



**ICL Group**

**Analyst Call**

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## CORPORATE PARTICIPANTS

**Limor Gruber**, *Head of Investor Relations*

**Stefan Borgas**, *President and Chief Executive Officer*

**Kobi Altman**, *Executive Vice President and Chief Financial Officer*

**Nissim Adar**, *President and CEO, ICL Fertilizers*

## CONFERENCE CALL PARTICIPANTS

**Vincent Anders**, *Morgan Stanley*

**Joel Jackson**, *BMO Capital Markets*

**Gilad Alper**, *Excellence Nessuah*

**Yonah Weisz**, *HSBC*

**Christopher Kapsch**, *BB&T*

## PRESENTATION

Greetings and welcome to the ICL Analyst Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the 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.

I would now like to turn the conference over to your host, Limor Gruber, Head of Investor Relations. Thank you, Ms. Gruber; you may now begin.

### **Limor Gruber:**

Thank you. So hello everyone in the room, everyone on the line. Welcome and thank you for joining our first quarter conference call. Earlier today we filed our reports to the securities authorities in the US and in Israel, to the New York Stock Exchange and the Tel Aviv Stock Exchange. You can find them on our website as well as the presentation and the press release. Please review Slide 2 in the presentation for the disclaimer.

Today we will start as usual with our President and CEO Stefan Borgas, followed—not as usual—by our new CFO, Mr. Kobi Altman, Executive VP. In addition, all of our Executive Committee members, as well

as our Chairman, are actually here, so we will all be happy to answer your questions after the presentation.

Stefan, please.

**Stefan Borgas:**

Thank you very much. Good afternoon, good morning, ladies and gentlemen, here in beautiful Tel Aviv and in New York and wherever else you are around the world. Welcome to ICL's Q1 update call. Let me start with the highlights.

The first quarter was a relatively unusual quarter because we had significant one-time items, both on the positive side as well as on the negative side. Therefore, we show you our results as they come out, which looks very, very good, and we show them to you on an adjusted basis so you get an understanding of the strength of our underlying, ongoing business. Kobi will build the bridges for you later on. Before he does that though, let me try to go through the first few slides of this presentation in order to give you the background of what happened in the first quarter.

The three highlights you see here on this slide, we harvested gains from hard work of the last year by booking significant gains, and getting the cash flow from the divestitures of the non-core businesses that we did last year. On the balancing side of this, we had impact of the strike here in Israel, which is not quite as high as these gains. It's not by chance that these things come together in one quarter. There's a bit of a design on that. I'll get into this a little bit later. Most importantly, reflecting the strength of the core business we have our operational excellence activities around the world that continue to progress at or above target.

The impacts of the strikes, as you will see on the next few slides, are significant but they are not dramatic for the Company, neither in the short term nor in the long term, whereas the benefits that we are expecting are quite significant.

On our growth activities, on our growth initiatives, overall we're doing quite well. I'm very satisfied. Some of our activities are actually advancing faster than anticipated. For example, the integration of our whey protein business into our Foods activity, Prolactal, happened in the first quarter of this year with quite a bit of tailwind stronger than we had expected in our business plan. We also made an offer for Allana Potash, which is a Canadian startup company which owns a concession for a potash mine to be developed in Ethiopia. This will allow ICL, assuming that the Allana shareholders will accept our offer, to develop this mine starting at the end of this year, beginning of next year.

We're also very, very pleased with the progress we're making in the process of getting the joint venture with Yunnan Yuntianhua in China approved. All of the feedback we've received from the authorities in China directly and to our partner are quite positive, so we have no downside at all to expect here.

In the second half of this year the restructuring activities that we're doing at our Dead Sea potash site and at our Neot Havav bromine compound site will contribute to the bottom line. Let me talk about this strike, which at least here locally is discussed significantly.

This strike is the final stage of a one-year process of planning and now implementing efficiency measures that will improve the profitability of both of those sites in Israel. This step of a strike is a costly step but you should consider this as an investment into the future of these facilities. It will strengthen Israel's industrial platform and make it much more competitive because the costs have run too high over the course of the last years. So we are not actually concerned about the length of this strike because the payback is so significant. We are willing to extend it for a few more months if needed because the

experience we've had in other cases also here in Israel has been significant and the benefits that we expect to get are also significant.

On this slide, on the left-hand table, you see the impact of this strike from an accounting perspective on the net income. If we take the first and the second quarter together, it will be an impact of \$250 million from an accounting perspective. On the right-hand of the slide, you see this effect of the strike from an economic perspective. Why is there a difference? There's a difference because in the potash business of course only labor is on strike but not the sun, which is actually producing carnallite which is the mineral that we use to produce potash. This production has been ongoing in the evaporation ponds of the Dead Sea. The production capacity we have in the Dead Sea to transform the carnallite mineral into potash is quite a bit bigger than the capacity of the ponds. So we can recover the lost production over a period of two to three years, so the economic impact of the strike is significantly lower.

On the bromine side, there is a similar balancing off factor which has to do with the pricing of bromine in the market. ICL is the largest producer of elemental bromine in the world. As a result of the strike, bromine prices and bromine compound prices have significantly increased much higher than we had expected and that we had announced in our price increase in December, and when the strike ends we will profit from these higher prices for a period at least of one to two years. So the economic impact of the strike is only half of the accounting impact of the strike.

When you make your analysis in your models, there is another piece that you should take into consideration when you compare year-over-year. ICL was already impacted by the strike in the Dead Sea on the potash side in 2014. We had one entire month of potash sales that we didn't have in the books in 2014 in December. In 2015, assuming the strike will be over then, we will have the December in the books. So if we compare year-over-year, we'll actually have one month less impact.

So because these economic benefits vastly exceed the economic costs of the strike, we are very confident that we will achieve the objectives that we have here. The calculations include labor cost savings; they're a piece of it, they're not everything but they're a piece of it. Over 100 employees have already signed the agreements and chosen to retire or to leave the Company. There are additional benefits that we haven't even included like the bromine price. This is not included in this calculation but it will be sustainable for at least a year, if not 18 to 24 months. We are also investigating now a better production of the raw materials in the ponds which, again, will be an additional upside. So there are a lot of things that are coming out of this efficiency program that we haven't seen before.

The most important benefit here is that Management can go and manage these sites again like they haven't been able to do in the past and this will uncover many, many smaller benefits. We've actually seen it—and I'll talk about it in a minute in our phosphate business.

So let me talk about the business environment and the major developments of the first quarter. Despite the strike, we were able to secure the contract with our Chinese customers to the absolute fullest extent, completely comparable to last year. This shows the strong customer relationship that our sales team has built over the course of the last year and the position that ICL has among Chinese agricultural customers. They were very supportive of us during this period of the strike and agreed to be extremely flexible on their deliveries. This will enable us actually to accelerate the shipments after the strike. We still have quite a nice inventory so that we can catch up very, very quickly.

The first quarter was still off season in many of the markets, in the US for example, and in Brazil where their season only kicks in in May. In the US, the off season was extended by the long cold weather, and also in China and in India. So it was actually a good quarter to have such a strike as it's low season anyway.

We had another strong quarter in our Phosphate business which is reflected in the results that you can see, and despite the weakness in specialty fertilizers business - mostly because of the late start of the season and because of the weakening euro exchange rate - you can see that the Phosphate business is actually performing very, very well.

The work we have done in the UK over the course of the last year and a half finally also is starting to bear fruits. We had a very strong quarter in our mine in the UK. This was fueled by the operational excellence improvements: higher output than in the quarter before, significantly higher output actually, and the addition of the polysulphate mineral. In the last few months since our inventory depleted, we also saw this spike in bromine prices. In China the prices are up 25%; they continue to go up from there. This can be maintained for quite some while later on.

The Industrial Products team hasn't been all focused on strikes. They have actually worked on other things as well and they have launched a product which is called SAFR™. Actually it's not a chemical product, it's a methodology, it's a tool, it's an instrument and this instrument we believe will become the global industry standard to evaluate the safety and the ecological profile of bromine compounds which has been one of the issues in this business in the past. We have launched this tool. It's a tough assessment, chemical assessment of risk and reward of Flame Retardants. It will be introduced in Shanghai in the trade show in a few weeks from now, and we believe that this will become one of the leading instruments in this industry and strengthen our leadership.

Our Performance Products business had some shadow and some light. The core business was actually sluggish in the first quarter. This was due to two effects. The first one is just relatively slow demand in Europe and a little bit more competition from China. We were very disciplined on prices so we gave up some volumes. On the positive side, the integration of Prolactal was ahead of plan, ahead of expectation, doing very well and balancing out some of this.

Of course, the Performance Products segment also suffers under the euro and this year-over-year 20% reduction in exchange rate. Almost half of the business is in the euro area and of course this impacts the top line and also the bottom line, only from a translation perspective. Margins are quite okay.

Significant cash flow contribution from divestitures. We had announced them, now we have delivered them. They give us \$156 million profit after taxes and \$345 million cash flow. There are some additional divestitures in progress. One of them of course is the larger desalination engineering company IDE. We will start the process in the second half of this year. The two smaller businesses: our personal care and pharmaceutical business out of Germany and the Clearon swimming pool tablet business in the US; both processes are underway. We should get signatures on both of them in second and third quarter. Here the potential is a little bit smaller.

An area that contributed well and continues to deliver well is the efficiency and the operational excellence initiatives. During the quarter and despite the labor issues in Israel, we took a lot of Management time to focus on this area. This quarter of course the main contributions came from Rotem, the phosphate business, still on a continued improvement, and our ICL UK, our potash mine in the UK. This is why the contributions here are heavily skewed towards the production improvements.

We continue to establish also our global procurement organization and we had additional contributions from that side this quarter. We feel very confident in our ability to achieve the target of \$350 million EBITDA contribution run rate by the end of 2016. Actually, once the strike is finished the run rate will take a bit step up. It's a little bit early to correct these targets but we feel very confident about them.

I want to take the two examples that I mentioned before, ICL Rotem and ICL UK. In Rotem, where we had a strike similar to the one we have now, pretty exactly one year ago you can see that after this strike the performance absolutely was astonishing. The red line here on the left side of the chart shows the

increase in operating income and profitability, and this happened at the same time that sulfur prices actually went up. So not only could we compensate this but we could significantly overcompensate this.

In the UK in our potash business, it's the same trend that you can see here. The green line on this chart on the lower right side of this slide shows you the development of the potash price since 2013. This is, as you all know, a reduction of about \$100 per tonne. Our profitability initially went down and with the measures we took now are at the same level that it was before the reduction of the prices, and this shows you the strength of the performance. Also here, we are by no means yet at the end of the potential.

Our growth strategy also continues to deliver, and this is true for the organic side as well as for external growth. On the phosphates we had higher volumes in basically all product categories because our plant is just able to make more. So this is additional business without any CAPEX. In potash, the increased production came from ICL UK. This was more than 20% higher volumes than this time of last year. At the same time in the same mine we are well on track to sell above 150,000 tonnes of polysulphate. This is a new mineral fertilizer that sells at around \$180, \$190 per tonne in the market, in 2015. In 2014, we sold 50,000 tonnes. So this is really now taking off. The investment there should be finished at the end of this year. In the potash area or in the potash derivative which is the salt business in Spain, we just signed—finalized an agreement with AzkoNobel which is one of the leaders in the salt business in Europe. Eventually we will produce and market 1.5 million tonnes of vacuum salt and another 50,000 tonnes of industrial, highly-purified potash, which we call white potash, as a side stream.

On the external growth, we bought Prolactal, a whey proteins company, this strengthens our position in the beverage industry quite significantly. Customers have received us with open arms. We've had more than 15 customers meetings with large industry-leading beverage manufacturers all around the world with the team that has been on the road with this new business.

In China, we already signed a Memorandum of Understanding for the joint R&D center. This is pre-closing. It's an activity that we decided to move forward. The agreement and the startup of this will happen in the middle of the year before the whole deal is even approved. On the approval of the whole deal—let me say it carefully—there's absolutely no downside that we can see in terms of the timing.

In Potash, we have made an offer for Allana Potash. This will allow us to develop a mine in Ethiopia. The support we're getting from the Ethiopian government, the activities the government is taking - the Djibouti government is taking on to build the infrastructure already now - is quite good, so we are looking positive into this project, although we have not decided the execution of the project as of yet.

In Specialty Fertilizers, we have decided that we will build our own potassium nitrate plant, NOP, because we're too dependent on only two suppliers in the world. They are not reliable in terms of supply, in terms of pricing and in terms of support, so we will build our own facility. We're looking for the site at the moment and we'll make that decision in the third quarter.

Last but not least, before I turn over to Kobi, I want to proudly show you an award that we received also in our Phosphates business. You can maybe see that we're proud about this business unit at this point in time in ICL. This is an ecological award that we received from IFA, the International Fertilizers Association. That's the Green Leaf Award. We received the second place there. This is for responsible mining, not just responsible production. When you come to Israel to visit us in the Negev Desert, you would not recognize where our mining machines have been after they've left again, because the countryside looks absolutely the same way than before. Some people actually say it looks even better than that. We're able to do this in a reasonably economical way and we are considered to be leading edge in the world with this kind of a behavior. I invite, of course, the Israelis here but everybody who's got an interest in this to come to Israel, look at this. This is really state of the art.

With this I would like to turn over the control to Kobi to lead you through the numbers and to give you all the bridges from last year to this year. Kobi, your turn.

**Kobi Altman:**

Thank you, Stefan, and thank you all for joining us today. I really look forward to get to know you and work with you. I hope you will all come to the Investor Day we have next week in New York.

I'm really excited to join ICL and I look forward to working with the leadership team, supporting and fulfilling the Company's strategy.

As also noted by Stefan, we had two noticeable events during the quarter. The first one is the completion of major divestitures as part of our strategy, a strategy to focus and strengthen our core businesses. The second one is the strike in two plants in Israel. This is the final stage, as Stefan said, of a long planned process to implement efficiency plans in order to maintain and improve the competitiveness of ICL Dead Sea and to ensure the existence of the bromine compound plant at ICL in Hovav.

In addition during the quarter we also made a provision for early retirement plans at ICL Neot Hovav. About 50 employees already joined the plan, as well as about 50 employees from the Dead Sea, for which we already made provision in the past.

As part of the non-core divestitures we had to write down some assets in Germany and this had no cash flow impact.

Now let me move to explain the details by segments.

You have in this table and the chart below a summary of the segment results. You also have it obviously in the financial statements and the weighted average of each segment to the total company. I will review now each of the segments in more detail in the following slides.

We'll start with the Fertilizer business. The fertilizer market, as Stefan noted, started the year in a more moderate tone versus the strong start in 2014. The weather in North America and the lower commodity prices are the main reasons. Prices decreased during the quarter and after it but stabilized recently and we start to see signs of improved demand in the phosphate market and then stabilization in the potash market. We believe that prices will start to recover when the season kicks in in a matter of a few weeks.

Moving now specifically to the Potash business, sales on the left side. In order to allow a better understanding into trends and dynamics we have separated the impact of the strike on volumes, which resulted in about 300,000 tonnes lower potash sales, but when excluding this impact volumes were better than last year as we had a strong start in Dead Sea and a very nice improvement in utilization at our potash sites to compensate for the Dead Sea.

The negative impact from the exchange rate drives mainly from the euro depreciation against the dollar and the British pound.

We estimate that we can recover most of the losses due to the strike within two and a half and three years.

Selling price is a slight contribution to the quarter revenue, as you can see in the chart. We could have seen higher contribution but the strike impacted the mix. Sales were also biased towards Europe since most of our European volumes are marketed in Europe and the potash price in Europe is probably the lowest in the world due to the euro devaluation.

Moving to the operating profit, the impact of the strike on the operating profit was notable. If we exclude this impact we see positive trends coming from lower energy and transportation costs as we are starting to benefit from the lower oil prices and from the operational excellence initiatives in our ICL UK site, which resulted in a positive volume contribution.

Despite the strike and basically no activity in the Dead Sea during the latter half of the quarter, the negative impact of the exchange rate instead was completely mitigated in the operating profit, as you can see here in the chart.

Moving to the Phosphate and Fertilizer businesses, as you can see currency exchange rate variation—mainly the devaluation of the euro again—was the main reason for the decrease in sales this quarter versus last year. This was partially offset by higher phosphate fertilizer prices compared to Q1 '14 and the increase in sales volume. The increase in volume is attributable to the record phosphate rock sales we had in the quarter as well as improved production of sulfuric acid.

In addition, about half of the contribution is coming from integration of AmegA Sciences into our Specialty Fertilizer business.

If you look at the operating profit we see nice contribution of the prices on the operating profit, partially offset by the increase in raw material costs, primarily the sulfur prices.

A net positive contribution of around \$4 million came from the volume, including the first-time consolidation of AmegA.

Let's move to the Industrial Products segment. Sales: in the Industrial Product segment analysis we also separated the strike impact from the volume excluding the strike. The strike had a negative impact mainly due to the insufficient inventories in elemental bromine. But lower volumes of flame retardants and some other products came mainly from the price increases we started to see late last year.

On the operating profit, we started to see contribution of higher prices, mainly on the elemental bromine, so you can estimate the full contribution a quarter of normal operation.

Price contribution was offset by increased royalty contribution. As a reminder, there was an arbitration decision that ICL needs to pay now royalties on their bromine compound and not only on the elemental bromine.

We made a provision for early retirements based on the plan to reduce the labor force in this segment by around 80 to 100 people, mainly for early retirement plans, and you can see the impact of this provision here.

Performance Products—we'll be concluding this part, starting with the sales, and as you can see the lower sales due to the divestitures were fully compensated by the new integration of Prolactal and Fosbrasil business into ICL. Those businesses which also contributed to the profit more than offset the loss that we had from the divestiture in this specific quarter and this despite some acquisition-related expenses that we recorded this quarter.

Stefan mentioned earlier the reason for the lower volume and you'll see it here, and again, devaluation of the euro had a negative impact on the sales.

Moving to the operating profit, you can see that the contribution of the divestitures, here it is net of some of this impairment of assets that I mentioned before. Similar to what we saw in the sales but in much lower magnitude is the devaluation of the euro that had a negative impact on operating profits because of

the translation. Basically our European production sites supplied the European market but when translating from Euros to dollars, this is where we see the translation impact.

I would like to conclude my part of the presentation by talking about cash, debt and cash flow. During the quarter we reduced our overall net debt by almost \$200 million and this was done even with the strike impact and the government take reconciliation in Israel that resulted in a relatively low cash flow from operations. The main contributor is the cash proceeds of almost \$350 million that we generated from the non-core business divestment.

At the end of the quarter, our net debt decreased by this \$200 million to less than \$2.5 billion. You can see that in the debt map for 2015 there is a long-term debt of around \$100 million that we will pay towards the end of the year and the rest is short-term debt that we revolve as well. We have completed several financing deals in the past few months. As a reminder, at the end of 2014 we raised \$800 million in long-term debentures in the US, and this quarter we entered into a club deal agreement with a group of 11 international banks which will provide us a revolving credit facility in a total amount of around \$2.7 billion, and this is replacing credit facilities we took a few years ago in the amount of \$1.3 billion, \$1.4 billion.

All in all, a solid financial position and this is extremely important for us and I am happy that we could improve it during this quarter.

This concludes my remarks and we will now open the call for questions. Thank you.

**Operator:**

Thank you. We'll now be conducting a question and answer session. If you would like to ask a question, please press star, one on your telephone keypad and a confirmation tone will indicate your line is in the question queue. You may press star, two if you would 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. One moment, please, while we poll for questions.

Thank you.

**Limor Gruber:**

We will take a couple of questions from the line and then we will move to the room. Thank you.

**Stefan Borgas:**

Very good.

**Operator:**

Thank you. The first question from the line is from the line of Vincent Anders, Morgan Stanley. Please go ahead with your question.

**Vincent Anders:**

Thank you and good morning or good afternoon. Just a question on your comments on bromine where you said once the strike is over and presumably your production gets back to where it was before, you still expect the positive pricing that you've seen to last. You kind of said 12 to 18 to 24 months. Why would it only last that long?

**Stefan Borgas:**

Well, first of all we're not going to have everybody back on site and like a magic wand everything is like the day people left. There will be a ramp up of production and with a ramp up of production also there will be a ramp up of quantities in the world market so we will still have a shortage for quite a few months after the strike and then eventually this will balance out and then it will start to slide, we will expect.

**Vincent Anders:**

Okay. So you don't anticipate the ability of the industry to be able to hold onto the higher pricing levels through reduced production or anything like that.

**Stefan Borgas:**

It's a question of level. We had, if you'll remember correctly, we had announced a price increase just before the strike, of 20%. This is minimum we would expect the industry to retain, but I think there's an opportunity to do better than this. Because in the meantime competitors have followed, especially Chinese competitors have followed, so that we will lose—but then in the middle of the strike of course this started to peak. We are at much, much, much higher prices now than 20% up from last year. So some of this will slip but hopefully more than the announced increases will stick. Also into 2016.

**Vincent Anders:**

Thank you. That's very helpful. I'll pass it along.

**Operator:**

Our next question from the line comes from the line of Joel Jackson with BMO. Please proceed with your questions.

**Joel Jackson:**

Hi. Good afternoon. I have two questions. First, looking at your contract potential for India and China, obviously the strike continues in the Dead Sea, so in China, I mean I know what your announcements have been but would you expect that most of your shipments are really going to come late in 2015 as the Chinese stock up late in the year, and then in India, we're seeing some of your competitors now start to lock in their annual commitment. When do you think you can be in a position to do that, or do you have to wait for the strike to end? Thanks.

**Stefan Borgas:**

Well in India we would expect for the strike to end until we can lock in and publish, but also in India we have customers that are quite supportive. I don't know if I can say much more than this.

In China, we can actually start to ship immediately after the strike stops because we have 600,000 tonnes of inventory in the Dead Sea so all we need to do is have the switch of the conveyor belt and things start moving. I can tell you our Management is doing a great job at maintaining this conveyor belt, so we'll start shipping immediately after that.

**Joel Jackson:**

Okay. My second question is a two-part, the first on the inventory. So you have the lowest inventory levels you've had in potash for a couple of years. How low can you sustain the inventories and then would you expect an inventory build-up to get back to a certain level once the strike is over? Then my

second part of the question would be what have you been doing, your Management team, to make sure that the ponds are fine at the Dead Sea? Because I imagine at some point—I mean the carnallite build up you can mine that but at some point if the strike kept going and you weren't mitigating and maintaining, you could possibly have some issues in restarting.

**Stefan Borgas:**

Excellent question. So on the inventory levels I'm actually very happy for every tonne of inventory that is not sitting in the Dead Sea but that is shipping to customers. So we can go as low as 50,000 tonnes, really. We have never been there but this is not a concern at all. Remember, the inventory that is good inventory is the one that's swimming in the ponds and the one that's with the customer; everything in between just costs cash. So I'm not that unhappy about this.

The ponds integrity is actually something that the Management team has done a lot of work on and has done a great job on. This was our biggest concern at the beginning. I can tell you this strike is a massive technical education program for our Management team and for our professionals because they're actually running this at the moment. Every day we have R&D guys in the ponds management. We have Finance people in the plant. It's a massive education program. This will contribute to a lot of knowledge built up which in three years of training we couldn't have provided because now people are really at the valves and at the pipe and at the pump.

So initially, our concern was by this time of the year the ponds would start to contaminate each other, meaning carnallite would crystallize in the salt ponds. This is not happening. We are very confident that way until the end of July we can maintain this. We have done a lot of technical work, practical work, dilution work for this to happen, so we don't see a massive loss here of product. It's maybe in the tens of thousands of tonnes, cumulative, until this period of time. So it's not a big problem.

**Joel Jackson:**

Thanks, Stefan.

**Operator:**

Thank you. Our next question on the line comes from the line of Gilad Alper with Excellence Nessuah.

**Gilad Alper:**

Hi. Stefan, you mentioned that the Chinese customers are being loyal to ICL. Can you expand about that a little bit? Also, what happens if the strike continues? What is the risk of losing actual market share, possibly permanently, with some of your potash customers around the world? Thanks.

**Stefan Borgas:**

Okay. So as you know, in China we sell to regional distributors and we do much more with them than just ship them potash. First of all, our Management has been in very close contact. Nissim Adar, the head of our segment has been in personal contact with them; of course our Head of Sales, our VP of Sales as well, through this entire strike. They are extremely well informed, but they buy more from us than just potash. Many of them buy other products, so that of course binds them.

The risk that we lose them is very minimal at this point. Even for the next month is very minimum. Of course the longer it takes, the more difficult it will just be physically to deliver the entire quantity this year, but the contract is there and then we will overship in the following year, because we of course have the

raw material and we have a commitment from them. It's a matter of calendar year cap if you are looking for a risk. This is a risk.

**Gilad Alper:**

And what about the markets that are more opportunistic possibly—may be the right word—like Brazil or other places in the Far East? What are the risks of losing market share there? Especially since the global potash market is oversupplied.

**Stefan Borgas:**

In Brazil we have—we are losing market share indeed because every month that we cannot produce granular potash we lose those sales of granular potash. This is pretty clear. We cannot catch them up because our granular capacity is completely sold out. It was before and it will be after, so this is just gone, but we can balance it out with standard potash. But this is also not a long-term effect because the markets I think are fluid and flexible enough that next we'll be back at the position in which we were before.

**Gilad Alper:**

Okay. Thanks.

**Operator:**

Are there any questions in the room at this time?

**Limor Gruber:**

We will now move to questions from the room. Please, Joseph.

**Joseph Wolf, Barclays:**

I don't want to get too far into details because it's probably too much for us to all handle, but just with regard to the strike and the new government, what are the sticking points right now? You're confident that the strike is going to end and clearly it will; you're willing to let it go on for a very long time. It's probably not just about money at this point is my guess. So if you could just give us some insight into what the Company is fighting for and tie that into the economic benefits that you see going forward? And does the new government help the situation at all and can you relate a little bit maybe to the phosphate mine as well with the new health minister?

**Stefan Borgas:**

These are really two questions. The strike has little to nothing to do with the government. There's no link at least that we can see. Of course you have engaged politicians who try to help and sometimes it helps and sometimes it doesn't help, depending on from which side you're looking at it. But other than that the government is out of this.

What we are trying to achieve in the strike is a direct reduction of labor costs, of course; this is one of the pieces. Then we're trying to achieve a much better utilization of our assets. We're very convinced that out of the existing assets with the invested capital that we have we can get more product out, and therefore a better return. In order to do this we need two things. We need to be able to make technical modifications where we want, when we want it fast, and we need to be able to move people back and forth immediately, day by day, from one area of the plant to another in order to optimize the operations of

this, and both of those things are not possible with the current union labor contract and that's what we need to change.

To put it in short words, Management has got to be able to manage, but those two things are behind.

Now your second question, or the second question that was embedded in your question, is there a relationship to the government? Maybe to the new government. It's too early to tell because the new government is just being established and starting to plan their work. There are a few encouraging signs though. Over the past few months we've had ongoing meetings with many people in the government, all the way up to the highest professional levels, and these meetings in terms of tone have changed from a very aggressive, almost hostile atmosphere from both sides towards trying to understand a level of detail that we have never explained before and our counterparts have never understood before, and to understand the connectivity of one part to the other. We've had a visit of a delegation recently in one of our sites and this was an 8-hour visit. We went into a lot of details with them. We showed them everything extremely openly. I was there the entire day. Our Chairman joined us at the end of the day and we ended up in a very constructive discussion which ended up in a tone like, "Boy, there are a lot of opportunities for the country using ICL's capabilities. How can we make that work?"

I want to be optimistic about this. This is maybe the beginning of a change of how we work together. The fact that the new ministers have not been very public about any of the topics that affect us also makes me hope that we are now coming into a more professional phase of discussion and that's going to be good for everybody. It's going to be good for ICL. It's going to be good for Israel. It's going to be good for our economy. It's going to be good for our employees and it's going to be good for our communities, and it's going to be great for our customers, and because then everybody is doing well our investors will profit from this.

It's maybe a bit of an optimistic view because we don't have too many data points on this but the recent data points all point in this direction.

**Limor Gruber:**

We will now take another question from the line.

**Operator:**

If you'd like to ask a question over the line, you may press star, one from your telephone keypad.

**Limor Gruber:**

Sorry. I meant from the room. I'm sorry.

**Operator:**

That's okay.

**Yonah Weisz:**

Thank you very much. Yonah Weisz from HSBC.

**Stefan Borgas:**

Yonah, you're here. That's great.

**Yonah Weisz:**

Thank you very much. I have a couple of questions. Maybe we can go one by one, if possible. First of all, in terms of the potash that will be produced this year and I imagine aside from the Chinese contract which you've already published as being in place, what other priorities do you have for the rest of your volume? I mean you are going to have different choices around the world where you put your potash. How do see that playing out?

**Stefan Borgas:**

Do you want to go through all your questions? Then we'll answer them in a block.

**Yonah Weisz:**

Sure. No worries. Following up on that, a technical detail. How much—physically potash, how much can you ship per quarter? If I recall correctly it's about 1.54 million is the record in the past couple of years, if I recall correctly, but maybe you can refresh that.

Another question would be on Allana. Maybe you can give some idea why you—with the profits that you see that have improved so much, would buy the whole company? A bit of a timeline on when things there start looking up topper.

Finally, if I can just maybe ask for a clarify, something which I had thought about ICL for a number of years is that generally I think at the Dead Sea's working capital or a physical inventory needs of around a month or two of potash, which would be around 300,000 to 500,000 tonnes of potash, and I think a couple of minutes ago you said that you can keep only 50,000 tonnes of potash in it. Understand if there's any change in shipping strategy or so on and so forth?

**Stefan Borgas:**

Okay. The customer priority question on potash I would refer to Nissim. and also about the maximum volume of potash shipments, Nissim can answer those since he's here.

Let me talk about Allana a little bit. We're just made the offer to take over Allana, so at this point please take the Allana publications as the project volume. They have announced to build a plant of a mine of a million tonnes of potash with appropriate costs and investment. We don't want to override this, especially not in the middle of this process in which we are. We have spent most of the past year in verifying this and making sure this can be delivered. The other part of the activities we've been nervous about is, is the infrastructure in Ethiopia and in Djibouti going to be ready in order to support this? So we spent a lot of time with the local government, the local authorities in both countries in order to verify this. One of the great things, for example, out of this is the Djibouti port will be ready at the end of 2016. They're in the middle of building a port. We've been involved in the design. We've helped them a lot, so the infrastructure is actually coming together in that part of the world, which is one of the big huge pre-requirements. So the project hasn't been decided inside ICL. We will make the final project decision probably in the first quarter of next year, and then immediately after that start construction because we will then have all the ducks in a row.

The inventory question, you know many things used to be a certain way and when you start to question them and look at them from a different perspective, suddenly they don't need to be a certain way any more. I'm not saying that 50,000 tonnes of potash is a long-term sustainable level of inventory that we want to have, but technically we can go down to zero as well. We need a little bit of something in order to make granular products, to have some flexibility here, but from a shipping perspective this is not a major issue. You might recall in one of our last update calls we talked about significant improvement—operational excellence improvement in the shipping area and transportation independent from fuel. The

flexibility here is one of those things that now makes us be able to go down on our inventory levels much more than in the past. It's part of what happens when Management starts to look at a much more detailed level than before.

Nissim, do you want to talk about the potash customer priorities around the world and the maximum you can ship in one quarter?

**Nissim Adar:**

Yes. We are able to ship every quarter all the production, so we are not limited in this point of view. Even we have the capacity for the extra capacity which we have at the factory. So we are able to supply. Of course we really cut back so all the granular material will be shipped to Brazil and the US. There we are sold out and this material is going to go to this area. Of course the fine and standard will go to China and India. If we have excess capacity, which I don't believe at this moment, we will put some quotas in China but this is low probability.

**Stefan Borgas:**

If you think in terms of volumes, everything we make in the European mines we can ship all the time, and in the Dead Sea we have, as you know, a total annual capacity of 3.6 million tonnes. The limit here are the ponds. Now the capacity in the ponds is much higher because we're accumulating one month every month of additional volume there. The plant can run about 15% faster, so that additional 15%, the bottleneck is not the shipping.

We're— Nissim and I are challenging the team and we're telling them 15% is really wimpy but we're not yet at that point so we have to see what happens when they come back. So the calculations we have made is on 15% higher plant volume than in the ponds.

Next question.

**Limor Gruber:**

Do we have another question in the room? We can go back to the line.

**Operator:**

There are no questions on the line at this time. You may press star, one to ask a question.

We have a question on the line from the line of Christopher Kapsch with BB&T. Please go ahead with your question.

**Christopher Kapsch:**

Good afternoon. Just had a follow up on the strike because I wanted to clarify something. My understanding is obviously the bromine derivatives plant, that strike is ongoing, but just looking for more clarity on the elemental bromine plant. My understanding was for some environmental reasons that might be more challenging to shut that facility down and in fact there might have been intervention from a court to prevent that from happening. So could you just clarify on the elemental bromine production, if that's also under strike and how long has that been going on and what are the ramifications with respect to the magnesium and chlorine production? Thank you.

**Stefan Borgas:**

Okay. As you know, we are not just a typical mining company but we operate these integrated value chains and part of the facts—linked to the fact that we operate integrated value chains and not independent mines is the fact that one thing is connected to another. So the waste stream from the magnesium production, the magnesium metals production is chlorine and if the chlorine cannot be absorbed or used by somebody then the magnesium metals plant must shut down. The magnesium metals business is a very, very marginal business, to be gracious, so we cannot—once we shut it down the startup costs are going to be so high that it will never be started up again. Of course the magnesium metals business is not involved in any of these strikes.

So we have a court injunction that allows the magnesium metals business to continue to produce chlorine and the user of this chlorine, above some external customers is the elemental bromine factory. So during this entire strike the elemental bromine has been running at, what? Twenty-five? Thirty percent capacity. We have been actually shipping elemental bromine as well to some of our own facilities but to some of our customers as well as allocated by the force majeure that we had to declare.

So that has been going on all along. So the business is actually running at that level. So that means when we come back there's no technical issues for the elemental bromine to ramp up very, very quickly.

**Christopher Kapsch:**

I see. Then the biggest off-take of course is then shipping that elemental bromine to the derivatives plant so there's negative implications there. Okay. That's helpful. I appreciate it. Thank you.

**Stefan Borgas:**

No problem.

**Operator:**

There are no additional questions on the line at this time.

**Limor Gruber:**

Okay. So we will conclude our call. Stefan, please.

**Stefan Borgas:**

Thank you very much for your support, for listening to us and we indeed hope to see you next week in New York during our Investor Day. We have lots more information. We go into depth and maybe there's some news as well. Good bye. Thanks for listening.

**Operator:**

This concludes today's teleconference. You may disconnect your lines at this time. We thank you for your participation.