ICL Q2 2018 Conference Call

1 August 2018

Operator: Ladies and gentlemen, thank you for standing by and welcome to the ICL Analysts Conference Call. Our presentation today will be followed by a question and answer session, at which time if you wish to ask a question, you'll need to press star, one on your telephone.

I must advise you that this conference is being recorded today. If you experience any technical difficulties, please press star, zero on your telephone.

I'd like to hand the call over to your first speaker today, Ms. Limor Gruber, Head of Investor Relations. Please go ahead, Ma'am.

Limor Gruber: Thank you. Hello everyone. Welcome and thank you for joining us today to our second quarter 2018 conference call. The event is being webcast live on our website at www.icl-group.com.

Earlier today we filed our reports to the securities authorities and the stock exchanges in the U.S. and in Israel. The reports, as well as the press release, are available on our website. There will be a replay of the webcast available a few hours after the meeting and a transcript will be available early next week. The presentation that will be reviewed today was also filed to the securities authorities and is available on our website.

Please don't forget to review the disclaimer on slide number two. Our comments today will contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are not guarantees of future performance.

We will begin with our CEO, Raviv Zoller, followed by Kobi Altman, our CFO. Following the presentation, we will open the line for the Q&A session.

Raviv, please.

Raviv Zoller: Good morning or good afternoon everyone. I'm very excited about presenting my first quarter here as the CEO of ICL. We had a strong Q2 in all of our businesses, with growth in sales resulting in nice margin expansion. Despite a notable contribution from the divested fire safety and oil additives businesses in Q2 2017, we were still able to surpass the comparable quarter sales, operating income, and net income. We will review our performance this quarter in detail shortly.

The strength of our balance sheet has been a major focus for us, and we continued to improve our debt structure in preparation for the future. Kobi will elaborate on this later on.

Consistent with our dividend policy and supported by our solid operating cash flow generation, we will distribute about 50 percent of our adjusted net income this quarter, or more than $0.04 per share, which implies an annual dividend yield of about 3.5 percent, among the highest in our industry.

As you probably noticed in the financial reports and the press release, we're also aligning our organizational structure with our recently-launched strategy. This will be effective from Q3, and I will elaborate on that shortly.

Let's go to slide four, and first discuss our performance this quarter starting from the Q results. The table on slide four speaks for itself. While sales grew by 4 percent, margin expansion, mainly as a result of market prices and our value-oriented sales initiatives in the specialty businesses, lead to more than a 20 percent increase in adjust operating income. Our quarterly EBITDA continues to grow, increasing by 18 percent, almost reaching $300 million.

Adjusted net income increased by almost 80 percent, and on a pro forma basis, excluding the divested businesses' contribution last year, adjusted net income more than doubled compared to the second quarter of 2017.

Let's go to slide five and dig deeper into each segment, starting with specialty solutions. The graphs show pro forma data for the comparable quarter, excluding the fire safety and oil additives businesses which were divested at the end of Q1, 2018. On a pro forma basis, segment sales increased by 13 percent and as a result of our value over volume approach, segment profit increased by 26 percent. Even including the divested businesses, we were still able to grow both top and bottom line.
It was an exceptional quarter for ICL industrial products. The bromine value chain benefited from the positive pricing trend and from strong demand for clear brine fluids from specific projects. Note that demand for clear brine fluids is volatile and difficult to predict. Demand for flame retardants continues to be stable, but our phosphorous-based flame retardants business benefited this quarter from environmental regulatory pressure on Chinese production.

Since the beginning of this year, we have been implementing value-oriented sales initiatives in our specialty phosphates business, similar to what we have been doing in our bromine business for quite a while now. We are very encouraged by the initial results from these initiatives, and it is reflected in the advanced additives business (line) performance. In addition to these initiatives, we were able to increase sales volumes of salt and acids by about 15 percent.

Following a difficult 2017 in the dairy protein business in China, steps takes by the business line to diversify customer base and the resolution of the regulatory situation in China resulted in a strong recovery in our foods specialties business lines.

Let's move to the essential minerals segment on slide six. The improvement in market conditions for commodity fertilizers is clearly demonstrated in potash and phosphate commodities results. In potash, we benefited from an increase of 14 percent in the average FOB price and from improved production, mainly in Spain, as a result of the efficiency plan we implemented at the beginning of this year.

Higher phosphate prices more than compensated for the impact of the maintenance in our sulphuric acid and phosphoric acid plants in Israel and in China. We successfully launched NP+S, a semi-specialty fertilizer in our YPH JV in China. This is a nitrogen-phosphorous-sulphur compound for precision crop nutrition and demand is exceeding our initial expectations due to the favorable quality that we are offering. This is an example of our strategy in the phosphate value chain. We are not here to sell phosphate rock or green acid or commodity fertilizers, we are utilizing our ability to control the entire value chain in order to grow the value-added specialty products.

We continue to leverage our specialty fertilizer product portfolio and our strong agronomic knowhow to further penetrate into the specialty agriculture market.

If you look at slide seven, it demonstrates what I have just discussed. Prices of major products in our different value chains are all going up. For example, potash prices in Brazil are approaching $330 per ton, up by more than 10 percent year-to-date. This is supported by a relatively tight market as new capacity is ramping up much slower than expected and demand continues to be healthy. Slower than expected ramp-up of new phosphate capacity is reflected in phosphoric acid prices, the basic raw material for the entire phosphate chain, which increased at a similar rate.

In specialties, bromine prices in China increased by more than 50 percent since the beginning of 2015, and prices of white phosphoric acid, the basic raw material for our specialty phosphates, increased by 10 percent during the last 12 months.

On slide eight, I would like to provide you some inputs on the adjustments that we're making to the corporate structure. The main goal for this adjustment is to align it better with our strategy, thus enabling us to optimally allocate managerial resources and to focus on creating leadership in areas where the company is currently not an industry leader.

Our recently launched strategy aims at solidifying our core mineral chains and creating leadership in innovation agro solutions. As a result, we created a division for each mineral chain with a very clear strategic direction for each division. In bromine, we're solidifying our leadership in the global market. In potash, we want to ensure that we are among the top three most competitive in our target markets, specifically Brazil, Europe, India, and China. And in the phosphate value chain, our strategy is focused on growing our specialty phosphates offering. We have the backward integration into rock and acid, and we'll use more and more of our commodity phosphate to produce the value-added specialty products.

Innovative agro solutions is the fourth division. We identified it as a potential major growth engine, but we're not leaders yet. We want to create leadership by leveraging our advantages, which include R&D capabilities, vast agronomic experience, backward integration, and chemistry knowhow to name a few. Today this division includes the specialty fertilizer business, but within this division we will also develop our digital platforms to serve the agriculture community, which is expected to become more and more technology-oriented. To put things in perspective, by separating this business from the three more established operations, we will allow you to follow our progress. As you can see, these adjustments are not dramatic, and we expect to implement them almost seamlessly.

The potash and industrial product businesses will remain exactly as the previous business line. In addition, we are building the specialty fertilizers business for accelerated growth, and we're consolidating the different phosphate value chain activities into one division in order to streamline operation, thus increasing efficiency and effectiveness of strategy execution.

On slide nine, you can see the breakdown of each the divisions contribution. You can see that potash and bromine are about 50 percent of sales. Then we have the phosphate solutions where most of the profit is coming from the specialty businesses, and finally the innovative agro solutions, which today includes the specialty fertilizers, but our goal is that it will be much more significant in the future.

When we look at slide 10, it seems that we are currently on the verge of a tipping point: our cost and value oriented sales initiatives together with the improved market conditions are reflected in our positive business momentum and increasing margins. In addition, earlier this year, a major overhang on our shares was removed with the successful and swift sale of Nutrien's 14 percent holdings.

Our new strategy provides a clear roadmap to further enhance our established businesses and utilize the growth engines we identified. This is further supported by a very solid balance sheet. And finally, we expected our organizational alignment will support our strategy. Now we need to execute, and you will be able to monitor this closely.

Before we move to Kobi, I would like the take the opportunity to thank Asher Grinbaum who led the company throughout a very challenging period and was able to stabilize it. We appreciate his efforts very much.

And with that, I'll move to Kobi. Kobi, please go ahead.

Kobi Altman: Thank you, Raviv, and good day all. What a quarter! Let me begin with the analysis of the financial results on slide 12. This was an excellent quarter with all our business lines contributing to an overall increase in sales of 10 percent compared to the previous years' results if we exclude the businesses we divested. Even if we don't exclude it, we managed in only one quarter after the successful completion of this transaction, to show an increase of 4 percent year-over-year.

The divested businesses, mainly the file safety business, contributed $68 million in sales in Q2 2017. Q2 2018 was the first quarter where these businesses were not included and we are pleased to show that not only at the company, even the results of our ongoing operations in the specialty solution division more than offset the lack of the divested businesses contribution. The impressive results were achieved by excellent performance in all our business lines.

Turning to slide 13. Here you can see the increased contribution of each business line to the adjusted operating income for the quarter compared to Q2 2017.

The biggest contribution comes from the industrial product business line that had a record quarter with exceptional results due to increased flame retardant and clear brine fluids sales. The potash business line also had a strong contribution this quarter reflecting the continued increase in market prices and improved production, mainly in Spain, which more than offsets higher logistics and energy costs. Our potash production this quarter was higher than our quarterly average. The overall production next quarter will be impacted by the termination of potash production in the U.K. and from the summer vacation season in Spain. In the U.K., we are now focusing on polysulphate, and this transition will continue to negatively impact the U.K result this year.

Phosphate commodities business line's results improved despite the impact of the maintenance period in the acid plants we discussed in the previous conference call, mainly due to higher prices and higher fertilizer production in Israel and China. The review for our phosphate business should take into account the full phosphate value chain and here you can see the major contribution from the downstream part of the chain. Advance additives had a solid quarter with volume and price growth in our continuing core phosphate specialty businesses.

The Food Specialties business has continued its recovery after a moderate year in 2017 in our dairy-protein sales, which suffered from a destocking activity of a customer due to lower demand from China last year.

We are reaping the rewards from our value over volume approach in our specialty businesses with a price contribution of almost 20 percent to the profit of the specialty solution segment. The price increase was not the only factor that contributed to the strong quarter for this segment, with increased quantities and a better portfolio mix of products more than offsetting the increase in raw materials and energy costs.

In our essential mineral segment, higher prices more than offset the increase in raw materials, transportation and energy costs. The increase in raw material cost is mainly due to higher sulfur and ammonia costs as well as the increase in commodity fertilizer prices, which are used as raw materials for our specialty business.

Slide 14 highlights the increase in both sales and adjusted operating income broken down into the specific attributes that caused the increase. The adjusted operating income exclude an asset write down of $16 million following the completion of the divestment of Rovita, a producer of commodity milk proteins, which was part of our whey protein business and negatively impacted the business line’s operating profit.

The contribution of higher prices was significantly higher than the negative impact of higher raw material prices, mainly of sulfur, transportation, energy and other costs. After several consecutive quarters of negative impacts from exchange rates fluctuation on operating profit, this quarter it was balanced, mainly due to the depreciation of the Israel shekel versus the dollar in the last few months.

Improved product mix led to a minor contribution of sales quantities to operating profit despite zero contribution to sales.

On slide 15, we want to walk you through ICL overall effective tax rate. Compared to 2017, the decrease in the normalized tax rate from 26 percent to 22 percent derived mainly from the tax reform in the U.S. and the reduction in the Israel corporate tax rate. ICL U.K. and YPH joint venture in China, which generate losses that are not recorded for tax purposes, increases our effective tax rate to a level of around 25 percent. We expect this impact to moderate. This quarter our tax rate was exceptionally low, mainly due to the devaluation of the Israeli shekel against the dollar during the quarter, which reduced the tax obligations of Israeli subsidiary.

Slide 16 analyzes our cash flow generation. Our working capital requirements increased, serving the expansion we see in all of our businesses. Our operating cash flow covered our CapEx needs, which also includes strategic infrastructure projects, which are on track. The pace of our CapEx in the first half on a cash basis is lower than the annual figure we anticipate, and we expect a higher rate in the second part of the year.

In the next few slides, I would like to summarize the activities we made this quarter to optimize our debt structure.

On slide 17, you can see how we ended the first quarter. Gross debt level was $3.2 billion and we had a couple of peak payment years in 2022 and 2024. On slide 18, we marked in green the debts we repaid after we completed the divestments, which provided us with the financial flexibility to execute our growth strategy. We still wanted to take care of the debt maturities in order to further enhance our financial flexible. So in May, we successfully completed our debt restructuring with a $600 million buyback of our 2024 debentures and in parallel the issuance of $600 million of new debentures redeemable in 2038. We were extremely pleased with the demand for our long-term debentures indicating the market support for ICL current financial position and long-term strategy. You can see the results on slide 19: a gross debt of $2.5 billion and much flatter maturity horizon.

Lower debt level results in lower interest rate. However, this quarter we had a higher financial expenses due to an expense of $12 million as a result of the 2024 debentures buyback and due to hedging transactions.

Before we will move to the Q&A session, I would like to summarize the key highlights for this quarter as presented on slide 20. Our robust performance this quarter was mainly driven by improved market conditions and our commercial excellence effort, including our value oriented sales approach.

The improvement in our financials together with the debt optimization further strengthened our financial position, which gives us the needed flexibility to execute our strategy.

The alignment of our organizational structure with our strategic focus will further help us to optimize the operation of our various businesses, as well as make it easier to understand the relative contributions of our value chain to our overall performance, creating greater transparency to stakeholders. For your convenience, in addition to the proforma numbers for the first half of 2018, which Raviv presented earlier, in the appendix to this presentation you will find the numbers for the second quarter. We will prepare and publish proforma numbers for additional periods before the end of the third quarter, so you will be able to adjust your models.

Finally, 2018, so far, marks the turning point for ICL. We can leverage the improved market conditions which successfully implement of our value over volume approach and we have a clear strategic path with organizational structure to support it.

Thank you for your time and we will be happy to take your questions now.

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press star, one on your telephone keypad. If you wish to retract your question, please press the hash key.

Our first question comes from the line of Mark Connelly from Stephens, Inc. Please go ahead.

Mark Connelly: Thank you. Can you talk about how NPS is being marketed in China? We know a number of specialty fertilizer companies rely on village by village trials that can take a long time and a lot of people and you also said sales are up based on quality. I'm not sure what you meant by that.

Raviv Zoller: OK. Hi Mark. This is Raviv Zoller speaking. In terms of NPS, it's a new product, we just started sales and we're selling through our direct channel with our sales force in China. We're also leveraging some of our partner's capabilities, but we're only in the beginning. The response from clients is very good and the product quality is very good.

I'm not sure what you meant by quality, but I can say that the main thing that's happening in our specialties business is that we're working more with our clients in order to figure out what the exact needs are and we're creating more value add solutions.

So, for example in food, we're working with specific clients in the meatless meat industry, where the growth is stronger than the general food market and we're using our R&D together with the R&D of our clients in order to produce unique and high value added products.

Mark Connelly: OK. That's helpful. Just one more question. As you think about the push into specialties, which has been going on and is making progress, how do you think or how should we think about the balance of organic growth versus maybe M&A. You talked about leveraging some of Israel's technology infrastructure. How should we think about all that fitting together?

Raviv Zoller: OK. It's really happening in two divisions. One division is the phosphate chain, where in phosphates the growth right now is organic and the critical mass in our business of high value products is really allowing us to look at the world a little differently, where as the whole chain is serving the high value add products and we're really not going to be in the business anymore, not going to focus anymore on sales of rock or commodity, but rather serve the downstream of our business.

If we attempt any M&A, it will be relatively smaller transactions that could give us access to additional high value-add products or additional customers or strengthen us in certain geographies. There are no specific plans at this moment, which means the base of our strategy is organic growth.

The other division, which is the new Innovative Ag Solutions division is where M&A would be more probable and the reason is, that building leadership position in specialty fertilizer products and gaining access to new types of sales, direct sales, to our customers is something that we will need to develop over time and here you will see a mix of both organic growth, new digital developments that will be developed within the company and M&A that could range from tactical entrance into new markets or into new products or a larger type transaction that would speed up our long term plan of being significant in creating leadership positions in specialty fertilizer space.

So, I would say that M&A would target our future. Our future is specialty fertilizers and getting closer to the end client. And the phosphates, it's, we're looking at the base is organic growth and some M&A, some opportunistic M&A to come into effect there.

Mark Connelly: That's really helpful. Thank you.

Operator: Thank you. Your next question comes from Joel Jackson from BMO Capital Markets. Please go ahead.

Joel Jackson: Hi, good afternoon. Welcome aboard.

Raviv Zoller: Thank you.

Joel Jackson: Just first on bromine, seen strong revenue growth – well just in your products really, seen strong revenue growth both quarters of the year, Q1 and Q2, but we've seen a lot of variable margin performance in that business.

So, we've seen margins drop a few hundred basis points in Q1 and then we've seen them in Q2, can you talk about what's going on in the margin performance? How will it play on the second half of the year and can you remind us what percent of this business right now is rough bromine earnings? Thanks. For Industrial Products (IP)?

Raviv Zoller: OK. So, its really a mix of a few factors. First of all, the bromine division, or the bromine business, the Industrial Products business, was the most profitable business this quarter. The quarterly operating income is a little above what would be deemed as a regular quarter. So, if you want to look at the expected margin, you should probably average Q1 and Q2. In general, the prices of bromine compounds are going up. Typically, in the summer, from what we've learned in the past, prices tend to go down a little bit especially because of production in China. Lately there's been a lot of regulatory pressure on Chinese producers, so prices actually have leveled out and haven't gone down more than a very little bit in the summer. So prices are still trending up. So that's a positive factor on prices. At the same time, we also in addition to pricing, we also had some out of the ordinary sales in our clear brine fluids business. We had about $3 million of profit above and beyond what was originally expected because of intensified oil drilling, and that's not expected to be there in the rest of the year, although it still did exist in July and little bit also expected in the beginning of August. So all in all the first half of the year is pretty indicative at the same time the second quarter is a little more than we expect as a trend. In Bromine we are over 50 percent of global production, so we're acting in a disciplined way. And right now, looking at the present situation the trend, the pricing trend and the demand trend are relatively stable.

Joel Jackson: And sir that way helpful, thank you. Sir, what percent of IP income in Q2 with Bromine did it based?

Raviv Zoller: I don't have the exact number but I would guess about 80 percent.

Joel Jackson: And the other question I wanted to ask, was Raviv you've now been at this company for two months, two and a half months, still a newbie. One thing that was interesting was that your predecessors and your colleagues decided to put out a new strategy for the company some months ago in between the time that you were announced as the CEO, but before you took over. Now you've been here for two and a half months. Talk about that strategy. And now that you're in the seat what you've seen. What you want to change. What you think would be better. What do you thinks been doing well. And maybe give us your initial insights after two, two and a half months. Thanks.

Raviv Zoller: Sure. First of all, I've been involved for quite a few months. I was in contact with ICO and (Asher) was very helpful getting me read for the job. And of course, we discussed strategy and even the divestment before it happened. We also, Kobi and I discussed the bond offering and bond buy back way before I stared my job. So, given this is my fourth CO transition it's by far the smoothest. And not because its and easy transition, any transition has its challenges. But I had a chance to get ready for the job for quite a few months.

Asher held my hand for quite a while. And in the past two and a half months that I'm in my job I feel more comfortable with the strategy. I think that in a way I feel strategy is always been known. But there are a couple of elements that needed to be executed. 50 percent of our business is Potash and Bromine. Very successful businesses, the strategy is very clear. In Bromine we're a world leader, so let's be disciplined and make as much money as possible. In Potash we're number six in the world, but in our target markets we're always among the top three, and our strategy is to be as close to number one as possible. I think today the way we view the world and from the data that's available to us, in terms of cost competitiveness we're number one in India, number two in China, probably number two in Brazil, and probably number two in Europe. So we feel that at any price of Potash we're very competitive. We're not looking to, and this is going back to M&A questions, we're not looking to do any M&A in Potash, we feel very comfortable with our strategic position. We're not going to do any M&A in Bromine because we're over 50 percent of the market anyway. We just need to act disciplined. And so the two things that really needed to be addressed, one is more of an execution strategy and that has to do with the phosphate chain. There were a few business units, some of which dealing with commodity and some of which dealing with high value ad product. And very luckily for me close to the time that I got into the job, I guess the company reached a critical mass, in which most of the internal production of commodities can be absorbed by the high value end chain of sales. So it's really a matter of putting all those businesses together into one P&L, making sure that ICL optimizes its value chain and grows its business, and works with its clients in order to build value, and that's an execution matter and we're on it. It started before I came into the company but I'm lucky enough to hopefully get some of the credit later. We're just really streamlining the phosphate chain operation and we're very hopeful that positive momentum will continue.

And the second business, the second place where we needed to look into is not just an execution issue. It's a long term strategic issue for ICL, and that is the – what we call now the innovative absolutions which generally what we're saying is that somewhere 20 years down the road the agriculture market is going to be totally different than what it is today. We're going to need direct reach to the customer. We're going to have to have the worlds leading fertilizer products, and maybe some other products. So, we want to first put our innovative R&D efforts into that business, in to the specialty fertilizer business, we want to build digital capabilities. Fortunately for us Israel is a world leading agronomist country and also a great high-tech hub for a digital transformation. I think one of the reasons I was brought into the company is to create the digital transformation for ICL. It's going to require some internal development, which fortunately for us is not very expensive, and also some M&A in the futures. So, some of the strategies are no brainer, let's do what we're doing with Potash and Bromine but have maybe less overhead, let's put the phosphate chain together and focus on value add in order to optimize results, and on the specialty fertilizer business in the Innovative Ag Solutions division, let's build our future digital platforms, let's build our chemistry know how in order to be number one in unique product and then reach to the final customer. That's basically the strategy. I don't think that internally or from people surrounding the company it's hard to understand. It's very clear once you analyze the numbers and know the capabilities of the company. This is what the company needs to do. We're very firm about it, I didn't find that I needed to make any significant changes in the strategy. I did feel that once the strategy is clear, the organization has to be aligned in terms of organizational structure and messaging focused, so we're making the alignment in order to make sure that we execute well, and we're confident enough to let our investors track our results, track our progress. Obviously in Bromine and Potash it existed before, but I think in the phosphate chain it will be much more easy to follow, much more transparent and of course, on the new business, on the Innovative Ag Solutions, that'll be also something worth wile for tracking for the long run.

Hope I answered.

Joel Jackson: Yes. That was a great answer. Thank you very much.

Raviv Zoller: Thank you.

Operator: Thank you. Your next question comes from Ronny Biron from Excellence. Please go ahead.

Ronny Biron: Hi, Raviv and Kobi. I have three questions for you. First can you elaborate on the ramp up of your polysulphate business? And at what point you expect the U.K. mine to start contributing to the Potash pofitability?

Raviv Zoller: OK. Kobi can probably do this better. But I'll do this, because I've been practicing. On the polysulphate we need to realize it's not part of the Potash business. polysulphate is – we're mining in the same place, but as of June 30th, we're not mining any potash from our mine in the U.K. polysulphate is what we call a semi-specialty fertilizer. We feel that it has very good prospects in the market. Our target is to sell 1 million tons a year and the current situation is that we're ramping up production, we're putting together our sales channels, and the target is that by the end of the year, the business will become profitable after ramping up, after going through all the "childhood" problems of the new product. We feel very confident of the prospects of the business. We feel that it'll take a little while until we can get a premium price for the product because it's educating the market exercise, but this year, we'll still see a bleeding to the business. We think that all in all this year we could have an operating loss of I'd say between GBP 35 to GBP 40 million. And that will probably complete all of our investments in the polysulphate business.

Ronny Biron: So going forward, the polysulphate will be classified as part of your potash segment results or otherwise?

Raviv Zoller: That's a great question. The short-term answer is that because it's a mining business, and because it originated in that business, and there are synergies in mining because we also have mining activities in Spain and semi-mining in Israel, it'll stay in the potash business. But once the products are adapted into high-value products because we're going to start with the basic poly, but we've developed technology in order to grow the value of the product, and once we move from selling through distributors like commodities are sold, to selling through our own sales force, then we will consider moving that part of the business, the sales part of the business, to the specialty fertilizer division. I would say that's about 18 months down the road. But that would be a ballpark figure, we're not sure at this stage yet.

Ronny Biron: OK. Secondly, regarding your Spanish project, if you can comment about your progression there and how comfortable are you with your targets in terms of timeline, cost per ton reduction, etc.

Raviv Zoller: OK, great question. We have very good results in Spain this year. Actually, in the quarter, the operating income was about $10 million relative to a loss last year. Cost per ton has gone down significantly according to target and even about $4 better than target. So, the result for the year should come in line with our expectations, which means we'll have about $40 million of operating income this year from Spain and growing. We do have a couple of large CapEx investments that are still pending. We still have some challenges. Some of them are going to take longer than we thought, but it's not at this point going to affect P&L in any significant way, it's just going to have to make us work a little harder to make our numbers. But things are really looking up in Spain.

Ronny Biron: OK. And finally, I know it's still a bit early, but any thoughts on second half of the year as far as potash dynamics? And in particular, how should we think about your margin progression in potash which seems to be quite lumpy in recent quarters?

Raviv Zoller: You need to follow the market. It's really a matter of what the pricing will be in the future. The only thing I can say at this point is prices have been trending up until the last week or so. Our average selling price for Brazil was $308 (per ton) I think for the last quarter. It's already trending towards $330 so in terms of the price trajectory, it's pretty clear that we're in a good situation, much better than we had expected.

In terms of how pricing is going to end up, some of it has to do with Chinese contracts. Rumors are that prices can go up anywhere between $40 to $70, that's what we're hearing in the market. We don't have any clear view at this point where the number will end up, but regardless, we're feeling pretty comfortable with the general trends. Also some of the new ramp-ups are experiencing all kinds of ramp up challenges, so that's also working in our favor in terms of future market conditions.

Ronny Biron: OK, thank you very much and good luck.

Raviv Zoller: Thank you.

Operator: Thank you. Our next question comes from Tom Wrigglesworth from Citi. Please, go ahead.

Tom Wrigglesworth: Good afternoon, a couple of questions if I may. Firstly, on food specialties, very strong volume growth in the sales number, is that sustainable? You talk about increased demand from key accounts, but is that going to be ongoing business going forwards?

Secondly, on the phosphate business, could you help to quantify the maintenance impact? What would have been the volume growth or had we not seen – have we not seen the maintenance in the quarter there?

And then lastly, you allude through the industrial products commentary that you've made about constraints to China. How long do you think we're going to see China constrained by its environmental regulation? Is it a case of the Chinese reinvesting to get themselves clear of the environmental regulation and then coming back to the market? Or do you think this is a more permanent reduction in China's production capacity where you compete with them? Thank you

Raviv Zoller: Let's start with Food. Some of the growth this quarter, we actually alluded to the fact that we had some compensation from last year, the dairy business in China. So, some of the growth is specific to this quarter, it makes it a little lumpier than usual, not that significant.

In terms of the maintenance ramp up, the loss in China was a little over $2 million. It has to do with the fact that we have dependency on our partner to acquire the green acid and commodity fertilizer that our plants are producing. That's a situation that we don't feel comfortable with but we've had lengthy discussions with our partners which we're very happy with, and the new agreement is take or pay, so I don't think we'll have these kinds of hiccups in the future, as long as nothing else dramatic changes. In Israel, the cost was an additional $2.5 million, but in Israel it was a planned maintenance. So, in terms of our internal plan, there's no issue. It was part of the planned P&L, it's just lumpy relative to last year. You can't really see it because the commodity price increase more than compensated for what we lost on the maintenance.

The only surprise we had this quarter was that we had to adjust our sales in China because our partner was going through his maintenance and as a result, we had to stop deliveries to the client. And that's something that, in terms of planning forward, we can't live with. So, we had lengthy discussion, and I think we're in better track now.

The last question you asked was about China, and the regulatory situation, I think that's something that we really don't know. There's general strict policy that seems to get stricter in China, but I want to mention that, on bromine, the bromine reserves in China are diluting, so regardless of the specific regulatory situation, we expect that, over time, the dilution of the bromine reserves in China will work in our favor. It won't be tremendous growth from us, in the next two months, but over time, we see ourselves potentially taking some of the excess capacity that's opening up and doing some more good for our business.

Tom Wrigglesworth: OK, great. Thank you very much.

Raviv Zoller: Thanks Tom.

Operator: Thank you. Our next question comes from Ben Gorman at UBS. Please go ahead.

Ben Gorman: Hello. Just a few from me, please. First of all, in terms of your new reporting segment, can you give a bit more detail on the structure of management, and so, how will you be changing the lower levels of management, and is he moving someone over to run the new Innovative Ag Solutions business, internally or externally?

And then, secondly, on potash, how do you see Brazil deliveries evolving in Q3, if you can give us an idea of that and whether that could offset the U.K. shutdown and lower production from Spain? And I'll just stick with those two, thanks.

Raviv Zoller: On the potash, Brazil and Spain more than compensating for U.K., so we don't see any risk in the potash business, at this point of going below Q2, saying this while being careful, because I don't want to provide any forward-looking statements, But based on the price trajectory and based on the production trajectory, I see no reason for worry because the production in U.K. of potash is relatively not significant. And so, I hope I answered that part.

In terms of the new organizational structure, it's really more seamless than it seems. The manager of the IP business, which is the bromine based business, Anat Tal, she is going continue to manage that business. But instead of reporting through Eli Glazer, she's going to report directly to me. The strategy's very clear. She knows what she's doing, and we're on board. In the potash business, Noam Goldstein, who's managing the business now, is reporting to Ofer Lifshitz who is reporting to me, so, basically, the potash business now, Noam is reporting directly to me, and there is no change, the strategy's clear. Ofer himself, has been moved to take control of the phosphate P&L. He's actually managing the commodity side of the P&L, but he's also taking control of the other parts, the sales part, in order to streamline the whole phosphate chain and manage it as one P&L and make optimal decisions for ICL.

Eli Glazer, who was managing part of the phosphate chain, has been selected to lead the way on the specialty fertilizer business, so he's going to transition to the specialty fertilizer business and also report to me.

So, basically, we had the six business units that were transferred into four business units, with the main change being the three business units having to do with phosphate have been united into one. So the big changes are the merge of the three phosphate business and the specialty fertilizer business that has been added to our R&D, and innovative IT, and the potential future M&A, and that's going be managed as a separate division, led by Eli Glazer.

That's in terms of the changes. At this point I must say that I knew this before because I'm in very close contact ICL, since about 2005. I used to be an IT services provider for ICL, so I know some of the people from then. I knew that there was a lot of talent in ICL, but everyday, I'm more positively surprised there's plenty of internal talent and I don't see, at this point, any reason to recruit any "stars" because we have "stars" internally. Thanks.

Ben Gorman: Thanks very much.

Operator: Thank you. Our next question comes from Howard Flinker from Flinker Company. Please go ahead.

Howard Flinker: I have three short questions. What will your CapEx be this year, please?

Raviv Zoller: Kobi, is that about $550 million?

Howard Flinker: 550, OK. The second question is…

Raviv Zoller: I'm not sure that you heard, Kobi said 550 to 600 million dollars.

Kobi Altman: 600.

Howard Flinker: Oh, I did not hear. Thank you very much. Actually, I have two questions. The second one is, is your power plant at Sodom a natural gas plant or a coal plant?

Raviv Zoller: It's a natural gas plant and it actually went live last week.

Howard Flinker: Oh, so your costs are really going to come down because natural gas is much cheaper than coal, I believe. Is that correct?

Raviv Zoller: Oh absolutely. Yes, it's going to take a little bit of time because some of our capabilities now are to sell electricity to external customers. So, most of the savings come from additional capacity that we can sell to externals. It's a 230 megawatt station and we need about 150 internally, so we're going to sell the rest of the capacity to additional clients and that's going to bring cost down, it's going to take us a few months, but it will happen.

Howard Flinker: Sure.

Raviv Zoller: We're already using 52 megawatts of natural gas at this point. So, it's not all a conversion. Some of it is conversion and some is additional capacity.

Howard Flinker: So, roughly one-third of the capacity will be able to be sold to local customers at a benefit to you?

Raviv Zoller: That's correct. Actually, we're already selling to the Israeli electrical system, but in order to get premium price, we want to sell to external customers.

Howared Flinker: Oh. And my third question was, is your loss in England an operational loss including your write-off or is that a cash outflow? I wasn't clear.

Raviv Zoller: You know to be honest, it's sort of a mix between R&D and operating and CapEx all together, but we're just recording everything as an operating loss.

Howard Flinker: OK, thank you very much.

Raviv Zoller: We recorded about GBP50 million in the first half of the year and probably it will be more than GBP20 million in the second half of the year.

Howard Flinker: Oh, I thought you said …

Raviv Zoller: But we're finishing – but we're going to ramp out of the year break even, so, it's something like …

Howard Flinker: Oh, I see. OK.

Raviv Zoller: It's about what happened in Spain last year. Something very similar.

Howard Flinker: OK. Thank you.

Raviv Zoller: Thank you.

Operator: Thank you. There are no further questions at this time. I would now like to hand back for closing comments.

Limor Gruber: Thank you everyone for joining us again today. And if you need anything we are here, looking forward to seeing you again. Bye-bye.

Operator: Thank you very much. Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may disconnect.

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