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PRESENTATION

Operator

(Operator Instructions)

At this time, I would like to welcome everyone to the Harsco Corporation fourth-quarter release conference call.

(Operator Instructions)

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I would now like to introduce Mr. Dave Martin. Mr. Martin, you may begin your call.

Dave Martin - *Harsco Corporation - Director IR*

Thank you, Lindsay. Welcome to everyone joining us today. I am Dave Martin, Director of Investor Relations for Harsco. With me today is Nick Grasberger, our President and Chief Executive Officer; as well as Pete Minan, our Senior Vice President and Chief Financial Officer.

This morning we will discuss our results for the fourth quarter of 2015 and our outlook for 2016 and then we will take your questions. Before our presentation, however, let me take care of a few administrative items. First, our Q4 earnings release was issued this morning. A PDF file of the news release as well as the slide presentation for this call has been posted to the IR section of our website. Secondly, this call is being recorded and webcast. A replay will be available on our website later today.

Next, we will make statements today that are considered forward-looking within the meaning of the Federal Securities laws. These statements are based on our current knowledge and expectations and are subject to certain risks and uncertainties that may cause actual results to differ materially from those forward-looking statements. For a discussion of such risks and uncertainties, see the Risk Factor section in our most recent 10-K and 10-Q as well as in our other SEC filings. The Company undertakes no obligation to revise or update any forward-looking statements.

Lastly, on this call we will refer to adjusted financial results that are considered non-GAAP for SEC reporting purposes. A reconciliation to US GAAP results is included in our earnings release, again, issued today, as well as in our slide presentation, which are both on the IR section of our website.

With that being said, I will now turn the call over to Nick Grasberger to begin our prepared remarks.

Nick Grasberger - *Harsco Corporation - President & CEO*

Okay. Thank you, Dave. Good morning, everyone. Happy to have you with us.

We are pleased with our financial performance over the second half of 2015 as we exceeded the high end of our profit guidance range despite continued weakening of our served markets. Each business unit performed above expectations and Corporate costs were lower than projected. As was the case throughout the year, we executed a number of initiatives to counter the weak operating environments, including new product introductions, improvements to our product and contract mix, removing costs in all areas of the business, and exiting loss-making contracts in Metals & Minerals. Overall, for the full year, we maintained our adjusted operating margin of nearly 8%, despite a 17% decline in revenue. In terms of the balance sheet, debt to EBITDA was 2.8 times at year end. We secured new long-term capital during the fourth quarter in the midst of a very challenging credit market.

Before I turn my comments on this year, I would like to reflect a bit on 2015. In short, I believe we executed our key initiatives quite well and each of our businesses improved its competitive position. In particular, we are very encouraged by the progress made in our Metals & Minerals business. While we have removed a significant amount of cost from the business, we are realizing even greater benefits from the process and structural improvements we have made and the seamless alignment we have built between the regions and the divisional and corporate leadership. There is no question that all of this change has yielded a much more competitive business and a step change improvement in the operating discipline. Overall, contract outcomes, and therefore our gross margins, are improving. At the same time, several long-standing legal environmental matters have been resolved, removing a great deal of uncertainty about future cash flows.

We're also excited about developments in our Industrial segment. New products in security fencing and heating systems are expanding our addressable markets. In fact, just yesterday, we signed a contract in excess of $10 million to supply high security fencing to the new Mexico City airport, the largest in Latin America. In the Air-X-Changers business, the consolidation of our product facilities and the development of direct channels to market are attracting new blue chip customers and larger product opportunities. So while the current market conditions for AXC are very frustrating, the future of the business is quite attractive. 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 a series of projects totaling over $200 million with the Swiss National Railway.

Originally, we expected to deliver a significant amount of equipment against these contracts in 2016, but design finalization work and further activity in software development have pushed the shipments into 2017 and 2018. Meanwhile, we are pleased with the performance of the equipment delivered into testing thus far. The outlook for the growth in the international markets and aftermarket parts remains promising.

At the corporate level, the leadership shown by my direct staff within a tough environment has been exceptional. The legal, finance, and HR functions are performing at a very high level, and the contributions made by this group to the improvements in M&M in each of our businesses have been invaluable. Finally, but actually foremost, our recordable injury rate declined a further 20% to a record low level in 2015. Our safety performance has clearly become a competitive advantage in each of our businesses.

Turning to a few perspectives on this year. We do not anticipate any meaningful improvement in our end markets or in commodity prices. The full-year effects of the precipitous drop in energy and steel prices, coupled with the more recent weakening in the North American rail market, are placing pressure on our businesses. We expect to counter a significant amount of this pressure through the actions noted earlier. This is most evident in M&M, where we expect in excess of $35 million of incremental benefits from Project Orion and other initiatives. Our 2016 plan for M&M anticipates an increase in the operating margin despite its 15% to 25% decline in sales; and cash flow and return on capital are also expected to improve.

In the Industrial segment, our operating margin should remain above 10% even though revenue is expected to decline about 30%. I applaud our management for taking immediate and aggressive actions last year as energy prices declined. Our team's initiatives to grow the Rail segment are reflected also in the 2016 projections. We expect revenue to grow 10% to 15%, driven by gains across most product and geographic sectors. Offsetting this impact on profit will be a weaker mix of products and services. At corporate, controllable costs are expected to decline about 20%

on a like basis. We also expect a higher contribution of Brand earnings to equity income, with Brand EBITDA flat to slightly higher versus 2015. The currency losses and restructuring charges recognized last year should diminish.

In terms of liquidity, we are comfortable with our position in the context of our financial outlook. Nonetheless, given poor visibility to any recovery in our key markets, Management and the Board of Directors deemed it prudent to suspend our dividend as noted in today's press release. We have an extraordinarily high degree of focus on cash flow and fully expect to reduce our net debt position by the end of the year.

Lastly, regarding our portfolio, a few months ago we announced our intent to explore options to separate the Metals and Minerals business from our other businesses. Since that time, we've done a great deal of work. We continue to keep a watchful eye on the equity and credit markets in order to maximize shareholder value. However, we remain firmly committed to the separation process and our evaluation of options is ongoing.

I will now turn the call over to Pete.

Pete Minan - *Harsco Corporation - SVP & CFO*

Thanks, Nick. Good morning, everyone.

I'm on slide 4. So let me start with adjusted operating income in the fourth quarter of $26 million, which was above our guidance range of $15 million to $20 million. While each business contributed to the positive results, the primary contributor to this outperformance was our Metals and Minerals segment, where we benefited from efforts to control costs. Also, our European and US Minerals operations performed better during the quarter. In our other two segments, lower than anticipated costs also helped in the quarter, along with a more favorable product mix. Compared to the 2014 quarter, adjusted operating income declined as was anticipated, due to the economic conditions within the Metals and Industrial businesses. These impacts more than offset the meaningful increase in profitability within our Rail segment.

Revenues in the quarter also declined as expected to $387 million, which represented a decrease of 21% year over year. The impact of a stronger US dollar accounted for approximately one-third of this change. Additionally, revenues were impacted by site exits, lower steel production, and weaker commodities prices in Metals, along with reduced demand for heat exchangers in Industrial and lower equipment sales in Rail. Adjusted earnings per share was $0.11 in the fourth quarter, which was also favorable to our guidance, given our operating performance, as well as a lower than expected effective tax rate.

Compared with the prior-year quarter, EPS increased $0.02, due mainly to the change in equity income. The just-completed quarter included equity income from our Brand Energy joint venture of approximately $600,000, as compared with a loss of $3 million in the prior-year quarter. I'd note that both quarters included inter-Company foreign exchange losses, which impacted our P&L. Free cash flow for Harsco in the quarter was $6 million, which improved significantly versus the fourth quarter of 2014 as a result of our continued focus on the capital requirement in the business. With that said, our free cash flow in the quarter was below our guidance, owing largely to contract advances in Rail, which were pushed into 2016.

Also, as detailed in our earnings release, we reported a number of unusual items in the quarter. In total, these items amounted to $19 million or $0.19 per share for the quarter. They included: $5 million for the workforce changes implemented as part of Phase 3 of Project Orion; $8 million of cost incurred for the planned separation of Metals and Minerals; and $6 million of site exit costs and asset impairments related to a few underperforming sites in Metals and Minerals, which, as you know, are a consequence of our site review process initiated under Project Orion to improve segment returns.

Let me turn to slide 5. For the full year, Harsco generated adjusted operating income of $135 million. This compares with adjusted operating income of $155 million in 2014. As was the case in the fourth quarter, our Metals and Industrial units experienced a decline in profitability because of end market challenges. These trends were partially offset by increased income in Rail and reduced corporate costs.

During the year, we were very pleased with the progress we have made transforming Metals. We addressed a number of legacy issues, as Nick mentioned, took further costs out of the business, dealt with underperforming sites and delivered improved and more consistent operating performance as the year progressed. These benefits will accrue further in the future, but as you may recognize end market conditions have masked this progress. More specifically, Metals operating income was impacted by approximately $45 million of external headwinds related to foreign exchange, reduced LST, and lower commodities demand. Additionally, the business was impacted by the exiting of certain sites, including underperforming sites, which reduced operating income by roughly $10 million.

With so much attention on market conditions, cost-cutting efforts and site exits within Metals, I think it's also important to highlight the recent success that we have had contracting renewals as well as add-on and new business in Metals. Over the past year, there's been a shift in the business to further develop and strengthen customer relationships into win-select growth opportunities. Our centralized bid and contract management function has certainly added to and improved this process. We are pleased that we were awarded nearly 30 renewal and growth contracts during 2015, with estimated total revenues of roughly $600 million over the term of these arrangements.

Moving on to Industrial. Weakening demand from US energy customers weighed on profitability. We aggressively and proactively moved to reduce overhead in direct labor. These actions help offset a large portion of the market headwinds, which totaled more than $15 million at the operating income level during the year. Meanwhile, in Rail, as you know, we benefited from the $11 million foreign exchange gain in the first quarter and improvement in core margins and mix, which more than offset a modest decline in equipment and services revenues. At corporate, we experienced a decline in professional fees. We also reduced support functions, travel and other general office costs.

Adjusted earnings per share in 2015 was $0.56 as compared with $0.74 in 2014. Our 2015 EPS included a higher tax rate compared with the prior year, and, as I mentioned earlier, it also included Brand joint venture foreign exchange items, which impacted our pretax income by $10 million and our adjusted EPS by $0.08. Lastly, free cash flow decreased in the year to $24 million versus $52 million in the prior year. As you'll recall, we received approximately $100 million in customer advances in 2014 not repeated in 2015. We also built inventories on some large contracts.

Turning to slide 6. In the fourth quarter, Metals and Minerals generated adjusted operating income of $12 million, which again was better than we expected and compares to adjusted operating income of $19 million in the prior-year quarter. During the quarter, improved performance of previously underperforming sites and lower costs attributable to Project Orion were offset mainly by reduced customer production volumes and commodity prices. The impact of net site exits where contract churn on operating income was minimal as compared with the prior-year quarter.

Customer production volume, LST, in the quarter, declined 16% year over year in absolute terms. On a quote same-store sales basis, or excluding exited sites, LSTs decreased approximately 9%, which was comparable to broader steel industry trends in the regions where we operate. Free cash flow for the year in Metals totaled $64 million, a sizable improvement from the $2 million in the prior year. This change is attributable to our continued scrutiny of our capital investments and working capital management in the segment.

Turning to slide 7. Our Industrial businesses generated operating income of $12 million in the fourth quarter, as compared with $14 million in the prior year. This change resulted from lower demand for heat exchangers, which was partially offset by lower overhead costs and better mix. As a result, operating margins improved from 13.9% to 15.4% in the most recent quarter. Free cash flow in 2015 totaled $59 million versus $51 million in 2014, as cash generated from working capital offset lower cash earnings in our capital investments in our CenterPoint facility in Tulsa.

Slide 8, regarding Rail. Operating income in Rail was $10 million, compared with operating income of $4 million in the prior-year period. This year-over-year change was attributable to increased spare part sales, improved mix and lower SG&A costs, as well as positive contributions from the two small acquisitions we completed earlier in 2015. As indicated earlier, our free cash flow in Rail declined in 2015, due to fewer customer advances on large contracts and working capital investments related to these contracts. As we have discussed in the past, these customer cash advances can be a bit lumpy. We've had some advances anticipated in the fourth quarter that have been deferred into 2016. In total, though, we expect our free cash flow generation in Rail to improve meaningfully in the current period.

Regarding the large contract opportunities we have discussed in the past, we continue to anxiously await customer decisions on a few outstanding equipment tenders. The timing on these awards is often a moving target, but we expect that we'll be awarded some of this business in 2016 to add to our existing backlogs.

Regarding our work for the Swiss National Railway, or SBB, we continued to execute against these contracts. We are in the process of going through some design changes, which is normal and can be expected. We're also working through some software changes and some delays with the supplier as well. Our work continues to accelerate. We're pleased with the quality and technical capabilities of our machines. Our equipment deliveries to SBB will accelerate as the year progresses, although these recent changes coupled with the extensive acceptance process means that a large portion of these contract revenues will now be realized in 2017 and 2018 as opposed to 2016 and 2017.

Slide 9, turning to our 2016 outlook. We're taking actions to address the well-known external pressures on our businesses, which we expect to persist. I'll spend more time providing some segment specifics on the next slide. But let me highlight a few items from this slide. First, we are expecting adjusted operating income of $80 million to $100 million and earnings per share between $0.13 and $0.33. Secondly and importantly, we expect a meaningful improvement in free cash flow in 2016. Our free cash flow guidance is $50 million to $70 million, as compared to $24 million in 2015.

For the year, we expect capital investments of between $95 million and $105 million, which is essentially unchanged from 2015. Lower CapEx in Industrial will be offset by a modest increase in spending in both Metals and Rail. Our cash pension contributions are expected to decline by $9 million in 2016. We expect free cash flow to improve in both our Metals and Rail businesses as we remain keenly focused on working capital in these businesses. As a result of these dynamics and our dividend change, as Nick mentioned, we expect to reduce our debt position during the year.

Turning to slide 10, which provides a general outlook and details for each of our segments. At this point, we are not anticipating that market conditions will improve. The range provided for total operating income also takes into account additional end market weaknesses including in Metals and Minerals. We expect market-related pressures of at least $25 million in Metals and an impact from site exits that will be similar to what we experienced in 2015. These items will be offset by initiatives to reduce SG&A and cost of sales.

Overall, we anticipate that Metals profitability will be similar to 2015 in that its segment margins will improve, which we believe will be a positive outcome in this environment. However, our performance will certainly depend on how the market progresses in the coming quarters. For Industrial, we are pointing to earnings that are less than one-half of 2015 levels. This change is attributable to weak demand from US energy customers. Our recent bookings in industrial are down by 50%. We expect these order rates will be maintained for the balance of the year.

In our Rail segment, we have a tough comp, given that we realized a foreign exchange gain of $11 million in the first quarter of 2015, which won't be repeated. Excluding this impact, we expect our earnings to be comparable to prior-year levels. For the year, we expect an increase in equipment and spare parts sales; however, these benefits will be offset mainly by reduced spending from our US customers, lower contract services contributions, and added administrative costs to facilitate our international growth, which will impact earnings by roughly $10 million.

Also, we expect corporate costs to decline meaningfully as compared to 2015. We expect equity income from our Brand joint venture of between $3 million and $6 million. Regarding Brand, the joint venture generated north of $300 million of adjusted EBITDA in the trailing 12-month period. This performance reflects the impact of reduced US energy CapEx and a stronger US dollar, some of the same pressures we feel here at Harsco. Looking forward, we expect the joint venture's cash earnings in the current year to be stable or increase slightly year over year, as efficiency initiatives offset market-related pressures.

Moving to slide 11. Regarding our first-quarter outlook, we expect operating income to be between $6 million and $11 million, as compared to $39 million in the first quarter of 2015. This year-over-year change is driven by our Industrial and Rail segments. We expect our financial performance to improve through the year as equipment deliveries and parts sales increase in Rail, as further Orion and seasonal benefits accrue in Metals, and as costs continue to decline at Corporate. Recall that the first quarter of last year was a very strong quarter for Industrial, given the strength of our backlogs as we entered into 2015. Also Rail's prior-year quarter was exceptionally strong because of the $11 million foreign exchange gain, as well as the favorable mix and margins on both equipment and spare parts sold in the quarter.

Now, before I start talking about Project Orion, let me comment on our financial position. As we disclosed in early December and as Nick mentioned, we completed a successful debt refinancing. Our new credit facility provides, among other positives, low-cost financing, additional liquidity, and financial flexibility that we desire to support our strategic priorities. We ended the fourth quarter with net debt of $831 million, a leverage ratio of 2.8 times, and liquidity of approximately $220 million. Overall, we are pleased to have received these new commitments from our relationship banks. We remain comfortable with our capital structure and liquidity position.

Again, as I mentioned earlier, given our improved free cash flow in 2016 and our dividend change, we expect to reduce debt during the year. Additionally, given that I mentioned our cash pension payments earlier, I'd also note that our pension funding status improved meaningfully from year-end 2014 to year-end 2015. Most of the change was attributable to our international plans, where we benefited from foreign exchange rate changes and positive plan returns. You can find more details about our pension situation in our Form 10-K, which will be filed later today.

So lastly, turning to Project Orion and slide 12. We realized nearly $3 million of incremental simplification benefits in the fourth quarter and $15 million for the full year. These savings were largely related to Phase 2 of Project Orion. As disclosed in November, the third significant cost reduction effort, or Orion Phase 3 was launched in the fourth quarter. The majority of the targeted benefits of $20 million to $25 million relate to business structure or workforce changes. Most of these actions were completed prior to year-end. The remaining actions under Phase 3, which are mainly operational, will be executed throughout the year.

Regarding underperforming contracts for sites, we finalized solutions at 69% of the original underperforming contract sites as of the end of the quarter. We are very pleased with the progress and outcomes at these sites. During 2015, these finalized sites realized gross profit improvements of approximately $11 million. We remain focused on addressing the remaining underperforming contract sites in the short term.

So with that, let me hand the floor back to Nick for his closing comments.

Nick Grasberger - *Harsco Corporation - President & CEO*

Thank you, Pete.

So before we open the line for questions, I'd just like to quickly summarize our 2016 outlook. At the midpoint of the operating income guidance range, the expected profit decline is nearly all explained by the impact of the energy market on the Air-X-Changer business within the Industrial segment. That's to say that the net profit change we expect in M&M, Rail, Patterson Kelley, IKG, and the corporate center is about zero.

We anticipate that the performance of M&M this year will actually look very favorable alongside that of other businesses in the steel industry. In Rail, we expect the benefits of expanding the geographic scope will also be evident this year as the North American market slows. A few years ago, we would've expected a sizable earnings decline in Rail if faced with the same market conditions in our home market. Within Industrial, Patterson Kelley and IKG also expect profit to be about level with 2015 despite a 5% to 10% drop in sales. So what remains is an 80% to 90% drop in profit in the Air-X-Changer business on a 50% decline in revenues. Hopefully that summary of our profit outlook is clear. As Pete and I both stressed, our primary focus in 2016 is cash flow. We are confident that cash flow will improve versus last year.

As I noted earlier, I could not be more proud of the leadership, focus and execution of Harsco's management team and really could not be more excited about our prospects for growth and for higher returns on capital as the markets improve.

So with that, we will open the line up for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jeff Hammond, KeyBanc.

James Picariello - *KeyBanc Capital Markets - Analyst*

This is James on for Jeff. So I guess I'll just start with Rail. Can you talk about what SBB is saying in terms of -- you mentioned cash payments are a little lumpy, deliveries have obviously gotten pushed out. What are they actually communicating to you guys?

Nick Grasberger - *Harsco Corporation - President & CEO*

Well I think we are clearly working very closely with them. I think we are all -- both sides, ourselves and SBB, certainly frustrated with some of the delays but the relationship remains very solid. They are very supportive. It's a very tight relationship. I think there remains a very high degree of confidence that ultimately the equipment will be delivered with expectations met by SBB.

James Picariello - *KeyBanc Capital Markets - Analyst*

But were the design changes that you guys noted -- are these major changes? Or something that would be considered normal in the process? Any color there?

Nick Grasberger - *Harsco Corporation - President & CEO*

I think the latter. Certainly, there have been a handful. I would not categorize any of them as major.

James Picariello - *KeyBanc Capital Markets - Analyst*

Okay. Fair enough. My last question for Rail. It seems as though the North American market -- the backdrop is maybe a little more dire than prior quarters, can you explain whether this was well telegraphed? Did you guys expect this? What's going on in our domestic market here?

Nick Grasberger - *Harsco Corporation - President & CEO*

Well we have seen a lot of news over the past three months, in particular on the decline in carloads in the North American freight rail industry and other data points that certainly point to why our customers are reducing capital spending and maintenance away going forward. So yes, that is reflected in our guidance. As I mentioned, that's really being offset by growth in other markets China, India, Europe in particular. But yes, we do expect a soft North American market this year.

James Picariello - *KeyBanc Capital Markets - Analyst*

Got it. Then for the Metals business, what are -- I know you guys did talk about it. But what are your global steel production expectations for the full year?

Pete Minan - *Harsco Corporation - SVP & CFO*

So for 2016, we expect that -- if you consider that measures LSTs, it will decline a little on a same-store basis. But for us, we'd also have to factor in site exits, which would probably at OI level translate to about $10 million, more or less the same as we experienced in 2015.

James Picariello - *KeyBanc Capital Markets - Analyst*

Okay. All right. I'll get back in queue. Thank you.

Operator

(Operator Instructions)

Bhupender Bohra, Jefferies.

Bhupender Bohra - *Jefferies & Company - Analyst*

The first question on Rail. I just wanted to get a sense of the delay of which you were talking about on SBB contract here. Now have you sized how much of the operating income or revenue wise has moved from 2016 to 2017?

Pete Minan - *Harsco Corporation - SVP & CFO*

Yes. We think -- the amount that we estimated that would have been in 2016 that's getting pushed into the later period is about $7 million -- the operating -- it's $70 million of revenue and equivalent amount of margin at the operating income, sorry, I misspoke. So, that's being pushed from what would have been in 2016 and into 2017.

Bhupender Bohra - *Jefferies & Company - Analyst*

Okay. What kind of margins should we expect for them?

Pete Minan - *Harsco Corporation - SVP & CFO*

Yes, we were thinking that would be high single-digits margins.

Bhupender Bohra - *Jefferies & Company - Analyst*

Got it. Now can you give me the business exit revenues for M&M?

Pete Minan - *Harsco Corporation - SVP & CFO*

I'm sorry, please speak --

Bhupender Bohra - *Jefferies & Company - Analyst*

The Metals and Minerals, how much was the business exit in total revenue? I believe you gave the operating income, but can I get the revenue also?

Pete Minan - *Harsco Corporation - SVP & CFO*

Yes. I'll just -- the contract churn, if you will, for the quarter was $23 million of revenue and negligible at the operating income level. Just remember, with the full year, it was revenues of about $76 million and the impact was of $10 million at the operating income. We expect that $10 million figure to translate similarly into 2016, about the same revenue number too.

Bhupender Bohra - *Jefferies & Company - Analyst*

Okay, same revenue. Okay, got it. As you are paying down debt now, do you have a target level by the end of 2016, what do you expect net debt to EBITDA from 2.8?

Pete Minan - *Harsco Corporation - SVP & CFO*

I mentioned, our net debt position at the end of this past year was $831 million. Our ratio was 2.8 times. So I expect to make a meaningful debt reduction with the improved cash flow position we have, as well as change in the dividend strategy. So I'm looking for a $20 million to $50 million reduction in net debt by the end of the year. Now, we didn't talk about -- there's obviously other levers we can pull and we will consider them as we need to, not the least of which is a discussion each quarter that we consider relative to our ability to pay our Brand payment in kind or cash.

Bhupender Bohra - *Jefferies & Company - Analyst*

Okay. Another question on -- you talked about the inventory build for a few large projects here. I saw the balance sheet -- we have seen quarter-to-quarter inventory build happened. Can you just talk or give some more color on that? What kind of projects are those?

Pete Minan - *Harsco Corporation - SVP & CFO*

Yes, most of the inventory build that I was referring to is all related to in fact these contracts with SBB. As you'll recall in 2014, we received some sizable advances. We began the inventory buildup over the course of this past year. That of course will continue. So that's really the lion's share of inventory buildup I was referring to.

Bhupender Bohra - *Jefferies & Company - Analyst*

Okay. The final question on Brand. Now, if I look at the presentation, when you did the deal or the transaction, there was a book value or an exit value for the 29% equity stake. Now, how do you think about -- would that be something which you will exit if you want to lower debt here -- debt-to-capital ratio bring it a little lower than what it is right now, would that be a possible deal lever you would actually pull?

Nick Grasberger - *Harsco Corporation - President & CEO*

Yes, Bhupender, I don't actually see us exiting our position. We remain very optimistic for the prospects of that business. As much so as we did when we inked the deal over two years ago. As Pete noted, one thing we will consider and we consider every quarter is whether we make a payment toward venture partner in cash or allow ourselves to be diluted somewhat. So that's a decision that we will make quarter to quarter. A wholesale exit of our position is really not contemplated.

Bhupender Bohra - *Jefferies & Company - Analyst*

Okay. Thanks a lot, guys.

Nick Grasberger - *Harsco Corporation - President & CEO*

Thank you.

Operator

(Operator Instructions)

Jeff Hammond, KeyBanc.

James Picariello - *KeyBanc Capital Markets - Analyst*

For the Industrial business, Air-X-Changers, can you just remind us what the pace of orders was in the second half? How well telegraphed was this expectation for the severe decline, again, in 2016? What are your general oil and gas assumptions for the year?

Pete Minan - *Harsco Corporation - SVP & CFO*

So we have been talking about our backlog throughout the year. We started the year with a very strong backlog, as we've discuss each quarter, we've continued to deliver on that backlog, which certainly and we were sort of experience that indications that the business was declining. With our lag -- with the lead time associated with our business, it's usually six to 12 months in advance. So, we have seen this coming throughout the year. I think we are experiencing it full time now. I forget your second question, I apologize. What was your second --

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James Picariello - *KeyBanc Capital Markets - Analyst*

Just your general oil and gas market assumptions for the year?

Pete Minan - *Harsco Corporation - SVP & CFO*

Yes, we are expecting the situation as exist today to more or less continue as it is today. We don't expect any meaningful improvement. Frankly, we don't expect any -- we're not anticipating any significant deterioration.

Nick Grasberger - *Harsco Corporation - President & CEO*

Just to add to that, even if we did see an improvement in oil prices given the lead times that we have on the Air-X-Changer product as well as the inventory that's in the channel today, it's unlikely that we see much left in our business this year.

James Picariello - *KeyBanc Capital Markets - Analyst*

Okay. How about on the Patterson Kelley end. What do you see in the commercial boiler space?

Nick Grasberger - *Harsco Corporation - President & CEO*

We are seeing growth there. As you know a quite a small business. We have introduced a number of new products there. We have taken inventory out, it's really a very good story. Of course since largely goes into nonresidential construction, hospitals and education and help so forth. That business we expect to grow this year.

James Picariello - *KeyBanc Capital Markets - Analyst*

Okay. Then if I could just switch gears here. Based on your first-quarter guide, can you just walk through the pace of the year? How do we get from call it $10 million in EBIT in the first quarter to $90 million by year end.

Pete Minan - *Harsco Corporation - SVP & CFO*

Yes. You know historically seasonality of our business is such that the first half and in particular first quarter is our weakest quarter of the year. So where we see the traditional improvements, it's just seasonality driven through Rail and Industrial and all the businesses frankly as the orders increased. But we also will start to realize the full-year benefit of the cost reduction initiatives that we've taken in Metals from Project Orion in Orion's Phase 2 and Phase 3, as well as the corporate cost reductions that we have planned for as well. So it basically reflects the full-year picking up those benefits in the second half.

James Picariello - *KeyBanc Capital Markets - Analyst*

Okay. If I could just the last one. For the Metals strategic options, you guys confirm that you are still looking that you're committed. How are you thinking about the dynamic between potential sale versus a tax-free spin and what's been general feedback thus far, whatever you are willing to share?

Nick Grasberger - *Harsco Corporation - President & CEO*

Honestly, there's not a lot to share. We spend a lot of time getting ready for the process. We have had some discussions. We don't have a strong view yet on a spin versus a sale. I think the most important message certainly as we are very committed to this process and remain convinced that it's a key lever to unlock value for our shareholders.

James Picariello - *KeyBanc Capital Markets - Analyst*

Got it. Thanks, guys.

Operator

(Operator Instructions)

Bhupender Bohra, Jefferies.

Bhupender Bohra - *Jefferies & Company - Analyst*

A question on Rail. We're talking about like SBB contract here, could you give us some more color in terms of -- I think you did like at your Investor Day and I believe in 2013 some future contracts or future awards. Peter, I believe you talked about that you have some possibility of being -- there are some awards out there to be awarded in like 2016. Can you give more color regionally for those contracts that are coming from Europe, Asia or any other regions?

Pete Minan - *Harsco Corporation - SVP & CFO*

Yes, we have been talking about the potential for contract tenders and awards predominantly in Europe and India including the UK by the way in that category. So when I was referring to tenders that we hope to hear conclusions on in the near-term, I am looking mostly towards Europe.

Bhupender Bohra - *Jefferies & Company - Analyst*

Okay. These are kind of sizable to SBB, or --

Pete Minan - *Harsco Corporation - SVP & CFO*

Yes, at least one of the ones I'm referring to is of the magnitude that absolutely similar in size to one of the SBB contracts, yes.

Bhupender Bohra - *Jefferies & Company - Analyst*

Okay. Got it. Thank you.

Operator

There are no questions at this time. I'll turn the call back over to Dave Martin for closing comments.

Dave Martin - *Harsco Corporation - Director IR*

Thank you, Lindsay. Also thank you to those that listened to this call today. A replay of the call will be available later today through March 11. The replay details are included in our press release. Lastly, if you have any follow-up questions, please contact me. My contact details are included at the top of today's earnings release. So thank you again for joining. Have a great day. Thanks.

Operator

This concludes today's conference call. You may now disconnect.