



ICL Group

Second Quarter 2015 Conference Call

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PRESENTATION

Operator:

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 push star, zero on your telephone keypad. As a reminder, this conference is being recorded.

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

Limor Gruber:

Thank you, Adam. Hello everyone in the room and on the line. Welcome and thank you for joining our Second Quarter 2015 Conference Call. Earlier today, we filed our reports to the security authorities in the US and in Israel, and to the stock exchanges in New York and in Tel Aviv. The reports as well as the press release are available on our website. Please carefully review all relevant data and considerations. For your reference, this meeting is being webcast live on our website. There will be a replay available a few hours after the call and the transcript within 48 hours. The presentation that you will see today was also filed to the securities authorities and is available on our website. Please don't forget to review Slide number 2 with the disclaimer.

Our comments today contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on Management's current forecasts and are not guarantees of future performance. Today, as usual, we will start with Stefan Borgas, our President and CEO; followed by Kobi Altman, Executive Vice President and CFO. I would also like to welcome our Chairman, Nir Gilad. In addition, our Executive Committee members are all here and we will all be happy to answer your questions after the presentations. Stefan, please.

Stefan Borgas:

Thank you, Limor. Good afternoon, good morning, ladies and gentlemen, here in Tel Aviv and New York and other places around the world.

Let me start with the highlights of the quarter. There are really four things to mention here. Of course the reported numbers are to be taken with a grain of salt because they're heavily impacted by the effect of the strike. I think everybody is aware of this, was expecting this, but still there are four things to take out.

First, we are now very, very confident that our efficiency program is well, well underway. The progress we have made because of the achievements, contractual achievements with the unions in Israel on this strike and the subsequent weeks after the strike makes us very confident about this.

Second, the ramp-up after the strike both in potash as well as in bromine and bromine compounds is going better than we had expected. We don't have any of the negative possible breakdowns of equipments that could have happened after such a long outage.

Third, our strategy implementation, implementation of our Next Step Forward strategy has also made good progress in the second quarter with the acquisition of Allana Potash that was completed in order to be able to now explore the potash reserves in Ethiopia, and further advancement of the approval of our joint venture in China.

Fourth, not on the list here but still very important, the atmosphere in which we are operating in Israel is again becoming a little bit more constructive than it already started to be in the first quarter. We don't have any positive decisions yet from the Israeli regulators on taxation, royalties, concessions, and the like. But the entire discussion atmosphere is becoming quite constructive. Let me go into the details now and I'll start with the business environment and the major developments in each one of our business segments.

Let me start with our Fertilizers. The strike led to very weak results in our potash operations. We could not settle from the Dead Sea, except for the month of June, because, of course we still had inventory which during the strike we couldn't ship and in June we could start to ship out the inventories. This was important to start to fill the contracts that we had signed during the strike for our Indian and Chinese customers.

In our Phosphate operations on the other hand in autumn, despite a fire that we had, we continued to show good improvements of the profit margins, and I think this is the living proof on what the turnaround of management capability in these sites can do. The profitability in this business was 200 basis points higher in the second quarter of 2015 compared to one year before.

I mentioned the fire; let me give you just a little bit of background here. It was in one of our production facilities, not in the entire plant, it was in the production plant of SSP, super single phosphates. This is a product that is made directly from phosphate rock. About 200,000 to 300,000 tonnes are affected for the next quarters until this is rebuilt. We will be able to compensate some of these lost sales with additional sales of phosphoric acid and with additional sales of rock. The loss of sales of this SSP as well as the reconstruction of the plant are going to be compensated by the insurance, so the impact that you should see in total will be relatively negligible.

In our potash mine in the UK, we increased production in the second quarter 2014 compared to the year before despite the fact that we had the maintenance outage that was planned.

In Spain, everything is going according to plan.

In the Dead Sea, we are now after the strike already back at the regular production levels for the third quarter. We're ramping up production above the historic production rates step by step so that in the fourth quarter, we should be at an annualized production volume of around 4 million tonnes per year. This has to do with efficiency improvements that we started to deliver immediately. So in 2016 you will see, unless we have major breakdowns or so, which we don't expect, you will see record production levels in the Dead Sea at a level that we've never had before.

The specialty fertilizer market is in a more difficult situation at the moment. We are relatively strong in Europe so the business there suffers under the economic weakness in Russia and the Ukraine. Also under changing regulations of golf courses in China, which, believe it or not, exist. This leads to lower prices and lower volumes in this business, that's why the performance here was a little bit weaker.

In Industrial Products, ICL Industrial Products, the post-strike production ramp-up also continues in the bromine compound plant. The ramp-up is of course much slower than in potash because it's very complex chemistry with which we're dealing here, but the ramp-up will be completed by the end of the third quarter. Then in the fourth quarter we will be back at traditional capacity and capabilities, but in addition to selling the usual volumes we will now benefit from the higher prices that we have in the market. Most of the savings of the strike you will therefore only see in 2017—sorry—in 2016, and then of course some more in 2017. In the fourth quarter of 2015, you will start to see some effects as well, but calculated for the whole year this is relatively small.

The compound prices of bromine around the world are moving up. Even though, due to seasonality, the elemental bromine prices are relatively low in China, but they're still higher than the announced price increases that ICL did before we started with the strike. We see also outside of Asia, we see price increases in most of our other markets. So the pricing scenario in bromine is actually very encouraging. We achieved at least what we announced in 2014, before the strike started with our price announcement, and every additional increase of course is an upside for us and we see quite a lot of those like I have described.

In Performance Products, we had a stable demand in advanced additives, , the industrial part of the downstream Phosphate business, but we had elevated competition in the US because there was higher imports from China. We offset some of this with additional sales in some of our specialty segments, especially in the fire safety business, because here the season started as you might have seen with the fires in California and then Canada about one month earlier than usual.

In Food Specialties, we've successfully integrated our new acquisition in Europe, in the whey protein market, and that offset some of the demand weakness that was especially coming from Eastern Europe. We have a pretty strong business in food also in Russia and the Ukraine, and also it offset some of the weakness of the euro.

In Performance Products, we divested, we finished the divestiture of all the non-core businesses, so we now have a pure advanced additives food specialty core business structure in Performance Products from here going forward.

If we look at the market trend and our business here, we expect stable performance in the second half of 2015 compared to the year before with some potential upside from consolidation of the newly acquired companies.

Let me spend a couple of more minutes on the strike in order to give you some granularity here. I'm very pleased with the achievements that we got out of this exercise. We needed to regain managerial control so that these sites in Israel will not continue to be operated in a government-style operation but in a private business style operation so that we can be competitive globally, and we have now done this with all of the sites here in our home country. We succeeded pretty fully with what we wanted to do. This is due to the big determination of the Management team that we have locally on each one of the sites, and great support from our Board as well, which didn't lose their nerves. We reduced the workforce at both of the sites by about 10%. A little bit higher in the bromine compounds. This will result in higher savings of about \$80 million that will start to contribute in the second half of 2015, then an additional \$50 million in 2016 and another \$10 million in 2017. So you can see this has a really good effect.

Let me give you a couple of examples, tangible anecdotes on what's going on here on the managerial side because this is what gives us more upside, I think, going into the future. Average hours, people actually worked. Before the strike, in one of the two sites was below four hours per day. Now they're working seven and a half hours, if you deduct the breaks. So it just makes a big change. We've changed the annual bonus towards a bonus that will pay out when the capacity actually increases. Not for the regular work. As a result, we're already higher on the run rate of production than we were ever before. Managers can now walk around, make a decision and implement the decision without any hassle. It sounds pretty benign but it wasn't the case before. Managers can also send people from one place of the plant to the other. It also sounds pretty benign but it never happened before. So now where there is work, we can send the people. There's a continuous dialogue now between all the employees down to the lowest level with their respective Team Leaders and Managers in kind of roundtable sessions. We have biweekly newsletters so the link between all the people working on the site is very, very tight. There are daily safety sessions. As a result the safety record is already dramatically better.

Just a number of examples to show you what specifically we did here. One of the most important achievements is the support we have now for the implementation of our operational excellence objectives going forward because there's no more blocking for additional ideas that can be implemented. This gives me even more confidence that we can meet and even surpass the goals that we have, the cost-reduction goals that we have.

In the Dead Sea, for example, we will have, for the next three years for sure, 400,000 tonnes of potash per year more output because the product's already in the raw material. If you make the calculation here this is quite significant. There's a good possibility that this can be made sustainable even for the long term.

From a numbers perspective, this chart shows you how the strike worked. The impact is lower than previously estimated because the strike we were able to end it about one month earlier. The net benefit that you see on this chart here, the \$170 million NPV does not include the bromine price effect, and it doesn't include any potential increases of productivity at the Dead Sea, and it doesn't include any extension of the additional production capacity beyond three years. So this is a very conservative calculation here.

A couple of other points in China. We made good progress with this very complicated and complex approval of our joint venture. You could see listed here all the things that have been achieved. I'm most proud that the Management team that will run this operation is already fully in place; starting to work as of September 1st. That's a pretty good achievement. From a result perspective, this operation will contribute about \$50 million of EBITDA in the first year, growing to \$120 million EBITDA in year five.

A couple of words on potash. Because we believe that Investors and some of the Analysts also don't quite appreciate our ability to grow our potash production and our product sales in the market, together with market shares. As you can see in the last 10 years, ICL has lost considerable market share. What we aim to do over the next 10 years, not in two or three years but over the next 10 years, is slowly rebuild this market share. We will—with all the investments that we have outlined, the trick here is we will do this slowly, step by step, but steadily. So there's no huge massive CAPEX spend that will put significant capacities in the market that we cannot sell.

As you can see, the plant expansions are designed to just bring us back to a market share that we had in the past, or not even to this. Our position will be focused on the faster growing markets. For example, Africa, where there's no potash sold today, so that here the competitive pressure will be relatively low in the beginning because we will create the market. The usage there is almost zero. If we exclude the polysulphate and the SOP in Ethiopia, the growth rate of potash is just 3%. So it's not dramatically faster, just a little bit faster than the overall market. Polysulphate, here charted with 1 million tonnes per year. This is a very conservative assumption for the year 2025. We will probably reach this capacity much, much earlier than this, and this is a specialties market so it doesn't compete with any potash directly. So the potash business has good prospect and is not going to put heavy pressure we believe on the rest of the market.

In Industrial Product, the growth projects will bring significant contribution. There are two categories of those. We have some long term R&D projects in the pipeline around energy storage, gold extraction, soil fumigation, 3D printing, but those projects will all contribute only in the long term, let's say four years and beyond. But in the meantime, we have many products in our pipeline, of which some of them will replace existing products, replace them, but at much better margins. They will provide a nice contribution within the next five years. These products, these new replacement products are more profitable. One of the examples is our flame retardant 122P for construction application.

My last slide before I turn it over to Kobi to walk you through the numbers, is on Performance Products and it shows you the structure of the new business and the logic behind why we did all these divestitures and these small bolt-on acquisitions. We now after the divestitures have a business which is fully core. I like to show what we expect in the next years and you can see this charted on this slide. The top line growth is supported by the back integration in phosphates but also by our technologies and all these specialty markets.

In the Food Specialties business, our growth is supported by the know-how we have in bakery, meat, dairy and beverage applications and it's strengthened by these new ingredients that are co-formulated with the phosphates. So we're not buying ingredients just for the fun of it, but it is very, very synergistic. We're only getting into new products if they're synergistic. If we look at the historic turnover in operating margins, for what we call today the core and the non-core business, it becomes clear why we have been doing what we have been doing because you see in total a margin uplift of the whole business. So it's margin uplift that we were after and not necessarily only top line growth. Cost also of course is a key driver in this business, so to keep the machine lean and focused is very important, and therefore it's better to have two businesses rather than eight or nine with the same turnover.

With this, I'm sure I raised a few thoughts. I'm happy to have discussions with you after Kobi has gone through the numbers.

Kobi Altman:

Good afternoon, and good morning, everyone. This quarter started in the middle of anticipated execution storm and ended in a good momentum in our diligent execution of our strategy. The strike in our two major facilities in Israel continued until the end of May, and resulted in a financial impact that was better than we focused last quarter. As we anticipated last quarter, the strike impact on Q2 was more significant than in Q1 due to several main reasons. First of all is the length of the strike in our Dead Sea facility, two months this quarter versus around one and a half months in Q1. The second reason is that we utilized most of our bromine compound inventories that we accumulated toward the strike in Q1 and you will see that when we present the bromine compound results. The ramp-up activities follow the end of the strike, which Stefan already discussed. Due to the strike we obviously produced less than the usual tonnage at the Dead Sea.

You can see that the year-over-year analysis of the adjusted result is tougher this quarter than the reported results. The adjusted results provide a good understanding of our underlying business performance and this is why we also show you this comparison. Our cash flow was very strong this quarter due to a reduction in trade receivables and inventories. Most of that is due to the strike, so we expect a lower cash flow in the next quarter as we continue to ramp up.

Let's move now to discuss the financial results of our main businesses. Before we dive into the Potash business, I would like to shortly discuss what we see in the overall Global fertilizer market. Global demand for fertilizers has slowed during the quarter in most markets, mainly in Brazil and in the US. General fertilizers demand in the US was lower compared with the same quarter last year due to a shortened spring season, high stocks and lower crop prices. In Brazil, demand is substantially reduced due to several economic factors such as the depreciation in the real, which impacted the confidence of importers, low access to farmers, credits, low crop prices and high stocks. As a result, prices have decreased affecting other markets such as Europe and Southeast Asia. India proved to be one of the strongest markets of fertilizer this quarter with healthy monsoon season supporting agriculture.

Moving now to our Potash business, similar to the first quarter, the strike at ICL Dead Sea had a strong impact on our potash sales with slow sales of about 600,000 tons. Total volume we lost during the strike amounted 900,000 tons. We estimate to recover them in the following three years. The devaluation of the euro and the pound versus the US dollar and lower volumes sold also negatively affected sales. To remind, our ICL UK facility sells more than 50% of the production inside the UK in pound, and the pound devaluated by 10% versus the dollar, the euro was devaluated by about 20%. Higher contract prices in China and India resulted in a positive \$21 million contribution this quarter.

On the operating profit, the impact of the strike, strike-related and prior year items were the most notable items that impacted the operating profit. In the fertilizer and phosphate franchise, we continue to show very nice improved performance at Rotem which contributed to demonstrate higher production, sales, and most importantly, profits. The lower euro and shekel had negatively impacted sales both on the commodity fertilizer business, then on ICL specialty fertilizer, but the positive contribution to profit and profit margins, as most of the costs are contracted in Israel and in Europe.

The positive results in executing our operational excellence program in Rotem. Adjusted profit margin improved from 7.4% last year to 12%, very impressive indeed. It's giving us the confidence that we are now on the right track also in the other two bigger sites, ICL Dead Sea and ICL Neot Hovav, Actually our Rotem team just won the CEO reward for 2016 for their achievements in improving the operation.

In the Industrial Product segment, you can see the direct and indirect impact of the strike on sales and profit. As I mentioned before, we ran out of inventory during the quarter and this impacted significantly the results. Similar to other segment, we see negative impact of exchange rate on sales, but balanced impact on profit.

In Performance Product, Q2 sales were favourably impacted by the successful integration of Prolactal as well as the contribution of Fosbrasil, which we acquired at the end of last year. Organic growth and

acquisitions were offset by the divestment of the non-core businesses and by the weakening euro against the dollar, which had a negative impact of \$48 million.

In order to try to provide you more visibility on the underlying performance, what we did in this segment, we presented here the core business that we are showing in the right-hand table on the profit the main items that impacted our core versus the overall results that were still influenced by the non-core activities.

I want to talk a little bit about our efficiency program. As a reminder, we achieved \$120 million in run rate of savings at the end of 2014, and now we feel very comfortable in our ability to achieve our plan of \$240 million run rate at the end of this year. We are on target to deliver by 2016 year-end run rate of \$350 million contribution to EBITDA on efficiency improvements. In the slide, you can see the contribution by segments as well as by the area of savings.

I want to dive into the operational excellence part of this whole program. Operational excellence initiatives are a key contributor to our overall cost saving program, and we wanted to show you a snapshot of the activities we are diligently executing. This program will have a significant contribution to the competitive position of our major production sites. The project at the Dead Sea will help us offset increased costs as a result of the salt harvest project. We recorded a significant improvement in ICL UK, which led to improved profitability in this site that was losing money in Q2 '14.

Rotem, again is a real success story. Ever since we have settled the labor issues and commenced our operational excellence program at Rotem in Q2 14, the improvement surpassed our expectations and besides moved from a loss to double digit profit margin. Despite 10% reduction in labor, we managed to increase both sulfuric acid and rock production by about 15%. We are now designing the work plan for the implementation of operational excellence initiatives at the sites of our other two segments.

I would like to summarize with what Stefan started. We are on track in implementing our efficiency initiatives. We expect elevated potash sales and improved profitability in the second half of the year. We continue to progress on our strategic initiative. We completed the Allana Potash acquisition, and we are advancing in our Chinese phosphate joint venture with Yunnan Yuntianhua.

I would like now to turn the call for Q&A.

Limor Gruber:

Thank you, Kobi. I would like to see if there is any question in the room first.

Operator:

Thank you, ladies and gentlemen. We will now be conducting a question and answer session. If you would like to ask a question, please push star, one on your telephone keypad now. A confirmation tone will indicate your line is in the question queue. You may push star, two if you would like to remove your question from the queue. For any participant using speaker equipment, it may be necessary to pick up your handset before pushing the star key. One moment while we poll for questions.

Limor Gruber:

Adam, thank you. We have one question in the room so we will start with it. Yonah, please.

Yonah Weisz:

It's Yonah Weisz from HSBC. If it's okay, I will ask maybe a couple questions one at a time. First of all, if you could talk about your view on potash pricing towards the second half of 2015. The current quarter I

think had a \$309 average price, which I understand is oriented very much towards European markets and therefore also weak foreign currency exchange rates. How do you think that could develop, or normalize, perhaps, more in the second half?

Stefan Borgas:

Just give us all your questions and then we can answer them in a block.

Yonah Weisz:

Certainly. You mentioned in terms of growth prospects, Stefan, in the presentation next generation flame retardants, brominated biocides, Merquel and clear brine fluids. Now, perhaps I don't understand perfectly what were you trying to imply here, but if I understand, Merkel has been around for a couple of years, really hasn't taken off very well, clear brine fluids linked to drilling, oil drilling, not such a great industry at the moment. Brominated biocides around for again a very long time, and in fact in previous presentations you've talked about how the flame retardant business is kind of contracting a bit structurally. So I'm just wondering how these represent how you see these as growth drivers for ICL Industrial Product. Finally just maybe an update on the phosphates. Have you had with this constructive atmosphere in Israel any idea what's going to happen with the mine at Barir?

Stefan Borgas:

Okay. Thank you very much. Let me answer the Industrial Product and the Barir question and then maybe potash pricing and, Nissim, you can give the view what we see in the market afterwards. On—what I mentioned in Israel is we've had—the atmosphere is more and more constructive, but what I also mentioned is we don't have any decisions yet. So we've had a session of the Planning Committee on Barir but they didn't decide anything, so all of this constructive atmosphere is nice, feels much better than before, but it doesn't help at all until somebody dares to make a decision so that we can actually implement. So I think the summary here is the mood improves but nothing material that we can touch yet, and as long as that doesn't happen, we remain skeptical because of the experience we've been in.

On the bromine, there are two blocks and maybe the chart is not totally clear on this. There are some long-term applications that are quite interesting. This is energy storage, gold extraction, soil fumigation, 3D printing, and then there's a lot of short term incremental innovation that replaces old products with new products, especially in the flame retardants. So that in the flame retardants, we don't need growth but we will get profitability improvement through this portfolio rejuvenation. Specifically on clear brine fluids, it's simply a growing business because in the long run, there are a growing number of rigs not in the short run but in the long run.

The Merquel opportunity has actually delivered in the US about 75% of its potential, which is about 30,000 tons of elemental bromine, and it will deliver another—the last 25% sometime in the next two years. The next step improvement—the next opportunity for Merquel is China, and for China, the specificity of this business coming into a reach of execution capability has moved much closer because the Europeans are just in the legislative process to put in place mercury limits similar to the US standard. That doesn't give us a big market for Merquel in Europe because the coal doesn't contain a lot of mercury, but it gives China the standard in order to put into place in their country. We have been asked now by Chinese energy manufacturers to put in place a pilot facility in China in order to demonstrate the technology, and we're in the process of setting this up over the course of the next two or three quarters.

Nissim, potash pricing, estimates or comments for the second half of the year?

Nissim Adar:

Okay. If you look back also to 2013, '14, those were very good years for the fertilizers industry, for the potash industry. We saw healthy demands coming from everywhere with good crop prices, and we saw the an upward trend in the price of potash, so it looked good early this year. We succeeded to put the \$10 dollar increase in China and in India. The demand in India is very good now. In China it's also very good. The two markets which we see now softening in prices and in demand is Brazil and the US. Brazil is due to the economic situation, the crop prices, and the credit line for the farmers, and in the US due to the rain and the late season start. So in these two markets we see a softening of price and most probably will continue to see it in the coming period.

Limor Gruber:

Thank you, Nissim. We will now move to questions from the line. But please, since there is a pretty long queue, I would like you to limit yourself to two questions. Thank you. Adam, please.

Operator:

Thank you. Our first question comes from the line of Matthew Korn with Barclays. Please go ahead with your question

Matthew Korn:

Hi. Good day everyone. Thanks for taking my question. Now, Stefan, apparently the fertilizer industry is going through its own phase of consolidation, at least attempts to consolidate potash, nitrogen. I got some news today on a producer, a distributor. I'm interested in your view on what the market significance of all this really is. Does this mark a now thoroughly more mature market? Does the market expectations (inaudible) challenged produce your profitability? What inferences can we draw from this? Thanks.

Stefan Borgas:

Yes, I think it's a combination of the markets being a little bit softer, the capital being very, very cheap and the opportunities being there. There are options for rounds of consolidation. It's not limited to the fertilizer market. You'll see this also in crop protection, for example, and I think at the end of the day it will be good for the market if there's more consideration because this makes the market clearer to operate in.

Matthew Korn:

Let me follow up with this then. On the phosphate fertilizer side, (inaudible) different views and pricing trends in the second half at least across North American producers. Do you expect Chinese currency levels aside the renewal of the Chinese VAT (phon), is that going to have any material affect on the floor price?

Stefan Borgas:

Not at this point.

Matthew Korn:

Thanks very much.

Operator:

Thank you. Our next question comes from the line of Vincent Andrews with Morgan Stanley. Please go ahead with your question.

Neil:

Hi. Good morning, this is Neil calling in for Vincent. I want to just talk a little bit about bromine prices. So how sustainable do you think bromine prices are post the strike, given the weak near term demand environment. Also, just given the impact of the Chinese currency devaluation, do you see any impact on bromine prices?

Stefan Borgas:

No impact that we see from the currency perspective, simply because the Chinese are utilizing all of their bromine domestically and they need significant imports in order to fulfill their domestic bromine demand. We see the elemental bromine price increase in China as very sustainable, and as a result we also see the bromine compounds price increase as pretty strong. It's supported by everybody and prices are still moving up rather than down. So for the next six, 12, 18 months, this should be the environment in which we're in.

Neil:

Thanks.

Operator:

Thank you. Our next question comes from the line of Sophie Jourdier. Please go ahead with your question.

Sophie Jourdier:

Afternoon, thank you. The first question is just whether you could update us on the discussions you're having with the government on the Sheshinski reforms and any amendments that they are considering, what your views are. You mentioned more constructive discussions recently. Also what timing we should expect on any results out of that. That's the first question. Then the second question, just a quick question on your Chinese joint venture. Can you just update us as to what still needs to be done before completion and when you're expecting that completion? Thanks.

Stefan Borgas:

Okay. In Israel, in the discussion with the government, Sheshinski tax is one of the topics that is under discussion. The second one is the encouragement of investments. The third one is royalty arbitration. The fourth one is a tax dispute from the past. The fifth one is the extension of the concession at the Dead Sea. The last one is the concession for phosphate. So you see it's a whole bouquet of interesting topics which all influence one and the other.

I would say the qualitative difference between now and a year ago is that in the government most people now have realized that all of these things are connected. So it is of relatively little help to the country if they solve only one of the issues because they could deteriorate the conditions with the other issues. So we need everything solved, if not in a package deal, then in a short sequence of topics. That is the reason of why the discussion becomes more constructive because it's complicated. The professionals in the government have understood this quite a while ago and now the politicians have also understood this. It's very, very difficult to give you any timing for the resolution. The target of the old government was to have

everything in the law already done by now. I think what this means is that the guidance we gave you in the past is for sure the worst-case scenario.

Sophie Jourdier:

I'm sorry, the guidance—in terms of the 100 million additional taxes?

Stefan Borgas:

Yes, hundred...?

Sophie Jourdier:

I'm sorry, when you said the...

Stefan Borgas:

The 130 million as of 2017, this is probably the worst-case scenario.

Sophie Jourdier:

Okay, thank you. Then just on the Chinese joint venture?

Stefan Borgas:

In China, we expect to close the deal still in 2015, by the end of this year. Mostly there's some—there's some security and safety checks to be passed still. Yes, and that should be done by the end of this year.

Sophie Jourdier:

Okay. Thank you very much.

Stefan Borgas:

We're confident enough in China that we have started to operate part of the operations already. The R&D center, we have started. This doesn't need national government approval, only local government approval. We have received this so we've already started and there's a couple other activities as well. We've hired all the Management, so these are signs that we feel pretty confident that this will happen.

Operator:

Thank you. Our next question comes from the line of Chris Kapsch with BB&T. Please go ahead with your question.

Chris Kapsch:

Yes, my questions are focused on the Industrial Products business, and just, Stefan, in your formal comments and the slide presentation, there's a comment about brominated flame retardant demand for printed circuit boards being lower, and a couple of your competitors have talked about in this quarter generally speaking, while not robust, but the electronics and market demand looking a little bit better, a little bit more healthy than it's been at least stabilizing. So I'm just wondering if you could just reconcile those divergent comments. Is this just a function of your inventory, of derivatives being depleted? I appreciate it.

Stefan Borgas:

I'll hand the question over to Charlie Weidhas, who runs the business.

Charles M. Weidhas:

Good afternoon, good morning. You need to separate the demand into a couple of pieces. So we're specifically talking about the products that go into PCs being a little bit weaker, which impacts one of our products directly, but I would say that the portfolio of the other markets is very stable. There's a second part which is prices that are generally going up for the sales of these, and so you would see some better profitability because of the pricing.

Chris Kapsch:

Okay, so—but overall electronics demand, you're speaking about the weaknesses specifically in the PC, but the rest of the electronics and market demand is—how would you describe it, stable or improving slightly?

Charles M. Weidhas:

I'm speaking specifically about the PC market, and the rest of the market is generally pretty stable.

Chris Kapsch:

Okay. Just also in the formal press release, you talk about the Chinese manufacturers sort of reducing their production of—it looks like derivatives. Can you just provide additional color on that dynamic? Thank you.

Charles M. Weidhas:

Yes, a lot of the flame retardants produced and consumed is in China and goes towards for example the PC and PC component markets.

Operator:

Thank you. Our next question comes from the line of Gilad Alper from Excellence. Please go ahead with your question.

Gilad Alper:

Hi, just a question, kind of a follow-up, I guess, on the issue with the government. Assuming for a second that you receive from the government a type of tax break that is reported in the financial press here, and assume that you won't really unfreeze some of the investments you had planned to do in Israel. The question is, after committing to investing up to about half a billion dollars in China, buying the mine in Ethiopia, expansion in Europe, do you actually have enough funds to make all of the investments in Israel that you had planned to do before the Sheshinski Committee hit you a year or two years ago? Just a question on that. I mean assuming the government gives you whatever you want right now, and you make all of those investments, what kind of guarantee do you have that they simply won't do another committee, raising taxes once more after you had made all of those investments let's say three, four, five years from now? Thanks.

Stefan Borgas:

Great question. Let me answer it in three pieces whereas the third piece I'd like to ask our Chairman to comment on. First on the investment. We have two major blocks. One block is around the Dead Sea expansion of potash, and the other one is around phosphates and Rotem - expansion of the phosphate platform. What we have talked about is to put these investments in place in the next 10 years. So during that period of time, yes, we have enough funds. This—having said this, the later—any kind of a stable environment that's created here, the more we have made investment decision elsewhere. So for the next two, three years like you have observed correctly, the investments have been spoken for. So that will not be in Israel. Whatever environment we can get now will then trigger investments that need to be prepared, the preparation takes some time and then once the funds are available, they can be done. But if it takes another year or two to decide, we will continue to make decisions to invest elsewhere. So, we're, as you know, quite disciplined in our capital allocation, often our spending, that's just the scenario, and these projects compete with each other. Specifically I'm talking about the Barir decision, of course.

The second part of the question is around the stability of the environment. You're right, this is one of our major, major concerns. Therefore, we have made it very clear that it is not a tax code adaptation that we need, but we need a long-term decision on our concessions so that we know we can operate here for the long term, and for each investment that we will make, we will ask for a specific contract that will ensure that particular investment similar to, for example, companies like Intel can do it in Israel. So it works in this country. We will just insist on this, otherwise it's too risky because of the history we have. Let me come back on the timing of that decision. I mentioned before, it was postponed but of course things change a little bit. Nir, can you maybe explain just the process in which we are and the opportunities of whether this happens next week or next year?

Nir:

Okay. The process currently is that the government decided last week to move the decision on a Law Committee and gave the committee the permission to make—to observe and to make some changes if needed. If changes will put in place, they need to review if there is a fiscal implementation, and if yes, it needs to come back to the government. This is where Stefan came with the notion if it is to go back to the government it will probably not be together with the rest of the budget process and have some delays. You should bear in mind as Stefan said the average time to do a project in Israel, Industrial Product in Israel is between six to nine years from the day that you started. We're still working on project, for example, of new power plant and etc. that started six or seven years ago. So the timeline of the project, and this is part of the problem, is delayed regarding the issues that we don't know with the environment.

That's a good question about stability. This is something that needs to be clarified. As you know, according to the concession agreement, we have some rights. These rights need to be preserved and we need to understand that by the end of the concession, the calculation or the extension of the concession will be in terms that it'd be valid to invest today because if we started today to invest, by 2030 we'll run this project only six, seven or eight years, a project that can live more than 30 years. So this is part of the discussion, part of the problem. As we mentioned, we think that by the end of the day the rationale will come back.

Operator:

Thank you. Our next question comes from the line of Rosemary Morbelli with Gabelli & Company. Please go ahead with your question.

Rosemary Morbelli:

Thank you. Good morning, everybody. Stefan, I was wondering if you have seen any change in the demand for bromine removal since the Supreme Court, you know, made the decision to postpone the decision on that? I'm assuming it will go through, but it will take longer. Have you seen—since that, have

you seen the demand remaining at the same level or decline as some of the utilities decided to just wait to do what they were planning on doing or just stopped it until they know exactly where they stand?

Stefan Borgas:

Charlie, please?

Charles M. Weidhas:

Yes. The Supreme Court decision has not had an impact on the current demand, and in fact the Supreme Court decision is a very technical decision about how something from the EPA gets put into law, and the Supreme Court said that there was a mistake in that, so it goes back to the EPA. So it's still unclear exactly what the EPA will do next and when they'll do it, but in terms of the current demand for the product this is a demand that was developed and is being sourced prior to this decision from the EPA. So, so far no impact and I don't anticipate an impact from it.

Rosemary Morbelli:

I was wondering if you could give us a—for the potential size of the—you know, the demand for bromine, if those regulations or the European version of it comes into play in China. Any feel for how much (inaudible)

Stefan Borgas:

Thirty to 40,000 tons in the US. In China, the demand would be bigger.

Rosemary Morbelli:

Twice than or more?

Stefan Borgas:

Difficult to say at this point.

Rosemary Morbelli:

Okay.

Stefan Borgas:

If you tell me how fast the Chinese regulators will implement and if all the government companies have to do it, then I can tell you the size. But it will be bigger.

Rosemary Morbelli:

Okay. Thank you.

Stefan Borgas:

You're welcome. Next question?

Operator:

Thank you. Our next question comes from the line of Howard Flinker of Flinker & Co. Please go ahead with your question.

Howard Flinker:

Hello, everybody. My two questions before I'll ask other ones to Limor after the conference call are, what will your CAPEX be in the second half? In the Chinese joint venture, you mentioned that next year the EBITDA could increase by \$50 million to your account. What would the D&A be in that EBITDA? Thank you.

Stefan Borgas:

Sorry, what is the D&A of an EBITDA?

Howard Flinker:

Out of the \$50 million, how much is D&A?

Stefan Borgas:

Oh, depreciation.

Howard Flinker:

Yes, so (inaudible)

Stefan Borgas:

Two technical questions. I think we will take them offline and we will come back to you offline...

Sure.

Stefan Borgas:

... on both of those, okay?

Howard Flinker:

Sure, by all means.

Stefan Borgas:

Thank you.

Operator:

Thank you. Our next question comes from the line of Joel Jackson with BMO. Please go ahead with your question.

Joel Jackson:

Hi, Stefan. Good afternoon. I had a couple questions. Looking at your potash shipment to China and India for the second half of the year post strike now, are you able to give some color on how much of that contract you have still—those contracts you have still to ship to China through the end of the year and India through the end of March?

Stefan Borgas:

All of it. We should fill our contracts.

Joel Jackson:

But what I mean is through now, beginning of August or through end of June, whatever you're comfortable talking about, how much percent of those shipments do you have still to fulfill? Is it 100% of both you still have to fulfill?

Stefan Borgas:

I mean until the end of the year we will fulfill somewhere 90%, 95% of both of those contracts.

Joel Jackson:

From the beginning of August you will...

Stefan Borgas:

(Inaudible)

Joel Jackson:

Okay.

Stefan Borgas:

Now Limor is shaking her head, so obviously I said something not very smart.

Stefan Borgas:

Until the end of the year, I said we will ship most of the contracts.

Limor Gruber:

For China, it's probably correct. For India, the contract is ending at the end of March like the regular contract time. In India, usually the shipments are very linear. Of course we have to catch up because we had the downtime, but that's more or less the situation.

Joel Jackson:

So if I understand, if you say 90% of what's left to go to China...

Limor Gruber:

If you look as of the end of the second quarter, we still have most of the volume shipped. We shipped very small volumes in the second quarter. We had only one month.

Joel Jackson:

If I interpret that, 90% of what's left to go to China will happen in Q3 and Q4, and 90% of what's left to go to India will happen in Q3, Q4 and Q1. Does that sound right?

Stefan Borgas:

Yes.

Limor Gruber:

Yes, pretty close.

Joel Jackson:

My next question...

Stefan Borgas:

Limor, I'm glad I have you.

Joel Jackson:

My next question is on Allana, now that you fully control it. Can you talk about the timeline? You've talked a little about the detailed engineering timelines, but can you talk about now that you fully own it, looking at what their feasibility study that was there before, the quality of it, where you think the mine plan and cost plan, the freight plans maybe weren't correct, and so the trajectory of where that will go, and then maybe what your points of go or no-go will be for that investment?

Stefan Borgas:

Okay, great question. Thank you for it. So on the Slide number 8, you'll see the volumes that we're targeting, 1 to 1.5 million tons of potash, plus half a million tons of potassium sulfate SOP. This is the complete size of the project. So it's a different scope than what Allana had. We will need until the end of March 2016 in order to finish all of the engineerings so that we can approve the project or reject it, but hopefully approve the project in our Board of Directors. This is the timeline that we have. We will start some part of construction already in September of this year, especially in order to get infrastructure into the site. This shows us—shows you that we're relatively confident about it.

In terms of cap ex, it will be significantly below \$1,000 per tonne, significantly below \$1,000 per tonne. So here Allana's estimates were not actually very much off. We have—we are right now studying two scenarios, one scenario is to invest everything in one shot. This obviously has the disadvantage of a very big CAPEX in a relatively short period of time and then some empty capacity, but it's extremely profitable. The second option is to invest it in two stages, half and half, over the course of the next 10 years until we get to this 2025 timeline. That would obviously make it a little bit softer. We like that approach from a risk perspective, from a cash flow perspective, from this mindset that we have from this mentality that we have in ICL to build step by step and slice by slice. So we're looking at both of those options and we will make the decision at the end of March next year.

Joel Jackson:

So if I understand your commentary that it would be—the CAPEX would be significantly below a thousand a tonne. Does that mean it will be or you would only invest in it if you find a way to make it significantly below a thousand a tonne?

Stefan Borgas:

Look, we've just spent \$147 million buying this asset, we are very convinced it will be.

Joel Jackson:

Okay, thank you very much.

Stefan Borgas:

But if something dramatic happens in the next seven months and it will be much higher, then we will write off the 147 million tons and walk into the sunset

Joel Jackson:

Okay, maybe I'll just ask one more question. Would that decision, whether Potash Corp. is successful in acquiring K+S, any bearing on your decision to go ahead with Allana?

Stefan Borgas:

Can you repeat the question, please?

Joel Jackson:

Sorry. My last question I guess was if Potash Corp were to acquire K+S, would that have any bearing on your decision to proceed with Allana or not?

Stefan Borgas:

No, this is independent. I mean K+S or Potash Corp. have nothing to do with our sale.

Joel Jackson:

Just on the supply and demand balance of the world, that's all.

Stefan Borgas:

Yes, but as I pointed out, if you very carefully read these numbers and make your own math, half of the Allana investment probably is a replacement investment because we have a mine in the UK which is coming to the end of its lifecycle, at least in potash, and the other half is to fulfill growth in Africa, where there's no market today. We're building a marketing infrastructure there, a logistics infrastructure, so the world market will not see the potash that we make there.

Joel Jackson:

That was helpful. Thanks, Stefan.

Stefan Borgas:

My pleasure.

Operator:

Thank you. Ladies and gentlemen, we have time for one final question. Our next question comes from the line of Rosemary Morbelli with Gabelli & Company. Please go ahead with your question.

Rosemary Morbelli:

Thank you for agreeing with my follow-up question. I was just wondering, when do you think that your capacity, talking about bromine, elemental bromine, will be back online to the point where you can actually supply your customers, you know, at the same level as you did prior to the strike? How long will that take?

Charles M. Weidhas:

There's two parts to this. First is our ability to produce here in Israel, and we anticipate very late Q3, very early Q4 to have our bromine back to prestrike production levels. There's a second part of the question which is our ability to ship bromine outside of Israel, which is a function of our specialized isotank fleet, and we have a little bit more of a backlog in terms of having the isotanks repaired, so that's probably going into early next year. So in terms of our ability to produce compounds and produce elemental bromine end of Q3, early Q4, and the ability to have our full capacity to ship external to Israel will be our isotanks early next year.

Rosemary Morbelli:

Why do you have an issue with the isotanks?

Charles M. Weidhas:

Because the isotanks during the strike and actually prior to the strike we were not able to do maintenance on those, which is a requirement, because of work sanctions.

Rosemary Morbelli:

All right, thank you. I appreciate it.

Operator:

Thank you. Ladies and gentlemen, there are no further questions at this time. I would like to turn the floor back over to Management for any closing remarks.

Limor Gruber:

Adam, thank you. Thank you, everyone, for being here with us and listening to us over the phone. Whatever follow-up question you have, I will be happy to get them. Thank you. Good day.

Operator:

Thank you, ladies and gentlemen. This does conclude our teleconference for today. You may now disconnect your lines at this time. Thank you for your participation, and have a wonderful day.

