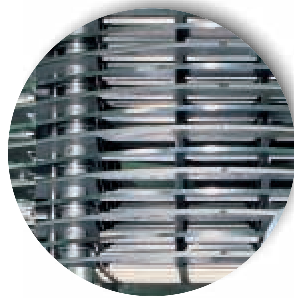
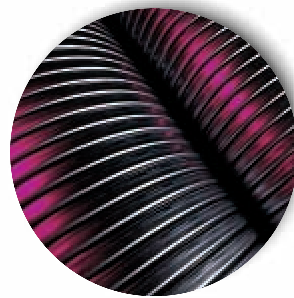
Growing Markets

Annual Report 2000

Allegheny Technologies

Specialty Materials That Make Our World

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Vision Statement

Our vision is to create the world's leading specialty materials company. The cornerstones of our value system are based on achieving the highest ethical standards, maintaining strong customer focus and providing exciting opportunities for our employees.

Our objective is to provide an attractive investment to our stockholders by continuing to earn a premium return on our total invested capital.

We are driven by these focused strategies:

- To be a cost competitive producer of specialty materials
- To enhance our customer focus and relationships by constantly improving quality, delivery and service
- To use leading materials and processing technologies to pursue growth in high-value global markets
- To leverage our multi-materials capabilities
- To maintain and build on our solid financial base

Financial Summary 2000

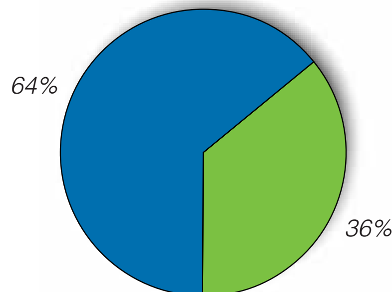
	2000	1999
Sales	$2.46 billion	$2.30 billion
Net Income from Continuing Operations Before Extraordinary Gains	$132 million	$111 million
Net Income from Continuing Operations Before Extraordinary Gains per Diluted Share	$1.60	$1.16
Return on Stockholders' Equity (a)	13.2%	9.9%
Return on Average Capital Employed (a, b)	10.3%	8.3%
Cash Provided by Operating Activities	$135 million	$103 million
Book Value Per Common Share	$12.94	$13.28
Actual Number of Shares Outstanding (c)	80 million	90 million
Number of Employees	11,400	11,500

(a) Excluding gains on disposal of assets, restructuring charges, discontinued operations and other special items.
(b) Capital employed is defined as stockholders' equity plus all long- and short-term debt and net deferred income tax liability. Income is adjusted for after-tax interest expense.
(c) At December 31 of respective period.

Diversified Product Mix — Percent of 2000 Sales

High Value Materials:

- Nickel, Titanium and Exotic Alloys
- Precision and Standard Strip
- Specialty Steel Alloys
- Tungsten Materials



General Purpose Specialty Materials:

- Stainless Steel Sheet and Plate
- Silicon and Tool Steels
- Forgings and Castings

Corporate Management
(standing, left to right):
Jon D. Walton
Richard J. Harshman
David G. Vietmeier
David M. Hogan
Terry L. Dunlap
(seated, left to right):
James L. Murdy
Douglas A. Kittenbrink
Jack W. Shilling
Robert P. Bozzone

TO OUR STOCKHOLDERS, EMPLOYEES AND CUSTOMERS

Allegheny Technologies was the first specialty materials company to source goods and services online through the FreeMarkets® B2B eMarketplace. Our procurement personnel work with FreeMarkets to reduce costs through on-line competitive bidding for supply contracts. (left to right:) Tom Bakin, Ernest Gabbard, Kathi Jobkar, Kevin Ballish and Jim Christy

The year 2000 was full of opportunities and challenges for Allegheny Technologies. Market conditions for our high performance materials continued to improve. Our largest end-use market, aerospace, began to recover as orders and production rates for new commercial and regional aircraft increased and titanium inventory levels corrected. Another large market, electrical energy, continued to be strong, and we benefited from the recovery in the oil and gas market. However, energy cost increases had a serious impact on many of our operations in the fourth quarter. In addition, a slowing U.S. economy, high service center inventories and continuing imports of commodity stainless steel negatively impacted performance in our stainless steel business in the fourth quarter.

Faced with these major opportunities and challenges, through the hard work of our dedicated employees, Allegheny Technologies achieved significantly improved financial results versus 1999. We also continued our record of strong returns on capital employed and stockholders' equity and improved our financial position. Sales increased by 7 percent to $2.46 billion, while net income per share from continuing operations before extraordinary gains was 38 percent higher than in 1999. Cash flow from continuing operations totaled $135 million. Net debt to total capitalization at the end of 2000 remained healthy at 33 percent. During the year, we utilized our strong financial condition to make $88 million in capital investments and acquisitions to improve costs and strengthen our position for the future. We also reduced shares outstanding by 11 percent through share repurchases.

Our strong emphasis on safety throughout all operations yielded substantial improvement. The OSHA Total Recordable Incident Rate improved by 30 percent and the Lost Workday Case Rate improved by 33 percent as compared to 1999. We remain committed to providing a safe environment for our employees.

Programs to reduce costs are vital to the success and continued growth of our businesses. During 2000, we achieved $92 million in operating cost reductions as all parts of the organization engaged in aggressive efforts to identify and realize cost reductions.

We also made significant progress in accelerating e-Business initiatives during this past year. We created an e-Business leadership position reporting directly to me. A detailed analysis of our corporate information systems and infrastructure was completed resulting in a strategic information technology plan for the Company. We initiated implementation of this plan in the first quarter of 2001. In addition, we centralized all procurement activities and plan to use information technology to enhance our procurement efforts to aggressively take advantage of purchasing cost synergies.

As 2001 begins, we are concerned about higher energy costs and the condition of the U. S. economy. I am confident, however, that we can enjoy success in the 2001 economic environment due to our excellence in manufacturing and technology as well as our leadership position in several improving markets, such as aerospace, electrical energy, and oil and gas. We have strengthened our position in these markets through major acquisitions and capital investments during the past three years, and we plan to grow further as the result of new capital investments. These capital projects, which should be completed in the first half of 2002, are designed for volume growth and mix improvement in our premium titanium alloys, nickel-based alloys and superalloys, and niobium products.

Our business plan for 2001, built from the ground up by our experienced and capable management team, includes cost reductions in excess of $110 million, managed working capital reductions of over $70 million, and a capital investment program of more than $100 million. We also plan to further improve our financial strength by reducing debt.

Our 2001 plan includes a significant focus on reducing energy-related costs throughout all of our operations. These efforts should be enhanced by our energy management agreement with DukeSolutions, a subsidiary of Duke Energy. This agreement is believed to be the most comprehensive energy alliance in the specialty materials industry. We are also in the process of installing an electrical power cogeneration system designed to significantly reduce costs at our Wah Chang facility in Oregon, which has been adversely affected by the West Coast’s volatile electricity costs. The cost reduction potential of this capital project is in addition to our $110 million cost reduction plan.

Our vision is to create the world’s leading specialty materials company. We have global market leadership positions in a wide range of specialty materials including nickel-based alloys and superalloys, titanium and titanium alloys and exotic materials such as zirconium, hafnium and niobium, and stainless steel.

We’re enthused by the attractive fundamental growth rates of our major products. Based upon current product mix, our projected annual market growth rates through 2004 range from 5 percent for stainless steel to 8 percent for our higher value products.

We have a solid financial base, an excellent reputation in the marketplace, and technical leadership in our core specialty materials products. Our employee team is first rate. Our extensive array of product offerings and technical support enables us to be a unique “supermarket” of specialty materials. As a result, engineers and designers often look to Allegheny Technologies when seeking an optimum materials solution.

Our strategy is to utilize our talented people, technology leadership, and manufacturing flexibility, and leverage our multi-materials capabilities to grow revenue and income at rates in excess of the growth in our markets. We plan to achieve this through a combination of organic growth initiatives and opportunistic acquisitions, joint ventures or other business combinations. To that end, we plan to aggressively pursue high-value global markets for our strip and Precision Rolled Strip® products, nickel alloys and superalloys, premium titanium alloys, our exotic materials such as zirconium, hafnium, and niobium, and our tungsten materials. These high-value products accounted for 64 percent of 2000 sales. In addition, we intend to strengthen our stainless steel sheet and plate position at an acceptable return on capital employed through investments and actions aimed at aggressive cost reduction. Stainless steel sheet and plate combined with silicon electrical steel, tool steel, forgings and castings accounted for 36 percent of 2000 sales and continue to provide solid cash flow.

While it’s not my style to give specific time lines and revenue targets, I feel strongly that your company has the people, products, technology and financial strength to realize double-digit annual revenue and earnings growth over the long term.

To achieve success and realize our growth potential, we will continue to emphasize the fundamentals: improved customer service, including reduced lead-times and shorter cycle times, cost reduction, constant quality improvement, technology development and detailed financial measurement of every activity.

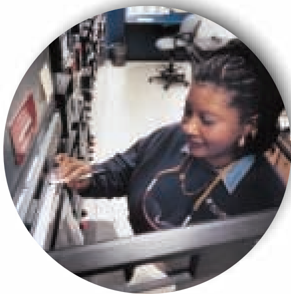
Because “it all starts with an order,” we honor and thank our faithful customers without whom we would not exist. Our dedicated employees are our most valuable asset. Their desire for excellence is the fuel that sustains our Company. I would like to express my sincere appreciation to our Board of Directors, which provides guidance in strategic development and wisdom in the many decisions that are required to maintain a successful business enterprise. To our stockholders, we offer our sincere thanks for your support of our mission. You have many investment choices. We are honored that you have chosen Allegheny Technologies.

Sincerely,

Robert P. Bozzone
Chairman, President and Chief Executive Officer
March 9, 2001

Specialty Materials for

Debra Allen, Mechanical Lab Technician, Physical & Analytical Laboratory, Allvac



Hot titanium intermediate billet ready for press forging.

Robert Baucom, Level II Ultrasonic Inspector, Quality Assurance Department, Allvac

photo courtesy of Rolls-Royce

AEROSPACE

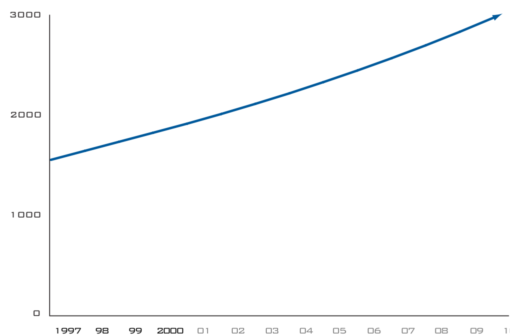
Allegheny Technologies is an industry leader in development of improved materials such as our high performance 720 superalloy for use in turbine disks of jet engines in regional jets.

Accounting for 17 percent of Allegheny Technologies' total sales, aerospace is our largest market. We believe this market offers excellent growth potential. Orders for the aerospace market began to recover in 2000 and we expect continued strength in 2001. Demand for our high performance aerospace materials is driven by production of new commercial and military aircraft, new jet engines, spare engines, and jet engine replacement parts and components. Due to projected growth in airline traffic, requirements for aircraft and engines are expected to double over the next twenty years.

Allegheny Technologies is a world leader in the production of nickel-based superalloys, premium titanium alloys, and specialty steel alloys for the aerospace industry. No other specialty metals producer in the world can supply a wider range of high performance materials for the most demanding aerospace applications. Our industry-leading technical organization and customer service are unparalleled.

We have strengthened our position in the aerospace market through acquisitions and capital investments. The acquisition and successful integration of Oremet Titanium and Allvac Ltd (U.K.), coupled with installation of a new plasma arc melt (PAM) titanium furnace and vacuum induction melt (VIM) furnace at Allvac, have significantly increased our ability to ship premium titanium alloys and nickel-based alloys and superalloys for the aerospace industry. We plan to enhance our aerospace capabilities further in the next two years with new capital investments in both the U.S. and the U.K.

Revenue Passenger Miles (Bil.)



Sources: International Civil Aviation Organization and airframe manufacturing industry sources.

Aircraft manufacturers' consensus forecast is that world scheduled airline traffic will grow at an average annual rate of 5 percent. Cargo traffic and regional airline traffic are projected to grow at average annual rates of 6.5 percent and 8.0 percent, respectively.

(left)
Allegheny Technologies' high-value, high-performance materials are used in critical rotating parts of jet engines.

(right)
Allegheny Technologies is the only materials producer supplying both 706 and 718 alloy ingots for use in land-based gas turbine applications.
Pictured at our Allvac, Monroe, NC plant

The electrical energy market offers exciting opportunities. Growth in worldwide electricity demand will require the installation of additional generating capacity, which we expect to stimulate strong demand for land-based gas turbines for power generation. Electrical energy represents 12 percent of Allegheny Technologies' sales.

Allegheny Technologies is a pioneer in the development of nickel-based superalloys for land-based gas turbines, including the next generation large 718 alloy ingots. We are also a leading producer of superalloys and precision strip for microturbines, which are being used increasingly to provide distributed power to small businesses and locations remote from large central power plants. Our zirconium and hafnium alloys are used for fuel rod cladding and core components in nuclear reactors. In addition, clean air legislation in many parts of the world requires flue gas desulfurization (FGD) for fossil fuel burning electrical generating plants. Engineers often select from our extensive range of alloys when designing the optimum solution for FGD scrubber systems.

We have invested to support our growth in the global electrical energy market. The acquisition of Allvac Ltd (U.K.) in 1998 improved our ability to serve world markets with nickel-based alloys and specialty steels. In the U.S., we installed a new vacuum induction melt (VIM) furnace capable of producing very large ingots. We're also investing to support further growth by installing additional remelt furnaces to expand capacity at both our Allvac U.S. and Allvac Ltd operations.

Mr. Kotaro Fujimoto, Project Engineer with Hitachi Zosen, Ltd., in front of a storage canister for disposal of spent nuclear fuel rods, being fabricated in Japan for a power plant in the U.S. The order for precipitation hardening super stainless steel plate used in the canister was placed and coordinated through Allegheny Technologies Japan.

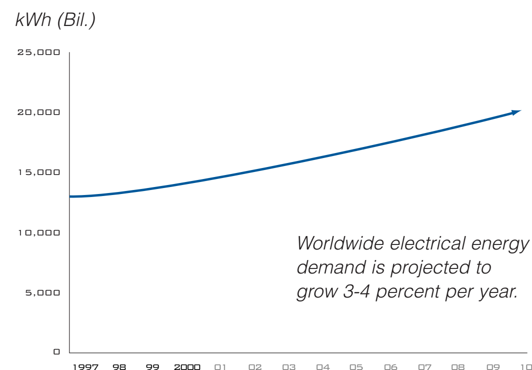
Specialty Materials for

Roger Wright, Macro Inspector, Quality Assurance Department, Allvac

This land-based gas turbine being built by General Electric Power Systems uses Allegheny Technologies' nickel-based superalloys for turbine disk applications.

Faye Leach, Polisher Operator, Billet Finishing Department, Allvac

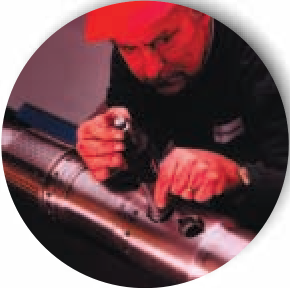
ELECTRICAL ENERGY



Sources: Energy Information Administration and energy industry sources.

Specialty Materials for

Staballoy AG17® non-magnetic oil tool being dimensionally inspected with a micrometer by Warrick Plummer, Allvac Ltd, U.K.



Jenny McCall, Chemist, Metalworking Products, performing chemical analysis.

Morris Clemons, Lab Technician, Metalworking Products, completing a carbon analysis.

OIL AND GAS

A Datalloy™ II MWD (measurement while drilling) collar, produced by Allvac Ltd, being assembled on a drilling rig.

Growing demand for oil and gas, coupled with tight supplies, are accelerating efforts to discover and produce additional hydrocarbon reserves. The oil and gas market is in the early stages of a recovery. In 2000, active rotary drilling rigs increased 50 percent in the United States and 33 percent worldwide compared to 1999.

Allegheny Technologies plays an important role in the oil and gas market as a supplier of advanced materials for use in downhole applications, drilling rigs and refining plants. We also supply nickel-based alloys, titanium alloys and specialty steels for deep, corrosive wells.

We strengthened our market position in 2000 through the acquisition of Firth MPD, which produces value-added tungsten carbide products for use in oil and gas drilling. This acquisition enables us to expand our core competency in tungsten materials. In addition, our previous acquisition of Allvac Ltd, a major supplier of specialty materials to the oil and gas industry, significantly improved our ability to serve the global oil and gas market.

We supplement our product offerings with our Total Corrosion Solutions™ consulting services. Using a multi-disciplinary approach, we offer corrosion-resistant material solutions on a global basis to a wide range of industries, including oil and gas. We provide these services from Allegheny Ludlum, Allvac and Wah Chang, which affords customers access to our extensive range of product and technical service capabilities.

(left)
Flexible stainless steel pipe is used for fast and economical deployment of offshore oil and gas delivery systems. Wellstream Division of Halliburton Company manufactures this highly engineered composite pipe product made of interlocked stainless steel strip covered by layers of other materials.

(right)
Sue Sullivan, Senior Inspector at Wah Chang, performing final inspection of niobium-titanium, a superconducting alloy.

Medical and electronics are growth markets for our high value specialty materials. Demographic trends and demand for improved quality of life are creating strong growth in the biomedical materials market. Over the next ten years, the population in the 55 to 75 year-old age group is projected to increase by 68 percent. Allegheny Technologies produces an extensive line of metallic biomaterials, including premium cobalt-based and titanium-based alloys, and stainless steels, which are internationally approved for implants and biomedical devices, such as replacement hip and knee joints.

Our nickel-titanium (Nitinol) shape memory alloy wire is used in stents to open blocked arteries. Magnetic resonance imaging (MRI) devices use our niobium-titanium wire and other alloys to help produce magnetic fields that allow physicians to safely scan the body's soft tissues.

In electronics, we are supporting our growth through broad-based product development and technical support to meet customers' exacting demands. Our specialty materials are used in important components of conventional cathode ray displays, including CRT Color E-Beam Guns, as well as hard disc suspension arms, PC cards, zip disks and electromagnetic shielding. These applications are especially suited for our Precision Rolled Strip® products because of the very tight tolerances that we are able to achieve. We expect our ongoing continuous improvement programs will result in even tighter tolerances in the future.

Extremely high purity versions of relatively standard grades of stainless steel permit semiconductor firms to avoid impurity contamination as they produce silicon chips under vacuum. To achieve this high purity, we use the same advanced melting techniques that we use in producing specialty materials for jet engines.

Sample being prepared for carbon analysis at Metalworking Products powder plant. Allegheny Technologies is recognized worldwide as a leader in tungsten and tungsten carbide powders. Medical equipment is a growing market for tungsten materials.

Specialty Materials for

Wendy Whitt, wire draw operator, Wah Chang, performing the cold drawing processes of nickel-titanium (Nitinol), a shape memory alloy. This product is used to make a variety of medical grade products as well as cell phone antennas and eyeglass frames.

Precision Rolled Strip® Products are used in the production of cathode ray tubes for television sets and computer monitors. These CRT guns were manufactured by Premium Allied Tool.

Jian-Ming Ge, a Sendzimir Mill Operator with Shanghai STAL Precision Stainless Steel Company Limited, Allegheny Ludlum's 60 percent-owned Chinese joint venture company.

MEDICAL AND ELECTRONICS

Diversified Global Markets

(Percent of Allegheny Technologies' 2000 Sales)

Market	Percent
Aerospace	17%
Automotive	13%
Electrical Energy	12%
Chemical Process Industry/Oil and Gas	12%
Construction and Mining	9%
Machine and Cutting Tools	8%
Food Equipment	8%
Consumer Appliances	7%
Transportation	3%
Medical	3%
Electronics/Communication/Computers	2%
Conversion Services	2%
Other	4%

Diversified Products and Services

(Percent of Allegheny Technologies' 2000 Sales)

Product	Percent
High Value:	
Precision and Standard Strip	19%
Nickel-Based Alloys and Specialty Steels	16%
Titanium and Titanium Alloys	13%
Tungsten Materials	9%
Exotic Alloys	7%
Total High Value	64%
General Purpose:	
Stainless Steel Sheet and Plate	26%
Silicon Electrical Steel and Tool Steel	7%
Cast and Forged Materials	3%
Total General Purpose	36%
Total Specialty Materials	100%

Price Ranges of Major Products

(Approximate Price Range in $ Per Pound)

Product	Low		High
Exotic Alloys	$25.00	-	$275.00
Titanium Alloys	$6.00	-	$50.00
Nickel-Based Alloys	$2.68	-	$32.28
Precision and Standard Strip	$1.33	-	$8.20
Stainless Steel Sheet and Plate	$0.51	-	$3.27
Silicon Electrical Steel	$0.55	-	$1.42

Sales by Geographic Area

(Percent of Allegheny Technologies' 2000 Sales)

Area	Percent
United States	82%
Europe	12%
Asia	2%
Other	4%

SEGMENT INFORMATION

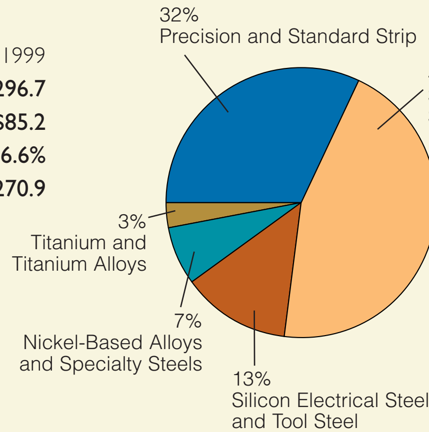
(Percent of Each Segment's 2000 Sales)

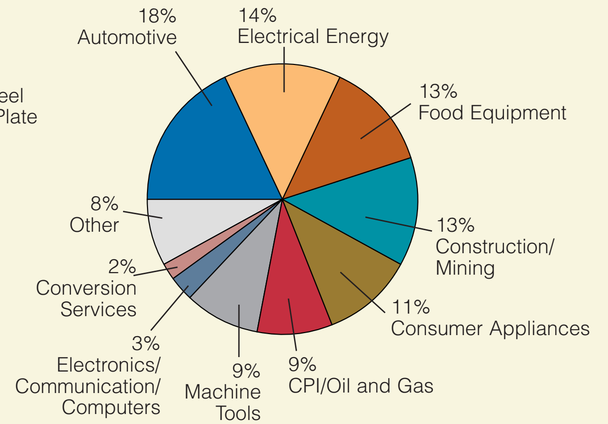
Financial Results | Major Products | Major Markets

FLAT-ROLLED PRODUCTS

	2000	1999
Sales	$1,444.1	$1,296.7
Operating Profit	$119.6	$85.2
Percent of Sales	8.3%	6.6%
Identifiable Assets	$1,219.3	$1,270.9

Allegheny Ludlum
Rome Metals
STAL (Chinese Joint Venture)
(60% Ownership)

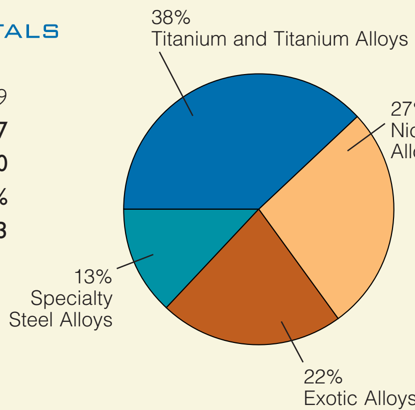


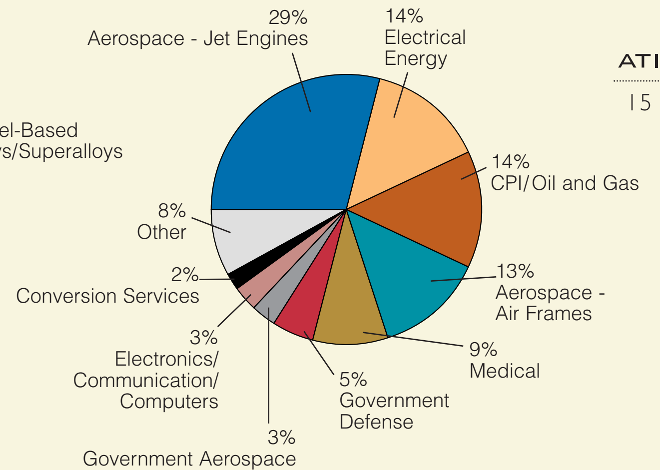


HIGH PERFORMANCE METALS

	2000	1999
Sales	$735.4	$722.7
Operating Profit	$66.5	$87.0
Percent of Sales	9.0%	12.0%
Identifiable Assets	$599.9	$594.3

Allvac
Allvac Ltd
Wah Chang
Titanium Industries

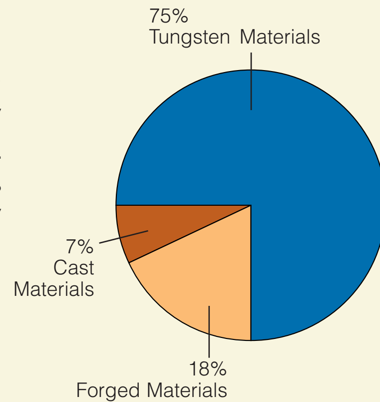


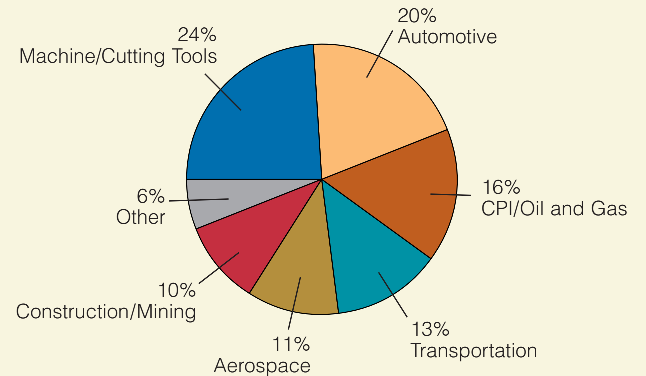


INDUSTRIAL PRODUCTS

	2000	1999
Sales	$280.9	$276.7
Operating Profit	$21.7	$12.2
Percent of Sales	7.7%	4.4%
Identifiable Assets	$184.3	$160.7

Metalworking Products
Portland Forge
Casting Service





Allegheny Ludlum Safety Meeting

Anthony Turdousky, Sendzimir Mill Operator/Leader

James Girt, Sendzimir Mill Operator/Leader; Ulers Tutchstone, Utility Person, - J3 Coil Preparation; Frank Young, Operator, - J3 Coil Preparation

Russ Pearson, Material Handler; Thomas Kostelansky, Roll Grinder

SAFETY

Workplace safety is a top priority for Allegheny Technologies. It requires the diligent, concerted effort of all our employees so that both our workplace and our work practices can meet the highest safety standards. We absolutely believe that safety is good for our employees and good for our business.

During 2000, we focused on improving the Company's safety performance through assessment of our existing programs and expanded training. The ATI Safety Professional Committee, comprised of safety professionals from each of the operating companies, transfers knowledge, shares resources and implements best practices throughout the Company. To stress the importance of safety and to heighten general safety awareness, employees across the Company participate in safety meetings to discuss safety issues and formulate corrective action plans.

In 2000, our safety performance improved by 30 percent for the OSHA Total Recordable Incident Rate and by 33 percent for the Lost Workday Case Rate. Our goal for 2001 is a 50 percent improvement in these accident frequency rates compared to 1999.

Allegheny Ludlum employees engage in discussion during a safety meeting.

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

Allegheny Technologies Incorporated is one of the largest and most diversified producers of specialty materials in the world. Allegheny Technologies Incorporated and its subsidiaries and operating companies are sometimes referred to as "Allegheny Technologies" or the "Company".

Certain statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations are forward looking statements. Actual results or performance could differ materially from those encompassed within such forward looking statements as a result of various factors, including those described below.

Financial Highlights

During 2000, the Company continued to build upon its operational and financial strengths.

- Sales from continuing operations improved to $2.46 billion during 2000 from $2.30 billion during 1999 due to increased revenues across all business segments.
- Income from continuing operations increased 19 percent, or $21.5 million, to $132.5 million during 2000.
- Return on stockholders' equity and return on average capital employed remained strong at 13.2 percent and 10.3 percent, respectively, before gains on disposal of assets, restructuring charges, discontinued operations and other special items.
- The Company continued to achieve strong cash flow. Cash flow from operating activities increased 32 percent to $135.5 million in 2000.
- The Company's emphasis on cost reductions continued. It achieved total cost savings from operations of approximately $92 million in 2000.
- Corporate expenses declined 21 percent in 2000 to $30.6 million due to continued cost controls, including 20 percent fewer headquarter employees.
- The Company repurchased 11.1 million shares of its common stock at a cost of $221.0 million, reducing its outstanding shares by 11 percent.
- In 2000, pension income improved and exceeded other post-retirement benefits expense by $99.9 million due to higher pension assets as a result of strong investment performance during 1999 and reduced post-retirement benefit liabilities.
- The Company utilized $40.1 million of excess pension assets in 2000 to pay for retiree medical expenses. The Company's defined benefit pension plan is fully funded with assets significantly in excess of the projected benefit obligation.
- In safety, the Company's OSHA Total Recordable Incident Rate improved by 30 percent and the Lost Workday Case Rate improved by 33 percent compared to 1999. This performance exceeded the Company's 25 percent safety improvement target established for 2000.

Looking ahead to the first quarter 2001, while the Company has been encouraged by Federal Reserve Board actions during December 2000 and January 2001, at the time this report is filed, the Company is concerned about continuing volatile energy costs and current market conditions in the stainless steel business. The diversification of the Company's products, the strength in certain global markets, notably aerospace, power generation, and oil and gas, and price increases and energy surcharges for certain of the Company's products combined with the Company's continued aggressive cost reductions, should provide a greater impact on the Company's financial performance during the balance of 2001.

The Company remains in a strong financial position with excellent cash flow. Strong cash flow enables Allegheny Technologies to continue to pay our attractive dividend and make strategic investments that enhance our growth and cost reduction initiatives, while maintaining a strong balance sheet. In addition, the Company remains in a very strong operating position with diverse products serving growing global markets, technology leadership, and highly skilled and experienced people focused on serving our broad customer base.

Results of Operations

The Company's sales were $2.46 billion in 2000, $2.30 billion in 1999 and $2.40 billion in 1998. International sales represented approximately 18 percent of sales in 2000, 20 percent of sales in 1999 and 19 percent of sales in 1998. During 1999, the Company recognized extraordinary gains of $129.6 million, net of $79.9 million in taxes, in connection with the sales of businesses in 1999. The results of companies spun-off and sold are reflected as discontinued operations for all periods presented.

Allegheny Technologies operates in three business segments: Flat-Rolled Products, High Performance Metals and Industrial Products.

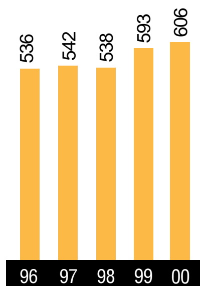
Intersegment sales are generally recorded at full cost or market. Common services are allocated on the basis of estimated utilization.

Information with respect to the Company's business segments is presented separately below and in Note 10 of the Notes to Consolidated Financial Statements. Certain amounts for 1999 and 1998 have been reclassified to conform with the 2000 presentation.

Flat-Rolled Products

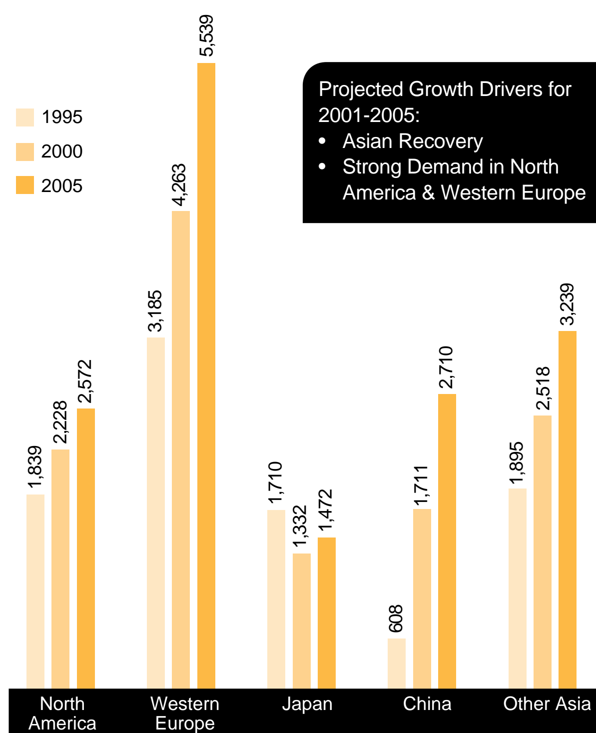
(In millions)	2000	% Change	1999	% Change	1998
Sales to external customers	$1,444.1	11.4%	$1,296.7	8.7%	$1,193.1
Operating profit	119.6	40.4%	85.2	(32.5)%	126.3
Operating profit as a percentage of sales	8.3%		6.6%		10.6%
International sales as a percentage of sales	7.3%		7.7%		5.9%

ALLEGHENY TECHNOLOGIES FLAT-ROLLED PRODUCTS SHIPPED
(Thousands of Tons)



The Flat-Rolled Products segment produces, converts and distributes stainless steel, nickel-based alloys and superalloys, and titanium and titanium-based alloys in sheet, strip, plate and Precision Rolled Strip® products as well as silicon electrical steels and tool steels. The companies in this segment include Allegheny Ludlum, Rome Metals, and Allegheny Ludlum's 60% interest in the Chinese joint venture company known as Shanghai STAL Precision Stainless Steel Company Limited ("STAL").

CONTINUED GROWTH IS PROJECTED STAINLESS STEEL CONSUMPTION BY REGION: SHEET, STRIP, AND PLATE
(Thousands of Metric Tons)



Source: CRU International Ltd

2000 Compared to 1999

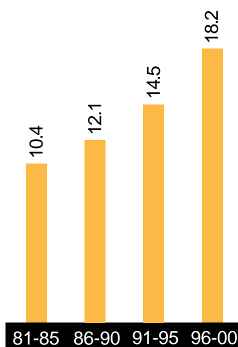
Sales and operating profit for the Flat-Rolled Products segment increased 11.4 percent and 40.4 percent, respectively, in 2000 compared to 1999.

Sales improved in 2000 compared to 1999 as a result of improved pricing and higher demand for stainless steel products during the first three quarters of the year. Shipments of finished flat-rolled products were 605,650 tons in 2000 compared to 592,550 tons in 1999.

The average selling prices of finished flat-rolled products increased to $2,365 per ton in 2000 from $2,081 per ton in 1999. This increase was due primarily to the impact of revised raw materials surcharge base levels and an improved product mix. Higher margin product shipments (including strip, Precision Rolled Strip®, super stainless steel, nickel alloy and titanium products) increased 13 percent in 2000.

Operating profit increased 40.4 percent to $119.6 million in 2000 primarily due to revised raw material surcharge base levels and improved product mix towards higher margin products. Tight operating cost controls and cost reduction efforts continued in the segment. In the fourth quarter of 2000, Allegheny Ludlum announced a 10 percent salaried workforce reduction with estimated annual cost savings of $9.0 million, expected to take full effect in the third quarter of 2001.

U.S. PER CAPITA CONSUMPTION OF STAINLESS STEEL
(Five-Year Averages, Lbs.)

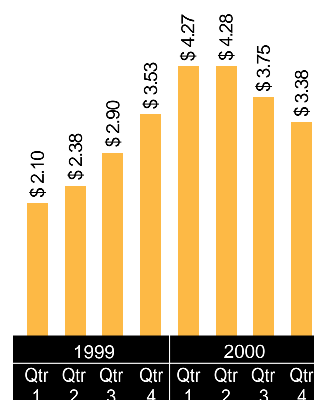


Source: Specialty Steel Industry of North America.

The segment's operating profit was reduced by $7.0 million due to increased natural gas costs in the fourth quarter of 2000. As a result of the higher energy costs, natural gas surcharges may be applied to certain products beginning in February 2001. The Company's ability to maintain energy surcharges depends on market conditions, including pricing by foreign competitors.

The STAL joint venture in Shanghai, China completed its first year of commercial production of precision rolled stainless steel strip in 2000.

NICKEL PRICE PER POUND
(Based on LME Cash Average for Quarter)



1999 Compared to 1998

Sales and operating profit for the segment increased 8.7 percent and decreased 32.5 percent, respectively, in 1999 compared to 1998.

Sales improved in 1999 compared to 1998 as a result of higher demand for stainless steel products combined with the utilization of new strategic assets acquired in 1998 and 1999. Shipments of finished flat-rolled products were 592,550 tons in 1999 compared to 537,800 tons in 1998.

The average selling prices of finished flat-rolled products declined to $2,081 per ton in 1999 from $2,194 per ton in 1998 due primarily to product mix.

Operating profit declined due primarily to the impact of the rapid and substantial increase in nickel costs, a key raw material in the manufacture of certain grades of stainless steel.

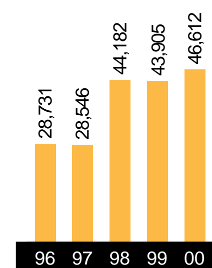
High Performance Metals

(In millions)	2000	% Change	1999	% Change	1998
Sales to external customers	$735.4	1.8%	$722.7	(16.0)%	$860.3
Operating profit	66.5	(23.6)%	87.0	(44.2)%	156.0
Operating profit as a percentage of sales	9.0%		12.0%		18.1%
International sales as a percentage of sales	34.9%		36.7%		31.9%

The High Performance Metals segment produces, converts and distributes nickel- and cobalt-based alloys and superalloys, titanium and titanium-based alloys, zirconium, hafnium, niobium, tantalum and other specialty materials, primarily in slab, ingot, billet, bar, rod, wire and coil forms, seamless tube forms and zirconium chemicals. The companies in this segment include Allvac, Allvac Ltd (U.K.), Wah Chang, and Titanium Industries.

ALLEGHENY TECHNOLOGIES NICKEL-BASED AND SPECIALTY STEEL ALLOYS SHIPPED

(Thousands of Lbs.)



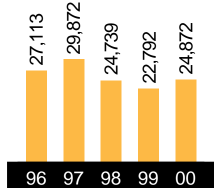
2000 Compared to 1999

Sales for the High Performance Metals segment increased 1.8 percent in 2000 compared to 1999. The increased sales reflect increased demand for nickel-based superalloys and specialty steel alloys from growing markets for electrical power generation turbines and biomedical products, and improving conditions in aerospace and oil and gas markets. In addition, shipments were strong for niobium-titanium alloys for superconducting applications, nickel-titanium shape memory alloys for cellular phones, nickel-titanium super-elastic alloys for the medical industry, and hafnium alloys used in the production of superalloys for aerospace applications. However, shipments of zirconium alloy products were lower in 2000 as a result of weaknesses in the chemical processing and commercial nuclear markets. Shipments for titanium products improved despite overall weakness in industrial markets, including chemical processing, which adversely affected pricing.

Operating profit decreased 23.6 percent in 2000 compared to 1999. Increased energy costs of $9.0 million in the fourth quarter, primarily at the Wah Chang operation in Oregon, contributed to the decline in operating profit. Operating profit was also adversely impacted by weaker results for zirconium and titanium and by higher operating costs at the Company's titanium sponge facility, which is to be idled in the first half of 2001. As a result of higher energy costs, the Company announced that Allvac is implementing natural gas surcharges that may be applied to certain products beginning in February 1, 2001. The natural gas surcharge excludes orders covered by contracts that contain alternative mechanisms to handle these additional charges. The Company's ability to maintain energy surcharges depends on market conditions, including pricing by foreign competitors. The Company is constructing an electrical power cogeneration system designed to significantly reduce energy costs at its Wah Chang operation in Oregon. The Company anticipates cost savings to begin from the project in the third quarter of 2001. Other cost reduction efforts continue throughout the segment.

ALLEGHENY TECHNOLOGIES TITANIUM MILL PRODUCTS SHIPPED

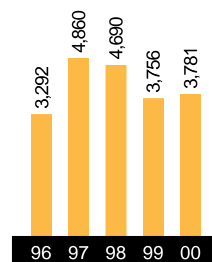
(Thousands of Lbs.)



The Company's Board of Directors has approved approximately $50.0 million in capital expenditures for 2001 designed to expand capabilities of the Allvac, Allvac Ltd and Wah Chang operations. These expenditures will focus on high growth, high value products, such as nickel-based and cobalt-based alloys and superalloys, premium titanium alloys, and high purity niobium alloys. The Company expects these projects to be completed during the first half of 2002.

ALLEGHENY TECHNOLOGIES EXOTIC ALLOYS SHIPPED

(Thousands of Lbs.)



1999 Compared to 1998

Sales and operating profit for the segment decreased 16 percent and 44.2 percent, respectively, in 1999 compared to 1998. The decline in sales and operating profit resulted primarily from lower prices and lower volume for nickel-based alloys and superalloys and titanium products due to weak demand in aerospace and oil and gas markets. This weakness was partially offset by strong demand for nickel-based superalloys for large land-based power generation turbines and, in the 1999 fourth quarter, stronger demand for niobium for the medical industry and superconducting applications. The 1999 results also reflect start-up costs associated with the segment's electron beam melt facility and vacuum induction melt furnace.

Industrial Products

(In millions)	2000	% Change	1999	% Change	1998
Sales to external customers	$280.9	1.5%	$276.7	(20.7)%	$349.0
Operating profit	21.7	77.9%	12.2	(65.9)%	35.8
Operating profit as a percentage of sales	7.7%		4.4%		10.3%
International sales as a percentage of sales	28.4%		30.3%		29.2%

The Industrial Products segment's principal business produces tungsten powder, tungsten carbide materials and carbide cutting tools. The segment also produces large grey and ductile iron castings and carbon, alloy steel and non-ferrous forgings. The companies in this segment are Metalworking Products, including its second quarter 2000 acquisition of a tungsten carbide products operation, Casting Service and Portland Forge.

2000 Compared to 1999

Sales and operating profit for the Industrial Products segment increased 1.5 percent and 77.9 percent, respectively, in 2000 compared to 1999. These increases reflect improved performance at Metalworking Products due to stronger industrial demand and the impact of cost reduction initiatives. In addition, operating results for the second half of the year reflect the acquisition of the tungsten carbide products operation. During the second quarter of 2000, the Company exited the molybdenum and tungsten mill products business, which had 1999 sales of approximately $15.0 million. The segment's forgings and castings businesses experienced a decrease in sales and operating profit in 2000 due primarily to continued weak conditions in the transportation, farm equipment and wind power generation markets.

1999 Compared to 1998

Sales and operating profit for the segment decreased 20.7 percent and 65.9 percent in 1999 compared to 1998. Reduced demand for tungsten, tungsten carbide and carbide cutting tools due to weak conditions in global metalworking, mining and machine tool markets resulted in a decrease in sales and operating profit in 1999. The 1999 results also include costs related to a workforce reduction, primarily in Europe, as part of an initiative to centralize and streamline distribution. The segment's forgings and castings businesses experienced a decrease in sales and operating profit in 1999 due primarily to weak conditions in the transportation, farm equipment and wind power generation markets.

Strategic Transformation Overview

In 1999, the Company completed a major transformation, announced in January 1999, that included the spin-offs of Teledyne Technologies Incorporated ("Teledyne"), which was comprised of certain businesses in the Company's former Aerospace and Electronics segment, and Water Pik Technologies, Inc. ("Water Pik"), which was comprised of businesses in the Company's former Consumer segment. The spin-offs were completed on November 29, 1999, when the Company distributed all of the stock of Teledyne (NYSE:TDY) and Water Pik (NYSE:PIK) to the Company's stockholders of record on November 22, 1999. Prior to the spin-offs, the Company received a ruling from the Internal Revenue Service that the spin-offs would be tax-free to the Company and its stockholders.

Immediately following the spin-offs, the Company effected a one-for-two reverse split of its common stock and changed its name from Allegheny Teledyne Incorporated to Allegheny Technologies Incorporated.

Additionally, as part of this strategic transformation, the Company sold several of its businesses. During 1999, the Company completed the sale of its unmanned aerial vehicle and its pyrotechnic components and systems businesses, known as Ryan Aeronautical and McCormick Selph Ordnance Unit, respectively. In addition, the Company sold its pressure relief valve, vehicle control valve, nitrogen gas springs, consumer drinkware, construction and mining equipment and material handling businesses.

In 1998, the Company acquired the stock of Oregon Metallurgical Corporation ("Oremet"), a producer and distributor of titanium ingot, mill products and castings, in exchange for Company stock.

Transformation, Merger and Restructuring Costs, Gains on Sales of Assets and Other

Transformation, Merger and Restructuring Costs

Transformation, merger and restructuring costs were $29.5 million, $5.6 million and $67.8 million in 2000, 1999 and 1998, respectively. The 2000 charge of $29.5 million includes costs related to the idling of high-cost titanium sponge production assets, a salaried workforce reduction at Allegheny Ludlum and costs related to changes in the Company's executive management. The 1999 net charges of $5.6 million include costs associated with adjusting employee benefit plans as a result of the spin-offs which were partially offset by a $7.2 million reversal of restructuring costs accrued in 1998 related to workforce reductions which were implemented at less than expected costs. Charges of $19.1 million in 1998 reflect severance, financial advisory, legal, accounting, and other costs associated with the acquisition of Oremet in 1998. The Company also recorded charges of $19.3 million in 1998 resulting primarily from special termination benefits granted to approximately 300 Allegheny Ludlum employees who were part of a planned salaried workforce reduction completed in 1998. Costs associated with exiting certain product lines and asset impairments resulting from new capital expenditure programs coming on-line resulted in a charge of $29.4 million in 1998.

Gains on Sales of Assets and Other

Gains on sales of assets and other includes pretax gains on the sale of real estate and certain investments, which are included in other income on the income statement, as well as charges for certain closed company expenses. These items resulted in a net charge of $4.4 million and $0.2 million in 2000 and 1999, respectively. In 1998, a net gain of $11.6 million was included.

Gains on sales of assets and other does not include extraordinary gains on sales of operations of $129.6 million in 1999. These extraordinary gains are presented separately on the income statement.

Corporate Expenses

Corporate expenses were $30.6 million in 2000 as compared to $38.9 million in 1999 and $36.5 million in 1998. The decline in 2000 corporate expenses from both 1999 and 1998 was due to continued cost controls, including 32 percent fewer headquarter employees from 1998 employment levels.

Income Taxes

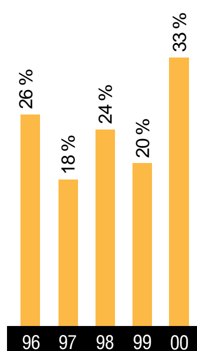
The Company's effective income tax rate from continuing operations was 36.5 percent, 36.3 percent and 38.0 percent in 2000, 1999 and 1998, respectively. The 2000 and 1999 rates reflect the favorable effects of tax planning initiatives.

The Company has determined, based on its history of operating earnings, expectations of future operating earnings and potential tax planning strategies, that it is more likely than not that the deferred income tax assets at December 31, 2000 will be realized.

Financial Condition and Liquidity

In 2000, cash generated from operations of $135.5 million, proceeds from the net increase in debt of $193.7 million and proceeds from the sale of businesses of $22.2 million were used to repurchase Company common stock for $221.0 million, invest $88.3 million in capital equipment and business expansion and pay dividends of $66.0 million. Cash transactions plus cash on hand at the beginning of the year resulted in a cash position of $26.2 million at December 31, 2000.

Net Debt to Total Capitalization



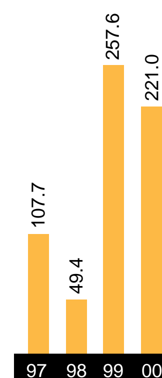
Working capital increased to $609.3 million at December 31, 2000 compared to $493.5 million at the end of 1999. The current ratio increased to 2.5 in 2000 from 1.9 in 1999. The increase in working capital was primarily due to a decrease in short-term debt.

The Company's debt to capitalization ratio increased to 34.4 percent in 2000 from 22.7 percent in 1999. The Company's net debt to total capitalization ratio increased to 33.2 percent in 2000 from 20.1 percent in 1999. These higher ratios resulted primarily from the increase in common stock repurchased during 2000.

During the fourth quarter of 2000, the Company implemented a commercial paper program designed to cost effectively enhance the Company's access to the credit markets.

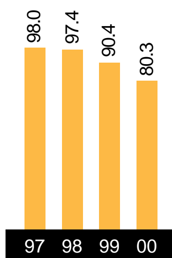
Total capital expenditures for 2001 are expected to approximate $100.0 million.

Stock Repurchase Program
(Millions of $)



The Company's defined benefit pension plan is fully funded with assets significantly in excess of the projected benefit obligations. As a result, for the indefinite future, the Company does not anticipate that it will have to contribute to its defined benefit pension plan. Under current Internal Revenue Code provisions, certain amounts the Company pays for retiree medical expenses may be reimbursed annually from the excess pension plan assets. In 2000, the Company recovered the pretax amount of $40.1 million under these provisions. While not affecting reported operating profit, cash flow increased by the after-tax effect of the recovered amount.

Number of Shares Outstanding at Year End
(Millions of Shares)



As a result of lower performance of worldwide equity markets in 2000, projected pretax pension income for 2001 is expected to decrease to approximately $66.0 million from $99.9 million in 2000.

On October 1, 1998, the Company's Board of Directors authorized a stock repurchase program to acquire up to 10 million shares of Allegheny Technologies common stock. In December 1999 and September 2000, the Company's Board of Directors increased the number of shares authorized for purchase in the stock repurchase program by 10 million shares and 5 million shares, respectively, bringing the total authorization to 25 million shares. The shares may be purchased from time-to-time in the open market or in negotiated transactions. During 2000, the Company repurchased 11.1 million shares at a cost of $221.0 million, of which 9.2 million were acquired during the first half of the year and 1.9 million shares were acquired during the second half of the year. From the inception of the share repurchase program through February 23, 2001, the Company repurchased 20.5 million shares on the open market at a cost of $531.0 million.

On February 8, 2001, the Board of Directors declared a regular quarterly dividend of $0.20 per share of common stock. The dividend was paid on March 13, 2001 to stockholders of record at the close of business on February 26, 2001.

The Company believes that internally generated funds, current cash on hand and borrowings from existing credit lines and its commercial paper program will be adequate to meet foreseeable needs. The Company may choose, however, to issue additional debt depending on market conditions.

New Accounting Pronouncements

Financial Accounting Standards Board ("FASB") Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" was issued in June 1998, and amended in June 2000, pursuant to FASB statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities: an amendment of FASB No. 133". The Company has adopted the new accounting pronouncements effective January 1, 2001. These statements establish accounting and reporting standards requiring the fair value of all derivative instruments to be recognized as either assets or liabilities in the statement of financial position. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

Based upon the Company's derivative positions at January 1, 2001, the Company estimates that upon adoption, it will recognize unrealized income of $0.1 million, net of income taxes, in stockholders' equity as other comprehensive income. The Company had no gain or loss from the cumulative effect of an accounting change recognized in the statement of net income. Derivative instruments are principally used by the Company to hedge certain raw material price, energy price and foreign exchange risks.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"), which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. The effect of adopting the provisions of SAB 101 did not have a material impact on the Company's results of operations or financial condition.

Other Matters

Executive Management Transition

In December 2000, Robert P. Bozzone became the Company's Chairman, President and Chief Executive Officer succeeding Thomas A. Corcoran, who left the Company to pursue other interests.

Energy Costs

Prices and availability of energy resources are subject to market conditions. These market conditions are often affected by political and economic factors that are outside of the Company's control. The U.S. government is forecasting that supplies of natural gas may be at historically low levels during the winter of 2001. Also, supply and demand factors affecting electricity in the western U.S. have caused volatility in the cost of electric power. In addition, the uncertainty surrounding the price of oil and the political environment in the Middle East may impact petroleum costs. These factors, among other things, may contribute to increased production costs that could have a material impact on the results of operations of the Company. The Company is evaluating energy factors with regard to production costs and has engaged an energy provider as a partner to assist in our energy supply and demand initiatives, including cost containment and control of energy consumption. The Company is constructing an electrical power cogeneration system designed to significantly reduce energy costs at its Wah Chang operation in Oregon. The Company anticipates cost savings from the project to begin in the third quarter of 2001.

Beginning in February 2001, natural gas surcharges may apply to certain of Allegheny Ludlum and Allvac's products. These surcharges, which are being implemented as a result of volatile and higher energy costs, reflect the energy consumed in manufacturing and will vary among different product forms and grades. The Company's ability to maintain energy surcharges depends on market conditions, including pricing by foreign competitors.

Costs and Pricing

Although inflationary trends in recent years have been moderate, during the same period certain critical raw material costs, including nickel, have been volatile. The Company primarily uses the last-in, first-out method of inventory accounting that reflects current costs in the cost of products sold. The Company considers these costs, the increasing costs of equipment and other costs in establishing its sales pricing policies and has instituted raw material surcharges on certain of its products to the extent permitted by competitive factors in the marketplace. The Company continues to emphasize cost reductions and containment in all aspects of its business.

Hedging

The Company uses derivative financial instruments from time to time to hedge ordinary business risks for product sales denominated in foreign currencies and to partially hedge against volatile energy and raw material cost fluctuations in the Flat-Rolled Products and High Performance Metals segments.

Foreign currency exchange contracts are used to limit transactional exposure to changes in currency exchange rates. The Company sometimes purchases foreign currency forward contracts that permit it to sell specified amounts of foreign currencies expected to be received from its export sales for pre-established U.S. dollar amounts at specified dates. The forward contracts are denominated in the same foreign currencies in which export sales are denominated. These contracts, which are not financially material, are designated as hedges of the variability in cash flows of a portion of the Company's forecasted export sales transactions in which settlement will occur in future periods and which otherwise would expose the Company, on the basis of its aggregate net cash flows in respective currencies, to foreign currency risk. Effective January 1, 2001, the Company began accounting for these contracts as hedges under FASB Statement 133. Changes in the fair value of the Company's foreign currency derivatives will be recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

A portion of the Company's operations consists of investments in foreign subsidiaries. As a result, the Company's financial results could be affected by changes in foreign currency exchange rates. To mitigate this foreign currency translation risk, the Company has a practice of recapitalizing operations using local foreign currency debt to replace direct equity investment. The average interest rate to service this foreign debt is favorable to current U.S. interest rates.

As part of its risk management strategy, from time to time, the Company purchases exchange-traded futures contracts to manage exposure to changes in nickel prices, a component of raw material cost for some of its flat-rolled and high performance metals products. The nickel futures contracts obligate the Company to make or receive a payment equal to the net change in value of the contract at its maturity. These contracts are designated as hedges of the variability in cash flows of a portion of the Company's forecasted purchases of nickel. Effective January 1, 2001, the Company began accounting for these contracts as hedges under FASB Statement 133. Changes in the fair value of the Company's nickel derivatives will be recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

The Company also enters into energy swap contracts as part of its overall risk management strategy. The swap contracts are used to manage exposure to changes in energy prices, a component of production costs for its operating units. The energy swap contracts obligate the Company to make or receive a payment equal to the net change in value of the contract at its maturity. These contracts are designated as hedges of the variability in cash flows of a portion of the Company's forecasted energy payments. Effective January 1, 2001, the Company began accounting for these contracts as hedges under FASB Statement 133. Changes in the fair value of the Company's energy derivatives will be recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

Allegheny Technologies has guaranteed the outstanding Allegheny Ludlum fixed rate 6.95 percent debentures due in 2025. In a period of declining interest rates, the Company faces the risk of required interest payments exceeding those based on the then current market rate. To mitigate interest rate risk, the Company attempts to maintain a reasonable balance between fixed and variable rate debt to keep financing costs as low as possible.

The Company believes that adequate controls are in place to monitor these hedging activities, which are not financially material. However, many factors, including those beyond the control of the Company such as changes in domestic and foreign political and economic conditions, as well as the magnitude and timing of interest rate, energy price and nickel price changes, could adversely affect these activities.

Environmental

The Company is subject to various domestic and international environmental laws and regulations which require that it investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations, including sites at which the Company has been identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act, commonly known as Superfund, and comparable state laws. The Company is currently involved in the investigation and remediation of a number of sites under these laws. The Company's reserves for environmental remediation totaled approximately $50.8 million at December 31, 2000. Based on currently available information, management does not believe that future environmental costs in excess of those accrued with respect to sites with which the Company has been identified are likely to have a material adverse effect on the Company's financial condition or liquidity. The resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period. In addition, there can be no assurance that additional future developments, administrative actions or liabilities relating to environmental matters will not have a material adverse effect on the Company's financial condition or results of operations.

With respect to proceedings brought under the federal Superfund laws, or similar state statutes, the Company has been identified as a potentially responsible party at approximately 31 of such sites, excluding those at which it believes it has no future liability. The Company's involvement is very limited or de minimis at approximately 13 of these sites, and the potential loss exposure with respect to any of the remaining 18 individual sites is not considered to be material.

For additional discussion of environmental matters, see Notes 1 and 13 of the Notes to Consolidated Financial Statements.

Government Contracts

One of the Company's operating companies directly performs contractual work for the U.S. Government. Various claims (whether based on U.S. Government or Company audits and investigations or otherwise) have been or may be asserted against the Company related to its U.S. Government contract work, principally related to the former operations of Teledyne, Inc., including claims based on business practices and cost classifications and actions under the False Claims Act. Depending on the circumstances and the outcome, such proceedings could result in fines, penalties, compensatory and treble damages or the cancellation or suspension of payments under one or more U.S. Government contracts. Under government regulations, a company, or one or more of its operating divisions or units, can also be suspended or debarred from government contracts based on the results of investigations.

Given the limited extent of the Company's business with the U.S. Government, the Company believes that a suspension or debarment of the Company would not have a material adverse effect on the future operating results and consolidated financial condition of the Company. In addition, although the outcome of these matters cannot be predicted with certainty, management does not believe there is any audit, review or investigation currently pending against the Company of which management is aware that is likely to have a material adverse effect on the Company's financial condition or liquidity. The resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.

For additional discussion of government contract matters, see Note 13 of the Notes to Consolidated Financial Statements.

Forward Looking and Other Statements

From time to time, the Company has made and may continue to make "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. This annual report contains many forward looking statements, which represent the Company's expectations or beliefs concerning various future events, unknown risks, uncertainties and other factors, many of which the Company is unable to predict or control. Forward looking statements include those statements related to anticipated business, economic and market conditions, and product demand, including projected growth in aerospace, electrical energy, power generation, medical and electronics and stainless steel; operational actions, including special charges taken to respond to market conditions; sales and earnings, financial condition, financial performance and growth; prices, price increases and surcharges and the effect of price increases and surcharges on performance; raw material and energy costs, expected capital expenditures, cost reductions, including energy, e-business and procurement initiatives, anticipated cost savings, including the anticipated time periods in which savings may be realized, capital investments and the impact of investments on the Company's capabilities; working capital, cash flow, dividends, potential repurchases of Company stock; projected pension surplus, excess pension income and reimbursement of retiree health care expenditures; realization of deferred income tax assets; anticipated effects of acquisitions, joint ventures or other business combinations on earnings; the outcome of any government inquiries, litigation or other proceedings related to government contracts or other matters; safety performance; and future environmental costs. These statements are based on current expectations that involve a number of risks and uncertainties, including those described under the captions "Other Matters - Environmental" and "Other Matters - Government Contracts". Actual results or performance may differ materially from any future results or performance anticipated based on management's current expectations contained in such forward looking statements. The Company assumes no duty to update its forward looking statements. Other important factors that could cause actual results to differ from those in such forward looking statements include the following:

Cyclical Demand for Products. Demand for the Company's products is cyclical because the industries in which customers of such businesses operate are cyclical. Various changes in general economic conditions affect these industries, including decreases in the rate of consumption or use of their products due to economic recessions. Significant downturns in the domestic economy are believed to have adversely affected the Company's results of operations from time to time. Other factors causing fluctuation in market demand and volatile pricing include national and international overcapacity, currency fluctuations, lower priced imports and increases in use or decreases in prices of substitute materials.

The current trend of price deflation for many commodity products may also adversely affect prices for commodity grades of specialty materials and industrial products. As a result of these factors, the Company's operating results could be subject to significant fluctuation. For example, in recent years, adverse pricing environments for commodity grades of stainless steel have negatively affected the Company's sales and operating profit.

Volatility of Energy Prices; Availability of Energy Resources: The prices for electricity, natural gas, oil and other energy resources are subject to market conditions and may be volatile. The Company relies upon outside sources for the supply of energy resources to manufacture its products, and the availability of such energy resources are subject to market conditions. These market conditions are often affected by political and economic factors outside the Company's control. The Company's ability to implement or maintain energy surcharges depends on market conditions. In addition, certain of our suppliers and customers may be impacted by power outages or high energy prices. Volatile prices for, or shortages in supply of, energy resources could materially adversely impact the Company's operating results.

Volatility of Prices of Critical Raw Materials; Unavailability of Raw Materials. Purchase prices of certain critical raw materials are volatile. As a result, the Company's operating results could be subject to significant fluctuation. For example, since the Company generally uses in excess of 40,000 tons of nickel each year, a hypothetical change of $1.00 per pound in nickel prices would result in increased costs of approximately $80 million. While nickel surcharges are intended to offset the impact of increased nickel costs, competitive factors in the marketplace can limit the Company's ability to institute surcharges and there can be a delay between the increase in the price of nickel and the realization of the benefit of the surcharges. The Company enters into raw material future contracts from time to time to hedge its exposure to price fluctuation. The Company believes that it has adequate controls to monitor these contracts which are not financially material.

Certain important raw materials including nickel, titanium sponge and ammonia paratungstate used to produce specialty materials are acquired from foreign sources. Some of these sources operate in countries that may be subject to unstable political and economic conditions. These conditions may disrupt supplies or affect the prices of these materials.

Labor Matters. The Company has approximately 11,400 employees. Approximately 47 percent of the Company's workforce is covered by various collective bargaining agreements, principally with the United Steelworkers of America ("USWA"), including: approximately 3,900 Allegheny Ludlum production and maintenance employees covered by collective bargaining agreements between Allegheny Ludlum and the USWA, which are effective through June 30, 2001; approximately 340 Oremet employees covered by a collective bargaining agreement with the USWA which was effective through July 31, 2000; and approximately 650 Wah Chang employees covered by a collective bargaining agreement with the USWA which the USWA terminated as of January 28, 2001. Until notice is provided otherwise, Oremet employees are currently working pursuant to the terms of the collective bargaining agreement.

Generally, agreements that expire may be terminated after notice by the USWA. After termination, the USWA may authorize a strike. A strike by the employees covered by one or more of the collective bargaining agreements could materially adversely affect the Company's operating results. There can be no assurance that the Company will succeed in concluding collective bargaining agreements with the USWA or other unions to replace those that expire.

In 1994, following the expiration of a prior collective bargaining agreement between Allegheny Ludlum and the USWA, the USWA authorized a strike by its members that lasted 10 weeks and materially adversely affected Allegheny Ludlum's operating results.

Risks of Export Sales. The Company believes that export sales will continue to account for a material percentage of the Company's sales. Risks associated with export sales include: political and economic instability, including weak conditions in the world's economies; accounts receivable collection; export controls; changes in legal and regulatory requirements; policy changes affecting the markets for the Company's products; changes in tax laws and tariffs; and exchange rate fluctuations (which may affect sales to international customers and the value of and profits earned on export sales when converted into dollars). Any of these factors could materially adversely effect the Company's results.

Risks Associated with Acquisition and Disposition Strategies. The Company intends to continue to strategically position its businesses in order to improve its ability to compete. The Company plans to do this by seeking specialty niches, expanding its global presence, acquiring businesses complementary to existing strengths and continually evaluating the performance and strategic fit of existing business units. The Company regularly considers acquisition, joint ventures, and other business combination opportunities as well as possible business unit dispositions. Its management from time to time holds discussions with management of other companies to explore such opportunities. As a result, the relative makeup of the businesses comprising the Company is subject to change. Acquisitions, joint ventures, and other business combinations involve various inherent risks, such as: assessing accurately the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquisition or other transaction candidates; the potential loss of key personnel of an acquired business; the Company's ability to achieve identified financial and operating synergies anticipated to result from an acquisition or other transaction; and unanticipated changes in business and economic conditions affecting an acquisition or other transaction. International acquisitions and other transactions could be affected by export controls, exchange rate fluctuations, domestic and foreign political conditions and a deterioration in domestic and foreign economic conditions.

Uncertainties Relating to Synergies. There can be no assurance that the Company will be able to realize, or do so within any particular time frame, the cost reductions, cash flow increases or other synergies expected to result from acquisitions, joint ventures and other transactions or investments the Company may undertake, or be able to generate additional revenue to offset any unanticipated inability to realize such expected synergies. Realization of the anticipated benefits of acquisitions and other transactions could take longer than expected and implementation difficulties, market factors and a deterioration in domestic or global economic conditions could alter the anticipated benefits.

Uncertainties Relating to Spin-Offs-General. In the spin-offs of Teledyne and Water Pik, completed in November 1999, the new companies agreed to assume and to defend and hold the Company harmless against all liabilities (other than certain income tax liabilities) associated with the historical operations of their businesses, including all government contracting, environmental, product liability and other claims and demands, whenever any such claims or demands might arise or be made. If the new companies were unable or otherwise fail to satisfy these assumed liabilities, the Company could be required to satisfy them, which could have a material adverse effect on the Company's results of operations and financial condition.

Uncertainties Relating to Spin-Offs-Tax Ruling. While the tax ruling relating to the qualification of the spin-offs of Teledyne and Water Pik as tax-free distributions within the meaning of the Internal Revenue Code generally is binding on the Internal Revenue Service, the continuing validity of the tax ruling is subject to certain factual representations and uncertainties that, among other things, require the new companies to take or refrain from taking certain actions. If a spin-off were not to qualify as a tax-free distribution within the meaning of the Internal Revenue Code, the Company would recognize taxable gain generally equal to the amount by which the fair market value of the common stock distributed to the Company's stockholders in the spin-off exceeded the Company's basis in the new company's assets. In addition, the distribution of the new company's common stock to Company stockholders would generally be treated as taxable to the Company's stockholders in an amount equal to the fair market value of the common stock they received. If a spin-off qualified as a distribution within the meaning of the Internal Revenue Code but was disqualified as tax-free to the Company because of certain post-spin-off circumstances, the Company would recognize taxable gain as described in the preceding sentence, but the distribution of the new company's common stock to the Company's stockholders in the spin-off would generally be tax-free to each Company stockholder. In the spin-offs, the new companies executed tax sharing and indemnification agreements in which each agreed to be responsible for any taxes imposed on and other amounts paid by the Company, its agents and representatives and its stockholders as a result of the failure of the spin-off to qualify as a tax-free distribution within the meaning of the Internal Revenue Code if the failure or disqualification is caused by post-spin-off actions by or with respect to that company or its stockholders. Potential liabilities under these agreements could exceed the respective new company's net worth by a substantial amount. If either or both of the spin-offs were not to qualify as tax-free distributions to the Company or its stockholders, and either or both of the new companies were unable or otherwise failed to satisfy the liabilities they assumed under the tax sharing and indemnification agreements, the Company could be required to satisfy them without full recourse against the new companies. This could have a material adverse effect on the Company's results of operations and financial condition.

Additional factors are described from time to time in the Company's filings with the Securities and Exchange Commission.

Allegheny Technologies Incorporated and Subsidiaries
Consolidated Statements of Income

(In millions except per share amounts)

For the Years Ended December 31,	**2000**	1999	1998
Sales	**$ 2,460.4**	$ 2,296.1	$ 2,402.4
Costs and expenses:			
Cost of sales	**1,998.5**	1,877.9	1,831.7
Selling and administrative expenses	**203.7**	229.1	244.4
Transformation, merger and restructuring costs	**29.5**	5.6	67.8
Interest expense, net	**34.4**	25.9	19.4
	2,266.1	2,138.5	2,163.3
Earnings before other income	**194.3**	157.6	239.1
Other income	**14.5**	16.6	10.7
Income from continuing operations before income taxes and extraordinary gains	**208.8**	174.2	249.8
Provision for income taxes	**76.3**	63.2	94.8
Income from continuing operations before extraordinary gains	**132.5**	111.0	155.0
Income from discontinued operations, net of income taxes	**—**	59.6	86.2
Extraordinary gains on sales of operations, net of income taxes	**—**	129.6	—
Net income	**$ 132.5**	$ 300.2	$ 241.2
Basic net income per common share:			
Income from continuing operations before extraordinary gains	**$ 1.60**	$ 1.17	$ 1.57
Income from discontinued operations	**—**	0.62	0.88
Extraordinary gains on sales of operations	**—**	1.36	—
Basic net income per common share	**$ 1.60**	$ 3.15	$ 2.45
Diluted net income per common share:			
Income from continuing operations before extraordinary gains	**$ 1.60**	$ 1.16	$ 1.56
Income from discontinued operations	**—**	0.62	0.87
Extraordinary gains on sales of operations	**—**	1.35	—
Diluted net income per common share	**$ 1.60**	$ 3.13	$ 2.43

The accompanying notes are an integral part of these statements.

Allegheny Technologies Incorporated and Subsidiaries
Consolidated Balance Sheets

(In millions except share and per share amounts)

	December 31, 2000	December 31, 1999
Assets		
Cash and cash equivalents	**$ 26.2**	$ 50.7
Accounts receivable	**325.3**	341.2
Inventories	**585.7**	558.3
Deferred income taxes	**61.2**	62.6
Prepaid expenses and other current assets	**24.4**	20.7
Total Current Assets	**1,022.8**	1,033.5
Property, plant and equipment	**872.0**	912.4
Prepaid pension cost	**593.6**	503.7
Cost in excess of net assets acquired	**194.5**	204.2
Other assets	**93.3**	96.8
Total Assets	**$ 2,776.2**	$ 2,750.6
Liabilities and Stockholders' Equity		
Accounts payable	**$ 169.3**	$ 172.9
Accrued liabilities	**191.0**	214.4
Short-term debt and current portion of long-term debt	**53.2**	152.7
Total Current Liabilities	**413.5**	540.0
Long-term debt	**490.6**	200.3
Accrued postretirement benefits	**525.9**	544.8
Deferred income taxes	**158.7**	103.1
Other	**148.3**	162.2
Total Liabilities	**1,737.0**	1,550.4
Stockholders' Equity:		
Preferred stock, par value $0.10: authorized - 50,000,000 shares; issued - none	**—**	—
Common stock, par value $0.10: authorized - 500,000,000 shares; issued - 98,951,490 in 2000 and 1999; outstanding - 80,339,957 shares in 2000 and 90,368,196 shares in 1999	**9.9**	9.9
Additional paid-in capital	**481.2**	481.0
Retained earnings	**1,050.0**	994.5
Treasury stock: 18,611,533 shares in 2000 and 8,583,294 shares in 1999	**(482.3)**	(288.7)
Accumulated other comprehensive income (loss), net of tax	**(19.6)**	3.5
Total Stockholders' Equity	**1,039.2**	1,200.2
Total Liabilities and Stockholders' Equity	**$ 2,776.2**	$ 2,750.6

The accompanying notes are an integral part of these statements.

Allegheny Technologies Incorporated and Subsidiaries
Consolidated Statements of Cash Flows

(In millions)

For the Years Ended December 31,	**2000**	1999	1998
Operating Activities:			
Net income	**$ 132.5**	$ 300.2	$ 241.2
Less: Extraordinary gains on sales of operations, net of tax	**—**	129.6	—
Income from discontinued operations, net of tax	**—**	59.6	86.2
Income from continuing operations	**132.5**	111.0	155.0
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**99.7**	95.3	82.1
Deferred income taxes	**57.8**	(11.3)	(6.7)
Non-cash restructuring costs	**30.8**	—	50.9
Gains on sales of investments and businesses	**(11.6)**	—	—
Change in operating assets and liabilities:			
Prepaid pension cost	**(89.8)**	(66.9)	(47.4)
Accrued liabilities	**(61.5)**	28.0	1.2
Inventories	**(20.4)**	(0.5)	49.6
Accounts receivable	**15.9**	(26.5)	59.2
Accounts payable	**(3.6)**	31.9	(54.7)
Accrued income taxes	**0.2**	(69.4)	(0.3)
Other	**(14.5)**	11.3	3.4
Cash provided by operating activities	**135.5**	102.9	292.3
Investing Activities:			
Purchases of property, plant and equipment	**(60.2)**	(74.1)	(138.9)
Purchases of businesses and investment in ventures	**(28.1)**	(23.9)	(218.9)
Proceeds from sales of businesses and investments	**17.0**	370.4	—
Disposals of property, plant and equipment	**5.2**	28.5	19.6
Proceeds from spin-offs of Teledyne and Water Pik	**—**	134.0	—
Short-term investments - sales	**—**	—	34.4
Other	**(3.9)**	(5.2)	(3.4)
Cash provided by (used in) investing activities	**(70.0)**	429.7	(307.2)
Financing Activities:			
Purchases of common stock	**(221.0)**	(257.6)	(49.4)
Net borrowings (repayments) under credit facilities	**195.1**	(82.2)	121.5
Dividends paid	**(66.0)**	(122.1)	(122.3)
Exercises of stock options	**3.3**	8.2	8.3
Payments on short-term debt	**—**	(70.0)	—
Payments on long-term debt and capital leases	**(1.4)**	(1.7)	(6.9)
Cash used in financing activities	**(90.0)**	(525.4)	(48.8)
Net cash provided by (used in) discontinued operations	**—**	(30.7)	84.6
Increase (decrease) in cash and cash equivalents	**(24.5)**	(23.5)	20.9
Cash and cash equivalents at beginning of year	**50.7**	74.2	53.3
Cash and cash equivalents at end of year	**$ 26.2**	$ 50.7	$ 74.2
Non-cash transactions:			
Assets acquired under promissory note	**$ —**	$ —	$ 65.9

Amounts presented on the Consolidated Statements of Cash Flows may not agree to the corresponding changes in balance sheet items due to the accounting for purchases and sales of businesses and the effects of foreign currency translation. Cash provided by operating activities in 1999 is net of payments of taxes on gains on sales of operations of $79.9 million. Excluding these tax payments, cash provided by operating activities was $182.8 million.

The accompanying notes are an integral part of these statements.

Allegheny Technologies Incorporated and Subsidiaries
Consolidated Statements of Stockholders' Equity

(In millions except per share amounts)	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Stockholders' Equity
Balance, December 31, 1997	$ 9.9	$ 473.4	$ 822.6	$ (60.2)	$ (1.1)	$ 1,244.6
Net income	—	—	241.2	—	—	241.2
Other comprehensive income, net of tax:						
Foreign currency translation losses	—	—	—	—	(3.5)	(3.5)
Unrealized gains on securities:						
Unrealized holding gains arising during period	—	—	—	—	2.2	2.2
Realized gains included in net income	—	—	—	—	(1.1)	(1.1)
Comprehensive income (loss)	—	—	241.2	—	(2.4)	238.8
Cash dividends on common stock ($1.28 per share)	—	—	(122.3)	—	—	(122.3)
Purchase of common stock	—	—	—	(49.4)	—	(49.4)
Employee stock plans	—	3.8	(17.6)	42.0	—	28.2
Balance, December 31, 1998	9.9	477.2	923.9	(67.6)	(3.5)	1,339.9
Net income	—	—	300.2	—	—	300.2
Other comprehensive income, net of tax:						
Foreign currency translation losses:						
Foreign currency translation losses arising during period	—	—	—	—	(2.5)	(2.5)
Foreign currency translation losses due to disposal of foreign entities	—	—	—	—	5.2	5.2
Unrealized gains on securities:						
Unrealized holding gains arising during period	—	—	—	—	5.8	5.8
Realized gains included in net income	—	—	—	—	(1.0)	(1.0)
Comprehensive income	—	—	300.2	—	7.5	307.7
Purchase of common stock	—	—	—	(257.6)	—	(257.6)
Cash dividends on common stock ($1.28 per share)	—	—	(122.1)	—	—	(122.1)
Spin-off of Water Pik Technologies, Inc.	—	—	(54.6)	—	0.3	(54.3)
Spin-off of Teledyne Technologies Incorporated	—	—	(41.6)	—	(0.8)	(42.4)
Employee stock plans	—	3.8	(11.3)	36.5	—	29.0
Balance, December 31, 1999	9.9	481.0	994.5	(288.7)	3.5	1,200.2
Net income	—	—	132.5	—	—	132.5
Other comprehensive income, net of tax:						
Foreign currency translation losses:						
Foreign currency translation losses arising during period	—	—	—	—	(21.7)	(21.7)
Foreign currency translation losses due to disposal of foreign entities	—	—	—	—	2.3	2.3
Unrealized gains on securities:						
Unrealized holding gains arising during period	—	—	—	—	3.8	3.8
Realized gains included in net income	—	—	—	—	(7.5)	(7.5)
Comprehensive income (loss)	—	—	132.5	—	(23.1)	109.4
Cash dividends on common stock ($0.80 per share)	—	—	(66.0)	—	—	(66.0)
Purchase of common stock	—	—	—	(221.0)	—	(221.0)
Employee stock plans	—	0.2	(11.0)	27.4	—	16.6
Balance, December 31, 2000	$ 9.9	$ 481.2	$ 1,050.0	$ (482.3)	$ (19.6)	$ 1,039.2

The accompanying notes are an integral part of these statements.

Report of Ernst & Young LLP, Independent Auditors

Board of Directors
Allegheny Technologies Incorporated

We have audited the accompanying consolidated balance sheets of Allegheny Technologies Incorporated and subsidiaries as of December 31, 2000 and 1999 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. 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 in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Allegheny Technologies Incorporated at December 31, 2000 and 1999, and the consolidated 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.

Pittsburgh, Pennsylvania
January 15, 2001

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies —

Principles of Consolidation

The consolidated financial statements include the accounts of Allegheny Technologies Incorporated and its subsidiaries. Significant intercompany accounts and transactions have been eliminated. Unless the context requires otherwise, "Allegheny Technologies" and the "Company" refer to Allegheny Technologies Incorporated and its subsidiaries.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

Cash Equivalents

Marketable securities with original maturities of three months or less are included in cash equivalents. The carrying amounts approximate market.

Accounts Receivable

Receivables are presented net of a reserve for doubtful accounts of $7.4 million at December 31, 2000 and $10.0 million at December 31, 1999. The Company markets its products to a diverse customer base, principally throughout the United States. Trade credit is extended based upon evaluations of each customer's ability to perform its obligations, which are updated periodically.

Inventories

Inventories are stated at the lower of cost (last-in, first-out; first-in, first-out and average cost methods) or market, less progress payments. Costs include direct material, direct labor and applicable manufacturing and engineering overhead, and other direct costs.

Property and Equipment

Property, plant and equipment are carried at cost. The principal method of depreciation adopted for all property placed into service after July 1, 1996 is the straight-line method. For buildings and equipment acquired prior to July 1, 1996, depreciation is computed using a combination of accelerated and straight-line methods.

Cost in Excess of Net Assets Acquired

Cost in excess of net assets acquired related to businesses purchased after November 1970 is being amortized on a straight-line basis over periods not exceeding 40 years. Goodwill amortization expense was $5.7 million, $5.8 million and $5.4 million in 2000, 1999 and 1998, respectively. The carrying value of goodwill relative to the operating performance and future undiscounted cash flows of the underlying businesses is evaluated periodically. Adjustments are made if the sum of the expected future net cash flows is less than book value.

Financial Instruments

The fair values of financial instruments approximated their carrying values at December 31, 2000. Fair values have been determined through information obtained from quoted market sources and management estimates.

The Company's investments in debt and equity securities are classified as available-for-sale and are reported at fair values, with net unrealized appreciation and depreciation on investments reported as a component of accumulated other comprehensive income.

Environmental

Costs that mitigate or prevent future environmental contamination or extend the life, increase the capacity or improve the safety or efficiency of property utilized in current operations are capitalized. Other costs that relate to current operations or an existing condition caused by past operations are expensed. Environmental liabilities are recorded when the Company's liability is probable and the costs are reasonably estimable, but generally not later than the completion of the feasibility study or the Company's recommendation of a remedy or commitment to an appropriate plan of action. The accruals are reviewed periodically and, as investigations and remediations proceed, adjustments are made as necessary. Accruals for losses from environmental remediation obligations do not consider the effects of inflation, and anticipated expenditures are not discounted to their present value. The accruals are not reduced by possible recoveries from insurance carriers or other third parties, but do reflect anticipated allocations among potentially responsible parties at federal Superfund sites or similar state-managed sites and an assessment of the likelihood that such parties will fulfill their obligations at such sites. The measurement of environmental liabilities by the Company is based on currently available facts, present laws and regulations, and current technology. Such estimates take into consideration the Company's prior experience in site investigation and remediation, the data concerning cleanup costs available from other companies and regulatory authorities, and the professional judgment of the Company's environmental experts in consultation with outside environmental specialists, when necessary.

Revenue Recognition
Revenue is generally recorded as deliveries are made or as services are rendered.

Research and Development
Company-funded research and development costs ($13.6 million in 2000, $15.2 million in 1999 and $18.1 million in 1998) are expensed as incurred.

Income Taxes
Deferred income taxes are recognized based upon the future income tax effects (which is based upon enacted tax laws and rates) of the differences that arise in the carrying amount of assets and liabilities for financial reporting and tax purposes.

Net Income Per Common Share
Basic earnings per share is calculated by dividing net income available to common stockholders by the weighted average of common shares outstanding during the year. Diluted earnings per share is calculated by using the weighted average of common shares outstanding adjusted to include the potentially dilutive effect of outstanding stock options.

New Accounting Pronouncements
Financial Accounting Standards Board ("FASB") Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" was issued in June 1998, and amended in June 2000, pursuant to FASB statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities: an amendment of FASB No. 133". The Company has adopted the new accounting pronouncements effective January 1, 2001. These statements establish accounting and reporting standards requiring the fair value of all derivative instruments to be recognized as either assets or liabilities in the statement of financial position. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

Based upon the Company's derivative positions at January 1, 2001, the Company estimates that upon adoption, it will recognize unrealized income of $0.1 million, net of income taxes, in stockholders' equity as other comprehensive income. The Company had no gain or loss from the cumulative effect of an accounting change recognized in the statement of net income. Derivative instruments are principally used to hedge certain raw material price, energy price and foreign exchange risks.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"), which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. The effect of adopting the provisions of SAB 101 did not have a material impact on the Company's results of operations or financial condition.

Reclassifications
Certain amounts from prior years have been reclassified to conform with the 2000 presentation, including classification of the companies spun-off and sold as discontinued operations and business segment classifications.

Note 2. Inventories —

(In millions)	**December 31, 2000**	December 31, 1999
Raw materials and supplies	**$ 110.3**	$ 108.1
Work-in-process	**488.4**	437.8
Finished goods	**99.1**	113.1
Total inventories at current cost	**697.8**	659.0
Less allowances to reduce current cost values to LIFO basis	**(108.7)**	(95.0)
Progress payments	**(3.4)**	(5.7)
Total inventories	**$ 585.7**	$ 558.3

Inventories, before progress payments, determined on the last-in, first-out method were $478.2 million at December 31, 2000 and $445.1 million at December 31, 1999. The remainder of the inventory was determined using the first-in, first-out and average cost methods. These inventory values do not differ materially from current cost.

During 2000, inventory usage resulted in liquidations of last-in, first-out inventory quantities. These inventories were carried at the lower costs prevailing in prior years as compared with the cost of current purchases. The effect of these last-in, first-out liquidations was to increase net income by $3.3 million in 2000.

Note 3. Long-Term Debt —

Credit Agreements

During the fourth quarter of 2000, the Company implemented a commercial paper program. Interest rates on the outstanding commercial paper borrowings at December 31, 2000, ranged from 6.60 percent to 7.15 percent with an effective weighted average rate of 7.0 percent.

The Company has in place a credit agreement with a group of banks that provides for borrowings of up to $500.0 million on a revolving credit basis. The agreement, as extended, is scheduled to expire in August 2002. Interest is payable at prime or other alternative interest rate bases, at the Company's option. The agreement provides for an annual facility fee of 0.075 percent. The agreement has various covenants that limit the Company's ability to dispose of properties and merge with another corporation. The Company is also required to maintain certain financial ratios as defined in the agreement that can limit the amount of dividend payments and share repurchases. Under the most restrictive requirement, approximately 37 percent of the Company's retained earnings is currently free of restrictions pertaining to cash dividend distributions and share repurchases. The Company has no borrowings outstanding on the revolving credit agreement. The weighted average interest rate of borrowings outstanding under the revolving credit agreement was 6.2 percent at December 31, 1999.

During 2000, the Company extended three short-term credit agreements that provide for borrowings totaling up to $200.0 million on a revolving credit basis. One of these agreements is a committed line of $75.0 million with an annual facility fee of 0.07 percent. The remaining two credit agreements are uncommitted lines with no annual facility fees. The agreements, as extended, are scheduled to expire during 2001. Interest rates are determined at the time of borrowing based on current market conditions. At December 31, 2000, there were no borrowings under these agreements.

The Company's subsidiaries also maintain credit agreements with various foreign banks which provide for additional borrowings of up to $43.2 million. These agreements provide for annual facility fees of up to 0.20 percent.

Borrowings outstanding under the credit agreements are unsecured.

Commitments under separate standby letters of credit outstanding were $45.3 million at December 31, 2000 and $51.2 million at December 31, 1999.

Debt at December 31, 2000 and 1999 was as follows:

(In millions)	**2000**	1999
Commercial paper	**$ 337.0**	$ —
Allegheny Ludlum 6.95% debentures, due 2025	**150.0**	150.0
Credit agreements	**23.5**	173.3
Industrial revenue bonds, due 2001 through 2007	**11.7**	12.7
Capitalized leases and other	**21.6**	17.0
	543.8	353.0
Short-term debt and current portion of long-term debt	**(53.2)**	(152.7)
Total long-term debt	**$ 490.6**	$ 200.3

Interest expense was $37.6 million in 2000, $30.7 million in 1999 and $29.9 million in 1998. Interest and commitment fees paid were $38.0 million in 2000, $31.5 million in 1999 and $30.0 million in 1998.

Scheduled maturities of borrowings during the next five years are $3.2 million in 2001, $11.0 million in 2002, $0.9 million in 2003, $0.1 million in 2004 and no maturities in 2005. At December 31, 2000, the Company had $337.0 million of commercial paper outstanding which is scheduled to mature in 2001. The Company has classified $50.0 million of the commercial paper as short-term with the remainder presented as long-term. The long-term portion has been classified as such due to the Company's ability and intent to refinance a portion of these obligations on a long-term basis.

Note 4. Supplemental Balance Sheet Information —

Cash and cash equivalents at December 31, 2000 and 1999 were as follows:

(In millions)	**2000**	1999
Cash	**$ 25.2**	$ 49.6
Other short-term investments, at cost which approximates market	**1.0**	1.1
Total cash and cash equivalents	**$ 26.2**	$ 50.7

Property, plant and equipment at December 31, 2000 and 1999 were as follows:

(In millions)	**2000**	1999
Land	**$ 31.7**	$ 29.9
Buildings	**216.2**	208.8
Equipment and leasehold improvements	**1,507.9**	1,519.2
	1,755.8	1,757.9
Accumulated depreciation and amortization	**(883.8)**	(845.5)
Total property, plant and equipment	**$ 872.0**	$ 912.4

Accrued liabilities included salaries and wages of $37.4 million and $42.2 million in 2000 and 1999, respectively.

Note 5. Comprehensive Income —

The components of comprehensive income, net of tax, for the years ended December 31, 2000, 1999 and 1998 were as follows:

(In millions)	**2000**	1999	1998
Net income (net of taxes of $76.3, $170.9 and $150.0, respectively)	**$ 132.5**	$ 300.2	$ 241.2
Foreign currency translation losses:			
Foreign currency translation losses arising during period	**(21.7)**	(2.5)	(3.5)
Foreign currency translation losses realized due to disposal of foreign entities	**2.3**	5.2	—
	(19.4)	2.7	(3.5)
Unrealized gains on securities:			
Unrealized holding gains arising during period (net of taxes of $1.6, $3.6 and $1.4, respectively)	**3.8**	5.8	2.2
Realized gains included in net income (net of taxes of $4.3, $0.5 and $0.7, respectively)	**(7.5)**	(1.0)	(1.1)
	(3.7)	4.8	1.1
Comprehensive income	**$ 109.4**	$ 307.7	$ 238.8

Note 6. Stockholders' Equity —

Preferred Stock

Authorized preferred stock may be issued in one or more series, with designations, powers and preferences as shall be designated by the Board of Directors. At December 31, 2000, there were no shares of preferred stock issued.

Common Stock

At a stockholders' meeting held in November 1999, the Company's stockholders approved a reduction in the authorized number of shares of the Company's common stock and a one-for-two reverse stock split of the common stock. The reverse stock split was effective immediately following the spin-offs of Teledyne Technologies Incorporated ("Teledyne") and Water Pik Technologies, Inc. ("Water Pik") on November 29, 1999. Stockholders' equity has been restated to give retroactive recognition to the reverse stock split for all periods presented by reclassifying from common stock to additional paid-in capital the par value of the number of shares that were eliminated as a result of the reverse stock split. In addition, all references in the financial statements and notes to the number of shares and per share amounts, stock option data and market prices have been restated to reflect this reverse stock split.

During 2000, the Company adopted the Allegheny Technologies Incorporated 2000 Incentive Plan (the "Incentive Plan"). Options granted under the Incentive Plan, and predecessor plans, have been granted at not less than market prices on the dates of grant. Options granted under the Incentive Plan have a maximum term of 10 years. Vesting of stock options granted under the Incentive Plan generally occurs in three annual increments, beginning on the first anniversary of the grant date. As of December 31, 2000, approximately 7.1 million shares of common stock were available for future awards under the Incentive Plan.

The Company accounts for its stock option plans in accordance with APB Opinion 25, "Accounting for Stock Issued to Employees", and related Interpretations. Under APB Opinion 25, no compensation expense is recognized because the exercise price of the Company's employee stock options equals the market price of the underlying stock at the date of the grant. If compensation cost for these plans had been determined using the fair-value method prescribed by FASB Statement No. 123, "Accounting for Stock-based Compensation", net income would have been reduced by $7.1 million (or $0.09 per diluted share), $5.8 million (or $0.06 per diluted share) and $3.8 million (or $0.04 per diluted share) for the years ended December 31, 2000, 1999 and 1998, respectively. Under FASB Statement No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2000	1999	1998
Expected dividend yield	**4.3%**	3.7%	2.8%
Expected volatility	**36%**	35%	31%
Risk-free interest rate	**5.5%**	6.5%	5.0%
Expected lives	**8.0**	8.0	8.0
Weighted-average fair value of options granted during year	**$ 5.38**	$ 7.33	$ 14.53

Stock option transactions under the Company's employee plans are summarized as follows:

(shares in thousands)	**2000**		1999		1998	
	Number of Shares	**Weighted-Average Exercise Price**	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	**4,870**	**$ 29.66**	3,578	$ 38.46	2,366	$ 30.36
Granted	**304**	**$ 18.59**	2,256	$ 22.00	1,721	$ 45.86
Exercised	**(195)**	**$ 16.95**	(408)	$ 17.90	(350)	$ 21.34
Cancelled	**(499)**	**$ 27.86**	(301)	$ 33.69	(159)	$ 35.12
Teledyne and Water Pik spin-offs	**—**	**$ —**	(646)	$ 39.19	—	$ —
Spin-off modification	**—**	**$ —**	391	$ —	—	$ —
Outstanding, end of year	**4,480**	**$ 30.26**	4,870	$ 29.66	3,578	$ 38.46
Exercisable at end of year	**2,318**	**$ 33.62**	1,396	$ 33.57	1,229	$ 29.14

In the spin-offs of Teledyne and Water Pik, options to purchase Company stock that were held by employees of those two companies were converted into options to purchase Teledyne or Water Pik common stock, respectively. The number and exercise price of the other outstanding Company options were adjusted so that the “intrinsic value” of the options (that is, the difference between the market value of the stock that would be acquired on exercise of the options and the exercise price of the options) before the spin-offs would be equivalent to the intrinsic value of the options immediately after the spin-offs.

Exercise prices for options outstanding as of December 31, 2000, ranged from $15.01 to $49.84. The weighted-average remaining contractual life of those options is 7.8 years. Compensation expense related to the various stock-based plans was $10.2 million in 2000, $23.1 million in 1999 and $10.6 million in 1998.

Stockholders’ Rights Plan

Under the Company’s stockholder rights plan, each share of Allegheny Technologies common stock is accompanied by one right to purchase two one-hundredths of a share of preferred stock for $100. Each two hundredths of a share of preferred stock would be entitled to dividends and to vote on an equivalent basis with one share of common stock. The rights are neither exercisable nor separately transferable from shares of common stock unless a party acquires or effects a tender offer for more than 15 percent of Allegheny Technologies common stock. If a party acquired more than 15 percent of the Allegheny Technologies common stock or acquired the Company in a business combination, each right (other than those held by the acquiring party) would entitle the holder to purchase common stock or preferred stock at a substantial discount. The rights expire on March 12, 2008, and the Company’s Board of Directors can amend certain provisions of the plan or redeem the rights at any time prior to their becoming exercisable.

Note 7. Income Taxes —

Provision for income taxes from continuing operations was as follows:

(In millions)	**2000**	1999	1998
Current:			
Federal	**$ 7.8**	$ 24.1	$ 72.1
State	**5.7**	4.3	8.6
Foreign	**5.0**	9.3	10.2
Total	**18.5**	37.7	90.9
Deferred:			
Federal	**55.1**	24.1	2.5
State	**2.7**	1.4	0.4
Foreign	**—**	—	1.0
Total	**57.8**	25.5	3.9
Provision for income taxes	**$ 76.3**	$ 63.2	$ 94.8

In general, the Company is responsible for filing consolidated U.S, foreign consolidated, combined, unitary or separate state income tax returns. In 1999, these filings included the results of operations from the spun-off companies through the date of the spin-offs and sold companies. The Company is responsible for paying the taxes relating to such returns including any subsequent adjustments resulting from the redetermination of such tax liability by the applicable taxing authorities. Income taxes paid for continuing and discontinued operations were $20.5 million, $136.3 million and $142.3 million in 2000, 1999 and 1998, respectively. The reduction in current income taxes in 2000 was the result of lower taxable income primarily attributable to accelerated tax depreciation deductions on assets acquired during the fourth quarters of 1999 and 1998.

No provision has been made for U.S., state or additional foreign taxes related to undistributed earnings of foreign subsidiaries which have been or are intended to be permanently re-invested. It is not practical to estimate the income tax benefit that might be incurred if earnings were remitted to the U.S.

Income from continuing operations before income taxes and extraordinary gains included income from domestic operations of $200.1 million in 2000, $153.5 million in 1999 and $220.4 million in 1998.

The following is a reconciliation of the statutory federal income tax rate to the actual effective income tax rate for continuing operations:

	2000	1999	1998
Federal tax rate	**35.0%**	35.0%	35.0%
State and local income taxes, net of federal tax benefit	**1.1**	2.8	3.2
Capitalization of merger and restructuring costs	**—**	—	1.1
Other	**0.4**	(1.5)	(1.3)
Effective income tax rate	**36.5%**	36.3%	38.0%

Deferred income taxes result from temporary differences in the recognition of income and expense for financial and income tax reporting purposes, and differences between the fair value of assets acquired in business combinations accounted for as purchases for financial reporting purposes and their corresponding tax bases. Deferred income taxes represent future tax benefits or costs to be recognized when those temporary differences reverse. The categories of assets and liabilities that have resulted in differences in the timing of the recognition of income and expense were as follows:

(In millions)	**2000**	1999
Deferred income tax assets:		
Postretirement benefits other than pensions	**$ 205.3**	$ 213.0
Deferred compensation and other benefit plans	**30.2**	27.3
Environmental reserves	**17.9**	16.4
Vacation accruals	**11.9**	12.8
Self-insurance reserves	**10.2**	12.0
Other items	**60.2**	74.2
Total deferred income tax assets	**335.7**	355.7
Deferred income tax liabilities:		
Pension asset	**221.3**	187.7
Bases of property, plant and equipment	**169.2**	142.1
Inventory valuation	**2.7**	11.2
Unrealized appreciation on equities	**1.5**	4.2
Other items	**38.5**	51.0
Total deferred income tax liabilities	**433.2**	396.2
Net deferred income tax liability	**$ 97.5**	$ 40.5

Note 8. Pension Plans and Other Postemployment Benefits —

The Company has defined benefit pension plans and defined contribution plans covering substantially all employees. Benefits under the defined benefit pension plans are generally based on years of service and/or final average pay. The Company funds the pension plans in accordance with the requirements of the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code.

The Company also sponsors several defined benefit postretirement plans covering certain salaried and hourly employees. The plans provide health care and life insurance benefits for eligible retirees. In certain plans, Company contributions towards premiums are capped based on the cost as of a certain date, thereby creating a defined contribution.

Certain pension plan assets and projected benefit obligations for pension and other postretirement benefits were transferred to Teledyne as part of the spin-off transaction. Income and expense amounts and accrued benefit costs pertaining to Teledyne have been excluded from all periods presented in this footnote.

Components of pension expense (income) for the Company's defined benefit plans and components of postretirement benefit expense included the following:

	Expense (Income)					
	Pension Benefits			**Other Postretirement Benefits**		
(In millions)	**2000**	1999	1998	**2000**	1999	1998
Service cost - benefits earned during the year	**$ 20.9**	$ 23.6	$ 24.6	**$ 7.9**	$ 8.2	$ 8.5
Interest cost on benefits earned in prior years	**114.2**	114.2	109.6	**42.5**	44.7	42.8
Expected return on plan assets	**(228.4)**	(212.3)	(198.4)	**(17.5)**	(15.3)	(12.8)
Amortization of prior service cost	**13.7**	13.7	10.3	**(4.7)**	(3.2)	(1.9)
Amortization of unrecognized transition asset	**(24.1)**	(24.1)	(24.1)	**—**	—	—
Amortization of net actuarial (gain) loss	**(22.2)**	(11.7)	(1.6)	**(2.2)**	1.8	1.6
Recognition of curtailment gain	**—**	—	—	**—**	—	(2.4)
Total benefit (income) expense	**$ (125.9)**	$ (96.6)	$ (79.6)	**$ 26.0**	$ 36.2	$ 35.8

In addition, the Company recorded a $1.8 million curtailment gain in 1999 as part of the extraordinary gains on sales of operations resulting from the sale of Ryan Aeronautical. The Company also recorded charges of $17.0 million in 1998 resulting from special termination benefits granted to approximately 300 Allegheny Ludlum employees who were part of a planned salaried workforce reduction completed in the 1998 third quarter.

Actuarial assumptions used to develop the components of pension expense (income) and postretirement benefit expense were as follows:

	Pension Benefits			**Other Postretirement Benefits**		
(In millions)	**2000**	1999	1998	**2000**	1999	1998
Discount rate	**7.0%**	7.0%	7.0%	**7.0%**	7.0%	7.0%
Rate of increase in future compensation levels	**3%-4.5%**	3%-4.5%	3%-4.5%	**—%**	—%	—%
Expected long-term rate of return on assets	**9.0%**	9.0%	9.0%	**9%-15%**	9%-15%	9%-15%

A discount rate of 7.0% at both December 31, 2000 and 1999 was used for the valuation of pension and postretirement obligations.

The prepaid (accrued) benefit cost at December 31, 2000 and 1999 was as follows:

(In millions)	Pension Benefits		Other Postretirement Benefits	
	2000	1999	**2000**	1999
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 1,627.3**	$ 1,664.9	**$ 662.2**	$ 675.7
Service cost	**20.9**	23.6	**7.9**	8.2
Interest cost	**114.2**	114.2	**42.5**	44.7
Benefits paid	**(144.5)**	(149.5)	**(44.8)**	(39.4)
Plan amendments	**5.1**	—	**—**	—
Net actuarial (gains) losses	**6.1**	(25.9)	**(29.3)**	(27.0)
Benefit obligation at end of year	**1,629.1**	1,627.3	**638.5**	662.2
Change in plan assets:				
Fair value of plan assets at beginning of year	**2,602.9**	2,418.1	**123.7**	104.6
Actual return on plan assets	**(33.6)**	370.2	**14.3**	19.1
Section 420 transfer	**(40.1)**	(37.3)	**—**	—
Benefits paid	**(140.9)**	(148.1)	**—**	—
Fair value of plan assets at end of year	**2,388.3**	2,602.9	**138.0**	123.7
Funded status of the plan	**759.2**	975.6	**(500.5)**	(538.5)
Unrecognized net actuarial (gain) loss	**(253.8)**	(543.8)	**9.7**	33.6
Unrecognized transition asset	**(35.0)**	(59.0)	**—**	—
Unrecognized prior service cost	**92.3**	101.0	**(35.1)**	(39.9)
Prepaid (accrued) benefit cost	**$ 562.7**	$ 473.8	**$ (525.9)**	$ (544.8)

Amounts recognized in the balance sheet consist of:

(In millions)	Pension Benefits		Other Postretirement Benefits	
	2000	1999	**2000**	1999
Prepaid pension cost	**$ 593.6**	$ 503.7	**$ —**	$ —
Accrued postretirement benefits	**—**	—	**(525.9)**	(544.8)
Other long-term liabilities	**(30.9)**	(29.9)	**—**	—
Net amount recognized	**$ 562.7**	$ 473.8	**$ (525.9)**	$ (544.8)

The plan assets for the pension plan at December 31, 2000 and 1999 include 1.3 million shares of Allegheny Technologies common stock with a fair value of $20.6 million and $29.2 million, respectively. Dividends of $1.0 million and $1.3 million were received by the plan in 2000 and 1999, respectively, on the Allegheny Technologies common stock held by the plan.

Any reversion of pension plan assets to the Company would be subject to federal and state income taxes, substantial excise tax and other possible claims.

Pension costs for defined contribution plans were $14.8 million in 2000, $15.1 million in 1999 and $15.9 million in 1998.

The Company contributes on behalf of its union employees at its Oremet facility to a pension plan which is administered by the USWA and funded pursuant to a collective bargaining agreement. Pension expense and contributions to this plan were $1.4 million in 2000, $1.3 million in 1999 and $1.4 million in 1998.

The annual assumed rate of increase in the per capita cost of covered benefits (the health care cost trend rate) for health care plans was 7.5 percent in 2001 and was assumed to decrease to 5.0 percent in the year 2005 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

(In millions)	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost components for the year ended December 31, 2000	$ 5.9	$ (4.8)
Effect on postretirement benefit obligation at December 31, 2000	$ 64.8	$ (53.4)

Cash from excess pension assets of $40.1 million in 2000, $37.3 million in 1999 and $37.4 million in 1998 was transferred pretax under Section 420 of the Internal Revenue Code from the Company's defined benefit pension plans to the Company. The Internal Revenue Code permits transfers annually of an amount not to exceed the Company's actual expenditures on retiree health care benefits. While not affecting reported operating profit, cash flow increased by the after-tax effect of the transferred amount.

The Company intends to make transfers of excess pension assets to the extent and for each year permitted under Section 420 of the Internal Revenue Code. Under the assumptions set forth above and assuming that the expiration date of Section 420 of the Internal Revenue Code, which currently is 2005, is deferred, the present value of excess pension assets available for transfer under Section 420 is sufficient to fund more than 75 percent of the present value of the accumulated postretirement benefit cost of the Company as a whole including those attributable to each of its subsidiaries.

Note 9. Acquisitions and Divestitures —

In 1999, the Company effected a major transformation of the Company that included the sales of several of the Company's businesses and the spin-offs of certain businesses in two of the Company's former business segments into independent, publicly-traded companies (the "spin-offs"). Teledyne was comprised of certain businesses in the Company's former Aerospace and Electronics segment. Water Pik was comprised of the Company's former Consumer segment.

Prior to the spin-offs, the Company received a tax ruling from the Internal Revenue Service that the spin-offs would be tax-free to the Company and to the Company's stockholders.

On November 29, 1999, the Company distributed all of the common stock of Teledyne and Water Pik to the Company's stockholders of record as of November 22, 1999. Stockholders of record received one share of Teledyne common stock for every seven shares of Allegheny Technologies common stock and one share of Water Pik common stock for every twenty shares of Allegheny Technologies common stock, based on the number of shares of Allegheny Technologies common stock they held prior to the reverse split. Immediately following the spin-offs, the Company effected a one-for-two reverse split of its common stock and changed its name from Allegheny Teledyne Incorporated to Allegheny Technologies Incorporated.

During 1999, as part of its strategic transformation, the Company completed the sale of its unmanned aerial vehicle and its pyrotechnic components and systems businesses, known as Ryan Aeronautical and McCormick Selph Ordnance Unit, respectively. In addition, the Company sold its pressure relief valve, vehicle control valve, nitrogen gas springs, consumer drinkware, construction and mining equipment and material handling businesses. The Company recognized extraordinary gains of $129.6 million, net of $79.9 million in taxes, in connection with the sales of these businesses. The pretax proceeds from these sales totaled approximately $370.0 million.

All sold businesses have been classified as discontinued operations.

Results of discontinued operations for the years ended December 31, 1999 and 1998 were as follows:

(In millions)	1999	1998
Net sales	$ 1,175.7	$ 1,521.0
Income before taxes	87.4	141.4
Provision for income taxes	27.8	55.2
Income from discontinued operations	$ 59.6	$ 86.2

For Teledyne and Water Pik, the 1999 column represents the eleven month period ended November 29, 1999. The income statements of sold companies are reflected in the above table through the date of sale.

Income from discontinued operations also includes non-deductible spin-off and transformation costs that primarily consist of legal and advisory services incurred in connection with these transactions.

In the 1999 fourth quarter, the Company acquired the Washington, PA stainless steel finishing plant of Lukens' Washington Steel Division from Bethlehem Steel Corporation ("Bethlehem") for $20.5 million in cash.

In the 1998 fourth quarter, the Company acquired melting and hot rolling facilities in Houston, PA and a wide anneal and pickle line in Massillon, OH from Bethlehem and entered into a 20-year conversion agreement with Bethlehem to provide for melting, casting and rolling of the Company's wide stainless steel plate products and nickel-based alloys for $175.0 million, which included $105.0 million in cash and $70.0 million in a promissory note which was subsequently paid in 1999.

On March 24, 1998, Allegheny Technologies completed its acquisition of the stock of Oregon Metallurgical Corporation ("Oremet"), a producer and distributor of titanium ingot, mill products and castings. Under the terms of the merger agreement, Oremet shareholders received 0.648 shares of Allegheny Technologies common stock in a tax-free exchange for each share of Oremet common stock. A total of 10.8 million shares of Allegheny Technologies stock were issued in the merger. The merger was accounted for under the pooling of interests method of accounting and the consolidated financial statements reflect the combined financial position, operating results and cash flows of Allegheny Technologies and Oremet as if they had been combined for all periods presented. Intercompany transactions prior to the merger were not material. The effect of conforming accounting policies was not material. Oremet's operations have been integrated into the High Performance Metals segment. The Company recorded merger and restructuring charges of $19.1 million ($15.7 million net of tax) in 1998 for financial advisory, legal, accounting, severance and other costs associated with the merger.

In February 1998, the Company acquired Allvac Ltd in the United Kingdom, for approximately $110.0 million in an all-cash transaction.

Note 10. Business Segments —

Allegheny Technologies is one of the largest and most diversified producers of specialty materials in the world. It operates in three business segments: Flat-Rolled Products, High Performance Metals and Industrial Products.

The Flat-Rolled Products segment produces, converts and distributes stainless steel, nickel-based alloys and superalloys, and titanium and titanium-based alloys in sheet, strip, plate and Precision Rolled Strip® products as well as silicon electrical steels and tool steels. The companies in this segment include Allegheny Ludlum, Rome Metals and Allegheny Ludlum's 60% interest in the Chinese joint venture company known as STAL.

The High Performance Metals segment produces, converts and distributes nickel- and cobalt-based alloys and superalloys, titanium and titanium-based alloys, zirconium, hafnium, niobium, tantalum and other specialty materials, primarily in slab, ingot, billet, bar, rod, wire, coil and seamless tube forms, and zirconium chemicals. The companies in this segment include Allvac, Allvac Ltd, Wah Chang and Titanium Industries.

The Industrial Products segment's principal business produces tungsten powder, tungsten carbide materials and carbide cutting tools. The segment also produces large grey and ductile iron castings and carbon, alloy steel and non-ferrous forgings. The companies in this segment are Metalworking Products, including its second quarter 2000 acquisition of a tungsten carbide products operation, Casting Service and Portland Forge.

Intersegment sales are generally recorded at full cost or market. Common services are allocated on the basis of estimated utilization.

Information on the Company's business segments was as follows:

(In millions)	**2000**	1999	1998
Total sales:			
Flat-Rolled Products	**$ 1,479.9**	$ 1,322.4	$ 1,234.8
High Performance Metals	**800.5**	798.0	904.9
Industrial Products	**280.9**	276.7	349.0
Total sales	**2,561.3**	2,397.1	2,488.7
Intersegment sales:			
Flat-Rolled Products	**35.8**	25.7	41.7
High Performance Metals	**65.1**	75.3	44.6
Total intersegment sales	**100.9**	101.0	86.3
Sales to external customers:			
Flat-Rolled Products	**1,444.1**	1,296.7	1,193.1
High Performance Metals	**735.4**	722.7	860.3
Industrial Products	**280.9**	276.7	349.0
Total sales to external customers	**$ 2,460.4**	$ 2,296.1	$ 2,402.4

The Company's backlog of confirmed orders was approximately $529.0 million at December 31, 2000 and $595.8 million at December 31, 1999.

Total international sales were $441.7 million in 2000, $448.2 million in 1999 and $447.1 million in 1998. Of these amounts, sales by operations in the United States to customers in other countries were $286.4 million in 2000, $294.7 million in 1999 and $273.7 million in 1998.

(In millions)	**2000**	1999	1998
Operating profit:			
Flat-Rolled Products	**$ 119.6**	$ 85.2	$ 126.3
High Performance Metals	**66.5**	87.0	156.0
Industrial Products	**21.7**	12.2	35.8
Total operating profit	**207.8**	184.4	318.1
Corporate expenses	**(30.6)**	(38.9)	(36.5)
Interest expense, net	**(34.4)**	(25.9)	(19.4)
Transformation, merger and restructuring costs, gains on asset sales and other	**(33.9)**	(5.8)	(56.2)
Excess pension income	**99.9**	60.4	43.8
Income from continuing operations before income taxes and extraordinary gains	**$ 208.8**	$ 174.2	$ 249.8

Included in 2000 transformation, merger and restructuring costs, gains on asset sales and other are charges of $29.5 million related to the idling of high-cost titanium sponge production assets, a salaried workforce reduction at Allegheny Ludlum, and costs related to changes in the Company's executive management, partially offset by a gain of $11.0 million on the sale of a minority interest in Gul Technologies Singapore, Ltd. Charges in 1999 were associated with adjusting employee benefit plans as a result of the spin-offs partially offset by a $7.2 million reversal of accrued restructuring costs related to workforce reductions which were implemented at less than expected costs. The Company also recorded charges of $19.1 million in 1998 for severance, financial advisory, legal, accounting, and other costs associated with the acquisition of Oremet, and $19.3 million resulting primarily from special termination benefits granted to approximately 300 Allegheny Ludlum employees who were part of a planned salaried workforce reduction. Costs associated with exiting certain product lines in 1998 and asset impairments resulting from new capital expenditure programs coming on-line resulted in a charge of $29.4 million. Sales and operating results for the exited product lines were not financially material.

Excess pension income represents the amount of pension income in excess of amounts allocated to business segments to offset pension and other postretirement benefit expenses.

(In millions)	**2000**	1999	1998
Depreciation and amortization:			
Flat-Rolled Products	**$ 65.9**	$ 62.4	$ 52.2
High Performance Metals	**22.3**	22.6	19.8
Industrial Products	**10.6**	8.3	7.6
Corporate	**0.9**	2.0	2.5
	$ 99.7	$ 95.3	$ 82.1
Capital expenditures:			
Flat-Rolled Products	**$ 25.6**	$ 43.5	$ 62.1
High Performance Metals	**21.7**	11.3	57.6
Industrial Products	**12.7**	18.8	18.8
Corporate	**0.2**	0.5	0.4
	$ 60.2	$ 74.1	$ 138.9
Identifiable assets:			
Flat-Rolled Products	**$ 1,219.3**	$ 1,270.9	$ 1,159.2
High Performance Metals	**599.9**	594.3	646.8
Industrial Products	**184.3**	160.7	160.2
Corporate:			
Pension asset	**593.6**	503.7	436.8
Other	**179.1**	221.0	242.0
Net assets of discontinued operations	**—**	—	298.5
	$ 2,776.2	$ 2,750.6	$ 2,943.5

Note 11. Financial Information for Subsidiary Guarantors —

The payment obligations under the 6.95% debentures due 2025 issued by Allegheny Ludlum Corporation (the "Subsidiary") are fully and unconditionally guaranteed on a joint and several basis by Allegheny Technologies Incorporated (the "Guarantor Parent"). In accordance with previous positions established by the Securities and Exchange Commission, the following summarized financial information illustrates separately the composition of the Subsidiary, the Non-Guarantor Subsidiaries and the Guarantor Parent. Separate complete financial statements of the Subsidiary are not presented because management has determined that they would not provide additional material information that would be useful in assessing the financial composition of the Subsidiary or the guarantor and non-guarantors. The principal elimination entries eliminate investments in subsidiaries and certain intercompany balances and transactions.

In 1996, the underfunded defined benefit pension plans of Allegheny Ludlum Corporation were merged with the overfunded defined benefit pension plans of Teledyne, Inc. and Allegheny Technologies became the plan sponsor. As a result, the summarized balance sheet information presented for Allegheny Ludlum Corporation does not include the Allegheny Technologies net prepaid pension asset or the related deferred taxes. Solely for purposes of this presentation, pension income has been allocated to Allegheny Ludlum Corporation and to the Non-Guarantor Subsidiaries to offset pension and postretirement expenses which may be funded with pension assets. This allocated pension income has not been recorded in the financial statements of Allegheny Ludlum Corporation. Additionally, management and royalty fees charged to Allegheny Ludlum Corporation and to the Non-Guarantor Subsidiaries by the parent have been excluded solely for purposes of this presentation.

Summarized Condensed Financial Information

For the year ended December 31, 2000

(In millions)	Parent Guarantor	Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets	$ 3.1	$ 519.3	$ 563.3	$ (62.9)	$1,022.8
Non-current assets	2,514.7	1,125.6	662.1	(2,549.0)	1,753.4
Current liabilities	430.2	172.0	324.5	(513.2)	413.5
Non-current liabilities	1,048.4	691.9	69.5	(486.3)	1,323.5
Net sales	—	1,281.9	1,178.5	—	2,460.4
Gross profit	—	136.0	385.4	(59.5)	461.9
Net income	$ 132.5	$ 59.3	$ 157.9	$ (217.2)	$ 132.5

Summarized Condensed Financial Information

For the year ended December 31, 1999

(In millions)	Parent Guarantor	Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets	$ 1.4	$ 530.3	$ 556.2	$ (54.4)	$1,033.5
Non-current assets	2,448.9	1,178.8	406.8	(2,317.4)	1,717.1
Current liabilities	509.6	180.7	212.8	(363.1)	540.0
Non-current liabilities	740.5	892.7	75.5	(698.3)	1,010.4
Net sales	—	1,162.3	1,133.8	—	2,296.1
Gross profit	—	102.8	400.1	(84.7)	418.2
Net income	$ 300.2	$ 37.2	$ 295.6	$ (332.8)	$ 300.2

Summarized Condensed Financial Information

For the year ended December 31, 1998

(In millions)	Parent Guarantor	Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets	$ 3.0	$ 403.2	$ 991.8	$ (390.7)	$1,007.3
Non-current assets	2,379.1	1,220.7	556.6	(2,220.2)	1,936.2
Current liabilities	92.1	164.4	719.3	(543.4)	432.4
Non-current liabilities	950.1	599.6	93.8	(472.3)	1,171.2
Net sales	—	1,072.2	1,330.2	—	2,402.4
Gross profit	—	145.7	485.4	(60.4)	570.7
Net income	$ 241.2	$ 52.0	$ 276.6	$ (328.6)	$ 241.2

Note 12. Earnings Per Share —

The following table sets forth the computation of basic and diluted net income per common share:

(In millions except per share amounts)

Years ended December 31,	**2000**	1999	1998
Numerator:			
Income from continuing operations before extraordinary gains	**$ 132.5**	$ 111.0	$ 155.0
Income from discontinued operations, net of income taxes	**—**	59.6	86.2
Extraordinary gains on sales of operations, net of income taxes	**—**	129.6	—
Numerator for basic and diluted net income per common share - Net income	**$ 132.5**	$ 300.2	$ 241.2
Denominator:			
Weighted average shares	**82.9**	95.3	98.2
Contingent issuable stock	**0.1**	0.1	0.2
Denominator for basic net income per common share	**83.0**	95.4	98.4
Effect of dilutive securities:			
Employee stock options	**—**	0.5	0.8
Dilutive potential common shares	**—**	0.5	0.8
Denominator for diluted net income per common share - adjusted weighted average shares and assumed conversions	**83.0**	95.9	99.2
Basic net income per common share:			
Income from continuing operations before extraordinary gains	**$ 1.60**	$ 1.17	$ 1.57
Income from discontinued operations	**—**	0.62	0.88
Extraordinary gains on sales of operations	**—**	1.36	—
Basic net income per common share	**$ 1.60**	$ 3.15	$ 2.45
Diluted net income per common share:			
Income from continuing operations before extraordinary gains	**$ 1.60**	$ 1.16	$ 1.56
Income from discontinued operations	**—**	0.62	0.87
Extraordinary gains on sales of operations	**—**	1.35	—
Diluted net income per common share	**$ 1.60**	$ 3.13	$ 2.43

Weighted average shares issuable upon the exercise of stock options which were not included in the calculation were 4.0 million in 2000 and 2.3 million in 1999 because they were antidilutive.

Note 13. Commitments and Contingencies —

Rental expense under operating leases was $21.9 million in 2000, $24.1 million in 1999 and $22.0 million in 1998. Future minimum rental commitments under operating leases with non-cancelable terms of more than one year as of December 31, 2000, were as follows: $6.8 million in 2001, $5.4 million in 2002, $5.0 million in 2003, $3.8 million in 2004, $3.8 million in 2005 and $8.7 million thereafter.

The Company is subject to various domestic and international environmental laws and regulations which may require that it investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations, including sites at which the Company has been identified as a potentially responsible party under the federal Superfund laws and comparable state laws. The Company is currently involved in the investigation and remediation of a number of sites under these laws.

In accordance with the Company's accounting policy disclosed in Note 1, environmental liabilities are recorded when the Company's liability is probable and the costs are reasonably estimable. In many cases, however, investigations are not yet at a stage where the Company has been able to determine whether it is liable or, if liability is probable, to reasonably estimate the loss or range of loss, or certain components thereof. Estimates of the Company's liability are further subject

to uncertainties regarding the nature and extent of site contamination, the range of remediation alternatives available, evolving remediation standards, imprecise engineering evaluations and estimates of appropriate cleanup technology, methodology and cost, the extent of corrective actions that may be required, and the number and financial condition of other potentially responsible parties, as well as the extent of their responsibility for the remediation. Accordingly, as investigation and remediation of these sites proceeds, it is likely that adjustments in the Company's accruals will be necessary to reflect new information. The amounts of any such adjustments could have a material adverse effect on the Company's results of operations in a given period, but the amounts, and the possible range of loss in excess of the amounts accrued, are not reasonably estimable. Based on currently available information, however, management does not believe that future environmental costs in excess of those accrued with respect to sites with which the Company has been identified are likely to have a material adverse effect on the Company's financial condition or results of operation. The resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period. In addition, there can be no assurance that additional future developments, administrative actions or liabilities relating to environmental matters will not have a material adverse effect on the Company's financial condition or results of operations.

At December 31, 2000, the Company's reserves for environmental remediation obligations totaled approximately $50.8 million, of which approximately $14.2 million were included in other current liabilities. The reserve includes estimated probable future costs of $21.7 million for federal Superfund and comparable state-managed sites; $4.0 million for formerly owned or operated sites for which the Company has remediation or indemnification obligations; $14.1 million for owned or controlled sites at which Company operations have been discontinued; and $11.0 million for sites utilized by the Company in its ongoing operations. The Company is evaluating whether it may be able to recover a portion of future costs for environmental liabilities from third parties other than participating potentially responsible parties.

The timing of expenditures depends on a number of factors that vary by site, including the nature and extent of contamination, the number of potentially responsible parties, the timing of regulatory approvals, the complexity of the investigation and remediation, and the standards for remediation. The Company expects that it will expend present accruals over many years, and will complete remediation of all sites with which it has been identified in up to thirty years.

Various claims (whether based on U.S. Government or Company audits and investigations or otherwise) have been or may be asserted against the Company related to its U.S. Government contract work, principally related to the former operations of Teledyne, Inc., including claims based on business practices and cost classifications and actions under the False Claims Act. Depending on the circumstances and the outcome, such proceedings could result in fines, penalties, compensatory and treble damages or the cancellation or suspension of payments under one or more U.S. Government contracts. Under government regulations, a company, or one or more of its operating divisions or units, can also be suspended or debarred from government contracts based on the results of investigations. Given the limited extent of the Company's business with the U.S. Government, the Company believes that a suspension or debarment of the Company would not have a material adverse effect on the future operating results and consolidated financial condition of the Company. Although the outcome of these matters cannot be predicted with certainty, management does not believe there is any audit, review or investigation currently pending against the Company of which management is aware that is likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.

In the spin-offs of Teledyne and Water Pik, completed in November 1999, the new companies agreed to assume and to defend and hold the Company harmless against all liabilities (other than certain income tax liabilities) associated with the historical operations of their businesses, including all government contracting, environmental, product liability and other claims and demands, whenever any such claims or demands might arise or be made. If the new companies were unable or otherwise fail to satisfy these assumed liabilities, the Company could be required to satisfy them, which could have a material adverse effect on the Company's results of operations and financial condition.

In connection with the spin-offs of Teledyne and Water Pik, the Company received a tax ruling from the Internal Revenue Service stating that the spin-offs will be tax-free to the Company and the Company's stockholders. While the tax ruling relating to the qualification of the spin-offs as tax-free distributions within the meaning of the Internal Revenue Code generally is binding on the Internal Revenue Service, the continuing validity of the tax ruling is subject to certain factual representations and uncertainties that, among other things, require the new companies to take or refrain from taking certain actions. If a spin-off were not to qualify as a tax-free distribution within the meaning of the Internal Revenue Code, the Company would recognize taxable gain generally equal to the amount by which the fair market value of the common stock distributed to the Company's stockholders in the spin-off exceeded the Company's basis in the new company's assets. In addition, the distribution of the new company's common stock to Company stockholders would generally be treated as taxable to the Company's stockholders in an amount equal to the fair market value of the common stock they received. If a spin-off qualified as a distribution within the meaning of the Internal Revenue Code but was disqualified as tax-free to the Company because of certain post-spin-off circumstances, the Company would recognize taxable gain as described in the preceding sentence, but the distribution of the new company's common stock to the Company's stockholders in the spin-off would generally be tax-free to each Company stockholder. In the spin-offs, the new companies executed tax sharing and indemnification agreements in which each agreed to be responsible for any taxes imposed on and other amounts paid by the Company, its agents and representatives and its stockholders as a result of the failure of the spin-off to qualify as a tax-free distribution within the meaning of the Internal Revenue Code if the failure or disqualification is caused by post-spin-off actions by or with respect to that company or its stockholders. Potential liabilities under these agreements could exceed the respective new company's net worth by a substantial amount. If either or both of the spin-offs were not to qualify as tax-free distributions to the Company or its stockholders, and

either or both of the new companies were unable or otherwise failed to satisfy the liabilities they assumed under the tax sharing and indemnification agreements, the Company could be required to satisfy them without full recourse against the new companies. This could have a material adverse effect on the Company's results of operations and financial condition.

A number of other lawsuits, claims and proceedings have been or may be asserted against the Company relating to the conduct of its business, including those pertaining to product liability, patent infringement, commercial, employment, employee benefits, environmental and stockholder matters. While the outcome of litigation cannot be predicted with certainty, and some of these lawsuits, claims or proceedings may be determined adversely to the Company, management does not believe that the disposition of any such pending matters is likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.

Note 14. Quarterly Data (Unaudited) —

	Quarter Ended			
(In millions except share and per share amounts)	March 31	June 30	September 30	December 31
2000 -				
Sales	$ 625.4	$ 638.3	$ 612.0	$ 584.7
Gross profit	114.7	123.5	121.5	102.2
Net income	$ 41.3	$ 43.7	$ 42.1	$ 5.4
Basic net income per common share	$ 0.47	$ 0.53	$ 0.52	$ 0.07
Diluted net income per common share	$ 0.47	$ 0.53	$ 0.52	$ 0.07
Average shares outstanding	87,200,676	82,793,360	81,116,579	80,268,630
1999 -				
Sales	$ 585.5	$ 572.7	$ 562.5	$ 575.4
Gross profit	122.6	114.3	91.2	90.1
Income from continuing operations before extraordinary gain	40.4	36.6	20.9	13.1
Income from discontinued operations	20.2	20.7	17.1	1.6
Extraordinary gains on sales of operations	—	—	129.6	—
Net income	60.6	57.3	167.6	14.7
Basic net income per common share:				
Income from continuing operations before extraordinary gains	$ 0.41	$ 0.38	$ 0.22	$ 0.14
Income from discontinued operations	0.21	0.22	0.18	0.02
Extraordinary gains on sales of operations	—	—	1.36	—
Basic net income per common share	$ 0.62	$ 0.60	$ 1.76	$ 0.16
Diluted net income per common share:				
Income from continuing operations before extraordinary gains	$ 0.41	$ 0.38	$ 0.21	$ 0.14
Income from discontinued operations	0.21	0.21	0.18	0.02
Extraordinary gains on sales of operations	—	—	1.36	—
Diluted net income per common share	$ 0.62	$ 0.59	$ 1.75	$ 0.16
Average shares outstanding	97,117,966	96,062,774	95,160,827	92,848,915

The 2000 fourth quarter includes after-tax costs of $20.0 million related to the idling of a high-cost titanium sponge production assets, a salaried workforce reduction at Allegheny Ludlum, and costs related to changes in the Company's executive management.

The 2000 first quarter includes after-tax gains of $7.1 million associated with the sale of a minority interest in Gul Technologies Singapore, Ltd. offset by after-tax costs of $2.1 million for exiting the tungsten mill products business of Metalworking Products.

The 1999 fourth quarter included $7.8 million in after-tax costs associated with adjusting employee benefit plans as a result of the spin-offs and facilities start-up costs. These items were partially offset by the reversal of restructuring costs accrued in 1998 related to workforce reductions at less than expected costs and by a net gain from the sale of surplus real estate.

The Company paid a cash dividend of $0.20 and $0.32 per share on its common stock in each of the 2000 and 1999 quarters, respectively.

Common Stock Prices

(Per quarter)

2000	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Allegheny Technologies				
High	$ 23.75	$ 26.81	$ 22.63	$ 21.00
Low	$ 16.13	$ 17.98	$ 17.06	$ 12.50

1999	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Allegheny Technologies				
High	$ 46.38	$ 48.38	$ 47.75	$ 34.88
Low	$ 37.00	$ 36.75	$ 31.75	$ 20.25

On November 29, 1999, the Company distributed all of the common stock of Teledyne and Water Pik to Company stockholders of record as of November 22, 1999. As a result of the spin-offs, Teledyne and Water Pik became separate publicly-traded companies and the common stock of both companies trade on the New York Stock Exchange under the symbols "TDY" and "PIK", respectively. Stock prices on or before November 29, 1999 are not adjusted to reflect the spin-offs.

Immediately following the spin-offs, the Company effected a one-for-two reverse split of its common stock and changed its name from Allegheny Teledyne Incorporated to Allegheny Technologies Incorporated and its symbol on the New York Stock Exchange from "ALT" to "ATI". Stock prices have been adjusted for all periods presented to reflect the one-for-two reverse stock split.

As of December 31, 2000, there were approximately 7,990 record holders of Allegheny Technologies common stock.

Management's Report

The accompanying consolidated financial statements of Allegheny Technologies Incorporated and subsidiaries have been prepared in accordance with generally accepted accounting principles and include some amounts that are based upon Management's best estimates and judgments. Management has the primary responsibility for the information contained in the financial statements and in other sections of this Annual Report and for their integrity and objectivity.

The Company has a system of internal controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly executed and recorded for the preparation of financial information. The concept of reasonable assurance is based on the recognition that there are inherent limitations in all systems of internal accounting control and that the cost of such systems should not exceed the benefits to be derived.

The Company maintains a staff of professional internal auditors, who assist in audit coverage with the independent accountants and conduct operational and special audits. The independent accountants express their opinion on the Company's financial statements based on procedures, including an evaluation of internal controls, which they consider to be sufficient to form their opinion.

The Audit Committee of the Board of Directors is composed of five non-employee members. Among its principal duties, the Committee is responsible for recommending the independent accountants to conduct the annual audit of the Company's financial statements and for reviewing the financial reporting and accounting practices.

R. P. Bozzone
President
and Chief Executive Officer

R. J. Harshman
Vice President,
Finance and
Chief Financial Officer

D. G. Reid
Vice President,
Controller
and Chief Accounting Officer

Selected Financial Data

For the Years Ended December 31,	2000	1999	1998	1997	1996
Volume:					
Flat-Rolled Products (finished tons)	605,650	592,550	537,800	542,200	535,500
High Performance Metals - nickel-based and specialty steel alloys (000's lbs.)	46,612	43,905	44,182	28,546	28,731
High Performance Metals - titanium mill products (000's lbs.)	24,872	22,792	24,739	29,872	27,113
High Performance Metals - exotic alloys (000's lbs.)	3,781	3,756	4,690	4,860	3,292
Average Prices:					
Flat-Rolled Products (per finished ton)	$ 2,365	$ 2,081	$ 2,194	$ 2,371	$ 2,524
High Performance Metals - nickel-based and specialty steel alloys (per lb.)	$ 5.86	$ 5.98	$ 7.33	$ 8.45	$ 7.28
High Performance Metals - titanium mill products (per lb.)	$ 10.84	$ 11.70	$ 14.03	$ 14.03	$ 12.45
High Performance Metals - exotic alloys (per lb.)	$ 34.83	$ 34.77	$ 29.69	$ 26.41	$ 31.92

(In millions except per share amounts)

	2000	1999	1998	1997	1996
Sales:					
Flat-Rolled Products	$ 1,444.1	$ 1,296.7	$ 1,193.1	$ 1,285.5	$ 1,351.5
High Performance Metals	735.4	722.7	860.3	865.5	722.1
Industrial Products	280.9	276.7	349.0	349.9	344.7
Sales	$ 2,460.4	$ 2,296.1	$ 2,402.4	$ 2,500.9	$ 2,418.3
Operating profit:					
Flat-Rolled Products	$ 119.6	$ 85.2	$ 126.3	$ 139.6	$ 175.8
High Performance Metals	66.5	87.0	156.0	181.2	121.8
Industrial Products	21.7	12.2	35.8	42.9	29.0
Operating profit	$ 207.8	$ 184.4	$ 318.1	$ 363.7	$ 326.6
Income from continuing operations before extraordinary items	$ 132.5	$ 111.0	$ 155.0	$ 230.4	$ 135.3
Income from discontinued operations	—	59.6	86.2	98.4	113.5
Extraordinary gains on sales of operations	—	129.6	—	—	—
Extraordinary loss on redemption of debt	—	—	—	—	(13.5)
Net income	$ 132.5	$ 300.2	$ 241.2	$ 328.8	$ 235.3
Basic net income per common share:					
Income from continuing operations before extraordinary items	$ 1.60	$ 1.17	$ 1.57	$ 2.34	$ 1.39
Income from discontinued operations	—	0.62	0.88	1.00	1.19
Extraordinary gains on sales of operations	—	1.36	—	—	—
Extraordinary loss on redemption of debt	—	—	—	—	(0.14)
Basic net income per common share	$ 1.60	$ 3.15	$ 2.45	$ 3.34	$ 2.44
Diluted net income per common share:					
Income from continuing operations before extraordinary items	$ 1.60	$ 1.16	$ 1.56	$ 2.30	$ 1.37
Income from discontinued operations	—	0.62	0.87	0.98	1.16
Extraordinary gains on sales of operations	—	1.35	—	—	—
Extraordinary loss on redemption of debt	—	—	—	—	(0.14)
Diluted net income per common share	$ 1.60	$ 3.13	$ 2.43	$ 3.28	$ 2.39

For the Years Ended December 31,	2000	1999	1998	1997	1996
Dividends declared					
Allegheny Technologies	$ 0.80	$ 1.28	$ 1.28	$ 1.28	$ 0.32
Allegheny Ludlum Corporation	$ —	$ —	$ —	$ —	$ 0.84
Teledyne, Inc.	$ —	$ —	$ —	$ —	$ 1.04
Working capital	$ 609.3	$ 493.5	$ 574.9	$ 679.1	$ 612.9
Total assets	$ 2,776.2	$ 2,750.6	$ 2,943.5	$ 2,638.5	$ 2,648.2
Long-term debt	$ 490.6	$ 200.3	$ 430.6	$ 313.6	$ 429.2
Stockholders' equity	$ 1,039.2	$ 1,200.2	$ 1,339.9	$ 1,244.6	$ 1,075.4

At a stockholders' meeting held in November 1999, the Company's stockholders approved a one-for-two reverse stock split of the Company's stock. The reverse stock split was effective immediately following the spin-offs of Teledyne and Water Pik on November 29, 1999. All references to number of shares and per share amounts have been restated to reflect the reverse stock split.

The historical selected financial data reflects the results of Allegheny Technologies and Oremet as if they had been combined for all periods presented.

In 1999, the Company completed a strategic transformation in which it spun-off Teledyne and Water Pik and sold certain businesses. The results of the companies spun-off and companies sold are reflected as discontinued operations for all periods presented. The Company recognized extraordinary gains of $129.6 million, net of $79.9 million in taxes, in connection with the sales of businesses in 1999.

Net income included after-tax gains of $34.1 million on the divestitures of certain non-strategic businesses and the sale of investments in 1997 and $37.6 million on the sale of Teledyne, Inc.'s defense vehicle business and surplus California real estate in 1996.

Net income was adversely affected by after-tax merger and restructuring charges of $18.7 million in 2000, $45.8 million in 1998, $7.6 million in 1997 and $42.9 million in 1996. The 1996 amount also include Teledyne, Inc.'s proxy contest charges.

Results of operations included after-tax charges of $4.1 million in 1997 and $4.7 million in 1996 related to the settlement by Teledyne, Inc. of certain legal matters with the U.S. Government.

Teledyne, Inc. dividends declared included $0.16 per equivalent share in 1996 paid in face amount of Teledyne, Inc.'s Series E Cumulative Preferred Stock. The Teledyne, Inc. Series E Cumulative Preferred Stock was redeemed for cash in 1996.

In August 1996, Allegheny Ludlum Corporation and Teledyne, Inc. combined to form Allegheny Technologies, which was formerly known as Allegheny Teledyne Incorporated.

Corporate Self-Governance: Ethics, Compliance & Quality

Allegheny Technologies is committed to uncompromising ethical standards, strict adherence to law, and continuous attention to customer satisfaction.These commitments constitute the foundation upon which Allegheny Technologies conducts its business.

The *Allegheny Technologies Incorporated Guidelines for Employee Conduct* set forth clear standards to guide all employees in the conduct of everyday business. Its objective is to have all employees reflect the highest level of integrity and ethics in their dealings with customers, suppliers, and stockholders, with the public and government agencies, as well as with fellow employees.

Allegheny Technologies encourages employees to communicate concerns before they become problems. The corporate ombudsman at Allegheny Technologies and the ethics officers at the operating companies have been extremely effective in allowing employees to surface important concerns. Building and maintaining trust, respect and communications between employees and management and between fellow employees is critical to the overriding goal of efficiently producing high quality products, providing the maximum level of customer satisfaction, and ultimately fueling profitability and growth.

Training is an important part of the Allegheny Technologies' self-governance effort. Programs cover antitrust, ethics, environmental compliance, export compliance and trading in securities, as well as training in various human resources areas including safety. Our goal is to optimize every training hour.

In order to monitor the effectiveness of its compliance efforts, Allegheny Technologies conducts regular audits throughout the organization to confirm adherence to internal compliance procedures.

The management and employees of Allegheny Technologies are committed to a strong self-governance program. This commitment is aligned with our corporate goal to enhance stockholder value. Maintaining our reputation for quality, reliability, integrity, and customer responsiveness is critical to achieving this goal.

Corporate Officers

Robert P. Bozzone
Chairman, President and Chief Executive Officer

James L. Murdy
Executive Vice President

Jon D. Walton
Senior Vice President, General Counsel and Secretary

Douglas A. Kittenbrink
President, Allegheny Ludlum

Jack W. Shilling
President, High Performance Metals Group

Terry L. Dunlap
Vice President, e-Business

Richard J. Harshman
Vice President, Finance and Chief Financial Officer

Robert S. Park
Vice President, Treasurer

Dale G. Reid
Vice President, Controller and Chief Accounting Officer

David G. Vietmeier
Vice President, Procurement

Operating Company Management

Flat-Rolled Products

Allegheny Ludlum
Douglas A. Kittenbrink, *President*

Rome Metals
William L. Ringle, *President*

High Performance Metals

Jack W. Shilling, *President,*
High Performance Metals Group

Allvac
Thomas E. Williams, *President*

Allvac Ltd
Ronald D. Thompson, *Managing Director*

Wah Chang
Lynn D. Davis, *President*

Titanium Industries, Inc.
James S. Paddock, *President*

Industrial Products

Metalworking Products
David M. Hogan, *President*

Portland Forge
Charles W. Freel, *President*

Casting Service
David R. Neil, *President*

(seated left to right): Robert P. Bozzone, James E. Rohr, Paul S. Brentlinger and William G. Ouchi.
(standing left to right): C. Fred Fetterolf, George J. Kourpias, Ray J. Groves, W. Craig McClelland, James L. Murdy, Frank V. Cahouet, Charles J. Queenan, Jr. and Diane C. Creel.

Board of Directors

Robert P. Bozzone
Age 67, is Chairman, President and Chief Executive Officer of Allegheny Technologies Incorporated. (1)

Paul S. Brentlinger
Age 73, is a Partner in Morgenthaler, a venture capital group headquartered in Cleveland, Ohio and Menlo Park, California. (2) (4) (7)

Frank V. Cahouet
Age 68, is the retired Chairman, President and Chief Executive Officer of Mellon Financial Corporation, a bank holding company, and Mellon Bank, N.A. (2) (3) (4) (7)

Diane C. Creel
Age 52, is Chief Executive Officer and President of Earth Tech, an international consulting engineering firm. (3) (5) (6)

C. Fred Fetterolf
Age 72, is the retired President and Chief Operating Officer of Alcoa, Inc. (5) (6) (7)

Ray J. Groves
Age 65, is Chairman of Legg Mason Merchant Banking, Inc. (2) (3) (4)

George J. Kourpias
Age 68, is the retired International President, International Association of Machinists and Aerospace Workers. (7)

W. Craig McClelland
Age 66, is the retired Chairman and Chief Executive Officer of Union Camp Corporation, a manufacturer of paper products. (3) (5) (6)

James L. Murdy
Age 62, is Executive Vice President of Allegheny Technologies Incorporated. (7)

William G. Ouchi
Age 57, is the Sanford and Betty Sigoloff Professor in Corporate Renewal, The Anderson Graduate School of Management, University of California at Los Angeles. (2) (4) (5) (6)

Charles J. Queenan, Jr.
Age 70, is Senior Counsel of Kirkpatrick & Lockhart LLP, attorneys-at-law. (1) (5)

James E. Rohr
Age 52, is President and Chief Executive Officer of The PNC Financial Services Group, a bank holding company. (1) (2) (4) (7)

Standing Committees of the Board:
(1) Executive Committee
(2) Audit Committee
(3) Committee on Governance
(4) Finance Committee
(5) Personnel and Compensation Committee
(6) Stock Incentive Award Subcommittee
(7) Technology Committee

Glossary

Bar - A long product that is 1/4 inch (6.35mm) or more in diameter, having round, square, octagonal or hexagonal cross-sections.

Billet - A long product with a diameter range of 8 to 14 inches (203 to 356 mm). Can either be sold in billet form or processed further to make other long products.

Exotic Alloys - The Company's classification for its zirconium, niobium, hafnium and tantalum products.

Flat-rolled products - A product form classification that includes sheet, strip, Precision Rolled Strip® products and plate.

Hafnium - An exotic alloy with outstanding corrosion resistance and good mechanical properties. It is added to specialty alloys for use in jet engine parts and as control rod material in nuclear reactors.

High Performance Metals - A classification that includes the Company's nickel and nickel-based superalloys, titanium, specialty steel and exotic alloy products, primarily in the form of long products. These products typically exhibit any of the properties of high temperature resistance, high strength, and high temperature oxidation resistance.

Ingot - A product form resulting when molten metal is cast into molds, which can be round, square, or rectangular. Can either be sold in ingot form or processed further to make other products.

Long Products - A product form classification that includes ingot, billet, bar, rod and wire.

Nickel-based Superalloys - Nickel alloys developed for very high temperature service where relatively high stresses are encountered and where high surface stability is frequently required. Typical applications are aircraft turbine and land-based turbine components.

Niobium - An exotic alloy valued for its strength at extremely high temperatures and its ability to superconduct, or pass electricity with minimal resistance, at very low temperatures. It is used in aerospace applications, in superconducting magnets in MRI (magnetic resonance imaging) equipment, when alloyed with titanium, and in particle accelerators.

Plate - A flat-rolled product that is 3/16 inch (4.76 mm) thick, or greater, and over 10 inches (254 mm) wide.

Precision Rolled Strip® Products - Flat-rolled products including stainless steel, nickel-based alloys, titanium and titanium alloys, and carbon and coated-carbon steel under 0.015 inch (0.38 mm) thick and up to 24 inches (610 mm) wide, as well as certain strip products with special tempers and thicknesses.

Rod - A long product that is from 0.118 (3 mm) to 3/4 inch (19.05 mm) in diameter.

Sheet - A flat-rolled product greater than 24 inches (610 mm) wide and less than 3/16 inch (4.76 mm) thick.

Silicon Electrical Steel - Iron-based alloys containing silicon (typically 3.5%) as the major alloying addition. These steels are used generally in applications such as power transformers where electrical conductivity and magnetic properties are important.

Stainless Steel - A broad classification of iron-based alloys containing at least 10% chromium, known for excellent corrosion and heat resistance. Austenitic (Chrome-Nickel) grades contain 18% to 30% chromium and 6% to 20% nickel for enhanced surface quality and formability and increased corrosion and wear resistance. These grades are used in appliances, kitchen utensils, processing equipment and a variety of industrial applications. Ferritic (Chrome) grades are non-nickel-bearing and contain 11% to 17% chromium content for greater inherent strength and corrosion resistance than carbon steel. These grades are often used in automotive exhaust systems.

Strip - A flat-rolled product up to 24 inches (610mm) wide and less than 3/16 inch (4.76mm) thick.

Superalloy - An alloy, usually based on nickel, cobalt or iron, developed for high temperature service where relatively severe mechanical stressing is encountered and where high surface stability is frequently required.

Super Stainless Steel - Stainless steel alloys with significant additions of chromium, nickel, molybdenum or copper. Super stainless steel is used in chemical processing, petroleum refining, marine, heat treating, pollution and waste control industries where there are requirements for extra corrosion protection, strength or heat resistance.

Titanium - Titanium and its alloys have very high strength-to-weight ratios. At normal temperatures, they have high resistance to corrosion. Used primarily in aerospace and chemical processing applications.

Tungsten Materials - Include tungsten and tungsten carbide powders, sintered tungsten carbide products and cutting tools for the metalworking, mining, oil and gas, and other industries requiring tools with extra hardness.

Wire - A long product that is from 0.030 inch (0.76 mm) to 1/4 inch (6.35 mm) in diameter, in round, square, octagonal or hexagonal cross-sections.

Zirconium - An exotic alloy valued for its strength, high corrosion resistance, and low thermal neutron absorption. Applications include nuclear reactors, marine vessels, commercial power generation, and those requiring contact with strong acids and basic environments.

For further information and additional definitions, please see http://www.alleghenytechnologies.com.

Investor Information

Corporate Headquarters
1000 Six PPG Place, Pittsburgh, PA 15222-5479
412-394-2800

Annual Meeting
The Annual Meeting of Stockholders will be held on May 3, 2001 at 11:00 a.m. in:
Room 1000 Auditorium, 10th Floor
Two Mellon Bank Center (Union Trust Building), 435 Fifth Avenue, Pittsburgh, PA

Transfer Agent and Registrar
Mellon Investor Services LLC
Overpeck Centre, 85 Challenger Road, Ridgefield Park, NJ 07660
1-800-406-4850
www.mellon-investor.com
(Information about dividend checks, dividend tax information, and stock certificates, including lost or unexchanged certificates)

Investor Services Program
Mellon Investor Services LLC offers an Investor Services Program for current stockholders and interested investors which includes:

- Dividend reinvestment
- Direct deposit of dividends into your personal checking, savings or other account
- Voluntary purchases of Allegheny Technologies common stock for new investors and current stockholders
- Safekeeping of stock certificates at no charge.

To request a Program brochure and enrollment forms, call: 1-800-842-7629

To ask about the Program or your Program account, contact:
Mellon Investor Services LLC
P.O. Box 3338
South Hackensack, NJ 07606-1938
1-800-406-4850

Stockholder Publications
Annual reports and proxy statements are mailed to all stockholders of record. These publications and Reports on Form 10-Ks and Form 10-Qs and other information may also be obtained through the Company's website at www.alleghenytechnologies.com. For additional information contact:
Investor Relations and Corporate Communications at corporate headquarters, or by calling 412-394-2819.

Independent Auditors
Ernst & Young LLP
Pittsburgh, PA

Form 10-K
Allegheny Technologies Incorporated's Annual Report on Form 10-K for fiscal year 2000 (without exhibits) is also available upon written request to the Senior Vice President, General Counsel and Secretary at the corporate headquarters.

Stock Exchange Listing
The common stock of Allegheny Technologies Incorporated is traded on the New York Stock Exchange (symbol ATI). Options on the Company's stock are traded on the Chicago Board of Options Exchange.

Internet Home Page
Allegheny Technologies' Internet home page can be found at http://www.alleghenytechnologies.com.

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