ICL
Second Quarter 2014 Conference Call
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Operator:

Greetings and welcome to the ICL Second Quarter 2014 Conference Call. At this time, all participants are in a listen-only mode. A question and answer will follow a formal presentation. If anyone should require operator assistance during the conference, please press star, zero, on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Limor Gruber, Head of Investor Relations for ICL. Thank you, Limor. You may begin.

Limor Gruber:

Thank you, Kevin. Hello everyone here in the room and on the line. Welcome and thank you for joining ICL's Q2 2014 Analyst Meeting and Conference Call. We filed our reports this morning to the Israel Securities Authority and the Tel Aviv Stock Exchange. You can also find the English version on our web site. The presentation that you'll see today was also filed with an immediate report and it can also be found on our website. Please review all reports with relevant data and consideration. For those of you who follow us through WebEx, you can follow the presentation online. Please don't forget to review slide number 2 with the disclaimer.

We'll start today with Mr. Stefan Borgas, our President and CEO, followed by Mr. Avi Doitchman, Executive Vice President, CFO and Strategy. In addition, ICL's Executive Committee members are either here or on the line and we will all be happy to answer your questions following the presentation.

Stefan, please.

Stefan Borgas:

Thank you, Limor. Good afternoon, good morning, ladies and gentlemen here in Tel Aviv and around the world, on a day where it is quiet outside here in Tel Aviv, which actually it is most of the days despite what you read in the newspaper. The situation is under control here in our country. But the situation is also under control and actually improving in ICL.

Let me lead you through the first part of the presentation which is the high level view of the numbers and the direction in which we're going, an update of all of our projects, and then Avi will lead you through the details of the numbers and will present the bridges analysis.

We have seen Q2 as the next step improvement after Q1 2014, so I would ask you to concentrate on the comparison between Q2 2014 and Q1 2014, because the comparison to the second quarter of 13 is very much skewed due to the very different potash prices that we still had in the second quarter of last year. As of next year—we apologize, some static noise here— as of next quarter, the year-over-year comparison also will make sense again.

Our second quarter was significantly more solid than the numbers appear to show and there are two very simple reasons for this. Of course, we had a one-time operating income adjustment that is linked to a legal decision here in Israel based on royalties. We booked royalties over the past 13 years in this quarter so that's why we show you the adjusted operating income without that effect. But the adjusted operating income and the revenues include the effect of the strike that we have had in Rotem in our phosphate facility. This strike that we've had in the first quarter and the beginning of the second quarter, we took almost the full hit in the second quarter; we announced that last time we met here. The impact was $15 million USD on operating income. the strike got initiated because we implemented a cost reduction project at the Rotem site which included the reduction of about 120 people. This is not so easy to do in Israel so usually strikes are linked to this, but the payback for this project is very attractive. Actually after everything calmed down in the beginning of June, we see in the operations of the Rotem site, and in the cost structure of the Rotem site, the significant positive effect that this activity had. So, you have these effects all mixed together, and in the third quarter you will see the first step-up of profitability improvements in the Rotem site.

The second thing that happened in the second quarter, there's about 100,000 tons of potash that haven’t been shipped but really belongs into the quarter when you do the quarterly performance as a comparison; you will see this quantity show up in the third quarter.. So if you add these back into the operating income, then you see that we had a good positive development from Q1 to Q2. The adjusted sales numbers would actually show the same thing as well. This is the positive news because the underlying markets in potash is positive in terms of volumes and prices, and the underlying market in phosphate is positive in terms of volume and prices; the underlying market in bromine for the first time in many, many quarters, is—let me be careful—not negative anymore. The downstream phosphate business also continues to be as solid as it is before. This is the positive news of the quarter.

The things that -- the topic that took a lot of management time in the second quarter was the announcement of the Committee of the Finance Minister in Israel to increase taxation on the Company, the announcement of the so-called Sheshinski Committee.

Avi will show you numbers later on but the announcement didn't come unexpected, but it came in the second quarter and when we saw the mechanism and the quantification they propose, we could start to prepare measures against this. Also, on this one, Avi will give you a little bit more details later on but the short summary version of ICL's reactions that we have to take now, and that we have started to initiate through this committee, is a more aggressive reduction of operating costs in the country and a significant cut of CAPEX in Israel, which most likely will exceed $1 billion USD; $750 million USD we already cancelled in projects that were included in our five-year plan. There is a further $1 billion USD that is currently under review. So if you take a large portion of this, you can see the impact on CAPEX reduction in Israel.

Now, for ICL, not all of this will be the saved We hope, actually, that not all of this will be saved because we will start to redeploy this cap ex to growth projects around the world that are more attractive now economically than anything we have in Israel, but it will most likely delay the spending of this money by one or two years because of course now we need to restart these projects, and we will update over the course of the next quarters.

To go a little bit more into the quantitative aspects of what happened this quarter, I just want to (inaudible) about our growth projects and our restructuring projects. I want to just remind you the business model that we run. We're not a pure play mining company. We do operate mines that harvest specialty minerals in the Dead Sea, in the U.K., same in the Negev Desert, and we have started to engage in other regions I have yet to talk to about this. But then we operate sophisticated chemical operations that develop specialty downstream products for three end markets - agricultural, engineered materials and processed food - and we organize these in these three divisions, of course, that you know.

Let me talk a little bit about the qualitative part of the status of the business. In potash, the positive price trend continued in the second quarter. You don't see it in the average calculated price but that's simply a mix issue. We shipped much more to China than we usually do during these—during the second quarter because the Chinese are calling up materials very fast. We have actually upside potential for China in the second half of this year and we also have a relatively large portion of sales in Israel which, due to the local anti-trust regulations we have to sell at cost plus.. So it's a mix effect. Don't let yourself be made nervous about lower potash prices. It is not the case because it comes from mix prices.

Q3 sales, most likely volume-wise will be a little bit lower because of the China—the lower China volumes, but we will have 100,000 tons moved into Q3 because we didn't ship them fully, and just recently we signed another contract in India which brings the total Indian volume to more than 800,000 tons this year. We just signed it a few days ago, so that maybe the Q3 volume will be quite satisfactory, as well.

Our granular capacity, just like everybody else, is fully sold out; 40% of the world market buys granular. In ICL, the ratio is similar.

The Rotem sales in Q3 should be back to normal levels, if not higher than that. The operating rate in Rotem since the plant came back up onstream in the middle of June are at an exceptionally high level. In July we post record levels despite lower staff. It shows that the technical activities we did in Rotem also are starting to grip. I'm very happy with the way that the team is performing in Rotem, and also I'm quite satisfied about collaboration between the unions and the management that we’re now both pulling in the same direction in order to make this competitive again in the long-term.

In ICL Industrial Products, strong demand from clear brine through to North America, and in other parts of the world. Also very strong demand in biocides, and for the first time the flame-retardants volumes went up again; not dramatically, but they went up again so we're already happy with this. Why is this? Because there was—there’s a trend change in PC sales around the world; this is a big user of flame-retardants, of course. There's a trend change. There were also much stronger TV sales. Now, we don't know whether this is a trend change or whether this is the World Cup effect, which we simply don't know, so we would like to wait another couple months to see whether this is really a trend change, but there was better TV sales. Also, our TBBA sales, this is the biggest flame retardant product that we have, for circuit boards, , one of the plants we have now is fully running.

In ICL Performance Products, we had also the strike impact—this is part of the 15 million that I talked about before in the operating profit—and we also had the integration costs of the Hagesud site activity booked in the second quarter. So also here, real numbers are not what you see. The business continues to be very solid. The margins are stable, and the volumes continue to go up quite nicely.

With respect to our growth projects in the agricultural business, as we have announced, we are in a very concentrated way exploring new mineral resources in Southeast Asia and Africa and in Latin America. A couple of words for update: after we bought 16% in Allana Potash, a Canadian company but with the project in Ethiopia, our technical teams have started to engage very deeply with the Allana team and what we already saw in the pre-acquisition phase is that the CAPEX projections that Allana has for this project are rather optimistic. We feel it’s probably a very attractive project. We need a few more months in order to define some of the more really, really technical details that will determine the final feasibility of this project. So we’re positive about it, but the project is not attractive in the way the junior mining company has designed it, at least that’s what we see from today’s perspective.

In Spain, in our own minds we have identified—now that the expansion project and consolidation project of the two mines into one is making fast progress, we have identified a possibility to possibly expand this mine by around a million tons for probably a record low CAPEX level; less than half, much less than half of what you would see in CAPEX-to-production ratio in other parts of the world in the average of this industry. So, we're digging into this but this was a positive surprise during the quarter. After, we challenged our Spanish team to come up with a bigger debottlenecking project. Why did we ask them to do this? We asked them to do this because we want to prepare ourselves for a possibility that our Israeli concession would not be extended after 2030. If this is the case we need to be able to replace 3.5 million tons, and if the Spanish can deliver, we have the solution now together with all the projects we have.

On the phosphate side, I cannot give you any updates other than the frenzied work of our teams both in Asia as well as in Brazil, but I cannot report publicly on this at this point in time.

In Spain also, we signed a contract, or a memorandum of understanding with AkzoNobel for the marketing of 1.5 million tons of salt, highly purified industrial salt. We got into this business because of an environmental mandate from the Spanish government. It turns out that what originally was characterized as a problem, now is solved. We look forward to this strategic and very long-term collaboration with Akzo.

In India, as you know, we had very much focused on building the market. We have now the first result of the 720 trials that we did in India. The average yield increased that we achieved across these fields on the low side is 15%, on the high side is 35%. This beat any of our expectations. We have about 7,000 farmers that participated in these trials. We are completely determined to continue this program, at least at the same level. Maybe we can even increase the scale. The reason that we just signed another contract in India certainly is not independent from this project here. I think in India we're being recognized as a responsible market leader who actually takes care of explaining the use of these little bit more sophisticated products to the farmers, so I'm very happy about this. India sales should be something like 820 - 830,000 tons this year.

In Engineered Materials, the approach is, as you know, to grow our bromine franchise through innovation. You have here listed a number of projects in which we're actively investing money to build this market. Today, 6% of our sales come from new products. We want to double this over the course of the next five years. Unfortunately, this costs money in the short term, but in the mid term the return on this is very, very high.

Our balance sheet continues to be strong. We're comfortable with even the higher debt ratios that we have now, that of course are influenced by the one-time dividend that we paid at the end of last year. We explained why we did this, because we think this cash should go to shareholders while we don't need it. Of course we announced that we would leverage our balance sheet a little bit more; we did. This is far away from being worrisome for several reasons. We expect our operational cash flow to improve over the next few quarters. We have increased our discipline on capital expenditures. You see it in the real CAPEX year to date. Most likely we will not fulfill our cap ex forecast for this year; we will stay underneath. You can also see it on what we're doing in Israel. If the return rates are not good enough anymore, we stop projects, we cancel those projects, and we also have divestiture opportunities. Our non-core businesses, some you see listed on this chart; the order of magnitude here is $300 million to $500 million proceeds from these businesses that are lower in margin than the rest of ICL, and also, we are not the best company to grow those businesses. So, you see if you take these things together why we are confident about our balance sheet as well.

With this, I like to turn it over to Avi who will go through the details of the finances together with you.

Avi Doitchman:

Thank you, Stefan. In the second quarter of 2013, we reached revenue of $1.5 billion; adjusted it was an income of 214 million net income. The main effect of this quarter was prices, as Stefan mentioned, the reduction of prices last year as a result of Uralkali's announcement affected our revenue and profit. Also, the strike at Rotem in the first quarter and the second quarter. In the second quarter the effect was about $15 million on operating profit. We made the provision for our royalties as a result of the arbitration decision between us and the government of net amount of $135 million. The effect on operating profit is $144 million. The effect on interest expenses is $32 million.

On the potash business, if we look on the bridge analysis between our 2014 results and 2013 results, as we can see on the page, the main reduction in sales came from prices which led to a reduction of $141 million,. Another $17 million came from quantity, and as Stefan mentioned, about 100,000 ton of potash, we suffered delays from the second quarter to the third quarter as a result of labor interruption to sales in late of the second quarter. So if we eliminate these 100,000 tons between this volume and this quarter was better than the same quarter last year.

On operating profits, again, is the main effect came from prices- $113 million. We can see, also, some saving and cost reduction on energy and transportation.

If we look on the main growth emerging markets, India, Brazil, and China, if you look globally, what happened, so basically these markets grew nicely compared to last year. In India imports grew by 31%, in Brazil growth totaled 28% and the Chinese market demonstrated 8% growth in imports, despite an increase in domestic production.

If you look on our shares in these markets, so we can see close to 14% in India, and as Stefan mentioned, we signed another contract, so total quantity for this year of 2014-2015, supposed to be 825,000 tons including options that we did.

In Brazil, relatively we have a lower portion than in the past but in Brazil it's mainly granular product, and we were sold out in granular so this is he main reason why we had less product in Brazil.

In China, you can see our high rate, our portion of sales. Basically we finished our contract, the first half year contract in China, so we don't estimate another contract in the second half of the year but we assume spot sales in China, so mainly in the fourth quarter but it can be also in the third quarter.

If you look on Phosphate and Fertilizers, sales were down vs. last year. Unfortunately, we suffered again from low prices compared to the last year. The main effect from the strike was a loss of quantities. We lost about 50 thousand tons of fertilizer and if we eliminate this quantity again, our quantity this quarter was better than last year.

On operating profits, the main effect is prices and the effects of the strike; $9 million was the strike, but you can see from other sites improvement (inaudible). Our cost of sulfur is lower than the same quarter last year, but higher than previous quarters, the first quarter of 2014, and we price in the third quarter too. It's very important to see the reduction of cost of production, as a result of (inaudible) the early retirement plan that reduced our manpower in Rotem.

In Industrial Products, as I said, sales are more or less the same. Operating profits is lower mainly due to a mix of products that are less profitable, more biocide and less flame-retardant. Some effect of prices, about $3 million came from prices, and the effect of royalties. In this quarter, we had another $6 million in royalty payments; $3 million directly for this quarter and $3 million directed to the first quarter of 2014.

In Performance Products, we had a little bit better sales, mainly as a result of prices and exchange rates compensated by low volumes compared to previously, partially as a result of the striking workers at Rotem. In operating profit, we see better prices and better operating expenses. Looking forward to the next quarter, you have to take into consideration that the last year third quarter was very good in fire safety. So you have to take into consideration that if the season is average, fire safety quarter this year will be lower than last year.

A few thoughts about the Sheshinski Report. On May 18th this year, Sheshinski Committee filed internal recommendations. The main recommendation state that we have to pay 5% royalties across our products on potash, bromine and phosphate. The proposed mineral tax is at a rate of 42% on operating profit after taking into consideration the return of 11% on the asset base. We filed our response to the Committee on July 12th and on August 4 we had a hearing with the Committee. Our main argument was that there is mistake in the way that the Committee calculated the basic rate of return. As I said, the return for tax purpose is multiple of two factors: on is the rate of return and the second is assets which operate—operating assets from production of our products. So we explained that the rate of return, as the government decided 11% is too low and it should be double, and of course we gave a lot of evidence to support our arguments. Also we explained that the asset base is too low. Basically the government decided that the basis of assets, will be the book value of depreciated assets and we think it should be economic assets on top of which it should take in consideration also working capital and intangible assets. We believe that only assets which include these are acceptable in order to give real support to the business, it’s only about this level of assets with the right multiple, the right return of assets. Only on top of this is the government should impose the mineral tax.

As a result of this decision of the government, basically, the government think—they explained this way—we should pay the higher government take globally. According to the government itself, normal government take is the level of 25 to 46%. They say that they believe that our government take after Sheshinski will be 46 to 57 percent. So basically according to the government report, we assume to pay the highest government take in the world. Also this portion doesn’t take into consideration the salt harvest project that should be part of the government rate. So really, we estimate the government take to be 70% of our - from our profits, not 46 to 57%.

So, interesting that basically the government, they calculate all the calculations based on potash but they impose these rules also on potash and phosphate—sorry, also on bromine and phosphate, and this is different business, different profitability area, a different way of operating. So we think the government cannot impose the same way of treatment for the potash to the rest of the activities.

So, what have we done? First, we've done some calculation of the effects of Sheshinski on our results, assuming that this recommendation of the Committee on our results at the end of 2013. So the net effect is $160 million. This net effect takes into consideration prices as was in 2013. To remind you, the potash price in 2013, potash price was (inaudible) per ton. Taking into consideration the cost of production, take into consideration that we should pay—calculate our extra tax on the bromine activity in consolidation between bromine and bromine compounds and take into consideration the extra tax rate at least 26.5% as it should be in 2017/2018. So basically of course this number is not the real number because Sheshinski effect on potash at least will be only in 2017 forward, but you can take this assumption that we prepared. Take the prices of $340 per ton as a basis and if you want to see the effect of Sheshinski as from 2017 and further. Of course with lower prices (inaudible), the effect will be lower.

So this is the effect of Sheshinski. What we are going to do?

So first we try to convince the Committee to correct the mistakes that they made. As I said, we sent a written report and we had also a hearing, and we are going to meet and convince them what the mistake that they made.

We consider taking some legal actions. So this is on the, let’s say on the safe, the defense side, but also in our business, we are going to take measures).   First, we would have cost-cutting program. We said today we plan to save about $350 million as of the end of 2016 on an annual basis. So we want to expand our efficiency project and cost-cutting, and improve our position after with bigger numbers. We definitely are going to reduce the level of investment in Israel because of projects that in the past we thought were economic would not be economic anymore, but we want to keep this investment out of Israel in order to continue with our strategy project and expand our activities, not necessarily, unfortunately, not necessarily in Israel. Also, we check availability to transfer our growth projects mainly out of Israel.

So this is called Sheshinski. Thank you.

Limor Gruber:

Operator, we will now move to the Q&A session. We'll start from the line, please.

Operator:

Thank you. At this time we'll be conducting a question-and-answer session. If you'd like to ask a question, please press star, one, on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two, if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Once again, if you'd like to be placed in the question queue, please press star, one, at this time.

Our first question today is coming from Yonah Weisz from HSBC. Please proceed with your question.

Yonah Weisz:

Good afternoon. If I may ask a question on potash, and a question on phosphate, Stefan, I think you mentioned that your third quarter sales to China would be a bit weaker. I guess you were trying to say because there was no contract signed out. I'm curious if you could talk about your sales strategy in China. Last year when there was a lot of chaos in the potash industry, I think Israel chemicals were selling on a spot basis with one or two other companies into the country, and I’m wondering if you continue, if you think you could continue to sell spot volumes into that market. And if so, why would things be low? Should not demand take a proper amount of quantities or good quantities, and spot prices?

The same question about phosphates. You mentioned that Rotem will be operating at very, very high levels. Is there a natural market for you to sell all that into right away, or do you have to kind of work and find people to buy that product that's being put out by the (inaudible) at this high operating rate? Thank you.

Stefan Borgas:

All right, let me start with the second question. Of course in phosphate) we are a very small player. So very, very high operating rates are great for us, but the world market, it doesn't really get pressured by that. So the high operating rates for us will be resulting in a little bit more sales of rock, a little bit more sales of phosphoric acid, a little bit more sales of purified acid, a little bit more sales of TSP fertilizers and a little bit more sales of water soluble fertilizers, which by the way we need desperately because we're completely sold out here. So I have no concerns whatsoever to sell these volumes.

In phosphate rock, one of the best markets for us is India. We have more demand than supply for India, so here I have no concerns at all because we're small and our product range is so broad.

Potash, a strategy, a sales strategy for China. It's actually a good news story because our relatively sizeable contract, are already all shipped. So in the third quarter, by contract, we will just ship less. Now, Avi mentioned that there is the opportunity for spot volumes, just like last year. We are, of course, not the market-mover, so we cannot negotiate new contracts, but our customers are very interested in buying some spot quantities, and if the price is right, meaning higher than the contract price that we had in the first half, then we will sell some spot quantities. This is the reason I'm a little bit hesitant; I don't want to commit to this because I don't want to under dig our sales guys position by committing to selling volumes to China and at the end they decide to not do it because of pricing, because we're a price conscious player, as you know. From ICL's perspective, we can easily let 200,000 tons of potash sit in the Dead Sea for six or nine months, not sell them, and wait until the prices are higher, and sell them in the first half of next year. We could do that. So, this is the option we always are contemplating, but the demand for additional volume in China, in the third, and the fourth, and maybe the third quarter also is certainly there.

Yonah Weisz:

Thank you.

Stefan Borgas:

Does that answer your question?

Yonah Weisz:

More or less I guess, so thank you.

Operator:

Thank you. Our next question today is coming from Joel Jackson from BMO Capital Markets. Please proceed with your question.

Joel Jackson:

Hi, good afternoon. A couple of questions. Last year your second half potash shipments were similar to first half of the year. Would we expect that for this year as well?

Hello?

Stefan Borgas:

Yes. I don't think your information is right because in the third quarter of last year we hardly shipped any potash.

Joel Jackson:

If you look at your report numbers. You're right. Let me ask it again. You're right. I was looking at production. I apologize, sorry.

The question I just want to know, would your second half shipments this year be similar to your first half year shipments this year?

Stefan Borgas:

We would certainly expect to ship more than 5 million tons this year, well more than 5 million tons. So, yes.

Joel Jackson:

My second question was—oh, sorry. My second question was you recently announced some management changes at Cleveland potash, and got some more funding from the

UK government for polyhalite. Where are you on production rationalization at Cleveland potash? Thanks.

Stefan Borgas:

Okay, this is a very interesting story. I don't know how much detail you want me to give you, I can give you an hour lecture on potash as kind of an executive summary. I'll try to do it faster than this.

We've had some rather rough start into the year at Cleveland Potash in terms of geological challenge because we've had a lot of organic material contamination in the potash and therefore the run rates have been lower than we wanted them to be, only at same level than last year. Since May, this was significantly improved. Since May, we're running at the higher run rates that we wanted to have this year. Therefore, the operational performance on potash is actually pretty satisfying for Cleveland. Therefore, here, the volume output is higher, and also, of course, the costs went down.

That's one part of the equation. The other part of the equation is actually more long-term potential. We, as you know, we have a second mineral in Cleveland, which is called polysulfate. This is a mix the fertilizer which contains potash, sulfate and then a little bit of calcium and magnesium, almost no chlorine; that makes it attractive for vegetable applications and sensitive crops. This product is a new product; it's a conceptually new product for many farmers so it took a long time to explain it to farmers. It's almost like a specialty sale, but we can make a specialty product at commodity costs because it's a mined fertilizer that we can sell as-is. At least a little bit more than half and the other half we need to compact so that it's got good granules and we need to add a little bit of course. So the bottleneck here had been the market because customers had to test it and try, and you know farmers are careful people, what they sow on their land they test for a couple of seasons. This bottleneck has now moved to the plant. We are going to sell - comfortably going to sell 100,000 ton of this material this year, and the project that we have defined with the support of the UK government is an expansion of polysulfate from 100,000 tons to 600,000 tons. This is on the way and will become available in the first half of next year so that we can start selling quite significantly higher quantities, and of course as we go into higher quantities, also the costs will go down dramatically.

If the marketing story, the marketing success of this product continues, it's opened new options for Cleveland because it opens the option to eventually reduce the potash quantities in favor of polysulfate quantities. We are selling this product at 180 euros per ton in the market. It will be, , 120 or 130 fob mine, something like this because we sell it in relatively small lots so we have high freight costs, but the production costs are much lower than this. So it's got very good margin. If the potash - if the Cleveland mine would exclusively 100% operate just on polysulfates, the capacity of the shaft, which is the determining long-term factor, would be 4 million tons. So it could be an interesting option in the very long-term. In case potash prices don't recover, or we have other sources like in Spain and in Ethiopia, and maybe one day again in the Dead Sea. I believe, in Israel, we get logic again into the environment, but once we get this, then here is an option for Cleveland. At least it's an arbitrage possibility, which from today's perspective will secure the long-term survival of this mine. So, also here, quite good news.

Joel Jackson:

That was very helpful, Stefan. I just had one more question on Allana in Ethiopia. You mentioned that Allana's prior CAPEX estimates were quite optimistic. Maybe you could just give it a little more elaboration here. So what specifically what is optimistic? Was it the mine plan? Was it the prices and the equipment? Do you need to do another feasibility study here? And where are you six months after this with the timing and the technical challenges and opportunities on this project? Thanks.

Stefan Borgas:

So, this is a junior mining company who did a very good job when doing a pilot and doing some basic design. Now, in order to build a mine, you need to go into more of a detailed design so that you can narrow the CAPEX range, so we knew this when we bought this option. What we've found now is that our original assumptions require more investigations, so we're not nervous. The project the way Allana proposes it is not possible at this level of CAPEX, from our perspective.

What we have done now with our technical team, with contractors, and with - in collaboration with the Allana guys, is trying to narrow down the cap ex estimate range to a level where we can feel comfortable to approve this, at least as investors. If Allana decides to go without us at their current level then I think we will take a step back,. If they can deliver it, okay, we have the offtake agreement, then this is also okay, but then we would not engage - get engaged full-scale.. I believe our guys who are, you know—operation experts, and who know how to deal with Sylvinite and Carnallitite alike, really know what they're talking about so I have high trust in our team.

Joel Jackson:

Thanks, that was very helpful. Thank you very much.

Operator:

Thank you, our next question today is coming from Joseph Wolf from Barclays. Please proceed with your question.

Joseph Wolf:

Thank you. I just wanted to—one quick technical question. On the cap ex side, you said probably it will come in a little bit lower. Can you give us an updated cap ex expectation for 2014 and '15 given your new expectations?

Avi Doitchman:

So, first we said that our cap ex is in the level of between $800 and $1 billion per year. We assume that we—assume lower cap ex in Israel in the level of $100 to $150 million per year.

Joseph Wolf:

Okay, and then if you—taking that further, you made some helpful comments on the Sheshinski process right now. Can you tell us where we are in that process? I know you presented to them this week. Could you tell us a little bit about what kind of feedback you expect to get, what kind of timing? When you think about these projects and the operational and the strategic measures that you're thinking of implementing, what's your time horizon and then as you think about that geographic mix, and you mentioned in the last question Stefan that you know you might come back to the Dead Sea. How long would it take between saying no and then turning something back on? Are these going to be quick decisions or will these be slow decisions depending on how Sheshinski comes together?

Stefan Borgas:

Okay, so, a little bit of light on this. We presented our comments and the recommendations, and we got two kinds of reactions spontaneously in the meeting. The first one was an utter shock that there's actually a difference between potash on the one side and bromine, magnesium and phosphate on the other side. Actually we got a letter after the meeting asking us for detail on the P&L and so on and so forth between the different products. So this came apparently as a surprise and I think we have the chance here to make some changes to their recommendations because they clearly didn't see that. At least that's what their reaction and their letter led us to believe.

On the fundamentals of potash, they just shook their head and seemed to say, well, eat it. So, here I'm very pessimistic that in the short-term we will get any kind of substantial changes to the recommendations. I might be wrong, but that's the working assumptions that we have. As a result of this, we have cancelled these two big investment projects in the Dead Sea and this has two reasons. In principle, these projects are still profitable projects, but because of the extra taxation, the payback time is extended quite a bit, and because our concession ends in 2030, we don't see a way to start this project and pay it back in time. That's why it makes no sense for us to engage in it unless we get some specific commitments from the government.

So what we're planning to do is we’ve cancelled these projects. We're going to freeze them in the current status. It's going to take about six months to start them back up, if we wanted to start them back up. We need to recruit the people and reactivate the contractors, in one case six, another 12 months to start them back up because we then need to recruit the people and reactivate the contractors, and in one case six months and the other maybe more like 12 months to start them back up. We're in the process of freezing, already because all the indications we get is, guys, you have to eat this. The investing in potash in the Dead Sea makes no sense because of these two reasons, the longer payback time and the end of the concession. In the government, nobody even wants to talk about extending concessions because for politicians 14 years is a long time. So they don't see any need to discuss this at this point. I hope, as I said before, that maybe in one or two years, reason will come back into this entire discussion, and we can have less of an emotional discussion here.

The other—the non-potash related issues are very serious because they go to the essence and to the bone of our operations. We just don't make any money in magnesium metals. Everybody knows this; this is a structurally money-losing business and the reason why we continue to operate it is because of the synergies between magnesium and chlorine and bromine and potash, where this is all integrated into. But if the synergies are taxed away then it makes no sense to keep the magnesium running; this is our predicament here. This analysis is not finished but this is the direction in which this goes. We need about three to four weeks until we've completed this analysis. We've had a review with our Board already and we will have a final one in a few weeks from now, and then we will also publish quite openly what we do because also our employees, of course, have the right to know; similar, the situation in bromine. It depends very much on how technically to handle this, which assets they want to include, whether they tax this at all, what they do with the downstream royalties. Also here, the brominated downstream compound, this is not sexy business. It’s a relatively low-margin business. If they tax away now the synergies on the upstream, of the bromine, it kills the business and then we need to - in the worst-case scenario - shut the whole thing down and get out of brominated compounds. This is extreme. We don’t want this and we think we have other solutions, but it’s going to require—if this is the final recommendation, this is going to require severe, severe measures. Until we don't know what the final recommendation is, we don't know what the final measure is but we are prepared to act relatively quickly, that is within weeks, once the final recommendation is there.

On phosphate the situation is also similar. They increased the royalty by 400% on phosphate rock; this basically takes away 70% of the existing profits. So if this is the case, why bother even asking for another concession if they tax it that way?

These are details that eventually somebody's going to have to get interested in. Our predicament is that the commission is looking at potash all the time, but from our 5,000 people, only 1,500 are in potash and the rest is not in potash and with what they're doing in potash, without going into details in the rest and endangering everybody else, and that's the frustrating thing and we're quite specific about this and we're giving them as much detail they want. We've invited them to our offices, we open out books to them. We say look at this; we're not bullshitting anybody here. This is a true challenge. Decide what you want to do but you're hurting the country. You're not increasing taxes, you're lowering taxes by what you're doing. But more important, you're hurting the country.

So hopefully they will listen. On the one side I'm more confident than on the other, as I said.

Joseph Wolf:

Perfect. That was helpful. Just one last housekeeping. Reports in the paper today with the US listing can you give us an update from your side?

Stefan Borgas:

No news is good news. That means everything's on track. We just can't do listing while investors are on holidays. As soon as they're back from holidays we're ready to go.

Joseph Wolf:

Perfect, thank you.

Operator:

Thank you. Our next question today is coming from Andrew Stott from Bank of America Merrill Lynch. Please proceed with your question.

Andrew Stott:

Thanks. Yes, I just wanted to explore the market share trends for the first half relative to last year now. I haven't located six-month data from last year; I've only got 12-month data, so forgive me if this is a bit wrong in interpretation, but it looks like you've gained an enormous amount of market share in China, and on the flip side lost a lot in Brazil.

So if that's the right assumption, because again, I'm comparing six months with 12 months from last year, can you just walk me through why you would do that, or why the market has lead you down that market share trend?

And also thinking about the granular on the MOP side of things, does that sort of explain it? So you sold out of granular, so you know all of your volume growth is in MOP and therefore to China? Thanks.

Stefan Borgas:

Andrew, you gave yourself the right answer.

Andrew Stott:

Answered my own question, okay.

Stefan Borgas:

There's another element to this. Our Chinese customers just got off the orders faster than last year, so seemingly if you only look at half year numbers versus full year numbers last year, it's a little bit skewed. So if you will wait until the end of the year, our market share in China will go down a little bit because simply we've shipped most of what we had to ship in the first half, so it's a bit of a skew. But in principle, our market share in Brazil was lower simply because we didn't have enough granular.

Andrew Stott:

Okay. Can I ask you a second?

Stefan Borgas:

… can sell granular of course, a little bit to the US but mostly to Europe and also now some Chinese customers are starting to take granular.

Andrew Stott:

Okay. Can I ask a second question?

Stefan Borgas:

(Inaudible). Different qualities for different prices.

Andrew Stott:

Can I just steal a second question? It was on an entirely different topic. I think you mentioned, Stefan, during the presentation that the Spanish cap ex for the extra million tons was, well, what you considered to be especially economical. Are you comparing that with other brownfield and is that your reference? Or are you just saying it’s brownfield rather than greenfield and therefore on a cap ex per ton basis it’s cheap? And related to that, is that expansion for granular or for MOP or for both? Can you give me any data on that?

Stefan Borgas:

So whether it's granular or not it depends utterly on the fact whether at the end of this line we put a granulation plant or not, which we will, so it will all be granular. But, I'm comparing it to other brownfields. It’s, as I said it’s early days. It's a concept study at this point in time but it's so shockingly attractive that we're putting an accelerator on this and hopefully by the end of the year, we can make it a project. This is what happens when you have a team with some new people, who ask questions a little bit differently, and you start to get into a little bit new technology, and you have pressure of increasing volumes. Suddenly things come up that nobody ever thought about before. We could have thought about this 10 years ago, but we didn't because we don't think like this - didn't think like this. This is how innovation actually happens; it’s a great, great example. If we can confirm this, this will be by far the best brownfield project in the world.

Andrew Stott:

And timing...?

Stefan Borgas:

It will move up on the list of our projects.

Andrew Stott:

And when would you assume first production?

Stefan Borgas:

I can’t tell you this.

Andrew Stott:

Okay.

Stefan Borgas:

I hope there's a one in front.

Andrew Stott:

Okay.

Stefan Borgas:

Three, four years I would estimate but please don't nail me down on this, something like that.

Andrew Stott:

Okay. (inaudible) Thank you.

Stefan Borgas:

But it's completely integratable in the existing mine, in the existing plant infrastructure and in the existing logistics. That's what makes it so attractive.

Operator:

Our next question today is coming from Andrew Benson from Citigroup. Please proceed with your question

Andrew Benson:

Yes, thanks very much. The 1.75 billion of potential projects which could be cancelled, it's a fairly huge amount of money and obviously you're at the moment at the pre-decision-making stage, but to drive the future of Israel Chemicals outside of Israel, when do you think you would need to be making significant investments in potential, say, phosphate projects in Brazil or something? When do you think you're going to have to—what time horizon have you got to deliver a viable growth picture for the future you'll be needing to make those substantial investments? How long do you think before you've reached the point of no return and your strategy has to be outside Israel?

Stefan Borgas:

First half of 2015.

Andrew Benson:

That is assuming that Sheshinski goes—say again, sorry.

Stefan Borgas:

First half of 2015. And once we decided on a let’s say light asset expansion, purified light asset expansion outside of Israel, then we will not do it here anymore. Once it's moved, it's moved of course, right? But the decision is rather sooner than later. So I would estimate first half of 2015 will be the decision.

But, if you look at it from our cap ex development, our guidance on cap ex so far was we would spend about $800 million on average over the course of the next five, six years. This year, this is still—this contains still a lot of infrastructure cap ex. Next year, the infrastructure cap ex starts to go down and would be replaced with growth cap ex. Now that we are moving projects outside of Israel, there will be a dent in this curve because we will not be able to replace the Israeli projects in the same exact timeline. So we would have one or two years of lower cap ex and then come back up to the 800 million.

Andrew Benson:

Okay. The second question is on the disposal program. You’re indicating 300 to 500 million. What sort of time horizon do you have to hope—obviously there’s a lot of uncertainty—but hope to have delivered on those disposals?

Stefan Borgas:

Also, first half of 2015, at least some of them.

Andrew Benson:

Okay. All right. Okay, thank you very much.

Stefan Borgas:

The assets divestiture processes going on our alumina, water, paper and hygiene businesses right now. We're in the due diligence phase with current buyers, so this has started.

Andrew Benson:

All right. Thank you very much.

Operator:

Thank you, our next question today is coming from…

Limor Gruber:

Kevin, just a second. We're going to move to get questions from the room, if we have some.

Operator:

Yes, please proceed.

Stefan Borgas:

Limor Gruber:

Any questions in the room?

Okay, we can go back to the line. Thanks Kevin.

Operator:

You're very welcome. Our next question today is coming from Nina Dergunova from Goldman Sachs. Please proceed with your question.

Nina Dergunova:

Good afternoon. Thank you very much for your presentation. I have two questions on this point. Firstly, could you please provide an outlook for the labor union negotiations in second half of the year and 2015? Are there any further sanctions possible similar to DSW (ph) which happened recently? Do you expect something similar by the end of this year or next year? Any controversial issues remaining in your negotiations with the labor unions?

The second question is under what circumstances you would consider paying higher dividends or distributing another one of extra dividend this year or next year? Thank you.

Stefan Borgas:

Okay. (Inaudible) of our balance sheet situation and our growth plan, we don’t plan any one-off dividends this year. We have also no reason to change our 70% dividend payout for the time being. So, on that side, we're completely within the frame of what we announced.

Labor disputes in Israel, what we had in Dead Sea Works a few weeks ago, that was just a skirmish. That wasn't a real labor dispute in the way we had it in Rotem, for example, with a strike. This was skirmishes, and this is on the side.

It depends very much what the government will push us to. Depending on the extent of the decisions on the royalty arbitration and on the Sheshinski recommendations, our reactions have to be more or less severe on cost-cutting because with the structure of the Sheshinski proposal, investing in Israel is no more attractive because our return on investment after tax is somewhere around 4.5%; that makes no sense to invest here anymore in the current proposed structure. But cost-cutting really is a threat, is the only attractive value creator left in this country because for every shekel that we can reduce in costs, we can keep $0.40 and $0.60 will go to the government. So this is an alliance proposal from the government to us to cut costs. Basically that's what they want. If this is what they will propose then our cost reduction measures must be pretty severe, and then I would expect our labor unions will react. They will have to react. This could become prevalent later in the year, but it depends very much on these outcomes.

I would estimate these things would happen somewhere between September and March next year.

Nina Dergunova:

Thank you very much.

Operator:

Thank you, as a reminder, if you'd like to be placed in the question queue over the phone, please press star, one, on your telephone keypad at this time. One moment while we poll for further questions.

There are no further verbal questions at this time. I'll turn the floor back over to Management.

Limor Gruber:

Kevin, thank you very much. Thank you all for joining us again to our conference call. We'll be of course very happy to see you next quarter, and have a good day. Bye-bye.

Operator:

Thank you. That does conclude today's teleconference. You may disconnect your lines at this time and have a wonderful day. We thank you for your participation today.

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