THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

OLN - Q4 2012 Olin Earnings Conference Call

EVENT DATE/TIME: JANUARY 29, 2013 / 3:00PM GMT

OVERVIEW:

OLN reported 4Q12 net income of $34.6m or $0.43 per diluted share and 4Q12 sales of $587.6m. Expects 1Q13 diluted EPS to be $0.40-0.45.

THOMSON REUTERS

CORPORATE PARTICIPANTS

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

John Fischer *Olin Corp - SVP and CFO*

John McIntosh *Olin Corp - SVP, Operations*

CONFERENCE CALL PARTICIPANTS

Sabina Chatterjee *Wells Fargo Securities, LLC - Analyst*

Edward Yang *Oppenheimer & Co. - Analyst*

Chris Butler *Sidoti & Company - Analyst*

Don Carson *Susquehanna Financial Group / SIG - Analyst*

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

Bill Carroll *UBS - Analyst*

Dmitry Silversteyn *Longbow Research - Analyst*

Alex Yefremov *BofA Merrill Lynch - Analyst*

Jason Freuchtel *SunTrust Robinson Humphrey - Analyst*

Richard O'Reilly *Revere Associates - Analyst*

PRESENTATION

Operator

Good morning, everyone, and welcome to the Olin Corporation fourth-quarter earnings conference call. All participants will be in a listen-only mode.

(Operator Instructions)

After today's presentation, there will be an opportunity for you to ask questions.

(Operator Instructions)

Please also note today's event is being recorded. And at this time, I would like to turn the conference call over to your moderator, Mr. Joseph Rupp, Chairman, President and CEO. Mr. Rupp, please go ahead.

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

Good morning and thank you for joining us today. With me this morning are John Fischer, our Senior Vice President and Chief Financial Officer; John McIntosh, our 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 2012 was $34.6 million or $0.43 per diluted share, which compares to $18.7 million or $0.23 per diluted share in the fourth quarter of 2011. Sales in the fourth quarter of 2012 were $587.6 million, compared to $445.8 million in the fourth quarter of 2011. During 2012, Olin achieved $373 million of adjusted EBITDA, which is the highest in the history of the Company. The record EBITDA was driven by strong results in the Winchester business, improved contributions from bleach and hydrochloric acid in the Chlor Alkali business, and contributions from KA Steel Chemical Distribution business that we acquired in August.

Fourth-quarter 2012 results included pre-tax restructuring charges of $2.5 million compared to fourth quarter 2011 restructuring charges of $4.1 million. These charges are primarily associated with the conversion of the Charleston, Tennessee Chlor Alkali plant from mercury cell to membrane technology and the ongoing relocation of the Winchester centerfire ammunition manufacturing operations from East Alton, Illinois to Oxford, Mississippi. Fourthquarter 2012 results also included a $4.9 million insurance recovery related to an unplanned first- and secondquarter 2012 Chlor Alkali customer outage and a $3 million favorable settlement of a property tax dispute. In the fourth quarter of 2012, the Chlor Alkali business experienced seasonally weak demand, which improved late in the quarter. This demand profile is reflected by the operating rate, which was 76% in the quarter, but increased to 81% in the month of December. ECU netbacks in the quarter declined 2% compared to the fourth quarter of 2011, but increased 4% compared to the third quarter of 2012.

The Winchester business began to experience increased demand around the time of the election and the elevated level of demand continued through the balance of the year. Fourth quarter 2012 commercial volumes increased in excess of 20% compared to the fourth quarter of 2011. Firstquarter 2013 net income is forecast to be in the $0.40 to $0.45 per diluted share range. The firstquarter earnings per share forecast equates to a $95 million to $100 million adjusted EBITDA forecast. Chlor Alkali first quarter 2013 earnings are expected to decline compared to the first quarter of 2012 due to lower volumes and pricing. Commercial volumes in Winchester are expected to remain at elevated levels and, as a result, firstquarter 2013 earnings are forecast to significantly exceed first-quarter 2012 earnings. Firstquarter 2013 results are expected to include approximately $3.5 million of restructuring charges.

2012 was a significant year for Olin and we achieved a number of strategic milestones. During October, Olin successfully exited all chlor alkali manufacturing using mercury cell technology. At the Charleston, Tennessee facility, the sodium hydroxide mercury cell room was shut down in September and the new membrane cell room began operation during the same month, and is currently operating at design rate. Charleston potassium hydroxide mercury cell room was shut down in October and the new membrane cell room began operation in November, and it too is operating at the design rate. And finally, the mercury cell room at the Augusta, Georgia facility discontinued production in September. As a Company, Olin is extremely pleased to have completed these actions and the associated capital -- having the associated capital spending behind us.

In August, we completed the acquisition of KA Steel and in the four-plus months we've owned it, it generated approximately $10 million of EBITDA. And excluding Olin's one-time transaction costs, was accretive to both earnings and cash flow in 2012. We continue to believe this uniquely focused chemical distributor will enhance our chemical business by increasing the amount of our chlor alkali capacity that can be sold as value-added products.

During 2012, we also continued to grow our bleach business. Bleach shipments in 2012 increased 11% compared to 2011. And with two of the three planned HyPure bleach plants in operation and running at planned rates, we expect to increase bleach shipments an additional 10% to 15% in 2013. We also expect a third HyPure plant that will be located in Henderson, Nevada, to be operational in the first quarter of 2013. And finally, the ongoing Winchester center relocation project began to generate positive profit contributions in the third quarter of 2012, which continued into the fourth quarter. This has been accomplished less than 18 months after the new building was completed and the project remains on schedule for the expected completion in 2016.

Let me discuss the Chlor Alkali, Chemical Distribution, and Winchester segments in more detail. First Chlor Alkali. Fourthquarter 2012 chlorine demand was in line with the weak level of fourth quarter 2011 demand, but as I said earlier, did show some improvement in December. Fourth quarter 2012 chlorine shipments to titanium dioxide customers declined 26% year-over-year as demand from that major chlorine consuming product remained well below prior year levels. That was offset by increased shipments to vinyls and urethanes customers. The weakness in chlorine demand resulted in chlorine price that declined from the thirdquarter level. Chlorine prices in Olin's system have declined over the last five consecutive quarters and we expect an additional decline from the fourth quarter of 2012 into the first quarter of 2013.

The chlorine price decline in the fourth quarter of 2012 from the third quarter was more than offset by improved caustic soda pricing. In the fourth quarter, caustic soda prices in the Olin system reached the highest level since the second quarter of 2009. And as a result, ECU netbacks improved from approximately $560 in the third quarter to approximately $580 in the fourth quarter. At this point, we do not believe that the caustic soda price increase that was announced in November will have a meaningful impact in Olin's first quarter 2013 ECU netback, and as a result chlorine prices -- we expect first -- as a result of chlorine prices, we expect first quarter 2013 ECU netbacks to be slightly lower than the fourth quarter of

2012 level. However, at this point, we do expect Olin's caustic soda prices to benefit from that announced price increase in the second quarter of 2013. We also expect that improved chlorine demand could result in chlorine price increases as we move through 2013.

Bleach shipments in the fourth quarter of 2012 increased 20% compared to the fourth quarter of 2011, and we now have experienced 20 consecutive quarters of year-over-year increases in bleach shipments. During 2012, the premium realized in the sale of bleach in excess of chlorine and caustic soda netback exceeded $150 per ton. When the Henderson HyPure bleach plant begins operation in early 2013, we will have the capacity to utilize in excess of 15% of our chlor alkali capacity in the manufacture of bleach. Hydrochloric acid shipments declined 7% in the fourth quarter of 2012 compared to the fourth quarter of 2011, but for the full-year 2012, hydrochloric acid volumes increased 2%. The positive year-over-year contribution to Olin's Chlor Alkali business came from hydrochloric acid pricing, which increased 15% in the fourth quarter of 2012 compared to the fourth quarter of 2011, and 64% for the full year of 2012 compared to 2011.

During the first half of 2013, the hydrochloric acid expansion project at Henderson, Nevada, will be completed and that will increase our capacity by approximately 10%. At the completion of that project, we will have the ability to utilize approximately 13% of our chlor alkali capacity for the manufacturing of hydrochloric acid. Freight costs per ECU produced increased 4% in 2012 compared to 2011 levels. This rate of increase was less than half the average increase we have experienced over the past seven years. Chlorine shipments are the biggest driver of these costs and we continue to pursue opportunities to reduce the amount of our chlorine that is shipped by rail. Our initiatives to increase chlorine shipped as either bleach or hydrochloric acid are a significant part of that opportunity.

Let me talk about KA Steel. During the fourth quarter of 2012, KA Steel generated a revenue of $108.7 million on sales of caustic soda and bleach. In a normal year, KA Steel caustic soda shipments do not exhibit a significant seasonal pattern. Bleach sales, similar to what is seen in the Olin chlor alkali business, do, however. They exhibit a seasonal pattern and are concentrated in the months of May through August. Approximately 60% of KA Steel's annual bleach sales occur in the second and third quarters and approximately 50% of the sales occur in the four heaviest months. Because of the bleach business, we expect earnings from KA Steel to exhibit a seasonal pattern similar to the Olin Chlor Alkali business. As a reminder, in 2011, KA Steel generated EBITDA on an Olin basis of $31 million. We continue to expect to realize a total of $35 million of annual synergies at the end of three years and $7 million to $10 million in the first full year. Based on our progress realized to date, we are highly confident that we will meet or exceed the first year target. Expanding the sale of both Olin-produced bleach and hydrochloric acid, and rationalizing caustic soda freight costs are key synergies to be realized during 2013.

During the fourth quarter of 2012, KA Steel generated pre-tax profit of $2.6 million. Depreciation and amortization expense was $3.9 million, the majority of which reflects impact of the write-ups made by Olin as part of the acquisition accounting. We currently expect first quarter of 2013 KA Steel profitability to improve compared to the fourth quarter of 2012.

Now turning to Winchester. Consumer purchases of ammunition began to trend upward the Saturday before Election Day 2012 and the trend has continued, with sales currently only being limited by product availability. In addition to the high level of commercial demand in the fourth quarter, Winchester also experienced an improved level of military and law enforcement sales in the fourth quarter of 2012 when compared to the fourth quarter of 2011. Fourthquarter 2012 law enforcement sales increased 28% compared to the fourth quarter of 2011, and the domestic military sales increased 25% year-over-year. Winchester's fourth-quarter segment earnings were $16.5 million and included a $3 million settlement of a property tax dispute. During the quarter, Winchester also experienced a sizable growth in its commercial backlog, which increased from $92 million at the end of September to $138 million at the end of December. During January, the commercial backlog has grown to approximately $280 million. As a point of reference, the commercial backlog at December 31, 2011 was $29 million. Winchester's total backlog, including military and law enforcement, at December 31, 2012, was $264 million and it's our view that the current surge is stronger and has expanded across the product line more quickly than the late 2008, early 2009 surge.

Unit sales in the fourth quarter of 2012 increased 15% compared to the fourth quarter of 2011. Fourth quarter 2012 unit sales compared to the fourth quarter of 2011 increased across all product lines. For the quarter, total Winchester sales increased 27%, reflecting a 36% increase in commercial sales and a 19% increase in contract sales, which includes military, law enforcement, and industrial. Commodity metal cost during the fourth quarter of 2012 decreased slightly compared to the fourth quarter of 2011, and were similar for the full-year 2012 when compared to the full-year 2011. We currently expect commodity metal costs in 2013 to be similar to 2012.

The relocation of our centerfire pistol and centerfire rifle manufacturing operations from East Alton, Illinois to Oxford, Mississippi remains on schedule and remains a significant long-term profit opportunity for Winchester. By the end of 2012, the large majority of all pistol ammunition was being manufactured in Oxford. As a result of this, during the fourth quarter of 2012, the relocation activities generated approximately $1.6 million of incremental pre-tax earnings. For the full-year 2012, the negative impact of the relocation on Winchester earnings was approximately $5 million. We continue to expect the project to generate savings of $10 to $15 million in 2013 and annual savings of $30 million at the completion of the project, which is expected in 2016. We believe the completion of the Oxford relocation project will result in a Winchester business that is capable of generating annual EBITDA in the $85 to $100 million range.

As Olin enters 2013, we are optimistic that we can generate adjusted EBITDA in the range of $410 to $440 million. Winchester business is well-positioned to benefit from the current market conditions and will realize an increased level of benefit from the Oxford centerfire ammunition relocation project. Olin will benefit from a full-year of ownership of KA Steel, including synergy realization. Chlor Alkali will benefit from increasing bleach and hydrochloric acid capacities. These improvements will all be realized in a year when capital spending should be 50% to 60% lower than the 2012 level. I'd like to turn the call over to our Chief Financial Officer, John Fischer, who will review with you several financial matters. John?

John Fischer - *Olin Corp - SVP and CFO*

Thank you, Joe. First I'd like to discuss a few items on the income statement. Selling and administration expenses decreased $2.2 million, or 6%, in the fourth quarter of 2012 compared to the fourth quarter of 2011. This decrease was primarily due to lower legal and legal-related settlement costs, partially offset by expenses associated with the acquired KA Steel business and higher salary and benefit costs. Incremental selling and administration expenses related to the KA Steel business were approximately $2.5 million. The inclusion of four-plus months of KA Steel and two additional months of SunBelt expenses of approximately $5 million caused absolute year-over-year selling and administrative expenses to be higher in 2012 compared to 2011.

Fourthquarter 2012 charges to income for environmental, investigatory and remedial activities were $1.6 million. Fourthquarter 2011 charges to income for environmental, investigatory and remedial activities were $5 million, which included $400,000 of recoveries of costs incurred and expensed in prior periods. For the fullyear 2012, charges to income for environmental, investigatory and remedial activities were $8.3 million, which included the recovery of $100,000 of costs incurred and expensed in prior periods. Fullyear 2011 charges to income for environmental, investigatory and remedial activities were $7.9 million, which included the recovery of $11.4 million of costs incurred and expensed in prior periods. After giving consideration to the recoveries in both 2011 and 2012, year-over-year expense related to environmental, remedial and investigatory activities decreased by $10.9 million. These charges related primarily to expected future investigatory and remedial activities associated with past manufacturing operations and former waste disposal sites. Expenses for environmental, investigatory and remedial activities in 2013 are forecast to be in the $18 to $22 million range. We are not forecasting any environmental recoveries in 2013.

On a total company basis, defined benefit pension plan income was $5.2 million in the fourth quarter of 2012 compared to $5.9 million in the fourth quarter of 2011. Defined benefit pension plan income for the fullyear 2012 was $21.1 million and we forecast that fullyear 2013 defined benefit pension plan income will be similar to the 2012 level. We did not make any cash contributions to our domestic defined benefit pension plan in 2012 and are not required to make any in 2013. Under the Pension Funding Relief provisions of the Moving Ahead for Progress in the 21st Century legislation, we may not be required to make any additional contributions to our domestic defined benefit pension plan for several years. During 2012, we did make cash contributions to our Canadian defined benefit pension plan of less than $1 million. As a reminder, under Canadian pension rules, service costs are required to be funded annually.

During the fourth quarter, Olin recorded a $2.5 million restructuring charge. This charge was associated with employee severance and relocation expense associated with the ongoing Winchester centerfire relocation project and the demolition of the Chlor Alkali mercury cell plants in Charleston, Tennessee and Augusta, Georgia. Total 2012 restructuring charges associated with the Winchester centerfire ammunition relocation and the Chlor Alkali mercury cell conversion projects were $8.5 million. In 2013, we expect to incur approximately $10 million of restructuring charges, primarily associated with the Winchester relocation and the reconfiguration of the now former Augusta, Georgia Chlor Alkali manufacturing site. Between 2014 and 2016, we expect to incur an additional $5 to $7 million of restructuring expenses associated with the Winchester centerfire ammunition relocation project.

The effective tax rate for the fourth quarter of 2012 was 36.7%, and the fullyear 2012 rate was 33.6%. The fullyear rate includes approximately $4 million of net favorable adjustments to the statutory rate. Due to the level of capital spending in 2012 and the accelerated depreciation provisions of the 2010 Jobs Creation Act, the cash tax rate was approximately 11% in 2012. In 2013, we currently expect the effective tax rate to be in the 35% to 37% range. The recently passed Taxpayer Relief Act of 2012 extended the accelerated depreciation provisions through the end of 2013 and as a result, we are currently forecasting our 2013 cash tax rate to be in the 20% to 25% range. Now turning to the balance sheet.

Cash and cash equivalents at December 31, 2012, including the restricted cash associated with the GO Zone financings that are classified as long-term assets on the balance sheet, totaled $177.1 million. As of December 31, 2012, the restricted cash balance was $11.9 million. During the fourth quarter of 2012, the working capital employed declined by approximately $53 million. Declining working capital employed in the fourth quarter is consistent with Olin's normal seasonal pattern but was higher than expected due to the high level of Winchester sales, which translated into an unusually low level of inventory in the business. Winchester inventories declined approximately $18 million in the fourth quarter of 2012 from the third quarter and declined approximately $11 million in 2012 compared to 2011. As a result of this fourth quarter decline, we anticipate that Olin's first quarter 2013 working capital build will be approximately $60 million. The year-end 2012 working capital balance of approximately $150 million included approximately $50 million associated with the KA Steel business.

Capital spending during 2012 was $256 million. Of this total, approximately 42% related to the Charleston mercury cell technology conversion project and approximately 23% supported the three lowsalt, highstrength bleach projects. With the completion of the Charleston conversion project in 2012 and the completion of two of the three HyPure bleach facilities, we expect 2013 capital spending to be in the $100 million to $130 million range. Depreciation and amortization expense, it was $111 million in 2012, and we expect 2013 depreciation and amortization expense to be in the $135 million to $140 million range. The par value of Olin's debt outstanding at December 31, 2012 was $703.2 million. During 2013, we expect to repay $23.6 million, $11.3 million of which was repaid early in January. Including the amount paid in early January, there are less than $50 million of debt repayments required between now and December of 2016. The weighted average duration of all of the Olin debt outstanding is in excess of nine years.

As Olin begins 2013, we are entering a period of increased financial flexibility. In addition to not facing any significant debt maturities, we are entering a period of significantly lower capital spending and we do not foresee any near-term cash contributions to the large domestic defined benefit pension plan. On January 25, Olin's Board of Directors declared a dividend of $0.20 on each share of Olin common stock. The dividend is payable on March 11, 2013 to shareholders of record at the close of business on February 11, 2013. This is the 345th consecutive quarterly dividend to be 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 in our fourthquarter earnings release. A copy of today's transcript will be available on our website in the Investor's 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

(Operator Instructions)

Frank Mitsch, Wells Fargo.

Sabina Chatterjee - *Wells Fargo Securities, LLC - Analyst*

Good morning. This is Sabina Chatterjee in for Frank. Just a question on the EBITDA guidance you have given. What are the assumptions underlying the $410 to $440 million range? I'm just curious as to what level of housing starts, GDP growth, operating rates, and maybe average ECU that you factored in?

John Fischer - *Olin Corp - SVP and CFO*

We are not going comment on the ECU. We are looking at housing starts in the 900,000 to 1 million range and looking at GDP growth of 2% to 2.5%.

Sabina Chatterjee - *Wells Fargo Securities, LLC - Analyst*

Okay. And then just on Winchester relocation, it began generating profits in Q3. Can you tell us what that level was roughly in Q4?

John Fischer - *Olin Corp - SVP and CFO*

It was $1.6 million.

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

$1.6 million.

Sabina Chatterjee - *Wells Fargo Securities, LLC - Analyst*

Okay. And it looks like, given the elevated backlog in Winchester, it looks like Winchester earnings will be up in 2013 versus 2012. Now do you expect typical seasonality to play out this year in this business, or is that basically overridden given the marketplace conditions?

John Fischer - *Olin Corp - SVP and CFO*

Sabina, if you look at what happened in 2009, which was the last full year of a surge, there was very little seasonality of it during that year. And based on where we are, we would expect high levels in demand to continue at least through the third quarter. So, I would say through at least the first three quarters, we would not expect a lot of seasonality.

Sabina Chatterjee - *Wells Fargo Securities, LLC - Analyst*

Okay, great. Thank you.

Operator

Edward Yang, Oppenheimer.

Edward Yang - *Oppenheimer & Co. - Analyst*

First question just on pricing. You are looking for ECU netbacks to be flattish to down sequentially and there has been some confusion in the marketplace whether the $35 to $50 caustic soda price increase is sticking. What are your thoughts on that?

John McIntosh - *Olin Corp - SVP, Operations*

The price increase, the lowest common denominator for the various price increases that were announced is the $35. We really expected some of that $35 increase to show up in the marketplace in the fourth quarter but it didn't. For a variety of reasons, I think. Operating rates were -- there was a wide range of operating rates in the fourth quarter all the way from 80% to 88% from an industry average. So there were a lot of people thinking it was a point of transition. We had the hurricane on the East Coast, which created some demand destruction and just a lot of disruption in the marketplace and that kept some people on the sidelines.

So overall, while we expected it in the fourth quarter and it didn't happen for legitimate reasons, we still believe that there will be price increase activity in the first quarter, which we would see reflected in our numbers in the second quarter. And as it stands now to our knowledge and best of understanding, there isn't anybody that's backed away from pushing the $35 price increase.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay. Got it. And the updated CapEx outlook, previously you were looking for $100 to $150 million and that you've tightened that range to about $100 to $130 million. Why the decrease there?

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

I just think that our numbers -- we were able to get our numbers dialed in closer as we got to the end of year and that's enough capital to do what we need to do.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay. And, Joe, considering that you are freeing up a lot of cash with that big decline in year-over-year CapEx, what's your thinking on the dividend?

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

Well, at this point what we want to do is generate that cash, Edward, and our first thought naturally from -- if we accumulate cash is to take a look what are other things we could do from a bolt-on acquisition perspective. Absent that, then we will take a look at our dividend policy.

Edward Yang - *Oppenheimer & Co. - Analyst*

Thank you.

Operator

Chris Butler, Sidoti & Company.

Chris Butler - *Sidoti & Company - Analyst*

Could you give us a sense on the KA Steel business, on how that performed on a year-over-to-year basis?

John Fischer - *Olin Corp - SVP and CFO*

We gave you that for the four months we had generated approximately $10 million of EBITDA, which is consistent with a business that would generate $30 to $32 million on an annual basis. So we are very happy with where it performed. We actually didn't own it for the best part of the year where they generate their peak earnings. As we said in the remarks, their peak earning typically occur in May through August period. So it's performing as we would have expected and as we move forward, we expect that plus synergies.

Chris Butler - *Sidoti & Company - Analyst*

So if we were looking at this business, you are already -- looking at your four month run rate, you are already at $30 million, if we just multiply it out. If we take into consideration the seasonally strong summer, you should be well ahead of that $30 to $32 million that you just spoke of, right?

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

That is correct.

Chris Butler - *Sidoti & Company - Analyst*

And what kind of impact did you have on that business from Sandy? Can you quantify that?

John McIntosh - *Olin Corp - SVP, Operations*

We -- I don't know that we've really ever quantified it in terms of dollars. There was a significant amount of disruption in the supply chain. We were forced to move caustic in freight-illogical ways to service terminals that hadn't -- by truck that really had no ship-bound way to receive product. So it did show up. There was an impact, a small impact in our earnings. But we were also able to count on our suppliers and count on the people of KA Steel to do what was necessary to satisfy the customer demand.

Chris Butler - *Sidoti & Company - Analyst*

Any impact or concerns going forward on the Mississippi River and the water levels?

John McIntosh - *Olin Corp - SVP, Operations*

As the best of our knowledge would indicate that the concern level, although it has not disappeared, it has moderated some, both based on just increased water flow from the watershed that would help and the action by the Corp of Engineers to strategically release water and their work on clearing the channel of obstruction. So most people are feeling a little better about the situation. I think most barges headed north are still being short loaded. But there is a sense that we may have avoided a much worse case situation.

Chris Butler - *Sidoti & Company - Analyst*

And just finally with the Winchester demand, any change to the restructuring, keeping extra lines open or things of that nature?

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

No, no.

Chris Butler - *Sidoti & Company - Analyst*

I appreciate your time.

Operator

Don Carson, Susquehanna Financial.

Don Carson - *Susquehanna Financial Group / SIG - Analyst*

Thank you. John, a question on the second half of Chlor Alkali outlook. Just what impact you are anticipating from higher operating rates due to some of these capacity start-ups and what impact specifically will some of these start-ups have on Olin's business, given that you have got a customer back integrating?

John McIntosh - *Olin Corp - SVP, Operations*

Well, obviously, there are, in one of the cases a company that's bringing on capacity that was a customer of ours that we have served. So, obviously, that will change that dynamic. However, when you look at it from an industry standpoint and look at it from a bigger picture perspective, additional capacity isn't in and of itself a negative sign for what the market is going to see because what drives the market is supply and demand. And just because additional capacity comes online and creates new supply, unless there is a demand to satisfy it, nothing really happens except operating rates get pushed a little bit lower and prices really don't move much.

Obviously, if -- depending upon how much you believe of some of the anecdotal stories about the return of housing, if you believe high operating rates are going to be what we are going to see in 2013, then that speaks to the fact that there will be pressure on caustic pricing downward. But there will also be pressure and price increases on the chlorine side. And the work we have done to produce more HCl and more bleach with our products gives us -- affords us an opportunity to take chlorine price increases and move it into those value-added by-products, as well. So, I feel like we are in a position where we have the ability to respond to whichever one of those directions the market takes us in 2013.

Don Carson - *Susquehanna Financial Group / SIG - Analyst*

And then, John, what about freight rates, what's your expectation for freight in calendar '13 versus calendar '12? What kind of surge there?

John McIntosh - *Olin Corp - SVP, Operations*

Well, we said in the remarks that 2012 was notable because we saw in that year a less -- a smaller increase in percent freight rates than we had seen in any year for recent history. My sense is that 2013 is going to continue the trend towards smaller freight rate increases. I don't believe that we are going to see flat freight rates year-over-year, but it's my sense with all that's going on in the market and the fact that with the infrastructure that we purchased with KA Steel, we now have situations where we can create competitive options for ourselves that will, in essence, keep freight rates a little more competitive that the railroads will have to offer.

Don Carson - *Susquehanna Financial Group / SIG - Analyst*

Okay. Then one final question. Speaking of surges, you mentioned you thought the Winchester demand surge would last through at least Q3. Some of the restrictions people are talking about seem rather unprecedented. We are hearing talk of ammunition taxes, or ID to buy ammunition in states like New York. What impact do you think this ultimately has on ammunition demand? Is it a case that you are seeing a greater surge, which could be followed by lower trend level of demand for commercial ammunition?

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

I don't think we see that, Don. There could be some small a couple percent impact on ammunition. You have got a surge -- as what happened the last time, that surge will end and we will see it drop off. Last time we projected that it dropped off in the 10% to 20% range over a two-year period. Our thinking would be that it would be something similar to that. And the length of the surge is -- it's hard to project, but certainly our statement of getting it well into the third quarter is a pretty fair statement.

Don Carson - *Susquehanna Financial Group / SIG - Analyst*

Okay. Thank you.

Operator

Herb Hardt, Monness.

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

Good morning. Can you tell us what your blended average cost of debt is? And secondly, the way you discussed it, it sounds as if you're not too anxious to repay it. Is that a correct assumption?

John Fischer - *Olin Corp - SVP and CFO*

That's a correct assumption. I would say the blended average rate is probably about 6.5%.

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

Thank you very much.

Operator

Gregg Goodnight, UBS.

Bill Carroll - *UBS - Analyst*

Thank you. This is Bill Carroll in for Greg. A question on the Chemical Distribution segment. You mentioned that the Mississippi River levels were not really impactful to earnings, but the earnings did seem rather low. Were there any one-time items there that can explain the levels there?

John McIntosh - *Olin Corp - SVP, Operations*

As I said, we did have some impact in earnings, not necessarily from the Mississippi River constraints, but on the aftermath of Hurricane Sandy, which caused us a quite a bit of disruption, us and everybody else on the East Coast, in getting product where we needed it at terminals to serve our customers. So there were additional costs in the fourth quarter associated with that.

John Fischer - *Olin Corp - SVP and CFO*

And it's important to note that you are looking at the weakest quarter seasonally that the business has.

Bill Carroll - *UBS - Analyst*

Sure. Okay. That's helpful. And then on Chlor Alkali, with the Charleston conversion complete and Augusta down, what's the nameplate capacity for chlorine now?

John McIntosh - *Olin Corp - SVP, Operations*

Yes. 2.04 million tons.

Bill Carroll - *UBS - Analyst*

Great. Got it. Thank you.

Operator

Dmitry Silversteyn, Longbow Research.

Dmitry Silversteyn - *Longbow Research - Analyst*

Good morning. A couple of questions if I may. You mentioned the sharp decline in chlorine demand for TiO2 the fourth quarter. Can you talk about what you are seeing in the first quarter so far in January and what your expectation for that business are for 2013? Should we see a recovery in there to go along with the vinyl growth or do you expect to see continuing pressures in the volumes going into that market?

John McIntosh - *Olin Corp - SVP, Operations*

We have seen some improvement in that market segment so far in the fourth quarter -- or in the first quarter. We've actually seen an improvement in operating rates across our system that in part is driven by better results up from the TiO2 market but continuing strength in vinyls and MDI/TDI market segments.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay, so it sounds like your chlorine demand after maybe some end-of-year inventory adjustments by your customers, maybe getting back to more normal levels and you expect it to be up year-over-year?

John McIntosh - *Olin Corp - SVP, Operations*

Well, the first quarter, because of the seasonality of our Business is obviously not the quarter in which we would sell the maximum amount of chlorine into the marketplace. But we have seen an improvement from what we saw in the second half of the fourth quarter.

Dmitry Silversteyn - *Longbow Research - Analyst*

Got it. Okay. Thank you. On the KA Steel business, I just want to make sure I understand the guidance and the magnitude of earnings you are looking for in 2013. I think you said that if you -- and obviously if you take the four month run rate you were at that $30 to $32 million EBITDA level run rate, which can be improved with cost savings and maybe a little bit faster growth. But then if I remember correctly, D&A is somewhere like $16 million, $18 million. Is that correct? So you're looking at EBIT of something of less than $20 million for the year. Is that the right way to think about that business?

John Fischer - *Olin Corp - SVP and CFO*

Excluding the synergies.

Dmitry Silversteyn - *Longbow Research - Analyst*

Excluding the synergies. Okay. So I'm -- so the math is okay. Correct. Finally, not finally but next question is, on the Winchester business you talked about the surge in demand, and that's obviously helping the business. Have you also been able to get some pricing action there, given that from what you are describing, you are running flat out and selling everything you can make?

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

Yes. There was a price increase that was announced last fall that was implemented on January 1.

Dmitry Silversteyn - *Longbow Research - Analyst*

And would you expect further pricing actions there, or -- given the high demand, or is this a response to raw material inflation? What was the justification for pricing?

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

The reality of it was last fall it was more associated with commodity prices. But I think that we'll have to -- we will be monitoring it closely as we move forward.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. So, in addition to strong volumes during the surge we should also expect or can expect an improvement from pricing, in terms of profitability of the business?

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

Yes. Now there is already the announced pricing. Right.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. Just trying to understand your guidance on the environmental expense for 2013. From what -- I'm showing my model we had about $8 million give or take in environmental expense in 2013, excluding some special items. Did you say you expect that to go up to $20 million? Did I hear you correctly?

John Fischer - *Olin Corp - SVP and CFO*

Yes, you did. If you look at the history over a long period of time that number averaged about $25 million a year from, say, 2005 through 2011. We saw just a confluence of events that caused a low number in 2012, and we are forecasting it to be higher than '12 but lower than the historic average would -- and we gave guidance of $18 to $22 million.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. So, I didn't hear that correctly. Okay and then final question. Again, looking at your long-term trends, you really haven't done much in terms of increasing the dividend going back to over a decade. Has there been some thought given to your dividend policies going forward? Or other thoughts to the use of cash?

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

Remember what we stated. We just finished two years of significant capital spending. Last year over $250 million, $240 million the year before, and we of course then made the acquisition of KA. What we think that we are positioned now for a very good year, the opportunity to slash our capital spending in half. Our preference, which we've stated in the past would be to fund bolt-on acquisitions or investments in our core business. And absent that, then we will look at other methods to return cash to shareholders.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay -- but. All right. Thank you. That's all I have.

Operator

Alex Yefremov, BofA Merrill Lynch.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Good morning. Could you address the latest trends in electricity costs at Chlor Alkali? What's your outlook for 2013?

John McIntosh - *Olin Corp - SVP, Operations*

Fourth quarter electricity costs were reduced from third quarter, but that's traditional for us because as we move into the fourth quarter, which is a slower seasonal period for us, our operating rate typically tends to be a little bit lower and overall electricity costs tends to follow that. We don't see electricity costs moving significantly one way or the other. We are in a period of very stable energy prices and an energy advantage in the North America holds, and so we really see our energy prices being relatively flat moving forward.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Thank you. And a follow-up on Chlor Alkali. You traditionally are somewhat underweight in the vinyls market in terms of your end markets for chlorine. Given the expectations of stronger housing, are you changing your marketing strategy? Are you going after the vinyls market to a larger degree this year? If that's possible?

John McIntosh - *Olin Corp - SVP, Operations*

Well, the vinyls market tends to be very much captively focused. The people that are in it tend to be very self-sufficient in terms of their chlorine requirements. And so the amount of chlorine for the chlorovinyls chain that is available for merchant sale is not a big number, and so we're rather limited on how much we can chase a rather small piece of market that isn't already taken care of by the captive producers.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Okay. Thank you. Now maybe switching to Winchester, just trying to assess the type of earnings you could do in 1Q. So if we take your year-over-year increase in EBIT in the fourth quarter of 2012, would it be fair to assume that your increase in the first quarter of 2013 could be similar in magnitude or will it be higher because of seasonality?

John Fischer - *Olin Corp - SVP and CFO*

It's going to be lower because of seasonality. The fourth quarter is traditionally very weak and it wasn't weak at all this time. So you will see the biggest level of improvement in Q4 and lesser levels of improvement just because Q1 tends to be a fairly strong quarter seasonally.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Right. So, basically you were running almost flat out in 4Q and what will change in 1Q is price increase and potentially some metal cost changes. Is that a fair assumption?

John Fischer - *Olin Corp - SVP and CFO*

We think you will also see better volumes in Q1 year-over-year. Better pricing in Q1. I think metals, as Joe talked, are essentially flat as we look at it year-over-year.

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

Yes, you will have actually more operating days with holidays and stuff out of the way.

John Fischer - *Olin Corp - SVP and CFO*

Yes.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

All right. Thanks a lot.

Operator

Andrew Cash, SunTrust.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Good morning, gentlemen. This is Jason Fruechtel in for Andrew Cash. All our questions have been asked and answered. Thank you.

Operator

Richard O'Reilly, Revere Associates.

Richard O'Reilly - *Revere Associates - Analyst*

Okay. Thank you. Good morning, gentlemen. I have a few questions. Couple easy ones and a couple bigger picture ones. The easy ones are your operating rates and ECU prices, are those just for chlorine caustic soda or are those system-wide? I should know that.

John Fischer - *Olin Corp - SVP and CFO*

B. ECU pricing is just chlorine and caustic soda. The operating rate is everything.

Richard O'Reilly - *Revere Associates - Analyst*

Okay. Fine. And on your EBITDA estimates or adjusted EBITDA numbers, do those include or exclude restructuring expenses and all those little items?

John Fischer - *Olin Corp - SVP and CFO*

They include those.

Richard O'Reilly - *Revere Associates - Analyst*

Okay. Fine. So, for those of us who need to come up with an EPS estimate, we take your $400 or $430 million, subtract the D&A, subtract the tax rate. The interest expenses is about $32 million or so for the year?

John Fischer - *Olin Corp - SVP and CFO*

That's fair.

Richard O'Reilly - *Revere Associates - Analyst*

Okay. And that -- there is no other numbers that we should be thinking of.

John Fischer - *Olin Corp - SVP and CFO*

I don't think so.

Richard O'Reilly - *Revere Associates - Analyst*

Okay, fine. Thank you. And then a bigger picture question, I don't know how to ask this. But I am wondering, when you talking to your shareholders, and if they express risk to the stock from political or headline news, what is your response to that?

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

Well, where we are with regard to that, Richard, is, is that we have been in the ammunition business since 1892. We don't manufacture guns, which some people have a misnomer that we do, and we think that there is a lively debate out there that will occur. But oftentimes people think that we make guns and we don't.

Richard O'Reilly - *Revere Associates - Analyst*

Okay. And how would you respond to a question of would you get out of the ammunition business? Or why would you get out of the ammunition business?

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

We have been asked that question many times, as you know. We really happen to be a chemical company that happens to own a very profitable ammunition company. Our thoughts are is that our ammunition business has a lot of runway ahead of it with what we are doing down in Oxford, Mississippi as far as continuing to improve the profitability of that business, and it's also business that we have a very low tax basis in. So the -- we -- would we consider selling it at an appropriate time? We may. But right now that's not on the table.

Richard O'Reilly - *Revere Associates - Analyst*

Okay. Fine. Okay. Thanks a lot. Just wanted to hear that. Thanks a lot.

Operator

Alex Yefremov, BofA Merrill Lynch.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Hi, again. I just have a very basic question about commercial ammunition. What are the shelf life of this commercial ammunition. I'm assuming people are stockpiling it, so I'm just trying to assess whether this inventory may--?

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

Alex, there is no shelf life and the only thing I would just remind you is, is that people have stockpiled in every surge and ultimately it will get used. But there is no shelf life.

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

If it's proper--

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

Properly stored, right.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

Herb Hardt.

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

Thank you. Can you give us a sense of the capacity increase of in the industry 2013 versus '12?

John Fischer - *Olin Corp - SVP and CFO*

In the Chlor Alkali industry?

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

Yes.

John McIntosh - *Olin Corp - SVP, Operations*

I can tell you that there has been an announcement by Westlake that they are going to add somewhere between 250,000 and 350,000 tons of capacity. Then there was -- there has been discussion -- public discussion by Dow that they are converting 700,000 tons of capacity at one of their plants in the Gulf Coast from diaphragm to membrane. But there is no public announcements other than what we have said about capacity coming out. And we took 160,000 tons of capacity out of the industry in 2012 with our mercury cell shutdown.

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

Okay. Thank you.

Operator

And in showing no additional questions, I would like to turn the conference call back over to Mr. Rupp for any closing remarks.

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

Thank you for joining us today and we will look forward to reporting the results of our first quarter in late April. Thank you.

Operator

Ladies and gentlemen, that concludes today's conference call. We thank you for attending today's presentation. You may now disconnect your telephone lines.
