ICL
First Quarter 2014 Conference Call
May 15, 2014

Operator: Greetings, and welcome to the ICL First Quarter 2014 Conference 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 for ICL. Thank you. You may begin.

Limor Gruber: Thank you. Hello, everyone in the room and on the line. Welcome and thank you for joining us for our first Quarter 2014 Conference Call. This morning we filed our report to the Israeli Securities Authority and the Tel Aviv Stock Exchange. You can also find the English version in our website. Please carefully review all reports with all data and consideration.

The presentation that you'll see today is also on our website. It was filed as an immediate report to the Securities authority; and for those of you who follow us on WebEx, you can follow the presentation there, but please make sure that you also connect to us through the telephone in case of technical issues.

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

Thank you. Stefan, please.

Stefan Borgas: Thank you very much, Limor. Good afternoon and good morning to all of you here in the room, in Tel Aviv and around the world at the telephone conference.

I'm happy to present Q1 results. Here, an overview of the numbers. We have a small increase in sales compared to the first quarter of 2013, but as all of you know, the comparison to the first quarter of 2013 is pretty much irrelevant because of the disruptive event that happened in the summer of 2013. So from our perspective, a much more relevant comparison is the quarter-by-quarter developments after the crash of the potash prices in the summer of last year.

So compared to the fourth quarter of 2013, we have seen quite a nice and healthy recovery of the business when it comes to volume, and also when it comes to prices; at least no further decline in our major commodity prices compared to the fourth quarter of 2013. I think it's fair to say that we have hit the bottom and now we're in a probably long and elongated period of slow, slow price improvements over the course of the next few years.

Volumes are healthy. If you look outside the commodity business, our Specialty Fertilizer business performed extremely well; very happy with this. I will get into this a little bit later. Our Performance Products business also continued to perform on a very good trajectory. Over here we're very happy. We hope that you don't get used to this kind of development in this market, and you still appreciate the development that is happening here.

From a strategy implementation perspective, many things have happened since we met last time. I will get into this over the course of this call.

Let's look a little bit into the businesses. In the Fertilizer business we had record potash sales for a first quarter. There was probably a little bit of catch up from last year in here because we had a few months of slow down due to uncertainty mostly in the third quarter of last year; but from a demand perspective, it was actually a very strong quarter from an end-customer perspective, so most of these high sales are actually based on demand and not pipeline driven.

Same on phosphates; very good, strong customer demand. We were also able to fulfill the demand despite the fact that at the very end of the quarter we started to experience a strike in our main phosphate site in Rotem in Israel. The reason why this didn't really affect the numbers of the first quarter very much is because of inventory effects. As the strike was already going on, we still serviced customers out of inventories that we had built here in Israel and abroad. So, we will only see the affect of the strike, in the P&L in the second quarter, just simply because of that effect.

As I already indicated, the Specialty Fertilizer business continues on a very good trajectory. The underlying growth trend in the market continues for these more sophisticated products, but also we had a very good and positive start into the growing season in Europe because it was actually a very short winter; the opposite from what we experienced the same quarter last year.

Industrial Products, let me say there is stabilization on a very low level. That's maybe the best summary of what happened. Volumes in the flame retardant market now for the third quarter in a row didn't go down any further, but there's no recovery either. Inside the Flame Retardant portfolio, the old products, the old commodity products continue to decline, but there are some modern new products that are slowly coming to the portfolio and that balances also. Overall the Flame Retardant business now is stabilized.

On the Non-Flame Retardant business, the clear brine fluids and the biocides, the emission control products, the demand is very solid. It's not bombastically growing closer double-digit, but it's a good, nice growth; the way you would expect it from industrial markets. Where we have actually very good business in the first quarter of this year was in our Salt business because of this very big strong winter in the US where our magnesium de-icing salts are very much appreciated because they're much better performance than the regular sodium salts.

Also on the Transformer Steel business where we regained quite a lot of business in Russia again after we had lost to some low-price, low-quality Chinese competitors, customers came up, came back to us, not because we gave in on prices, but because of quality; and that's really nice to see.

In Performance Products, our Food business continues to grow over proportionately at the moment, not because the base business is doing so well, but because the new products that we have added to acquisitions and through new product introduction are doing quite well. It's our Spice business that we bought in Germany that is in the P&L for the first time in the first quarter. Also, exchange rates were positive in a certain way here.

In the Advanced Additives business, quantities are not growing very much, but margins have developed quite nicely, therefore we're happy with this business as well.

What we have also started to do in the first quarter, we have started to look at options for the non-core activities of ICL. I will make a comment on this at the end. This might lead to possible divestitures towards the end of this year or beginning of next year. The process, however, is fully open. This is just option evaluation at this point in time.

Also in Performance Products in the second quarter, you will see the impact of the strike at Rotem. Why? Because Rotem is the raw material supplier for a big portion of our Performance Products business, and as between the middle of March and the end of April, Rotem couldn't supply raw materials into this business. So in order to keep customers and keep the performance, they had—this business had to source these raw materials from third-parties; and of course, here the conditions are much worse. Therefore, we may see a double-digit millions of dollars impact in the second quarter in Performance Products; nothing to be surprised about when it finally hits.

Let's talk a little bit about the implementation of our strategy because I think this drives actually all the value into the future. So you also remember the core business of ICL is the value chain from five unique minerals in which we already operate, and in which we want to continue to grow through processing and formulation steps into three end-markets: agriculture, food and engineered materials. Ninety-two percent of ICL business is within this value chain.

Our clear objectives are to leverage this value chain as one strong integrated Company, to improve the competitiveness in the entire chain from the source, all the way to the customer on a relative competitiveness to all of the individual competitors that we find in this chain, and to introduce new products in this chain as well as new geographies, conquer new geographies. This is the strategic roadmap on which we are and we do this through targeted efficiency programs. We do this through very well-defined growth initiatives, and we have enabling activities such as implementation of a global IT strategic system, such as global management processes that we're also putting in place in order to host the whole machine together.

The analysis of those businesses that do not fit into this core value chain has started in detail in the first quarter of this year. What we're doing specifically is that businesses that are housed in the performance product segments in water, chemicals, in footwear parts, in cosmetics and farma products, aluminum oxide, chemicals for. So there are five, six small businesses that make up 5% of ICL sales globally, that make up 10% of ICL's employees that simply have no connectivity to this value chain.

Many of these businesses are not as profitable as their peers, but we think there's an opportunity to find better owners for these businesses. If we're really successful with this, this will be very—this will prevent a much better future for those businesses and to have under the ICL roles, and for ICL it will free up cash to invest into this core value chain. That is the simple portfolio management logic behind this. We will keep you up-to-date as this becomes specific. We have been mandated by our Board to actually specifically look for options and we will do this over the course of the next months and quarters.

Let me talk a little bit about these three strategic pillars here, the efficiency pillar. We're setting up regional shared service centers in order to reduce overhead costs and to improve the services to the businesses. You can see that the services here are defined as finance, procurement, legal, IT and HR, so not the core activities of all of the businesses. They will, of course, remain a solid part of the business units, but these services we think we can put on regional platforms. This will give us efficiency gains, but much more importantly, this will give us a significant increase in quality and performance; and on the chart you can see where these service centers will be located and also how many people are affected by this.

On the growth side of the strategy, in the first quarter we implemented the plans that we had announced before in Ethiopia with the acquisition of 16% of Allana Potash, which is a Canadian company. We have warrants and options that allow us to increase this shift to 37%. We have a full off-take agreement for the entire 1 million tons of this plant capacity and we are represented on the Board now of Allana. These reserves that we're working on will last for about 30 years for this quantity. This is a project where we would not flood the world market with even more potash. That is not needed. But this is a project where we look at potash from Africa for Africa.

This is a demand that in the large amount does not yet exist today. African farmers hardly use any potash at all. So in order to prepare the African market, we have just started a Company in Addis Ababa in Ethiopia. We have the first employee hired there in the first quarter and the task of this office, of this operation is not to build the mine because Allana has a very good team doing this, which is actually now being supported by our Technical Team but the task of this office is to prepare the market. We are looking at investments into the Ethiopian and Kenyan and Tanzanian markets in East Africa in order to build demand so that once production comes online we can sell most of this potash in East Africa.

The second decision we implemented in the first quarter of this year is an investment decision in our Cleveland potash mine in the UK for the mining of poly-sulphate. We have talked about this many times. The premarketing phase and the preproduction phase are now finished. We are going into large-scale operation. The next scale objective now is to produce around 600,000 tons of this mixed mined fertilizer which is extremely competitive on the one hand, but also fulfills an unmet need in the Western markets because there's a big sulfur deficiency in many soils now in Europe, but also in North America; and possibly also in other places in the world such as Brazil.

So this project is underway. We've got great support from the UK government on this. They will participate in this investment to more than 10%. They have made this commitment, and so we are quite excited that this investment has started to move.

In our Phosphate business we have made good progress, but there's nothing tangible that we can report in terms of signed contracts at this moment. These discussions take time, so we have focused our tangible activities in the last month on cost reduction. We have reduced the labor force in our Rotem site by about 150 people out of roughly 1,200 that we started with, so this is quite a significant step down in cost.

We will start to benefit from this step down as of immediately because this program is now finished. It took a strike. Unfortunately this was rather a useless strike because the entire package that at the end was implemented was already on the table four months ago, so this could've all been made much, much easier, but unfortunately sometimes reason doesn't prevail at least not at the beginning; at the end it did.

Rotem now is under optimization and cash flow optimization scheme because we also have not received very good news with respect to the extension of our concession into the next mining field. The Israeli Minister of Health has given a negative opinion of this. This doesn't by any means signify that the battle is over. The battle is very rarely over, so we continue to fight for this, but because we don't have any positive news at this moment, our only business alternative currently, is to optimize cash flow here because their reserves will only last for another eight years.

The Team is currently preparing a long-term plan on what the future of this site is, under an assumption that we will not get a concession extension. Another Team is working, of course, on the concession extension, but the Management Team will continue to optimize this and we will decide in August with our Board what the specific measures here will be on the site.

In parallel, we are checking in several parts around the world for opportunities to expand this business, actually significantly expand this business. This is part of our core strategy. This is independent from what happens in Israel, because we want to build up this integrated phosphate business all over the world, in Latin America specifically and in Southeast Asia as well. In both of those places we have activities.

As we have started to embark on getting to know Africa better, we're also finding interesting opportunities there, but they're rather infancy at the moment, in infancy stage.

When we talk about our engineered materials businesses, we have two pieces here. We have the bromine engineered materials and we have the phosphate-based engineered materials. On the bromine area we have launched a new product now. It's called FR122P, and under this very secretive looking —this is just simply the unimaginative name for a product that has fantastic potential for making insulation foam, flame retardant, flame resistant.

This will replace an old product in Europe immediately which will be banned because of the REACH legislation that considered it toxic. This old product is called HBCD, not a much more creative name either. This product will be banned in Europe as of 2015. Again, in 2015 all major customers will switch to the new product.

The nice thing about that for us is it's an innovative new product; therefore, it has much higher value than the old one. We expect that it will also create some demand outside of Europe over time but because of the price difference, in the short-term, at least, it is rather limited.

On the phosphate side we have completed the acquisition of Auxquimia. This is a Spanish company that will help us to expand our very successful firefighting business for wildfires into fire foams, fire extinguishing foams. Here we found a very innovative technology which we can now leverage throughout our global network and become a more significant player on the foam side as well.

In our Food business we completed the acquisition of the Hagesüd Group. This supports our Meats business. It's a spice mixture and formulation company and this brings two things to us: it brings a new set of products, which we can add to the stabilizers and texture enhancers that we already have, so these products have big synergy for the customers; but it also gives us the sales channels to the retail channel, so we will now start to sell directly to retail. Initially just in German-speaking countries, because this is where Hagesüd is active, but it looks like there's a lot of opportunity also to expand this beyond Germany. It's a small- medium-sized acquisition which already is in the P&L in the first quarter.

Then in Latin America, where we want to build this phosphate value chain as well, we have signed an agreement with Vale, who has agreed to sell us their share in the joint venture that we ran together. In the past we had 44% of this. We have now 88% of this as soon as the regulators approve, and then we are aiming at moving this to 100% so that we can fully and completely integrate. This has $100 million in sales so it's a mid-size acquisition for us, but it will make us the biggest player in pure phosphoric acid in Latin America and this will support our Food operation in Latin America, but also our engineered materials phosphate base business in Latin America. We are quite excited about this one

These are the strategic activities that happened. Let us take a look at the numbers more in detail. Avi, please.

Avi Doitchman: Thank you, Stefan. The affect of the price reduction compared to Q1 2013 made it very difficult to compare 2014 results to 2013 results. For this purpose we have also added a comparison to the fourth quarter of 2013—in order to show you the trend quarter-by-quarter. So basically the main affect on this first quarter compared to last year was a drastic price reduction from one side, and an improvement in quantity from other side. But of course, when you look on operating profits, we suffer from reduction as a result of the prices on operating profit from $360 million in the first quarter of 2013 to $250 million, still better than the fourth quarter of 2013 by 15%.

Our net profit just the net profit of $189 million, we've adjusted this number to eliminate the non-recurring tax expense of $51 million as a results of ongoing assessment discussions at subsidiaries in Europe and costs related to Rotem's strike in the amount of $7 million.

So our (net profit is a little bit lower than in the fourth (ph) quarter last year, mainly as a result of higher interest rates, due to interest expenses as a result of fair value of our financial instruments that we suffered this quarter and enjoyed last quarter.

Going business-by-business bridge analysis, in potash, sales in the first quarter of 2014 were $491 million, down from $571 million in the first quarter of 2013, mainly as a result of a $140 decrease in prices, a, but better volume appears to compensate a little bit. Operating profits compared to last year's quarter were also down mainly due to lower prices. Volumes and better energy costs Have Partially compensated for the decrease in prices.

You can see here the graph that is showing Q1 potash volumes over the years. As you can see, we had a record quantity sold of potash of 1.4 million tons, mainly as a result of very good demand in China. You can see also the high portion that we had in China in the first quarter, it is not necessarily that this portion will be the same for the rest of the year, but in this quarter we had about 25% of the market and this, of course, helped us to improve our results.

In the Phosphate and Fertilizes, sales a little bit improved by $5 million. Again, mainly volumes and the exchange rate succeed to fully compensate the price decrease in the phosphate, but when you look on operating profit the effect of the prices was much higher than the effect of volumes. We also enjoyed from relatively low raw materials prices this quarter compared to the same quarter last year. During the first the quarter, prices of sulphur started to go up. It does not appear in our results, but it should affect our results in the future, but from other side there was also an increase in phosphate prices, so we are going to pay more on sulphur but enjoy from price increasing of our products.

You can see here also the effect of the strike as Stefan mentioned. We estimate that on top of this $7 million effect in this quarter, we are going to suffer from another $11 million in the rest of 2014 as a result of the strike.

Same as in the potash, in the Phosphate we had record quantity for the quarter despite the strike.

In industrial products, price decrease effected our sales, but was compensated by improved volumes and exchange rates. This balance of sales unfortunately was not the same in our operating profit. as a result of the mix effect. Basically, we sold more product with lower operating profit. We mainly lose quantity on flame retardants and we gain some quantity on salts and magnesia products.

In the Performance products we succeeded to improve our sales. I would say about half of this improvement came from the new acquisitions. As Stefan mentioned, it's the Spices business that we bought in Germany that is in the P&L for the first time in the first quarter So about half of the improvement of the sales came from the new acquisition and the rest came from improvements of volume in our current activities. This lead also to an improvement in our operating results. Also, here it's important to see the effects of the strike in this quarter, and again, our assumption for the rest of 2014 is in the level of $10 million because of the strike.

Thank you.

Limor Gruber: Okay. We'll start, Kevin, with a question from the line please.

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

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

Joel Jackson: Hi. Thank you. In the potash market, we've seen Brazilian prices increasing, while Southeast Asian prices kind of flat line so the premium of Brazil over Southeast Asia is quite wide. Do you see Brazilian prices falling, Southeast prices rising, meet in the middle? How do you see that all happening? Thanks.

Stefan Borgas: Okay. The major reason why this practice is different, major two reasons are timing and quality. The Chinese prices have established the floor very early in January, basically as a follow-on to the December prices, so they're relatively close to the old. The Brazilian prices are spot prices, so they get determined step-by-step all over the course of the month so they go up all the time. Because of the growth in Brazil and the demand, they keep going up month after month. So that's the one reason.

The second reason is the Brazilian market is a granular market. Granular is extremely short around the world, so the premium between standard and granular material has expanded. There's actually a similar effect in Europe, as it's largely driven by the same two effects also. We can see in Asia now the price is strengthening as well. So this is clearly the direction: an upward trend in Asia that we can see, not a downward trend in Brazil. The Chinese demand has been very, very strong in the first quarter also because the Chinese are shipping very aggressively against their now very competitive price in the first half of this year.

We expect that these volumes, the contract volumes in China will be used up probably sometime in the third quarter, maybe earlier in the third quarter. We actually don't expect any contracts in China to be signed in the second quarter, but the Chinese market too moves to spot market for a while, and that's actually good news because this will allow us to incrementally increase the price.

Joel Jackson: Okay. Following up on that, you spoke of expecting some modest or gradual—I forgot the exact words you said—price improvement over the next few years in potash. If you continue to produce at your monthly average and Belaruskali follows it's government advice to get back to its normal production rates, whether it’s 9, 9.5 million tons—we could argue over that—can you really add price improvements?

Stefan Borgas: Right now the price improvements are holding. You know, it's very difficult to make these kinds of “if-then” assumptions because we don't know what the operational rates really are. The only one that puts pressure on pricing at the moment is Belaruskali. That's just a fact of life. So we have lost a little bit of business here and there to them. Everybody else seems to be more balanced in their behavior.

Joel Jackson: My final question—and I realize it's a very sensitive topic, so I appreciate what you can answer. Obviously there's a lot in the media that the Sheshinkski II review is imminent. Obviously the timing was always said to be around, I believe, June. There's a lot in the media about whether a super tax is coming from lower potash royalties. What can you speak on that and what's your opinion, thanks?

Stefan Borgas: Our opinion is very simple. We think we pay enough so we shouldn't pay any more; and we're quite firm about this because if we pay even a little bit more, the investment climate for ICL in Israel is going to be such that investments will not—simply not be profitable here anymore. I hope that the government will finally understand this because they're shooting themselves in the foot if they keep tax increases and then they lose investments and jobs very quickly after that as well.

From a total country economics' perspective this is not a very desirable decision. That's why we're so clear about this. With respect to the recommendations of the Sheshinkski Committee, we cannot really say very much because we haven't seen any reports, like it's the case in many of these cases and many of these things in Israel, things have leaked or been communicated to the press. Whatever we read in the press is within the scope of our worst-case scenario assumptions. So at least we didn't fall off the chair, but we don't know what—how much of this is really in the report and we don't know if this is all and we don't know if this is exaggerated. We don't know if this is the opinion of individual members of the committee, so there are many, many more question marks than answers until we've actually read the reports, which should come out today, tomorrow. Hopefully we will get a copy as well. Usually we always need to threaten the court until we also get a copy, but okay, this is the local color here. We are not panicked or nervous about this.

One thing is very clear. This is still part of the process. This is the first recommendation of the committee. Then there will be another round of hearings. Then there will be a final recommendation of the committee, not before the middle of the year. After that, there will be a whole uncoordinated discussion; everybody will give his and her opinion, and then eventually in the second half of the year we will move into some kind of an orderly discussion, first inside the government. We expect we will not be included first and then we will be faced with some press articles and eventually people will talk to us; and then next year there will be an orderly legislative process. So by the time this actually hits ICL P&L, it will be 2016 at the earliest, maybe even later than this, because there's other things going on here as well.

So it's an ongoing battle. Hopefully this will put their feeling to the worst-case scenario and then I think we will take it from there.

Joel Jackson: That was very helpful. Thank you very much.

Stefan Borgas: You're welcome.

Limor Gruber: Next question?

Operator: Thank you. Our next question today is coming from Matthew Korn from Barclays. Please proceed with your question.

Matthew Korn: Hello. Thanks, everyone. Slide 17, as Avi pointed out, you know, ICL had nearly 26% market share to China, the Russians Belarusians more than half. I'm curious, is that, in your view, the way that the split of the market is likely looking going forward this year, next year; and I mean in essence, is that representative of the form the market's going to stabilize at post events of last summer?

Stefan Borgas: You know, this is a point in time, a picture of the first quarter. Usually if you take a quarterly picture like this, market shares tend to move plus or minus 5% points up or down because it depends very much on shipping routes and container receipts and signed contracts. So don't take this under this assumption. This is not a solidified long-term market share. ICL shares certainly this quarter was higher, but that has to do with shipping schedules more than with anything else. Usually our market share in China is more around 13-15% something like that.

Matthew Korn: All right. Understood.

Stefan Borgas: It's schedules more than anything else.

Matthew Korn: Okay. Okay. Got it. I know this is a perpetual question, but on India, you know, it looks like we're going to have a change in the political situationP. You know, do you see any kind of real prospects for change in subsidies system; and also kind of your view on how drawn down inventories there have become and what is the upside potential for shipments over this year and next year?

Stefan Borgas: First, too early to tell. Second, if there's any changes in policy for sure this will not affect this year, maybe, maybe next year. Third, we have the opinion that subsidies only play a secondary or even tertiary role in the demand. Much more important is the creation of demand locally on the market through real true market developments.

This is our road. We tried to develop the market independent from many subsidies and we're trying to convince Indian farmers to use potash at world market prices plus local distribution costs, which means they would have to pay between $500 and $600 per ton of potash today in order to use this, and guess what, it's very profitable for Indian farmers to do just that. So any kind of subsidies then would be a plus.

But the Indian government, I think if it actual results comes up like this, by everything we read and we hear, we cannot say more than that either. It has more positive potential than negative potential, but not in the short-term, I don't believe so.

Matthew Korn: All right. Then just last on Brazil, for potash it's clearly been a growth driver, you know, even with other regions showing some softness, you know, here and there. What you think the feeling is of that market in terms of additional saturation, you know, P or K as far as application rates go. Could this be for potash in 11, 12 million ton market in the next several years? Just your thoughts on that

Stefan Borgas: Off the top of my head I don't know. Nissim, do you have any view on this? Nissim Adar, our Head of Fertilizers is also here.

Nissim Adar: What I consider about Brazil, Brazil is growing. So this kind of growth for potash will continue in the future. So from this perspective of view, I'm quite optimistic.

Matthew Korn: All right. Thanks very much for the time.

Limor Gruber: Okay. We will now move to get some questions from the room.

Guil Bashan: Hi. It's Guil Bashan from IBI. My question regards the specific plan that you announced almost a year ago, I think in August. If you can tell us how is it going, if it's meeting your expectation, and more or less how much of savings do you think that we might see in 2014?

Stefan Borgas: Okay. Guil. We've tried to give you information in details in our presentation; no need, I think, to repeat this. On the savings side, everything is on track. We guided for a few hundred million dollars savings until the end of 2016. This is still very much on track. If you make careful calculations you can already see a certain effect on the cost of goods of some of our products already in the first quarter, if you compare this.

I don't want to give you a number at this point in time because many teams are very young and I think coming together, so things could very well, in several terms of millions go from November, December, you know, from February into November. Therefore I want to be careful with numbers. But it's a good significant effort that is happening here and the progress is quite satisfying.

Guil Bashan: Okay. Good. Avi, so the several hundreds of million by the end of 2016; is that mean that it's going to grow each year? Another quick one is about just to get sure that I understood in the first part of your presentation, you said that about 6% to 8% of sales is not in the core business and you aim to sell these businesses, do you know of what are those businesses?

Stefan Borgas: That's one of the opportunities that we are looking at. As you can see, about 92% of our businesses are in the core. We now took all of the businesses that are not core and we said there are some that we will now check as a possible divestitures. The idea is to look for better owners, which means if we could find better owners we would divest this business.

Guil Bashan: Thank you. Great.

Yonah Weiss: Hi there. It's Yonah Weiss from HSBC with a couple of questions. First of all, maybe a technical question. I've seen in some industry reports that Israel Chemicals Potash will be undergoing some downtime or some repairs in the month of May; is that the case, and if so, what would the impact on production be?

Stefan Borgas: Really we already hadthe shutdown.. In May we expect a little bit lower production due to the excessive rains and floods we had just a week ago which were really exceptional, similar to 2004, but we can produce as planned for the whole year.

Yonah Weiss: Okay. Thank you. In terms of blended phosphates, which I believe were 525,000 tons this quarter, that's a very, very large number and I'm wondering if perhaps you've considered—in the strike occurred during the first quarter—so I'm wondering, you know, if that represents any change in the annual run rate for that business, and if it does or it doesn't, could you say how that will impact sales and production for the rest of the year?

Stefan Borgas: So what has happened in the whole Rotem complex, as we have explained several times before, with respect to the optimization of the size, there are two major activities going on at the moment. One is the straight, direct reduction of cost to sourcing, to raw materials, also through headcount reduction. This is one piece, and you saw the headcount reduction that we did in the first quarter.

The second activity that is going on is quite focused investment into what we call operational excellence; and what this really is, there are technical teams that are going—that are supported by a lot of knowledge also from the outside that are going systematically from one plant to another in order to try to improve the output of those specific plants through yield improvement, small investments, run rate changes and things like this. The higher production numbers you see is a direct result out of this. This activity has been started in the middle of last year and we're starting to see this.

Now if we hadn't had the strike we would enjoy this kind of higher production level on an ongoing basis for the rest of the year, maybe even on an increasing trajectory. The strike threw us back by something like two months because once you stopped working, you run down, you shut down step-by-step all the plants you have—and these are massive huge operations—and then you'll start them back up; and when you start them back up, usually there are certain pieces of equipment that under stress don't perform so well so you have some hiccups and this is exactly what happened. So it took until about the middle of May for the entire site to be back up at those run rates.

Okay, so now we have to optimize the stakes another three or four weeks until we're back up at the same run rates that we had in February. So we lost something like not only six weeks of production, but we also lost 2.5 months of efficiency gain. But in principle the efficiency plan is on a good trajectory to better operational performance, not all in phosphates; quite a bit of it also goes into the benefit of the specialty fertilizers.

Yonah Weiss: I guess maybe the last question would be, again, regarding your non-core assets. You have a 50% stake in IDE, which I have not heard you discuss in terms of water chemicals. That’s a completely different business.

Stefan Borgas: Yes.

Yonah Weiss: Do you see IDE as a divestiture candidate as well, or is that a non-core for you or how do you quantify that?

Stefan Borgas: IDE is obviously not in this value chain here. It's part of the 8%, but we just haven't gotten around to deal with it yet. We are—it's always the same people who have to do this analysis, so we go step-by-step. We will eventually deal with IDE probably towards the end of next year.

Yonah Weiss: Thank you very much.

Limor Gruber: Kevin, do we have other questions on the line?

Operator: Not at this time. However, if anyone dialed-in and would like to be placed in the question queue, please press star, one on your telephone keypad. Once again, that's star, one to be placed in the question queue. If you are on a speakerphone, it may be necessary to pick up your handset before pressing the star key. Once again, that's star, one to be placed in the question queue.

We do have a follow-up question from Joel Jackson from BMO Capital Markets. Please proceed.

Joel Jackson: Hi. Thanks. I thought I’d follow-up with some of your comments on Africa and Allana. On Allana, I think I read in one of your releases that you could see production coming on within five years. I think I read that. That's more consorted projections in the junior company, Allana. Maybe you could talk about that and maybe if you have any ambitions of maybe trying to build NPK plants in Ethiopia or maybe just a broader view on Ethiopia. Thanks.

Stefan Borgas: Yes. The more we learn, the more we get excited about this country. I think first on the mine, it's pretty natural that your junior miner and the promoters are always extremely optimistic and very bullish on much lower CAPEX, much faster timeline, much higher market prices, I think, they're not to blame here. We were more conservative on all three of those.

I hope that the truth is also to what the Allana guys protect. We will do everything we can to support them, but still, I don't want to get away from a 2018 startup until we've done all of our technical work and maybe until we're a little bit further down the line with actually started construction. So let's just live with the dichotomy of these two views at this point in time.

With respect to the Ethiopian market, yes, we are looking at fertilizer production in Ethiopia, also in Kenya, also in Tanzania, in order to build the markets there towards a balanced fertilization. As a first step we have invested about $600,000 now, just now. The work has already started into a soil mapping project together with the agricultural technology agency in Ethiopia, which will be the basis for us to make a decision where best to put a blending plant or an empty case land or some other form of more complex or nutrient plant. There might actually not only be one of them, but we are, as I said, more and more excited about this market because the potential is so huge.

It is such a big agricultural market. Eighty percent of the population works in agriculture; 45% of the GDP comes from agriculture in this country so it has huge focus by the government. The government is extremely professional. The Minister of Agriculture, the Minister of Mining, they really know what they're talking about. This is very much in the focus of the parliament in order to—the fact that they want to support agriculture there.

So let's see. We've guided our Team to be as aggressive as they possibly can and as fast as they possibly can, but then of course, will better have the facts together. So we'll keep you up-to-date what we will do to—in terms of this investment.

Joel Jackson: Okay. At the UK mine, if you can ramp up to 600,000 tons of polysulphate or polyhalite, what would your production run rates be for MOP, at that same mine?

Stefan Borgas: Same level as today. This is—and that's on top of MOP, in addition of MOP.

Joel Jackson: Great. Thank you.

Operator: Thank you. Once again…

Limor Gruber: We have more questions in the room.

Operator: Sure. Please proceed.

Yoan Burgan: Hi. It’s Yoav Burgan from Poalim Sahar. You mentioned before as part of your strategic plan that you presented for the first time last year, last summer. Regarding the IPO, I think at some time you talk about a timeframe of this year's June, July or something like that. Can we assume that it's currently off the table or indefinitely delayed or…?

Stefan Borgas: No. You can assume that it's going to happen.

Yoav Burgan: It's June, July. That's, you know, pretty much now.

Stefan Borgas: It's not now. Now is beginning of May, but June, July is in two months from now. It will happen. So far everything is on green.

Yoav Burgan: You feel confident, you know, given current global market conditions an IPO of a fertilizer company will be receptive?

Stefan Borgas: That’s what we do, yes.

Stefan Borgas: YesIt's a listing and it's a sale of shares by the majority shareholder at the same time. They haven't even made the final decision.

Yoav Burgan: There will be no fundraising whatsoever.

Stefan Borgas: Right. Exactly. Exactly. But that was never the idea. We don't need any funds. It was always intended to be—from the beginning, this was attempt to be a listing, which gives us access to the capital market in North America which we don't have today; and then gives us the opportunity to do an equity fundraising if we need to because of a large investment or a large acquisition. So that has never changed, and what has changed compared to the very first announcement is that in the meantime a majority shareholder in the Corporation has announced that they are exploring the possibility to sell some of their shares at the same time with this listing.

Yoav Burgan: Okay. Thank you.

Stefan Borgas: So they—immediately there will be a free flow of traded volumes in New York.

Yoav Burgan: So we're talking about New York Stock Exchange ADR’s?

Stefan Borgas: We are going to full secondary listing of ordinary shares and not ADRs.

Yoav Burgan: Okay. Great. Thank you very much.

Yonah Weiss: Hi, there. It's Yonah Weiss again with one follow-up question. You mentioned earlier on you have a Team looking into closing down the phosphate operations here in Israel. Can you foresee a large possible charge of Asset Retirement Obligation, ARO charge, that could develop as a you further explore closing down the operation?

Stefan Borgas: Okay. What I said is we're exploring the long-term future of this site under the assumptions that we have reserves only for another eight years. I didn't say we're exploring the shutdown of the site. The full shutdown of this site is actually very, very unlikely. It is very likely that it will shrink significantly compared to what we do today there, but we have specialty fertilizer operations there that can resources from other places. We also have a significant technology development center there and we have—we're actually starting to develop non-fertilizer products there because we have huge amounts of raw materials lying around and mountains and lakes that we have produced over the last decades.

We have quite a lot of it, but burden and obligations there, but that's relatively independent from any long-term future of the site.

Limor Gruber: Okay. Kevin, we have no further questions from the room.

Operator: I'll prompt one more time for questions via phone. If you'd like to ask a question, please press star, one on your telephone keypad. One moment please while we poll for further questions.

It appears there are no further phone questions either.

Limor Gruber: Okay. So thank you everyone and hope to see you again in the next quarter. Good day.

Stefan Borgas: Thank you very much.

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