



HARSCO

To Our Stockholders

In last year's letter, I outlined "The Harsco Blueprint" – the transformative strategies and actions we are executing to position Harsco for sustainable success. Our accomplishments in 2015 confirm our confidence in the course we've set, even in the face of extremely challenging external conditions.

We completed the year with a solid fourth quarter and second half, exceeding the high end of our profit guidance and with each business segment performing above expectations. On a full year basis, income from continuing operations was \$7.3 million, compared with a loss of \$17.8 million in 2014. Diluted earnings per share from continuing operations were \$0.09, up from (\$0.28) in the prior year. Revenues totaled \$1.7 billion, down 17 percent from 2014, due in large part to reduced customer production and commodities demand in our Metals & Minerals business and to the strong U.S. dollar in relation to foreign currencies. Foreign currency translation decreased revenues by \$170 million in comparison with the prior year.

Review of Operations

We were especially pleased with the progress in Metals & Minerals. Consistent with our blueprint, we resolved a number of legacy issues, took out further costs, addressed underperforming sites and, as a result, delivered improved and more consistent operating performance as the year progressed. There is no question that our actions have yielded a much more competitive business and a step change improvement in operating discipline. These benefits will further accrue in the future, even though end-market conditions have so far masked our progress. That said, Metals & Minerals was awarded approximately 30 renewal and growth contracts during the year, with projected revenues of nearly \$600 million over the life of the contracts. We anticipate that our Metals & Minerals performance in 2016 will look very favorable in comparison with other businesses in the steel industry.

We are also excited about developments in our Industrial segment, led by several new product introductions such as our GrateGuard™ security fencing and industry-leading NURO™ boiler control system. However, market conditions for our industrial heat exchangers business have become particularly frustrating. The dramatic 75-80 percent decline in global oil prices has resulted in significant capital reductions with respect to oil & gas exploration and production. We've taken aggressive steps to economize our heat exchanger business, and when markets eventually recover, these initiatives, along with our consolidation of production facilities and our development of direct channels to market, should enhance our ability to attract new blue chip customers and larger project opportunities.

In the Rail segment, the expansion of our footprint into new markets and channels continues at a healthy pace, balanced against delivering on existing commitments such as our large orders with the Swiss National Railway. Although the current industry outlook in North America suggests some weakening in the short-term, the outlook for growth in international markets and aftermarket parts sales remains promising. We also made two acquisitions during the year, including Protran Technology. Protran's railway track worker and train operator safety systems are in use throughout North America and internationally to help protect railway personnel from potential collisions and other hazardous situations. Protran equipment is also found on transit buses, providing turn alerts to pedestrians. Their presence adds to our potential for supporting greater safety awareness and injury prevention in the transportation market.

In terms of financial position, we remain comfortable with our capital structure in context with our financial outlook. In December, we completed a successful debt refinancing that affords us, among other positives, low-cost

financing, additional liquidity and the financial flexibility that we desire to support our strategic priorities. Nevertheless, given the economic uncertainties, the Board of Directors has taken the prudent action to suspend the quarterly dividend starting with the second quarter of 2016, both as a means to further maintain a healthy capital structure and to preserve capital for key initiatives.

Core Values

An essential part of our blueprint execution has been to reemphasize our core values and the critical role they play in uniting Harsco's interests and responsibilities. As I travel throughout the organization, I am gratified to see our values posted prominently at offices and worksites across the business. Even in the face of unfavorable external forces, we are holding true to our commitments to working safely and ethically, and delivering value to our customers. I am especially pleased to report that our recordable injury rate declined a further 20 percent in 2015 to a new record low. Our safety culture has become a distinctive competitive advantage in each of our businesses.

Complementing our values are the elements of our Harsco Business System. The Harsco Business System provides a framework for scalable core processes in areas such as talent development; continuous improvement; environmental, health and safety; and strategic planning. Once fully deployed, our Business System will be another unifying force in our transformation.

2016 Outlook

No one really knows how long the current end-market conditions will persist. Our present view is that market dynamics in Metals & Minerals will likely weaken further as steel producers continue to moderate production in the face of global overcapacity and slowing economic growth in several key markets including China. We will work to offset these impacts with the benefits of our cost reduction and operational improvement initiatives, and from a number of site start-ups. We also expect to see reduced demand from our U.S. energy customers, owing to the continued decline in oil prices. Rail also faces some difficult year-over-year comparisons as the U.S. railroads in particular scale back their equipment and maintenance plans to preserve capital, but we expect to provide some offset through our targeted expansion of this business.

We remain committed to our stated intention to pursue strategic options for the separation of Metals & Minerals from our portfolio. Our current mix of businesses was constructed at a time when the market preferred diversified companies. Preferences change, and today's investment climate favors companies with a streamlined business profile and investment thesis. Recognizing that Metals & Minerals today is in a much stronger position to stand on its own, its separation should help us unlock stockholder value and support our growth aspirations for the Rail and Industrial businesses with additional capital. We will keep a watchful eye on the market in order to maximize this opportunity. Nevertheless, it should be understood that there is no specific timetable related to this initiative and in fact, there can be no assurance that a sale, spin-off or any other transaction will take place.

Sadly, the year saw the passing of our former leader, Derek C. Hathaway. Mr. Hathaway served as Harsco's Chairman and CEO from 1994 through 2007, directing the Company through a period of great economic and geographic expansion. He was a man of enormous integrity and influence, fully dedicated to the greater good. He will be deeply missed.

In closing, it remains for me to thank our more than 10,000 global employees for their conscientious efforts and dedication during especially challenging times. I am confident that the steps we are taking will define the character of Harsco for many years to come, strongly positioned for meaningful progress and success. Even with global end-market and macroeconomic conditions at some of their weakest levels in recent years, we still accomplished nearly all of the business improvement objectives we set out for 2015. When market conditions return to more normal levels, we will be ready with a stronger portfolio of businesses, an attractive array of services and products at the leading edge of our markets, and substantially lower costs. With all that we have accomplished, and all that we have ahead, our clear determination is to reward Harsco stockholders for their long-standing support and confidence.



F. Nicholas Grasberger, III
President and Chief Executive Officer
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