercules Group

The Company purchases supplies in the normal course of business from the Hercules Group. The Company's purchases from Hercules Group were $69 thousand and $80 thousand in 2000 and 1999, respectively.

17. NET HERCULES GROUP INVESTMENT

Changes in net Hercules Group investment were as follows:

	(DOLLARS IN THOUSANDS)
Balance at January 1, 1999	$151,138
Net income	2,900
Intercompany transactions, net	13,208
Balance at December 31, 1999	167,246
Net (loss)	(23,091)
Intercompany transactions, net	(197)
Balance at December 31, 2000	$143,958

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
Hercules Incorporated
Wilmington, Delaware

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive (loss) income and of cash flows present fairly, in all material respects, the financial position of FiberVisions L.L.C., a subsidiary of Hercules Incorporated, and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America that require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
August 31, 2001

FIBERVISIONS, L.L.C.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

	YEAR ENDED DECEMBER 31, 2000	1999
	(DOLLARS IN THOUSANDS)	
Sales to third parties	$236,856	$253,648
Sales to affiliates	15,003	$ --
	251,859	253,648
Cost of sales	223,133	193,696
Selling, general, and administrative expenses	9,573	13,262
Research and development	4,475	4,400
Impairment of long lived assets (Note 11)	53,541	--
Other operating expenses, net (Note 12)	7,196	7,089
(Loss) profit from operations	(46,059)	35,201
Equity in income of affiliated companies (Note 6)	153	--
Interest expense, net (Note 10)	6,940	8,551
Net (loss) income	(52,846)	26,650
Translation adjustments	1,856	1,281
Comprehensive (loss) income	$(50,990)	$ 27,931

The accompanying notes are an integral part of the consolidated financial statements.

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FIBERVISIONS, L.L.C.

CONSOLIDATED BALANCE SHEET

	DECEMBER 31, 2000	1999
	(DOLLARS IN THOUSANDS)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 4,777	$ 5,155
Accounts receivable, net	42,809	43,103
Affiliate receivables, net (Note 5)	2,711	--
Inventories (Note 4)	17,993	22,418
Total current assets	68,290	70,676

Property, plant, and equipment, net (Note 8)	121,966	179,163
Goodwill and other intangible assets, net (Note 9)	199,696	209,803
Deferred charges and other assets	423	1,347
Total assets	$390,375	$460,989
LIABILITIES AND NET MEMBERS' (HERCULES GROUP) INVESTMENT		
Current liabilities		
Accounts payable	$ 21,405	$ 23,899
Short-term debt (Note 7)	11,588	10,288
Accrued expenses (Note 8)	12,542	13,524
Total current liabilities	45,535	47,711
Long-term debt -- third parties (Note 7)	53,919	70,141
Total liabilities	99,454	117,852
Commitments and contingencies (Note 14)	--	--
Net members' (Hercules Group) investment (Note 18)		
Accumulated other comprehensive income	3,356	1,500
Intercompany transactions	287,565	341,637
Net members' (Hercules Group) investment	290,921	343,137
Total liabilities and net members' (Hercules Group) investment	$390,375	$460,989

The accompanying notes are an integral part of the consolidated financial statements.

FIBERVISIONS, L.L.C.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	2000	1999
	(DOLLARS IN THOUSANDS)	
CASH FLOW FROM OPERATING ACTIVITIES:		
Net (loss) income	$(52,846)	$ 26,650
Adjustments to reconcile net (loss) income to net cash provided by operations:		
Depreciation	15,658	17,406
Provision for impairment of long-lived assets	53,541	--
Amortization of goodwill	7,394	7,532
Bad debt expense	216	--
Loss on disposal of fixed assets	--	89
Affiliates' earnings in excess of dividends received	(303)	--
Corporate and other cost allocations	457	1,180
Noncash (credits)	(142)	(131)
Accruals and deferrals of cash receipts and payments:		
Accounts receivable	(498)	(1,486)
Affiliate receivables (payables)	(4,926)	--

Transfers to/from Hercules Group	(932)	3,294
Inventories	4,031	(3,459)
Accounts payable and accrued expenses	(1,792)	4,216
Noncurrent assets and liabilities	1,148	(565)
Net cash provided by operations	21,006	54,726
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures	(13,129)	(15,368)
Acquisitions, net of cash acquired	(355)	--
Other, net	2,908	(171)
Net cash used in investing activities	(10,576)	(15,539)
CASH FLOW FROM FINANCING ACTIVITIES:		
Long-term debt repayments, third parties	(9,726)	(11,092)
Transfers to/from Hercules Group	(751)	(29,370)
Change in short-term debt	(9)	--
Net cash used in financing activities	(10,486)	(40,462)
Effect of exchange rate changes on cash	(322)	(140)
Net decrease in cash and cash equivalents	(378)	(1,415)
Cash and cash equivalents at beginning of year	5,155	6,570
Cash and cash equivalents at end of year	$ 4,777	$ 5,155
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest (net of amount capitalized)	$ 6,980	$ 8,487
Income taxes, net	1,724	5,216
Noncash financing activities:		
Corporate and other cost allocations	457	1,180

The accompanying notes are an integral part of the consolidated financial statements.

FIBERVISIONS, L.L.C.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

FiberVisions LLC. ("FiberVisions" or the "Company") serves worldwide markets for polypropylene nonwoven fiber used to make disposable hygiene products. The Company also produces olefin fiber and yarn for domestic textile and industrial markets for use in fabrics, residential upholstery, geotextiles, carpets and asphalt. The company is a wholly owned subsidiary of Hercules Incorporated ("Hercules").

Historically, separate company stand-alone financial statements were not prepared for the Company. In November 2000, Hercules amended its senior credit facility and ESOP credit facility (the "Facilities"). The Facilities, as amended, are secured by liens on Hercules' property and assets (and those of Hercules' Canadian Subsidiaries), a pledge of the stock of substantially all of Hercules' domestic subsidiaries (including FiberVisions LLC) and 65% of the stock of foreign subsidiaries directly owned by Hercules, and a pledge of

Hercules' domestic intercompany indebtedness. These financial statements present the financial information on the Company, a collateral party to the Hercules debt, based on the Hercules' understanding of Securities and Exchange Commission's interpretation and application of Rule 3-16 under the Securities and Exchange Commission's Regulation S-X. These statements were derived from historical accounting records.

The Company participates in Hercules' centralized cash management system. Accordingly, cash received from the Company's operations is transferred to Hercules on a periodic basis, and Hercules funds all operational and capital requirements.

The financial statements of the Company reflect certain allocated support costs incurred by other entities in the Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in the Company's financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on factors such as sales, net assets, or cost of sales; or a relative weighting of geographic activity. Management believes that the allocation methods are reasonable.

During 1998, Hercules acquired the remaining 49% of the Company to make it a wholly owned subsidiary. These financial statements include the push-down of fair value adjustments to assets and liabilities, including goodwill, other intangible assets and property, plant, and equipment and their related amortization and depreciation adjustments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the FiberVisions, L.L.C. and its majority-owned subsidiaries where control exits (see below). Investments in affiliated companies with a greater than 20% and less than 50% ownership interest are accounted for using the equity method of accounting and, accordingly, consolidated income includes FiberVisons L.L.C.'s share of their income. All intercompany transactions and profits have been eliminated.

SUBSIDIARY	DOMICILE	FUNCTIONAL CURRENCY
FiberVisions Products, Inc.	United States	US Dollar
FiberVisions GmBH	Germany	German Mark
FiberVisions (China) A/S	Denmark	Danish Kroner
FiberVisions A.G	Switzerland	Swiss Franc
FiberVisions (China) Textiles Products Ltd	China	Chinese Renmimbi
FiberVisions (Suzhou) Nonwovens Products Ltd	China	Chinese Renmimbi
FiberVisions, LP	United States	US Dollar
Athens Holding, Inc	United States	US Dollar
FV Holdings, Inc	United States	US Dollar

ES FiberVisions Holdings ApS......................	Denmark	Danish Kroner
ES FiberVisions, Inc..............................	United States	US Dollar
ES FiberVisions LP................................	United States	US Dollar
ES FiberVisions ApS...............................	Denmark	Danish Kroner
ES FiberVisions Hong Kong Ltd.....................	Hong Kong	Hong Kong Dollar
Covington Holdings, Inc...........................	United States	US Dollar

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

The company recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer or services are performed in accordance with the terms of the agreement, title and risk of loss have been transferred, collectibility is probable, and pricing is fixed and determinable. Accruals are made for sales returns and other allowances based on the Company's experience. The corresponding shipping and handling costs are included in cost of sales.

Cash and Cash Equivalents

Cash equivalents include commercial paper and other securities with original maturities of 90 days or less. Book value approximates fair value because of the short maturity of those instruments.

Inventories

Inventories are stated at the lower of cost or market using the average cost method.

Property and Depreciation

Property, plant, and equipment are stated at cost. The company uses the straight-line method of depreciation. The company believes straight-line depreciation provides a better matching of costs and revenues over the lives of the assets. The estimated useful lives of depreciable assets are as follows: buildings -- 30 years; plant, machinery and equipment -- 15 years; other machinery and equipment -- 3 to 15 years.

Maintenance, repairs, and minor renewals are charged to income; major renewals and betterments are capitalized. Upon normal retirement or replacement, the cost of property (less proceeds of sale or salvage) is expensed.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets are amortized on a straight-line basis over the estimated future periods to be benefited, generally 40 years for goodwill and 10 years for other intangible assets. Goodwill arises in connection with acquisitions. The purchase price is allocated to the fair value of the assets acquired and liabilities assumed with the excess recorded as goodwill.

Income Taxes

The Company is a multi-member Limited Liability Company (LLC). Under U.S. tax regulations, LLC's are treated as a partnership for tax purposes. Accordingly, income taxes have not been provided in the accompanying financial statements, as the tax effects of the operating LLC's operations accrue directly to the members.

Impairment of Long-lived Assets

The company reviews its long-lived assets, including goodwill and other intangibles, for impairment on an exception basis whenever events or changes in circumstances indicate carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If an impairment loss has occurred based on expected future cash flows (undiscounted), the loss is recognized in the income statement. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset. The fair value represents expected future cash flows from the use of the assets, discounted at the rate used to evaluate potential investments. During 2000 the company recorded long-lived asset impairments of $53,541 thousand (see note 11).

Foreign Currency Translation and Transactions

The accompanying consolidated financial statements are reported in U.S. dollars. The US Dollar is the functional currency for FiberVisions L.L.C. and its domestic subsidiaries and associated companies. However, the Danish kroner, Chinese renmimbi, German mark, and the Swiss franc are the functional currencies for its foreign subsidiaries located in the Denmark, China, Germany, and Switzerland respectively. The translation of the functional currencies into U.S. dollars (reporting currency) is performed for assets and liabilities using the current exchange rates in effect at the balance sheet date, and for revenues, costs and expenses using average exchange rates prevailing during the reporting periods. Adjustments resulting from the translation of functional currency financial statements to reporting currency are accumulated and reported as other comprehensive income, a separate component of shareholders' equity.

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are expressed in the functional currency at the exchange rates in effect at the balance sheet date. Revenues, costs and expenses are recorded using average exchange rates prevailing during the reporting periods. Gains or losses resulting from foreign currency transactions are included in the statement of operations.

Cash and Cash Equivalents

Cash equivalents include commercial paper and other securities with original maturities of 90 days or less. Book value approximates fair value because of the short maturity of those instruments.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. However, the overall risk is limited to the large number of customers in different geographic areas and industries.

Stock-based Compensation

Compensation costs attributable to stock option and similar plans are recognized based on any excess of the quoted market price of the stock on the date of grant over the amount the employee is required to pay to acquire the stock (the intrinsic-value method under Accounting Principles Board Opinion 25 (APB 25)). Such amount, if any, is accrued over the related vesting period, as appropriate. Statement of Financial Accounting Standard No. 123, "Accounting for Stock-based Compensation," requires companies electing to continue to use the intrinsic-value method to make pro forma disclosures of net income as if the fair-value-based method of accounting had been applied.

Net Members' (Hercules Group) Investment

The net Members' (Hercules Group) investment account reflects the balance of FiberVisions historical earnings, foreign currency translation, intercompany amounts, income tax, taxes accrued and deferred, post employment liabilities, and other transactions between the Company and the Members/Hercules Group.

Research and Development

Research and development costs are expensed as incurred.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133" and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," requires that all derivative instruments be recorded on the balance sheet at their fair value. This statement, as amended, is effective for all fiscal quarters of fiscal years beginning after December 31, 2000. The Company adopted SFAS 133 effective January 1, 2001. The adoption of SFAS No. 133 will not have a material effect on its earnings or statement of financial position.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by SAB Nos. 101A and 101B, is to be effective October 1, 2000. Adoption of SAB 101 did not have a material effect on our profit from operations.

In June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). For the Company's, these statements will generally

become effective January 1, 2002, although business combinations initiated after

June 30, 2001 are subject to the non-amortization and purchase accounting provisions.

SFAS 142 stipulates that goodwill and other intangible assets with indefinite lives are no longer subject to amortization, but must be evaluated periodically for impairment beginning January 1, 2002. The assessment of goodwill for impairment is a complex issue in which the Company must determine, among other things, the fair value of each defined reporting units. It is, therefore, not possible at this time to predict the impact, if any, that the impairment assessment provisions of SFAS 142 will have on the Company's financial statements.

In addition, in June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 establishes accounting standards for the recognition and measurement of legal obligations associated with the retirement of tangible long-lived assts. SFAS 143 will become effective for the Company from January 1, 2003 and requires recognition of a liability for an asset retirement obligation in the period in which it is incurred. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, consists of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Trade	$39,834	$40,836
Rebates from suppliers	2,857	2,626
Other	748	459
	43,439	43,921
Less allowance for doubtful accounts	(630)	(818)
Total	$42,809	$43,103

4. INVENTORIES

The components of inventories are:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Finished products	$ 7,461	$10,713

Materials, supplies, and work in process	10,532	11,705
Total	$17,993	$22,418

5. AFFILIATE RECEIVABLES, NET

Trade receivables from affiliates, consists of $4,926 thousand due from ES FiberVisions, net of $2,215 thousand of accumulated losses of unconsolidated companies in excess of investments (see Note 6).

6. INVESTMENTS

On January 1, 2000 FiberVisions and Chisso Polypro Fiber Co., Ltd formed a 50/50 joint venture, ES FiberVisions, combining their bicomponent fibers businesses outside of Japan. While FiberVisions has a 50% equity interest, it's share of joint venture operations is 67%. The venture extends the Company's strategy to continue globalization of bicomponent fiber by establishing sales support facilities in key regions. Both parent companies supply fiber to the joint venture under manufacturing agreements. FiberVisions manufactures bicomponent fibers for the joint venture at the Varde, Denmark and Athens, Georgia locations. The annual sales of the venture were approximately $48 million in fiscal 2000. FiberVisions share of ES FiberVisions net income was $153 thousand.

Summarized financial information for the equity affiliate at December 31, 2000 and the year then ended is as follows:

	2000
	(DOLLARS IN THOUSANDS)
Current assets	$10,809
Non Current assets	1,450
Current liabilities	10,803
Net sales	$48,410
Gross profit	7,520
Net earnings	228

7. LONG-TERM DEBT

Long-term debt at December 31, 2000 and 1999 is summarized as follows:

	2000	1999
	(DOLLARS IN THOUSAND)	
Unibank A/S Term Loan due in varying amounts through 2005 with an average interest rate of 5.82%	$ 19,428	$ 21,221

Finansierings Instituttet for Industri og Handvoerk A/S (FIH) term notes at various rates from 7.90% to 9.60% and due in varying amounts through 2006	15,447	22,043
Danmark Finansiering Institut A/S (DFI) term notes at various rates from 6.48% to 9.72% and due in varying amounts through 2006	23,482	28,943
Mortgage at a fixed rate of 7.16% and due in varying amounts through 2014	4,490	5,121
Industrialization Fund for Developing Countries (IFU) at a fixed rate of 5.23% and due in 2001	2,410	2,851
Lease purchase obligation	250	250
	65,507	80,429
Less current maturities	(11,588)	(10,288)
Total	$ 53,919	$ 70,141

FIH term notes are collateralized by land, buildings, and plant and machinery of approximately $28,932 thousand. The DFI loan is collateralized by a letter of indemnification regarding land, buildings and plant and machinery of approximately $18,706 thousand. The mortgage is collateralized by land and buildings of approximately $4,490 thousand.

In December 1996 the Company entered into a long-term lease purchase obligation with The Athens-Clark County Industrial Development Authority to purchase land. The interest rate is fixed at 1% per annum and the due date of the obligation is December 2020. The balance of the obligation was $250 thousand at December 31, 2000 and 1999.

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FIBERVISIONS, L.L.C.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Scheduled annual maturities of long-term debt outstanding at December 31, 2000 in the successive five-year period are summarized as follows:

	(DOLLARS IN THOUSANDS)
2001	$11,588
2002	7,773
2003	12,737
2004	12,705
2005	13,169
Thereafter	7,535
Total	$65,507

8. ADDITIONAL BALANCE SHEET DETAIL

	2000	1999

	(DOLLARS IN THOUSANDS)	
Property, plant, and equipment		
Land	$ 1,282	$ 1,330
Buildings and equipment	365,539	361,492
Construction in progress	16,054	15,868
Total	382,875	378,690
Accumulated depreciation and amortization	(260,909)	(199,527)
Net property, plant, and equipment	$ 121,966	$ 179,163
Accrued expenses		
Payroll and employee benefits	$ 2,168	$ 1,957
Accrued interest payable	365	312
Miscellaneous	10,009	11,255
	$ 12,542	$ 13,524

9. GOODWILL AND OTHER INTANGIBLES ASSETS

At December 31, 2000 and 1999, the goodwill and other intangible assets were:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Goodwill from Hercules acquisition	$188,051	$188,051
Other goodwill	--	2,849
Other intangibles	31,350	31,410
Total	219,401	222,310
Less accumulated amortization	(19,705)	(12,507)
Net goodwill and other intangible assets	$199,696	$209,803

In July 1998, Hercules Inc. completed the acquisition of 49% share of FiberVisions L.L.C. owned by its joint venture partner, Jacob Holm & Son A/S, for approximately $230 million in cash, plus assumed debt of $188 million. The allocation of the purchase price resulted in $188,051 thousand of goodwill for the FiberVisons group, which is being amortized over its estimated useful life of 40 years. Other intangibles assets,

related to the acquisition, amounted to $29,752 thousand, the remaining other intangible assets relate to capitalization of certain patent costs.

10. INTEREST EXPENSE, NET

Interest costs are summarized as follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Interest expense	$7,459	$8,738
Interest income	(519)	(187)
Interest expense, net	$6,940	$8,551

11. IMPAIRMENT OF LONG LIVED ASSETS

In the third quarter of 2000, FiberVisions recorded assets impairments of the China facility of $28,169 thousand. Management determined that revised growth projections for the China hygiene non-woven market would indefinitely delay the feasibility of expanding the production capability of the facility. Estimated future cash flows related to this facility without the planned expansion indicated that an impairment had occurred. The impairment charge was required to write off approximately 90% of the net book value of the existing Suzhou, China facility as well as the investment in the new fiber line.

In addition, impairment of $25,372 thousand was required to write off the remaining net book value of the textiles plant in Covington, GA. The textiles business fundamentals have been deteriorating for the past few years. In 2000, the cost for the major raw material, polypropylene, has risen above historical price levels. The combination of the above factors has resulted in an irreversible loss of profitability for the textiles business. Estimated future cash flows related to this facility indicated full impairment had occurred.

12. OTHER OPERATING EXPENSES, NET

Other operating expenses, net, consists of the following:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Goodwill and intangible amortization	$7,342	$7,402
Loss (gain) on foreign currency translation	106	(327)
Miscellaneous expense (income), net	(252)	14
	$7,196	$7,089

13. OTHER FINANCING ARRANGEMENTS

Hercules manages the Company's cash and indebtedness. The majority of the cash provided by or used by the Company is provided through this consolidated cash and debt management system. As a result, the amount of domestic cash or debt historically related to the Company is not determinable. For the purposes of the Company's historical financial statements all of its positive or negative cash flows have been treated as cash transferred to or from its parent.

The Company has an intercompany loan with the Hercules Group in the amount of $36,799 thousand and $39,546 thousand which is included in the net members'

(Hercules Group) investment balance at December 31, 2000 and 1999, respectively. During 2000 and 1999 the weighted average interest rate on the intercompany borrowings was 7.4% and 6.4%, respectively. Interest expense was $2,865 thousand and

$2,721 thousand in 2000 and 1999, respectively. Repayment terms of the loan are included as part of the Hercules cash management system as described in the previous paragraph.

14. COMMITMENTS AND CONTINGENCIES

The Company has operating leases (including office space, storage space, and data processing equipment) expiring at various dates. Rental expense was $574 thousand in 2000 and $484 thousand in 1999.

The net minimum future payments at December 31, 2000 are as follows:

	(DOLLARS IN THOUSANDS)
2001	$404
2002	284
2003	204
2004	6
2005	3
Total	$901

In the spring of 2001 the Danish tax authorities indicated that they intend to increase FiberVisions A/S' taxable income for the tax year 1997. The tax value of the declared increase amounts to approximately $1,400 thousand. Management does not agree with the assessment of the tax authorities, and the case will be appealed. Consequently, the final outcome of the case is uncertain.

The Company currently and from time to time is involved in litigation incidental to the conduct of its business. In the opinion of the Company's management, none of such litigation as of December 31, 2000 is likely to have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

15. PENSION, OTHER POSTIRETIREMENT BENEFITS AND OTHER BENEFITS

The Company participates in a defined benefit pension plan sponsored by Hercules, which covers substantially all employees of Hercules in the U.S. Benefits under this plan are based on the average final pay and years of service. Hercules also provides postretirement health care and life insurance benefits to eligible retired employees and their dependents.

Information on the actuarial present value of the benefit obligation and fair value of the plan assets is not presented as Hercules manages its U.S. employee benefit plans on a consolidated basis and such information is not maintained separately for the U.S. employees of the Company. The Company's statement of operation includes an allocation of the costs of the U.S. benefits plans. The pension costs were allocated based on percentage of pensionable wages, for each of the years presented, postretirement benefit costs were allocated using factors derived from the relative net assets and revenues. Net pension expense (income) of Hercules allocated to the Company was ($799) for the year ended December 31, 2000 and $0 for the year ended December 31, 1999.

The Company maintains a 401(k) savings plan for its US full-time employees. Each participant in the plan may elect to contribute 1% to 15% of his or her annual salary to the plan subject to statutory limitations. The company matches employee contributions to the plan at the rate of 50% of the first 6% of salary contributed. The Company's matching contribution was $382 thousand and $413 thousand for 2000 and 1999, respectively.

FiberVisions A/S maintains a contributory pension plan. FiberVisions A/S matching contribution was $964 thousand and $977 thousand for 2000 and 1999, respectively. FiberVisions (China) Textiles Products,

Ltd. provides a housing allowance for their employees. FiberVisions (China) Textiles Products, Ltd. contribution was $160 thousand and $137 thousand in 2000 and 1999, respectively.

16. LONG TERM INCENTIVE COMPENSATION PLAN

The company participates in long-term incentive compensation plans sponsored by Hercules. These plans provide for the grant of stock options and the award of common stock and other market-based units to certain key employees and non-employee directors.

In 1995, Hercules changed the structure of the long-term incentive compensation plans to place a greater emphasis on shareholder value creation through grants of regular stock options, performance-accelerated stock options, and Cash Value Awards (performance-based awards denominated in cash and payable in shares of common or restricted stock, subject to the same restrictions as restricted stock). Restricted stock and other market-based units are awarded with respect to certain programs. The number of awarded shares outstanding was 491,488 at December 31, 2000, and 926,689 at December 31, 1999.

At December 31, 2000, under Hercules' incentive compensation plans, 1,847,855 shares of common stock were available for grant as stock awards or stock option awards. Stock awards are limited to approximately 15% of the total authorizations. Regular stock options are granted at the market price on the date of grant and are exercisable at various periods from one to five years after date of grant. Performance-accelerated stock options are also granted at the market price on the date of grant and are normally exercisable at nine and one-half years. Exercisability may be accelerated based upon the achievement of predetermined performance goals. Both regular and performance-accelerated stock options expire 10 years after the date of grant.

Restricted shares, options and performance-accelerated stock options are forfeited and revert to Hercules in the event of employment termination, except in the case of death, disability, retirement, or other specified events.

The Company applies APB Opinion 25 in accounting for its plans. Accordingly, no compensation cost has been recognized for the stock option plans. There were no charges to income for the cost of stock awards over the restriction or performance period for 2000 and 1999, respectively.

Below is a summary of outstanding stock option grants under the incentive compensation plans during 2000 and 1999:

	REGULAR		PERFORMANCE-ACCELERA	
	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE	NUMBER OF SHARES	WEIGHTED-A PRICE
January 1, 1999	--	--	--	-
Granted	69,000	$37.56	55,700	$37.5
Exercised	--	--	--	-
Forfeited	--	--	--	-
December 31, 1999	69,000	$37.56	55,700	$37.5
Granted	104,675	$17.25	--	-
Exercised	--	--	--	-
Forfeited	--	--	--	-
December 31, 2000	173,675	$25.32	55,700	$37.5

The weighted-average fair value of regular stock options granted during 2000 and 1999 was $8.85 and $8.08, respectively. The weighted-average fair value of performance-accelerated stock options granted during 1999 was $8.01.

Following is a summary of regular stock options exercisable at December 31, 1999 and 2000, and their respective weighted-average share prices:

OPTIONS EXERCISABLE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
December 31, 1999	--	--
December 31, 2000	37,850	$31.53

There were no performance-accelerated stock options exercisable at December 31, 2000 and 1999.

Following is a summary of stock options outstanding at December 31, 2000:

	OUTSTANDING OPTIONS			EXERCISABLE
EXERCISE PRICE RANGE	NUMBER OUTSTANDING AT 12/31/00	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/00

Regular Stock Options				
$12 - $20	104,675	9.13	$17.25	11,250
$30 - $40	69,000	8.34	$37.56	26,600
	173,675			37,850
Performance-Accelerated Stock Options				
$14 - $40	55,700	8.34	$37.56	--
	55,700			--

The Company currently expects that 100% of performance-accelerated stock options will eventually vest.

The company employees may also participate in the Hercules Employee Stock Purchase Plan ("ESPP"). The ESPP is a qualified non-compensatory plan, which allows eligible employees to acquire shares of common stock through systematic payroll deductions. The plan consists of three-month subscription periods, beginning July 1 of each year. The purchase price is 85% of the fair market value of the common stock on either the first or last day of that subscription period, whichever is lower. Purchases may range from 2% to 15% of an employee's base salary each pay period, subject to certain limitations. Currently, 202,139 shares of Hercules common stock are registered for offer and sale under the plan. Shares issued at December 31, 2000 and 1999, were 1,597,861 and 949,464, respectively. The Company applies APB Opinion 25 and related interpretations in accounting for its Employee Stock Purchase Plan. Accordingly, no compensation cost has been recognized for the Employee Stock Purchase Plan.

Had compensation cost for Hercules' Stock-Based Incentive Plans and Employee Stock Purchase Plan been determined on the basis of fair value according to SFAS No. 123, the fair value of each option granted or share purchased would be estimated on the grant date using the Black-Scholes option pricing model.

The following weighted-average assumptions would be used in estimating fair value for 2000 and 1999:

ASSUMPTION	REGULAR PLAN	PERFORMANCE ACCELERATED PLAN	EMPLOYEE STOCK PURCHASE PLAN
Dividend yield	2%	3.4%	0.0%
Risk-free interest rate	5.88%	5.38%	5.41%
Expected life	7.1 yrs.	5 yrs.	3 mos.
Expected volatility	29.20%	27.31%	44.86%

The Company's net (loss) income for 1999 and 2000 would approximate the pro forma amounts below:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Net income		
As reported	$(52,846)	$26,650
Pro forma	$(53,290)	$26,495

17. RELATED PARTY TRANSACTIONS

The Company has entered into certain agreements with affiliated entities. These agreements were developed in the context of parent/subsidiary relationship and therefore may not necessarily reflect the result of arm-length negotiations between independent parties. The terms of the agreements provide for the sale of product to the affiliated entities based on a cost-plus formula.

Corporate and other allocations

As discussed in Note 1, the financial statements of the Company reflect certain allocated support costs incurred by other entities in Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, safety, information management, health and environmental, investor relations and other corporate services. Allocations and charges included in the Company's financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities; or a percentage allocation for such services provided based on factors such as revenues, net assets, cost of sales and relative weighting of geographic activity. These allocations are reflected in the selling, general and administrative line item in our statement of operations. Such allocations and corporate charges totaled $457 thousand and $1,180 thousand in 2000 and 1999, respectively.

Sales to affiliates

The Company sells fiber in the normal course of business to affiliated companies. Company's revenues from sales to affiliated companies were $15,003 thousand in 2000. Total amounts due from affiliated companies related to those sales were $4,926 thousand as of December 31, 2000.

Purchases from Hercules Group

The Company purchases supplies in the normal course of business from the Hercules Group. The Company's purchases from Hercules Group were $76 thousand and $88 thousand in 2000 and 1999, respectively.

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FIBERVISIONS, L.L.C.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

18. NET MEMBERS' (HERCULES GROUP) INVESTMENT

Changes in net Members' (Hercules Group) investment were as follows:

(DOLLARS IN THOUSANDS)

Balance at January 1, 1999	$340,102
Comprehensive income for the year ended December 31, 1999	27,931
Intercompany transactions, net	(24,896)
Balance at December 31, 1999	343,137
Comprehensive income for the year ended December 31, 2000	(50,990)
Intercompany transactions, net	(1,226)
Balance at December 31, 2000	$290,921

The Company includes accumulated other comprehensive income in net Members' Hercules Group investment. At December 31, 2000 and 1999 accumulated other comprehensive income included $3,356 thousand and $1,500 thousand, respectively, of foreign currency translation adjustments.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
Hercules Incorporated
Wilmington, Delaware

In our opinion, the accompanying balance sheets and the related statements of income and of cash flows present fairly, in all material respects, the financial position of FiberVisions L.P., a subsidiary of Hercules Incorporated, at December 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America that require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
August 31, 2001

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FIBERVISIONS L.P.

STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31, 2000	1999
	(DOLLARS IN THOUSANDS)	

Sales to third parties	$143,507	$139,403
Sales to Hercules Group	3,911	11,047
Sales to affiliates	1,589	--
	149,007	150,450
Cost of sales	143,108	122,720
Gross profit	5,899	27,730
Selling, general, and administrative expenses	1,475	2,298
Profit from operations	4,424	25,432
Interest income	503	--
Net income	$ 4,927	$ 25,432

The accompanying notes are an integral part of the financial statements.

FIBERVISIONS L.P.

BALANCE SHEETS

	DECEMBER 31,	
	2000	1999
	(DOLLARS IN THOUSANDS)	
ASSETS		
Trade receivable, net of $269 and $673 allowance for doubtful accounts at December 31, 2000 and 1999, respectively	$24,346	$25,589
Total assets	$24,346	$25,589
LIABILITIES AND NET PARTNERS' (HERCULES GROUP) INVESTMENT		
Commitments and contingencies (Note 3)	--	--
Net partners' (Hercules Group) investment (Note 4)	24,346	25,589
Total liabilities and net partners' (Hercules Group) investment	$24,346	$25,589

The accompanying notes are an integral part of the financial statements.

FIBERVISIONS L.P.

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31, 2000	1999
	(DOLLARS IN THOUSANDS)	
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income	$ 4,927	$ 25,432
Adjustments to reconcile net income to net cash provided by operations		
Corporate and other cost allocations	1,475	2,298
Accruals and deferrals of cash receipts and payments:		
Accounts receivable, net	1,243	2,776
Transfers to/from Hercules Group	(1,170)	(21,377)
Net cash provided by operations	6,475	9,129
CASH FLOW FROM FINANCING ACTIVITIES:		
Transfers to/from Hercules Group	(6,475)	(9,129)
Net cash used in financing activities	(6,475)	(9,129)
Net increase (decrease) in cash and cash equivalents	--	--
Cash and cash equivalents at beginning of year	--	--
Cash and cash equivalents at end of year	$ --	$ --
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Noncash financing activities		
Corporate and other cost allocations	$ 1,475	$ 2,298

The accompanying notes are an integral part of the financial statements.

FIBERVISIONS L.P.

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

FiberVisions L.P. ("FiberVisions LP" or the "Partnership") was formed in 1998 as a 50% joint venture between FiberVisions, Inc. and FiberVisions Products, Inc. FiberVisions Inc. and FiberVisions Products, Inc. manufacture products for the Partnership under a manufacturing agreement. FiberVisions LP, FiberVisions Inc. and FiberVisions Products, Inc. are wholly owned subsidiaries of FiberVisions, L.L.C.; itself a wholly owned subsidiary of Hercules Incorporated ("Hercules").

The Partnership serves worldwide markets for polypropylene nonwoven fiber used to make disposable hygiene products. FiberVisions LP also sells olefin fiber and yarn to domestic textile and industrial markets for use in fabrics, residential upholstery, geotextiles, carpets and asphalt.

Historically, separate Partnership stand-alone financial statements were not prepared for the Partnership. In November 2000, Hercules amended its senior credit facility and ESOP credit facility (the "Facilities"). The Facilities, as amended, are secured by liens on Hercules' property and assets (and those of Hercules' Canadian Subsidiaries), a pledge of the stock of substantially all of Hercules' domestic subsidiaries and partnership interests (including

FiberVisions LP) and 65% of the stock of foreign subsidiaries directly owned by Hercules, and a pledge of Hercules' domestic intercompany indebtedness. These financial statements present the financial information on the Partnership, a collateral party to the Hercules debt, based on Hercules' understanding of Securities and Exchange Commission's interpretation and application of Rule 3-16 under the Securities and Exchange Commission's Regulation S-X. These statements were derived from historical accounting records.

The Partnership participates in Hercules' centralized cash management system. Accordingly, cash received from the Partnership's operations is transferred to Hercules on a periodic basis, and Hercules funds all operational and capital requirements.

The financial statements of the Partnership reflect certain allocated support costs incurred by other entities in the Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in the Partnership's financial statements were based on either a direct cost pass-through for items directly identified as related to the Partnership's activities; a percentage allocation for such services provided based on factors such as sales, net assets, or cost of sales; or a relative weighting of geographic activity. Management believes that the allocation method is reasonable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

The Partnership recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer or services are performed in accordance with the terms of the agreement, title and risk of loss have been transferred, collectibility is probable, and pricing is fixed and determinable. Accruals are made for sales returns and other allowances based on the Partnership's experience. The corresponding shipping and handling costs are included in cost of sales.

Concentrations of Credit Risk and Significant Customers

Financial instruments that potentially subject the Partnership to concentrations of credit risk consist principally of trade receivables.

The Partnership's two largest customers constitute approximately 33% and 30% of total sales dollars for the years ended December 31, 2000 and 1999. The Partnership anticipates that this significant customer concentration will continue for the foreseeable future.

Income Taxes

Income taxes have not been provided in the accompanying financial statements, as the tax effects of the operating partnership's operations accrue directly to the partners.

Net Partners' (Hercules Group) Investment

The net partners' (Hercules Group) investment account reflects the balance of the Partnership's historical retained earnings, intercompany amounts and other transactions between the Company and the partners/Hercules Group.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133" and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," requires that all derivative instruments be recorded on the balance sheet at their fair value. This statement, as amended, is effective for all fiscal quarters of fiscal years beginning after December 31, 2000. FiberVisions LP adopted SFAS 133 effective January 1, 2001. The adoption of SFAS No. 133 did not have an effect on its earnings or statement of financial position.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by SAB Nos. 101A and 101B, was to be effective October 1, 2000. The Partnership adopted SAB 101 effective as of January 1, 2000. Adoption of SAB 101 did not have a material effect on our profit from operations.

In June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). For the Partnership, these statements will generally become effective January 1, 2002, although business combinations initiated after June 30, 2001 are subject to the non-amortization and purchase accounting provisions.

SFAS 142 stipulates that goodwill and other intangible assets with indefinite lives are no longer subject to amortization, but must be evaluated periodically for impairment beginning January 1, 2002. The provisions of SFAS 142 will have no impact on the Partnership's financial statements.

In addition, in June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 establishes accounting standards for the recognition and measurement of legal obligations associated with the retirement of tangible long-lived assts. SFAS 143 will become effective for the Partnership in January 1, 2003 and requires recognition of a liability for an asset retirement obligation in the period in which it is incurred. This standard will have no impact on the Partnership's financial statements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

3. COMMITMENTS AND CONTINGENCES

The Partnership currently and from time to time is involved in litigation incidental to the conduct of its business. In the opinion of the Partnership's management, none of such litigation as of December 31, 2000 is likely to have a material adverse effect on the financial position, results of operations, or cash flows of the Partnership.

4. NET PARTNERS' (HERCULES GROUP) INVESTMENT

Changes in net partners' (Hercules Group) investment were as follows:

	(DOLLARS IN THOUSANDS)
Balance at January 1, 1999	$28,365
Net income for the year ended December 31, 1999	25,432
Intercompany transactions, net	(28,208)
Balance at December 31, 1999	25,589
Net income for the year ended December 31, 2000	4,927
Intercompany transactions, net	(6,170)
Balance at December 31, 2000	$24,346

5. LONG TERM DEBT AND OTHER FINANCING ARRANGEMENTS

The Partnership has long term intercompany receivables with affiliated entities in the amount of $8,475 thousand and $3,475 thousand which are included in the net partners' (Hercules Group) investment balance at December 31, 2000 and 1999, respectively. The weighted average rate on intercompany borrowings was 7.4% and 6.4% in 2000 and 1999, respectively. Interest income was $503 thousand and $0 in 2000 and 1999, respectively. The receivable is included as part of the Hercules cash management system as discussed in Note 1.

6. RELATED PARTY TRANSACTIONS

The Partnership has entered into certain agreements with affiliated entities. These agreements were developed in the context of parent/subsidiary relationship and therefore may not necessarily reflect the result of arm-length negotiations between independent parties. The terms of the agreements provide for the sale of product to the affiliated entities based on a cost-plus formula.

Corporate and other allocations

The financial statements of the Partnership reflect certain allocated support costs incurred by other entities in Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, safety, information management, health and environmental, investor relations and other corporate services. Allocations and charges included in the Partnership's financial statements were based on either a

direct cost pass-through for items directly identified as related to the Partnership's activities; or a percentage allocation for such services provided based on factors such as revenues, net assets, cost of sales and relative weighting of geographic activity. These allocations are reflected in the selling, general and administrative line item in our statement of operations. Such allocations and corporate charges totalled $1,475 thousand and $2,298 thousand in 2000 and 1999, respectively.

Sales to Hercules Group

The Partnership sells fiber in the normal course of business to the Hercules Group. Partnership's revenues from sales to affiliated companies were $1,589 thousand in 2000.

Purchases from Hercules Group

The Partnership purchases finished product for resale in the normal course of business from the Hercules Group. The Partnership's purchases from Hercules Group were $143,109 thousand and $122,720 thousand in 2000 and 1999, respectively.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
Hercules Incorporated
Wilmington, Delaware

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and of cash flows present fairly, in all material respects, the financial position of FiberVisions Products, Inc., a subsidiary of Hercules Incorporated, and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America that require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
August 31, 2001

FIBERVISIONS PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31, 2000	1999
	(DOLLARS IN THOUSANDS)	
Sales to Hercules Group	$33,695	$31,013
Cost of sales	32,108	28,856
Gross Profit	1,587	2,157
Selling, general, and administrative expenses	1,037	922
Other operating expenses (income), net (Note 11)	1,112	1,125
Profit from operations	(562)	110
Equity income of affiliated companies	2,057	12,716
Interest (income) expense, net (Note 10)	(143)	1,426
Income before income taxes	1,638	11,400
Provision for income taxes (Note 13)	571	4,049
Net income	$ 1,067	$ 7,351

The accompanying notes are an integral part of the consolidated financial statements.

FIBERVISIONS PRODUCTS, INC.

CONSOLIDATED BALANCE SHEET

	DECEMBER 31, 2000	1999
	(DOLLARS IN THOUSANDS)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 13	$ 6
Miscellaneous accounts receivable	1,703	1,187
Receivables from affiliates (Note 3)	476	--
Inventories (Note 4)	2,053	1,624

Total current assets	4,245	2,817
Property, plant, and equipment, net (Note 8)	37,640	38,635
Investments (Note 5)	18,140	15,677
Goodwill (Note 9)	40,534	41,638
Deferred charges and other assets	6	--
Total assets	$100,565	$98,767
LIABILITIES AND NET HERCULES GROUP INVESTMENT		
Current liabilities		
Accounts payable	$ 3,278	$ 4,115
Accrued expenses	54	--
Total current liabilities	3,332	4,115
Long-term debt -- third parties (Note 6)	250	250
Deferred income taxes (Note 13)	6,920	5,911
Total liabilities	10,502	10,276
Commitments and contingencies (Note 15)	--	--
Net Hercules Group investment (Note 14)	90,063	88,491
Total liabilities and net Hercules Group investment	$100,565	$98,767

The accompanying notes are an integral part of the consolidated financial statements.

FIBERVISIONS PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	2000	1999
	(DOLLARS IN THOUSANDS)	
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income	$ 1,067	$ 7,351
Adjustments to reconcile net income to net cash provided from operations:		
Depreciation	3,128	2,949
Amortization of goodwill	1,104	1,104
Nonoperating gain on disposals	--	53
Affiliates' earnings in excess of dividends received	(1,006)	(12,716)
Corporate and other cost allocations	(346)	129
Deferred income taxes	1,009	4,218
Accruals and deferrals of cash receipts and payments:		
Accounts receivable	(516)	702
Receivables from affiliates	(1,933)	--
Transfers to/from Hercules Group	(243)	3,504
Inventories	(429)	(145)
Accounts payable and accrued expenses	(783)	2,568
Noncurrent assets and liabilities	(6)	312

Net cash provided by operations	1,046	10,029
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures	(2,133)	(1,934)
Net cash used in investing activities	(2,133)	(1,934)
CASH FLOW FROM FINANCING ACTIVITIES:		
Transfers to/from Hercules Group	1,094	(8,095)
Net cash provided by (used in) financing activities	1,094	(8,095)
Net increase in cash and cash equivalents	7	--
Cash and cash equivalents at beginning of year	6	6
Cash and cash equivalents at end of year	13	6
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Income taxes, net	$ --	$ 353
Noncash financing activities		
Corporate and other cost allocations	(346)	129

The accompanying notes are an integral part of the consolidated financial statements.

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FIBERVISIONS PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

FiberVisions Products, Inc. ("Products" or the "Company"), a wholly owned subsidiary of Hercules Incorporated ("Hercules"), serves worldwide markets for polypropylene nonwoven fiber used to make disposable hygiene products. The company was formed on September 26, 1994.

Historically, separate company stand-alone financial statements were not prepared for the Company. In November 2000, Hercules amended its senior credit facility and ESOP credit facility (the "Facilities"). The Facilities, as amended, are secured by liens on Hercules' property and assets (and those of Hercules' Canadian Subsidiaries), a pledge of the stock of substantially all of Hercules' domestic subsidiaries (including FiberVisions Products) and 65% of the stock of foreign subsidiaries directly owned by Hercules, and a pledge of Hercules' domestic intercompany indebtedness. These financial statements present the financial information on the Company, a collateral party to the Hercules debt, based on the Hercules' understanding of Securities and Exchange Commission's interpretation and application of Rule 3-16 under the Securities and Exchange Commission's Regulation S-X. These statements were derived from historical accounting records.

The Company participates in Hercules' centralized cash management system. Accordingly, cash received from the Company's operations is transferred to Hercules on a periodic basis, and Hercules funds all operational and capital requirements.

The financial statements of the Company reflect certain allocated support costs incurred by other entities in the Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in the Company's financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on factors such as sales, net assets, or cost of sales; or a relative weighting of geographic activity. Management believes that the allocation methods are reasonable.

During 1998, Hercules acquired the Company to make it a wholly owned subsidiary. These financial statements include the push-down of fair value adjustments to assets and liabilities, including goodwill, other intangible assets and property, plant, and equipment and their related amortization and depreciation adjustments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries where control exists (see chart below). Investments in affiliated companies with a greater than 20% and 50% or less ownership interest are accounted for using the equity method of accounting and, accordingly, consolidated income includes the Company's share of their income. All intercompany transactions and profits have been eliminated.

SUBSIDIARY	DOMICILE	PERCENTAGE OWNERSHIP	FUNCTIONAL CURRENCY
FiberVisions, LP........................	United States	50%	US Dollar
Athens Holding, Inc.....................	United States	100%	US Dollar
FV Holdings, Inc.	United States	100%	US Dollar
ES FiberVisions, Inc.	United States	50%	US Dollar
ES FiberVisions LP......................	United States	50%	US Dollar

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FIBERVISIONS PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

The company recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer or services are performed in accordance with the terms of the agreement, title and risk of loss have been transferred, collectibility is probable, and pricing is fixed and determinable. Accruals are made for sales returns and other allowances based on the Company's experience. The corresponding shipping and handling costs are included in cost of sales.

Cash and Cash Equivalents

Cash equivalents include commercial paper and other securities with original maturities of 90 days or less. Book value approximates fair value because of the short maturity of those instruments.

Inventories

Inventories are stated at the lower of cost or market using the average cost method.

Property and Depreciation

Property, plant, and equipment are stated at cost. The company uses the straight-line method of depreciation to depreciate assets over their useful lives. The estimated useful lives of depreciable assets are as follows: buildings -- 30 years; plant, machinery and equipment -- 15 years; other machinery and equipment -- 3 to 15 years.

Maintenance, repairs, and minor renewals are charged to income; major renewals and betterments are capitalized. Upon normal retirement or replacement, the cost of property (less proceeds of sale or salvage) is charged to income.

Goodwill

Goodwill is amortized on a straight-line basis over the estimated future periods to be benefited, generally 40 years.

Impairment of Long Lived Assets

The company reviews its long-lived assets, including goodwill and other intangibles, for impairment on an exception basis whenever events or changes in circumstances indicate carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If an impairment loss has occurred based on expected future cash flows (undiscounted), the loss is recognized in the income statement. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset. The fair value represents expected future cash flows from the use of the assets, discounted at the rate used to evaluate potential investments.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of trade receivables from FiberVisions LP.

Financial Instruments

The Company uses various non-derivative financial instruments, including letters of credit, and generally does not require collateral to support its financial instruments.

Net Hercules Group Investment

The net Hercules Group investment account reflects the balance of

FiberVisions historical earnings, intercompany amounts, income tax, and other transactions between FiberVisions Products, Inc. and the Hercules Group.

Income Taxes

The provisions for income taxes has been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax basis of the Company's assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133" and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," requires that all derivative instruments be recorded on the balance sheet at their fair value. This statement, as amended, is effective for all fiscal quarters of fiscal years beginning after December 31, 2000. The Company adopted SFAS 133 effective January 1, 2001. The adoption of SFAS No. 133 will not have a material effect on its earnings or statement of financial position.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by SAB Nos. 101A and 101B, is to be effective October 1, 2000. Adoption of SAB 101 did not have a material effect on our profit from operations.

In June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). For FiberVisions Products, these statements will generally become effective January 1, 2002, although business combinations initiated after June 30, 2001 are subject to the non-amortization and purchase accounting provisions.

SFAS 142 stipulates that goodwill and other intangible assets with indefinite lives are no longer subject to amortization, but must be evaluated periodically for impairment beginning January 1, 2002. The assessment of goodwill for impairment is a complex issue in which the Company must determine, among other things, the fair value of each defined reporting unit. It is, therefore, not possible at this time to predict the impact, if any, that the impairment assessment provisions of SFAS 142 will have on FiberVisions Products' financial statements.

In addition, in June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 establishes accounting standards for the recognition and measurement of legal obligations associated with the retirement of tangible long-lived assets. SFAS 143 will become effective for FiberVisions Products, Inc. in January 1, 2003 and requires recognition of a liability for an asset retirement obligation in the period in which it is incurred. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

3. RECEIVABLES FROM AFFILIATES

Trade receivables from affiliates, consists of $1,933 thousand due from ES FiberVisions, net of $1,647 thousand of accumulated losses of unconsolidated companies in excess of investment (see Note 5).

4. INVENTORIES

The components of inventories are:

	2000	1999
Finished products	$ 766	$ 467
Raw materials	1,254	1,116
Work in process	33	41
Total	$2,053	$1,624

5. INVESTMENTS

The equity investments in affiliated companies consist of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Investment in FiberVisions, LP	$18,140	$15,677

In 1998, Products entered into a 50% joint venture with Fibervisions Inc. Products and FiberVisions Inc. manufacture products for the joint venture, FiberVisions LP, under a manufacturing agreement. Products share of the net income was $2,463 thousand and $12,716 thousand in 2000 and 1999 respectively.

On January 1, 2000 Products and Chisso Polypro Fiber Co., Ltd formed a 50/50 joint venture, ES FiberVisions, combining their bicomponent fibers businesses outside of Japan. While Products has a 50% equity interest, it's share of joint venture income is 67%. The venture extends the Company's strategy to continue globalization of bicomponent fiber by establishing sales support facilities in key regions. Both parent companies supply fiber to the joint venture under manufacturing agreements. Products manufactures bicomponent fibers for the joint venture at the Varde, Denmark and Athens, Georgia locations. The annual sales of the venture were approximately $48 million in fiscal 2000.

Products share of net loss for 2000 was $406.

FIBERVISIONS PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Summarized financial information for the equity affiliates at December 31, and the years then ended is as follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Current assets	$ 33,023	$ 27,878
Non Current assets	9,335	3,475
Current liabilities	6,476	--
Net sales	$164,714	$150,450
Gross profit	8,397	27,730
Net earnings	4,305	25,432

The investments are partnerships which require the associated tax benefit or expense to be recorded by the parent.

6. LONG TERM DEBT -- THIRD PARTY

In December 1996 the Company entered into a long-term lease purchase obligation with The Athens-Clark County Industrial Development Authority to purchase land. The interest rate is fixed at 1% per annum and the due date of the obligation is December 2020. The balance of the obligation was $250 at December 31, 2000 and 1999.

7. ADDITIONAL BALANCE SHEET DETAIL

	2000	1999
	(DOLLARS IN THOUSANDS)	
Property, plant, and equipment		
Land	$ 430	$ 430
Buildings and equipment	45,703	45,659
Construction in progress	4,682	2,593
Total	50,815	48,682
Accumulated depreciation and amortization	(13,175)	(10,047)
Net property, plant, and equipment	$ 37,640	$ 38,635

9. GOODWILL

At December 31, 2000 and 1999, the goodwill was:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Goodwill	$43,290	$43,290
Less accumulated amortization	(2,756)	(1,652)
Net goodwill and other intangible assets	$40,534	$41,638

In July 1998, Hercules Inc. completed the acquisition of 49% share of FiberVisions L.L.C. owned by its joint venture partner, Jacob Holm & Son A/S, for approximately $230 million in cash, plus assumed debt of $188 million. The allocation of the purchase price resulted in $188,051 of goodwill for the FiberVisons group, which is being amortized over its estimated useful life of 40 years. $43,290 of the goodwill was assigned to Products.

10. INTEREST (INCOME) EXPENSE

Interest costs are summarized as follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Interest Expense	$ 2,201	$2,311
Interest Income	(2,344)	(885)
Interest (income) expense, net	$ (143)	$1,426

11. OTHER OPERATING EXPENSES (INCOME), NET

Other operating expenses (income), net, consists of the following:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Goodwill and intangible amortization	$1,104	$1,104
Miscellaneous expense, net	8	21
	$1,112	$1,125

12. LONG TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Hercules manages the Company's cash and indebtedness. The majority of the cash provided by or used by the Company is provided through this consolidated cash and debt management system. As a result, the amount of domestic cash or debt historically related to the Company is not determinable. For the purposes of the Company's historical financial statements all of its positive or negative cash flows have been treated as cash transferred to or from its parent.

The Company has an intercompany loan with the Hercules Group in the amount of $34,280 and $36,251 which is included in the net Hercules Group investment balance at December 31, 2000 and 1999, respectively. In 2000 and 1999 interest was charged on the intercompany loans based on the stated rate of 6.5%. The loan is payable upon demand.

The Company also has an intercompany receivable with the Hercules Group in the amount of $16,258 and $17,378 which is included in the net Hercules Group investment balance at December 31, 2000 and 1999, respectively. During 2000 and 1999 the weighted average interest rate on the intercompany borrowings was 7.4% and 6.4%, respectively.

13. INCOME TAXES

A summary of the components of the tax provision follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Currently payable		
Domestic	$ (438)	$ (169)
Deferred		
Domestic	1,009	4,218
Provision for income taxes	$ 571	$4,049

FIBERVISIONS PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Deferred tax liabilities (assets) at December 31 consist of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Depreciation	$ 9,369	$ 8,683
Gross deferred tax liabilities	9,369	8,683
Inventory	$ (154)	$ (116)
Accrued expenses	(152)	20
Loss carryforwards	(1,309)	(2,223)
Amortization	(412)	(453)
Other	(422)	--
Gross deferred tax assets	(2,449)	(2,772)

Total deferred income taxes	$ 6,920	$ 5,911

A reconciliation of the statutory income tax rate to the effective rate follows:

	2000	1999
Statutory income tax rate	35.00%	35.00%
Rate differential adjustment	--	2.46
State taxes	2.31	0.69
Reserves	(0.74)	5.83
Other	(1.72)	(8.47)
Effective tax rate	34.85%	35.51%

14. NET HERCULES GROUP INVESTMENT

Changes in net Hercules Group investment were as follows:

	(DOLLARS IN THOUSANDS)
Balance at January 1, 1999	$85,603
Net income for the year ended December 31, 1999	7,351
Intercompany transactions, net	(4,463)
Balance at December 31, 1999	88,491
Net income for the year ended December 31, 2000	1,067
Intercompany transactions, net	505
Balance at December 31, 2000	$90,063

15. COMMITMENTS AND CONTINGENCIES

The Company has operating leases (storage space and data processing equipment) expiring at various dates. Rental expense was $14 thousand in 2000 and $10 thousand in 1999.

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FIBERVISIONS PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The net minimum future payments at December 31, 2000 are as follows:

(DOLLARS IN THOUSANDS)

2001	$14
2002	9
2003	8
2004	6
2005	3
Total	$40

The Company currently and from time to time is involved in litigation incidental to the conduct of its business. In the opinion of the Company's management, none of such litigation as of December 31, 2000 is likely to have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

16. PENSION AND OTHER POSTRETIREMENT BENEFITS

The Company participates in a defined benefit pension plan sponsored by Hercules which covers substantially all employees of Hercules in the U.S. Benefits under this plan are based on the average final pay and years of service. Hercules also provides postretirement health care and life insurance benefits to eligible retired employees and their dependents.

Information on the actuarial present value of the benefit obligation and fair value of the plan assets is not presented as Hercules manages its U.S. employee benefit plans on a consolidated basis and such information is not maintained separately for the U.S. employees of the Company. The Company's statement of operation includes an allocation of the costs of the U.S. benefits plans. The pension costs were allocated based on percentage of pensionable wages, for each of the years presented, postretirement benefit costs were allocated using factors derived from the relative net assets and revenues. Net pension expense (income) of Hercules allocated to the Company was ($129) for the year ended December 31, 2000.

Products maintains a 401(k) savings plan for its full-time employees in North America. Each participant in the plan may elect to contribute 1 % to 15 % of his or her annual salary to the plan subject to statutory limitations. The company matches employee contributions to the plan at the rate of 50% of the first 6% of salary contributed. The Company's matching contribution was $69 thousand and $79 thousand for 2000 and 1999, respectively.

17. RELATED PARTY TRANSACTIONS

The Company has entered into certain agreements with affiliated entities. These agreements were developed in the context of parent/subsidiary relationship and therefore may not necessarily reflect the result of arm-length negotiations between independent parties. The terms of the agreements provide for the sale of product to the affiliated entities based on a cost-plus formula.

Corporate and other allocations

As discussed in Note 1, the financial statements of the Company reflect certain allocated support costs incurred by other entities in Hercules group. These costs include executive, legal, accounting, human resources, tax, auditing, cash management, purchasing, safety, information management, health and environmental, investor relations and other corporate services. Allocations and charges included in the Company's financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities; or a percentage allocation for such services provided based on factors such as

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FIBERVISIONS PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

revenues, net assets, cost of sales and relative weighting of geographic activity. These allocations are reflected in the selling, general and administrative line item in our statement of operations. Such allocations and corporate charges totaled ($346) thousand and $129 thousand in 2000 and 1999, respectively.

Sales to Hercules Group

The Company sells fiber in the normal course of business to the Hercules Group. Company's revenues from sales to the Hercules Group were $33,695 thousand and $31,013 thousand in 2000 and 1999, respectively.

Purchases from Hercules Group

The Company purchases supplies in the normal course of business from the Hercules Group. The Company's purchases from Hercules Group were $7 thousand and $8 thousand in 2000 and 1999, respectively.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
Hercules Incorporated
Wilmington, Delaware

In our opinion, the accompanying balance sheets and the related statements of income and comprehensive income and of cash flows present fairly, in all material respects, the financial position of Hercules Canada, Inc., a subsidiary of Hercules Incorporated, at December 31, 2000 and 1999 and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Mississauga, Ontario
June 15, 2001

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HERCULES CANADA, INC.

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	YEAR ENDED DECEMBER 31, 2000	1999
	(THOUSANDS OF U.S. DOLLARS)	
Equity in income of affiliated company (note 3)	$4,003	$3,221
Interest and debt expense (note 9)	1,021	311
Interest income (note 9)	(136)	--
Other expense -- net	67	17
Income before income taxes	3,051	2,893
Provision for income taxes (note 7)	2,281	1,977
Net income	770	916
Translation adjustments	(105)	676
Comprehensive income	$ 665	$1,592

The accompanying notes are an integral part of the financial statements.

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HERCULES CANADA, INC.

BALANCE SHEETS

	DECEMBER 31, 2000	1999
	(THOUSANDS OF U.S. DOLLARS)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 33	$ --
Income taxes receivable	1,186	1,099
Total current assets	1,219	1,099
Investment (note 3)	12,010	15,359
Total assets	$ 13,229	$ 16,458
LIABILITIES AND NET HERCULES GROUP INVESTMENT		
Current liabilities		
Bank overdraft (note 4)	$ --	$ 1,249
Accrued expenses	341	48
Total current liabilities	341	1,297

Deferred income taxes (note 7)	1,174	1,041
Total liabilities	1,515	2,338
Contingencies (note 8)	--	--
Net Hercules Group investment (note 6)		
Accumulated other comprehensive loss	(10,160)	(10,055)
Intercompany transactions (note 5)	21,874	24,175
Total net Hercules Group investment	11,714	14,120
Total liabilities and net Hercules Group investment	$ 13,229	$ 16,458

The accompanying notes are an integral part of the financial statements.

HERCULES CANADA, INC.

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	2000	1999
	(THOUSANDS OF U.S. DOLLARS)	
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	$ 770	$ 916
Adjustments to reconcile net income to net cash provided by operations		
Equity in income of affiliated company -- net of withdrawals from partnership equity	3,877	(3,221)
Deferred income taxes	166	365
Accruals and deferrals of cash receipts and payments		
Income taxes receivable	(632)	(2,828)
Accrued expenses	293	48
Transfer to Hercules Group	(1,632)	(22)
Net cash provided by (used in) operations	2,842	(4,742)
CASH FLOW FROM FINANCING ACTIVITIES:		
Transfers (to) from Hercules Group	(1,594)	3,497
(Decrease) increase in bank overdraft	(1,237)	1,245
Net cash (used in) provided by financing activities	(2,831)	4,742
CASH FLOW FROM INVESTING ACTIVITIES:		
Withdrawals from equity in partnership in excess of earnings	24	--
Effect of exchange rate changes on cash and cash equivalents	(2)	--
Net increase in cash and cash equivalents	33	--

Cash and cash equivalents -- Beginning of year	--	--
Cash and cash equivalents -- End of year	$ 33	$ --
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$ 428	$ 70
Income taxes	436	(790)

The accompanying notes are an integral part of the financial statements.

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HERCULES CANADA, INC.

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Hercules Canada, Inc. (HCI or the Company) is a holding company, which is a partner in Hercules Canada Partnership (HCP). The majority partner in HCP is BetzDearborn Canada, Inc. (BDCI), which is an affiliate company under common control of Hercules Incorporated (Hercules). HCI is owned 100% by Hercules.

Historically, separate company stand-alone financial statements were not prepared for HCI. In November 2000, Hercules amended its senior credit facility and ESOP credit facility (the Facilities). The Facilities, as amended, are secured by liens on Hercules' property and assets (and those of Hercules' Canadian subsidiaries, including HCI), a pledge of the stock and partnership and member interests of substantially all of Hercules' U.S. subsidiaries and 65% of the stock of non-U.S.A. subsidiaries directly owned by Hercules, including HCI, and a pledge of Hercules' U.S.A. intercompany indebtedness. These financial statements present the financial information on HCI, a collateral party to the Hercules debt, based on Hercules' understanding of Securities and Exchange Commission's interpretation and application of Rule 3-16 under the Securities and Exchange Commission's Regulation S-X. These statements were derived from historical accounting records.

As a result of the Hercules acquisition of BetzDearborn Inc. on October 15, 1998, Hercules initiated a global process of internal reorganization, for which the Company entered into an agreement with BDCI to transfer its business to a newly created partnership, Hercules Canada Partnership. The Company has a 28.09% share of future profits from the partnership. Since this reorganization is under the common control of Hercules, the transactions have been accounted for in a manner similar to pooling of interest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

Investments in affiliated companies with a 20% or greater ownership interest are accounted for using the equity method of accounting and, accordingly, net income includes HCI's share of the income of HCP.

Use of estimates

Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue recognition

Income earned by HCI is limited to its share of income of HCP. This is recognized on the same basis as net income is generated in HCP. Interest income is recognized on the note receivable from the Hercules Group on a daily basis.

Cash and cash equivalents

Cash equivalents include commercial paper and other securities with original maturities of 90 days or less. Book value approximates fair value because of the short maturity of those instruments.

Foreign currency translation and transactions

The accompanying financial statements are reported in U.S. dollars. The Canadian dollar is the functional currency for HCI. The translation of the functional currency into U.S. dollars (reporting currency) is performed for assets and liabilities using the current exchange rates in effect at the balance sheets dates, and for revenues, costs and expenses using average exchange rates prevailing during the reporting periods.

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HERCULES CANADA, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Adjustments resulting from the translation of functional currency financial statements to reporting currency are accumulated and reported as other comprehensive income, a component of net Hercules Group investment.

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are expressed in the functional currency at the exchange rates in effect at the balance sheets dates. Revenues, costs and expenses are recorded using average exchange rates prevailing during the reporting periods. Gains or losses resulting from foreign currency transactions are included in the statements of income.

Net Hercules Group investment

The net Hercules Group investment account reflects the balance of HCI's historical earnings, intercompany amounts, foreign currency translation and other transactions between HCI and the Hercules Group.

Income taxes

The provisions for income taxes have been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year, plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax basis of the Company's assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

New accounting pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133" and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", requires that all derivative instruments be recorded on the balance sheets at their fair value. This statement, as amended, is effective for all fiscal quarters of fiscal years beginning after December 31, 2000. The adoption of SFAS No. 133 did not have a material effect on the Company's earnings or financial position.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by SAB Nos. 101A and 101B, is to be effective October 1, 2000. Adoption of SAB 101 did not have a material effect on earnings.

3. INVESTMENT

The investment in HCP is accounted for on the equity basis. As this investment is a partnership, the associated tax benefit or expense is recorded by its parent companies. The amount of retained earnings in the Company that represents undistributed earnings of HCP is $nil (1999 -- $3,877 thousand). During 2000, the Company received a distribution of $7,904 thousand (1999 -- $nil).

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HERCULES CANADA, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Summarized financial information for this equity affiliate at December 31 and for the years then ended is as follows:

	2000	1999
	(THOUSANDS OF U.S. DOLLARS)	
Current assets	$ 42,361	$ 42,345
Non-current assets	315,770	333,194
Total assets	$358,131	$375,539
Current liabilities	$ 34,418	$ 31,010
Net sales	$178,512	$165,866
Gross profit	70,700	71,238
Net earnings	14,251	11,467

4. BANK OVERDRAFT

Bank borrowings represent primarily overdraft facilities and short-term lines of credit, which are generally payable on demand with interest at various rates. Book values of bank borrowings approximate market value because of their short maturity period.

At December 31, 2000, HCI had $331 thousand of unused lines of credit that may be drawn as needed, with interest at a negotiated spread over lenders' cost of funds. Lines of credit in use at December 31, 1999 totalled $664 thousand. Weighted average interest rates on short-term borrowings at December 31, 2000 and 1999 were nil and 6.5%, respectively. All lines of credit are payable in Canadian funds.

5. INTERCOMPANY NOTE RECEIVABLE, LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

HCI has an intercompany loan with the Hercules Group in the amount of $15,882 thousand and $12,295 thousand, which is included in the net Hercules Group investment balance as of December 31, 2000 and 1999, respectively. The loan is denominated in Canadian dollars, is due on demand and bears interest at 10%.

Also included in the net Hercules Group investment balance as of December 31, 2000 is a note receivable that HCI has with the Hercules Group in the amount of $2,978 thousand. It is denominated in Canadian dollars, is due on demand and bears interest at 10%.

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HERCULES CANADA, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

6. NET HERCULES GROUP INVESTMENT

Changes in net parent investment were as follows:

	(THOUSANDS OF U.S. DOLLARS)
Balance -- January 1, 1999	$10,774
Net income	916
Other comprehensive income	676
Intercompany transactions -- net	1,754
Balance -- December 31, 1999	14,120
Net income	770
Other comprehensive loss	(105)
Intercompany transactions -- net	(3,071)
Balance -- December 31, 2000	$11,714

The Company includes accumulated comprehensive income or loss in net Hercules Group investment. At December 31, 2000 and 1999, accumulated comprehensive loss included a cumulative loss of $10,160 thousand and $10,055 thousand, respectively, of foreign currency translation adjustments.

7. INCOME TAXES

A summary of the components of the tax provision follows:

	2000	1999
	(THOUSANDS OF U.S. DOLLARS)	
Current	$2,115	$1,612
Deferred	166	365
Provision for income taxes	$2,281	$1,977

The deferred tax liability at December 31 is comprised of:

	2000	1999
	(THOUSANDS OF U.S. DOLLARS)	
Accrued expenses of HCP	35	288
Gross deferred tax assets	35	288
Depreciation of HCP	574	754
Prepaid pension and post-retirement benefits of HCP	622	545
Other	13	30
Gross deferred tax liabilities	1,209	1,329
Total deferred income tax liability	$1,174	$1,041

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HERCULES CANADA, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

A reconciliation of the statutory income tax rate to the effective rate is as follows:

	2000	1999
Statutory income tax rate	40.14%	40.54%
Goodwill amortization of HCP	30.12	28.47
Non-deductible expenses	2.37	2.69
Other	2.13	(3.36)
Effective tax rate	74.76%	68.34%

8. CONTINGENCIES

The Company, currently and from time to time, is involved in litigation incidental to the conduct of its business. In the opinion of the Company's management, none of such litigation as of December 31, 2000 is likely to have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

9. RELATED PARTY TRANSACTIONS

In the year 2000, HCI incurred interest expense of $1,021 thousand (1999 -- $311 thousand) on its intercompany loan with the Hercules Group. In 2000, HCI also earned interest income of $136 thousand (1999 -- $nil) on its note receivable with the Hercules Group.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
Hercules Incorporated
Wilmington, Delaware

In our opinion, the accompanying balance sheets and the related statements of income and comprehensive income (loss) and cash flows present fairly, in all material respects, the financial position of Hercules Chemicals (Taiwan) Co., Limited, a subsidiary of Hercules Incorporated, at November 30, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended November 30, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers

Taipei, Taiwan, Republic of China
October 19, 2001

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HERCULES CHEMICALS (TAIWAN) CO., LIMITED

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Sales to third parties	$ 27,467	$ 22,605	$12,489
Sales to Hercules group	2,373	1,199	1,050
	29,840	23,804	13,539
Cost of sales	(15,801)	(13,565)	(8,808)

Selling, general, and administrative expenses	(8,235)	(7,734)	(3,506)
Goodwill amortization	(419)	(405)	(98)
Royalty expense	(1,852)	(1,286)	(606)
Profit from operations	3,533	814	521
Other expense, net (Note 9)	(286)	(184)	(240)
Income before income taxes	3,247	630	281
Provision for income taxes (Note 11)	(949)	(215)	(72)
Net Income	2,298	415	209
Translation adjustments, net of tax	(1,051)	565	(263)
Comprehensive income (loss)	$ 1,247	$ 980	$ (54)

The accompanying notes are an integral part of the financial statements.

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HERCULES CHEMICALS (TAIWAN) CO., LIMITED

BALANCE SHEET

	NOVEMBER 30,	
	2000	1999
	(DOLLARS IN THOUSANDS)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 466	$ 296
Notes receivable	1,038	1,103
Accounts receivable, net (Note 3)	5,400	5,934
Inventories (Note 4)	3,600	2,823
Deferred income taxes (Note 10)	448	199
Other current assets	451	692
Total current assets	11,403	11,047
Property, plant and equipment, net (Note 5)	5,660	6,215
Goodwill, net (Note 12)	14,926	16,167
Deferred income taxes (Note 10)	425	514
Deferred charges	2,863	444
Other assets	107	141
TOTAL ASSETS	$35,384	$34,528
LIABILITIES AND NET HERCULES GROUP INVESTMENT		
Current Liabilities		
Short term debt and borrowings (Note 6)	$ 2,923	$ 5,151
Accounts payable	1,099	1,161
Accrued expenses (Note 7)	3,252	2,763
Other current liabilities	784	187
Total current liabilities	8,058	9,262

Total liabilities	$ 8,058	$ 9,262
Commitment and contingencies (Note 13)	--	--
Net Hercules Group Investment (Note 16)		
Accumulated other comprehensive income	(814)	188
Intercompany transactions, net	28,140	25,078
Net Hercules Group Investment	27,326	25,266
TOTAL LIABILITIES AND NET HERCULES GROUP INVESTMENT	$35,384	$34,528

The accompanying notes are an integral part of the financial statements.

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HERCULES CHEMICALS (TAIWAN) CO., LIMITED

STATEMENTS OF CASH FLOWS

	YEAR ENDED NOVEMBER 30,		
	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 2,298	$ 415	$ 209
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	536	440	322
Amortization	447	433	124
Provision for bad debts	118	14	42
(Gain) Loss on disposal of fixed assets	(47)	31	(8)
Corporate and other cost allocations	941	1,241	396
Accruals and deferrals of cash receipts and payments:			
Notes receivable	7	(137)	(127)
Accounts receivable	112	(1,430)	(1,224)
Inventories	(925)	(354)	(124)
Prepaid pension expense	124	160	(282)
Other current assets	82	(19)	(27)
Deferred tax assets	(200)	392	(92)
Accounts payable	--	223	(964)
Accrued expense	578	(103)	561
Other current liabilities	662	35	75
Other liabilities	--	(482)	--
Transfers to/from Hercules Group	(177)	(76)	925
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	4,556	783	(194)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditure	(397)	(589)	(390)
Proceeds from disposal of fixed assets	165	186	8
Deposit	(6)	52	(19)
Deferred charges	(2,436)	(43)	135
NET CASH USED IN INVESTING ACTIVITIES	(2,674)	(394)	(266)

CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of short-term notes	704	3,931	263
Repayment of short-term notes loan	(4,060)	(273)	(918)
Increase in commercial paper payable	1,280	(753)	1,763
Transfers to/from Hercules Group	--	(3,888)	--
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(2,076)	(983)	1,108
EFFECT OF EXCHANGE RATE CHANGES ON CASH	364	(61)	191
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	170	(655)	839
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	296	951	112
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 466	$ 296	$ 951
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
CASH PAID DURING THE YEAR FOR:			
Interests	$ 238	$ 203	$ 172
Income tax, net	266	173	516
NON CASH INVESTING AND FINANCING ACTIVITIES			
Corporate and other cost allocations	$ 941	$ 1,241	$ 396
Pushdow adjustment on the acquisition of BetzDearborn	--	--	21,279

The accompanying notes are an integral part of the financial statements.

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HERCULES CHEMICALS (TAIWAN) CO., LIMITED

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

The Company

Hercules Chemicals (Taiwan) Co., Limited (the "Company"), a wholly-owned subsidiary of Hercules Incorporated ("Hercules"), was incorporated in the Republic of China (ROC) on March 16, 1984. The Company is primarily engaged in the manufacturing and distribution of chemicals, including specialty chemicals and equipment for industrial and waste water treatments, and the provision of related engineering services in ROC.

Historically, separate company stand-alone financial statements were not prepared for the Company. In November 2000, Hercules amended its senior credit facility and ESOP credit facility (the "Facilities"). The Facilities, as amended, are secured by liens on Hercules' property and assets (and those of Hercules' Canadian Subsidiaries), a pledge of the stock and partnership and member interests of substantially all of Hercules' domestic subsidiaries and 65% of the stock of foreign subsidiaries including the companies directly owned by Hercules, and a pledge of Hercules' domestic intercompany indebtedness. These financial statements present the financial information on the Company, a collateral party to the Hercules' debt, based on the Hercules's understanding of Securities and Exchange Commission's interpretation and application of Rule 3-16 under the Securities and Exchange Commission's Regulation S-X. These statements were derived from historical accounting records.

When Hercules acquired all of the outstanding shares of BetzDearborn Inc on October 15, 1998, it paid $2,235 million in cash and $186 million in common stock in exchanged for the shares held by the BetzDearborn ESOP Trust. As a result of this acquisition, the Company, as a part of an effort by Hercules, entered into an internal reorganization transaction during 1999 and 2000. The transaction included merging BetzDearborn Taiwan Ltd. into the Company. As this reorganization is under the common control of Hercules, this transaction has been accounted for in a manner similar to pooling of interest.

The purchase price allocated to the Company was approximately $20 million. During 1999, Hercules completed the purchase price allocation and the final determination of goodwill was $2,170 million of which the amount attributable to the Company was approximately $16 million. These financial statements include the push down of fair value adjustments to assets and liabilities, including goodwill, other intangible assets and property, plant and equipment and their related amortization and depreciation adjustments. The Company participates in Hercules' centralized cash management system. Accordingly, cash received from the Company operations is transferred to Hercules on a periodic basis, and Hercules funds all operational and capital requirements.

The financial statements of the Company reflect certain allocated support costs incurred by other entities in the Hercules Group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in the Company's financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on factors such as sales, net assets, or cost of sales; or a relative weighting of geographic activity. Management believes that the allocation methods are reasonable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that effect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents include cash in banks and certificates of deposit with original maturities of 90 days or less. Book value approximates fair value because of the short maturity of those instruments.

Foreign currency translation and transactions

The accompanying financial statements are reported in U.S. dollars. The New Taiwan dollar is the functional currency for the Company. The translation of the functional currencies into U.S. dollars (reporting currency) is performed for assets and liabilities using the current exchange rates in effect at the balance sheet date, and for revenues, costs and expenses using average exchange rates prevailing during the reporting periods. Adjustments resulting from the translation of functional currency financial statements to reporting currency are accumulated and reported as other comprehensive income, a separate component of Net Hercules Group Investment.

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are expressed in the functional currency at the exchange rates in effect at the balance sheet date. Revenues, costs and expenses are recorded using average exchange rates prevailing during the reporting periods. Gains or losses resulting from foreign currency transactions are included in the statement of income.

Financial instruments

The Company uses various non-derivative financial instruments, including letters of credit, and generally does not require collateral to support its financial instruments.

Inventories

Inventories are stated at the lower of cost or market value. Inventories are valued at standard cost which approximates the average cost.

Property and depreciation

Property, plant and equipment are stated at cost and depreciated using straight-line method. The estimated useful lives of depreciable assets are estimated based on the economic useful lives of assets.

Maintenance, repairs and minor renewals are charged to income; major renewals and betterments are capitalized. Upon normal retirement or replacement, the cost of property (less proceeds of sale or salvage) is expensed.

Goodwill

Goodwill is amortized on a straight-line basis over 40 years, the estimated future period to be benefited.

Long-Lived assets

The company reviews its long-lived assets, including goodwill for impairment on an exception basis whenever events or changes in circumstances indicate the carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If an impairment loss has occurred based on expected future cash flows (undiscounted), the loss is recognized in the income statement. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset. The fair value represents expected future cash flows from the use of the assets, discounted at the rate used to evaluate potential investments.

Deferred Charges

Deferred charges include construction-in-progress costs primarily consisting of fixed assets not yet placed in use. Once the projects are completed and approved, the assets are reclassified to property, plant and equipment and are depreciated there in accordance with the Company's policy. Generally, these assets are held in deferred charges for no longer than one year.

Revenue recognition

The Company recognizes revenue when the earning process is complete. This generally occurs when products are shipped to the customer or services are performed in accordance with the terms of the agreement, title and risk of loss have been transferred, collectibility is probable, and pricing is fixed and determinable. Accruals are made for sales returns and other allowances based on the Company's experience. The corresponding shipping and handling costs are included in cost of sales.

Environmental expenditures

Environmental expenditures that pertain to current operations or future revenues are expensed or capitalized according to the Company's capitalization policy. Expenditures for remediation of an existing condition caused by past operations that do not contribute to current or future revenues are expensed. Liabilities are recognized for remedial activities when the cleanup is probable and the cost can be reasonably estimated.

Income Taxes

Income tax expense in the accompanying financial statements has been computed assuming the Company filed separate income tax returns.

The provisions for income taxes have been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax basis of the Company's assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Stock-based Compensation

Compensation costs attributable to stock option and similar plans are recognized based on any excess of the quoted market price of the stock on the date of grant over the amount the employee is required to pay to acquire the stock (the intrinsic-value method under Accounting Principles Board Opinion 25 (APB 25)). Such amount, if any, is accrued over the related vesting period, as appropriate. Statement of Financial Accounting Standard No. 123, "Accounting for Stock-based Compensation," requires companies electing to continue to use the intrinsic-value method to make pro forma disclosures of net income as if the fair-value-based method of accounting had been applied.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. Concentrations of credit risk with respect to trade receivables are limited due to the Company's large number of customers and their dispersion across many different industries and locations.

Net Hercules Group Investment

The Net Hercules Group Investment account reflects the balance of the Company's historical earnings, intercompany amounts, foreign currency translation and other transactions between the Company and the Hercules Group.

New accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities", as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FAS Statement No. 133", and Statement No. 138, "Accounting for Derivative Instruments and Certain Hedging Activities", requires that all derivative instruments be recorded on the balance sheet at their fair value. This statement, as amended, is effective for all fiscal quarters of fiscal years after December 31, 2000. As the Company does not have any derivative instruments of hedging activities, the adoption of SFAS 133 on January 1, 2001 did not have a material impact on its financial position or earnings.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by SAB Nos. 101A and 101B, was to be effective October 1, 2000. Adoption of SAB 101 did not have a material effect on our profit from operations.

In July 2001, the Financial Accounting Standards Board (FASB) approved the issuance of the Statement of Financial Accounting Standard No. 141 (SFAS 141), Business Combination and, Statement of Financial Accounting Standard No. 142 (SFAS 142), Goodwill and Other Intangible Assets. For the Company, these statements will generally become effective December 1, 2002, although business combinations initiated after June 30, 2001 are subject to the non-amortization and purchase accounting.

SFAS 142 stipulates that goodwill and other intangible assets with indefinite lives are no longer subject to amortization, but must be evaluated periodically for impairment beginning January 1, 2002. The Company is currently in the process of conducting an assessment of the actual impact of the non-amortization provision of SFAS 142. The assessment of goodwill for impairment is a complex issue in which the Company must determine, among other things, the fair value of each defined reporting unit. It is, therefore, not possible at this time to predict the impact, if any, that the impairment assessment provisions of SFAS 142 will have on the Company's financial statements.

In addition, in June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 establishes accounting standards for the recognition and measurement of legal obligations associated with the retirement of tangible long-lived assts. SFAS 143 will become effective for the Company from December 1, 2003 and requires recognition of a liability for an asset retirement obligation in the period in which it is incurred. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

HERCULES CHEMICALS (TAIWAN) CO., LIMITED

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

3. ACCOUNTS RECEIVABLE, NET

The accounts receivable, net, consists of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Trade	$5,567	$6,034
Less Allowance for doubtful accounts	(167)	(100)
Total	$5,400	$5,934

4. INVENTORIES

The components of inventories are:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Finished goods	$1,396	$ 673
Raw materials and supplies	1,564	1,468
Goods in transit	640	682
Total	$3,600	$2,823

5. PROPERTY, PLANT, AND EQUIPMENT

	2000	1999
	(DOLLARS IN THOUSANDS)	
Buildings and improvements	$ 3,752	$ 4,082
Machinery and equipment	5,248	5,226
Other equipment	965	895
	9,964	10,202
Less: Accumulated depreciation	(4,304)	(3,987)

Total	$ 5,660	$ 6,215

Depreciation expense for the years ended November 30, 2000, 1999 and 1998 amounted to $536 thousands, $440 thousands and $322 thousands, respectively.

6. SHORT TERM DEBT

At November 30, 2000 and 1999, the Company has an outstanding balance of $665 thousands and $4 million, respectively, on advances on the Company's $6.5 million revolving bank facility. The facility, guaranteed by Hercules, bears floating interest rates ranging from 6.61% to 12% and 4.75% to 7.6%, during 2000 and 1999, respectively.

Commercial papers-short term, which are guaranteed by CitiBank and Hong Kong Shanghai Bank bearing an interest rate of 5% at November 30, 2000 and 1999, are as follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Commercial papers payable	$2,267	$1,116
Less: unamortized discount	(9)	(9)
Total	$2,258	$1,107

HERCULES CHEMICALS (TAIWAN) CO., LIMITED

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

7. ACCRUED EXPENSES

	2000	1999
	(DOLLARS IN THOUSANDS)	
Other accrued expenses	$1,010	$ 673
Payroll and employee benefits	450	540
Restructuring reserves	1,199	512
Accrued royalty expenses	593	1,038
Total	$3,252	$2,763

8. OTHER EXPENSES, NET

Other income (expenses), net consist of the following:

	2000	1999	1998

	(DOLLARS IN THOUSANDS)		
Interest expense	$(256)	$(202)	$(164)
Foreign exchange (loss) gain	11	2	(57)
Interest income	9	10	3
Other (expenses) income	(50)	6	(22)
Total	$ 286	$(184)	$(240)

9. RETIREMENT BENEFITS

The Company has a non-contributory defined benefit plan covering all its of employees in ROC. The Company funds the plan through trust arrangements where the assets of the fund are held separately from the employer. The level of funding is in line with local practice and in accordance with the local tax and supervisory requirements. The following table lists benefit obligations, plan assets, and funded status of the plans:

	2000	1999
	(DOLLARS IN THOUSANDS)	
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at December 1	$2,854	$2,388
Service cost	289	245
Interest cost	157	143
Benefits paid	(489)	--
Translation adjustments	(146)	78
Benefit obligation at November 30	$2,665	$2,854
CHANGE IN PLAN ASSETS		
Fair value of plan assets at December 1	$2,381	$2,107
Actual return on plan assets	144	109
Company contributions	122	101
Benefits paid	(464)	--
Translation adjustments	(114)	64
Fair value of plan assets at November 30	$2,069	$2,381

	2000	1999
	(DOLLARS IN THOUSANDS)	
Funded status of the plan	$ (596)	$ (473)
Unrecognized net (gain) loss	540	--

Unrecognized net transition obligation	--	603
Prepaid (accrued) benefit cost	$ (55)	$ 130
AMOUNTS RECOGNIZED IN THE BALANCE SHEET CONSIST OF:	$ --	$ 336
Prepaid benefit cost	(55)	(206)
Accrued benefit liability	$ 55	$ 130
ASSUMPTIONS AS OF NOVEMBER 30		
Weighted-average discount rate	6%	6%
Expected return on plan assets	6%	6%
Rate of compensation increase	6%	6%

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
COMPONENTS OF NET PERIOD PENSION COST			
Service cost	$ 289	$ 245	$133
Interest cost	157	143	95
Return on plan assets (expected)	(144)	(109)	(81)
Amortization of net (gain) loss	--	22	--
Amortization of transition asset	34	(16)	27
Benefit cost	$ 336	$ 285	$174

10. INCOME TAXES

A summary of the components of the tax provision is as follows:

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Current	$807	$ 11	$57
Deferred	142	205	15
Provision for income taxes	$949	$216	$72

Deferred tax assets consist of the following:

	2000	1999

	(DOLLARS IN THOUSANDS)	
Current items:		
Unrealized expenses	$151	$263
Unrealized foreign exchange loss (gain)	269	(72)
Allowance for doubtful accounts	28	8
	$448	$199
Non-current items:		
Depreciation	$333	$463
Deferred pension cost	92	50
	$425	$513

A reconciliation of the ROC statutory income tax rate to the effective rate as follows:

	2000	1999	1998
Statutory income tax rate	25%	25%	25%
Additional 10% tax imposed on the undistributed earnings	2%	--	--
Non-deductible amortization of goodwill	1%	5%	3%
Non-deductible meals, entertainment and others	1%	8%	8%
Investment tax credit	--	(5)%	(10)%
Other	--	1%	--
Effective tax rate	29%	34%	26%

11. RELATED PARTY TRANSACTIONS

The Company has entered into certain agreements with affiliated entities. These agreements were developed in the context of parent/subsidiary relationship and therefore may not necessarily reflect the result of arms-length negotiations between independent parties. The Company records sales with affiliates based on a cost-plus formula developed and agreed-upon by both parties.

Corporate and other allocations

As discussed in Note 1, the financial statements of the Company reflect certain allocated support costs incurred by other entities in Hercules Group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, research and development overhead, investor relations and other corporate services. Allocations and charges included in the Company's financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on factors such as revenues, net assets, costs of sales or a relative weighting of geographic activity. These allocations are reflected in the selling, general and administrative line item in our statement of operations. Such allocations and corporate charges totaled $427 thousand, $343 thousand, and $235 thousand in 2000, 1999, and 1998, respectively.

Royalty expenses

The Company has an intellectual property license agreement with Hercules under which the Company agreed to pay royalties on a basis rested on certain percentages of the net sales of licensed products. The

agreement expires in December 2004. Royalty expenses were $1,252 thousands $1,286 thousands and $606 thousands for the years ended November 30, 2000, 1999 and 1998, respectively.

Sales to affiliates

The Company sells paper and water treatment chemicals in the normal course of business to affiliated companies. Company's revenues from sales to affiliated companies were $2,372 thousand, $1,199 thousand and $1,050 thousand in 2000, 1999 and 1998, respectively.

Purchases from affiliates

The Company purchases raw materials and resale products for paper and water treatment chemicals in the normal course of business to affiliated companies. Company's expenses from purchases from affiliated companies were $8,338 thousand, $5,557 thousand and $5,264 thousand in 2000, 1999 and 1998, respectively.

12. GOODWILL

Goodwill relates to the Hercules' 1998 purchase of BDTL. At November 30, 2000 and, 1999, goodwill was $14,926 thousand and $16,167 thousand, respectively, (net of accumulated amortization of $890 thousand and $529 thousand respectively). The amortization period for goodwill is 40 years.

13. COMMITMENTS AND CONTINGENCIES

Leases

The Company has operating leases (including office space, transportation, and data processing equipment) expiring at various dates. Rental expense was $307 thousand in 2000, $230 thousand in 1999, and $157 thousand in 1998. At November 30, 2000, minimum rental payments under noncancelable leases aggregated $469 thousand. The net minimum payments over the next four years are $241 thousand in 2001, $95 thousand in 2002, $81 thousand in 2003 and $52 thousand in 2004. There are no payments due in 2005 and thereafter.

Other

At November 30, 2000 the Company has an unused letter of credit amounting to $124 thousands.

14. RESTRUCTURING

Pursuant to the plans in place to merge the operations of BDTL with the Company and to rationalize the support infrastructure and other existing operations, 22 employees (21 related to the 1998 BDTL acquisition) were terminated and one facility was closed during 2000. Cash payments during 2000 amounted to $375 thousands for severance benefits and $15 thousands for other exit costs. Cash payments during 1999 included $348 thousands for severance benefits. In 1998, the Company incurred restructuring liabilities of $1,347 thousands in connection with the acquisition of BDTL (see Notes 1). These liabilities included charges of $723 thousands for employee termination benefits and $624 thousands for exit costs related to facility closures. The restructuring liability was charged to goodwill as part of the purchase price allocation related to the acquisition of BDTL.

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HERCULES CHEMICALS (TAIWAN) CO., LIMITED

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Severance benefits payments are based on years of service and generally continue for 3 months to 24 months subsequent to termination. We expect to substantially complete remaining actions under the plans in 2001. A reconciliation of activity with respect to the liabilities established for these plans is as follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Balance at beginning of year	$ 983	$1,386
Cash payments	(390)	(348)
Balance at end of year	$ 593	$1,038

15. STOCK COMPENSATION

The Company participates in long-term incentive compensation plans sponsored by Hercules. These plans provide for the grant of stock options and the award of common stock and other market-based units to certain key employees and non-employee directors.

In 1995, Hercules changed the structure of the long-term incentive compensation plans to place a greater emphasis on shareholder value creation through grants of regular stock options, performance-accelerated stock options, and cash value awards (performance-based awards denominated in cash and payable in shares of common or restricted stock, subject to the same restrictions as restricted stock). Restricted stock and other market-based units are awarded with respect to certain programs. The number of awarded shares outstanding was 491,488 at November 30, 2000, and 926,689 and 1,083,613 at November 30, 1999 and 1998, respectively.

At November 30, 2000, under Hercules' incentive compensation plans, 1,847,855 shares of common stock were available for grant as stock awards or stock option awards. Stock awards are limited to approximately 15% of the total authorizations. Regular stock options are granted at the market price on the date of grant and are exercisable at various periods from one to five years after date of grant. Performance-accelerated stock options are also granted at the market price on the date of grant and are normally exercisable at nine and one-half years. Exercisability may be accelerated based upon the achievement of predetermined performance goals. Both regular and performance-accelerated stock options expire 10 years after the date of grant.

Restricted shares, options and performance-accelerated stock options are forfeited and revert to Hercules in the event of employment termination, except in the case of death, disability, retirement, or other specified events.

The Company applies APB Opinion 25 in accounting for its plans. Accordingly, no compensation cost has been recognized for the stock option plans. There were no charges to income for the cost of stock awards over the restriction or performance period for 2000, 1999 and 1998, respectively.

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HERCULES CHEMICALS (TAIWAN) CO., LIMITED

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Below is a summary of outstanding stock option grants under the incentive compensation plans during 2000, 1999 and 1998:

	REGULAR	
	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE
December 1, 1998	5,900	$39.50
Granted	700	$47.81
Exercised	--	--
Forfeited	--	--
November 30, 1998	6,600	$40.38
Granted	7,650	$37.74
Exercised	--	--
Forfeited	--	--
November 30, 1999	14,250	$38.96
Granted	--	--
Exercised	--	--
Forfeited	--	--
November 30, 2000	14,250	$38.96

There were no performance-accelerated stock options granted or outstanding during 2000, 1999 and 1998.

The weighted-average fair value of regular stock options granted during 1999 and 1998 was $8.26 and $12.88, respectively.

Following is a summary of regular stock options exercisable at November 31, 2000, 1999, and 1998, and their respective weighted-average share prices:

OPTIONS EXERCISABLE	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE
November 30, 1998	2,360	$39.50
November 30, 1999	5,000	$39.97

November 30, 2000...	9,520	$39.42

Following is a summary of stock options outstanding at December 31, 2000:

	OUTSTANDING OPTIONS			EXERCISAB
EXERCISE PRICE RANGE	NUMBER OUTSTANDING AT 11/30/00	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 11/30/00
Regular Stock Options				
$30 - $40	13,550	7.58	$38.50	8,960
$40 - $50	700	7.35	$47.81	560
	14,250			9,520

The company's employees may also participate in the Hercules Employee Stock Purchase Plan ("ESPP"). The ESPP is a qualified non-compensatory plan, which allows eligible employees to acquire shares of common stock through systematic payroll deductions. The plan consists of three-month subscription periods, beginning July 1 of each year. The purchase price is 85% of the fair market value of the common stock on either the first or last day of that subscription period, whichever is lower. Purchases may range from 2% to 15% of an employee's base salary each pay period, subject to certain limitations. Currently, 202,139

shares of Hercules Group common stock are registered for offer and sale under the plan. Shares issued at November 30, 2000 and 1999, were 1,597,861 and 949,464, respectively. The Company applies APB Opinion 25 and related interpretations in accounting for its Employee Stock Purchase Plan. Accordingly, no compensation cost has been recognized for the Employee Stock Purchase Plan.

Had compensation cost for Hercules' Stock-Based Incentive Plans and Employee Stock Purchase Plan been determined on the basis of fair value according to SFAS No. 123, the fair value of each option granted or share purchased would be estimated on the grant date using the Black-Scholes option pricing model.

The following weighted-average assumptions would be used in estimating fair value for 2000, 1999 and 1998:

ASSUMPTION	REGULAR PLAN	PERFORMANCE ACCELERATED PLAN	EMPLOYEE STOCK PURCHASE PLAN
Dividend yield..................................	2%	3.4%	0.0%
Risk-free interest rate.......................	5.88%	5.38%	5.41%
Expected life.................................	7.1 yrs.	5 yrs.	3 mos.

Expected volatility	29.20%	27.31%	44.86%

The Company's net income for 2000, 1999 and 1998 would approximate the pro forma amounts below:

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Net income			
As reported	$2,298	$415	$209
Pro forma	$2,277	$395	$193

16. NET HERCULES GROUP INVESTMENT

Changes in Net Hercules Group Investment were as follows:

	(DOLLARS IN THOUSANDS)
Balance, December 1, 1997	$ 4,577
Net income	209
Other comprehensive income, (net of tax of $120)	(359)
Intercompany transaction, net	22,600
Balance, November 30, 1998	27,027
Net income	415
Other comprehensive income, (net of tax of $182)	547
Intercompany transaction, net	(2,723)
Balance, November 30, 1999	25,266
Net income	2,298
Other comprehensive income, (net of tax of $334)	(1,002)
Intercompany transaction, net	764
Balance, November 30, 2000	$27,326

The Company includes accumulated other comprehensive income in net parent investment. At November 30, 2000 and 1999, accumulated other comprehensive income foreign currency translation adjustments only.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
Hercules Incorporated
Wilmington, Delaware

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and of cash flows present fairly, in all material respects, the financial position of Hercules Credit, Inc., a subsidiary of Hercules Incorporated, and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania

October 10, 2001

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HERCULES CREDIT, INC.

CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Sales to third parties	$274,775	$295,473	$349,179
Sales to Hercules Group	63,033	62,657	57,528
	337,808	358,130	406,707
Cost of sales	227,272	250,066	278,091
Selling, general, and administrative expenses	50,599	57,745	50,458
Research and development	11,780	12,078	11,588
Goodwill and intangible asset amortization	1,014	1,014	1,014
Other operating expenses, net (Note 12)	22,259	3,554	10,245
Profit from operations	24,884	33,673	55,311
Equity Income in affiliated companies	9,423	7,358	6,028
Interest and debt expense	417	547	440
Other (income) expense, net	(1,468)	903	(469)
Income before income taxes and minority interest	35,358	39,581	61,368
Provision for income taxes (Note 14)	14,241	15,707	24,644
Income before minority interest	21,117	23,874	36,724
Minority interest	(164)	(215)	(336)
Net income	$ 20,953	$ 23,659	$ 36,388

The accompanying notes are an integral part of the consolidated financial statements.

HERCULES CREDIT, INC.

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2000	DECEMBER 31, 1999
	(DOLLARS IN THOUSANDS)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,592	$ 1,933
Accounts receivable, net (Note 3)	35,743	46,045
Notes receivable (Note 4)	3,600	--
Inventories (Note 5)	45,409	52,493
Other current assets	4,691	4,491
Total current assets	92,035	104,962
Property, plant, and equipment, net (Note 8)	92,229	92,652
Notes receivable (Note 4)	3,000	--
Investments (Note 9)	93,046	87,070
Goodwill and other intangible assets, net (Note 10)	28,550	29,564
Deferred charges and other assets	5,382	5,676
Total assets	$314,242	$319,924
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 17,724	$ 24,323
Short-term debt (Note 6)	--	1,650
Current tax liability	33,600	44,690
Accrued expenses (Note 8)	25,590	26,750
Total current liabilities	76,974	97,413
Deferred income taxes (Note 14)	7,720	6,061
Pension and other postretirement benefits (Note 11)	110	(17)
Environmental and other liabilities	32,863	21,816
Total liabilities	117,667	125,273
Commitments and contingencies (Note 17)	--	--
Minority interest	3,800	3,636
Net Hercules Group Investment	192,775	191,015
Total liabilities and Net Hercules Group Investment	$314,242	$319,924

The accompanying notes are an integral part of the consolidated financial statements.

HERCULES CREDIT, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31, 2000	1999	1998
	(DOLLARS IN THOUSANDS)		
CASH FLOW FROM OPERATING ACTIVITIES:			
Net Income	$ 20,953	$ 23,659	$ 36,388
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	9,861	11,131	12,019
Amortization	1,014	1,014	1,014
Loss on disposal (Note 14)	6,854	6,500	--
Loss on impairment of fixed assets (Note 12)	--	2,000	15,300
Affiliates' earnings in excess of dividends received	(9,423)	(7,358)	(6,028)
Minority Loss	164	215	336
Corporate and other cost allocations	17,569	25,148	19,105
Accruals and deferrals of cash receipts and payments:			
Accounts receivable and other assets	10,103	4,523	5,930
Inventories	7,084	5,112	(7,483)
Accounts payable and accrued expenses	(16,324)	258	9,364
Environmental and other assets and liabilities	832	(5,496)	3,932
Net cash provided by operations	48,687	66,706	89,877
CASH FLOW FROM INVESTING ACTIVITIES:			
Capital expenditures	(9,437)	(12,133)	(20,856)
Investment in affiliate	(179)	254	(63)
Net cash used in investing activities	(9,616)	(11,879)	(20,919)
CASH FLOW FROM FINANCING ACTIVITIES:			
Repayment of debt	(1,650)	--	(13)
Transfers to/from Hercules Group	(36,762)	(57,115)	(64,878)
Net cash used in financing activities	(38,412)	(57,115)	(64,891)
Net increase (decrease) in cash and cash equivalents	659	(2,288)	4,067
Cash and cash equivalents at beginning of year	1,933	4,221	154
Cash and cash equivalents at end of year	$ 2,592	$ 1,933	$ 4,221
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 417	$ 547	$ 440
Income taxes	$ 23,614	$ 22,697	$ 10,022
Noncash financing activities			
Issuance of note receivable	6,600	--	--
Corporate and other cost allocations	17,569	25,148	19,105

The accompanying notes are an integral part of the consolidated financial statements.

HERCULES CREDIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Hercules Credit, Inc., ("Credit" or the "Company") is a U.S. holding company which owns 99.4182% of Aqualon Company ("Aqualon") and 20% of Hercules Finance. Credit, Aqualon and Hercules Finance are wholly owned subsidiaries of Hercules Incorporated (Hercules).

Historically, separate company stand-alone financial statements were not prepared for Credit. In November 2000, Hercules amended its senior credit facility and ESOP credit facility (the "facilities"). The facilities, as amended, are secured by liens on Hercules' property and assets (and those of Hercules' Canadian Subsidiaries), a pledge of the stock of substantially all of Hercules' domestic subsidiaries (including Hercules Credit) and 65% of the stock of foreign subsidiaries directly owned by Hercules, and a pledge of Hercules' domestic intercompany indebtedness. These financial statements present the financial information on Credit, a collateral party to the Hercules debt, based on Hercules' understanding of Securities and Exchange Commission's interpretation and application of Rule 3-16 under the Securities and Exchange Commission's Regulation S-X. These statements were derived from historical accounting records.

As an operating division of Hercules, Credit participates in Hercules' centralized cash management system. Accordingly, cash received from Credit's operations is transferred to Hercules on a periodic basis, and Hercules funds all operational and capital requirements.

The financial statements of Credit reflect certain allocated support costs incurred by other entities in the Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in Credit's financial statements were based on either a direct cost pass-through for items directly identified as related to Credit's activities; a percentage allocation for such services provided based on factors such as sales, net assets, or cost of sales; or a relative weighting of geographic activity. Management believes that the allocation methods are reasonable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Credit and its' subsidiary, Aqualon. All intercompany transactions and profits have been eliminated.

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer or services are performed in accordance with terms of the agreement, title and risk of loss have been transferred, collectibility is probable, and pricing is fixed and determinable. Accruals are made for sales returns and other allowances based on Credit's experience. The corresponding shipping and handling costs are included in cost of sales.

Environmental Expenditures

Environmental expenditures that pertain to current operations or future revenues are expensed or capitalized according to Credit's capitalization policy. Expenditures for remediation of an existing condition

caused by past operations that do not contribute to current or future revenues are expensed. Liabilities are recognized for remedial activities when the cleanup is probable and can be reasonably estimated.

Cash and Cash Equivalents

Cash equivalents include commercial paper and other securities with original maturities of 90 days or less. Book value approximates fair value because of the short maturity of those instruments.

Inventories

Inventories are stated at the lower of cost or market. Inventories are valued at standard cost which approximates the average cost method.

Property and Depreciation

Property, plant, and equipment are stated at cost and depreciated using the straight-line method. The estimated useful lives of depreciable assets are as follows: buildings -- 30 years; plant, machinery and equipment -- 15 years; other machinery and equipment -- 3 to 15 years.

Maintenance, repairs, and minor renewals are charged to income; major renewals and betterments are capitalized. Upon normal retirement or replacement, the cost of property (less proceeds of sale or salvage) is charged to income.

Goodwill

Goodwill and other intangible assets are amortized on a straight-line basis over the estimated future periods to be benefited, generally 40 years for goodwill, customer relationships, and trademarks and tradenames and 5 to 15 years for other intangible assets.

Long-lived Assets

Credit reviews its long-lived assets, including goodwill and other intangibles, for impairment on an exception basis whenever events or changes in circumstances indicate carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If an impairment loss has occurred based on expected future cash flows (undiscounted), the loss is recognized in the income statement. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset. The fair value represents expected future cash flows from the use of the assets, discounted at the rate used to evaluate potential investments.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. Concentrations of credit risk with respect to trade receivables are limited due to the Company's large number of customers and their dispersion across many different industries and locations.

Financial Instruments

The Company uses various non-derivative financial instruments, including letters of credit, and generally does not require collateral to support its financial instruments.

Stock-based Compensation

Compensation costs attributable to stock option and similar plans are recognized based on any excess of the quoted market price of the stock on the date of grant over the amount the employee is required to pay to acquire the stock (the intrinsic-value method under Accounting Principles Board Opinion 25 (APB 25)). Such amount, if any, is accrued over the related vesting period, as appropriate. Statement of Financial Accounting Standard No. 123, "Accounting for Stock-based Compensation," requires companies electing to continue to use the intrinsic-value method to make pro forma disclosures of net income as if the fair-value-based method of accounting had been applied.

Computer Software Costs

Effective January 1, 1999, Credit adopted the American Institute of Certified Public Accountants Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). Our prior accounting was generally consistent with the requirements of SOP 98-1 and, accordingly, adoption of SOP 98-1 had no material effect. Computer software costs are being amortized over a period of 5 to 10 years.

Income Taxes

The Company's operations have historically been included in the consolidated tax returns filed by its parent. Income tax expense in the accompanying financial statements have been computed assuming the Company filed separate income tax returns. Differences between this calculation of income taxes currently payable and consolidated amounts reported in the consolidated financial statements of the parent have been reflected as net Hercules Group investment.

Research and Development

Research and development expenditures are expensed as incurred.

Net Hercules Group Investment

The net Hercules Group investment account reflects the balance of Credit's historical earnings, intercompany amounts, income taxes, taxes accrued and deferred, post-employment liabilities and other transactions between Credit and the Hercules Group.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133" and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," requires that all derivative instruments be recorded on the balance sheet at their fair value. This statement, as amended, is effective for all fiscal quarters of fiscal years beginning after December 31, 2000. The adoption of SFAS No. 133 did not have a material effect on its earnings or statement of financial position.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by SAB Nos. 101A and 101B, was to be effective October 1, 2000. Hercules Credit adopted SAB

101 effective as of December 31, 2000. Adoption of SAB 101 did not have a material effect on our profit from operations.

In June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). For Credit, these statements will generally become effective January 1, 2002, although business combinations initiated after June 30, 2001 are subject to the non-amortization and purchase accounting provisions.

SFAS 142 stipulates that goodwill and other intangible assets with indefinite lives are no longer subject to amortization, but must be evaluated periodically for impairment beginning January 1, 2002. Hercules Credit is currently in the process of conducting an assessment of the actual impact of the non-amortization provision of SFAS 142. The assessment of goodwill for impairment is a complex issue in which the Company must determine, among other things, the fair value of each defined reporting unit. It is, therefore, not possible at this time to predict the impact, if any, that the impairment assessment provisions of SFAS 142 will have on Credit's financial statements.

In addition, in June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 establishes accounting standards for the recognition and measurement of legal obligations associated with the retirement of tangible long-lived assts. SFAS 143 will become effective for the Company from January 1, 2003 and requires recognition of a liability for an asset retirement obligation in the period in which it is incurred. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived

Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, consists of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Trade	$36,413	$46,865
Less allowance for doubtful accounts	(670)	(820)
Total	$35,743	$46,045

4. NOTE RECEIVABLE

Notes receivable as of December 31, 2000, consist of a $6,600 thousand 30-day demand note from Greentree Chemical Technologies, Inc. (Greentree), related to the divestiture of the Nitrocellulose business in June 2000. On January 8, 2001, the Company received $3,600 thousand in cash from Greentree and issued a new unsecured demand note to Greentree for $3,000 thousand, due June 30, 2005. The new note carries an interest rate of 13.5% until May 1, 2001; thereafter, the interest rate is equal to Prime +7.5% for the remaining duration of the note.

5. INVENTORIES

The components of inventories are:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Finished products	$27,754	$34,330
Raw material and supplies	15,613	14,594
Work in process	2,042	3,569
Total	$45,409	$52,493

6. SHORT-TERM DEBT

Short-term debt of $1,650 thousand at December 31, 1999 consists of an Industrial Revenue Bond from the Industrial Development Authority of the city of

Hopewell, Virginia. This debt carried an interest rate of 8%. The principal and interest was paid in June 2000.

7. LONG-TERM INCENTIVE COMPENSATION PLANS

The Company participates in long-term incentive compensation plans sponsored by Hercules. These plans provide for the grant of stock options and the award of common stock and other market-based units to certain key employees and non-employee directors.

In 1995, Hercules changed the structure of the long-term incentive compensation plans to place a greater emphasis on shareholder value creation through grants of regular stock options, performance-accelerated stock options, and Cash Value Awards (performance-based awards denominated in cash and payable in shares of common or restricted stock, subject to the same restrictions as restricted stock). Restricted stock and other market-based units are awarded with respect to certain programs. The number of awarded shares outstanding was 491,488 at December 31, 2000, and 926,689 and 1,083,613 at December 31, 1999 and 1998, respectively.

At December 31, 2000, under Hercules' incentive compensation plans, 1,847,855 shares of common stock were available for grant as stock awards or stock option awards. Stock awards are limited to approximately 15% of the total authorizations. Regular stock options are granted at the market price on the date of grant and are exercisable at various periods from one to five years after date of grant. Performance-accelerated stock options are also granted at the market price on the date of grant and are normally exercisable at nine and one-half years. Exercisability may be accelerated based upon the achievement of predetermined performance goals. Both regular and performance-accelerated stock options expire 10 years after the date of grant.

Restricted shares, options and performance-accelerated stock options are forfeited and revert to Hercules in the event of employment termination, except in the case of death, disability, retirement, or other specified events.

The Company applies APB Opinion 25 in accounting for its plans. Accordingly, no compensation cost has been recognized for the stock option plans. There were no charges to income for the cost of stock awards over the restriction or performance period for 2000, 1999 and 1998, respectively.

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HERCULES CREDIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Below is a summary of outstanding stock option grants under the incentive compensation plans during 2000, 1999 and 1998:

	REGULAR		PERFORMANCE-ACCELERA	
	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE	NUMBER OF SHARES	WEIGHTED-A PRICE
January 1, 1998	195,870	$42.18	72,000	$45.9
Granted	145,225	$35.84	64,645	$47.2
Exercised	--	--	--	-
Forfeited	(3,690)	$39.50	--	-

December 31, 1998.....................	337,405	$39.48	136,645	$46.5
Granted...............................	71,875	$37.73	69,980	$37.5
Exercised.............................	(1,050)	$16.21	--	-
Forfeited.............................	(3,910)	$39.50	--	-
December 31, 1999.....................	404,320	$39.23	206,625	$43.5
Granted...............................	129,800	$17.20	--	-
Exercised.............................	--	--	--	-
Forfeited.............................	(39,250)	$39.50	--	-
December 31, 2000.....................	494,870	$33.43	206,625	$43.5

The weighted-average fair value of regular stock options granted during 2000, 1999 and 1998 was $8.85, $8.26 and $9.20, respectively. The weighted-average fair value of performance-accelerated stock options granted during 1999 and 1998 was $8.01 and $11.01, respectively.

Following is a summary of regular stock options exercisable at December 31, 2000, 1999, and 1998, and their respective weighted-average share prices:

OPTIONS EXERCISABLE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
December 31, 1998................................	95,194	$43.18
December 31, 1999................................	224,230	$40.49
December 31, 2000................................	293,370	$39.20

There were no performance-accelerated stock options exercisable at December 31, 2000, 1999 and 1998.

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HERCULES CREDIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Following is a summary of stock options outstanding at December 31, 2000:

	OUTSTANDING OPTIONS			EXERCISAB
EXERCISE PRICE RANGE	NUMBER OUTSTANDING AT 12/31/00	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/00
Regular Stock Options				
$12 - $20	129,800	9.14	$17.20	2,950
$20 - $30	76,475	7.67	$25.56	63,700
$30 - $40	174,025	7.23	$38.77	130,900
$40 - $50	85,970	6.73	$47.27	74,720
$50 - $60	28,600	5.56	$54.03	21,100
	494,870			293,370

Performance-Accelerated Stock

Options				
$14 - $40	104,655	7.69	$38.16	--
$40 - $50	81,270	6.70	$47.40	--
$50 - $61	20,700	5.18	$55.40	--
	206,625			--

Hercules currently expects that 100% of performance-accelerated stock options will eventually vest.

Credit employees may also participate in the Hercules Employee Stock Purchase Plan. The ESSP is a qualified non-compensatory plan, which allows eligible employees to acquire shares of common stock through systematic payroll deductions. The plan consists of three-month subscription periods, beginning July 1 of each year. The purchase price is 85% of the fair market value of the common stock on either the first or last day of that subscription period, whichever is lower. Purchases may range from 2% to 15% of an employee's base salary each pay period, subject to certain limitations. Currently, 202,139 shares of Hercules common stock are registered for offer and sale under the plan. Shares issued at December 31, 2000 and 1999, were 1,597,861 and 949,464, respectively. Hercules applies APB Opinion 25 and related interpretations in accounting for its Employee Stock Purchase Plan. Accordingly, no compensation cost has been recognized for the Employee Stock Purchase Plan.

Had compensation cost for Hercules' Stock-Based Incentive Plans and Employee Stock Purchase Plan been determined on the basis of fair value according to SFAS No. 123, the fair value of each option granted or share purchased would be estimated on the grant date using the Black-Scholes option pricing model.

The following weighted-average assumptions would be used in estimating fair value for 2000, 1999 and 1998:

ASSUMPTION	REGULAR PLAN	PERFORMANCE ACCELERATED PLAN	EMPLOYEE STOCK PURCHASE PLAN
Dividend yield...............................	2%	3.4%	0.0%
Risk-free interest rate	5.88%	5.38%	5.41%
Expected life................................	7.1 yrs.	5 yrs.	3 mos.
Expected volatility..........................	29.20%	27.31%	44.86%

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HERCULES CREDIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company's net income for 2000, 1999 and 1998 would approximate the pro forma amounts below:

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		

Net income			
As reported	$20,953	$23,659	$36,388
Pro forma	$19,328	$22,110	$35,073

8. ADDITIONAL BALANCE SHEET DETAIL

	2000	1999
	(DOLLARS IN THOUSANDS)	
Property, plant, and equipment		
Land	$ 527	$ 527
Buildings and equipment	365,202	517,905
Construction in progress	11,909	5,503
Total	377,638	523,935
Accumulated depreciation and amortization	285,409	431,283
Net property, plant, and equipment	$ 92,229	$ 92,652
Accrued expenses		
Payroll and employee benefits	$ 4,685	$ 4,298
Nitrocellulose inventory disposal cost reserve	6,478	6,500
Current environmental reserve	4,686	4,670
Other	9,741	11,282
Total	$ 25,590	$ 26,750

9. INVESTMENTS

Summarized financial information for Hercules Finance Company at December 31, 2000 and 1999, and the three years then ended is as follows:

	2000	1999
Assets	$ 55	$ 225
Net Hercules Group Investment	55	225

	2000	1999	1998
Interest income	$ 1,235	$ 1,274	$27,811
Interest income from Hercules Group	48,011	38,582	8,128
Corporate and other cost allocations	(2,132)	(3,067)	(2,283)
Other expense	--	--	(3,518)
Net income	47,114	36,789	30,138

10. GOODWILL

Goodwill relates to the Company's 1989 purchase of Henkel's 50% ownership interest in Aqualon. At December 31, 2000 and December 31, 1999, goodwill was $28,550 thousand and $29,564 thousand, respectively, (net of accumulated amortization of $11,994 thousand and $10,980 thousand respectively). The amortization period for goodwill is 40 years.

11. RESTRUCTURING

In 2000 and 1999, Credit incurred $1,662 thousand and $1,912 thousand, respectively, related to employee reductions at Parlin, NJ, Louisiana, MO, and Hopewell, VA, manufacturing sites. There are no remaining amounts to be paid.

Severance benefits payments are based on years of service. A reconciliation of activity with respect to the liabilities established for these plans is as follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Balance at beginning of year	$ --	$1,466
Additional termination benefits and other exit costs	1,662	446
Cash payments	(1,662)	(1,912)
Balance at end of year	$ --	$ --

12. PENSION AND OTHER POSTRETIREMENT BENEFITS

Credit participates in a defined benefit pension plan sponsored by Hercules, which covers substantially all employees of Hercules in the U.S. Benefits under this plan are based on the average final pay and years of service. Hercules also provides post-retirement health care and life insurance benefits to eligible retired employees and their dependents.

Information on the actuarial present value of the benefit obligation and fair value of the plan assets is not presented as Hercules manages its U.S. employee benefit plans on a consolidated basis and such information is not maintained separately for the U.S. employees of the Company. The Company's statement of operations includes an allocation of the costs of the U.S. benefits plans. The pension costs were allocated based on percentage of pensionable wages, for each of the years presented, post-retirement benefit costs were allocated using factors derived from the relative net assets and revenues. Net pension income of Hercules allocated to the Company was $3,367 thousand, $3,810 thousand, and $4,069 thousand for the years ended December 31, 2000, 1999 and 1998, respectively, and post-retirement benefit expense was $2,462 thousand, $1,774 thousand, and $1,813 thousand for the years ended December 31, 2000, 1999 and 1998, respectively.

13. OTHER OPERATING EXPENSES, NET

Other operating expenses, net, consists of the following:

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Loss on disposal of Nitrocellulose	$25,241	$ 6,500	$ --
Asset impairments	--	2,000	15,300
Environmental charges	2,617	3,020	2,151
Restructuring charges	1,662	446	1,466
Royalties received	(7,613)	(8,474)	(8,734)
Other	352	62	62
Total	$22,259	$ 3,554	$10,245

In 1998, the Nitrocellulose fixed assets at Parlin, NJ were deemed to be impaired; Nitrocellulose capital expenditures in 1999 were also impaired.

14. INCOME TAXES

The domestic components of income before taxes are presented below:

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Domestic	$35,358	$39,581	$61,368
	$35,358	$39,581	$61,368

A summary of the components of the tax provision follows:

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Currently payable			
Domestic	$12,583	$23,612	$22,697
Deferred			
Domestic	1,658	(7,905)	1,947
Provision for income taxes	$14,241	$15,707	$24,644

Deferred tax liabilities (assets) at December 31 consists of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Amortization	7	7
Partnership interest	12,151	11,116
Other	704	704
Gross deferred tax liabilities	$12,862	$11,827
Depreciation	$ (217)	$ (196)
Deemed rent	(425)	(425)
Lease liability	(4,500)	(5,145)
Gross deferred tax assets	(5,142)	(5,766)
Valuation allowance	--	--
	$ 7,720	$ 6,061

A reconciliation of the statutory income tax rate to the effective rate follows:

	2000	1999	1998
Statutory income tax rate	35%	35%	35%
State Taxes	5	5	5
	40%	40%	40%

HERCULES CREDIT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

15. NET HERCULES GROUP INVESTMENT

Changes in net Hercules Group investment were as follows:

	(DOLLARS IN THOUSANDS)
Balance, January 1, 1998	$208,708
Net income	36,388
Intercompany transactions, net	(45,773)
Balance, December 31, 1998	199,323
Net income	23,659
Intercompany transactions, net	(31,967)
Balance, December 31, 1999	191,015

Net income	20,953
Intercompany transactions, net	(19,193)
Balance, December 31, 2000	$192,775

16. DIVESTITURES

In June 2000, the Company divested its Nitrocellulose operation at Parlin, NJ to Greentree Chemical Technologies, Inc. As a result of the transaction, the Company received a $6,600 thousand note (see note 4) and recorded a one-time pre-tax loss of $25,241 thousand, primarily for employee termination benefits, inventory transfer and disposal, environmental liabilities, and other miscellaneous expenses, of which $18,387 thousand has been expended. The Company terminated approximately 100 employees associated with the Nitrocellulose operation at Parlin, NJ, which resulted in severance payments of $4 million. Nitrocellulose revenues were $23,503 thousand, $58,526 thousand, and $59,944 thousand in 2000, 1999, and 1998, respectively.

17. COMMITMENTS AND CONTINGENCIES

Leases

The Company has operating leases (including office space, transportation, and data processing equipment) expiring at various dates. Rental expense was $3,215 thousand in 2000, $3,446 thousand in 1999, and $2,903 thousand in 1998.

At December 31, 2000, minimum rental payments under noncancelable leases aggregated $771 thousand. The net minimum payments over the next five years are $2,351 thousand in 2001, $2,295 thousand in 2002, $2,203 thousand in 2003, $2,081 thousand in 2004, and $2,065 thousand in 2005.

Litigation

The Company currently and from time to time is involved in litigation incidental to the conduct of its business. In the opinion of Credit's management, none of such litigation as of December 31, 2000 is likely to have a material adverse effect on the financial position and results of operations of Credit.

Environmental

The Company has established accruals for the estimated cost of environmental remediation and/or cleanup at various sites. The estimated range of the reasonable possible share of costs for investigation and cleanup is between $25 million and $46 million. The actual costs will depend upon numerous factors, including

the number of parties found to be responsible at each environmental site and their ability to pay; the actual methods of remediation required or agreed to; the outcomes of negotiations with regulatory authorities; outcomes of litigation; changes in environmental laws and regulations; technological developments; and the number of years of remedial activity required, which could range from 0 to 30 years. As of December 31, 2000, the accrued liability of $25 million for environmental remediation represents management's best estimate of the probable and reasonably estimable costs related to environmental remediation. Credit estimates that these liabilities will be paid over the next five years. The extent of liability is evaluated quarterly. The measurement of the liability is evaluated based on currently available information, including the process of remedial investigations at each site and the current status of negotiations with regulatory authorities regarding the method and extent of apportionment of costs among other potentially responsible parties. The Company is unaware of any unasserted claims and has not reflected them in the reserve. While it is not feasible to predict the outcome of all pending suits and claims, the ultimate resolution of these environmental matters could have a material effect upon the results of operations and the financial position of The Company.

Other

As of December 31, 2000, The Company had $4.3 million in letters of credit outstanding with lenders.

18. RELATED PARTY TRANSACTIONS

The Company has entered into certain agreements with affiliated entities. These agreements were developed in the context of parent/subsidiary relationship and therefore may not necessarily reflect the result of arms-length negotiations between independent parties. The Company records sales with affiliates based on a cost-plus formula developed and agreed-upon by both parties.

Corporate and other cost allocations: As discussed in Note 1, the financial statements of The Company reflect certain allocated support costs incurred by other entities in Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, research and development overhead, investor relations and other corporate services. Allocations and charges included in Credit's financial statements were based on either a direct cost pass-through for items directly identified as related to Credit's activities; a percentage allocation for such services provided based on factors such as revenues, net assets, costs of sales or a relative weighting of geographic activity. These allocations are reflected in the selling, general and administrative line item in our statement of operations. Such allocations and corporate charges totaled $17,569 thousand, $25,148 thousand, and $19,105 thousand in 2000, 1999 and 1998, respectively.

Royalties: Credit entered into a license agreement in respect of the use of manufacturing formulations and specifications by affiliated companies which are developed and owned by The Company. The Company received royalties in respect of this agreement of $7,613 thousand, $8,474 thousand, and $8,734 thousand in 2000, 1999 and 1998, respectively. The royalties are included as reductions to other operating expenses in the financial statements.

Purchases from affiliates: The Company purchases a broad range of products in the normal course of business from affiliated companies. Credit's purchases from affiliated companies were $23,457 thousand, $23,598 thousand, and $50,022 thousand in 2000, 1999 and 1998, respectively.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of

Hercules Incorporated
Wilmington, Delaware

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive loss and of cash flows present fairly, in all material respects, the financial position of Hercules GB Holdings Limited, a subsidiary of Hercules Incorporated, and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers
Liverpool, United Kingdom

22 October 2001

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HERCULES GB HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	DECEMBER 31	
	2000	1999
	(DOLLARS IN THOUSANDS)	
Sales to third parties	$123,301	$136,056
Sales to Hercules Group	23,072	22,334
	146,373	158,390
Cost of sales	85,980	92,200
Selling, general, and administrative expenses	36,198	39,887
Goodwill and intangible asset amortization	4,608	4,875
Other operating expenses, net (Note 12)	6,373	5,618
Profit from operations	13,214	15,810
Interest and debt expense (Note 13)	(11,678)	(4,827)
Other (expense) income, net (Note 14)	85	(111)
Income before income taxes	1,621	10,872
Provision for income taxes (Note 16)	(1,960)	(4,817)
Net (loss) income	$ (339)	$ 6,055
Translation adjustments	(2,534)	(8,724)

Comprehensive Loss	$ (2,873)	$ (2,669)

The accompanying notes are an integral part
of the consolidated financial statements

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HERCULES GB HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31	
	2000	1999
	(DOLLARS IN THOUSANDS)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,057	$ 1,445
Accounts receivable, net (Note 3)	34,146	35,772
Inventories (Note 4)	8,312	13,108
Total current assets	43,515	50,325
Property, plant, and equipment, net (Note 8)	29,687	33,626
Goodwill and other intangible assets, net (Note 9)	139,157	155,762
Prepaid pension (Note 11)	7,786	5,955
Deferred charges and other assets	1,722	2,314
Total assets	$221,867	$247,982
LIABILITIES AND NET HERCULES GROUP INVESTMENT		
Current liabilities		
Accounts payable	$ 11,893	$ 13,923
Short-term debt (Note 5)	4,469	251
Accrued expenses (Note 8)	9,961	10,871
Total current liabilities	26,323	25,045
Deferred income taxes (Note 16)	4,831	4,828
Total liabilities	31,154	29,873
Commitments and contingencies (Note 17)	--	--
Net Hercules Group Investment (Note 15)		
Accumulated other comprehensive income	(6,388)	(3,854)
Intercompany transactions	197,101	221,963
Net Hercules Group Investment	190,713	218,109
Total liabilities and Net Hercules Group Investment	$221,867	$247,982

The accompanying notes are an integral part of the consolidated financial statements

HERCULES GB HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

	DECEMBER 31	
	2000	1999
	(DOLLARS IN THOUSANDS)	
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income	$ (339)	$ 6,055
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation of property, plant and equipment	3,431	2,921
Amortization of goodwill and other intangible assets	4,608	4,875
Nonoperating gain on disposals	214	307
Movement on deferred tax provision	410	1,615
Corporate cost allocations	1,917	3,593
Prepaid pension expense and other deferred charges	(1,753)	(888)
Accruals and deferrals of cash receipts and payments:		
Accounts receivable	(1,194)	1,235
Transfers to Hercules Group	(11,064)	(4,665)
Inventories	3,861	(403)
Accounts payable and accrued expenses	(1,124)	(4,308)
Net cash (used in) provided by operations	(1,033)	10,337
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures	(2,419)	(5,587)
Proceeds of fixed asset disposals	112	1,093
Acquisitions	(255)	(253)
Net cash used in investing activities	(2,562)	(4,747)
CASH FLOW FROM FINANCING ACTIVITIES:		
Transfers to Hercules Group	(1,067)	(8,855)
New loan proceeds	4,571	254
Loan repayments	(190)	--
Net cash provided by (used in) financing activities	3,314	(8,601)
Effect of exchange rate changes on cash	(107)	(159)
Net decrease in cash and cash equivalents	(388)	(3,170)
Cash and cash equivalents at beginning of year	1,445	4,615
Cash and cash equivalents at end of year	$ 1,057	$ 1,445
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during year for:		
Income taxes	$ 1,550	6,911

Interest...	4,982	7,830
NON CASH FINANCING ACTIVITIES		
Corporate cost allocations................................	$ 1,917	3,593

The accompanying notes are an integral part of the consolidated financial statements.

HERCULES GB HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Hercules GB Holdings Limited (referred to singly or together with its subsidiaries as "the Company") is the intermediate United Kingdom holding company (directly or indirectly) of all entities in the United Kingdom in the ultimate ownership of Hercules Incorporated (Wilmington, Delaware, USA) ("Hercules"), with the sole exception of Citrus Colloids Limited which is not included in these consolidated statements. Hercules and its wholly owned subsidiaries comprise the Hercules Group. The two principle operating subsidiaries are Hercules Limited, engaged in the manufacture and merchanting of functional chemicals and food ingredients and BetzDearborn Limited engaged in the manufacture and marketing of water and process treatment chemicals and ancilliary equipment.

BetzDearborn Limited became a subsidiary of the Company following the acquisition by Hercules on 15th October, 1998, of all of the outstanding shares of BetzDearborn Inc. (formerly the ultimate parent company of BetzDearborn Limited). Hercules paid $2,235 million in cash and $186 million in common stock exchanged for the shares held by the BetzDearborn ESOP Trust. The purchase price allocated to the Company and its subsidiaries was approximately $123 million. During 1999, Hercules completed the purchase price allocation and the final determination of goodwill was $1,822 million of which the amount attributable to the Company was approximately $146 million. These financial statements include the push down of fair value adjustments to assets and liabilities, including goodwill, other intangible assets and property, plant and equipment and their related amortization and depreciation adjustments.

Hercules GB Holdings Limited was set up in June 1999 to be the principal holding company for Hercules entities based in UK. This was a result of several internal reorganization transactions during 1999 and 2000, that were initiated after the acquisition of BetzDearborn Inc. The reorganization included the Company acquiring nearly all of the existing UK based subsidiaries from other Hercules group of companies. As these reorganization transactions were under the common control of Hercules, they have been accounted for at book value and have been consolidated in a manner similar to pooling of interest.

Historically, separate company stand alone financial statements were not prepared for the Company. In November 2000, Hercules amended its senior credit facility and ESOP credit facility (the "Facilities"). The Facilities, as amended, are secured by liens on Hercules' property and assets (and those of Hercules' Canadian Subsidiaries), a pledge of the stock and partnership and member interests of substantially all of Hercules' domestic subsidiaries and 65% of the stock of foreign subsidiaries directly owned by Hercules, including the Company, and a pledge of Hercules' domestic intercompany indebtedness. These financial statements present the financial information on the Company, a collateral party to the Hercules debt, based on the Hercules' understanding of Securities and Exchange Commission's interpretation and application of Rule 3-16 under the Securities and Exchange Commission's Regulation S-X. These statements were derived from historical accounting records.

The Company participates in Hercules' centralized cash management system. Accordingly, cash received from the Company's operations is transferred to Hercules on a periodic basis, and Hercules funds all operational and capital requirements.

The financial statements of the Company reflect certain allocated support costs incurred by other entities in the Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in the Company's financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on factors such as sales, net assets, or cost of sales; or a relative weighting of geographic activity. Management believes that the allocation methods are reasonable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Hercules GB Holdings Limited and its subsidiaries, listed below, which are all directly or indirectly wholly owned. Following the acquisition of BetzDearborn, the company continued BetzDearborn's practice of using a November 30 fiscal year-end for certain former BetzDearborn non-U.S. subsidiaries to expedite the year-end closing process. All intercompany transactions and profits have been eliminated.

Hercules Investments Global (registered as unlimited February 26, 1999):

- Hercules Limited
- Praf Limited
- Alliance Technical Products Limited
- HUK Trustee Co. Ltd.
- Hercules UK Investments
- Hercules Investments Limited
- Hercules (UK) Investments Finance Ltd.
- BetzDearborn Limited
- Argo Scientific Limited

All the above subsidiaries are registered in the United Kingdom.

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer or services are performed in accordance with terms of the agreement, title and risk of loss have been transferred, collectibility is probable, and pricing is fixed and determinable. Accruals are made for sales returns and other allowances based on the Company's experience. The corresponding shipping and handling costs are included in cost of sales.

Environmental Expenditures

Environmental expenditures that pertain to current operations or future revenues are expensed or capitalized according to the Company's capitalization policy. Expenditures for remediation of an existing condition caused by past operations that do not contribute to current or future revenues are expensed. Liabilities are recognized for remedial activities when the cleanup is probable and can be reasonably estimated.

Cash and Cash Equivalents

Cash in excess of operating requirements is invested in short-term, income-producing instruments and on interest bearing deposit with Hercules Europe NV, the Treasury Co-ordination Center. Cash equivalents include commercial paper and other securities with original maturities of 90 days or less. Book value approximates fair value because of the short maturity of those instruments.

Inventories

Inventories are stated at the lower of cost or market value. Cost is established on a moving average or standard cost basis both of which approximate to actual historic cost.

Property and Depreciation

Property, plant, and equipment are stated at cost. Asset values are depreciated over estimated useful lives on the straight-line method of depreciation. The estimated useful lives of depreciable assets are as follows: buildings -- 30 years; plant, machinery and equipment -- 15 years; other machinery and equipment -- 3 to 15 years; computer software -- 10 years.

Maintenance, repairs, and minor renewals are charged to income; major renewals and improvements are capitalized. Upon normal retirement or replacement, the cost of property (less proceeds of sale or salvage) are expensed.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets are amortized on a straight-line basis over the estimated future periods to be benefited, generally 40 years for goodwill, and 3 to 15 years for other intangible assets.

Long-lived Assets

The company reviews its long-lived assets, including goodwill and other intangibles, for impairment on an exception basis whenever events or changes in circumstances indicate carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If an impairment loss has occurred based on expected future cash flows (undiscounted), the loss is recognized in the income statement. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset. The fair value represents expected future cash flows from the use of the assets, discounted at the rate used to evaluate potential investments.

Foreign Currency Translation and Transactions

The accompanying consolidated financial statements are reported in U.S. dollars. The pound sterling is the functional currency for the Company and its subsidiaries. The translation of the functional currencies into U.S. dollars (reporting currency) is performed for assets and liabilities using the current exchange rates in effect at the balance sheet date, and for revenues, costs and expenses using average exchange rates prevailing during the reporting periods. Adjustments resulting from the translation of functional currency financial statements to reporting currency are accumulated and reported as other comprehensive income, a separate component of Net Hercules Group Investment.

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are expressed in the functional currency at the exchange rates in effect at the balance sheet date. Revenues, costs and expenses are recorded using average exchange rates prevailing during the reporting periods. Gains or losses resulting from foreign currency transactions are included in the statement of income.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of short-term cash investments and trade receivables. The Company places its short-term cash investments on the London money market via its commercial relationship banks. Concentrations of credit risk

with respect to trade receivables are limited due to the Company's large number of customers and their dispersion across many different industries and locations.

Stock based compensation

Compensation costs attributable to stock option and similar plans are recognized based on any excess of the quoted market price of the stock on the date of grant over the amount the employee is required to pay to acquire the stock (the intrinsic-value method under Accounting Principles Board Opinion 25 (APB 25)). Such amount, if any, is accrued over the related vesting period, as appropriate. Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation," requires companies electing to continue to use the intrinsic-value method to make pro forma disclosures of net income as if the fair-value-based method of accounting had been applied.

Income taxes

Income tax expense in the accompanying financial statements has been computed assuming the Company filed separate income tax returns.

The provisions for income taxes has been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax basis of the Company's assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Net Hercules Group Investment

The Net Hercules Group Investment reflects the balance of the Company's historical earnings, inter-company amounts, foreign currency translation and other transactions between the Company and the Hercules Group.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133" and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," requires that all derivative instruments be recorded on the balance sheet at their fair value. SFAS 133, as amended, is effective for all fiscal quarters of fiscal years beginning after December 31, 2000. The Company adopted SFAS 133 effective January 1, 2001. The adoption of SFAS No. 133 did not have a material effect on its earnings or statement of financial position.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by SAB Nos. 101A and 101B, was effective October 1, 2000. Adoption of SAB 101 did not have a material effect on our profit from operations.

In June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). For the Company, these statements will generally become effective January 1, 2002, although business combinations initiated after June 30, 2001 are subject to the non-amortization and purchase accounting provisions.

SFAS 142 stipulates that goodwill and other intangible assets with indefinite lives are no longer subject to amortization, but must be evaluated periodically for impairment beginning January 1, 2002. The assessment of goodwill for impairment is a complex issue in which the Company must determine, among other things, the fair value of each defined reporting unit. It is, therefore, not possible at this time to predict the impact, if any, that the impairment assessment provisions of SFAS 142 will have on the Company's financial statements.

In June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 143 establishes accounting standards for the recognition and measurement of legal obligations associated with the retirement of tangible long-lived assts. SFAS 143 will become effective for the Company from January 1, 2003 and requires recognition of a liability for an asset retirement obligation in the period in which it is incurred. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. Management is in the process of evaluating the impact this standard will have on the Company's financial statement.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, consists of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Trade	$32,519	$34,461
Other	3,863	3,000
	36,382	37,461
Less allowance for doubtful accounts	$(2,236)	$(1,689)
Total	$34,146	$35,772

There are no single receivables which constitute more than 10% of the total.

4. INVENTORIES

The components of inventories are:

	2000	1999

	(DOLLARS IN THOUSANDS)	
Finished products	$4,904	$ 9,026
Materials, supplies, and work in process	3,408	4,082
Total	$8,312	$13,108

HERCULES GB HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

5. SHORT-TERM DEBT

Short-term debt consists of bank borrowings primarily representing overdraft facilities and short-term lines of credit, in the United Kingdom, which are generally payable on demand with interest at various rates. Book values of bank borrowings approximate market value because of their short maturity period.

At December 31, 2000, the Company and its subsidiaries had $1,489,550 of unused lines of credit that may be drawn as needed, with interest at a negotiated spread over lenders' cost of funds. Weighted-average interest rates on short-term borrowings at December 31, 2000 and 1999, were 6.5% and 6.3%, respectively.

6. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Hercules manages the Company's cash and indebtedness. The majority of the cash provided by or used by the Company is provided through this consolidated cash and debt management system. As a result, the amount of cash or debt historically related to the Company is not determinable.

The Company has a number of intercompany loans with the Hercules Group in the amounts of $145,393 thousand and $158,867 thousand, which are included in the Net Hercules Group Investment balance as of December 31, 2000 and 1999, respectively.

Interest rates on these loans are detailed below:

INTEREST RATE	2000	1999
	$'000	$'000
Variable LIBOR plus 0.55%	92,519	100,373
Variable LIBOR plus 0.75%	47,666	52,843
Variable LIBOR plus 1.00%	5,138	5,575
Fixed 10%	70	76
	145,393	158,867

LIBOR is the London Inter-Bank Offer Rate.

Interest paid on these loans was $3,951 thousand in 2000 and $5,275 thousand in 1999.

All the long-term debt with the Hercules Group has maturity dates after 2005.

The Company does not enter into forward-exchange contracts and currency swaps to hedge currency exposure nor does it use interest rate swap agreements to manage interest costs and risks associated with changing rates. The basis of valuation of long-term debt is the present value of expected cash flows related to existing borrowings discounted at rates currently available to the company for long-term borrowings with similar terms and remaining maturities.

Fair Values

The following table presents the carrying amounts and fair values of the company's financial instruments at December 31, 2000 and 1999:

	2000		1999	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(DOLLARS IN THOUSANDS)			
Long-term debt........................	$145,393	$145,393	$158,867	$158,867

HERCULES GB HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

7. LONG-TERM INCENTIVE COMPENSATION PLANS

The Company participates in long-term incentive compensation plans sponsored by Hercules. These plans provide for the grant of stock options and the award of common stock and other market-based units to certain key employees and non-employee directors.

The Hercules long-term incentive compensation plans place an emphasis on shareholder value creation through grants of regular stock options, performance-accelerated stock options, and Cash Value Awards (performance-based awards denominated in cash and payable in shares of common or restricted stock, subject to the same restrictions as restricted stock). Restricted stock and other market-based units are awarded with respect to certain programs. The number of awarded shares outstanding was 491,488 at December 31, 2000, and 926,689 at December 31, 1999.

At December 31, 2000, under Hercules' incentive compensation plans, 1,847,855 shares of common stock were available for grant as stock awards or stock option awards. Stock awards are limited to approximately 15% of the total authorizations. Regular stock options are granted at the market price on the date of grant and are exercisable at various periods from one to five years after date of grant. Performance-accelerated stock options are also granted at the market price on the date of grant and are normally exercisable at nine and one-half years. Exercisability may be accelerated based upon the achievement of predetermined performance goals. Both regular and performance-accelerated stock options expire 10 years after the date of grant.

Restricted shares, options and performance-accelerated stock options are forfeited and revert to Hercules in the event of employment termination, except in the case of death, disability, retirement, or other specified events.

The Company applies APB Opinion 25 in accounting for its plans. Accordingly, no compensation cost has been recognized for the stock option plans.

Below is a summary of outstanding stock option grants under the incentive compensation plans during 2000 and 1999:

	REGULAR	
	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE
January 1, 1999	17,750	$40.27
Granted	22,550	$37.75
Exercised	--	--
Forfeited	--	--
December 31, 1999	40,300	$38.86
Granted	--	--
Exercised	--	--
Forfeited	--	--
December 31, 2000	40,300	$38.86

There were no performance-accelerated stock options granted or outstanding during 2000 and 1999.

The weighted-average fair value of regular stock options granted during 1999 was $8.26.

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HERCULES GB HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Following is a summary of regular stock options exercisable at December 31, 2000, and 1999, and their respective weighted-average share prices:

OPTIONS EXERCISABLE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
December 31, 1999	13,540	$39.91
December 31, 2000	26,440	$39.32

Following is a summary of stock options outstanding at December 31, 2000:

EXERCISE PRICE RANGE	OUTSTANDING OPTIONS			EXERCISA
	NUMBER OUTSTANDING AT 12/31/00	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/00
REGULAR STOCK OPTIONS				
$30 - $40...............	38,650	7.63	$38.48	25,120
$40 - $50...............	1,650	7.35	$47.81	1,320
	40,300			26,440

The Company's employees may also participate in the Hercules Employee Stock Purchase Plan ("ESPP"). The ESPP is a qualified non-compensatory plan, which allows eligible employees to acquire shares of common stock through systematic payroll deductions. The plan consists of three-month subscription periods, beginning July 1 of each year. The purchase price is 85% of the fair market value of the common stock on either the first or last day of that subscription period, whichever is lower. Purchases may range from 2% to 15% of an employee's base salary each pay period, subject to certain limitations. Currently, 202,139 shares of Hercules common stock are registered for offer and sale under the plan. Shares issued at December 31, 2000 and 1999, were 1,597,861 and 949,464, respectively. The Company applies APB Opinion 25 and related interpretations in accounting for its Employee Stock Purchase Plan. Accordingly, no compensation cost has been recognized for the Employee Stock Purchase Plan.

Had compensation cost for Hercules' Stock-Based Incentive Plans and Employee Stock Purchase Plan been determined on the basis of fair value according to SFAS No. 123, the fair value of each option granted or share purchased would be estimated on the grant date using the Black-Scholes option pricing model.

The following weighted-average assumptions would be used in estimating fair value for 2000 and 1999:

ASSUMPTION	REGULAR PLAN	PERFORMANCE ACCELERATED PLAN	EMPLOYEE STOCK PURCHASE PLAN
Dividend yield............................	2%	3.4%	0.0%
Risk-free interest rate...................	5.88%	5.38%	5.41%
Expected life.............................	7.1 yrs.	5 yrs.	3 mos.
Expected volatility.......................	29.20%	27.31%	44.86%

The Company's net (loss) income for 2000 and 1999 would approximate the pro forma amounts below:

	2000	1999

	(DOLLARS IN THOUSANDS)	
Net income		
As reported	$(339)	$6,055
Pro forma	$(399)	$6,000

HERCULES GB HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

8. ADDITIONAL BALANCE SHEET DETAIL

	2000	1999
	(DOLLARS IN THOUSANDS)	
PROPERTY, PLANT, AND EQUIPMENT		
Land	$ 1,864	$ 2,014
Buildings and equipment	49,303	49,077
Construction in progress	--	1,526
Total	51,167	52,617
Accumulated depreciation and amortization	(21,480)	(18,991)
Net property, plant, and equipment	$ 29,687	$ 33,626

	2000	1999
	(DOLLARS IN THOUSANDS)	
ACCRUED EXPENSES		
Goods received not invoiced	$2,695	$ 3,028
Payroll and employee benefits	1,453	1,812
Income taxes payable	1,973	1,355
Restructuring liability (Note 10)	2,420	2,628
Other	1,420	2,048
	$9,961	$10,871

9. GOODWILL AND OTHER INTANGIBLES ASSETS

At December 31, 2000 and 1999, the goodwill and other intangible assets were:

	2000	1999
	(DOLLARS IN THOUSANDS)	

Goodwill	$146,363	$158,517
Customer relationships	44	48
Other intangibles	5,347	5,976
Total	151,754	164,541
Less accumulated amortization	(12,597)	(8,779)
Net goodwill and other intangible assets	$139,157	$155,762

10. RESTRUCTURING

Coincident with the acquisition of BetzDearborn Inc. and its subsidiaries worldwide by Hercules Incorporated in October 1998, plans were put in place to merge certain BetzDearborn and Hercules operations and support infrastructure, including facility closures and personnel reductions. The estimated costs of these plans was established as a liability as part of the overall purchase price allocation of the BetzDearborn acquisition, in accordance with purchase accounting methods. The principle constituent part of the restructuring reserves in the Company's accounts is the estimate for these exit and severance costs attributable to the Hercules operations in the United Kingdom. The remaining balance of restructuring reserves, as reassessed during the year, is considered sufficient to meet the remaining outstanding costs associated with closure of the

Widnes European laboratory facility and severance cost principally associated with the planned transfer of accounting activities to the Hercules European Shared Service Centre in the Netherlands.

	2000	1999
	(DOLLARS IN THOUSANDS)	
Balance at beginning of year	$2,628	$6,266
Additional accrual	363	81
Severance and exit costs incurred	(375)	(3,093)
Reversals	(44)	(438)
Translation difference	(152)	(188)
Balance at end of year	$2,420	$2,628

For 2000, the severance and exit costs incurred include the costs for 9 employees, including 8 employees at the former Argo Scientific Limited office and workshop in Edinburgh, Scotland. For 1999, severance and exit costs include costs for 39 employees including 16 employees affected by the closure of the laboratory facility at Widnes, Cheshire and 2 employees at the former sales office in Glasgow, Scotland, together with costs and necessary write downs of assets resulting from these closures and other specific asset write downs and costs resulting from business restructuring decisions.

The additional accruals and the reversals were charged or released against income.

11. PENSION BENEFITS

The Company provides defined benefit pension plans to all eligible employees. The following chart lists benefit obligations, plan assets, and funded status of the plans.

	PENSION BENEFITS	
	2000	1999
	(DOLLARS IN THOUSANDS)	
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at January 1	$75,968	$78,457
Service cost	2,092	2,313
Interest cost	4,189	4,326
Amendments	12	--
Employee contributions	760	624
Translation difference	(6,872)	(2,855)
Actuarial loss (gain)	3,154	(4,532)
Benefits paid from plan assets	(1,992)	(2,365)
Benefits paid by company	--	--
Benefit obligation at December 31	$77,311	$75,968

	PENSION BENEFITS	
	2000	1999
	(DOLLARS IN THOUSANDS)	
CHANGE IN PLAN ASSETS		
Fair value of plan assets at January 1	89,389	80,011
Expected return on plan assets	6,304	5,865
Employee contributions	760	624
Company contributions (refund)	1,789	446
Actuarial loss (gain)	(1,915)	7,757
Translation difference	(7,105)	(2,949)
Benefits paid from plan assets	(1,992)	(2,365)
Fair value of plan assets at December 31	$87,230	$89,389
Funded status of the plans	9,919	13,421
Unrecognized actuarial loss (gain)	(2,174)	(7,372)
Unrecognized prior service cost (benefit)	217	76

Unrecognized net transition obligation	--	(170)
Amendments	(176)	--
Prepaid (accrued) benefit cost	$ 7,786	$ 5,955
AMOUNTS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION CONSIST OF:		
Prepaid benefit cost	7,786	5,955
	$ 7,786	$ 5,955
ASSUMPTIONS AS OF DECEMBER 31		
Weighted-average discount rate	6.50%	5.88%
Expected average return on plan assets	8.00%	7.50%
Average rate of compensation increase	3.75%	3.88%
COMPONENTS OF NET PERIOD PENSION COST		
Service cost	$ 2,092	$ 2,313
Interest cost	4,189	4,326
Return on plan assets (expected)	(6,304)	(5,864)
Amortization and deferrals	(384)	269
Amortization of transition asset	(160)	(185)
Benefit cost (credit)	$ (567)	$ 859

12. OTHER OPERATING EXPENSE, NET

	2000	1999
	(DOLLARS IN THOUSANDS)	
Royalty	$5,675	$5,902
Other expense (income)	698	(284)
	$6,373	$5,618

HERCULES GB HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

13. INTEREST AND DEBT EXPENSE

Interest and debt costs incurred and expensed were as follows. No interest or debt costs were capitalised.

	2000	1999
	(DOLLARS IN THOUSANDS)	
Intercompany net interest expense	$11,305	$4,887
Third party net interest expense (income)	373	(60)
	$11,678	$4,827

14. OTHER (INCOME) EXPENSE, NET

Other (income) expense, net, consists of the following:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Currency (gains) losses	$(444)	$ 100
Intercompany factoring expense	187	158
Miscellaneous expense (income)	172	(147)
	$ (85)	$ 111

15. NET HERCULES GROUP INVESTMENT

Changes in net Hercules Group investment were as follows:

	(DOLLARS IN THOUSANDS)
Balance December 31, 1998	$230,375
Net income	6,055
Other comprehensive losses	(8,724)
Inter-company transactions, net	(9,597)
Balance, December 31, 1999	218,109
Net loss	(339)
Other comprehensive losses	(2,534)
Intercompany transactions, net	(24,523)
Balance, December 31, 2000	$190,713

The Company includes accumulated other comprehensive losses in Net Hercules Group Investment. At December 31, 2000 and 1999, accumulated other comprehensive losses consisted of foreign currency translation adjustments, net of tax, of $6,388 thousand and $3,854 thousand, respectively.

16. TAXES

A summary of the components of the tax provision in respect of United Kingdom Corporation Tax follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Current	$1,550	$3,202
Deferred	410	1,615

Provision for income taxes	$1,960	$4,817

HERCULES GB HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Deferred tax liabilities (assets) at December 31 consist of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Components of timing differences		
Depreciation	$ 7,369	$ 8,386
Prepaid pension	7,786	5,955
Employee Intangible Asset	4,757	5,161
Restructuring Provisions	(2,284)	(3,101)
Disallowed doubtful debt provisions	(1,064)	(116)
Other temporarily disallowed provisions	(263)	(192)
Other expenditure temporarily disallowed	(198)	--
Cumulative timing differences	16,103	16,093
Net deferred tax liabilities	$ 4,831	$ 4,828

A reconciliation of the statutory income tax rate to the effective rate follows:

	2000	1999
Statutory income tax rate	30%	31%
Goodwill amortization	85%	11%
Disallowable business expenses	6%	2%
Effective tax rate	121%	44%

17. COMMITMENTS AND CONTINGENCIES

Leases

The Company has operating leases (including office space, transportation, and data processing equipment) expiring at various dates. Rental expense was $2,981 thousand in 2000 and $2,759 thousand in 1999.

At December 31, 2000, minimum rental payments under noncancelable leases aggregated $3,679 thousand. The net minimum payments over the next five years are $1,585 thousand in 2001, $1,341 thousand in 2002, $523 thousand in 2003, $229 thousand in 2004, and $1 thousand in 2005.

Litigation

The Company currently and from time to time is involved in litigation incidental to the conduct of its business. In the opinion of the Company's management, none of such litigation as of December 31, 2000 is likely to have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

18. RELATED PARTY TRANSACTIONS

The Company has entered into certain agreements with affiliated entities. These agreements were developed in the context of parent/subsidiary relationship and therefore may not necessarily reflect the result of arms-length negotiations between independent parties. The Company records sales with affiliates based on a cost-plus formula developed and agreed-upon by both parties. All transactions described below are eliminated on consolidation of Hercules Incorporated.

Corporate and other allocations: As discussed in Note 1, the financial statements of the Company reflect certain allocated support costs incurred by other entities in the Hercules group. These costs include executive,

legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in the Company's financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on factors such as sales, net assets, costs of sales or a relative weighting of geographic activity. These allocations are reflected in the selling, general and administrative line item in our statement of income. Such allocations and corporate charges totaled $5,921 thousand, and $6,314 thousand in 2000 and 1999 respectively.

Royalties: The Company entered into license agreements in respect of the use of manufacturing formulations and specifications which are developed and owned by other Hercules Group companies. The Company paid royalties in respect of these agreements of $5,675 thousand and $5,902 thousand in 2000 and 1999, respectively. The royalties are included as other operating expenses in the financial statements.

Sales to affiliates: The Company sells manufactured chemical products in the normal course of business to affiliated companies. Company's revenues from sales to affiliated companies were $23,072 thousand and $22,334 thousand in 2000 and 1999 respectively.

Purchases from affiliates: The Company has commercial relationships with affiliated companies for the purchase of chemical products and raw materials. The value of these purchases were $16,639 thousand and $16,408 thousand for 2000 and 1999 respectively.

19. SUBSEQUENT EVENT

On May 1, 2001, Hercules completed the sale of its hydrocarbon resins divisions and select portions of its rosin resins divisions to Eastman Chemical Company. In addition, on May 31, 2001, Hercules completed the sale of its peroxy chemicals business to GEO Specialty Chemicals, Inc. Results of operations for the Company include net sales of approximately $5,057 thousand and $8,161 thousand, respectively, in 2000 and 1999 relating to these divested businesses.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
Hercules Incorporated
Wilmington, Delaware

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income and of cash flows present fairly, in all material respects, the financial position of Hercules International Limited, a subsidiary of Hercules Incorporated, and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania

October 22, 2001

HERCULES INTERNATIONAL LIMITED

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Sales to third parties	$ 791,771	$857,878	$681,418
Sales to Hercules Group	93,717	120,167	144,337
	885,488	978,045	825,755
Cost of sales	530,321	562,701	502,891
Selling, general, and administrative expenses	153,928	144,696	92,293
Research and development	19,977	25,399	21,979
Goodwill and intangible asset amortization	8,292	11,271	4,128

Other operating (income) expenses, net (Note 13)	(131,749)	27,700	37,890
Profit from operations	340,719	206,278	166,574
Equity in (loss) income of affiliated companies	(3,891)	2,938	(103)
Interest and debt expense (Note 14)	8,028	4,381	6,252
Other income (expense), net (Note 15)	12,714	650	(1,731)
Income before income taxes and minority interest, net	305,514	205,485	158,488
Provision for income taxes (Note 16)	119,794	63,421	62,129
Income before minority interest, net	185,720	142,064	96,359
Minority interest, net	(1,107)	(910)	(889)
Net income	184,613	141,154	95,470
Translation adjustments	(100,135)	(51,868)	17,018
Comprehensive income	$ 84,478	$ 89,286	$112,488

The accompanying notes are an integral part of the consolidated financial statements.

HERCULES INTERNATIONAL LIMITED

CONSOLIDATED BALANCE SHEET

	DECEMBER 31,	
	2000	1999
	(DOLLARS IN THOUSANDS)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 14,340	$ 16,042
Accounts receivable, net (Note 3)	149,346	205,279
Inventories (Note 4)	79,787	127,018
Deferred income taxes (Note 16)	2,669	5,200
Total current assets	246,142	353,539
Property, plant, and equipment, net (Note 9)	275,325	387,657
Investments in affiliates (Note 5)	30,279	3,337
Goodwill and other intangible assets, net (Note 10)	224,443	300,739
Deferred charges and other assets	12,696	9,642
Total assets	$ 788,885	$1,054,914
LIABILITIES AND NET HERCULES GROUP INVESTMENT		
Current liabilities		
Accounts payable	$ 94,908	$ 116,042
Short-term debt (Note 6)	90,944	13,241
Accrued expenses (Note 9)	118,162	97,164
Total current liabilities	304,014	226,447

Long-term debt -- third parties (Note 7)	138	458
Deferred income taxes (Note 16)	59,841	75,096
Pension liability (Note 12)	20,066	25,021
Deferred credits and other liabilities	2,031	1,537
Total liabilities	386,090	328,559
Commitments and contingencies (Note 17)		
Minority Interest	18,599	20,299
Net Hercules Group Investment (Note 20)		
Accumulated other comprehensive losses	(140,805)	(40,670)
Intercompany transactions	525,001	746,726
Total Net Hercules Group Investment	384,196	706,056
Total liabilities and Net Hercules Group Investment	$ 788,885	$1,054,914

The accompanying notes are an integral part of the consolidated financial statements.

HERCULES INTERNATIONAL LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
CASH FLOW FROM OPERATING ACTIVITIES:			
Net Income	$ 184,613	$ 141,154	$ 95,470
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization of property, plant and equipment	28,615	32,784	26,279
Amortization of goodwill and other intangible assets	8,292	11,271	4,128
Deferred income tax	13,396	11,789	(875)
(Gain) loss on disposals	1,617	184	(506)
Gain on sale of investments	(167,566)	(13,302)	--
Equity in (income) loss of affiliates	3,891	(2,938)	103
Dividends received	579	3,093	107
Minority interest, net	1,107	910	889
Corporate and other cost allocations	13,033	16,665	8,536
Accruals and deferrals of cash receipts and payments:			
Accounts receivable	3,420	(25,858)	(5,686)
Inventories	(11,618)	(10,684)	684
Accounts payable and accrued expenses	40,590	21,952	39,487
Noncurrent assets and liabilities	(1,484)	13,864	(3,486)
Net transfers to Hercules Group	69,474	(129,329)	917
Net cash provided by operations	187,959	71,555	166,047

CASH FLOW FROM INVESTING ACTIVITIES:			
Capital expenditures, net of proceeds from sale.........	(68,708)	(72,437)	(35,285)
Proceeds from sale of investment.......................	--	22,009	--
Purchase of equity method investments..................	--	(25)	--
Net cash used in investing activities..............	(68,708)	(50,453)	(35,285)
CASH FLOW FROM FINANCING ACTIVITIES:			
Change in short-term debt..............................	78,435	(58,142)	(6,149)
Long-term debt repayments..............................	(306)	(620)	(5,498)
Proceeds from issuance of long-term debt...............	41,213	--	--
Net transfers (to) from Hercules Group.................	(239,146)	36,119	(103,011)
Net cash provided by (used in) financing activities....................................	(119,804)	(22,643)	(114,658)
Effect of exchange rate changes on cash................	(1,149)	(2,470)	1,165
Net (decrease) increase in cash and cash equivalents....	(1,702)	(4,011)	17,269
Cash and cash equivalents at beginning of year..........	16,042	20,053	2,784
Cash and cash equivalents at end of year...............	14,340	16,042	20,053
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest (net of amount capitalized)..................	$ 7,081	$ 4,708	$ 6,267
Income taxes, net......................................	65,008	60,680	60,597
Noncash investing and financing activities:			
Sale of CPKelco (Note 14).............................	119,261	--	--
Net asset (excluding cash) contribution from Hercules Group of BetzDearborn entities (Note 1)...........	--	--	314,678
Corporate and other cost allocations..................	13,033	16,665	8,536
Net asset (excluding cash) contribution from Hercules Group of Citrus Colloid entities..................	--	--	73,690
Reversal of restructuring accruals to goodwill (Note 11)..	3,320	--	--

The accompanying notes are an integral part of the consolidated financial statements.

HERCULES INTERNATIONAL LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Hercules International Limited (the "Company") is a subsidiary of Hercules Incorporated (ultimate parent) ("Hercules"). Hercules and its wholly owned subsidiaries comprise the Hercules Group. The Company supplies engineered process and water treatment chemical programs, as well as products that manage the properties of aqueous systems, for industrial, commercial and institutional establishments. These products and services contribute to preserving or enhancing productivity, reliability and efficiency in plant operations and in complying with environmental regulations.

When Hercules acquired all of the outstanding shares of BetzDearborn Inc on October 15, 1998 it paid $2,235 million in cash and $186 million in common stock exchanged for the shares held by the BetzDearborn ESOP Trust. The purchase price allocated to the Company and its subsidiaries was approximately $682 million. During 1999, Hercules completed the purchase price allocation and the final determination of goodwill was $1,822 million of which the amount attributable to the Company was approximately $278 million. These financial statements include the push down of fair value adjustments to assets and liabilities, including goodwill, other intangible assets and property, plant and equipment and their related amortization and depreciation adjustments.

As a result of the Hercules acquisition of BetzDearborn Inc., the Company entered into several internal reorganization transactions during 1999 and 2000. The transactions included the Company selling several of its investments in subsidiaries to Hercules affiliates, purchasing several investments in subsidiaries from Hercules affiliates, merging companies, and acquiring certain investments in Hercules group companies that are valued at cost. As all investments in this reorganization are under the common control of Hercules, these transactions have been accounted for in a manner similar to pooling of interests.

Historically, separate company stand-alone financial statements were not prepared for the Company. In November 2000, Hercules amended its senior credit facility and ESOP credit facility (the "Facilities"). The Facilities, as amended, are secured by liens on Hercules' property and assets (and those of Hercules' Canadian Subsidiaries), a pledge of the stock of substantially all of Hercules' domestic subsidiaries (including the Company) and 65% of the stock of foreign subsidiaries directly owned by Hercules, and a pledge of Hercules' domestic intercompany indebtedness. These consolidated financial statements present the financial information of the Company, a collateral party to the Hercules debt, based on Hercules' understanding of the Securities and Exchange Commission's interpretation and application of Rule 3-16 under the Securities and Exchange Commission's Regulation S-X. These statements were derived from historical accounting records.

The consolidated financial statements of the Company reflect certain allocated support costs incurred by the Hercules Group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in the Company's consolidated financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on factors such as sales, net assets, or cost of sales; or a relative weighting of geographic activity. Management believes that the allocation method is reasonable. See Note 18 for more information.

A number of the operating companies participate in Hercules' centralized cash management system. Accordingly, cash received from operations may be transferred to Hercules on a periodic basis, and Hercules funds operational and capital requirements upon request.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries where control exists. Following the acquisition of BetzDearborn by Hercules in 1998, the Company continued BetzDearborn's practice of using a November 30 fiscal year end for certain former BetzDearborn Inc. non-U.S. subsidiaries to expedite the year end closing process. All intercompany transactions and profits have been eliminated.

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer or services are performed in accordance with terms of the agreement, title and risk of loss have been transferred, collectibility is probable, and pricing is fixed and determinable. Accruals are made for sales returns and other allowances based on the Company's experience. The corresponding shipping and handling costs are included in cost of sales.

Research and Development

Research and development expenditures are expensed as incurred.

Environmental Expenditures

Environmental expenditures that pertain to current operations or future revenues are expensed or capitalized according to the Company's capitalization policy. Expenditures for remediation of an existing condition caused by past operations that do not contribute to current or future revenues are expensed. Liabilities are recognized for remedial activities when the cleanup is probable and can be reasonably estimated.

Cash and Cash Equivalents

Cash in excess of operating requirements is invested in short-term, income-producing instruments. Cash equivalents include commercial paper and other securities with original maturities of 90 days or less. Book value approximates fair value because of the short maturity of those instruments.

Inventories

Inventories are stated at the lower of cost or market. Inventories are valued on the average cost method.

Property and Depreciation

Property, plant, and equipment are stated at cost. The Company changed to the straight-line method of depreciation, effective January 1, 1991, for newly acquired processing facilities and equipment. Assets acquired before then continue to be depreciated by accelerated methods. The Company believes straight-line depreciation provides a better matching of costs and revenues over the lives of the assets. The estimated useful lives of depreciable assets are as follows: buildings -- 30 years; plant, machinery and equipment -- 15 years; other machinery and equipment -- 3 to 15 years.

HERCULES INTERNATIONAL LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Maintenance, repairs, and minor renewals are charged to income; major renewals and betterments are capitalized. Upon normal retirement or replacement, the cost of property (less proceeds of sale or salvage) is charged to income.

Investments

Investments in affiliated companies with a 20% or greater ownership interest in which the Company has significant influence are accounted for using the equity method of accounting. Accordingly, these investments are included in investments in affiliates on the Company's balance sheet and the income or loss from these investments is included in equity in (loss) income of affiliated companies in the Company's statement of income.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets are amortized on a straight-line basis over the estimated future periods to be benefited, generally 40 years for goodwill and 5 to 15 years for other intangible assets.

Long-lived Assets

The Company reviews its long-lived assets, including goodwill and other intangibles, for impairment on an exception basis whenever events or changes in circumstances indicate carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If an impairment loss has occurred based on expected future cash flows (undiscounted), the loss is recognized in the income statement. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset. The fair value represents expected future cash flows from the use of the assets, discounted at the rate used to evaluate potential investments.

Income Taxes

Income tax expense in the accompanying consolidated financial statements has been computed assuming the Company filed separate income tax returns.

The provisions for income taxes has been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax basis of the Company's assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

The company provides taxes on undistributed earnings of subsidiaries and affiliates included in consolidated retained earnings to the extent such earnings are planned to be remitted and not re-invested permanently. The undistributed earnings/(losses) of subsidiaries and affiliates on which no provision for foreign withholding or US income taxes has been made amounted to approximately ($6,629) thousand and $10,468 thousand at December 31, 2000 and 1999, respectively. US and foreign income taxes that would be payable if such earnings were distributed may be lower than the amount computed at the US statutory rate because of the availability of tax credits.

Foreign Currency Translation and Transactions

The accompanying consolidated financial statements are reported in U.S. dollars. The US dollar is the functional currency for the Company. The translation of the functional currencies of the Company's

subsidiaries into U.S. dollars (reporting currency) is performed for assets and liabilities using the current exchange rates in effect at the balance sheet date, and for revenues, costs and expenses using average exchange rates prevailing during the reporting periods. Adjustments resulting from the translation of functional currency financial statements to reporting currency are accumulated and reported as other comprehensive income, a separate component of Net Hercules Group Investment.

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are expressed in the functional currency at the exchange rates in effect at the balance sheet date. Revenues, costs and expenses are recorded using average exchange rates prevailing during the reporting periods. Gains or losses resulting from foreign currency transactions are included in the statement of income.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables and receivables from affiliated companies, which are included in the Net Hercules Group Investment in the consolidated balance sheet. Concentrations of credit risk with respect to trade receivables are limited due to the Company's large number of customers and their dispersion across many different industries and locations.

Derivative Instruments and Hedging

Derivative financial instruments have been used to hedge risk caused by fluctuating currency. The Company enters into forward-exchange contracts to hedge foreign currency exposure. Decisions regarding hedging are made on a case-by-case basis, taking into consideration the amount and duration of the exposure, market volatility, and economic trends. The Company uses the fair-value method of accounting, recording to other income (expense), net realized and unrealized gains and losses on these contracts monthly, except for gains and losses on contracts to hedge specific foreign currency commitments, which are deferred and accounted for as part of the transaction. Gains or losses on instruments which have been used to hedge the value of investments in certain non-U.S. subsidiaries have been accounted for under the deferral method and are included in the foreign currency translation adjustment. It is the Company's policy to match the term of financial instruments with the term of the underlying designated item. If the designated item is an anticipated transaction no longer likely to occur, gains or losses from the instrument designated as a hedge are recognized in current period earnings. The Company does not hold or issue financial instruments for trading purposes. In the consolidated statement of cash flow, the Company reports the cash flows resulting from its hedging activities in the same category as the related item that is being hedged.

Stock-based Compensation

Compensation costs attributable to stock option and similar plans are recognized based on any excess of the quoted market price of the stock on the date of grant over the amount the employee is required to pay to acquire the stock (the intrinsic-value method under Accounting Principles Board Opinion 25 (APB 25)). Such amount, if any, is accrued over the related vesting period, as appropriate. Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," requires companies electing to continue to use the intrinsic-value method to make pro forma disclosures of net income as if the fair-value-based method of accounting had been applied.

Minority Interest

Minority interest at December 31, 2000 and 1999 represents a 38.97% proportionate share of the equity of Hercules Quimica S.A., owned by a Hercules Group affiliate.

Computer Software Costs

Effective January 1, 1999, the Company adopted the American Institute of Certified Public Accountants Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). The prior accounting was generally consistent with the requirements of SOP 98-1 and, accordingly, adoption of SOP 98-1 had no material effect. Computer software costs are being amortized over a period of 5 to 10 years.

Net Hercules Group Investment

The Net Hercules Group Investment account reflects the balance of the Company's historical earnings, intercompany amounts, foreign currency translation and other transactions between the Company and the Hercules Group.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133" and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," requires that all derivative instruments be recorded on the balance sheet at their fair value. SFAS 133, as amended, is effective for all fiscal quarters of fiscal years beginning after December 31, 2000. The Company adopted SFAS 133 effective January 1, 2001. The adoption of SFAS No. 133, as amended by SFAS 137 and 138, did not have a material effect on its earnings or statement of financial position.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by SAB Nos. 101A and 101B, was effective October 1, 2000. Adoption of SAB 101 did not have a material effect on our profit from operations.

In June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). For the Company, these statements will generally become effective January 1, 2002, although business combinations initiated after June 30, 2001 are subject to the non-amortization and purchase accounting provisions.

SFAS 142 stipulates that goodwill and other intangible assets with indefinite lives are no longer subject to amortization, but must be evaluated periodically for impairment beginning January 1, 2002. The assessment of goodwill for impairment is a complex issue in which the Company must determine, among other things, the fair value of each defined reporting unit. It is, therefore, not possible at this time to predict the impact, if any, that the impairment assessment provisions of SFAS 142 will have on the Company's financial statements.

In addition, in June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 143 establishes accounting standards for the recognition and measurement of legal obligations associated with the retirement of tangible long-lived assets. SFAS 143 will become effective for the Company on January 1, 2003 and requires recognition of a liability for an asset retirement obligation in the period in which it is incurred. Management is currently in the process of evaluating the impact this standard will have on the Company's financial statements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, consists of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Trade	$138,464	$188,335
Other	13,634	20,188
	152,098	208,523
Less allowance for doubtful accounts	(2,752)	(3,244)
Total	$149,346	$205,279

Other accounts receivable mainly comprise VAT receivable.

4. INVENTORIES

The components of inventories are:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Finished products	$54,573	$ 58,813
Materials, supplies, and work in process	25,214	68,205
Total	$79,787	$127,018

5. INVESTMENTS

The Company has various equity investments in companies, as described below. Summarized financial information for these equity affiliates at December 31, and for the years then ended is as follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Current assets	$269,814	$17,470
Non-current assets	942,946	3,923
Current liabilities	$109,486	$13,275
Non-current liabilities	730,579	1,378

	2000	1999	1998
Net sales	$143,245	$56,410	$43,712
Gross profit	17,290	14,489	11,414
Net earnings	(15,864)	5,865	(273)

At December 31, 2000, the Company's equity investments, all affiliates of Hercules consisted of a 50% ownership of Abieta Chemie GmbH and BetzDearborn Nippon KK, a 49% ownership of Hercules Mas Indonesia, and a 28.57% ownership of the consolidated group CP Kelco ApS. The Company's carrying value for these investments at December 31, 2000 and 1999 equals its share of the underlying equity in net assets of

the respective affiliates. Dividends paid to the Company from its equity investees were $579 thousand, $3,093 thousand and $107 thousand during 2000, 1999 and 1998, respectively. Except for CP Kelco ApS, each of these entities operates in lines of business similar to the Company, supplying engineered process and water treatment chemical programs, as well as products that manage the properties of aqueous systems, for industrial, commercial and institutional establishments. As discussed further in Note 13, CP Kelco ApS was the Company's Food Gums business that was divested in 2000.

6. SHORT-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Short-term debt of $90,944 thousand and $13,241 thousand at December 31, 2000 and 1999, respectively, consists of bank borrowings primarily representing foreign overdraft facilities and short-term lines of credit, which are generally payable on demand with interest at various rates. Book values of bank borrowings approximate market value because of their short maturity period.

Short-term debt with affiliates of $32,685 thousand and $27,998 thousand at December 31, 2000 and 1999, respectively, is recorded in Net Hercules Group Investment in the consolidated balance sheet.

At December 31, 2000 and 1999, the Company had $34,774 thousand and $23,607 thousand, respectively, of unused lines of credit that may be drawn as needed, with interest at a negotiated spread over lenders' cost of funds. Lines of credit in use at December 31, 2000 and 1999 were $90,944 thousand and $5,331 thousand, respectively.

Weighted-average interest rates on all short-term borrowings at December 31, 2000 and 1999 were 5.60% and 4.45%, respectively.

7. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Long-term debt with third parties and affiliates at December 31, 2000 and 1999 is summarized as follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
4.50% third party note	$ 93	$ 102
11.00% third party note	--	280
Other	45	76
Less current maturities	--	--
Total long-term debt, third party	138	458
5.51% affiliate note	22,853	--
5.80% affiliate note	20,516	22,345
6.00% affiliate note	--	5,145
Less current maturities	--	--
Total long-term debt, affiliates	43,369	27,490
Total long term debt, third party and affiliates	$43,507	$27,948

Long-term debt with affiliates, which is recorded in Net Hercules Group Investment in the consolidated balance sheet, has no stated maturity. Third party long-term debt matures after 2005. The fair value of the Company's long-term debt was $43,507 at December 31, 2000 and $27,948 at December 31, 1999. The Company believes that the carrying value of long-term debt borrowings approximates fair value, based on discounting future cash flows using rates currently available for debt of similar terms and remaining maturities.

8. LONG-TERM INCENTIVE COMPENSATION PLANS

The Company participates in long-term incentive compensation plans sponsored by Hercules. These plans provide for the grant of stock options and the award of common stock and other market-based units to certain key employees and non-employee directors.

Hercules long-term incentive compensation plans place a great emphasis on shareholder value creation through grants of regular stock options, performance-accelerated stock options, and Cash Value Awards (performance-based awards denominated in cash and payable in shares of common or restricted stock, subject to the same restrictions as restricted stock). Restricted stock and other market-based units are awarded with respect to certain programs. The number of awarded shares outstanding for all of the Hercules Group was 491,488 at December 31, 2000, and 926,689 and 1,083,613 at December 31, 1999 and 1998, respectively.

At December 31, 2000, under Hercules' incentive compensation plans, 1,847,855 shares of common stock were available for grant as stock awards or stock option awards. Stock awards are limited to approximately 15% of the total authorizations. Regular stock options are granted at the market price on the date of grant and are exercisable at various periods from one to five years after date of grant. Performance-accelerated stock options are also granted at the market price on the date of grant and are normally exercisable at nine and one-half years. Exercisability may be accelerated based upon the achievement of predetermined performance goals. Both regular and performance-accelerated stock options expire 10 years after the date of grant.

Restricted shares, options and performance-accelerated stock options are forfeited and revert to Hercules in the event of employment termination, except in the case of death, disability, retirement, or other specified events.

The Company applies APB Opinion 25 in accounting for its plans. Accordingly, no compensation cost has been recognized for the stock option plans. There were no charges to income for the cost of stock awards over the restriction or performance period for 2000, 1999 and 1998, respectively.

Below is a summary of outstanding stock option grants under the incentive compensation plans during 2000, 1999, and 1998:

	REGULAR		PERFORMANCE-ACCELER	
	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE	NUMBER OF SHARES	WEIGH AVERAGE
January 1, 1998	313,475	$40.36	55,075	$43.
Granted	135,875	$37.70	46,025	$47.
Exercised	(960)	$39.50	--	

Forfeited..................................	--	--	--	
December 31, 1998...........................	448,390	$39.56	101,100	$45.
Granted....................................	219,175	$37.53	68,525	$37.
Exercised..................................	--	--	--	
Forfeited..................................	--	--	(900)	$45.
December 31, 1999...........................	667,565	$38.89	168,725	$42.
Granted....................................	162,875	$17.25	--	
Exercised..................................	--	--	--	
Forfeited..................................	(19,650)	$36.82	(1,350)	$37.
December 31, 2000...........................	810,790	$34.59	167,375	$42.

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HERCULES INTERNATIONAL LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The weighted-average fair value of regular stock options granted during 2000, 1999 and 1998 was $8.85, $8.25 and $9.19, respectively. The weighted-average fair value of performance-accelerated stock options granted during 1999 and 1998 was $7.99 and $11.02.

Following is a summary of regular stock options exercisable at December 31, 2000, 1999 and 1998, and their respective weighted-average share prices:

OPTIONS EXERCISABLE	NUMBER OF SHARES	WEIGHTED-AVERAGE
December 31, 1998..	129,175	$40.81
December 31, 1999..	306,825	$39.84
December 31, 2000..	561,295	$37.20

There were no performance-accelerated stock options exercisable at December 31, 2000.

Following is a summary of stock options outstanding at December 31, 2000:

	OUTSTANDING OPTIONS			EXERCISABLE OPT	
EXERCISE PRICE RANGE	NUMBER OUTSTANDING AT 12/31/00	WEIGHTED-AVERAGE REMAINING	WEIGHTED-AVERAGE EXERCISE	NUMBER EXERCISABLE AT 12/31/00	W E
REGULAR STOCK OPTIONS					
$12 - $20......................	159,025	9.13	$17.25	50,150	
$20 - $30......................	59,025	7.67	$25.56	51,120	
$30 - $40......................	516,290	7.21	$38.99	393,965	
$40 - $50......................	75,450	7.27	$47.84	65,060	
$50 - $60......................	1,000	5.11	$55.38	1,000	
	810,790			561,295	

PERFORMANCE-ACCELERATED STOCK OPTIONS				
$14 - $40......................	102,475	7.68	$37.93	--
$40 - $50......................	56,800	6.86	$47.82	--
$50 - $61......................	8,100	5.11	$55.38	--
	167,375			--

The Company's employees may also participate in the Hercules Employee Stock Purchase Plan ("ESPP"). The ESPP is a qualified non-compensatory plan, which allows eligible employees to acquire shares of common stock through systematic payroll deductions. The plan consists of three-month subscription periods, beginning July 1 of each year. The purchase price is 85% of the fair market value of the common stock on either the first or last day of that subscription period, whichever is lower. Purchases may range from 2% to 15% of an employee's base salary each pay period, subject to certain limitations. Currently, 202,139 shares of Hercules common stock are registered for offer and sale under the plan. Shares issued at December 31, 2000 and 1999, were 1,597,861 and 949,464, respectively. The Company applies APB Opinion 25 and related interpretations in accounting for its Employee Stock Purchase Plan. Accordingly, no compensation cost has been recognized for the Employee Stock Purchase Plan.

Had compensation cost for Hercules' Stock-Based Incentive Plans and Employee Stock Purchase Plan been determined on the basis of fair value according to SFAS No. 123, the fair value of each option granted or share purchased would be estimated on the grant date using the Black-Scholes option pricing model.

The following weighted-average assumptions would be used in estimating fair value for 2000, 1999 and 1998:

ASSUMPTION	REGULAR PLAN	PERFORMANCE ACCELERATED PLAN	EMPLOYEE STOCK PURCHASE PLAN
Dividend yield............................	2%	3.4%	0.0%
Risk-free interest rate..................	5.88%	5.38%	5.41%
Expected life............................	7.1 yrs.	5 yrs.	3 mos.
Expected volatility......................	29.20%	27.31%	44.86%

The Company's net income for 2000, 1999 and 1998 would approximate the pro forma amounts below:

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Net income			
As reported......................................	$184,613	$141,154	$95,470

Pro forma	$183,163	$139,801	$94,353

9. ADDITIONAL BALANCE SHEET DETAIL

	2000	1999
	(DOLLARS IN THOUSANDS)	
Property, plant, and equipment		
Land	$ 7,240	$ 8,870
Buildings and equipment	533,902	773,185
Construction in progress	--	682
Total	541,142	782,737
Accumulated depreciation and amortization	(265,817)	(395,080)
Net property, plant, and equipment	$ 275,325	$ 387,657
Accrued expenses		
Payroll and employee benefits	$ 14,834	$ 29,732
Income taxes payable	72,078	22,374
Restructuring	12,743	26,546
Environmental	9,300	800
Other	9,207	17,712
	$ 118,162	$ 97,164

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HERCULES INTERNATIONAL LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

10. GOODWILL AND OTHER INTANGIBLE ASSETS

At December 31, 2000 and 1999, the goodwill and other intangible assets were:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Goodwill	$241,425	$312,495
Other intangibles	7,829	9,564
Total	249,254	322,059
Less accumulated amortization	(24,811)	(21,320)
Net goodwill and other intangible assets	$224,443	$300,739

Goodwill and other intangible assets primarily represent amounts capitalized from the Hercules acquisition of BetzDearborn (Note 1).

11. RESTRUCTURING

The consolidated balance sheet reflects liabilities for employee severance benefits and other exit costs, primarily related to the plans initiated upon the creation of the European Shared Service Center in 1997 and the acquisition of BetzDearborn in 1998. In the fourth quarter of 2000, we committed to a plan relating to the restructuring of several entities. As a result of these plans, we estimate approximately 512 employees will be terminated, of which approximately 461 employee terminations have occurred since inception of the aforementioned plans. These employees come from various parts of the business, including but not limited to manufacturing, support functions and research.

Pursuant to the plans in place to merge the operations of BetzDearborn with Hercules and to rationalize the support infrastructure and other existing operations, facilities were closed and in total approximately 393 employees were terminated during 1999. Cash payments for the year included $13.2 million for severance benefits and other exit costs. As a result of the completion of plans to exit former BetzDearborn activities, a $9 million increase in employee severance benefits was reflected in the finalization of the purchase price allocation. We lowered the estimates of severance benefits related to the implementation of the European Shared Service Center by $1.3 million due to a suspension of implementations, while increasing the estimates of other plans by $13.9 million due to the identification of additional facilities for closure. These amounts were charged to operating expense.

In 2000, in total approximately 68 employees were terminated and $13.6 million cash was paid in severance benefits and other exit costs. The estimate for the remaining plans was decreased by $3.3 million against goodwill due to lower than planned severance benefits as the result of higher than anticipated attrition, with voluntary resignations not requiring the payment of termination benefits. The estimate for the plans related to the shared services center were decreased by $1.7 million against operating expense.

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HERCULES INTERNATIONAL LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Severance benefits payments are based on years of service and generally continue for 3 months to 24 months subsequent to termination. We expect to substantially complete remaining actions under the plans in 2001. A reconciliation of activity with respect to the liabilities established for these plans is as follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Balance at beginning of year	$ 26,546	$ 27,190
Cash payments	(13,556)	(13,195)
Additional termination benefits and exit costs	4,731	13,840
Reversals against goodwill	(3,320)	--
Reversals against earnings	(1,658)	(1,289)
Balance at end of year	$ 12,743	$ 26,546

12. PENSION

The Company has a number of pension plans in Europe, covering substantially all employees. The following chart lists benefit obligations, plan assets, and funded status of the plans.

	2000	1999
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at January 1	$149,158	$176,845
Service cost	3,846	6,270
Interest cost	7,696	8,593
Reclassification of assets for plan settlement	(416)	--
Settlements and transfers	(10,612)	--
Translation difference	(12,350)	(23,041)
Actuarial loss (gain)	598	(16,269)
Benefits paid from plan assets	(2,585)	(2,445)
Benefits paid by company	(523)	(795)
Benefit obligation at December 31	$134,812	$149,158
CHANGE IN PLAN ASSETS		
Fair value of plan assets at January 1	135,204	132,972
Actual return on plan assets	6,200	22,801
Settlements and transfers	(1,109)	--
Company contributions (refund)	(348)	607
Translation difference	(11,185)	(18,731)
Benefits paid from plan assets	(2,532)	(2,445)
Fair value of plan assets at December 31	$126,230	$135,204
Funded status of the plans	(8,582)	(13,954)
Unrecognized actuarial gain	(17,466)	(22,299)
Unrecognized prior service cost	4,640	5,483
Unrecognized net transition obligation	1,342	5,749
Accrued benefit cost	$(20,066)	$(25,021)

	2000	1999
AMOUNTS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION CONSIST OF:		
Accrued benefit liability	(20,066)	(25,021)
	$(20,066)	$(25,021)
ASSUMPTIONS AS OF DECEMBER 31		
Weighted-average discount rate	5.75%	6.00%
Expected return on plan assets	6.50%	6.50%

Rate of compensation increase	3.50%	3.75%

	PENSION BENEFITS		
	2000	1999	1998
COMPONENTS OF NET PERIOD PENSION COST			
Service cost	$ 3,846	$ 6,270	$ 4,523
Interest cost	7,696	8,593	8,527
Return on plan assets (expected)	(7,793)	(9,253)	(9,075)
Amortization and deferrals	(238)	458	415
(Gain) loss on settlements	(8,675)	--	--
Amortization of prior service cost	10	12	12
Amortization of transition asset	2,437	708	731
Benefit cost (credit)	$(2,717)	$ 6,788	$ 5,133

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefits obligations in excess of plan assets were $27,060 thousand, $22,753 thousand and $2,058 thousand, respectively, as of December 31, 2000 and $36,766 thousand, $28,900 thousand and $1,334 thousand, respectively, as of December 31, 1999.

13. OTHER OPERATING INCOME AND EXPENSES, NET

Other operating income and expenses, net, in 2000 include a gain of $167,566 thousand from the sale of the Food Gums division. On September 28, 2000, the Company sold its Food Gums division to CP Kelco, a joint venture with Lehman Brothers Merchant Banking Partners II, L.P., which contributed approximately $300 million in equity. The Company received a note of approximately $248 million from Hercules, which collected the original cash proceeds, recorded tax expenses of approximately $61 million and retained a 28.57% equity position in CP Kelco. CP Kelco simultaneously acquired Kelco biogums business of Pharmacia Corporation (formerly Monsanto Corporation). Other operating expenses, net, also include Hercules Group affiliate royalty costs, net restructuring costs, environmental costs, net losses on asset dispositions, and foreign currency losses totaling $22,471 thousand, $3,073 thousand, $8,500 thousand, $1,617 thousand and $156 thousand, respectively.

Other operating expenses, net, in 1999 include Hercules Group affiliate royalty costs of $27,318 thousand, a gain on sale of investments of $13,302 thousand, net restructuring costs of $12,551, environmental costs of $800 thousand, net losses on asset disposition of $184 thousand and foreign currency losses amounting to $149 thousand.

Other operating expenses, net, in 1998 include Hercules Group affiliate royalty costs of $21,029 thousand, net restructuring costs of $16,072, net gains on asset dispositions of $506 thousand and foreign currency losses amounting to $1,295 thousand.

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HERCULES INTERNATIONAL LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

14. INTEREST AND DEBT EXPENSE

No interest and debt costs were capitalized during 1998, 1999 and 2000. The costs incurred are presented separately in the consolidated statement of income.

15. OTHER INCOME (EXPENSE), NET

Other income (expense), net, consists of the following:

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Interest income, net	$12,380	$ 5,180	$ 1,876
Rent	26	(6)	11
Miscellaneous income (expense), net	308	(4,524)	(3,618)
	$12,714	$ 650	$(1,731)

16. INCOME TAXES

A summary of the components of the tax provision follows:

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Current	$106,398	$51,632	$63,004
Deferred	13,396	11,789	(875)
Provision for income taxes	$119,794	$63,421	$62,129

Deferred tax liabilities (assets) at December 31 consist of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Depreciation	$(41,661)	$(52,772)
Amortization	(8,819)	(10,823)
Stock valuation	(2,207)	(2,498)
Insurance provision (ppd)	(4,989)	(6,037)
Replacement reserve	(3,282)	(3,776)
Intangible asset	(1,385)	--
Other	(2,314)	(3,371)
Gross deferred tax liabilities	(64,657)	(79,277)
Loss carryforwards	2,959	2,730
Inventory reserves	2,551	4,124
Other	2,677	3,356

Gross deferred tax assets	8,187	10,210
Valuation allowance	(702)	(829)
Net deferred tax assets	$(57,172)	$(69,896)

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HERCULES INTERNATIONAL LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

A reconciliation of the statutory income tax rate to the effective rate follows:

	2000	1999	1998
Statutory income tax rate	35.0%	35.0%	35.0%
Non-deductible expenses	0.5%	1.6%	1.3%
Non-taxable income	(3.9)%	(1.4)%	(3.2)%
Gain on sale of investment	(19.3)%	(2.9)%	0.0%
Tax rate differences on subsidiary earnings	0.4%	1.1%	3.6%
Foreign dividends, net of credits	23.2%	0.3%	0.3%
Other	3.5%	(2.7)%	2.4%
Effective tax rate	39.4%	31.0%	39.4%

The net operating losses have a carryforward period ranging from 5 years to indefinite, but may be limited in their use in any given year.

17. COMMITMENTS AND CONTINGENCIES

Leases

The Company has operating leases (including office space, transportation, and data processing equipment) expiring at various dates. Rental expense was $8,713 thousand, $9,075 thousand and $5,654 thousand in 2000, 1999 and 1998, respectively.

At December 31, 2000, minimum rental payments under noncancelable leases aggregated $24,236 thousand. The net minimum payments over the next five years and thereafter are $7,694 thousand in 2001, $5,197 thousand in 2002, $3,024 thousand in 2003, $1,161 thousand in 2004, $1,630 thousand in 2005 and $5,530 thousand beyond 2005, respectively.

Litigation

The Company currently and from time to time is involved in litigation incidental to the conduct of its business. In the opinion of the Company's management, none of such litigation as of December 31, 2000 is likely to have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

Environmental

The Company has potential liability in connection with obligations to authorities of various EU countries in which it has manufacturing facilities, and to private parties pursuant to contract, for the cost of environmental investigation and/or cleanup at several sites. The estimated range of the reasonably possible share of costs for the investigation and cleanup is between $5,000 thousand and $12,000 thousand. The actual costs will depend upon numerous factors, including the actual methods of remediation required or agreed to; outcomes of negotiations with regulatory authorities and private parties; changes in environmental laws and regulations; technological developments; and the years of remedial activity required, which could range to 30 years.

The Company becomes aware of its obligations relating to sites in which it may have liability for the costs of environmental investigations and/or remedial activities through correspondence from government authorities, or through correspondence from companies with which the Company has contractual obligations, who either request information or notify us of our potential liability. We have established procedures for identifying environmental issues at our plant sites. In addition to environmental audit programs, we have environmental

coordinators who are familiar with environmental laws and regulations and act as a resource for identifying environmental issues.

In December 2000, PFW Aroma Chemicals B.V., a company that in 1996 purchased from the Company a Fragrances Plant in Barneveld, NL, submitted a claim of 7,295 thousand EURO. The claim seeks payment of costs alleged to be owed under the 1996 Agreement between the parties. The claim generally alleges that the Company is obligated to pay for the costs of cleaning up contamination at the Barneveld plant and to pay various costs relating to compliance with permit obligations. The Company has questioned its obligation to pay the amounts sought, and is currently in negotiations with PFW regarding this claim.

On May 1, 2001, the Company sold a hydrocarbon resins manufacturing facility located in Middelburg, the Netherlands as part of the sale by Hercules of its Resins Division to Eastman Chemical Resins, Inc. Under the Purchase and Sale Agreement between the parties, Hercules retained certain specific liabilities relating to environmental conditions at the Middelburg hydrocarbon resins plant, including pre-existing contamination.

At December 31, 2000, the total accrued liability of $9,300 thousand for environmental remediation represents management's best estimate of the probable and reasonably estimable costs related to environmental remediation. The extent of liability is evaluated quarterly. The measurement of the liability is evaluated based on currently available information, including the process of remedial investigations at each site and the current status of negotiations with regulatory authorities regarding the method and extent of remediation that will be required and the negotiations regarding apportionment of costs among other private parties. While it is not feasible to predict the outcome of all pending suits and claims, the ultimate resolution of these environmental matters could have a material effect upon the results of operations and the financial position of the Company.

18. RELATED PARTY TRANSACTIONS

The Company has entered into certain agreements with affiliated entities. These agreements were developed in the context of a Hercules Group/subsidiary relationship and therefore may not necessarily reflect the result of arm's-length negotiations between independent parties. All transactions described below are eliminated on consolidation of Hercules.

Intercompany borrowing and interest: The Company has intercompany loans with Hercules affiliated entities. The loans with affiliates are presented in net Hercules Group Investment in the consolidated balance sheet. Interest paid to affiliated entities was $6,992 thousand, $1,968 thousand and $1,319 thousand in 2000, 1999 and 1998, respectively.

Corporate, regional and other allocations: As discussed in Note 1, the consolidated financial statements of the Company reflect certain allocated support costs incurred by other entities in the Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in the Company's consolidated financial statements were based either on a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on factors such as sales, net assets, cost of sales; or a relative weighting of geographic activity. These allocations are reflected in the selling, general and administrative line item in the consolidated statement of income. Such allocations and corporate charges totaled approximately $25,303 thousand, $33,712 thousand and $17,802 thousand in 2000, 1999 and 1998, respectively.

Sales to affiliates: The Company sells raw material and finished goods inventory in the normal course of business to affiliated companies. The Company's revenues from sales to affiliated companies are presented separately in the consolidated statement of income.

Purchases from affiliates: The Company purchases in the normal course of business raw material and finished goods inventory from affiliated companies. The Company's purchases of inventory from affiliated companies is reflected in costs of sales in the consolidated statement of income and totaled $107,593 thousand, $115,269 thousand and $113,938 thousand in 2000, 1999 and 1998, respectively.

Royalties: The Company entered into a license agreement in respect of the use of manufacturing formulations and specifications developed and owned by an affiliated entity. Total royalties accrued in respect of this agreement are included in the other operating (income) expenses line item in the consolidated statement of income and totaled $22,471 thousand, $27,318 thousand and $21,029 thousand in 2000, 1999 and 1998, respectively.

19. DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT

The Company enters into forward-exchange contracts to hedge currency exposure.

Notional Amounts and Credit Exposure of Derivatives

The notional amounts of derivatives summarized below do not represent amounts exchanged by the parties and, thus, are not a measure of the exposure of the Company through its use of derivatives. The amounts exchanged are calculated on the basis of the notional amounts and the other terms of the derivatives, which relate to interest rates or exchange rates.

Foreign Exchange Risk Management

The Company has selectively used foreign currency forward contracts to offset the effects of exchange rate changes on reported earnings, cash flow, and net asset positions. The primary exposures are denominated in the U.S. Dollar, the Japanese Yen and the British Pound Sterling. Some of the contracts involve the exchange of two foreign currencies, according to local needs in foreign subsidiaries. The term of the currency derivatives is rarely more than three months. At December 31, 2000 and 1999, the Company had outstanding forward-exchange contracts to purchase foreign currencies aggregating $62,393 thousand and $165,299 thousand, respectively, and to sell foreign currencies aggregating $62,833 thousand and $164,819 thousand, respectively. The foreign exchange contracts outstanding at December 31, 2000 will mature during 2001.

Fair Values

The following table presents the carrying amounts and fair values of the Company's financial instruments at December 31, 2000 and 1999:

	2000		1999	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(DOLLARS IN THOUSANDS)			
Foreign exchange contracts.......................	$205	$ 205	$480	$ 480

The carrying amount represents the net unrealized gain or net interest payable associated with the contracts at the end of the period. Fair values of derivative contracts are indicative of cash that would have been required had settlement been December 31, 2000. Foreign exchange contracts are valued based on year-end exchange rates.

20. NET HERCULES GROUP INVESTMENT

Changes in Net Hercules Group Investment were as follows:

Balance, January 1, 1998..................................	$ 283,509
Net income...	95,470
Other comprehensive income...............................	17,018
Intercompany transactions, net...........................	317,977
Balance, December 31, 1998................................	713,974
Net income...	141,154
Other comprehensive loss.................................	(51,868)
Intercompany transactions, net...........................	(97,204)
Balance, December 31, 1999................................	706,056

Net income	184,613
Other comprehensive loss	(100,135)
Intercompany transactions, net	(406,338)
Balance, December 31, 2000	$ 384,196

The Company includes accumulated other comprehensive income (loss) in net Hercules Group investment. At December 31, 2000 and 1999, accumulated other comprehensive income (loss) consisted of foreign currency translation adjustments.

21. SUBSEQUENT EVENT

On May 1, 2001, Hercules completed the sale of its hydrocarbon resins divisions and select portions of its rosin resins divisions to Eastman Chemical Company. In addition, on May 31, 2001, Hercules completed the sale of its peroxy chemicals business to GEO Specialty Chemicals, Inc.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
Hercules Incorporated
Wilmington, Delaware

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income and of cash flows present fairly, in all material respects, the financial position of the Hercules International Limited, LLC, a subsidiary of Hercules International Limited, and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America that require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 18 to the financial statements, the Company has ceased to act as a reseller of two of its three business lines and is reviewing the current activities of the Company.

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania

October 22, 2001

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HERCULES INTERNATIONAL LIMITED, LLC

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Sales to third parties	$211,041	$210,697	$179,803
Sales to Hercules Group	150,914	163,277	187,281
	361,955	373,974	367,084
Cost of sales	335,455	348,403	344,685
Selling, general, and administrative expenses	17,626	18,157	17,659
Goodwill and intangible asset amortization	12	14	9
Other operating expenses (income), net (Note 11)	62	(207)	171
Profit from operations	8,800	7,607	4,560
Interest and debt expense (Note 12)	(1,735)	(797)	(517)
Other income, net (Note 13)	798	495	2,147
Income before income taxes	7,863	7,305	6,190
Provision for income taxes (Note 15)	2,778	2,725	2,168
Net income	5,085	4,580	4,022
Translation adjustments	(428)	(1,651)	572
Comprehensive income	$ 4,657	$ 2,929	$ 4,594

The accompanying notes are an integral part
of the consolidated financial statements.

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HERCULES INTERNATIONAL LIMITED, LLC

BALANCE SHEETS

	DECEMBER 31,	
	2000	1999
	(DOLLARS IN THOUSANDS)	
ASSETS		
Current assets		
Accounts receivable, net (Note 3)	$31,058	$40,514
Inventories (Note 4)	23,679	23,901
Deferred income taxes (Note 15)	437	384
Total current assets	55,174	64,799
Deferred charges and other assets	269	796
Goodwill and other intangible assets, net (Note 8)	293	333

Total assets	$55,736	$65,928
LIABILITIES AND NET MEMBER'S/HERCULES GROUP INVESTMENT		
Current liabilities		
Accounts payable	$ 7,355	$ 5,630
Accrued expenses (Note 7)	5,202	8,095
Total current liabilities	12,557	13,725
Commitments and contingencies (Note 17)	--	--
Net Member's/Hercules Group Investment (Note 10)		
Accumulated other comprehensive losses	(3,580)	(3,152)
Intercompany transactions	46,759	55,355
Net Member's/Hercules Group Investment	43,179	52,203
Total liabilities and Net Member's/Hercules Group Investment	$55,736	$65,928

The accompanying notes are an integral part
of the consolidated financial statements.

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HERCULES INTERNATIONAL LIMITED, LLC

STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
CASH FLOW FROM OPERATING ACTIVITIES:			
Net income	$ 5,085	$ 4,580	$ 4,022
Adjustments to reconcile net income to net cash provided by (used in) operations:			
Amortization of goodwill and other intangible assets	12	14	9
Deferred income taxes	(53)	(64)	227
Corporate and other cost allocations from Hercules Group	1,859	2,730	1,809
Corporate and other cost allocations to Hercules Group	(3,282)	(3,664)	--
Accruals and deferrals of cash receipts and payments:			
Accounts receivable	6,613	2,384	(49,919)
Inventories	(1,869)	(4,750)	(6,740)
Deferred charges and other assets	498	(304)	322
Net transfers from (to) Hercules Group	6,558	(6,717)	48,715
Accounts payable and accrued expenses	(48)	6,365	2,872
Net cash (used in) provided by operations	15,373	574	1,317
CASH FLOW FROM INVESTING ACTIVITIES:			
Business acquisitions, net of cash acquired	--	--	(407)
Net cash used in investing activities	--	--	(407)

CASH FLOW FROM FINANCING ACTIVITIES:			
Net transfers from (to) Hercules Group....................	(15,373)	(573)	(908)
Net cash provided by (used in) financing activities....	(15,373)	(573)	(908)
Effect of exchange rate changes on cash....................	--	(1)	(2)
Net increase (decrease) in cash and cash equivalents........	--	--	--
Cash and cash equivalents at beginning of year.............	--	--	--
Cash and cash equivalents at end of year...................	$ --	$ --	$ --
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest..	$ 667	$ --	$ --
Income taxes..	6,036	1,035	1,035
Non cash financing activities:			
Corporate and other cost allocations from Hercules Group..	$ 1,859	$ 2,730	$ 1,809
Corporate and other cost allocations to Hercules Group....	(3,282)	(3,664)	--
Operating payable to Hercules Group settled with issuance of short-term debt to Hercules Group..................	24,334	--	--

The accompanying notes are an integral part of the consolidated financial statements.

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HERCULES INTERNATIONAL LIMITED, LLC

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Hercules International Limited, LLC (the "Company") is a single member limited liability corporation wholly owned by Hercules International Limited. The Company's ultimate parent is Hercules Incorporated ("Hercules"). Hercules and its wholly owned subsidiaries comprise the "Hercules Group". The Company is engaged in selling process and water treatment chemical programs for the pulp and paper industry, products that manage the properties of aqueous systems, and resins and has a branch in the Netherlands. These programs and products are produced by entities located in the Netherlands and Belgium that are affiliated by way of common ownership. As from the year 1999, the Company also provides financial and IT-related services to other affiliated European entities.

Historically, separate company financial statements were not prepared for the Company. In November 2000, Hercules amended its senior credit facility and ESOP credit facility (the "Facilities"). The Facilities, as amended, are secured by liens on Hercules' property and assets (and those of Hercules' Canadian Subsidiaries), a pledge of the stock of substantially all of Hercules' domestic subsidiaries and 65% of the stock of foreign subsidiaries directly owned by Hercules, and a pledge of Hercules' domestic intercompany indebtedness. These financial statements present the financial information of the Company, a collateral party to the Hercules debt, based on the Hercules' understanding of the Securities and Exchange Commission's interpretation and application of Rule 3-16 under the Securities and Exchange Commission's Regulation S-X. These financial statements were derived from historical accounting records.

The Company participates in Hercules' centralized cash management system.

Accordingly, cash received from Company operations may be transferred to Hercules on a periodic basis, and Hercules funds all operational and capital requirements upon request.

The financial statements of the Company reflect certain allocated support costs incurred by other entities within the Hercules Group. Certain costs incurred by the Company are allocated to other entities in the Hercules group. Costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations, property, plant and equipment facilities and other corporate services. Allocations and charges included in the Company's financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on factors such as sales, net assets, or cost of sales; or a relative weighting of geographic activity. Management believes that the allocation method is reasonable. (See Note 16)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer or services are performed in accordance with terms of the agreement, title and risk of loss have been transferred, collectibility is probable, and pricing is fixed and determinable. Accruals are made for sales returns and other allowances based on the Company's experience. The corresponding shipping and handling costs are included in cost of sales.

Cash and Cash Equivalents

The Company has an agreement with Hercules Europe NV, an entity affiliated by way of common ownership, which acts as the Treasury Coordination Center (TCC) for the Hercules entities, whereby the TCC provides immediate cash availability to the Company relating to all third party receivables. In exchange, the Company pays to the TCC a finance charge and receives or pays interest payments for net balances held by the TCC. As a consequence the Company does not have a bank account and does not reflect cash or cash equivalents.

Inventories

Inventories are stated at the lower of cost or market. Inventories are valued at standard cost which approximates the average cost method.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets are amortized on a straight-line basis over the estimated future periods to be benefited, 30 years for goodwill and 5 years for other intangible assets.

Long-lived Assets

The Company reviews its long-lived assets, including goodwill and other intangibles, for impairment on an exception basis whenever events or changes in circumstances indicate carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If an impairment loss has occurred based on expected future cash flows (undiscounted), the loss is recognized in the income statement. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset. The fair value represents expected future cash flows from the use of the assets, discounted at the rate used to evaluate potential investments.

Income Taxes

U.S. Federal income taxes on earnings of the Company are payable directly by Hercules. Where a foreign corporate branch exists, the Company provides for income taxes currently payable as well as for those deferred because of temporary differences between the financial and tax basis of assets and liabilities.

Income tax expense in the accompanying financial statements has been computed assuming the Company filed separate income tax returns. The provisions for income taxes has been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax basis of the Company's assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Foreign Currency Translation and Transactions

The accompanying financial statements are reported in U.S. dollars. The Dutch Guilder is the functional currency for Hercules International Limited, LLC. The translation of the functional currency into U.S. dollars (reporting currency) is performed for assets and liabilities using the current exchange rates in effect at the balance sheet date, and for revenues, costs and expenses using average exchange rates prevailing during the reporting periods. Adjustments resulting from the translation of functional currency financial statements to

reporting currency are accumulated and reported as other comprehensive income, a separate component of the Net Member's/Hercules Group Investment.

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are expressed in the functional currency at the exchange rates in effect at the balance sheet date. Revenues, costs and expenses are recorded using average exchange rates prevailing during the reporting periods. Gains or losses resulting from foreign currency transactions are included in the statement of income.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables and receivables from affiliated companies, which are included in the Net Member's/Hercules Group Investment balance. Concentrations of credit risk with respect to trade receivables are limited due to the Company's large number of customers and their dispersion across many different industries and locations.

Derivative Instruments and Hedging

Derivative financial instruments have been used to hedge risk caused by fluctuating exchange rates. The Company enters into forward-exchange contracts and currency swaps to hedge foreign currency exposure. Decisions regarding hedging are made on a case-by-case basis, taking into consideration the amount and duration of the exposure, market volatility, and economic trends. The Company uses the fair-value method of accounting, recording to other income (expense) net any realized and unrealized gains and losses on these contracts monthly.

Gains and losses on contracts to hedge specific foreign currency commitments are deferred and accounted for as part of the transaction. It is the Company's policy to match the term of financial instruments with the term of the underlying designated item. If the designated item is an anticipated transaction no longer likely to occur, gains or losses from the instrument designated as a hedge are recognized in current period earnings. The Company does not hold or issue financial instruments for trading purposes. In the statement of cash flow, the Company reports the cash flows resulting from its hedging activities in the same category as the related item that is being hedged.

Stock-based Compensation

Compensation costs attributable to stock option and similar plans are recognized based on any excess of the quoted market price of the stock on the date of grant over the amount the employee is required to pay to acquire the stock (the intrinsic-value method under Accounting Principles Board Opinion 25 (APB 25)). Such amount, if any, is accrued over the related vesting period, as appropriate. Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation," requires companies electing to continue to use the intrinsic-value method to make pro forma disclosures of net income as if the fair-value-based method of accounting had been applied.

Net Member's/Hercules Group Investment

The Net Member's/Hercules Group Investment account reflects the balance of the Company's historical earnings, intercompany amounts, foreign currency translation and other transactions between the Company and the Member/Hercules Group.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133" and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," requires that all derivative instruments be recorded on the balance sheet at their fair value. This statement, as amended, is effective for all fiscal quarters of fiscal years beginning after December 31, 2000. The Company adopted SFAS 133 effective January 1, 2001. The adoption of SFAS No. 133, as amended by SFAS 137 and 138, did not have a material effect on its earnings or statement of financial position.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by SAB Nos. 101A and 101B, was effective October 1, 2000. Adoption of SAB 101 did not have a material effect on profit from operations.

In June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). For the Company, these statements will generally become effective January 1, 2002, although business combinations initiated after June 30, 2001 are subject to the provisions of these statements as of the date of acquisition.

SFAS 142 stipulates that goodwill and other intangible assets with indefinite lives are no longer subject to amortization, but must be evaluated periodically for impairment beginning January 1, 2002. The assessment of goodwill for impairment is a complex issue in which the Company must determine, among other things, the fair value of each defined reporting unit. It is, therefore, not possible at this time to predict the impact, if any, that the impairment assessment provisions of SFAS 142 will have on the Company's financial statements.

In addition, in June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 143 establishes accounting standards for the recognition and measurement of legal obligations associated with the retirement of tangible long-lived assets. SFAS 143 will become effective for the Company from January 1, 2003 and requires recognition of a liability for an asset retirement obligation in the period in which it is incurred. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, consists of the following accounts receivable from third parties:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Trade	$30,120	$39,318
Other	1,414	1,657
	31,534	40,975
Less allowance for doubtful accounts	(476)	(461)
Total	$31,058	$40,514

4. INVENTORIES

The components of inventories are:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Finished products	$23,679	$23,713
Materials, supplies, and work in process	--	188
Total	$23,679	$23,901

5. SHORT-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

The Company has a revolving credit agreement with Hercules Europe NV, an entity affiliated by way of common ownership, which acts as the Treasury Coordination Center for Hercules entities. The amount outstanding at December 31, 2000 totaled $22,587 thousand, bearing an interest rate of 5.13 percent, which is included in the Net Member's/Hercules Group Investment balance. At December 31, 1999, there was no outstanding balance. These approximate market value because of their short maturity period.

6. LONG-TERM INCENTIVE COMPENSATION PLANS

The Company participates in long-term incentive compensation plans sponsored by Hercules. These plans provide for the grant of stock options and the award of common stock and other market-based units to certain key employees and non-employee directors.

The Hercules long-term incentive compensation plans place a great emphasis on shareholder value creation through grants of regular stock options, performance-accelerated stock options, and Cash Value Awards (performance-based awards denominated in cash and payable in shares of common or restricted stock, subject to the same restrictions as restricted stock). Restricted stock and other market-based units are awarded with respect to certain programs. The number of awarded shares outstanding was 491,488 at December 31, 2000, and 926,689 and 1,083,613 at December 31, 1999 and 1998, respectively.

At December 31, 2000, under Hercules' incentive compensation plans, 1,847,855 shares of common stock were available for grant as stock awards or stock option awards. Stock awards are limited to approximately 15% of the total authorizations. Regular stock options are granted at the market price on the date of grant and are exercisable at various periods from one to five years after date of grant. Performance-accelerated stock options are also granted at the market price on the date of grant and are normally exercisable at nine and one-half years. Exercisability may be accelerated based upon the achievement of predetermined performance goals. Both regular and performance-accelerated stock options expire 10 years after the date of grant.

Restricted shares, options and performance-accelerated stock options are forfeited and revert to Hercules in the event of employment termination, except in the case of death, disability, retirement, or other specified events.

The Company applies APB Opinion 25 in accounting for its plans. Accordingly, no compensation cost has been recognized for the stock option plans. There were no charges to income for the cost of stock awards over the restriction or performance period for 2000, 1999 and 1998, respectively.

Below is a summary of outstanding stock option grants under the incentive compensation plans during 2000, 1999 and 1998:

	REGULAR		PERFORMANCE-ACCELERATED	
	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE
January 1, 1998	11,000	$41.65	6,500	$42.54
Granted	20,100	$36.69	5,550	$47.81
Exercised	(960)	$39.50	--	--
Forfeited	--	--	--	--
December 31, 1998	30,140	$38.41	12,050	$44.97
Granted	3,375	$32.75	7,750	$36.26
Exercised	--	--	--	--
Forfeited	--	--	--	--
December 31, 1999	33,515	$37.84	19,800	$41.56
Granted	21,875	$17.25	--	--
Exercised	--	--	--	--
Forfeited	--	--	--	--
December 31, 2000	55,390	$29.71	19,800	$41.56

The weighted-average fair value of regular stock options granted during 2000, 1999 and 1998 was $8.85, $7.50 and $9.19, respectively. The weighted-average fair value of performance-accelerated stock options granted during 1999 and 1998 was $7.99 and $11.08, respectively.

Following is a summary of regular stock options exercisable at December 31,

2000, 1999 and 1998, and their respective weighted-average share prices:

OPTIONS EXERCISABLE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
December 31, 1998	4,440	$44.11
December 31, 1999	16,280	$39.56
December 31, 2000	27,470	$38.38

There were no performance-accelerated stock options exercisable at December 31, 2000, 1999 and 1998.

Following is a summary of stock options outstanding at December 31, 2000:

	OUTSTANDING OPTIONS			EXERCISA
EXERCISE PRICE RANGE	NUMBER OUTSTANDING AT 12/31/00	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/00
REGULAR STOCK OPTIONS				
$12 - $20	21,875	9.13	$17.25	--
$20 - $30	10,050	7.67	$25.56	8,040
$30 - $40	11,415	7.03	$37.50	9,390
$40 - $50	11,050	7.07	$47.76	9,040
$50 - $60	1,000	5.11	$55.38	1,000
	55,390			27,470
PERFORMANCE-ACCELERATED STOCK OPTIONS				
$14 - $40	12,750	7.61	$37.53	--
$40 - $50	6,050	7.09	$47.77	--
$50 - $61	1,000	5.11	$55.38	--
	19,800			--

Hercules currently expects that 100% of performance-accelerated stock options will eventually vest.

Employees of the Company may also participate in the Hercules Employee Stock Purchase Plan ("ESPP"). The ESPP is a qualified non-compensatory plan, which allows eligible employees to acquire shares of common stock through systematic payroll deductions. The plan consists of three-month subscription periods, beginning July 1 of each year. The purchase price is 85% of the fair market value of the common stock on either the first or last day of that subscription period, whichever is lower. Purchases may range from 2% to 15% of an employee's base salary each pay period, subject to certain limitations. Currently, 202,139 shares of Hercules common stock are registered for offer and sale under the plan. Shares issued at December 31, 2000 and 1999, were 1,597,861 and 949,464, respectively. The Company applies APB Opinion 25 and related interpretations in accounting for its Employee Stock Purchase Plan. Accordingly, no compensation cost has been recognized for the Employee Stock Purchase Plan.

Had compensation cost for Hercules' Stock-Based Incentive Plans and Employee Stock Purchase Plan been determined on the basis of fair value according to SFAS No. 123, the fair value of each option granted or share purchased would be estimated on the grant date using the Black-Scholes option pricing model.

The following weighted-average assumptions would be used in estimating fair value for 2000, 1999 and 1998:

ASSUMPTION	REGULAR PLAN	PERFORMANCE ACCELERATED PLAN	EMPLOYEE STOCK PURCHASE PLAN
Dividend yield...........................	2%	3.4%	0.0%
Risk-free interest rate..................	5.88%	5.38%	5.41%
Expected life............................	7.1 yrs.	5 yrs.	3 mos.
Expected volatility......................	29.20%	27.31%	44.86%

The Company's net income for 2000, 1999 and 1998 would approximate the pro forma amounts below:

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Net income			
As reported..	$5,085	$4,580	$4,022
Pro forma..	$4,964	$4,485	$3,949

7. ACCRUED EXPENSES

	2000	1999
	(DOLLARS IN THOUSANDS)	
Income taxes payable.......................................	$ 626	$3,894
Payroll and employee benefits..............................	650	371
Incentive and bonuses......................................	167	283
Commissions to agents......................................	2,982	1,682

Rebate settlement	592	1,608
Other	185	257
	$5,202	$8,095

8. GOODWILL AND OTHER INTANGIBLE ASSETS

At December 31, 2000 and 1999, the goodwill and other intangible assets were:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Goodwill	$316	$344
Other intangibles	9	9
Total	325	353
Less accumulated amortization	(32)	(20)
Net goodwill and other intangible assets	$293	$333

Goodwill relates to the purchase of certain assets of Houghton. Houghton is a paper chemical factory, which was purchased on June 1, 1998. The goodwill represents the amount paid in excess of the fair value and is amortized over 30 years. Other intangibles relate to non-compete agreements.

9. PENSION BENEFITS

The Company participates in a multiemployer pension fund, which is administered by an affiliated company. Contribution amounts are based upon costs allocated to the Company by the Plan administrator. Pension costs relating to the multiemployer plan were $325 thousand, $346 thousand and $131 thousand in 2000, 1999 and 1998, respectively.

10. NET MEMBER'S/HERCULES GROUP INVESTMENT

Changes in the Net Member's/Hercules Group Investment were as follows:

Balances at January 1, 1998	$ 10,258
Net income	4,022
Other comprehensive income	572
Intercompany transactions, net	49,707
Balances at December 31, 1998	64,559
Net income	4,580
Other comprehensive income	(1,651)

Intercompany transactions, net	(15,285)
Balances at December 31, 1999	52,203
Net income	5,085
Other comprehensive income	(428)
Intercompany transactions, net	(13,681)
Balances at December 31, 2000	$ 43,179

The Company includes accumulated other comprehensive income in Net Member's/Hercules Group Investment. At December 31, 2000, 1999 and 1998, accumulated other comprehensive income consisted of foreign currency translation adjustments.

11. OTHER OPERATING EXPENSES, NET

Net other operating expenses (income) consists solely of foreign exchange gains and losses.

12. INTEREST AND DEBT EXPENSE

Interest and debt costs are summarized as follows:

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Interest costs	$ 52	$ --	$ --
Related party financing costs	1,683	797	517
	$1,735	$797	$517

There are no capitalized costs included in the above interest and debt costs.

13. OTHER INCOME, NET

Other income, net, consists of the following:

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Third party interest income, net	$ 7	$ --	$ 4
Related party interest income, net	792	487	2,159
Other	(1)	8	(16)
	$798	$495	$2,147

HERCULES INTERNATIONAL LIMITED, LLC

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

14. DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT

The company enters into forward-exchange contracts and currency swaps to hedge currency exposure.

Notional Amounts and Credit Exposure of Derivatives

The notional amounts of derivatives summarized below do not represent amounts exchanged by the parties and, thus, are not a measure of the exposure of the company through its use of derivatives. The amounts exchanged are calculated on the basis of the notional amounts and the other terms of the derivatives, which relate to interest rates or exchange rates.

Foreign Exchange Risk Management

The company has selectively used foreign currency forward contracts and currency swaps to offset the effects of exchange rate changes on reported earnings, cash flow, and net asset positions. The primary exposures are denominated in the U.S. Dollar, the Japanese Yen and the British Pound Sterling. Some of the contracts involve the exchange of two foreign currencies, according to local needs in foreign subsidiaries. The term of the currency derivatives is rarely more than three months. At December 31, 2000, 1999 and 1998, the company had outstanding forward-exchange contracts to purchase foreign currencies aggregating $15,879 thousand, $11,140 thousand and $24,595 thousand, respectively, and to sell foreign currencies aggregating $15,889 thousand, $10,990 thousand and $22,816 thousand, respectively. The foreign exchange contracts outstanding at December 31, 2000 will mature during 2001.

Fair Values

The following table presents the carrying amounts and fair values of the company's derivative financial instruments at December 31, 2000, 1999 and 1998:

	2000		1999		1998	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	F V
	(DOLLARS IN THOUSANDS)					
Foreign exchange contracts..............	$635	$635	$(77)	$(77)	$45	

The carrying amount represents the net unrealized gain associated with the contracts at the end of the year. Fair values of derivative contracts are indicative of cash that would have been required had settlement been made at December 31, 2000, 1999 and 1998. Foreign exchange contracts are valued based on year-end exchange rates.

15. INCOME TAXES

The foreign components of income before taxes are presented below:

	2000	1999	1998

	(DOLLARS IN THOUSANDS)		
Foreign	$7,863	$7,305	$6,190
	$7,863	$7,305	$6,190

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HERCULES INTERNATIONAL LIMITED, LLC

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

A summary of the components of the tax provision follows:

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Current			
Domestic	$ --	$ 164	$ --
Foreign	2,831	2,625	1,941
Deferred			
Foreign	(53)	(64)	227
Provision for income taxes	$2,778	$2,725	$2,168

Deferred tax assets at December 31 consist of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Allowance for doubtful accounts reserve	$437	$384
Gross deferred tax assets	$437	$384

A rate reconciliation of the statutory income tax rate to the effective tax rate follows:

	2000	1999	1998
Statutory tax rate	35%	35%	35%
Foreign dividends, net of credits	--	2%	--
Effective tax rate	35%	37%	35%

16. RELATED PARTY TRANSACTIONS

The Company has entered into certain agreements with affiliated entities. These agreements were developed in the context of a Hercules Group/subsidiary relationship and therefore may not necessarily reflect the result of arm-length negotiations between independent parties. The Company records sales with affiliates based on a cost-plus formula developed and agreed-upon by both parties.

Intercompany borrowing and interest: As discussed in Note 5, the Company has a revolving credit agreement with Hercules Europe NV, which acts as the Treasury Coordination Center for Hercules entities. The balance under this agreement is $22,587 thousand and is included in the Net Member/Hercules Group investment balance on the balance sheet. Interest paid to affiliate entities was $615 thousand in 2000. No interest was paid to affiliates in 1999 or 1998.

Corporate, regional and other allocations: As discussed in Note 1, the financial statements of the Company reflect certain allocated support costs incurred by other entities in the Hercules group and incurred by the Company. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations, property, plant and equipment facilities and other corporate services. Allocations and charges included in the Company's financial statements were based either on a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on factors such as sales, net assets, cost of sales; or a relative weighting of geographic activity. These allocations are reflected in the selling, general and administrative line item in the statement of income. Such allocations and corporate charges billed to the Company from affiliates totaled approximately $14,053 thousand, $11,367 thousand and $1,809 thousand in 2000, 1999 and 1998, respectively. Such allocations and corporate charges billed from the Company to affiliates totaled approximately $29,397 thousand and $17,452 thousand in 2000 and 1999, respectively. As discussed in Note 1, during 1998 the Company did not provide financial or IT-related services

to other affiliated European entities, thus there were no such allocations and corporate charges billed from the Company to affiliates in this year.

Sales to affiliates: The Company sells raw material and finished goods inventory in the normal course of business to affiliated companies. The Company's revenues from sales to affiliated companies are presented separately in the statement of income.

Purchases from affiliates: The Company purchases in the normal course of business raw material and finished goods inventory from affiliated companies. The Company's purchases of inventory from affiliated companies is reflected in costs of sales in the statement of income and totaled $47,554 thousand, $49,293 thousand and $33,034 thousand in 2000, 1999 and 1998, respectively.

Notes receivable: The Company had a notes receivable due from an affiliated company of approximately $512 thousand at December 31, 1999, which is included in the Net Member's/Hercules Group Investment balance. This receivable was paid in full in 2000.

17. COMMITMENTS AND CONTINGENCIES

Leases

Total rental expense amounted to $637 thousand in 2000, $289 thousand in 1999, and $198 thousand in 1998. The Company has operating leases for transportation and data processing equipment. The operating leases are cancelable by the Company with six months rental indemnity. Future minimum rental payments required under these operating leases are $357 thousand in 2001, there are no lease obligations in excess of one year as of December 31, 2000.

18. SUBSEQUENT EVENTS

In February 2001, the Company ceased to act as a reseller of Aqualon product for affiliated entities. This product contributed $208,661 thousand or 58% to sales during 2000;

On May 1, 2001, Hercules completed the sale of its hydrocarbon resins divisions and select portions of its rosin resins divisions to Eastman Chemical Company. In addition, on May 31, 2001, Hercules completed the sale of its peroxy chemicals business to GEO Specialty Chemicals, Inc. These product lines contributed $136,761 thousand or 38% to sales during 2000.

Hercules is in the process of reviewing current activities within the Hercules Group in anticipation of reallocating the trading activities among the Hercules Group.

The Company does not expect to incur a loss due to the potential reorganization of its activities.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
Hercules Incorporated
Wilmington, Delaware

In our opinion, the accompanying balance sheets and the related statements of income and cashflows present fairly, in all material respects, the financial position of Hercules International Trade Corporation Limited, a subsidiary of Hercules Inc., at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Philadelphia, PA
October 11, 2001

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HERCULES INTERNATIONAL TRADE CORPORATION LIMITED

CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Sales to third parties	$ 58,098	$ 50,126	$ 51,906
Sales to Hercules Group	70,298	73,305	82,395
	128,396	123,431	134,301
Cost of sales	102,905	91,470	105,144
Selling, general, and administrative expenses	2,246	2,550	2,172
Other operating (income) expenses, net (Note 4)	(3,876)	692	(1,396)
Profit from operations	27,121	28,719	28,381
Interest income	264	406	286
Net income	$ 27,385	$ 29,125	$ 28,667

The accompanying notes are an integral part of the financial statements.

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HERCULES INTERNATIONAL TRADE CORPORATION LIMITED

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	2000	1999
	(DOLLARS IN THOUSANDS)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,430	$ 525
Accounts receivable, net (Note 3)	15,688	15,906
Total current assets	17,118	16,431
Deferred charges and other assets	115	461
Total assets	$17,233	$16,892
LIABILITIES AND NET HERCULES GROUP INVESTMENT		
Current liabilities		

Accounts payable	$ 104	$ 718
Accrued expenses	514	142
Total current liabilities	618	860
Net Hercules Group investment:		
Accumulated other comprehensive income	39	39
Intercompany transactions	16,576	15,993
Net Hercules Group investment	16,615	16,032
Total liabilities and net Hercules Group investment	$17,233	$16,892

The accompanying notes are an integral part of the financial statements.

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HERCULES INTERNATIONAL TRADE CORPORATION LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
CASH FLOW FROM OPERATING ACTIVITIES:			
Net Income	$ 27,385	$ 29,125	$ 28,667
Adjustments to reconcile net income to net cash provided from operations:			
Corporate and other cost allocations	307	473	(179)
Accruals and deferrals of cash receipts and payments:			
Accounts receivable	218	(1,372)	4,105
Inventories		11	(18)
Accounts payable and accrued expenses	(242)	664	(2,069)
Transfer to/from Hercules Group	(540)	(1,440)	4,601
Noncurrent assets and liabilities	346	(33)	(382)
Net cash provided by (used in) operations	27,474	27,428	34,725
CASH FLOW FROM FINANCING ACTIVITIES:			
Transfer to/from Hercules Group	(26,569)	(27,900)	(35,500)
Net cash used in financing activities	(26,569)	(27,900)	(35,500)
Net increase (decrease) in cash and cash equivalents	905	(472)	(775)
Cash and cash equivalents at beginning of year	525	997	1,772
Cash and cash equivalents at end of year	$ 1,430	$ 525	$ 997
Noncash financing activities			
Corporate and other cost allocations	$ 307	$ 473	$ (179)

The accompanying notes are an integral part of the financial statements.

HERCULES INTERNATIONAL TRADE CORPORATION LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Hercules International Trade Corporation Limited ("HINTCO") is incorporated in the Bahamas and is wholly owned by Hercules Incorporated ("Hercules"). HINTCO is engaged in acting as a chemical business in charge of selling products made by Hercules, in Caribbean and Central American countries.

Historically, separate company stand-alone financial statements were not prepared for HINTCO. In November 2000, Hercules amended its senior credit facility and ESOP credit facility (the "facilities"). The facilities, as amended, are secured by liens on Hercules' property and assets (and those of Hercules' Canadian Subsidiaries), a pledge of the stock of substantially all of Hercules' domestic subsidiaries and 65% of the stock of foreign subsidiaries directly owned by Hercules (including HINTCO), and a pledge of Hercules' domestic intercompany indebtedness. These financial statements present the financial information on HINTCO, a collateral party to the Hercules debt, based on Hercules' understanding of Securities and Exchange Commission's interpretation and application of Rule 3-16 under the Securities and Exchange Commission's Regulation S-X. These statements were derived from historical accounting records.

As an operating division of Hercules, HINTCO participates in Hercules' centralized cash management system. Accordingly, cash received from HINTCO operations is transferred to Hercules on a periodic basis, and Hercules funds all operational and capital requirements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Corporate Allocations

The financial statements of HINTCO reflect certain allocated support costs incurred by other entities in the Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in HINTCO's financial statements are based on either a direct cost pass-through for items directly identified as related to HINTCO's activities; a percentage allocation for such services provided based on factors such as revenue, net assets, or cost of sales; or a relative weighting of geographic activity. Management believes that the allocation method is reasonable.

Revenue Recognition

HINTCO recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer in accordance with terms of the agreement, title and risk of loss have been transferred, collectibility is probable, and pricing is fixed and determinable. Accruals are made for sales returns and other allowances based on HINTCO's experience. The corresponding shipping and handling costs are included in cost of sales.

Income taxes

No taxes have been provided for HINTCO because the company is located in a non-tax jurisdiction.

Cash and Cash Equivalents

Cash in excess of operating requirements is invested in short-term, income-producing instruments. Cash equivalents include commercial paper and other securities with original maturities of 90 days or less. Book value approximates fair value because of the short maturity of those instruments.

Foreign Currency Transactions

The Company's functional and reporting currency is the U.S. dollar. Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are expressed in the functional currency at the exchange rates in effect at the balance sheet date. Revenues, costs and expenses are recorded using average exchange rates prevailing during the reporting periods. Gains or losses resulting from foreign currency transactions are included in the statement of operations.

Concentrations of Credit Risk

Financial instruments that potentially subject HINTCO to concentrations of credit risk consist principally of short-term cash investments and trade receivables. HINTCO places its short-term cash investments in a highly liquid money market account a large financial institution. Concentrations of credit risk with respect to trade receivables are limited due to the Company's large number of customers and their dispersion across many different industries and locations.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133" and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," requires that all derivative instruments be recorded on the balance sheet at their fair value. This statement, as amended, is effective for all fiscal quarters of fiscal years beginning after December 31, 2000. HINTCO adopted SFAS 133 effective January 1, 2001. During 2000, HINTCO converted substantially all of its foreign currency denominated borrowings to fixed rate U.S. dollar denominated borrowings and closed most of its outstanding interest rate swaps. The adoption of SFAS No. 133 did not have a material effect on its earnings or statement of financial position.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by SAB Nos. 101A and 101B, was to be effective October 1, 2000. Adoption of SAB 101 did not have a material effect on our profit from operations.

HERCULES INTERNATIONAL TRADE CORPORATION LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, consists of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Trade	$15,688	$15,906
Less allowance for doubtful accounts	--	--
Total	$15,688	15,906

4. OTHER OPERATING EXPENSES (INCOME), NET

Other operating income, net, in 2000 include a $2,791 thousand intercompany management fee on sales made by BetzDearborn, Inc. in Caribbean and Central American countries and a $484 thousand gain on foreign currency transaction.

Other operating expenses, net, in 1999 includes a $548 thousand expense while 1998 includes a $1,162 thousand gain from foreign currency transactions.

5. NET PARENT INVESTMENT

Changes in net parent investment were as follows:

	(DOLLARS IN THOUSANDS)
Balance, January 1, 1998	$ 18,185
Net income	28,667
Intercompany, transactions, net	(31,078)
Balance, December , 1998	15,774
Net income	29,125
Intercompany, transactions, net	(28,867)
Balance, December , 1999	16,032
Net income	27,385
Intercompany, transactions, net	(26,802)
Balance, December , 2000	$ 16,615

The Company includes accumulated other comprehensive income in net Hercules Group investment. At December 31, 2000, 1999 and 1998, accumulated other comprehensive income consisted of foreign currency translation adjustments.

6. RELATED PARTY TRANSACTIONS

HINTCO has entered into certain agreements with affiliated entities. These agreements were developed in the context of parent/subsidiary relationship and therefore may not necessarily reflect the result of arms-length negotiations between independent parties.

Corporate and other allocations: As discussed in Note 1, the financial statements of HINTCO reflect certain allocated support costs incurred by other entities in Hercules group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, research & development overhead, investor relations and other corporate services. Allocations and charges included in HINTCO's financial statements were based on either a direct

cost pass-through for items directly identified as related to HINTCO's activities; a percentage allocation for such services provided based on factors such as revenues, net assets, costs of sales or a relative weighting of geographic activity. These allocations are reflected in the selling, general and administrative line item in our statement of operations. Such allocations and corporate charges totaled $307 thousand, $496 thousand, and $133 thousand in 2000, 1999, and 1998, respectively.

Sales to affiliates: HINTCO sells the full range of Hercules and BetzDearborn products in the normal course of business to affiliated companies. HINTCO's revenues from sales to affiliated companies were $70,298 thousand, $73,305 thousand, and $82,395 thousand in 2000, 1999, and 1998, respectively.

Purchases from affiliates: The Company purchases, in the normal course of business, finished goods inventory from affiliated companies. The Company's purchases of inventory from affiliated companies is reflected in cost of sales in the statement of income and totaled $102,905 thousand, $91,470 thousand and $100,027 thousand, in 2000, 1999 and 1998 respectively.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
Hercules Incorporated
Wilmington, Delaware

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income and of cash flows present fairly, in all material respects, the financial position of Hercules Investments Sarl, a subsidiary of Hercules Incorporated, and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers N.V.
Amsterdam, The Netherlands

October 22, 2001

HERCULES INVESTMENTS SARL

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Sales to third parties	$ 580,730	$ 647,182	$501,615
Sales to Hercules Group	328,822	382,530	389,581
	909,552	1,029,712	891,196
Cost of sales	580,886	639,939	590,732
Selling, general, and administrative expenses	137,403	130,991	73,336
Research and development	19,977	25,399	21,979
Goodwill and intangible asset amortization	8,279	11,257	4,119
Other operating (income) expense, net (Note 13)	(131,862)	27,840	37,709
Profit from operations	294,869	194,286	163,321
Equity in (loss) income of affiliated companies	(3,891)	2,938	(103)
Interest and debt expense (Note 14)	38,990	646	4,670
Other income (expense), net (Note 15)	11,460	5,204	(1,668)
Income before income taxes and minority interest, net	263,448	201,782	156,880
Provision for income taxes (Note 16)	46,244	61,019	60,735
Income before minority interest, net	217,204	140,763	96,145
Minority interest, net	(1,441)	(2,984)	(1,158)
Net income	215,763	137,779	94,987
Translation adjustments	(71,025)	(49,869)	16,306
Comprehensive income	$ 144,738	$ 87,910	$111,293

The accompanying notes are an integral part of the consolidated financial statements.

HERCULES INVESTMENTS SARL

CONSOLIDATED BALANCE SHEET

	DECEMBER 31, 2000	DECEMBER 31, 1999
	(DOLLARS IN THOUSANDS)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 14,340	$ 16,042
Accounts receivable, net (Note 3)	147,439	204,086
Inventories (Note 4)	56,109	103,118
Deferred income taxes (Note 16)	2,231	4,816
Total current assets	220,119	328,062
Property, plant, and equipment, net (Note 9)	275,325	387,657
Investments in affiliates (Note 5)	30,279	3,332
Goodwill and other intangible assets, net (Note 10)	224,150	300,406
Deferred charges and other assets	12,427	9,093
Total assets	$ 762,300	$1,028,550
LIABILITIES AND NET HERCULES GROUP INVESTMENT		
Current liabilities		
Accounts payable	$ 84,955	$ 108,953
Short-term debt (Note 6)	90,944	13,230
Accrued expenses (Note 9)	47,514	89,708
Total current liabilities	223,413	211,891
Long-term debt -- third parties (Note 7)	138	458
Deferred income taxes (Note 16)	59,679	74,082
Pension liability (Note 12)	20,757	28,086
Deferred credits and other liabilities	2,030	1,536
Total liabilities	306,017	316,053
Commitments and contingencies (Note 17)		
Minority Interest	22,649	25,422
Net Hercules Group Investment (Note 20)		
Accumulated other comprehensive losses	(108,259)	(37,234)
Intercompany transactions	541,893	724,309
Total Net Hercules Group Investment	433,634	687,075
Total liabilities and Net Hercules Group Investment	$ 762,300	$1,028,550

The accompanying notes are an integral part of the consolidated financial statements

HERCULES INVESTMENTS SARL

CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31, 2000	1999	1998
	(DOLLARS IN THOUSANDS)		
CASH FLOW FROM OPERATING ACTIVITIES:			
Net Income	$ 215,763	$137,779	$ 94,987
Adjustments to reconcile net income to net cash provided by (used in) operations:			
Depreciation and amortization of property, plant and equipment	28,615	32,784	26,279
Amortization of goodwill and other intangible assets	8,279	11,257	4,119
Deferred income tax	14,360	12,967	579
(Gain) loss on disposals	1,617	184	(506)
Gain on sale of investments	(167,566)	(13,302)	--
Equity in (income) loss of affiliates	3,891	(2,938)	103
Dividends received	579	3,093	107
Minority interest, net	1,441	2,984	1,158
Corporate and other cost allocations	11,369	14,317	7,077
Accruals and deferrals of cash receipts and payments:			
Accounts receivable	4,239	(23,374)	(6,188)
Inventories	(9,883)	(5,245)	7,099
Accounts payable and accrued expenses	(26,616)	14,076	36,545
Noncurrent assets and liabilities	(4,091)	11,138	(7,769)
Net transfers (to) from Hercules Group	74,314	(74,896)	(70,708)
Net cash provided by (used in) operations	156,311	120,464	92,882
CASH FLOW FROM INVESTING ACTIVITIES:			
Capital expenditures, net of proceeds from sale	(68,708)	(72,437)	(35,285)
Proceeds from sale of investment	--	22,009	--
Purchase of equity method investments	--	(25)	--
Net cash used in investing activities	(68,708)	(50,453)	(35,285)
CASH FLOW FROM FINANCING ACTIVITIES:			
Change in short-term debt	78,445	(58,154)	(6,149)
Long-term debt repayments	(306)	(620)	(5,498)
Proceeds from issuance of long-term debt	41,213	--	--
Net transfers (to) from Hercules Group	(207,508)	(12,805)	(29,829)
Net cash (used in) provided by financing activities	(88,156)	(71,579)	(41,476)
Effect of exchange rate changes on cash	(1,149)	(2,443)	1,147
Net (decrease) increase in cash and cash equivalents	(1,702)	(4,011)	17,268
Cash and cash equivalents at beginning of year	16,042	20,053	2,785
Cash and cash equivalents at end of year	$ 14,340	$ 16,042	$ 20,053
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest (net of amount capitalized)	$ 792	$ 955	$ 4,685
Income taxes, net	55,149	59,645	59,562
Noncash investing and financing activities:			

Sale of CPKelco (Note 14)................................	119,261	--	--
Net asset (excluding cash) contribution from Hercules Group of BetzDearborn entities (Note 1)................	--	--	314,678
Corporate and other cost allocations.....................	11,369	14,317	7,077
Net asset (excluding cash) contribution from Hercules Group of Citrus Colloid entities........................	--	--	73,690
Reversal of restructuring accruals to goodwill (Note 11)..	3,320	--	--

The accompanying notes are an integral part of the consolidated financial statements

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HERCULES INVESTMENTS SARL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Hercules Investments Sarl (the "Company") is a wholly owned subsidiary of Hercules International Limited (immediate parent) and Hercules Incorporated (ultimate parent) or ("Hercules"). Hercules and its wholly owned subsidiaries comprise the Hercules Group. The Company supplies engineered process and water treatment chemical programs, as well as products that manage the properties of aqueous systems, for industrial, commercial and institutional establishments. These products and services contribute to preserving or enhancing productivity, reliability and efficiency in plant operations and in complying with environmental regulations.

When Hercules acquired all of the outstanding shares of BetzDearborn Inc on October 15, 1998 it paid $2,235 million in cash and $186 million in common stock exchanged for the shares held by the BetzDearborn ESOP Trust. The purchase price allocated to the Company and its subsidiaries was approximately $682 million. During 1999, Hercules completed the purchase price allocation and the final determination of goodwill was $1,822 million of which the amount attributable to the Company was approximately $278 million. These financial statements include the push down of fair value adjustments to assets and liabilities, including goodwill, other intangible assets and property, plant and equipment and their related amortization and depreciation adjustments.

As a result of the Hercules acquisition of BetzDearborn Inc., the Company entered into several internal reorganization transactions during 1999 and 2000. The transactions included the Company selling several of its investments in subsidiaries to Hercules affiliates, purchasing several investments in subsidiaries from Hercules affiliates, merging companies, and acquiring certain investments in Hercules group companies that are valued at cost. As all investments in this reorganization are under the common control of Hercules, these transactions have been accounted for in a manner similar to pooling of interests.

Historically, separate company stand-alone financial statements were not prepared for the Company. In November 2000, Hercules amended its senior credit facility and ESOP credit facility (the "Facilities"). The Facilities, as amended, are secured by liens on Hercules' property and assets (and those of Hercules' Canadian Subsidiaries), a pledge of the stock of substantially all of Hercules' domestic subsidiaries (including the Company) and 65% of the stock of foreign subsidiaries directly owned by Hercules, and a pledge of Hercules' domestic intercompany indebtedness. These consolidated financial statements present the financial information of the Company, a collateral party to the

Hercules debt, based on the Hercules' understanding of the Securities and Exchange Commission's interpretation and application of Rule 3-16 under the Securities and Exchange Commission's Regulation S-X. These statements were derived from historical accounting records.

The consolidated financial statements of the Company reflect certain allocated support costs incurred by the Hercules Group. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in the Company's consolidated financial statements were based on either a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on factors such as sales, net assets, or cost of sales; or a relative weighting of geographic activity. Management believes that the allocation method is reasonable. See Note 18 for more information.

A number of the operating companies participate in Hercules' centralized cash management system. Accordingly, cash received from operations may be transferred to Hercules on a periodic basis, and Hercules funds operational and capital requirements upon request.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries where control exists. Following the acquisition of BetzDearborn by Hercules in 1998, the Company continued BetzDearborn's practice of using a November 30 fiscal year end for certain former BetzDearborn Inc. non-U.S. subsidiaries to expedite the year end closing process. All intercompany transactions and profits have been eliminated.

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer or services are performed in accordance with terms of the agreement, title and risk of loss have been transferred, collectibility is probable, and pricing is fixed and determinable. Accruals are made for sales returns and other allowances based on the Company's experience. The corresponding shipping and handling costs are included in cost of sales.

Research and Development Expenditures

Research and development expenditures are expensed as incurred.

Environmental Expenditures

Environmental expenditures that pertain to current operations or future revenues are expensed or capitalized according to the Company's capitalization policy. Expenditures for remediation of an existing condition caused by past operations that do not contribute to current or future revenues are expensed. Liabilities are recognized for remedial activities when the cleanup is probable and can be reasonably estimated.

Cash and Cash Equivalents

Cash in excess of operating requirements is invested in short-term, income-producing instruments. Cash equivalents include commercial paper and other securities with original maturities of 90 days or less. Book value approximates fair value because of the short maturity of those instruments.

Inventories

Inventories are stated at the lower of cost or market. Inventories are valued on the average cost method.

Property and Depreciation

Property, plant, and equipment are stated at cost. The Company changed to the straight-line method of depreciation, effective January 1, 1991, for newly acquired processing facilities and equipment. Assets acquired before then continue to be depreciated by accelerated methods. The Company believes straight-line depreciation provides a better matching of costs and revenues over the lives of the assets. The estimated useful lives of depreciable assets are as follows: buildings -- 30 years; plant, machinery and equipment -- 15 years; other machinery and equipment -- 3 to 15 years.

Maintenance, repairs, and minor renewals are charged to income; major renewals and betterments are capitalized. Upon normal retirement or replacement, the cost of property (less proceeds of sale or salvage) is charged to income.

Investments

Investments in affiliated companies with a 20% or greater ownership interest in which the Company has significant influence are accounted for using the equity method of accounting. Accordingly, these investments are included in investments in affiliates on the Company's balance sheet and the income or loss from these investments is included in equity in (loss) income of affiliated companies in the Company's statement of income.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets are amortized on a straight-line basis over the estimated future periods to be benefited, generally 40 years for goodwill and 5 to 15 years for other intangible assets.

Long-lived Assets

The Company reviews its long-lived assets, including goodwill and other intangibles, for impairment on an exception basis whenever events or changes in circumstances indicate carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If an impairment loss has occurred based on expected future cash flows (undiscounted), the loss is recognized in the income statement. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset. The fair value represents expected future cash flows from the use of the assets, discounted at the rate used to evaluate potential investments.

Income Taxes

Income tax expense in the accompanying consolidated financial statements has been computed assuming the Company filed separate income tax returns.

The provisions for income taxes has been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax basis of the Company's assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

The company provides taxes on undistributed earnings of subsidiaries and affiliates included in consolidated retained earnings to the extent such earnings are planned to be remitted and not re-invested permanently. The undistributed earnings/(loss) of subsidiaries and affiliates on which no provision for foreign withholding or US income taxes has been made amounted to approximately ($6,629) thousand and $10,468 thousand at December 31, 2000 and 1999, respectively. US and foreign income taxes that would be payable if such earnings were distributed may be lower than the amount computed at the US statutory rate because of the availability of tax credits.

Foreign Currency Translation and Transactions

The accompanying consolidated financial statements are reported in U.S. dollars. The U.S. dollar is the functional currency for the Company. The translation of the functional currencies of the Company's

subsidiaries into U.S. dollars (reporting currency) is performed for assets and liabilities using the current exchange rates in effect at the balance sheet date, and for revenues, costs and expenses using average exchange rates prevailing during the reporting periods. Adjustments resulting from the translation of functional currency financial statements to reporting currency are accumulated and reported as other comprehensive income, a separate component of Net Hercules Group Investment.

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are expressed in the functional currency at the exchange rates in effect at the balance sheet date. Revenues, costs and expenses are recorded using average exchange rates prevailing during the reporting periods. Gains or losses resulting from foreign currency transactions are included in the statement of income.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables and receivables from affiliated companies, which are included in the Net Hercules Group Investment in the consolidated balance sheet. Concentrations of credit risk with respect to trade receivables are limited due to the Company's large number of customers and their dispersion across many different industries and locations.

Derivative Instruments and Hedging

Derivative financial instruments have been used to hedge risk caused by fluctuating currency. The Company enters into forward-exchange contracts to hedge foreign currency exposure. Decisions regarding hedging are made on a case-by-case basis, taking into consideration the amount and duration of the exposure, market volatility, and economic trends. The Company uses the fair-value method of accounting, recording to other income (expense), net realized and unrealized gains and losses on these contracts monthly, except for gains and losses on contracts to hedge specific foreign currency commitments, which are deferred and accounted for as part of the transaction. Gains or losses on instruments which have been used to hedge the value of investments in certain non-U.S. subsidiaries have been accounted for under the deferral method and are included in the foreign currency translation adjustment. It is the Company's policy to match the term of financial instruments with the term of the underlying designated item. If the designated item is an anticipated transaction no longer likely to occur, gains or losses from the instrument designated as a hedge are recognized in current period earnings. The Company does not hold or issue financial instruments for trading purposes. In the consolidated statement of cash flow, the Company reports the cash flows resulting from its hedging activities in the same category as the related item that is being hedged.

Stock-based Compensation

Compensation costs attributable to stock option and similar plans are recognized based on any excess of the quoted market price of the stock on the date of grant over the amount the employee is required to pay to acquire the stock (the intrinsic-value method under Accounting Principles Board Opinion 25 (APB 25). Such amount, if any, is accrued over the related vesting period, as appropriate. Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," requires companies electing to continue to use the intrinsic-value method to make pro forma disclosures of net income as if the fair-value-based method of accounting had been applied.

Minority Interest

Minority interest at December 31, 2000 and 1999 represents a 38.97% proportionate share of the equity of Hercules Quimica S.A., owned by a Hercules Group affiliate and a 0.4% proportionate share of the equity of Hercules Holding BV/BVBA, owned by a Hercules Group affiliate.

Computer Software Costs

Effective January 1, 1999, the Company adopted the American Institute of Certified Public Accountants Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). The prior accounting was generally consistent with the requirements of SOP 98-1 and, accordingly, adoption of SOP 98-1 had no material effect. Computer software costs are being amortized over a period of 5 to 10 years.

Net Hercules Group Investment

The Net Hercules Group Investment account reflects the balance of the Company's historical earnings, intercompany amounts, foreign currency translation and other transactions between the Company and the Hercules Group.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133" and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," requires that all derivative instruments be recorded on the balance sheet at their fair value. SFAS 133, as amended, is effective for all fiscal quarters of fiscal years beginning after December 31, 2000. The Company adopted SFAS 133 effective January 1, 2001. The adoption of SFAS No. 133, as amended by SFAS 137 and 138, did not have a material effect on its earnings or statement of financial position.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by SAB Nos. 101A and 101B, was effective October 1, 2000. Adoption of SAB 101 did not have a material effect on profit from operations.

In June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). For the Company, these statements will generally become effective January 1, 2002, although business combinations initiated after June 30, 2001 are subject to the non-amortization and purchase accounting provisions.

SFAS 142 stipulates that goodwill and other intangible assets with indefinite lives are no longer subject to amortization, but must be evaluated periodically for impairment beginning January 1, 2002. The assessment of goodwill for impairment is a complex issue in which the Company must determine, among other things, the fair value of each defined reporting unit. It is, therefore, not possible at this time to predict the impact, if any, that the impairment assessment provisions of SFAS 142 will have on the Company's financial statements.

In addition, in June 2001, the FASB approved the issuance of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 143 establishes accounting standards for the recognition and measurement of legal obligations associated with the retirement of tangible long-lived assts. SFAS 143 will become effective for the Company on January 1, 2003 and requires recognition of a liability for an asset retirement obligation in the period in which it is incurred. Management is currently in the process of evaluating the impact this standard will have on the Company's financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. Management is in the process of evaluating the impact this standard will have on the Company's financial statements.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, consists of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Trade	$139,568	$188,335
Other	10,228	18,534
	149,796	206,869
Less allowance for doubtful accounts	(2,357)	(2,783)
Total	$147,439	$204,086

Other accounts receivable mainly comprise VAT receivable.

4. INVENTORIES

The components of inventories are:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Finished products	$30,895	$ 35,102
Materials, supplies, and work in process	25,214	68,016
Total	$56,109	$103,118

5. INVESTMENTS

The Company has various equity investments in companies, as described below. Summarized financial information for these equity affiliates at December 31, and for the three years then ended is as follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Current assets	$269,814	$17,470

Non-current assets..	942,946	3,923
Current liabilities.......................................	$109,486	$13,275
Non-current liabilities...................................	730,579	1,378

	2000	1999	1998
Net sales...	$143,245	$56,410	$43,712
Gross profit......................................	17,290	14,488	11,414
Net earnings......................................	(15,864)	5,865	(273)

At December 31, 2000, the Company's equity investments, all affiliates of the Hercules Group, consisted of a 50% ownership of Abieta Chemie GmbH and BetzDearborn Nippon KK, a 49% ownership of Hercules Mas Indonesia, and a 28.57% ownership of the consolidated group CP Kelco ApS. The Company's carrying

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

value for these investments at December 31, 2000 and 1999 equals its share of the underlying equity in net assets of the respective affiliates. Dividends paid to the Company from its equity investees were $579 thousand, $3,093 thousand and $107 thousand during 2000, 1999 and 1998, respectively. Except for CP Kelco ApS, each of these entities operates in lines of business similar to the Company, supplying engineered process and water treatment chemical programs, as well as products that manage the properties of aqueous systems, for industrial, commercial and institutional establishments. As discussed further in Note 13, CP Kelco ApS was the Company's Food Gums business that was divested in 2000.

6. SHORT-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Short-term debt of $90,944 thousand and $13,230 thousand at December 31, 2000 and 1999, respectively, consists of bank borrowings primarily representing foreign overdraft facilities and short-term lines of credit, which are generally payable on demand with interest at various rates. Book values of bank borrowings approximate market value because of their short maturity period.

Short-term debt with affiliates of $32,734 thousand and $29,740 thousand at December 31, 2000 and 1999, respectively, is recorded in Net Hercules Group Investment in the consolidated balance sheet and is generally payable on demand with interest at various rates.

At December 31, 2000 and 1999, the Company had $34,774 thousand and $23,607 thousand, respectively, of unused lines of credit that may be drawn as needed, with interest at a negotiated spread over lenders' cost of funds.

Weighted-average interest rates on all short-term borrowings at December 31, 2000 and 1999 were 5.60% and 4.61%, respectively.

7. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Long-term debt with third parties and affiliates at December 31, 2000 and 1999 is summarized as follows:

	2000	1999
	(DOLLARS IN THOUSAND)	
4.50% third party note	$ 93	$ 102
11.00% third party note	--	280
Other	45	76
Less current maturities	--	--
Total long-term debt, third party	138	458
5.10% affiliate note	1,698,968	--
5.51% affiliate note	22,853	--
5.80% affiliate note	20,516	22,345
6.00% affiliate note	--	5,145
Less current maturities	--	--
Total long-term debt, affiliates	1,742,337	27,490
Total long term debt, third party and affiliates	$1,742,475	$27,948

Long-term debt with affiliates, which is recorded in Net Hercules Group Investment in the consolidated balance sheet, has no stated maturity. Third party long-term debt matures after 2005. The fair values of the Company's long-term debt were $1,742,475 at December 31, 2000 and $27,948 at December 31, 1999. The Company believes that the carrying value of long-term debt borrowings approximates fair value, based on

discounting future cash flows using rates currently available for debt of similar terms and remaining maturities.

8. LONG-TERM INCENTIVE COMPENSATION PLANS

The Company participates in long-term incentive compensation plans sponsored by Hercules. These plans provide for the grant of stock options and the award of common stock and other market-based units to certain key employees and non-employee directors.

The Hercules long-term incentive compensation plans place a great emphasis on shareholder value creation through grants of regular stock options, performance-accelerated stock options, and Cash Value Awards (performance-based awards denominated in cash and payable in shares of common or restricted stock, subject to the same restrictions as restricted stock). Restricted stock and other market-based units are awarded with respect to certain programs. The number of awarded shares outstanding for all of the Hercules Group was 491,488 at December 31, 2000, and 926,689 and 1,083,613 at December 31, 1999 and 1998, respectively.

At December 31, 2000, under Hercules' incentive compensation plans, 1,847,855 shares of common stock were available for grant as stock awards or stock option awards. Stock awards are limited to approximately 15% of the total authorizations. Regular stock options are granted at the market price on the date of grant and are exercisable at various periods from one to five years after date of grant. Performance-accelerated stock options are also granted at the market price on the date of grant and are normally exercisable at nine and one-half years. Exercisability may be accelerated based upon the achievement of predetermined performance goals. Both regular and performance-accelerated stock options expire 10 years after the date of grant.

Restricted shares, options and performance-accelerated stock options are forfeited and revert to Hercules in the event of employment termination, except in the case of death, disability, retirement, or other specified events.

The Company applies APB Opinion 25 in accounting for its plans. Accordingly, no compensation cost has been recognized for the stock option plans. There were no charges to income for the cost of stock awards over the restriction or performance period for 2000, 1999 and 1998, respectively.

Below is a summary of outstanding stock option grants under the incentive compensation plans during 2000, 1999 and 1998:

	REGULAR		PERFORMANCE-ACCELERATED	
	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE
January 1, 1998................	302,475	$40.31	48,575	$43.91
Granted......................	115,775	$37.88	40,475	$47.17
Exercised....................	--	--	--	--
Forfeited....................	--	--	--	--
December 31, 1998.............	418,250	$39.64	89,050	$45.39
Granted......................	215,500	$37.61	60,775	$37.49
Exercised....................	--	--	--	--
Forfeited....................	--	--	(900)	$45.73
December 31, 1999.............	633,750	$38.95	148,925	$42.16
Granted......................	141,000	$17.25	--	--
Exercised....................	--	--	--	--
Forfeited....................	(19,650)	$36.82	(1,350)	$37.56
December 31, 2000.............	755,100	$34.95	147,575	$42.21

The weighted-average fair value of regular stock options granted during 2000, 1999 and 1998 was $8.85, $8.25 and $9.19, respectively. The weighted-average fair value of performance-accelerated stock options granted during 1999 and 1998 was $7.99 and $11.02, respectively.

Following is a summary of regular stock options exercisable at December 31, 2000, 1999 and 1998 and their respective weighted-average share prices:

OPTIONS EXERCISABLE	NUMBER OF SHARES	WEIGHTED-AVERAGE
December 31, 1998	124,735	$40.69
December 31, 1999	290,545	$39.85
December 31, 2000	533,705	$37.14

There were no performance-accelerated stock options exercisable at December 31, 2000, 1999 and 1998.

Following is a summary of stock options outstanding at December 31, 2000:

	OUTSTANDING OPTIONS			EXERCISA
EXERCISE PRICE RANGE	NUMBER OUTSTANDING AT 12/31/00	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/00
REGULAR STOCK OPTIONS				
$12 - $20	137,150	9.13	$17.25	50,150
$20 - $30	48,975	7.67	$25.56	43,080
$30 - $40	504,575	7.21	$39.03	384,455
$40 - $50	64,400	7.31	$47.86	56,020
	755,100			533,705
PERFORMANCE-ACCELERATED STOCK OPTIONS				
$14 - $40	89,725	7.69	$37.98	--
$40 - $50	50,750	6.83	$47.83	--
$50 - $61	7,100	5.11	$55.38	--
	147,575			--

The Company currently expects that 100% of performance-accelerated stock options will eventually vest.

The Company's employees may also participate in the Hercules Employee Stock Purchase Plan ("ESPP"). The ESPP is a qualified non-compensatory plan, which allows eligible employees to acquire shares of common stock through systematic payroll deductions. The plan consists of three-month subscription periods, beginning July 1 of each year. The purchase price is 85% of the fair market value of the common stock on either the first or last day of that subscription period, whichever is lower. Purchases may range from 2% to 15% of an employee's base salary each pay period, subject to certain limitations. Currently, 202,139 shares of Hercules common stock are registered for offer and sale under the plan. Shares issued at December 31, 2000 and 1999, were 1,597,861 and 949,464, respectively. The Company applies APB Opinion 25 and related interpretations in accounting for its Employee Stock Purchase Plan. Accordingly, no compensation cost has been recognized for the Employee Stock Purchase Plan.

Had compensation cost for Hercules' Stock-Based Incentive Plans and Employee Stock Purchase Plan been determined on the basis of fair value according to SFAS No. 123, the fair value of each option granted or share purchased would be estimated on the grant date using the Black-Scholes option pricing model.

The following weighted-average assumptions would be used in estimating fair value for 2000, 1999 and 1998:

ASSUMPTION	REGULAR PLAN	PERFORMANCE ACCELERATED PLAN	EMPL PURC
Dividend yield	2%	3.4%	
Risk-free interest rate	5.88%	5.38%	
Expected life	7.1 yrs.	5 yrs.	
Expected volatility	29.20%	27.31%	

The Company's net income for 2000, 1999 and 1998 would approximate the pro forma amounts below:

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Net income			
As reported	$215,763	$137,779	$94,987
Pro forma	$214,434	$136,521	$93,944

9. ADDITIONAL BALANCE SHEET DETAIL

	2000	1999
	(DOLLARS IN THOUSANDS)	
Property, plant, and equipment		
Land	$ 7,240	$ 8,870
Buildings and equipment	533,902	773,185
Construction in progress	--	682
Total	541,142	782,737
Accumulated depreciation and amortization	(265,817)	(395,080)
Net property, plant, and equipment	$ 275,325	$ 387,657

Accrued expenses

Payroll and employee benefits	$ 14,395	$ 29,131
Income taxes payable	4,966	17,671
Restructuring	12,743	26,546
Environmental	9,300	800
Other	6,110	15,560
	$ 47,514	$ 89,708

10. GOODWILL AND OTHER INTANGIBLES ASSETS

At December 31, 2000 and 1999, the goodwill and other intangible assets were:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Goodwill	$241,109	$312,151
Other intangibles	7,820	9,554
Total	248,929	321,705
Less accumulated amortization	(24,779)	(21,299)
Net goodwill and other intangible assets	$224,150	$300,406

Goodwill and other intangible assets primarily represent amounts capitalized from the Hercules acquisition of BetzDearborn (Note 1).

11. RESTRUCTURING

The consolidated balance sheet reflects liabilities for employee severance benefits and other exit costs, primarily related to the plans initiated upon the creation of the European Shared Service Center in 1997 and the acquisition of BetzDearborn in 1998. In the fourth quarter of 2000, we committed to a plan relating to the restructuring of several entities. As a result of these plans, we estimate that in total approximately

512 employees will be terminated, of which approximately 461 employee terminations have occurred since inception of the aforementioned plans. These employees come from various parts of the business, including but not limited to manufacturing, support functions and research.

Pursuant to the plans in place to merge the operations of BetzDearborn with Hercules and to rationalize the support infrastructure and other existing operations, facilities were closed and in total approximately 393 employees were terminated during 1999. Cash payments for the year included $13.2 million for severance benefits and other exit costs. As a result of the completion of plans to exit former BetzDearborn activities, a $9 million increase in employee severance benefits was reflected in the finalization of the purchase price allocation. We lowered the estimates of severance benefits related to the implementation of the European Shared Service Center by $1.3 million due to a suspension of implementations, while increasing the estimates of other plans by $13.9 million due to the identification of additional facilities for closure. These amounts were charged to operating expense.

In 2000, in total approximately 68 employees were terminated and $13.6 million cash was paid in severance benefits and other exit costs. The estimate for the remaining plans was decreased by $3.3 million against goodwill due to lower than planned severance benefits as the result of higher than anticipated attrition, with voluntary resignations not requiring the payment of termination benefits. The estimate for the plans related to the shared services center were decreased by $1.7 million against operating expense.

Severance benefits payments are based on years of service and generally continue for 3 months to 24 months subsequent to termination. We expect to substantially complete remaining actions under the plans in 2001. A reconciliation of activity with respect to the liabilities established for these plans is as follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Balance at beginning of year	$ 26,546	$ 27,190
Cash payments	(13,556)	(13,195)
Additional termination benefits and exit costs	4,731	13,840
Reversals against goodwill	(3,320)	--
Reversals against earnings	(1,658)	(1,289)
Balance at end of year	$ 12,743	$ 26,546

12. PENSION

The Company has a number of pension plans in Europe, covering substantially all employees. The following chart lists benefit obligations, plan assets, and funded status of the plans.

	2000	1999
	(DOLLARS IN THOUSANDS)	
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at January 1	$ 37,408	$ 40,009
Service cost	842	1,510
Interest cost	1,388	2,258
Reclassification of assets for plan settlement	(416)	
Settlements and transfers	(10,612)	--
Translation difference	(3,108)	(5,395)
Actuarial loss (gain)	111	(171)
Benefits paid from plan assets	(10)	(8)

Benefits paid by company	(523)	(795)
Benefit obligation at December 31	$ 25,080	$ 37,408
CHANGE IN PLAN ASSETS		
Fair value of plan assets at January 1	2,817	2,883
Actual return on plan assets	22	(60)
Settlements and transfers	(1,109)	--
Company contributions (refund)	122	398
Translation difference	(233)	(396)
Benefits paid from plan assets	(10)	(8)
Fair value of plan assets at December 31	$ 1,609	$ 2,817
Funded status of the plans	(23,471)	(34,591)
Unrecognized actuarial loss (gain)	1,876	1,631
Unrecognized prior service cost (benefit)	119	141
Unrecognized net transition obligation	719	4,733
Prepaid (accrued) benefit cost	$(20,757)	$(28,086)
AMOUNTS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION CONSIST OF:		
Accrued benefit liability	(20,757)	(28,086)
	$(20,757)	$(28,086)
ASSUMPTIONS AS OF DECEMBER 31		
Weighted-average discount rate	5.75%	6.00%
Expected return on plan assets	6.50%	6.50%
Rate of compensation increase	3.50%	3.75%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

	PENSION BENEFITS		
	2000	1999	1998
COMPONENTS OF NET PERIOD PENSION COST			
Service cost	$ 842	$1,510	$ 877
Interest cost	1,388	2,258	1,631
Return on plan assets (expected)	(36)	(98)	(64)
Amortization and deferrals	(17)	(14)	(72)
Gain on settlements	(8,675)	--	--
Amortization of prior service cost	10	12	12
Amortization of transition asset	2,129	351	362
Benefit (credit) cost	$(4,359)	$4,019	$2,746

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefits obligations in excess of plan assets were $23,562 thousand, $19,780 thousand and $0, respectively, as of December 31, 2000 and $36,766 thousand, $28,900 thousand and $1,334 thousand, respectively, as of December 31, 1999.

The Company's employees in The Netherlands participate in a multi-employer pension fund which is administered by an affiliated company. Contribution amounts are based upon costs allocated to the Company by the Plan administrator. Pension costs/(benefits) relating to the multi-employer plan were ($428) thousand, $199 thousand and ($2,136) thousand in 2000, 1999 and 1998, respectively.

13. OTHER OPERATING INCOME AND EXPENSES, NET

Other operating income and expenses, net, in 2000 include a gain of $167,566 thousand from the sale of the Food Gums division. On September 28, 2000, the Company sold its Food Gums division to CP Kelco, a joint venture with Lehman Brothers Merchant Banking Partners II, L.P., which contributed approximately $300 million in equity. The Company received a note of approximately $248 million from Hercules, which collected the original cash proceeds, recorded tax expenses of approximately $61 million and retained a 28.57% equity position in CP Kelco. CP Kelco simultaneously acquired Kelco biogums business of Pharmacia Corporation (formerly Monsanto Corporation). Other operating expenses, net, also include Hercules Group affiliate royalty costs, net restructuring costs, environmental costs, net losses on asset dispositions and foreign currency losses totaling $22,471 thousand, $3,073 thousand, $8,500 thousand, $1,617 thousand and $43 thousand, respectively.

Other operating expenses, net, in 1999 include Hercules Group affiliate royalty costs of $27,318 thousand, a gain on sale of investments of $13,302 thousand, net restructuring costs of $12,551, environmental costs of $800 thousand, net losses on asset dispositions of $184 thousand and foreign currency losses amounting to $289 thousand.

Other operating expenses, net, in 1998 include Hercules Group affiliate royalty costs of $21,029 thousand, net restructuring costs of $16,072, net gains on asset dispositions of $506 thousand and foreign currency losses amounting to $1,114 thousand.

14. INTEREST AND DEBT EXPENSE

No interest and debt costs were capitalized during 1998, 1999 and 2000. The costs incurred are presented separately in the statement of income.

15. OTHER INCOME (EXPENSE), NET

Other income (expense), net, consists of the following:

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Interest income, net	$11,124	$ 9,742	$ 1,920
Rent	27	(6)	12
Miscellaneous income (expense), net	309	(4,532)	(3,600)

	$11,460	$ 5,204	$(1,668)

16. INCOME TAXES

A summary of the components of the tax provision follows:

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Current	$31,884	$48,052	$60,156
Deferred	14,360	12,967	579
Provision for income taxes	$46,244	$61,019	$60,735

Deferred tax liabilities (assets) at December 31 consist of:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Depreciation	$(41,661)	$(52,772)
Goodwill amortization	(8,819)	(10,823)
Stock valuation	(2,207)	(2,498)
Intangible asset	(1,385)	--
Insurance provision	(4,989)	(6,037)
Replacement provision	(3,282)	(3,776)
Other	(2,151)	(2,357)
Gross deferred tax liabilities	(64,494)	(78,263)
Loss carryforwards	2,959	2,730
Inventory provision	2,551	4,124
Other	2,239	2,972
Gross deferred tax assets	7,749	9,826
Valuation allowance	(703)	(829)
	$(57,448)	$(69,266)

A reconciliation of the statutory income tax rate to the effective rate follows:

	2000	1999	1998
Statutory income tax rate	37.5%	37.5%	37.5%
Non-deductible expenses	5.1%	1.8%	1.6%
Non-taxable income	(4.9)%	(1.6)%	(3.5)%
Tax rate differences on subsidiary earnings	(1.4)%	(1.2)%	0.7%
Income (loss) from equity investments in affiliates	0.7%	0.1%	0.2%
Gain on sale of investment	(24.0)%	(3.3)%	0.0%
Other	4.7%	2.6%	2.5%
Effective tax rate	17.7%	30.7%	39.0%

The net operating losses have a carryforward period ranging from 5 years to indefinite, but may be limited in their use in any given year.

17. COMMITMENTS AND CONTINGENCIES

Leases

The Company has operating leases (including office space, transportation, and data processing equipment) expiring at various dates. Rental expense was $8,076 thousand, $8,786 thousand and $5,457 thousand in 2000, 1999 and 1998, respectively.

At December 31, 2000, minimum rental payments under noncancelable leases aggregated $24,236 thousand. The net minimum payments over the next five years and thereafter are $7,694 thousand in 2001, $5,197 thousand in 2002, $3,024 thousand in 2003, $1,161 thousand in 2004, $1,630 thousand in 2005 and $5,530 thousand beyond 2005.

Litigation

The Company currently and from time to time is involved in litigation incidental to the conduct of its business. In the opinion of the Company's management, none of such litigation as of December 31, 2000 is likely to have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

Environmental

The Company has potential liability in connection with obligations to authorities of various EU countries in which it has manufacturing facilities, and to private parties pursuant to contract, for the cost of environmental investigation and/or cleanup at several sites. The estimated range of the reasonably possible share of costs for the investigation and cleanup is between $5,000 thousand and $12,000 thousand. The actual costs will depend upon numerous factors, including the actual methods of remediation required or agreed to; outcomes of negotiations with regulatory authorities and private parties; changes in environmental laws and regulations; technological developments; and the years of remedial activity required, which could range from 0 to 30 years.

The Company becomes aware of its obligations relating to sites in which it may have liability for the costs of environmental investigations and/or remedial activities through correspondence from government authorities, or through correspondence from companies with which the Company has contractual obligations, who either request information or notify us of our potential liability. We have established procedures for identifying environmental issues at our plant sites. In addition to environmental audit programs, we have environmental

HERCULES INVESTMENTS SARL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

coordinators who are familiar with environmental laws and regulations and act as a resource for identifying environmental issues.

In December 2000, PFW Aroma Chemicals B.V., a company that in 1996 purchased from the Company a Fragrances Plant in Barneveld, NL, submitted a claim of 7,295 thousand EURO. The claim seeks payment of costs alleged to be owed under the 1996 Agreement between the parties. The claim generally alleges that the Company is obligated to pay for the costs of cleaning up contamination at the Barneveld plant and to pay various costs relating to compliance with permit obligations. The Company has questioned its obligation to pay the amounts sought, and is currently in negotiations with PFW regarding this claim.

On May 1, 2001, the Company sold a hydrocarbon resins manufacturing facility located in Middelburg, the Netherlands as part of the sale by Hercules of its Resins Division to Eastman Chemical Resins, Inc. Under the Purchase and Sale Agreement between the parties, Hercules retained certain specific liabilities relating to environmental conditions at the Middelburg hydrocarbon resins plant, including pre-existing contamination

At December 31, 2000, the total accrued liability of $9,300 thousand for environmental remediation represents management's best estimate of the probable and reasonably estimable costs related to environmental remediation. The extent of liability is evaluated quarterly. The measurement of the liability is evaluated based on currently available information, including the process of remedial investigations at each site and the current status of negotiations with regulatory authorities regarding the method and extent of remediation that will be required and the negotiations regarding apportionment of costs among other private parties. While it is not feasible to predict the outcome of all pending suits and claims, the ultimate resolution of these environmental matters could have a material effect upon the results of operations and the financial position of the Company.

18. RELATED PARTY TRANSACTIONS

The Company has entered into certain agreements with affiliated entities. These agreements were developed in the context of a Hercules Group/subsidiary relationship and therefore may not necessarily reflect the result of arm's-length negotiations between independent parties. All transactions described below are eliminated on consolidation of Hercules.

Intercompany borrowing and interest: The Company has intercompany loans with Hercules affiliated entities. The loans with affiliates are included in net Hercules Group investment in the consolidated balance sheet. Interest paid to affiliated entities was $42,602 thousand, $2,581 thousand and $3,527 thousand in 2000, 1999 and 1998, respectively.

Corporate, regional and other allocations: As discussed in Note 1, the consolidated financial statements of the Company reflect certain allocated support costs incurred by other entities in the Hercules group and incurred by the Company. These costs include executive, legal, accounting, tax, auditing, cash management, purchasing, human resources, safety, health and environmental, information management, investor relations and other corporate services. Allocations and charges included in the Company's consolidated financial statements were based either on a direct cost pass-through for items directly identified as related to the Company's activities; a percentage allocation for such services provided based on factors such as sales, net assets, cost of sales; or a relative weighting of geographic activity. These allocations are reflected in the selling, general and administrative line item in the consolidated statement of income. Such allocations and corporate charges totaled approximately $23,980 thousand, $31,596 thousand and $15,850 thousand in 2000, 1999 and 1998, respectively.

Sales to affiliates: The Company sells raw material and finished goods inventory in the normal course of business to affiliated companies. The Company's revenues from sales to affiliated companies are presented separately in the consolidated statement of income.

Purchases from affiliates: The Company purchases in the normal course of business raw material and finished goods inventory from affiliated companies. The Company's purchases of inventory from affiliated companies are reflected in costs of sales in the consolidated statement of income and totaled $221,230 thousand, $241,737 thousand and $239,306 thousand in 2000, 1999 and 1998, respectively.

Royalties: The Company entered into a license agreement in respect of the use of manufacturing formulations and specifications developed and owned by an affiliated entity. Total royalties accrued in respect of this agreement are included in the other operating (income) expense line item in the consolidated statement of income and totaled $22,471 thousand, $27,318 thousand and $21,029 thousand in 2000, 1999 and 1998, respectively.

19. DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT

The Company enters into forward-exchange contracts to hedge currency exposure.

Notional Amounts and Credit Exposure of Derivatives

The notional amounts of derivatives summarized below do not represent amounts exchanged by the parties and, thus, are not a measure of the exposure of the Company through its use of derivatives. The amounts exchanged are calculated on the basis of the notional amounts and the other terms of the derivatives, which relate to interest rates or exchange rates.

Foreign Exchange Risk Management

The Company has selectively used foreign currency forward contracts to offset the effects of exchange rate changes on reported earnings, cash flow, and net asset positions. The primary exposures are denominated in the U.S. Dollar, the Japanese Yen and the British Pound Sterling. Some of the contracts involve the exchange of two foreign currencies, according to local needs in foreign subsidiaries. The term of the currency derivatives is rarely more than three months. At December 31, 2000 and 1999, the Company had outstanding forward-exchange contracts to purchase foreign currencies aggregating $78,281 thousand and $176,516 thousand, respectively, and to sell foreign currencies aggregating $78,712 thousand and $175,958 thousand, respectively. The foreign exchange contracts outstanding at December 31, 2000 will mature during 2001.

Fair Values

The following table presents the carrying amounts and fair values of the

Company's financial instruments at December 31, 2000 and 1999:

	2000		1999	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(DOLLARS IN THOUSANDS)			
Foreign exchange contracts................	$(430)	$(430)	$557	$557

The carrying amount represents the net unrealized gain or net interest payable associated with the contracts at the end of the period. Fair values of derivative contracts are indicative of cash that would have been required had settlement been December 31, 2000. Foreign exchange contracts are valued based on year-end exchange rates. Net Hercules Group Investment

20. NET HERCULES GROUP INVESTMENT

Changes in Net Hercules Group Investment were as follows:

Balance, January 1, 1998..................................	$ 265,716
Net income..	94,987
Other comprehensive income...............................	16,306
Intercompany transactions, net...........................	317,580
Balance, December 31, 1998................................	694,589
Net income..	137,779
Other comprehensive income...............................	(49,869)
Intercompany transactions, net...........................	(95,424)
Balance, December 31, 1999................................	687,075
Net income..	215,763
Other comprehensive income...............................	(71,025)
Intercompany transactions, net...........................	(398,179)
Balance, December 31, 2000................................	$ 433,634

The Company includes accumulated other comprehensive income in net Hercules Group investment. At December 31, 2000, 1999 and 1998, accumulated other comprehensive income consisted of foreign currency translation adjustments.

21. SUBSEQUENT EVENT

On May 1, 2001, Hercules completed the sale of its hydrocarbon resins divisions and select portions of its rosin resins divisions to Eastman Chemical Company. In addition, on May 31, 2001, Hercules completed the sale of its peroxy chemicals business to GEO Specialty Chemicals, Inc.

WSP, INC.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
Hercules Incorporated
Wilmington, Delaware

In our opinion, the accompanying balance sheets and the related statements of operations and comprehensive (loss) income and of cash flows present fairly, in all material respects, the financial position of WSP, Inc., a subsidiary of Hercules Incorporated at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America that require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania

October 19, 2001

WSP, INC.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Interest income	$ 2,452	$ --	$ --
Equity in (loss) income of affiliated company (Note 3)	(25,895)	13,059	5,369
(Loss) income before income taxes	(23,443)	13,059	5,369
(Benefit) provision for income taxes (Note 7)	(8,205)	4,571	1,879
Net (loss) income	(15,238)	8,488	3,490
Translation adjustments	910	627	--
Comprehensive (loss) income	$(14,328)	$ 9,115	$3,490

The accompanying notes are an integral part of the financial statements.

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WSP, INC.

BALANCE SHEETS

	DECEMBER 31, 2000	DECEMBER 31, 1999
	(DOLLARS IN THOUSANDS)	
ASSETS		
Investments (Note 3)	$126,138	$151,123
Deferred income taxes (Note 7)	4,143	--
Total assets	$130,281	$151,123
LIABILITIES AND NET HERCULES GROUP INVESTMENT		
Current liabilities		
Current tax liability (Note 7)	$ 919	$ 99
Total current liabilities	919	99
Deferred income taxes (Note 7)	--	4,981
Total liabilities	919	5,080
Commitments and contingencies (Note 4)	--	--
Net Hercules Group Investment (Note 5)	129,362	146,043
Total liabilities and Net Hercules Group Investment	$130,281	$151,123

The accompanying notes are an integral part of the financial statements.

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WSP, INC.

STATEMENTS OF CASH FLOW

	YEAR ENDED DECEMBER 31, 2000	1999	1998
	(DOLLARS IN THOUSANDS)		
CASH FLOW FROM OPERATING ACTIVITIES:			
Net (loss) income	$(15,238)	$ 8,488	$ 3,490
Adjustments to reconcile net (loss) income to net cash provided by operations:			
Accruals and deferrals of cash receipts and payments:			
Affiliates' losses (earnings) in excess of dividend			

received	25,895	(13,059)	(5,369)
Accounts payable and accrued expenses	820	(17)	116
Deferred taxes	(9,124)	4,472	509
Net cash (used in) provided by operations	2,353	(116)	(1,254)
CASH FLOW FROM INVESTING ACTIVITIES:			
Acquisitions, net of cash acquired	--	--	(130,253)
Net cash used in investing activities	--	--	(130,253)
CASH FLOW FROM FINANCING ACTIVITIES:			
Transfers (to) from Hercules group	(2,353)	116	131,507
Net cash (used in) provided by financing activities	(2,353)	116	131,507
Net (decrease) increase in cash and cash equivalents	--	--	--
Cash and cash equivalents at beginning of year	--	--	--
Cash and cash equivalents at end of year	--	--	--
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Income taxes paid, net	99	116	1,254

The accompanying notes are an integral part of the financial statements.

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WSP, INC.

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

WSP, Inc. ("WSP"), a U.S. holding company, is owned 100% by Hercules Incorporated ("Hercules"). WSP owns 0.5818% of Aqualon Company, a U.S. partnership that is engaged in providing products and services to manage the properties of aqueous (water-based) systems. WSP also owns 49% of FiberVisions L.L.C., a limited liability corporation that serves worldwide polypropylene non-woven fiber used to make disposable hygiene products.

Historically, separate company stand-alone financial statements were not prepared for WSP. In November 2000, Hercules amended its senior credit facility and ESOP credit facility (the "Facilities"). The Facilities, as amended, are secured by liens on Hercules' property and assets (and those of Hercules' Canadian Subsidiaries), a pledge of the stock and partnership interests of substantially all of Hercules' domestic subsidiaries (including WSP) and 65% of the stock of foreign subsidiaries directly owned by Hercules, and a pledge of Hercules' domestic intercompany indebtedness. These financial statements present the financial information on WSP, a collateral party to the Hercules debt, based on Hercules' understanding of Securities and Exchange Commission's interpretation and application of Rule 3-16 under the Securities and Exchange Commission's Regulation S-X. These statements were derived from historical accounting records.

WSP participates in Hercules' centralized cash management system. Accordingly, cash received from WSP operations is transferred to Hercules on a periodic basis, and Hercules funds all operational and capital requirements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

WSP recognizes revenue, including interest income, when the earnings process is complete.

Cash and Cash Equivalents

Cash equivalents include commercial paper and other securities with original maturities of 90 days or less. Book value approximates fair value because of the short maturity of these instruments.

INVESTMENTS

Investments in affiliated companies with a 20% or greater ownership interest in which the Company has significant influence are accounted for using the equity method of accounting. Accordingly, these investments are included in investments in affiliates on the Company's balance sheet and the income or loss from these investments is included in equity in (loss) income of affiliated companies in the Company's statement of income.

Investments in affiliated companies in which the Company does not have a controlling interest, or an ownership and voting interest so large as to exert significant influence, are accounted for using the cost method of accounting. Accordingly, these investments are included in investments in affiliates on the Company's balance sheet.

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WSP, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Income Taxes

The Company's operations have historically been included in the consolidated income tax returns filed by its parent. Income tax expense in the accompanying financial statements has been computed assuming the Company filed separate income tax returns. Differences between this calculation of income taxes currently payable and consolidated amounts reported in the consolidated financial statements of the parent have been reflected as Net Hercules Group Investment.

Net Hercules Group Investment

The Net Hercules Group Investment account reflects the balance of WSP's historical earnings, intercompany amounts, income taxes, taxes accrued and deferred, foreign currency translation and other transactions between WSP and the Hercules Group.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133" and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," requires that all derivative instruments be recorded on the balance sheet at their fair value. This statement, as amended, is effective for all fiscal quarters of fiscal years beginning after December 31, 2000. The adoption of SFAS No. 133 did not have a material effect on its earnings or statement of financial position.

In December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). This pronouncement provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Accordingly, guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. Adoption of SAB 101, as amended by SAB Nos. 101A and 101B, was to be effective October 1, 2000. Adoption of SAB 101 did not have a material effect on our profit from operations.

3. INVESTMENTS

Total investments in affiliated companies were as follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Investment in FiberVisions L.L.C.	$124,323	$149,308
Investment in Aqualon Company	1,815	1,815
Total Investments	$126,138	$151,123

Summarized financial information for FiberVisions, L.L.C. at December 31 2000 and 1999 and the years then ended is as follows:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Current assets	$ 68,290	$ 70,676
Non-current assets	322,085	390,313
Current liabilities	45,535	47,711
Other non-current liabilities	53,919	70,141

	2000	1999
	(DOLLARS IN THOUSANDS)	
Net sales	$251,859	$253,648
Gross profit	28,726	59,952
Net earnings	(52,846)	26,650

The summarized financial information above does not include certain intercompany assets and liabilities recorded in FiberVisions, L.L.C. These intercompany accounts have been reclassified to the Net Hercules Group Investment in accordance with the Company's accounting policy (see Note 2).

4. COMMITMENTS AND CONTINGENCIES

WSP currently and from time to time is involved in litigation incidental to the conduct of its business. In the opinion of WSP's management, none of such litigation as of December 31, 2000 is likely to have a material adverse effect on the financial position and results of operations of WSP.

5. NET HERCULES GROUP INVESTMENT

Changes in net Hercules Group Investment were as follows:

	(DOLLARS IN THOUSANDS)
Balance, January 1, 1998	$ 1,815
Net income	3,490
Other comprehensive income	--
Intercompany transactions, net	131,507
Balance, December 31, 1998	136,812
Net income	8,488
Other comprehensive income	627
Intercompany transactions, net	116
Balance, December 31, 1999	146,043
Net loss	(15,238)
Other comprehensive income	910
Intercompany transactions, net	(2,353)
Balance, December 31, 2000	$129,362

6. ACQUISITIONS AND DIVESTITURES

In July 1998, WSP acquired 49% of the shares of FiberVisions, LLC. This transaction was funded by Hercules and was recognized as an increase in equity investment by WSP.

7. INCOME TAXES

The domestic components of income before taxes are presented below:

2000	1999	1998

	(DOLLARS IN THOUSANDS)		
Domestic	$(23,443)	$13,059	$5,369
	$(23,443)	$13,059	$5,369

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WSP, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

A summary of the components of the tax provision follows:

	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Currently payable	$ 919	$ 99	$ 116
Deferred	(9,124)	4,472	1,763
Provision for income taxes	$(8,205)	$4,571	$1,879

Deferred tax (assets) liabilities at December 31, consist of the following:

	2000	1999
	(DOLLARS IN THOUSANDS)	
Partnership basis	$(4,143)	$4,981
Gross deferred tax liabilities	--	4,981
Gross deferred tax assets	(4,143)	--
	$(4,143)	$4,981

The effective tax rate for WSP was 35%.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K:

(a) Documents filed as part of this Report:

1. Financial Statements

See Item 8 for an Index to the Consolidated Financial Statements of Hercules Incorporated.

2. Financial Statement Schedules:

All other schedules are omitted because they are not applicable, not required, or the information required is either presented in the Notes to Financial Statements or has not changed materially from that previously reported.

3. Exhibits:

A complete listing of exhibits required is included in the Exhibit Index that precedes the exhibits filed with this Report.

(b) Reports on Form 8-K.

Report	Date of Report	Item Nos.	Financial Statements Included
Form 8-K	September 28, 2000	2,7	Yes
Form 8-K/A	September 28, 2000	2,7	Yes
Form 8-K	November 2, 2000	5,7	No
Form 8-K	November 7, 2000	7,9	No
Form 8-K	November 7, 2000	5,7	No

HERCULES INCORPORATED

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS (Dollars in millions)

Col. A.	Col. B	Col. C		Col. D	Col
		Additions			
Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions	Balan end per
YEAR 2000					
Allowance for doubtful accounts	$ 16	$21		(10)	$
Tax valuation allowance	16	12			
YEAR 1999					
Allowance for doubtful accounts	$ 13	---	$ 3 (a)	---	$
Tax valuation allowance	12	---	4 (a)	---	
YEAR 1998					
Allowance for doubtful accounts	$ 3	---	$10 (a)	---	$

Tax valuation allowance	12	---	---	---

(a) Primarily a result of 1998 acquisitions, including subsequent purchase price allocation adjustments.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 to be signed on its behalf by the undersigned, thereunto duly authorized on October 31, 2001.

HERCULES INCORPORATED

By: /s/ WILLIAM H. JOYCE
William H. Joyce
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Amendment No. 1 has been signed below by the following persons on behalf of the registrant in the capacities indicated on October 31, 2001.

PRINCIPAL EXECUTIVE OFFICER:

Chairman and Chief Executive Officer — /s/ WILLIAM H. JOYCE
William H. Joyce

PRINCIPAL FINANCIAL OFFICER:

Vice President and Treasurer — /s/ STUART C. SHEARS
Stuart C. Shears

PRINCIPAL ACCOUNTING OFFICER:

Vice President and Controller — /s/ FRED G. AANONSEN
Fred G. Aanonsen

DIRECTORS:

/s/ WILLIAM H. JOYCE

/s/

William H. Joyce	Robert D. Kennedy
/s/ JOHN G. DROSDICK	/s/ JEFFREY M. LIPTON
John G. Drosdick	Jeffrey M. Lipton
/s/ RICHARD M. FAIRBANKS, III	/s/ PETER MCCAUSLAND
Richard M. Fairbanks, III	Peter McCausland
/s/ SAMUEL J. HEYMAN	/s/ GLORIA SCHAFFER
Samuel J. Heyman	Gloria Schaffer
/s/ ALAN R. HIRSIG	/s/ PAULA A. SNEED
Alan R. Hirsig	Paula A. Sneed
/s/ EDITH E. HOLIDAY	/s/ RAYMOND TROUBH
Edith E. Holiday	Raymond Troubh
/s/ SUNIL KUMAR	
Sunil Kumar	Joe B. Wyatt

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HERCULES INCORPORATED

EXHIBIT INDEX

NUMBER	DESCRIPTION	INCORPO
2-A	Agreement and Plan of Merger among Hercules, Water Acquisition Company and BetzDearborn Inc., dated July 30, 1998	Exhibit 2.1, Bet on Form 8-K, fil
3-A.1	Restated Certificate of Incorporation of Hercules, as revised and amended July 6, 1988	Exhibit 3-A, Ann March 26, 1993
3-A.2	Certificate of Amendment dated October 24, 1995, to Hercules' Restated Certificate of Incorporation as revised and amended July 5, 1998	Exhibit 4.1a, Re S-3, filed Septe
3-B	By-Laws of Hercules, as revised and amended October 30, 1991	Exhibit 3-B, Ann March 26, 1993
4-A	Officers' Certificate, dated as of March 17, 1999, pursuant to the Junior Subordinated Debentures Indenture between Hercules and Chase	Exhibit 4.1, Cur March 17, 1999
4-B	Form of Preferred Securities Guarantee by Hercules and Chase, with respect to Hercules Trust I	Exhibit 4.28, Am Statement on For
4-C	Form of Amended and Restated Trust Agreement of Hercules Trust I	Exhibit 4.13, Am Statement on For

4-D	Form of 9.42% Trust Originated Preferred Securities of Hercules Trust I	Exhibit 4.2, Cur March 17, 1999
4-E	Form of 9.42% Junior Subordinated Deferrable Interest Debentures due 2029	Exhibit 4.3, Cur March 17, 1999
4-F	Officer's Certificate, dated as of July 27, 1999, pursuant to the Junior Subordinated Debentures Indenture between Hercules and Chase, dated as of November 12, 1998	Exhibit 4.1, Cur July 27, 1999
4-G	Amended and Restated Trust Agreement of Hercules Trust II, dated as of July 27, 1999, together with Annex I thereto	Exhibit 4.2, Cur July 27, 1999
4-H	Unit Agreement, dated July 27, 1999, among Hercules, Hercules Trust II and The Chase Manhattan Bank, as unit agent	Exhibit 4.3, Cur July 27, 1999
4-I	Warrant Agreement, dated July 27, 1999, between Hercules and The Chase Manhattan Bank, as warrant agent	Exhibit 4.4, Cur July 27, 1999
4-J	Form of Series A Junior Subordinated Deferrable Interest Debentures	Exhibit 4.5, Cur July 27, 1999
4-K	Form of Trust II Preferred Securities	Exhibit 4.6, Cur July 27, 1999
4-L	Form of CRESTS Unit	Exhibit 4.7, Cur July 27, 1999
4-M	Form of Warrant	Exhibit 4.8, Cur July 27, 1999
4-N	Rights Agreement, dated as of August 24, 2000, between Hercules Incorporated and Chase Mellon Shareholder Services, L.L.C.	Exhibit 4.1 to H Certain Classes filed August 10,

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HERCULES INCORPORATED

NUMBER	DESCRIPTION	INCORPO
4-O	Indenture, dated as of November 14, 2000, between Hercules Incorporated, as issuer and Wells Fargo Bank Minnesota, N.A., as trustee (including the form of 11-1/8% senior notes due 2007 included as Exhibit A thereto).	Exhibit 4-A, Qua filed November 1
4-P	Registration Rights Agreement, dated as of November 14, 2000, among Hercules Incorporated and all of its domestic subsidiaries and Donaldson, Lufkin & Jenrette Securities Corporation and Credit Suisse First Boston Corporation, as the initial purchasers.	Exhibit 4-B Quar filed November 1

Hercules is party to several long-term debt instruments under which in each case the total amount of securities Authorized does not exceed 10% of the total assets of Hercules. Hercules agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request.

10-A	Hercules Executive Survivor Benefit Plan	Exhibit 10-D, An filed March 27,
10-B	Hercules Phantom Stock Plan	Exhibit E, Notic Statement, dated
10-C	Hercules Deferred Compensation Plan	Exhibit 10-I, An filed March 29,
10-D	Hercules Annual Management Incentive Compensation Plan	Exhibit 10-H, An filed March 26,
10-E	Hercules 1993 Nonemployee Director Stock Accumulation Plan	Exhibit 4.1, Reg S-8, filed July
10-F	Hercules Deferred Compensation Plan for Nonemployee Directors	Exhibit 10-J, An March 26, 1993
10-G	Hercules Employee Pension Restoration Plan	Exhibit 10-L, An filed March 26,
10-H	Form of Employment Contract between Hercules and certain of its officers	Exhibit 10-J, An filed March 29,
10-I	Form of Indemnification Agreement between Hercules and certain officers and directors of Hercules	Annex II, Notice Statement, dated
10-J	Employment Agreement effective August 1, 1998, between Hercules and Vincent J. Corbo	Exhibit 10-T, An filed March 30,
10-K	Hercules Amended and Restated Long Term Incentive Compensation Plan	Exhibit 10-K, An filed March 29,
10-L	BetzDearborn Inc. Employee Stock Ownership and 401(k) Plan	Exhibit 10-L, An filed March 29,
10-M	Amended and Restated Credit Agreement, dated April 19, 1999, among Hercules, NationsBank, N.A., as Administrative Agent, and the lenders party thereto	Exhibit 10.2, Cu dated April 19,
10-N	Underwriting Agreement, dated March 12, 1999, among Hercules, Hercules Trust I and the Underwriters named therein	Exhibit 1.1, Cur March 17, 1999
10-O	CRESTS Units Underwriting Agreement, dated July 21, 1999, among Hercules, Hercules Trust II and the Underwriters named therein	Exhibit 1.1, Cur July 27, 1999
10-P	Common Stock Underwriting Agreement, dated July 21, 1999, among Hercules and the Underwriters named therein	Exhibit 1.2, Cur July 27, 1999

NUMBER	DESCRIPTION	INCORPO
10-Q	First Amendment to Amended and Restated Credit Agreement, dated March 31, 2000, among Hercules Incorporated, Betz Dearborn Canada, certain subsidiaries of Hercules, the several banks and other financial institutions identified in the agreement and Bank of America, N.A., as administrative agent, and Bank of America Canada, as Canadian administrative agent.	Exhibit 10-A, Qu filed August 15,
10-R	Second Amendment to Amended and Restated Credit Agreement, dated July 26, 2000, among Hercules Incorporated, BetzDearborn Canada, certain subsidiaries of Hercules, the several banks and other financial institutions identified in the agreement and Bank of America, N.A., as administrative agent, and Bank of America Canada, as Canadian administrative agent.	Exhibit 10-B, Qu filed August 15,
10-S	Share Purchase Agreement, dated as of August 10, 2000, among CP Kelco ApS (formerly known as Hercules Copenhagen ApS), Hercules Investment ApS, Hercules Incorporated, Lehman FG Newco, Inc., WSP, Inc. and Hercules Holding BV/BVBA.	Exhibit 2-1, Cur September 28, 20
10-T*	Third Amendment to Amended and Restated Credit Agreement, dated November 14, 2000, among Hercules Incorporated, BetzDearborn Canada, certain subsidiaries of Hercules, the several banks and other financial institutions identified in the agreement, and Bank of America, N.A., as administrative agent, and Bank of America Canada, as Canadian administrative agent.	
10-U	First Amendment to Amended and Restated Credit Agreement, dated March 31, 2000, among Hercules Incorporated, BetzDearborn Canada, certain subsidiaries of Hercules, the several banks and other financial institutions identified in the agreement and Bank of America, N.A., as administrative agent, and Bank of America Canada Canadian administrative agent.	Exhibit 10-A, Qu filed August 15,
21	Subsidiaries of Registrant	See Part II, Ite Form 10-K
23	Consent of PricewaterhouseCoopers LLP	

*Previously filed.