



**F. Nicholas Grasberger III**  
*President and Chief Executive Officer*

## Fellow Stockholders:

Harsco is stronger today than at any time in the last several years. We significantly increased cash flows and grew margins despite seeing each of our major markets hit the bottom of their economic cycles during the year. We refinanced all of our debt and now have a much healthier balance sheet with greater liquidity. Corporate costs are down about 50 percent from a few years ago, reflecting increased productivity from our core functions and a more efficient approach to utilizing our company-owned offshoring expertise. Our global leadership team is strong, stable and experienced, with proven track records in every position. In sum, we have built a solid foundation that will serve us well as our end markets recover.

One area where our foundational improvements are most visible is our Metals & Minerals segment, where two years of very focused and disciplined effort through our Project Orion initiative are beginning to deliver the anticipated results. Our goal a couple of years ago was to effectively shrink Metals & Minerals into a leaner and better focused business. We have exited under-performing contracts, established new operating disciplines and realigned our management around strong regional organizations that enable us to respond quickly and effectively to customer requirements. These are supported by a central core of Harsco Way best practices and procedures that are making meaningful contributions to performance and greater capital discipline. I believe that our past two years of steady progress in rebuilding Metals & Minerals' fundamental strengths and improving our competitive position have put us at an inflection point, and we can once again look confidently at



growing this business and realizing attractive returns with industry-leading customers around the world. Particularly in China, India and the Middle East, where our penetration of services is still lower than our more established positions in Europe and the Americas, we see many opportunities to grow relationships with an expanding base of customers who are attracted by our value proposition. Metals & Minerals' growth is also going to be driven by an increased focus on product sales, an area we call Applied Products, where we have developed a particular expertise in transforming the by-products and waste streams of production into responsible "green" uses that promote greater environmental sustainability.

In our Rail business, our customers' capital spending on maintenance of way equipment was at the lowest level in many years, due in part to declining rail traffic for coal and oil. As commodity markets begin to recover, aided by the anticipated policies of the new U.S. administration relative to basic infrastructure investment, we hope to see some lift in railway spending. In Europe, we remain confident that our Swiss National Railway customer, SBB, will be pleased with the quality of the equipment we deliver, and that our relationship will become profitable over time through the sale of additional equipment and replacement parts. We continue to be encouraged by the demand from global customers for our products. Our mission for the Rail business remains to diversify our product and service offerings as well as the geographic profile that we serve. The new leadership we have put in place for this business brings an especially strong background in driving international

business growth. We're also seeing encouraging market response to our Protran safety technologies for railway worker and pedestrian safety, which extend our market reach beyond rail into the transit sector as well.

In Industrial, the overall weak energy markets continued to challenge our air-cooled heat exchangers business throughout 2016, with customer spending in new exploration, drilling and production softening dramatically in parallel with the lower price of oil. Nevertheless, our investments over the past two years in manufacturing consolidation, efficiency and product design, coupled with the expansion of our product lines into other segments of the industry, give us a strong basis for optimism as customer confidence returns. Our industrial grating business was also challenged by the weak energy market, coupled with a climate of aggressive competitor pricing that eroded normal rates of return. Here again, our investments in advanced manufacturing technology, along with the introduction of our new high-security fencing product (which won an industry award last year as the best new product for Anti-Terrorism/Force Protection) have served to help dampen these market impacts. Meanwhile, our commercial heat transfer products business continues to introduce market-leading technology that has been well-received. Customers increasingly see us as an innovator for product efficiency and ease of use. With the upturn in non-residential construction, the outlook for commercial boilers and water heaters has become more positive.

During the year, we completed a further step in our strategic objectives for reducing the complexity of the Harsco portfolio by selling to Brand our remaining 26 percent joint venture interest. This action completes our planned exit from the legacy Harsco Infrastructure segment of the early 2000s. While we are confident that the Brand business will continue to be successful, we believe there are better opportunities for Harsco capital allocation within our core businesses.

Especially gratifying given the year's market challenges is the resiliency and confidence shown

by our nearly 10,000 global employees. We recently completed our second annual employee engagement survey, the results of which confirm the progress we are making to better inform, develop and unite our workforce. Harsco's broad geographic and business diversity enables us to tap into an unusually rich array of cultures, backgrounds and skills throughout the world. Our continued investment in employee care and talent development – two elements of our Harsco Business System and core values – are hallmarks of the culture to which we are firmly committed for all of Harsco. To that end, 2016 will go down as a record-setting year for our Environmental, Health and Safety (EH&S) performance, with colleagues and operations worldwide setting all-time best results in several categories. Leading the way was our fifth consecutive record-setting year of on-the-job injury reduction. Our environmental efforts also produced notable results, both in compliance and sustainability. In Metals & Minerals, we reduced our diesel fuel consumption by 7.5 percent, the equivalent of more than 4.6 million liters of fuel and more than 13,500 tons of CO<sub>2</sub> emissions. In Rail, we reduced our landfill waste by nearly 25 percent, and in the Industrial group, we reduced waste by more than 36 percent.

Despite a difficult year across each of our markets, our foundational improvements speak to a much stronger and healthier enterprise that will be well-prepared for increasing success as economic conditions improve. Our ability to increase margins despite lower revenues and to triple free cash flows even when major markets touched bottom are both good financial indicators of the success we had – and the progress we will continue to make – on behalf of Harsco stockholders.



F. Nicholas Grasberger III  
President and Chief Executive Officer  
March 7, 2017