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Third Quarter 2014 Conference Call

Operator: Absolutely. Greetings, ladies and gentlemen, and welcome to the ICL Third Quarter 2014 Earnings conference call. At this time, all participants are in a listen-only mode. A 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.

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, Jesse. Hello, everyone, in the room and on the line. Welcome and thank you for joining our third quarter 2014 conference call. We are very happy to be here in London for the first time. The reports, the press release and the presentation were filed to the SEC and the ISA, and they can also be found on our website. Please review all reports with relevant data and consideration, as well as the disclaimer slide in the presentation. Those of you who follow us on WebEx can follow the presentation online.

We'll start with Stefan Borgas, our President and CEO, followed by Avi Doitchman, Executive Vice President, CFO and Strategy. Additional ICL Executive Committee members are either here or on the line and we will all be happy to answer your questions afterwards. Thank you. Stefan, please.

Stefan Borgas: Great. Thanks, Limor. Good afternoon, ladies and gentlemen, here in London, in Tel Aviv in our head office and all around the world, especially in New York where we are starting to build a new home.

So let me start, right away jump into the third quarter. The fertilizers markets continued their positive trend in the third quarter. We witnessed better volumes in potash, in phosphate fertilizers, in brominated FRs and also in brominated biocides. We have a nice, good development in our operating income. Our net income increased less, mainly affected by the higher financial expenses, on the one hand, and the higher tax rate compared to last year due to just currency changes.

Much of this is one-time effect and is skewed on the comparison, so don't be too nervous about it. Avi will explain later. Just the currency effect on the net income is a $17 million effect. What happened here is that the shekel devaluated quite significantly just at the end of the quarter, so we had to incur all of the higher expenses and taxes, but we didn't profit yet operationally because it all only happened at the end of the quarter. So in the fourth quarter, unless the shekel devaluates further or appreciates dramatically, you will see the improvement in the operating income as well.

We achieved a number of strategic milestones this quarter in our core three markets, agriculture, engineering materials and also in food. Most important one is the approval of the investment in Spain now by our Board of Directors. We have an investment program to increase the capacity in Spain to 1.4 million tons of potash. It's a little bit below a million now, and this includes infrastructure for much more than that, for example, in the port of Barcelona. The Board approved $330 million out of this $435. It's simply a scheduling issue. Some of the detailed engineering for the later projects are not yet ready, but this is nicely on the way.

We bought a small company in the UK called AmegA Sciences. This is a technology acquisition. It's a very small acquisition in terms of numbers but important for our specialty fertilizer business, helping on drought management of crops.

We entered into a manufacturing joint venture with Albemarle for the production of a new very promising polymeric flame retardant, replacing an old outdated product in Europe, and we also sold the first one of our non-core businesses, our aluminum, paper and water business, to Kurita, which is one of the worldwide most recognized experts in water management, both equipment and chemicals. So we're very happy about this. This is a €250 million transaction. Net—after tax, it accounts to about $260 million. We're happy that this supports, of course, the financing of our growth.

ICL continues to focus on its core value chain that you see here on slide number 4. This is really what we want to build out and whatever doesn't fit into this value chain is businesses that potentially could come up for divestiture.

Let me talk a little bit now about the businesses themselves. In Fertilizers—slide number 5; we have had a great year by all standards. A lot of this is due to the fact that we just had a great agricultural year. No weather impact in any of the big growing regions this year, with almost perfect crops everywhere. This happens once every decade or so, and that, of course, contributed a lot to the volume growth that the entire industry saw. We saw it especially in our potash franchise all around the globe in all markets.

The growth in China and India continues to be strong. It can offset, we think, some of the declines in volume that we expect to see next year because most likely there will be some weather impact somewhere and, of course, crop prices will make farmers a little bit more careful, especially in the Western world. But we are pretty confident that India and China, for ICL, can offset a lot of this.

In potash, the next phase of our restructuring is underway. That has actually just started with negotiations with our unions at the Dead Sea, Just like in our phosphate operation, here as well we need to reduce labor cost and increase efficiency of our plants. The discussions with the unions have just started a few weeks ago. In the fourth quarter, we expect to see some labor interruptions as a result. The packages we offer are very, very attractive for early retirement, so we hope there will not be any long strikes but, of course, this is outside of our control, and if there's a long strike, then we can change that. We need to get our cost base down on this side.

The reason why we are so confident that we need to get costs down and that this will pay back is our phosphate operation in Rotem where, if you look at the profitability in the third quarter, you can really truly see the effect of that re-basing of cost and output in the phosphate platform. The strike impact is over. We have reduced about 15% of the staff. At the same time, we have increased output by about 10%, and that, of course, now you can see in the results, really, really great job of our phosphate management team but of all employees also at this site.

On the challenges of the crop prices I already talked about. In our Industrial Products business, we have a little bit of a positive one-time effect in our brominated flame retardants because our Chinese competitors were in shortage of one of their key raw materials, bisphenol-A. It was just not available in China, so we produced much more and sold much more than we would have otherwise. It's not a super profitable business, but it contributed to the strong performance.

The bromine franchise has been in slow, slow price decline all over the course of the last 18, 24 months, so we need to do two things here to turn this around. First, we need to get our cost base adjusted to lower, structurally lower quantities but also to the higher competition. Also here, we have started the discussions with the unions. The model is the same as in phosphates and in potash. We've started to discuss with the unions. We hope we can avoid any major interruptions, but again, we're also prepared to go through a strike phase in order to do this, so this is in the process of happening and, hopefully, will be delivered somewhere until the middle of the first quarter. But we also need to work on the market side in bromine, so we've announced a 20% price increase just recently for our elemental bromine and subsequently later on, this might also be expanded to the brominated compounds.

In the Performance Products business, the food specialty business is now ready to go into a higher growth mode than in the past. We've been adding, with quite a lot of trouble, but 50 R&D and commercial people around the world in this business. They are now almost all on board and we can start to see in the monthly performance that the traction is increasing in this business. This, of course, is the prerequisite to then be able to leverage this global platform.

Just a word on the fertilizer market here with some numbers. You can see pretty much every market performed fantastically well this year. This doesn't happen very often, so it's a bit of an exceptional year. Weather helped us. We always complain about weather but this year, I think we have to also say thank you.

Let me spend a few minutes on the regulatory environment in Israel. The bad news is we're still going to incur a significant tax increase. It may not be quite as dramatic as we thought eight weeks ago, but it's still a substantial tax increase. We haven't received the details of what the government actually wants to do, and here, a lot depends on the details. But the original number of $160 million tax increase calculated for the 2013 prices and volumes, now with the new recommendations, seem to be more in the bracket between $120 and $140 million tax increase. Still, it's a significant tax increase but it's not quite as bad as everybody has assumed. Take it with a little pinch of salt because we don't have yet the details, and so the implementation is going to hang in there.

The good news about this is that now the uncertainty is off the table. We know what we are dealing with. We can adjust our operations. We are speeding up the cost reduction because the most profitable thing to do now in Israel is cost reduction. We are eliminating or delaying investments at the same time so that we conserve cash in this geography, where payback times now—after the third big tax hike in just as many as three years that we had to incur in Israel, payback times for projects are just so long now that every time we check a project in Israel, it loses out to almost every other project we have competing with it around the world, and the consequence is just very clear. So from a capital allocation perspective, we are de-emphasizing investments there, at least until the environment changes.

Actually, this makes us very sad as Israelis or new Israelis or passionate lovers of the country because the country doesn't need this kind of a burden on its industry. It could profit much more than from, if you put it in the perspective of the country, a relatively moderate tax increase, but for a company, of course, this is a big burden. So hopefully in a couple of years, there will be more logic coming back into the regulators—on the regulators' tables and then this can be turned around and we can go back in our home country and also continue to invest there.

There is one plant that we had decided to close based on the initial recommendations. This is the metal magnesium plant in Israel. There seems to be some movement here to recognize that this taxation is actually the one—the reason that this plant gets pushed over the edge, pushed into a cash loss situation. So if the regulator really comes back on this decision and gives us an environment in which we can avoid this cash loss for this plant then, of course, we will rethink the closure decision. But our team is really, really fighting on two fronts because unions, believe it or not, are pushing for higher taxes, not understanding that they hurt their own constituents. So we are fighting on two fronts and it's unfortunate, of course, for the people who work in this plant.

So I think we have things under control. We know exactly what to do in Israel. Once the law is in place, we will also explore legal actions, because some of this is still possible, in order to make our home country eventually good again for investments.

On the positive side is the environment in Spain. Here, we have very constructive relationships with local authorities, with regional governments and with national governments, with environmental groups, with trade groups, with unions. This is actually a good sign to see how things could work. We think that—and our investors actually underestimate quite significantly still what the potential is of our operation in Spain. We are operating today at 15% of the total concession area, so we have very significant reserves in Catalonia. The logistics and the geological character of these operations give us the opportunity to expand with very attractive capex -to -volume ratios and do it in step-by-step expansion.

We have already invested about €170 million in the operations up until now to consolidate two mines into one. This gives us a nice cost step down of around 40% of fixed costs per tonne of potash, and now this opens the platform for debottlenecking and step by step growing the volume to these 1.4 million tons that I already mentioned, and the entire investment amount eventually will be about $430 million. This includes a significant portion of infrastructure that needs to be redone, so there's a big portion of maintenance capex in there that we would have had to spend anyway, especially around the ports and all the logistics infrastructure and some of the surface plants. After this is done, there is another potential of at least a million tonnes in the same fashion to increase slice by slice, year by year, so this is a great operation for ICL for the next decade to grow slowly as demand also grows.

Our Specialty Fertilizer business this quarter had something like the perfect storm. This business ships, of course, high end specialty products into vegetable and horticulture markets mostly around the world, and it got hit by three small crises around the world, the Ukraine crisis, the Gaza crisis and the Ebola outbreak, and if you put it all together, it's actually a burden on this business. So the performance here was relatively low. It's, of course, part of our phosphate business, so if you see the numbers in phosphate, it makes it even more impressive of what happened in the base product.

In the Engineered Material, the new polymeric FR-122 plant will be operated now together with Albemarle. This is a new generation of flame retardants. It will replace product called HBCD, which is the flame retardant for polystyrene insulation foams, very big market in Europe but also in Asia and growing in the US. This HBCD flame retardant is being banned, rightfully so, by the European Union. The plant is now finished. It has started up. We have started to ship material, so we have two production units, one in Israel and one in Holland. The joint venture with Albemarle is going to allow us to utilize these plants much, much faster than we would have if we had been alone, and to expand the capacity in the Dutch plant where the next expansion will happen also much earlier than we would have been able to do this alone.

On the non-core business side, we were able to sell our aluminum, paper and water business, as we have reported. It's a net proceed after tax of about $260 million. The deal is on a cash free, debt free basis, of course. We expect closing to happen somewhere around the end of the year, beginning of next year. We have already disclosed that in total, we think we will divest 300 to $500 million worth of non-core assets. This, of course, is a big step into this direction. You'll see the news flow over the next six to nine months as more deals than that close.

With this, there is just one thing for me to report before Avi goes into the explanation of the numbers and explains you the bridges. ICL has now again been recognized as a world leader in managing greenhouse gases. We are, for the second straight year in a row, with a score of 98 in the Carbon Disclosure Index. We are a leader in this overall and there are quite a number of reputable companies that we left behind us, and this, quite frankly, makes us proud, that we are not only a profitable and a growing company but we also take care of our environment, maybe a little bit better than other people do.

With this, Avi, please, the financial results.

Avi Doitchman: Thank you, Stefan. Third quarter's revenue was $1.56 billion, 8% higher than third quarter of 2013, mainly as a result of higher volume that were partially offset by lower prices. This is the main effect on the turnover. Of course, volume and prices also affect our operating income, but there we had some other effects. One effect is the slightly lower raw materials, mainly energy cost that we enjoy from accelerated our shift from oil to natural gas and, of course, our efficiency project. As Stefan mentioned, we announced that we plan to achieve $350 million increase of our EBITDA as of end of 2016. We are already in a very good progress because we are going to achieve $80 million from this amount in 2014, so most of this $80 million are already in our results for the three quarters and some of them, of course, also in this third quarter.

Our net income is lower than the same quarter last year, mainly as a result of two things. Stefan talked about them but I want a little bit to elaborate. So one is our financial expenses, the fact that we have higher debt level, also a little bit increasing in our interest rate, increased our financial expenses by $18 million, and this more or less is something that we are supposed to see also in the future.

The second effect is on our tax expenses, and this is something that we believe is one-time effect. Basically, we enjoy from depreciation of the shekel against the dollar, because usually it reduces our operating cost, ongoing operating cost. The problem is that this depreciation was mainly at the end of the quarter, so if you look on average exchange rate in the quarter, we have even a little bit appreciation of the shekel against the dollar in the quarter compared to previous year. But at the end of the quarter, we had this depreciation and this depreciation affects mainly on our balance sheet, not our operating cost.

In the tax, basically, our financial currency, it's a dollar but for tax purpose in Israel, we calculate our tax based on the shekel. The difference between the shekel and dollar affect our results and also affect our tax provision, and this balance sheet item was affected and we had negative effect of $17 million this quarter as a result of this exchange rate. Taking in consideration that we have about $1 billion expenses in shekel on an annual basis, so if we estimate that this depreciation will continue also in the future, we are going to benefit from this $1 billion expenses in shekel terms.

If we follow our business and analyze the factors which impacted sales and operating profit, we start with potash, of course. So again, as I said, we gained from a better volume, which improved our sales by

$105 million compared to third quarter last year, partially offset by reduction on prices on a level of $57 million. This is the main reason of our $53 million improvement on sales. Of course, the effect of prices almost fully affect our operating profit, while our volume affects only partially, so we can see that on operating profit, basically, the volume and price effect more or less compensate one each other. Still, we enjoyed from, as I said, lower energy cost and some efficiency improvements and cost reduction that gave us better operating profit compared to the same quarter last year.

In phosphate, on sales, we are more or less balanced. Small increase in volume was offset by lower prices, but if you look on operating profit, then our efficiency activity that we took last year and the beginning of this year was material. We can see improvement in our operating profit mainly as a result of this efficiency project and also some reduction in cost, mainly in energy.

In Industrial Products, we enjoyed from better volume. $33 million improvement of our sales came from better volume, a little bit offset by lower prices. This better volume also improved our operating profit by $13 million, and again, lower raw materials costs supported our operating profit against a reduction of prices that offset part of this improvement. When we talk about better volume in Industrial Products, basically we talk about—most of our activities, its brominated based flame retardants, bromine and chlorine based biocides for water treatment and also clear brine fluids for oil drillings. In all of these business lines, we had better sales this quarter compared to last year.

In Performance Products, we had an improvement in our sales, mainly as a result of our acquisition, not so big acquisition but for the level of the segment, they have some meaningful influence. So we improved our sales by $11 million because of these acquisitions in the fire safety and in the food markets. On the operating side, better prices contributed but we suffered from a little bit higher raw materials, partially as a result of the strike that we had at the beginning of this year in Rotem. As a result, our business in Germany and US had to buy phosphoric acid in the open market with higher prices compared to our prices, and this, of course—most of this effect was in the first and second quarter, but as a result of effect on our inventory, it had a negative effect in this quarter of $3 million.

The last thing that I want to mention is our plan to enter the public bond market. Yesterday, our Board of Directors instructed us to prepare a bond offering in the US. Basically, we announced that we started this process today. We got an international rating. For ICL, this is the first time that we have international rating. Until today we had only local rating and now we got an international rating from two international rating agencies, Standard & Poor's and Fitch. Both of them gave us BBB stable rating, so we started this process to raise debts in the public market, mainly out of Israel. Basically, the proceeds, we plan to use them for few topics: to replace or to free some credit lines that we utilize today, to diversify the source of funds that we use and not to be dependent only on bank lines or private markets, to enter to this big public market, and also, of course, this source can support our our strategy that is based on growth, efficiency and enabling platforms. So for this, of course, the source of these funds can be supported.

So now I think we can open it to questions.

Limor Gruber: Yes, thank you, Avi. Thank you, Stefan. I will start first with some questions from the room.

Sophie Jourdier: Sophie Jourdier from Liberum. Two questions, please. First of all, can you just update us on how you see capex evolving for ICL over the next couple of years given the projects that you've I guess cancelled, and now approved?

Second, just on the Industrial Products business, could you just talk a bit about the moving parts you've got going on there? I think it was in that business that the bisphenol-A helped in the quarter; can you just quantify that?

Then, talking about the regulatory changes you've got with the HBCD being phased out, this new product coming in; also, you talk about regulation changes in/or anti-dumping tariffs in biocides. How should we think about the phasing of your business as you go through these changes and industry?

Stefan Borgas: Okay. On capex, our guidance is relatively simple. We spend around $800 million of capex per year. This is the amount we have been guiding so far. Now, as we get into growth, we will replace some of the infrastructure capex that's included in this $800 million today with growth capex. So even with higher growth rates, capex rates will not go up.

The shift of the investments from Israel into other geographies should not have a very significant impact on this guidance because we're shifting; there might be some timing effects. So we might have a little bit lower capex rate in the next two years until projects have caught up, but it's very difficult to schedule and very difficult to guide on, so if you plan with $800 million per year capex I think you should be in good shape.

The environment in Industrial Products: This could be a long answer. I'm trying to give you a few blocks. There is the flame retardant business which is about 40% of the segment. This business suffers from an ageing portfolio. We haven't early enough tried to replace it. This product, FR 122P is a good example of a new product which will replace an old one. What's the effect of this?

The effect of this is that the old product, the HBCD, which is currently sold around \$4, \$5, or \$6 per kilo, will be replaced with a product that will be sold at \$11.5 or more per kilo. Because it is IP protected and it is a high value, the margins of course are better here. So it doesn't affect so much top line but it affects bottom line because of this; a little bit it affects top line as well.

This is the development that we will have with this flame retardant business over the course of the next three or four years. It's a qualitative improvement, not so much growth there. Growth only will come once bigger innovation projects come into the market and we're four, five years away from this. So it's qualitative improvement in the bromine franchise coming from this effect and coming from simple cost reduction and efficiency improvements which I have also talked about.

Then we have the Clearon swimming pool chlorine business in the US which is a business we're not extremely excited about. It will be supported by an anti-dumping duty in the US so that the business will return a reasonable amount of cash. It's a business that we will have to think about whether we keep it long term because it doesn't fit into our mineral value chain but we haven't made any decisions on this yet. We're focused on improving the business for the time being.

Sophie Jourdier: Great. Sorry, and just a quick follow-up. I mean so—on the Industrial Products business, should we expect therefore in today's environment just to see margins gradually picking up next year, 2016.

Stefan Borgas: Yes, '15, '16, that's what we're focusing on, margins improvement.

Limor Gruber: We have another question in the room.

Andrew Stott: Yes, thanks. Andrew Stott from Bank of America. I think you said in the statement this morning 80 million of incremental cost savings. Have you got any guidance for '15 and '16? I seem to remember about 100 but I wanted to double check that, for incremental not total.

And the second question was is the chart on Slide 8 on Spain, just so I'm clear in my mind here, the chart refers to production and then you talk about 130% capacity expansion, and it might sound like a picky question, but I was always under the understanding that Spain was running below nameplate. So are we talking about 130% capacity expansion and therefore more production expansion?

Stefan Borgas: Okay. Let me start with the second one because it actually sounds picky but it's a good question because it links our business model.

You know, in the Dead Sea, which is by far the biggest capacity we have with 3.5 million tonnes, we can store volumes of potash basically in an unlimited quantities; I'd say up to a year, year and a half of total production, and because of this feature we are running the entire production capacity flat out. That's as a business model. So the UK mine, the Spanish mine and the Dead Sea operation are running all year long; we never stop. If we have sales weakness, we manage this through this stock buildup in Israel, and we don't want to change this model. Why? Because it contributes to very high capacity utilization and it is of course one of the reasons why our return on invested capital is superior to most of our competitors, because we can make use of this. It's a unique feature that we have. So as we expand the mine in Spain, we intend to produce it all, of course, and we continue to breathe with this mechanism. What that means for ICL sales, it means that roughly on average over the course of the next decade we think we can grow potash sales somewhere between 150 and 200/250,000 tonnes every year, which in the scope of the global potash market of 56 to 58/60 million tonnes is not that dramatic. Half of these sales we think we will generate in new territories where there is no potash consumption, so the weight that we put on the market, the pressure we put on the market is going to be minimal, very, very small. So this is capacity expansion. We could have put production expansion also there, and maybe we'll take your question as input and change that in here.

Cost savings, what we have guided for is that at the end of 2016 we want to have a run rate of $350 million on EBITDA coming from cost savings and efficiency improvements. It's not just all cost savings; there's also output changes like you could see in the Rotem example. So, which means you see the 350 in the P&L in 2017 because at the end of the year is a run rate. In the P&L, 2014, you will see 80. So from '14, 80 to '17, 350 you can make up your mind and I want to keep a little bit of this operational flexibility to not be nailed down too much on exactly how much we'll do in '15 or '16, but I think it becomes very relatively clear on how this goes. These projects tend to have not a linear increase but a progressive increase because projects that you start today start to accumulate and you get faster increase as time goes by.

By the way, this cost reduction is not finished at the end of 2016. There's more potential after that; we just gave this as a point in time of values and we haven't quantified very much what we will do afterwards but there is more to come afterwards.

Avi Doitchman: Only one comment on the capacity, capacity expansion. As Stefan mentioned, it's not going to be one project, so we are going to expand capacity step by step and also this 1.4 million tonnes that we talk about, if you remember we talked about 1.1 and then 1.2, so it's not immediately expansion capacity. It also supports our ability to fully utilize our capacity.

Andrew Benson: This is Andrew Benson here from Citigroup. You gave an update on the outlook for the potash market. You feel that China and India would continue to grow. China is up quite strongly this year and they were bringing onstream an extra million or so tonnes of—at least a half a million tonnes of capacity; I'm perhaps a little bit woolly here. But what you also talked somewhat cautiously about the rest of the world. I wonder if you'd just elaborate on that. Clearly with lower grain prices you'd expect that but actually the German and Russian competitors are still expressing confidence in growth next year.

Stefan Borgas: Yes. I mean traditionally we're a little bit more conservative. We're more conservative than most of our peers on the outlook. We've always been because we're not so confident about the ability of the industry to really create new demand.

In India, we are very close to the market so I think we're reasonably comfortable that also we'll see some growth into '15, and in China, we think also we will see some growth into '15. Some of this, you're right, will be covered with increased domestic production, but not all of it. Where we are a little bit more bearish maybe than our peers is the US and Brazil, especially Brazil, because of farmer economics. I mean we can see the behavior today, and the second reason is weather. As strange as it sounds, we—there will be a drought or a flood or something happening. Usually once it happens somewhere in the world and we need to take this into consideration. We cannot take this perfect year and just linearly extrapolate this. We've made this mistake as an industry so many times I think we should just be careful. If we are wrong, we would be very happy to admit this at the end of next year, but I think we'd rather plan a little bit more careful. So if we have stability or even a short decline, this is not a disaster.

Virginie Boucher-Ferte: Virginie Boucher-Ferte from Deutsche Bank. I just wanted to follow up from this question. If you could elaborate a bit more on what evidence you are seeing in China and India which makes you so confident that we should see some growth in these countries given growth has already been pretty good in 2014.

I also wanted to ask a question on Industrial Products. Is the raw material shortage in China over now?

Stefan Borgas: Yes. I think Limor will answer the fertilizer growth question. In Industrial Products, unfortunately the bisphenol-A crisis in China is finished, so they're coming back. That's why I said it's a one-time—a little bit of a one-time effect.

Now, it has an effect on sales but it's not the most profitable of our businesses, so you won't—it won't actually have that dramatic of an effect but I think in terms of honesty we wanted to mention it. But it's finished; they're back into normal production.

Virginie Boucher-Ferte: Would you be able to quantify this benefit in Q3?

Limor Gruber: We'll have to come back to you with that.

Virginie Boucher-Ferte: Okay, fine.

Stefan Borgas: But it's low single-digit.

Limor Gruber: Yes, probably not more than that.

Virginie, regarding your question about India and China. In India, as Stefan said, since we are very close to the market and of course we have this Potash for Life project with IPL which is the biggest importer, We really see farmers adapting to new prices. I mean it took them a few years, two to three years but they adapting to new prices and following this couple of years of very, very low potash fertilization, bad fertilization optimization that they had, they suffered in the yields and they felt it and that's why this time this year they're engaging more and we think it will continue.

With China, due to the development of the agricultural technologies, we do see increased use of NPK, of blend fertilizing. That is why we see also increasing granular demand in China. And we do see logistical issues within the local producers. It was apparent this year. We think it is not going to be over next year. So this is what gives us the confidence regarding these two markets.

Virginie Boucher-Ferte: Okay, very clear. Thank you.

Limor Gruber: I think we can now move to questions from the line Please, thank you.

Operator: Thank you, and just as a reminder, ladies and gentlemen, if you would like to ask an audio question, please press star, one, on your telephone keypad.

Our first question is coming from the line of Joel Jackson with BMO. Please proceed with your question.

Joel Jackson: Hi, good afternoon.

Stefan Borgas: Hi, Joel.

Joel Jackson: I want to talk about your potash inventory levels and maybe the outlook for '15 shipments. Potash inventories for you were quite high at the end of '13 and now they're kind of low to average, so is it reasonable to expect ICL's potash shipments to be down 100 or 200,000 tonnes in 2015?

Stefan Borgas: Yes, that's reasonable.

Joel Jackson: Okay, and just looking into the next few years, if I understand correctly, over four or five years we should expect 300,000 tonnes of more potash production out of Spain, as you finished that first phase, and then if you drop—if the magnesium plant shuts down, we should expect 100,000 tonnes to be reduced and if not, that 100 is still available, is that correct?

Stefan Borgas: If we shut down the magnesium that could very well happen, unless we have other efficiency measures in the Dead Sea, which is not to be excluded. So I think in the Dead Sea the outlook is not that negative.

Stefan Borgas: The team is looking at different ways of how to harvest better, of how to improve. You know, we cancelled capex but of course we didn't switch off our brains. We have an efficiency program from which the labor aspect is always discussed very highly, but the technical aspect of improving plant output and raw material use, this has at least as much potential as the labor cost reduction, as we could see in Rotem also.

Joel Jackson: Okay. You have some commentary in your slide deck or some of your releases today that you expect once Iberpotash can expand up to over 2 million tonnes, I think, that you think costs can approach the Dead Sea. So what I wanted to ask you on that is what currently is sort of the cost premium per tonne of Iberpotash over the Dead Sea, and how does that scale down as you bring in the extra 200,000 tonnes and then as you hopefully bring in the additional million tonnes?

Stefan Borgas: Slide 8, you can see 25% cost per tonne reduction.

Joel Jackson: Right. Can you give a little more color on how that will be achieved and in what steps? Thanks.

Stefan Borgas: Well, the first step down will happen at the end of 2015 when we move two mines into one. We're building a big ramp right now which allows us to almost double the output of this second mine, this younger one which has a lot of reserve potential, and of course when you do that you go from two fixed cost blocks into one fixed cost block. So this is a big step down and then every expansion after that, every 100,000 tonnes after that is going to happen on the same infrastructure with absolutely fantastical marginal costs for that additional 100,000. This is—even under normal taxation environment this would be extremely competitive with the Dead Sea because of this marginal effect. Once you have this infrastructure, once you have this platform you can start to leverage it and that's what we're doing here.

So, costs will go down step by step with a significant step at the end of 2015 once this ramp is built, and then I don't know, between 5 and 10% for every step thereafter.

Joel Jackson: Okay. Finally, you made a comment that you expect potash shipments globally to be down in '15 but prices to be up. Can you elaborate on that, please?

Stefan Borgas: Well, prices are very much supported by the granular prices that the world needs and is very, very short also in 2015. So 45% of the world's market is short. Everybody talks about potash oversupply but 45% of the world market needs for granular prices which is actually short, at least this year and next year it still will be. So there's no price weakness there, even with a little bit lower volumes. The standard prices are going up as a consequence of this because the gap has widened so much. So if you follow recent transactions in Southeast Asia, Malaysia, Indonesia, not dramatic volumes but some sales have been closed at $350 per tonne. If you take a little bit of a discount, this is a significant increase, much more than 10% compared to the prices that we had in the middle of the year, and I would expect that most of this will be translated to the new Chinese prices that traditionally the big players negotiate in China in December/January timeframe. So, here I think after that we will know exactly what it will be but I would expect it goes into that direction.

Joel Jackson: Thank you.

Operator: Thank you. Our next audio question is coming from the line of Joseph Wolf with Barclays. Please proceed with your question.

Joseph Wolf: Thank you. I had a couple of questions but first I just wanted to, I guess congratulate Avi on his announced retirement, so good luck.

Avi Doitchman: Thank you. Why did you have to rub it in?

Joseph Wolf: With regard to the phosphate field, so Sde Brir, you didn't give any update today. It looks like from the local press that there is some movement there and I was wondering if we could get an update on the potential for new investment there. Then, along those lines, you talked about the regulatory environment and how it's passed through the Knesset, but what is the recourse at this point in time—how quickly could things be turned around, and as you think about the investments you're making outside of Israel versus what you're making in Israel, how would you balance that if things moved in the other direction?

Stefan Borgas: Okay. On the mining field in Sde Brir—this is the phosphate mining field that we have been applying for since, I don't know, 15 years or 16 years now. There is now movement but it's more perception than action yet. So we haven't seen the issue in the infrastructure council where it must be decided upon. It will go to the national level right away so this will save us one round of approvals and protests, and most likely then some of the opponents might take it to the Supreme Court because that's the last recourse there. But if it gets into the National Infrastructure Commission then it looks like we have a lot of support there. So I want to be positively, carefully optimistic about this. We have eight years of reserves so it doesn't have to come tomorrow but we're planning for alternatives, as you know. We are pretending as if it will not happen, so for our business case it is then positive.

New government now, I think this is all speculation. Will there be a new government or not? It's not in our power and it's not in our sphere of influence. Then what will the new government do with taxation? I hope that eventually in Israel there will be more of an economic view of taxation for the country and not just a tax view but a full economic view. Had this committee done it, they would have said taxation's already too high, it's not good for the country what they're doing. It is not, this is very clear but they choose to just look at taxes, not at total economic value of these industries. I think this has the potential to change but not probably within the next two years because this needs a little bit of time to be absorbed and maybe we also need to continue to create some facts.

What does that mean for our investments? We clearly know what we would do in Israel. The projects are there; we don't throw them in the garbage can. We keep them in the drawer so we can reactivate them relatively quickly but of course every year that we don't work on them postpones them, delays them by one year, and if we decide to build extra 400 or 500,000 tonnes in Spain that means we don't need 400 or 500,000 tonnes from the Dead Sea, so once we've built it in Spain then we are covered for the next three or four years of growth, and then it will all delay itself. If we build a bromine compound plant in China, this plant will never return to Israel. So whatever is gone is gone and I think the officials in the country who are not all with solid detailed economic background and education, they need to understand this, they need to learn this. It's unfortunate for the country. We are very open with this. We are not hiding anything. We are also not very aggressively PR'ing this but we make our business decisions. Thankfully we have many options and we execute them. So we're happy to go back to Israel. All things being equal, we're even happy to give Israel priority on investments but things have to be equal and comparable and attractive. That's just a matter of fact, otherwise we endanger the company.

Joseph Wolf: Okay, and just as a follow-on, you touched a little bit about magnesium and the impact on potash potentially, but there's also a cost benefit to the bromine business on the chlorine side. What happens to the cost if you shut that facility down? Is it immaterial or would it actually be material on the chlorine side of the equation?

Stefan Borgas: No, it's relatively small.

Avi Doitchman: Basically we analyzed the total synergies between the magnesium and the rest of ICL activity in the range of $20 million.

Joseph Wolf: Perfect.

Stefan Borgas: Twenty million cash per year.

Joseph Wolf: Okay, thank you.

Stefan Borgas: This is the 20 million cash we need to get out of the synergies. Right now they're taxing at least half of it away, so we can't run a business with 20 million cash loss.

Next question, please.

Operator: Thank you, and just as a reminder, if you'd like to ask an audio question, please press star, one, on your telephone keypad at this time.

We currently have no additional audio questions at this time.

Limor Gruber: We have one additional question in the room.

Andrew Stott: Yes, it was just to come back on a couple of things, both currency related. So if the dollar-shekel does nothing from this point, do we assume that the tax rate stays at 27, which was the Q3 rate? That's my first question. And then I was just wondering why in the bridges you gave for each of the business units, why the FX impact is not across all of them. I think it was only in one.

Avi Doitchman: I'm not sure to answer your second question but for the first one the one-time—the effect on the tax, its one-time effect basically about 5 to 6% on the tax rate. So take out this one-time effect, our tax for the third quarter was 20, 21, 22%.

Andrew Stott: Okay, so if you run with that sort of rate.

Avi Doitchman: You should run with 20, 22, not 27.

Andrew Stott: Got it, okay. Thanks.

Avi Doitchman: Okay?

Limor Gruber: The second part, yes…

Andrew Stott: Sorry about this. Because I mean basically you've got one business unit with an EBIT impact from FX only which doesn't make any sense to me. So I just wondered why.

Limor Gruber: And it is negative.

Avi Doitchman: You talk about Industrial Products. Industrial Products it's a matter of fact it's not shekel-dollar; it's euro or yen-dollar. It's on the sales, basically, because we have some sales in euro terms and dollar-to-yen terms. This company, the functional currency it's the dollar. We have some other sales in euro.

Stefan Borgas: And the reason why you don't see the dollar-shekel effect is because it happened at the very tail end of the quarter, so it has no effect operationally. That's what Avi's point is. It will have an effect as of the fourth quarter assuming the exchange rates stay where they are. But it—so from a booking perspective we incurred a tax hit but we don't have the operational advantage yet. That was one-time.

Andrew Stott: Okay, thanks.

Limor Gruber: We have no further questions from the room, so I think we can conclude at this point and I would like to thank everybody that came here today, everybody that were on the line; thank you for your time and of course we are always available for your questions, as you know. Good-bye.

Operator: Thank you. Ladies and gentlemen, this does conclude today's teleconference. We thank you for your participation and you may disconnect your lines at this time.

About ICL

ICL is a global manufacturer of products based on specialty minerals that fulfill humanity's essential needs primarily in three markets: agriculture, food and engineered materials.

The agricultural products that ICL produces help to feed the world's growing population. The potash and phosphates that it mines and manufactures are used as ingredients in fertilizers and serve as an essential component in the pharmaceutical and food additives industries. The food additives that ICL produces enable people to have greater access to more varied and higher quality food. ICL's water treatment products supply clean water to millions of people, as well as to industry around the world. Other substances, based on bromine and phosphates help to create energy that is more efficient and environmentally friendly, prevent the spread of forest fires and allow the safe and widespread use of a variety of products and materials.

ICL benefits from a broad presence throughout the world and proximity to large markets, including in emerging regions. ICL operates within a strategic framework of sustainability that includes a commitment to the environment, support of communities in which ICL's manufacturing operations are located and where its employees live, and a commitment to all its employees, customers, suppliers and other stakeholders.

ICL is a public company whose shares are traded on the New York Stock Exchange and the Tel Aviv Stock Exchange (NYSE & TASE: ICL). The company employs approximately 12,000 people worldwide, and its sales in 2013 totaled US$6.3 billion. For more information, visit the company's website at www.icl-group.com