



ICL presentation at the Bank of America Merrill Lynch - Global Agriculture Conference 2015:

Andrew Stott: Okay, we'll move on to our next speaker. It gives me great pleasure to introduce Stefan Borgas from ICL. We were just speaking about how busy ICL has been the last 12 months or so with not only restructuring the assets, but a number of disposals and I think more recently a fascinating JV announcement with Yunnan, a Chinese phosphate company. But anyway, you don't want to hear me anymore. Over to you, Stefan. Thank you.

Stefan Borgas, President and CEO:

Good morning, ladies and gentlemen. Thank you for listening to us. ICL is not just a mining company and ICL is not just a specialty minerals company, but ICL's uniqueness really lies in the focus on building and operating integrated value chains from specialty minerals, into three distinctive end markets. And it's the operation of these value chains on a global basis that makes the difference to the mining sector and to the specialty sector.

Once you understand this about ICL, you understand our strategy and what are our strategic options and why we're doing the things that we're doing. Because, of course, once you understand that we're operating and optimizing these value chains, it's also clear that everything that we have in the company that doesn't fit into these value chains we shouldn't have. We should divest, and that's what we're doing. Every part of the value chain that is not cost-competitive with its appropriate peer should be made cost-competitive. We have a lot of efficiency activities going on. Every part of the value chain that doesn't, where we're not touching the end market in any one of the global geographies, we should be able to grow into these end markets with an appropriate backward integration, and that's also what we're doing. If you look at where we have gaps in this, you can also see that for the next 10 years we don't need to deviate from this focus in the company.

Any mining company's blueprint wouldn't look anything like this. And any specialty chemicals company's blueprint wouldn't look anything like this. It looks awfully complicated and is actually not complicated but is complex. That's the know-how of ICL in building a business. One business leads to the other. One flow of products leads to the other, and one end market has a synergy with another. And this is I think the capability of the company. You don't need to understand this in details, but I wanted to show this slide so that you see what this actually means to run integrated value chains.

So, I will lead you now to these different pieces. I will talk a little bit about the front end, where are we, where do we need to be more competitive, where do we need to put an emphasis for growth? I'll talk about different end markets and also what is it actually that we're doing. We have a couple of specific examples so that you get a feel for what we're doing in these end markets, and then at the end of the talk, I will speak about the finances and what this actually means for investors in terms of value creation.

So, let me briefly speak about the potash front end. Of course we have this great, great asset in the Dead Sea, which makes up about 3.6 million tons of the total of 5.4 million tons of potash that we produce. One of the uniqueness of course is the fact that we don't need to dig or drill any holes. The brine is just floating around and we need to let the sun do the work to evaporate it so it's a low-cost place. It's close to the port, so it's low-cost FOB. But the other particularity here, and it's really unique, is the fact that it is so dry at this side of the Dead Sea. It never rains. It's never windy because it's so deep. It's 440 meters below sea level protected by mountains so that it's never windy. And why is this important? Because it lets us store potash in unlimited quantities outside. In the financial crisis we stored more than a years' worth of production, more than 3.6 million tonnes outside, we just built a mountain. And what does that mean for investors? It means that the plant is running all the time. It never stops. And of course this gives great asset utilization, which leads to great return on assets. And because this is our largest plant, the other two mines in Spain and in the UK are also turning 100 percent all the time, because they're relatively small volumes from these two mines, we can always sell in the market. It's less than 2 million tonnes, the market never even feels it. So the entire ICL network operates on 100 percent utilization level, which means we have much superior assets utilization of rates compared to the rest of the industry.

We're improving all three of those mines. In the Dead Sea we've had dramatic cost increase over the course of the last ten years. Some of this because we have been a little bit relaxed because we made so much money. We've got a little bit of fat so we're getting rid of the fat right now. We have a very noisy strike. It's a piece of what we need to go through in order to get cost reduction, and part of this cost increase also came through government burden. So we have to turn the corner. 2014 was the first year where cost per ton in the Dead Sea was lower than the previous year; not much, but it was lower, so we turn it. And 2015 will be a noticeable reduction already there.

In Spain, this is our growth potential for the next few years. In Spain we operate two mines at 500,000 tons capacity each. They are relatively close to each other but they're completely standalone mines. One of them has very long reserve life and in this mine we're building a ramp at the moment, which will replace the

shaft and therewith de-bottleneck significantly the hoisting capacity. This is going to be finished at the end of 2015. At that point, we will shut down the other mine and produce the same quantity, 1 million tons, but only in one mine. We will only have 60 percent of the fixed costs, so this will give us a significant stepdown in cost.

Then, in Spain, we can start to invest into this mine in small, step by step capacity expansions. This is a capex to volume rate of about \$600 per tonne, which is very, very unique around the world and we could grow this Spanish mine up to 2.3 million tonnes over the course of the next years as we need material because we can do it faster. So very attractive place. The euro, the weaker euro also helps at least in the short term.

In the UK, the situation is quite different. This mine is very old. We make about 700-800,000 tonnes. The reserve life is not very long anymore. We have reserves maybe for the next 5 to 10 years. We cannot grow it. One of the highest cost mines in the industry. It makes a little bit of money because most of the material is sold in the local market, so we have a very high net-back, but potash wise, this mine doesn't have a lot of future.

But in this mine, we've found a mineral about 150 meters below the potash seam which is called polysulphate. This is a mixed mineral consisting out of 50 percent sulfur, 25 percent potash, and 25 percent calcium and magnesium. We can sell this product to farmers directly from the mine without any processing. It's a natural fertilizer, mixed fertilizer addressing this big need of sulfur deficiency in many, many of the soils. Functionally, it competes with SOP. We can sell it at around \$180 per ton. We have tested this now in many geographies around the world. This is a great value for farmers. It gives them sulfur and potash on their soil to much better conditions than SOP at \$500 or \$600 per ton, and it gives us margins that are better than 50 percent. We have 200 million tons of this mineral in the ground, so this is a huge reserve. We just commissioned a capacity expansion with 600,000 tons. It cost \$50 million to do this. There you can see how economic this is. It's a ratio that is phenomenal of course compared to anything in the minerals industry, and with 600,000 tons it will give us a very, very nice business. We sold 40,000 tons of polysulphate last year. We will sell about 120-150,000 tons this year. We're nicely at that rate at the moment. And then we will be at 250-300,000 tons of this mineral in 2016. So we'll reach the 600,000 within three or four years and then we'll also know if we can grow it any further. This mine will then have the potential to become a pure play polysulphate mine.

This is the backwards integration in products. Let me quickly talk about bromine. Bromine is all about optimization. We're the largest bromine producer in the

world. The Dead Sea is the biggest source and the cheapest source. The problem is the bromine market isn't growing because we, as an industry, including us, haven't invested enough in innovation. So in the next three years we don't expect any significant growth in the bromine market; maybe one to three percent. Value creation here in the next three years is all about cost reduction and intelligent price management, both of which are underway in 2015.

Our phosphate business, Andrew already mentioned during his introduction, is a business which, different to the rest of the industry, is focused on specialties. The phosphate industry, the phosphate market, 80 percent of it is in big, large fertilizer commodities; DAP, MAP, SSP and TSP. ICL's business is only 30 percent of these commodities and 70 percent in specialty fertilizers, in food ingredients, and in industrial phosphates. This is the way we think about phosphates. Mostly specialties, but in order to be competitive, we must be backward integrated until rock. As a result, we have a great phosphate business in Europe, a very good one in North America, but because we don't have any backward integration we have no presence in Asia. This is what we've fixed with this collaboration in China. In china, we bought 50 percent of a phosphate mine and a commodities phosphoric acid and fertilizer asset. As a company, we will run this 50 percent joint venture completely inside ICL, on ICL systems, consolidated into the company with ICL management, and the partner will have a 50 percent share but as a financial partner. In order to secure this collaboration with Yunnan Yuntianhua, which is a big state-owned phosphate producer, it's the largest phosphate producer in China, we also took 15 percent share in their holding company. You can see that here. We will get board seats there and we will get operational involvement in the management of their company, of the holding company of our partner. This should give us more control and it gives us great investment. We can talk about this more, Andrew, if you like, later on in the Q&A.

Let me talk a little bit about the markets now.

[VIDEO]

Stefan: I'm showing you this video because the focus on the market in the fertilizer industry compared to what we expect we think is very, very underrepresented. You can see this in stagnating potash usages around the world since more or less a decade. Volumes haven't grown very much, despite big capacity expansions. Focusing on supply doesn't fix the demand. As a result, in ICL, we focus a lot on educating farmers who are not using potash today or other nutrients, to understand how they can improve their yields with this. We have 70 agronomists present in India. This is a project of several million dollars. We're building the same in Ethiopia, with about 30 agronomists now, doubling next year, in order to build the knowledge in these markets among farmers and increase demand for our

fertilizers. We very much hope that this will take an example and be imitated by our peers as well. This will help the demand, which is something we need to do.

Our food business is focused, originated from phosphate salt, and it is really not a phosphate food business. It is a food business focused around the manipulation of texture and stability in processed foods -- in meat, in dairy, and in bakery products. Our customers are all the big food companies of this world -- General Mills, Kraft, Heinz, Nestlé, Pepsi, Kentucky Fried Chicken, McDonald's, all of these companies are our customers and we help them improve the formulation of the food that they process. We happen to use a lot of phosphate salt for this, but in these formulations, only 20 percent of the products that are used are phosphate salts, and 80 percent are other peoples' products. So we said we created a great value for our customers but we're only getting 20 percent benefit. We should have more additives in the portfolio in order to leverage this know-how. And that's what we have started to do now with the acquisition of a dairy protein company, a relatively small company in Europe with sales of 100 million euros. We spent about that money to buy it as well, but it is extremely synergistic with our phosphate salts and with all of these formulations that we develop for our customers. This is the direction in which we want to go with our food business and build it up as a downstream specialty operation.

[VIDEO]

Stefan: And finally, on the industrial side, what we call engineered materials, we have a lot of applications that are industrial applications for our minerals. I want to show you one example here as well.

[VIDEO]

Stefan: ICL's got 65 percent global market share in firefighting products, all coming from the integrated minerals value chain. Let me show you now a little bit more in numbers what this strategy means in terms of implementation in 2014, because the year has just been over.

Of course, 2014 was characterized by a big step down in potash prices. In ICL's case, this was a \$300 million reduction of operating income. We were able to compensate a third of this by cross-efficiency measures. We have a run rate of around \$120 million at the end of 2014. We committed to deliver \$350 million run rate cost reductions by the end of 2016. We're quite confident that we will reach this number. In terms of building, we have made several small acquisitions in order to strengthen the business. This is a spice acquisition that helps the meat industry. We have bought out our partners in Brazil for a white phosphoric acid in order to really build our specialty platform in South America. Auxquimia is our

answer not only in the wild firefighting foams, but also into the regular industrial foam. We have done a joint venture with Albermarle on polymeric flame retardant brominated products. We have a joint venture with AkzoNobel on the sale of salts. In Europe we're entering the salt market through them because in Spain we produce huge quantities of vacuum salt, and we bought a specialty fertilizer technology company in the UK for the improvement of drought management through fertilization. So a lot has happened here. Not all of it is needle moving, but it moves the company forward quite nicely.

The financial results, I trust that you have seen the numbers and you can read them here, but let me just spend two minutes on what the situation is in the market the way we see it. In potash, we see 2015 more as a flat year compared to 2014 because 2014 was very strong. There was a lot of inventory built up happening as well, so 2015 will not show a lot of growth in potash on the pricing side. We hope that competitors will actually settle on a little bit higher prices. There's also a chance that this will be a flattish price scenario. I think it depends very much on the big players negotiating in China at the moment.

In potash, however, as well as in phosphates, there's a little bit of tailwind for ICL on three fronts. We have lower oil prices like everybody else and this is improving transportation costs. In the ICL case, it's about \$5 to \$7 per ton for a volume of about 8 million tons of fertilizers and potash. We have a weaker shekel compared to the US dollars. We have about \$1 billion worth of cost in shekels and the shekel now has a 15 percent step down compared to the US dollar, so this should translate into something like a \$75-\$100 million tailwind because of lower cost here. And then we have contributions of cost from our cost reduction program in potash, where we have a strike cooking at the moment, which should be finished by the end of April, and in phosphates, where we have all of this kind of already, but we have only two quarters in the P&L last year, and this year we will have four. Even at the flattish price scenario, we should be seeing some good momentum on the fertilizer side.

In industrial products, the stepdown in bromine we think is finished. Also here we have implemented a very active price increase, which we will see in the P&L in the second half of the year, maybe already in the second quarter, but let's be conservative and estimate it for the second half of the year. We will see some cost reduction as well. Also, here we're in the middle of this at the moment. This will be balanced out by a weak quantity in the first quarter, mainly linked to this price increase which we're implementing in the market, and of course then, volumes are always lower. But bromine in principle will also show an improvement compared to last year.

The food business is the same. We should see an improvement compared to last year because the organic growth rate is starting to take traction with all of these technical operations around the world, fueled by these new ingredients that we have acquired in 2014.

On the industrial side of the phosphate business, we see a little bit of a challenging time in 2015 because we are very aggressive imports from China into North America which is taking quantities away and also putting pressure on prices. This is the outlook for this year.

How does this translate in shareholder value? We have a very strong track record in cash flow conversion from EBITDA to operating cash flow. In 2014 this was only at 66 percent. This is relatively low for ICL standards. This will go back up in 2015 because we have less one-time tax events to manage. Our dividend policy is very solidly up to 70 percent of net profit. It has historically been very in the 70 percent level. This gives shareholder a dividend yield of around 6 percent, as almost kind of insurance if you invest into our sale of stock.

With this, ladies and gentlemen, I'm at the end of the presentation, and I'm happy, of course, to do the last 15 minutes for questions and answers. Andrew, do you want to lead this?

Andrew: Thanks, Stefan. Can you just go through the milestones on the JV, so when we expect completion, the cash outs, and then with any JV, you're taking a 15 percent stake in a state-owned company, the risks around operating in China and getting cash out of China. Thank you.

Stefan: The critical time path on this joint venture is the transfer of the mining rights from the current company into the joint venture. This is a two-step approval, or a three-step approval. First, they have to carve out this mine and this plant into one company. This will be finished at the end of March. Then the local authorities in the Yunnan Province have to give their approval. They have been part of the deal basically because they're shareholders, so we don't see any problems at all here, except the bureaucracy, so this should be done by September. And then this goes to Beijing, and this is where it takes longer, so we expect this to close the end of February, 2016, and then closing of the deal happens shortly thereafter, because all of the other approvals are not on that critical time path. Getting money out of China is not a substantial problem at all these days. Cash is becoming much, much more flexible in China, with the ambitions of the Shanghai Stock Exchange, this will prove and with the big deregulation that is at least announced in China, this will also help. So, left are the concerns on how to operate a joint venture in China and take care of our interests.

So, there are two aspects of this. We're going to bring a lot of specialty knowledge into this company, and when we embarked on this, we basically had two options in front of us, or three options in front of us. The first one was if we don't bring our technology to China, we won't leverage it either. So we will keep the technology because we won't make any money on it, so it wasn't a very good option. The other option is we just bring it to China and don't worry about it. This was too easy. So what we did is we made an agreement with our partner, who's the largest phosphate producer in the country, for them to access all of our technology against a fee. So we will monetize it when it's used in their company, and they will be the ones who defend it in China against everybody else. At least we have an ally here. Then the second provision we take in order to secure a little bit of management of this is we took the stake in the parent company so that we're not just a partner, but we're also a partial owner. Why did they do this? Because there's a big push on deregulation coming from Beijing, from the new government on state-owned enterprises to create more value in the future and not just focus on volume. If you look at the balance sheet of this company, it's listed in Shanghai so you can look it up, it is too leveraged. Their market cap is a joke compared to the volume of businesses they have, and they're profitability improvement is potential is quite significant.

The investment that we took at the holding level allows us to get two board seats and it allows us to get operational involvement in the management of the entire phosphate chain of that company. This doesn't control the intellectual property that we bring, but it gives us a huge and very granular visibility on what they're actually doing in this company. We think with these components we did the best we can do and now we have to see how it goes, but it's maybe a bit more creative deal than just a straight joint venture.

Q: So if I add up all the sales aspirations of the major potash players in Canada and Russia and elsewhere, you come to around 65 million tonnes sold and most folks seem to think that demand is going to be flat such as you do, so call it 59-60 million tonnes sold and I'm curious how you think that 5 to 6 million tonnes gap closes? How does it resolve itself?

Stefan: If the market only needs 58 million tonnes, which is the number we're thinking of then the markets not going to buy 65 million. It's pretty simple. And who are the swing producers? Those are the ones with big capacities. It's the Canpotex complex, it's Uralkali and it should be Belaruskali. Now, the reality shows that Belaruskali is running their plants out completely so think about the potash market not as a 58 million ton market, but more as a 46 million ton market. Put the 12 million from Belaruskali into the market, they're going to sell it. But they can't sell any more. We're not going to have customers who are completely going to depend on them, so they're going to distribute it all over the world. I think the

rest of the players are going to let them and then the 46 million or 48 million, however much you want to take, is going to be distributed more or less compared to the current market shares to everybody else, which is a practical view.

Q: Question on bromine. I think you had indicated you may see some price help in the second half or possibly as soon as the second quarter. Can you update us on where you stand with realizations on bromine and key derivatives today and as the year progresses, what you see as the challenges, if any, to successful implementation. Is it China? Is it competitive intensity with the likes of Albermarle and Chemtura? How do you view that market evolving?

Stefan: We announced a 20 percent price increase for elemental bromine in Asia in December. Very, very quickly this was adopted by contract we signed, but also by Chinese. The Chinese subsequently inside the country also increased the prices for downstream bromine compound because it pulls through of course. And Albermarle announced a global price increase for brominated compounds I think sometime in January. So, we see quite a good momentum for this price increase. The reason why I was so conservative and said this would stick in the second half is because you have contract, we have a strike right now so we will not ship for maybe another month and by the time it is really in the P&L with old inventory being worked off, it'll be close to the second half. Maybe we can be a little bit more optimistic than that. But the Chinese are declining in output by two, three percent every year, and of course this puts pressure on their costs.

There's one counteracting topic here. This is on the flame retardant price. The steep price reduction bisphenol A, which is one of the very big components of the largest flame retardant produced in the world. It was short in the last three years, but it's long now after new capacity came on stream in China. So here, prices went down dramatically, and that of course counteracts the price increase on the flame retardant itself, because part of it comes from bromine, which is an increase, and part of it comes from bisphenol A which is a decrease. So on this product we won't see it in the P&L. We might actually see a reduction. Depends on how that movement works, but the margin improves still on this product of course for us.

Q: You finished your presentation talking about 70 percent payout dividend ratio, I think you said insurance factor beyond the div. yield. If I think back 6 to 12 months, I thought there was a slightly different message from ICL around the potential for that dividend payout ratio to fall gently over time. Is there a change in message here?

Stefan: No, there's not a change in messaging. Our dividend policy is still up to 70 percent. We still reserve the right to modify this a little bit, maybe to 60 percent or



even 50 percent in a specific year. Should an M&A deal come along that requires a little bit more cash, that's kind of the extent. But we have also seen, especially over 2014, the value that the dividend policy has, not just for US shareholders, but for us as a company, because it leads to a lot of very disciplined and engaged discussion about what should we spend money on. Because of this dividend policy, we don't have money available freely for everything we want to do because a big part of the cash goes to shareholders. And that is quite healthy, and maybe this is something we have a bit more appreciation on in the management now than before, so we're a little bit more confident on the policy.

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