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OLN - Q4 2011 OLIN EARNINGS CONFERENCE CALL

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OVERVIEW:

OLN reported 4Q11 sales of $445.8m and net income of $18.7m or $0.23 per diluted share. Expects 1Q12 diluted EPS to be $0.35-0.40.

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PRESENTATION

Operator

Good morning and welcome to the Olin Corporation fourth quarter 2011 earnings conference call. All participants will be in listen only mode. (Operator Instructions) After today's presentation there will be an opportunity to ask questions. Please note this event is being recorded. I would now like to turn the conference over to Joseph Rupp, Chairman, President, and CEO. Please go ahead.

Joseph Rupp - *Olin - Chairman, President and CEO*

Thank you. Good morning and thanks for joining us today. With me this morning are John Fischer, Senior Vice President and Chief Financial Officer; John McIntosh, Senior Vice President of Operations; and Larry Kromidas, our Assistant Treasurer and Director of Investor Relations.

Last night we announced that net income in the fourth quarter of 2011 was $18.7 million, or $0.23 per diluted share, compared to $2 million, or $0.02 per diluted share, in the fourth quarter of 2010. Sales in the fourth quarter of 2011 were $445.8 million, compared with $385.4 million in the fourth quarter of 2010. 2011 was a successful year for Olin. Earnings in our Chlor Alkali business more than doubled, compared to 2010, driven by improved pricing and by a higher level of co-product sales. The Chlor Alkali business also was strengthened by the acquisition of PolyOne's 50% interest in the SunBelt facility in the first quarter. Winchester's earnings while declining from the surge levels of 2009, and 2010, still represented the third most profitable year in its history. And as a result of these performances, Olin generate the second highest level of EBITDA in our history.

In the fourth quarter of 2011 that Chlor Alkali segment did experience weaker demand compared to both the third quarter of 2011 and to the fourth quarter of 2010 levels. We experienced weaker demand in most end use market segments and it resulted in a fourth quarter operating rate of 70%. Fourth-quarter 2011 ECU netbacks of $580 per ton, excluding SunBelt, improved approximately 13% when compared to the fourth quarter of 2010. These factors resulted in year-over-year improvement in fourth quarter Chlor Alkali segment earnings of 38%. Winchester's fourth quarter 2011 results declined compared to the fourth quarter of 2010, reflecting higher commodity and manufacturing costs. Fourth quarter 2011 restructuring charges exceeded our estimate due to an acceleration of the Winchester centerfire ammunition relocation project.

First-quarter 2012 net income is forecast to be in the $0.35 to $0.40 per diluted share range, reflecting some seasonal strengthening in both Chlor Alkali and Winchester, and approximately $2.5 million of pre-tax restructuring charges. Chlor Alkali's earnings are forecast to improve compared to the first quarter of 2011, reflecting higher selling prices and the full quarter, 100% ownership of SunBelt. Chlorline and caustic soda shipments are expected to be similar to the first quarter of 2011 levels. In the first quarter of 2012, Winchester's results are forecast to be in line with the first quarter of 2011 levels, as lower commercial volumes and higher commodity costs offset improved pricing.

Let me talk about the divisions. First, Chlor Alkali. Our Chlor Alkali business experienced a weakening of chlorine demand in the fourth quarter. Fourth quarter operating rate of 70%, was the lowest that we've experienced since the fourth quarter of 2009. Fourth quarter 2011 chlorine shipments declined 20% from the third quarter of 2011 and the fourth quarter of 2010 levels. This decline was evident across all large chlorine consuming groups. Fourth quarter 2011 chlorine shipments to vinyls declined 13% compared to fourth quarter 2010. Chlorine shipments to titanium dioxide customers declined 20% and chlorine shipments to urethane customers declined 28%. On a positive note, first quarter 2012 chlorine shipments have improved from fourth quarter levels as reflected in the January operating rate of approximately 80% in the first quarter 2012 estimated operating rate of 80%.

And on a much more positive note, shipments of both hydrochloric acid and bleach increased in the fourth quarter and in the full year of 2011, when compared to the fourth quarter and full-year of 2010. Hydrochloric acid shipments increased 13% in the fourth quarter and 12% for the year. Increased reflects increased -- increasing demand from oil gas drilling customers. Strong demand for hydrochloric acid also resulted in an improved year-over-year pricing, and an increase from the value added premium realized of hydrochloric acid sales when compared to chlorine sales. We expect strong demand for hydrochloric acid to continue through the first quarter of 2012.

Shipments of bleach increased 2% in the fourth quarter of 2011, compared to the fourth quarter of 2010. We have now experienced year-over-year quarterly growth in the volume of bleach sold in every quarter since the first quarter of 2007. Fourth quarter's typically a seasonally weak quarter for bleach. For the full year 2011, bleach shipments increased 15% when compared to 2010. For 2012 we expect to continue to experience growth in the bleach business. In the first quarter of 2012, we expect to begin shipping low salt, high strength bleach from our new facility in McIntosh, Alabama. This facility will increase our bleach manufacturing capacity by approximately 15%. In addition, late in 2012, we expect to begin shipments from two additional, low salt, high strength bleach facilities currently under construction at Niagara Falls, New York and Henderson, Nevada. When completed these three new plants will increase total bleach manufacturing capacity by approximately 50% over our current capacity. These low salt, high strength bleach facilities are capable of producing bleach at approximately twice the strength of a conventional bleach manufacturing process.

The fourth-quarter ECU netback, excluding SunBelt, was approximately $580, compared to approximately $515 in the fourth quarter of 2010, and approximately $590 in the third quarter of 2011. The decline from the third quarter to the fourth quarter of 2011 was in line with our expectations as chlorine prices weakened, driven by the reduced level of demand for chlorine. The fourth-quarter decline in chlorine prices was partially offset by caustic soda prices which did improve. As we look forward, we expect the fourth-quarter trends for both chlorine and caustic soda to continue into the first quarter of 2012. In the second half of 2011 there were two caustic soda price increases that were announced.

In August there was a $65 per ton increase announced, and in November, there was an $80 per ton increase announced. Olin's perspective, we believe the first increase of $65 per ton, which was effective beginning October 1, has been accepted in the marketplace and will be fully implemented in the Olin system during the first quarter of 2012. At the present time, there is resistance to the second, $80 per ton increase, as evidenced by some producers having announced increases of less than $80 per ton, and other producers who have put a temporary valuation allowance on a portion of their $80 per ton increase. Based on the current market dynamics, Olin believes it is unlikely that the full amount of the second increase will be realized.

Freight costs per ECU continue to increase for Olin. Our fourth quarter 2011 freight costs per ECU increased 23% compared to the fourth quarter of 2010, and for the full year 2011, these costs increased 20%. And as a point of reference, our freight cost per ECU have more than doubled since 2006. In response to this constant and unabated increase in freight costs, the SunBelt partnership filed a rate case in 2011 against two railroads. The filing of this case was a necessary step in a process to control freight costs. It could take up to 24 months for a decision to be rendered in this case.

Electricity costs per ECU increased approximately 5% in 2011 compared to 2010. The majority of the increase occurred in facilities that utilize electricity generated by coal. Electricity that Olin purchases is balanced among utilities that utilize coal, hydro power, natural gas and nuclear power. In 2011 the Chlor Alkali business improved dramatically from the levels experienced in 2009, and 2010. Our Chlor Alkali EBITDA reached its second-highest level ever. And the year-over-year results for both the fourth quarter and full year improved before giving consideration to the acquisition of SunBelt.

Business enters 2012 with positive momentum. ECU prices improved consistently over the course of 2011, and start 2012 at a much more favorable level than they did in 2011. January activity suggests improvement in chlorine demand from the fourth quarter levels. And both the hydrochloric acid and the bleach businesses are experiencing positive momentum from both a volume and a price perspective. And SunBelt will be included in our 2012 results for the full year.

Let me talk about Winchester. Winchester's 2011 segment earnings of $37.9 million met our expectations. We entered 2011 faced with a likely decline in commercial volumes as the nearly two year surge in buying wound down at the end of 2010. Volumes did not decline as much as forecast. We also believed that Winchester's post-surge earnings would exceed pre-surge levels and the 2011 Winchester results confirmed that belief. 2000 Winchester earnings represent their third-highest in the history of the business. 2011 Winchester results were aided by better than expected volumes. 2011 volumes in Winchester did not experience the 15% decline that has normally been experienced in the first full year after the completion of a surge period.

Domestic commercial sales actually increased 2%, while contract sales increased 3%. The increase in contract sales reflects a 12% increase in domestic military sales, which more than offset declines in law enforcement sales of 6%, and international military sales of 41%. Deliveries under the recently awarded second source follow on contract, will allow our domestic military sales to increase further in 2012. This increase will likely be partially offset by a lower level of law enforcement sales, which are being negatively impacted by state and local budget pressures. The 2011 Winchester results also reflect the impact of significantly higher commodity and metal costs that were incurred in 2011, when compared to 2010. The average purchase price for lead, which is the largest volume commodity purchased by Winchester, increased 14%, and the purchase price of copper increased 27%, and zinc 7%. These higher commodity costs -- or commodity prices have the effect of increasing Winchester's costs by approximately $21 million in 2011 when compared to 2010. During January of 2012 copper prices have moved to levels higher than we experienced in 2011. Priority metal costs are likely to remain a challenge for the business in 2012.

Also included in the Winchester 2011 results were approximately $5 million of expenses directly associated with the relocation of the centerfire ammunition business from East Alton, Illinois to Oxford, Mississippi. This relocation project was initiated late in 2010, and in October 2011, we opened a new production facility in Oxford. And pistol ammunition manufacturing equipment, is in the process of being relocated and started up in Oxford. As an illustration of the scope of what has been accomplished, and is in the process of being accomplished in Oxford, during 2011 approximately 12% of Winchester's pistol ammunition was manufactured in Oxford. During the first quarter of 2012 approximately 60% of that pistol ammunition will be manufactured there. As a reminder, Winchester expects to begin to realize a material level of savings, net of expenses, from our relocations beginning in the second half of 2013. And to realize $30 million of saving annually when the project is completed in 2015.

Last week we announced that Winchester had formed a joint venture with BAE Systems to submit a proposal for the operation and maintenance of the Lake City Army Ammunition Plant. The Lake City Army Ammunition Plant is the United States' Army's primary manufacturing location for small caliber ammunition. Olin believes the joint venture, which is named U.S. Munitions, provides the best opportunity for Winchester to participate in the Lake City competition. It is expected that a decision will be made in the first quarter of 2012 and that after a one-year transition period, the new contract will assume responsibility for the plant in October, on October 1, 2013. This represents a long-term opportunity for Winchester.

I am pleased with the performance of both of our businesses during 2011, and the improvement that have been made to the businesses and I'm looking forward to 2012. Chlor Alkali, our targets for growth in the bleach business were achieved and there is more to come. Chlor Alkali enters 2012 with improved pricing, and with opportunities associated with a full year of owning 100% of SunBelt. In addition, based on early indications, there are opportunities for improved chlorine, caustic and hydrochloric acid volumes. Winchester enters 2012 facing better than expected demand and is ahead of schedule on its relocation project. I'm going to turn the call over to John Fischer, our Chief Financial Officer, and John will review several financial matters with you. John?

John Fischer - *Olin - SVP and CFO*

Thank you, Joe. First I'd like to discuss a few items on the income statement. Selling and administration expenses increased $6.5 million, or 20%, in the fourth quarter of 2011 compared to the fourth quarter of 2010. The year-over-year increase reflects the inclusion of SunBelt selling and administration expenses as consolidated Olin expenses, higher salary and benefit costs and an unfavorable foreign currency impact. Inclusion of the SunBelt expenses of approximately $9 million caused absolute year-over-year selling and administration expenses to be higher in 2011, compared to 2010.

Fourth quarter 2011 charges to income for environmental, investigatory and remedial activities were $5 million, which included $400,000 of recoveries from third parties for environmental costs incurred and expensed in prior periods. During the fourth quarter of 2010, there was less than $100,000 of charges related to environmental investigatory and remedial activities, which included $1.6 million of recoveries for environmental costs incurred and expensed in prior periods. After giving consideration to the recoveries in both periods, year-over-year expenses related to environmental, remedial and investigatory activities increased by $3.8 million. These charges related primarily to expected, future investigatory and remedial activities, associated with past manufacturing operations and former waste disposal sites.

Full year 2011 expenses for environmental, investigatory and remedial activities, prior to any recoveries, were $19.3 million, compared to $16.3 million last year. The 2010 and environmental, and remediation expenses were lower than normally are experienced. In 2012 we anticipate these expenses, without giving consideration to recoveries, to be comparable to 2011. We are not currently expecting any environmental recoveries in 2012.

On a total Company basis, defined benefit pension plan income was $5.9 million in the fourth quarter of 2011, compared to $2.3 million in the fourth quarter of 2010. The fourth quarter 2010 restructuring charge included a pension curtailment charge of $3.2 million, associated with the ongoing relocation of our Winchester centerfire ammunition manufacturing operations from East Alton, Illinois to Oxford, Mississippi. Full year 2011 defined benefit pension plan income was $22.5 million, and we expect 2012 defined benefit pension plan income to be similar to 2011. We were not required to make any cash contributions to our domestic defined benefit pension plan in 2011, and continue to believe the earliest we may be required to make any cash contributions to that plan is 2013.

In 2011 we did make cash contributions to our Canadian defined benefit pension plan of less than $1 million. And as a reminder, under Canadian pension rules, service costs are required to be funded annually. Defined contribution pension plan expense was $3.7 million in the fourth quarter of 2011, compared to $2.8 million in the fourth quarter of 2010. The vast majority of our employees now participate in the defined contribution pension plan. And again as a reminder, our domestic defined benefit pension plan is frozen to new entrants all salaried, all non-union hourly and most union employees.

During the fourth quarter, Olin recorded a $4.1 million restructuring charge. This charge was primarily associated with exiting the use of mercury cell technology in the Chlor Alkali manufacturing process by the end of 2012, and the ongoing relocation of our Winchester Centerfire Ammunition manufacturing operations from East Alton, Illinois to Oxford, Mississippi. During the fourth quarter of 2010, an initial $34.2 million charge was recorded associated with the Winchester relocation, the Chlor Alkali Charleston, Tennessee mercury cell conversion, and the Augusta, Georgia plant reconfiguration.

Under the current accounting rules, which were changed several years ago, certain types of costs, including employee relocation, building demolition and certain other employee costs, are required to be expensed as incurred. We expect to incur approximately $8 million of additional restructuring charges associated with the Chlor Alkali projects through 2013, and approximately $17 million of additional restructuring charges associated with the Winchester relocation between now and the end of 2016. We expect total restructuring charges in 2012, related to these projects, to be approximately $10 million.

During the fourth quarter of 2011, we recorded a pre-tax gain of $1.9 million for insurance recoveries associated with weather related incidents in 2011 and 2009, at our Oxford, Mississippi and St. Gabriel, Louisiana facilities. The effective tax rate in 2011 was 36.3%, which reflects the benefits of $7.3 million of favorable adjustments, primarily associated with the remeasurement of deferred taxes due to an increase in state tax effective rates, the expiration of statutes of limitations and the finalization of our 2010 income tax returns. The effective tax rate in 2011 also included a discrete deferred tax expense of $76 million, related to the tax effect of the gain recorded on the remeasurement of our previously held 50% equity interest in SunBelt. During 2011, Olin continued to benefit from the accelerated depreciation provided for in the Tax Relief Unemployment Insurance Reauthorization and Job Creation Act of 2010, and our cash tax rate, excluding the gain recorded as part of the remeasurement of Olin 's 50% ownership in the SunBelt partnership, was approximately 20%. In 2012 we believe the effective tax rate will be in the 36% to 37% range.

Now, turning to the balance sheet. Cash and cash equivalents at December 31, 2011, including the restricted cash associated with the Go Zone and Recovery Zone financings that were completed in 2010, and are classified as a long-term asset on the balance sheet, totaled $356.5 million. During December, we drew the remaining $36 million of the $153 million of Go Zone and Recovery Zone bonds that were issued in 2010. At the end of 2011, there was approximately $51 million of cash that remained restricted and will be available to fund 2012 capital spending at our facilities in Alabama, Mississippi and Tennessee. We expect all the restricted cash to be utilized in 2012.

In December 2011, we repaid $75 million of bonds that were issued in 2001 and matured last year. We redeemed these bonds using our cash. Also in December, we repaid $12.2 million of SunBelt notes. The SunBelt notes required $12.2 million of repayments annually through the end of 2017. Full year capital spending in 2011 was $200.9 million, compared to $85.3 million last year. Depreciation in 2011 was $97.4 million, compared to $85.4 million in 2010. Approximately 55% of the spending in 2011 was related to the Charleston, Tennessee mercury cell conversion project, and the Winchester relocation project. Capital spending for the Winchester relocation project was partially financed by approximately $31 million of grants provided by the state of Mississippi and local governments. The full amounts of these grants were received in 2011. The Charleston, Tennessee mercury cell conversion is expected to be completed in the second half of 2012.

2011 capital spending also included approximately $20 million for the construction of low salt, high strength bleach facilities at our McIntosh, Alabama, Henderson, Nevada and Niagara Falls, New York Chlor Alkali sites that will increase our bleach capacity by about 50%, and should reduce our transportation costs. We expect to complete the first low salt, high strength bleach facility at McIntosh in the first quarter of 2012. The two remaining low salt, high strength bleach facilities are expected to be completed by the fourth quarter of 2012. In 2012, we expect capital spending to be in the $215 million to $245 million range, which includes spending for the Chlor Alkali mercury cell conversion in Charleston, Tennessee, the low salt, high strength bleach facilities and the reconfiguration of our Augusta facility, and the ongoing Winchester centerfire relocation project. 2012 depreciation is forecast to be approximately $110 million.

During the fourth quarter of 2011, approximately 100,000 shares of Olin stock were repurchased at a cost of approximately $2 million. In 2011, a total of approximately 200,000 shares were repurchased at a total cost of $4.2 million. In July, Olin's Board of Directors approved a three year, 5 million share repurchase program. Last Friday, Olin's Board of Directors declared a dividend of $0.20 on each share of Olin common stock. The dividend is payable on March 9, 2012, to shareholders of record at the close of business on February 10, 2012. This is the 341st consecutive quarterly dividend paid by the Company.

Before we conclude, let me remind you that throughout this presentation, we have made statements regarding our estimates of future performance. Clearly, these are forward-looking statements, and results could differ materially from those projected. Some of the factors that could cause actual results to differ are described without limitations in the risk factors section of our most recent Form 10-K, and on our fourth quarter earnings release. A copy of today's transcript will be available this afternoon on our website, in the investor section under calendar of events. The earnings press release and other financial data and information are available under press releases. Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. (Operator Instructions.) First question comes from Frank Mitsch of Wells Fargo.

Sabina Chatterjee - *Wells Fargo Securities - Analyst*

Hi, good morning it's Sabina Chatterjee in for Frank Mitsch. Just curious on operating rates and supply. We heard that chlorine operating rates actually increased 3 points in December versus November. So, with that greater caustic supply, it seems that buyers at this point would actually have ample inventories. But, based on the early indications, Joe, that you had mentioned on the call, are you seeing buyers reenter the market here? And, what sort of lead time do you have on orders?

John McIntosh - *Olin - SVP, Operations*

Sabina, this is John. Let me try to answer that. We did see, at least for our system, we saw pretty consistent demand on the caustic side through -- even through the period in December when chlorine demand had fallen off. And, we've seen that continue into the current quarter, that we are in. So, we have not really seen any change in demand patterns on the caustic soda side, still seeing strength in pulp and paper, predominately and some of the other market segments that have been relatively strong over the last year.

Sabina Chatterjee - *Wells Fargo Securities - Analyst*

Okay and then can you just explain what the mechanics are of the earn out on SunBelt so that we know what to expect going forward?

John Fischer - *Olin - SVP and CFO*

We have not disclosed the mechanics of the earn out, Sabina, and we do not intend to.

Sabina Chatterjee - *Wells Fargo Securities - Analyst*

Okay, then a final question if I may, you came in pretty nicely above the range you'd given us on the Q3 call. If we exclude restructuring charges and just take midpoint points, it looks like about $0.20, so can you tell us where the greatest upside was relative to what your expectations were a few months ago?

John Fischer - *Olin - SVP and CFO*

I think the greatest expectations came in our co-products performance. We did much better in hydrochloric acid and we did much better in bleach than we would've expected.

Sabina Chatterjee - *Wells Fargo Securities - Analyst*

All right, thank you.

Operator

The next question comes from Edward Yang of Oppenheimer.

Edward Yang - *Oppenheimer & Co. - Analyst*

Good morning. If I could start with a clarification, first of all. When you say that January operating rates are in the 80% range, is that for Olin specifically or for the industry?

John McIntosh - *Olin - SVP, Operations*

It is for Olin specifically.

Edward Yang - *Oppenheimer & Co. - Analyst*

Olin. Okay. And, in the fourth quarter, the industry actually appeared to operate at a bit higher level than you did. In the mid-70s and Olin came in at 70, could you explain the divergence there?

John McIntosh - *Olin - SVP, Operations*

Well, I can tell you that when you look at the fourth quarter, and I'm talking from an industry standpoint, there were really two distinct patterns in the fourth quarter. In the first part of the quarter, chlorine derivative exports from the US were still very strong. We didn't see that phenomenon change until later in the quarter. And during that part of the quarter, Olin just doesn't have an opportunity to participate in chlorine derivative exports. In the latter part of the quarter, when that phenomenon for the industry dropped off, then we saw at least anecdotally, evidence that the industry operating rate was closer -- a closer match to Olin's, through the entire fourth quarter.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay, thank you, John.

Joseph Rupp - *Olin - Chairman, President and CEO*

And we've had a lower operating rate in the fourth quarter than industry because of the fact that we're having into the bleach business, et cetera, so we're not at all surprised by that.

Edward Yang - *Oppenheimer & Co. - Analyst*

That makes sense. On the pricing side, you mentioned the $65 in the caustic side you expect to realize in the first quarter, how much do you expect to realize net after transport costs? That's been very volatile and also do you expect to see any movement on the chlorine side? Chlorine prices have actually dipped somewhat but now that operating rates are going up, do you expect chlorine to rise as well, somewhat?

John McIntosh - *Olin - SVP, Operations*

We have -- this is John. We have historically seen 50% to 60% of announced price increases ultimately make it through our system. And, we would expect, consistent with what we currently see for that $65 caustic price increase, to replicate what we've seen historically. We have seen, and did see in the fourth quarter, and expect that trend to continue into the first quarter, chlorine prices offset that. And that's strictly driven by the weakness in, not only domestic chlorine demand, but in the derivative markets for expert purposes as well.

Joseph Rupp - *Olin - Chairman, President and CEO*

As a follow up, Edward, you made a point which was if we see volumes continue to pick up as we move on the chlorine side, there ultimately will be the opportunity for that pricing to stop and to turn them the other way. We're pleased that the volumes are moving on to chlorine side.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay, any way to quantify or size how much of an offset you expect to see in chlorine relative to caustic?

John McIntosh - *Olin - SVP, Operations*

Well, we've reported that our fourth-quarter ECU went down slightly from the third quarter and our remarks say we expect that trend to continue into the first quarter, before chlorine prices stabilize or start to increase if current demand trends hold, as we look into the balance of 2012.

Joseph Rupp - *Olin - Chairman, President and CEO*

I think we used the word slight.

Edward Yang - *Oppenheimer & Co. - Analyst*

I apologize, I missed that. Finally, on some of the industry happenings with the Westlake bid for Georgia Gulf, any thoughts there? Does that mean anything for Olin specifically? Your thoughts on M&A or the outlook on industry consolidation and also supply as well?

Joseph Rupp - *Olin - Chairman, President and CEO*

Not really. I think what we would say is that naturally we pay attention to it because you've got two companies that are in the merchant market and we are in the merchant market, but that would be about all we could comment on it, Edward.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay, thank you.

Joseph Rupp - *Olin - Chairman, President and CEO*

Thanks.

Operator

The next question comes from Christopher Butler of Sidoti and Company.

Christopher Butler - *Sidoti & Company - Analyst*

Good morning. You had talked about the operating rate in January, how do you see the quarter playing out with typically March you begin the seasonal build into the spring. Is it going to be in a relatively typical year as far as that's concerned for you?

John McIntosh - *Olin - SVP, Operations*

We don't see any indication that it won't be typical or better than we've seen. Just as an example, we continue to see strength in the HCl market, driven by oil, shale gas and steel. That ultimately translates into higher operating rates. We see strength in the bleach market as more and more users convert away from other sources of water disinfection bleach. That ultimately helps our system in terms of operating rates as well. So, we see nothing that would indicate anything different than historical or better as we look forward into the later months of the first quarter and the beginning of the second.

Christopher Butler - *Sidoti & Company - Analyst*

And with your new bleach capacity, is that something you can utilize immediately? Or is that going to take a little time to build up the sales and customer base into?

John McIntosh - *Olin - SVP, Operations*

No, we can utilize that immediately. We actually have -- we're in a good position. We have customers who really want to make a conversion away from other sources of disinfection for water to a bleach-based system. And, we've quite honestly have been capacity constrained. So, this new capacity that will come online in the first quarter will enable us to reach out and draw in some new business.

Christopher Butler - *Sidoti & Company - Analyst*

And shifting to caustic pricing, with the November increase that was announced and understanding that generally it is about 50% of the increase that goes through. With the resistance should we be looking at 50% of the $40 increase that some of the others had announced? Is that a better way of looking at that?

John McIntosh - *Olin - SVP, Operations*

Well, if you read what the industry says, the buyers would like you to believe that the number is going to be less than that. When we look at our operations and look at our demand patterns, we are still running late on caustic quarters. So, we would -- our bias would be towards a number that is closer to historical, but there is a lot of play right now with increased chlorine operating rates and we will just have to see.

Christopher Butler - *Sidoti & Company - Analyst*

And just finally with the upgrade, the mercury conversion and the transition to bleach production in Augusta, what's the timetable on those at this point as far as wrapping those up?

Joseph Rupp - *Olin - Chairman, President and CEO*

Third quarter.

John McIntosh - *Olin - SVP, Operations*

Our intent is to have the conversion made at Charleston in the third quarter of this year. And, then we will transition operations at Augusta idling the mercury cell facility and transitioning into a different ongoing operation with a smaller footprint by the end of the year.

Christopher Butler - *Sidoti & Company - Analyst*

I appreciate your time.

Joseph Rupp - *Olin - Chairman, President and CEO*

Thank you.

Operator

The next question comes from Herb Hardt of Monness.

Herb Hardt - *Monness, Crespi, Hardt & Co. - Analyst*

Good morning. Is it fair to assume that this year is a peaking of CapEx as you go out three, four, five years? Or are there other projects.

Joseph Rupp - *Olin - Chairman, President and CEO*

No, it's a fair assumption, Herb.

Herb Hardt - *Monness, Crespi, Hardt & Co. - Analyst*

And second question is, have things stabilized? I know you don't ship into the Far East, but after the Japanese earthquake with a lot of imbalances in chlorine and caustic, has that pretty much stabilized now?

John McIntosh - *Olin - SVP, Operations*

It has, Herb. What we -- if you look at the industry, at the North American industry, exports were up 7%, 8% last year. Imports were roughly flat and a lot of that -- or some of that was driven by what happened in the Tosoh facility in Japan, but the worldwide trade patterns have kind of adjusted to the new norm with that capacity out. And the Chinese have really stepped in to make up that difference. And, the impact on North America is really leveled out to where we expect to be able to continue to export caustic out of North America into 2012 in a very similar fashion to what we did in 2011.

Herb Hardt - *Monness, Crespi, Hardt & Co. - Analyst*

Thank you.

Operator

The next question comes from Dmitry Silversteyn of Longbow Research.

Dmitry Silversteyn - *Longbow Research - Analyst*

Good morning. Can you, just to switch a gear a little bit and talk about Winchester, the sharp drop in profitability of the division in the fourth quarter, was that just a mis-match in timing between raw material increases and your own pricing? Or, was there significant volume decline or costs flowing through for the restructuring that drove down the operating margin almost to breakeven levels?

Joseph Rupp - *Olin - Chairman, President and CEO*

That is historic. That is normally a non-surge period is how that business works. What happens is we build inventory, we start in the first and second quarters, we sell it in the hunting season in the third quarter, and normally in the fourth quarter, what happens is we actually take our operations down for about two to three weeks in that time period. And it was masked over the past couple of years because of the surge.

Dmitry Silversteyn - *Longbow Research - Analyst*

So, I am going back, I don't have that much data going back but going back to 2006, you still managed to do it -- to hold the operating margins between 2% and 3%, so I'm not surprised that it went down sequentially and seasonally, I'm just surprised that it went down almost to zero.

Joseph Rupp - *Olin - Chairman, President and CEO*

We're not --

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay, fair enough. The price in chlorine -- the softness in chlorine pricing that you saw the fourth quarter, it sounded like in the answer to the previous question that you still are continuing to see sequential price declines in chlorine in the first quarter, but you expect them to start appreciating with a pick up in seasonal demand. Is that more of a second quarter event? Or, still end of the first quarter as far as timing is concerned?

John McIntosh - *Olin - SVP, Operations*

In terms of pricing, and it when it will stabilize and potentially start to improve that will be a second quarter event. But, it will be manifest by what happens in the first quarter. We expect if the trend continues, to see pricing activity on the chlorine molecule sometime later in this quarter, which would potentially show up in contract pricing in the next quarter.

Dmitry Silversteyn - *Longbow Research - Analyst*

Got it. Okay. And the last question with these three new plants that you're adding for bleach production that's supposed to give you higher purity or higher concentration I should say of bleach, is the ECU premium, which I think you talked about being $100 to $200 for bleach versus a typical ECU, is that going to expand when these new plants come on stream? Or, is that going to be at the same premium that you are selling your current bleach at?

John McIntosh - *Olin - SVP, Operations*

I think we will just end up in the high end of that range. As we bring this new capacity on and then basically expand the reach of our bleach business to fill up our total capacity available.

Dmitry Silversteyn - *Longbow Research - Analyst*

Got it. And then last question on bleach, it looks like, and I may be off here so if it is please correct me, but it looks like you did something in the neighborhood of 7% to 8% of your volume sold as bleach in 2011. What's your goal for 2012 as far as bleach as a percentage of volume?

John McIntosh - *Olin - SVP, Operations*

8% is about right for 2011. And, we would expect that number to increase to the 11% to 12% in 2012.

Dmitry Silversteyn - *Longbow Research - Analyst*

11% to 12%, okay. Thanks very much that's all the questions I have.

Operator

The next question comes from Don Carson of Susquehanna Financial.

Don Carson - *Susquehanna Financial Group - Analyst*

Thank you. I just want to clarify on the price side, what if anything of that $65 August increase did you get in the fourth quarter? And, you talked about your ECUs ex-SunBelt, what was the SunBelt ECU realization in Q4?

John Fischer - *Olin - SVP and CFO*

The SunBelt ECU realization in Q4 was something over $600.

Don Carson - *Susquehanna Financial Group - Analyst*

Okay. So, down slightly from the $610 of Q3?

John Fischer - *Olin - SVP and CFO*

Yes, that's correct.

Don Carson - *Susquehanna Financial Group - Analyst*

Okay.

John Fischer - *Olin - SVP and CFO*

And then I would say in Q4 we probably got 25% of the $65.

Don Carson - *Susquehanna Financial Group - Analyst*

Okay. And what was the impact of low operating rates in terms of unabsorbed fixed costs? As you sort of rebound from 70% operating rates to 80%, what kind of a cost absorption benefit do you get? Can you help us with that at all?

John McIntosh - *Olin - SVP, Operations*

It's a minimal number. Fixed costs are not a high component of our overall cost to manufacture, so it doesn't move around.

Don Carson - *Susquehanna Financial Group - Analyst*

And, John, I want to talk about freight a bit. When you talk about a 23% increase for the quarter and 20% for the full year, is that you're all in freight costs or is that just rail freight?

Joseph Rupp - *Olin - Chairman, President and CEO*

That's all in.

Don Carson - *Susquehanna Financial Group - Analyst*

And then -- that's all in? Now at $220 spot chlorine, if you are shipping that sale by rail are you making any money or are you losing a little?

John McIntosh - *Olin - SVP, Operations*

No, we continue to have positive margin.

Don Carson - *Susquehanna Financial Group - Analyst*

How positive is positive?

John McIntosh - *Olin - SVP, Operations*

Positive enough.

Don Carson - *Susquehanna Financial Group - Analyst*

Okay. Just wondering, it seems here that chlorine is more and more I guess almost, not quite a loss leader, but an opportunity to sell not just caustic but co-products as well?

John McIntosh - *Olin - SVP, Operations*

Well, our intent is to try -- obviously as freight costs go up, our intent is to try to manage the logistics of our business to try to manage our customer mix, and try to manage our integration of chlorine into other value added products in a way that helps minimize that. And I think, so far as we look at the progress we've made, we feel like we've been pretty successful in migrating towards better value added profile.

Don Carson - *Susquehanna Financial Group - Analyst*

I have heard there was a 10% rail increase as of January 1. Can you confirm that or talk about what your outlook is for -- ? How long does this 20% full year -- and obviously rail is higher since not all of your product is going by rail, so what is your outlook on the freight rate side?

John McIntosh - *Olin - SVP, Operations*

I guess our outlook is that freight rates are going to continue to increase, and that's really all we know. It's hard to predict in terms of a specific rumor about a January 1 price increase, we have rail price increases that occur in certain segments of our business from certain carriers scattered throughout the entire year. So, we are not in a position where we see a one-time impact across our entire system.

Don Carson - *Susquehanna Financial Group - Analyst*

And then the final question, John, what's your exposure to chloro-vinyl? So, if we see a pick up in housing and more demand out of the chloro-vinyl sector, how will Olin participate in that? What percentage of your chlorine ultimately gets into chloro-vinyls?

Joseph Rupp - *Olin - Chairman, President and CEO*

23%, versus the industry it is a little higher than that.

Don Carson - *Susquehanna Financial Group - Analyst*

All right, thank you.

Joseph Rupp - *Olin - Chairman, President and CEO*

Thank you.

Operator

Next question comes from Alex Yefremov of Bank of America Merrill Lynch.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Good morning. Just wanted to follow-up on the freight cost. It looks like in Q4 it went up more than it did in 3Q on a year-over-year basis. Was this a function of just a different mix between rail and pipeline? Or, rates actually went up sequentially?

John McIntosh - *Olin - SVP, Operations*

It was a function of different -- of a different mix. We had -- you may recall, we mentioned during the quarter that we had several customers, the majority of whom were pipeline customers that had extended outages, so that created a mix issue looking at our customer portfolio. And, we did have some increases in rail freight, in some case driven by crude oil increases that changed fuel surcharges that occurred during the fourth quarter. So, it wasn't entirely freight, it was a pretty significant mix component to it.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Okay, thank you. And, John, the demand uptick in the first quarter in Chlor Alkali that you see, can you help us understand whether -- to what extent it's driven by PVC versus other chlorine derivatives or is this is pretty much across the board?

John McIntosh - *Olin - SVP, Operations*

We've seen it pretty much across the board, although we've seen probably more impact in some other segments besides PVC. But, we've seen it really as a pretty broad increase across most of the segments we serve.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Thank you. And finally a question on pension, John, maybe you can help. Just looking further out, after 2012, is there anything that could change the magnitude of pension income for you?

John Fischer - *Olin - SVP and CFO*

I think as we look out over a longer period of time and I would call that three to five years, we do not see anything that would dramatically change the level of pension income from the level we are currently reporting.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Okay, great. Thank you, guys.

Operator

Next question comes from Gregg Goodnight of UBS.

Gregg Goodnight - *UBS - Analyst*

Good morning, gentlemen. I was a little surprised by the magnitude of the chlorine and the polyurethane going down 28% in the fourth quarter. Do you think your exposure was unusual? Do you think that sort of number was typical of the industry? And if I could, if you have an early read on the first quarter on the polyurethane side, I would like to understand what that is?

John McIntosh - *Olin - SVP, Operations*

We didn't -- we weren't surprised by it because, again, we had some customers -- pipeline customers in the polyurethane business that had planned significant outages during the course of at least the last half of the fourth quarter. And a lot of that fell in line with the overall decline in chlorine derivative exports that was, I believe, seen across the industry and widely reported by a number of people. So, it wasn't a surprise for us. As we look in the first quarter, again, we've seen improvement in demand trends across all the segments really including urethane so far.

Gregg Goodnight - *UBS - Analyst*

Okay, just in that vein, any additional color on titanium dioxide, recent operations versus your reported 20% decline in 4Q?

John McIntosh - *Olin - SVP, Operations*

Again, we've just seeing trends across all the segments up.

Gregg Goodnight - *UBS - Analyst*

Okay. The ECU, on a netback basis, is your expectation pretty flat for Q1 versus Q4 with all the chlorine and caustic movements? Can you comment on that please?

John McIntosh - *Olin - SVP, Operations*

Yes, we have said a slight decrease to flat.

Gregg Goodnight - *UBS - Analyst*

Okay. Excellent. The hydrochloric acid contribution, reportedly prices were up. If you could, could you comment on what level of pricing you saw on a year-to-year basis and is hydrochloric acid getting meaningful in terms of an earnings contribution, say over 5% of the segmented earnings?

John Fischer - *Olin - SVP and CFO*

I would say that hydrochloric acid in terms of equivalent to an ECU ship in the fourth quarter and in 2011 was about equivalent to bleach in terms of how much chlorine got shipped through that channel.

Gregg Goodnight - *UBS - Analyst*

Okay. Do you measure profitability, I would assume on a product basis? My recollection is that the price has historically been very low for hydrochloric acids, so could you give us some sort of feel, how meaningful hydrochloric acid is now to your operation?

John Fischer - *Olin - SVP and CFO*

If you add in the value of the caustic that the hydrochloric acid allows you to produce, and it is as meaningful to us as selling bleach.

Gregg Goodnight - *UBS - Analyst*

Okay. So, it goes back to Don's lost leader sort of comment. But no, I appreciate your comments. Thank you very much, John.

John Fischer - *Olin - SVP and CFO*

We said in our remarks that the premium that we got in the fourth quarter for selling HCl compared to chlorine had widened out. So, it is more of a value added than chlorine is right now because of the demand profile.

Gregg Goodnight - *UBS - Analyst*

Okay. Thank you again, gentlemen.

Joseph Rupp - *Olin - Chairman, President and CEO*

Thanks.

Operator

The next question comes from James Finnerty of Citigroup.

James Finnerty - *Citigroup - Analyst*

Hi, good morning. At an investor day for one of your merchant producing peers, they recently stated that if there were to be further consolidation in the industry that they would likely be a seller. Has anything changed in terms of cost structure or in terms of supply and demand that would make consolidation more likely? Or, is it just sort of a similar status as it was five years ago? Thank you.

Joseph Rupp - *Olin - Chairman, President and CEO*

I don't think there's anything that's changed dramatically. I think that everybody is looking for opportunities and consolidation has worked in our industry in the past with what we did with Pioneer, actually with Vulcan, PPG bought Equa-Chlor last year, so I think that everybody comes to their own decisions at different times, but I do think that there is the opportunity for further consolidation.

James Finnerty - *Citigroup - Analyst*

And, in terms of natural gas, the prospect of it being very low for an extended period time does that make the industry in the US more profitable?

Joseph Rupp - *Olin - Chairman, President and CEO*

Yes.

James Finnerty - *Citigroup - Analyst*

For that purpose?

Joseph Rupp - *Olin - Chairman, President and CEO*

Yes.

James Finnerty - *Citigroup - Analyst*

That is one of the beneficiaries. Great. Thank you.

Joseph Rupp - *Olin - Chairman, President and CEO*

Thanks.

Operator

The next question comes from Roman Kuznetsov of Gates Capital.

Jeff Gates - *Gates Capital - Analyst*

Hi, actually it is Jeff Gates. A couple quick questions, can you talk about your mix of delivery methods between pipeline, rail, whatever other methods on the Chlor Alkali side? And also, secondly, can you talk about your mix of electricity and just remind us, again, what percent comes from hydro power, coal and natural gas?

John McIntosh - *Olin - SVP, Operations*

Our mix is predominantly rail. We've said, based on the locations of our facilities and the markets we serve, that it's predominantly rail shipments that we make. And, depending upon which products you're talking about, and whether or not you are serving a regional market, that will transition because for bleach markets, for caustic markets, for HCl markets, where you typically are only serving a region around the producing facility, then your truck shipment becomes more and more a focus of how you deliver to your customer. In terms of energy mix, --

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Jeff Gates - *Gates Capital - Analyst*

So, that would be 90% rail approximate?

John McIntosh - *Olin - SVP, Operations*

No, no, more in the 75% to 80% rail. In terms of fuel mix, I don't know that we've given absolute numbers before but, I can tell you that in order, starting with the highest percentages, our fuel mix, the top two are coal and hydro power. And then natural gas and nuclear fuel mixes are kind of like a second-tier.

Jeff Gates - *Gates Capital - Analyst*

I guess specifically what percent approximately was natural gas, electricity?

John McIntosh - *Olin - SVP, Operations*

We've not broken it down. We think we have a balanced set of fuel sources that provide us with the kind of balance we need in our electricity pricing.

Jeff Gates - *Gates Capital - Analyst*

And if I could, one last final question, I guess I am looking at Winchester and I'm looking at the last few years have been exceptionally high and I'm just kind of wanting to understand should we be looking at 2011 as closer to the normalized, long-term earning power of Winchester?

John Fischer - *Olin - SVP and CFO*

I think that we would suggest that 2011 is, prior to the positive benefits we expect to derive from the relocation to Oxford, and we talked in the call about that. We think that's a $30 million benefit that will be in place in the 2016 timeframe.

Jeff Gates - *Gates Capital - Analyst*

Okay, thank you.

Operator

The next question comes from Alex Yefremov of Bank of America, Merrill Lynch.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Hi, just a quick follow-up on Winchester. Would you expect your operating margins in 2012 to be higher than 2011, given what is going on with euro prices and also prices in metals?

John Fischer - *Olin - SVP and CFO*

I think we look at Winchester in 2012 and see a similar year to 2011.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Okay, thank you.

Operator

This concludes our question and answer session. I would like to turn the conference back over to Joseph Rupp for any closing remarks.

Joseph Rupp - *Olin - Chairman, President and CEO*

We just want to thank you for joining us this morning and we will look forward to speaking with you in April when we announce our results of the first quarter. Thank you and have a good day.

Operator

The conference has now concluded, thank you for attending today's presentation. You may now disconnect.