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Israel Chemicals Ltd.

Fourth Quarter 2015 Conference Call

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PRESENTATION

Operator:

Greetings and welcome to the ICL Analyst Call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad.

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

Limor Gruber:

Hello everyone in the room and on the line, and welcome to our fourth quarter analyst meeting and conference call. Earlier today, we filed our Q4 2015 press release to the securities authorities in the US and in Israel. The press release is also available on our website. Please note that the full annual report in the 20-F format will be published on March 16. For you reference, this meeting is being webcast at www.icl-group.com. There will be a replay available a few hours after the meeting and a transcript will be available within 48 hours. The presentation that we will review today was also filed to the securities authorities and is available on our website. Please do not forget to review the disclaimer on Slide No. 2.

Our comments today contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on Management's current expectations and are not guarantees of future performance.

Today, as usual, we will start with Stefan Borgas, our President and CEO, followed by Kobi Altman, Executive Vice President/CFO. In addition, ICL Executive Committee members are on the line and we will all be happy to answer your questions after the presentation.

Stefan, please.

Stefan Borgas:

Thanks, Limor. Good morning, good afternoon, good evening to all of you wherever you might be listening. When Kobi, our CFO, showed me the numbers for the quarter, for the fourth quarter and for the full year for the first time a few weeks ago, he came to my office and said, “Stefan, it’s a pretty tough environment but it’s a pretty good quarter that we had.” I will explain to you and Kobi will explain to you with even more competence why this is the case and we will give you some indication of what we will expect.

There are three things really that made this quarter. We had very high potash volumes, not just in sales but also in manufacturing; we had very strong deliveries from our operational excellence activities; and our bromine value chain really returned very well and that more than offset the lower overall prices that we had, especially in the fertilizer business. These efficiency and cost reduction initiatives will continue to deliver into 2016, but also beyond 2016, going above our previously announced numbers. Third, the focus of ICL on the downstream specialty businesses is starting to materialize itself and it starts to show in the numbers.

If you think about the environment, currency depreciation, low crop prices, credit availability for farmers, very weak monsoon in India, oversupply in most of the markets, potash price decrease of 40%, phosphate prices also in the fourth quarter starting to become soft, and stronger exports from Chinese commodity suppliers, all of these impacted the demand side not just for the fertilizer commodities, the agricultural commodities, but also for the food specialties and specialty fertilizer and I’ll show you in a minute in the next slide how this worked.

We are starting to move our portfolio towards specialties. The joint venture in China is a direction into this. We are going to build every year additional specialty markets. We have a new mineral in the UK, which will be a specialty mineral called polysulphate, which is quite promising, and our food specialty business is starting to show very good traction.

Let me talk a little bit about the environment in our major markets. In 2015, really the activities of the team are all around operational excellence. We have about 12% less people and notably lower costs because of this. We had an all-time historic production record at the Dead Sea in Israel in the fourth quarter. We are on the run rate of about 4 million tonnes at this location. This is about 10% or a little bit more than what we produced on average in the past. We think this is a sustainable number for the future.

We also signed a new framework agreement in China for 3.4 million tonnes over three years with our local customers. This shows the relationship that we have here, which obviously will strengthen more with the specialities that we can start to offer these same customers in the market.

Let me just spend two or three minutes on the potash markets, because you are going to ask the question anyway. This is a weak pricing environment. We expect this weak pricing environment to be at least in the discussions dominating the negotiation phases throughout the first quarter. The spot deals are weak in the first weeks of the year. We do not participate in this. We are not supplying to these low-price markets at all, for example in Brazil. But, the industry also seems to have reacted. If you look at the announcements in the last few weeks, about 6 million tonnes of capacity have been taken out of the market, with Mosaic, PCS, Belaruskali, Intrepid Potash and ourselves announcing curtailment or shutdowns. So, there's a shortage of supply that has started to come.

The China negotiations, which usually always open the pricing rounds all over the world, will be late this year. Chinese New Year has just only started. Personally, I expect the negotiations not to be finished before the end of March, maybe beginning of April. This is the usual game we have every year and I can only hope that the industry is going to stay calm. We, ICL, for sure are going to wait until the big suppliers have settled their contracts and then we will do what we always do.

What this means is that the supply in the first quarter to China are going to be very, very low. There are enough inventories to carry the Chinese through the first quarter, so there will be no shipments. There will be no shipments to India either, because the Indians have followed this behavior. So the potash market in terms of actual sales will be low. We are very relaxed about this because the world is going to need to fertilize. This will deplete inventories and this will then help the supply in the second, third and fourth quarter of this year. So it doesn't make us very nervous. It's just a matter of cash flow management from the first quarter into the other three quarters.

In Industrial Products, our adjusted operating profit grew by 50%, compared to the same period last year, and our margins grew by 500 basis points. This is due to much better cost position after the strike, we could see the effect, although on the cost side we have only achieved half of where we eventually want to get to in the long run, but it's also attributable to a better pricing environment. It started in China after we have implemented a very disciplined price increase starting the fourth quarter of 2014, which carried through the entire year.

Prices now, elemental bromine prices now in China are about 50% higher year-over-year. It's a little bit misleading, because in the winter the production of Chinese manufacturers is always low because of the weather, so they will start to turn on production again in March/April timeframe and then prices will soften. This is always the same curve every year, but we are at a much higher level now.

The good news about this is that compound prices, prices for downstream products also have gone up in China and now are starting to strengthen all around the world. This has really been a good initiative. We're very happy about our performance. Some of the write-offs we took in the fourth quarter in this business are directly linked to this fact, because they are linked to assets we don't operate and this is an effect of our commercial policy.

2015 also was a record year for clear brine fluids for the oil industry, delivered amounts, and the fourth quarter was the strongest quarter we have ever seen in history. This was not only due to the actual demand itself, but also due to the fact that there was a leaking well in the Gulf of Mexico, and in this case clear brine fluids are used in order to fix the problem. So 2016 will show a slowdown in this business, but still it helped in the fourth quarter of this year.

Otherwise, our mercury control business went very well and our new flame retardant launch of FR-122P for the insulation foam market went very, very well.

Last but not least, in our Performance Products business we had a very good boost from our whey protein business, which boosts our entire food business, and the advanced additives, the industrials and phosphates business had a record year. This was the best performing business unit in ICL in 2015.

Overall, here also the walk into specialties shows its benefit.

In 2015, we progressed both on our growth, as well as on our efficiency plans, when it comes to the implementation of our strategy. There are many items in the next slide, let me just pick out two or three out of this long list of achievements here on this Slide No. 5. We grew our resource base in China and this gives us now the ability to really build a specialty market in Asia over the next three or four years. We were very successful in turning the cost development in Israel, especially at the Dead Sea, and with less people, we produce more material. So this shows you that this was not just a pure cost cutting initiative, but like we have explained before, this was an initiative in which we got management capability back to Management, away from the unions, and this is the reason why now we can produce and use the plant that we have. By the way, the excitement of the people in the plant is just absolutely intoxicating. When you walk around these plants, people are proud, they walk with high heads, they are excited to work, to come up with new ideas and just to contribute. This is great. I think we will see a lot in the next two or three years in all of these sites.

In polysulphate, we more than tripled our sales to more than 120,000 tonnes. It is a particularly tough environment to launch a new fertilizer, a totally new fertilizer, because oil prices are down and everybody is fighting for positions. Still, we were successful in achieving our target. We will go further.

Then I need to expand a little bit on the efficiency initiatives that we have launched. We had announced that we were going to improve EBITDA by the end of 2016, at a run rate of around $350 million. The actual achievement for the year-end '15 was about $275 million, about 20% ahead of our target. You can see that we have adjusted the target for the end of the year. We have adjusted at the end of the year our objective. We have a very conservative CFO, so we have just indicated that there is more opportunity here, and as the year advances, we will update you on this number. Beyond 2016, there is quite significant potential as well. The labor cost in Israel, for example, had an effect of $25 million in 2015. The run rate, however, and the effect that you will see in 2016, is around $70 million. So, you can see a lot of initiatives that have been started, having their effect only in '16 and '17, and in the years beyond.

ICL was never really recognized as a phosphate player. In discussions with analysts, until about a year ago, this was never very much a point of discussion and this is starting to change. As you can see on Slide No. 7, we are developing to be a significant phosphate player, especially when you include the downstream specialty markets, because this is the focus of our strategy. In China, the joint venture sales in the year we took them over, 2015, are around $450 million on an annualized basis. We will grow this to about $650 million by converting half of the portfolio to specialties. It takes a little bit of CAPEX, not too much. It takes mainly new product development, product launches, a buildup of sales and distribution channels, and systematic penetration of these downstream markets that you see listed on this slide. We are running this as a 50/50 joint venture, but our partner really truly lets us manage this operation. We have nominated all of the management, we have a voting majority in the Board, and in the day-to-day operations all the adjustments we are making, our partner supports 100% what our team wants to do. So, the contracts that we have signed are being fulfilled not only by the letter, but very much by the spirit as well.

In bromine, we continue to pursue our value-added price over volume strategy. Customers are actually willing to pay for supply security, for service, and for the innovation and the reliability that we offer to them. Chinese domestic production cannot supply all the demand in Asia and we were able to take advantage and increase prices. In contracts, we're also in the spot market during the strike and after the strike. By the way, during the strike in 2015, we did not shortcut any of our customers. We pre-built inventory at a bit of additional cost up front and customers appreciate this kind of reliability even in a difficult stressed market environment. In 2016, the contribution just of pricing to this business is going to be in the low to mid-single-digit range, but it will of course completely flow into operating profit.

The other component in bromine is the improvement in efficiency. We have decreased our CAPEX significantly. We have cut our CAPEX down to 30% of the historic levels. We have closed some of the low utilized or non-utilized facilities in Israel, and some of the impairment that we did in the fourth quarter, we have reduced costs, which will contribute another $15 million in 2016, in addition to the $10 million that we already achieved in the second half of 2015.

The advocacy that this business needs also is not to be neglected. We need to be in very close contact with authorities all around the world, in order to have fire codes, environmental codes at a level where this business can be supported, to the benefit of the environment of course. We are now actively promoting the mercury emission control technology in China. We already have run two pilots in China. We've had many conferences there, with a lot of interest from the industry. The European Union has in the meantime decided on the same mercury emission control levels in North America, and in China these levels are now being formally introduced in the regulatory environment and we would expect the laws to change there also over the course of the next few years. The potential for mercury control in China is more than double the size of the potential in North America.

On the R&D side, finally in the bromine area, we have three interesting projects that have made good progress in 2015. This is the energy storage solution. With listing prices going up, bromine more and more starts to be an interesting alternative for large-scale batteries. We have made good technological progress with bromine for gold extraction, replacing cyanuric acid, and we have a new application in the 3D printing material area as well which is quite promising.

Finally, in our Foods Specialty business, we have integrated our whey protein business. The growth that we have seen in 2015 in this business was quite spectacular, exceeding our business plan and our expectations. It's the biggest contributor to the growth in the food business in 2015. Also, here we have developed new products. We are able now to produce a high-protein containing clear drink, which we can now offer to the sports drink industry, Gatorade and the like, where now protein supplementation can happen. Of course, this is something the industry has been waiting for. That was a technology breakthrough from our German team.

Let me give you a couple of statistics before I hand over to Kobi. The commodity business units are targeting top line and bottom line growth. Potash sales decreased in 2015, mainly because of the strike. The will recover, sales will recover and profits will recover because a little bit of volume comes back, but mostly because costs are going down and are going to balance out the still significant price decline that the market will see if we compare year-over-year. Operating income in potash should increase slightly.

In phosphates, growth of course will come from the integration of the joint venture in China, where we will see the first profitability in the fourth quarter. This joint venture had a negative operating income, because it's the fourth quarter, so it's the low season, there are not very many sales, it's to be expected, but full year 2016 should contribute moderately also to the profitability. Then the operating income as a whole in phosphates will grow somewhere between 8 and 10%.

Our specialty businesses continue to grow faster than the commodity businesses, starting to convert ICL more and more towards a specialty business company. In 2015, only one-third of profitability came from the specialty businesses. In four to five years from now, it will be almost half.

For this, I am turning over to Kobi, who will give you now the real secret behind the numbers of the fourth quarter. Kobi?

Kobi Altman:

Thank you, Stefan. I will try to be short, so that we leave sufficient time for questions. Good day, everyone. As Stefan mentioned, in Q4, after the final impact of the strike on our income statement faded away, we achieved good performance and demonstrated growth in profit despite a difficult business environment in many of our markets. The quarter highlighted the results of our operational excellence program that we initiated in early 2014 as part of our strategy, and thanks to these initiatives we were able to significantly reduce our operating costs, and I will show you in a minute the measures of those, but we achieved production records in quite a few of our production sites.

Sales this quarter increased by 2% over the parallel quarter in 2014, mainly as a result of the increased potash volume that we sold into China. We divested non-core businesses. We're completely satisfied by the consolidation of the joint venture. The increasing volume that we saw was partially offset by lower prices, mainly the potash and the unfavorable exchange rate, mainly the depreciation of the euro against the dollar.

Adjusted operating income for the quarter was up 15%, compared to last year, and this is coming mainly due to the reduction in costs. I think that it's now evident why it was so important for us to initiate these cost reductions and efficiency improvement program.

G&A expenses increased this quarter versus 2014, and this is somewhat offsetting the contribution of our efficiency plan, and we are working on measures to contain the G&A expenses, even at times where we need to have some kind of double effort as we are building our new global structure.

The effective tax rate was lower this quarter, compared to 2014, mainly due to different mix of profit sources from various jurisdictions, and we had a particularly high effective tax rate last year. We are proud to be this year again the company that has paid the highest tax rate and royalties in Israel, in absolute amount, as well as an effective government take rate.

Cash flow this quarter was weak, as we were still under the impact of the strike in the first half of the year. Trade receivables reflected the increased sales of potash this quarter, and we were kind of missing the collection from past quarters when we did not operate. We also had this quarter a significant one-time payment of over $160 million in respect to the YPH joint venture. This liability did not impact our income statement, because it was part of the acquisition, but it had an impact on our cash flow. On an annual basis, we showed better results in most of the parameters versus last year, with the exception obviously of the sales, mainly due to the strike and the divestitures impact.

Moving now to the various businesses, quickly, sales in the potash, you see that the production, it was an excellent quarter, production level was in record in a few of our sites. Mainly, these ones were the Dead Sea and the UK. We sold 275,000 tonnes more than in the fourth quarter of 2014, and reached a level of almost 1.5 million tons, an all-time high for Q4. You see here the impact of the price decline year-over-year, and the slight impact on the exchange rate, although the exchange rate did not have an impact on our profit, because we are kind of having a natural hedge, so we get the heat mainly on the sales. You see here the contribution of the volume and the prices that helped us to show an improvement in the profit.

The next slide shows you the cost per tonne. When we are calculating here the cost per tonne, you can see that it's the full cost per ton including everything, and we compared here 2012 to 2015. We took the second part of 2015, because in the first part, we had the strike, and you see 23% cost reduction over the last three years. Most of this contributed from our internal initiatives, but you see that we also benefited from some external factors, like the currency devaluation, as well as oil price reduction, etc.

Moving now to the phosphate business, you see a positive impact of $95 million coming from the contribution of the joint venture consolidation. Volume lower, a big portion of that is that we are still suffering from the fire that we had in Rotem in the second quarter, and lower sales in Brazil, and a few other markets, but overall strong results for the fertilizer, phosphate and fertilizer business.

Here, as well, we wanted to show you some figures in Slide 18 of our main products and the achievements that we were able to do over the last three years in executing our operational excellence, with many, many initiatives that are contributing now to a significant reduction in our cost pattern, making us much more competitive in the marketplace, and able to absorb also some price reduction. You can see here also the contribution of our internal initiatives, as well as some external factors.

Industrial products also had a good quarter this year. As Stefan explained, our strategy is clearly price over volume. So, you see here volumes are down, but we start to see a contribution from the prices that still have a marginal impact on sales, but start to have a more and more contribution to the profit, and you see a very good quarter for the industrial products business.

Performance products, the main story here is that the divestitures that we had in the comparable quarter of '14, both in the sales as well as the operating income, most of the reduction is coming from those businesses that we divested in the early part of 2015, and the contribution from the newly acquired whey protein businesses that Stefan mentioned

By that, we conclude our opening remarks and we will now open the call for Q&A.

Operator:

Thank you. At this time, we will be conducting a question and answer session. If you would like to ask a question, please press star, one on your telephone keypad, and a confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key. One moment, please, while we poll for questions.

Thank you. Our first question comes from the line of Yonah Weisz with HSBC. Please go ahead with your question.

Yonah Weisz:

Hello, good morning. I have a couple of questions, okay. First of all, Stefan, you mentioned in your commentary that the current potash market is, if I heard you correctly, ugly, and that you had not been shipping at low prices for Brazil; nonetheless, you have shipped definitely at the high end of your quarterly ability, or quarterly capacity. So, I am wondering where did you find customers that met your criteria.

Stefan Borgas:

Everywhere except in Brazil, but obviously strong shipments in Asia, because we had some contracts to catch up on. We had signed more or less the same contracts than the year before, so we had some catch-up to do. But, really, also Europe and North America had some good momentum in the fourth quarter.

Yonah Weisz:

Okay. In terms of the issues with the State of Israel on the Sheshinski Committee and Sheshinski royalties and taxes, during the fourth quarter there were press reports in Israel that you are planning to sue the government to prevent implementation of these royalties. Could you update on your legal strategy with regard to Sheshinski?

Stefan Borgas:

This is a law now passed by the Parliament. We do not like to have higher taxes, but there are many, many reports in Israel, we have not filed any kind of lawsuit. For us, this is a little bit part of the past now. We tried to explain why Israel might be better off with a more moderate taxation environment, the country would certainly profit from more investments from the company, but the Parliament has spoken. They want short-term taxation and not so much mid- to long-term investments. We are now accepting this decision. Really, I want this to quiet down. We should move into the future. It is what it is. We will all continue. Everybody lives with the consequences of their doing. From our perspective, let us move forward.

Yonah Weisz:

Well understood. Thank you. With the transformation which you showed towards specialty versus commodity, I'm assuming that commodity in this case is potash and that specialty is all your other businesses. Could you comment maybe on, if you assumed standard or unchanged potash prices, how your operating margin could also evolve, given where you see the sales mix evolving over the next couple of years?

Stefan Borgas:

So, the underlying assumptions here are a little bit different from what you just suggested. The commodity business includes, of course, also the phosphate commodities, and we sell some of them, TSP, DAP, MAP. We cannot consider those specialities; that would be a little bold. They are in the commodity basket here. We assume slightly raising potash prices over the next five years in this scenario.

Yonah Weisz:

Okay, but in terms of margin, would the margin actually decline?

Stefan Borgas:

Here you see the answer, Yonah, on Slide 10. Of course, if sales are more or less flat or going up a little bit, margins will go up as well.

Yonah Weisz:

Okay, and I guess the last question, if I may, with regards to your comments on ICL phosphates, I mean, would you consider—if you wished to put more stress or more spotlight on phosphates, would you consider having more reporting on ICL's phosphate business? Certainly, with a joint venture in China, a very different business, I don't know how that would be reflected in your phosphate statements, but would you consider clearer or more detailed phosphate reporting?

Stefan Borgas:

We are having the discussion actually internally now, is the reporting the way we traditionally have it, does that fit our strategy, and the way you guys would like to track it. We are evaluating this now. We have a team doing this very actively. We would actually welcome your ideas on this, what kind of reporting would help you. But, we recognize that the old reporting by product lines might not be the long-term best sort of transparency for you.

Yonah Weisz:

Thank you very much.

Operator:

Our next question is from the line of Stephanie Bothwell with Bank of America Merrill Lynch. Please go ahead with your question.

Stephanie Bothwell:

Yes, thank you, and thanks for taking the questions. My first one is actually just a follow-on from the previous question. So, on Slide 10, where you show that operating income within potash could grow in 2016, can you just clarify, is that assuming a declining potash price environment, and if so, what sort of price decline are you assuming in 2016? That's the first question.

Stefan Borgas:

We'd assume the slightly declining potash environment, because year-over-year, if you look at what happened in the second half of 2015, if you compare year-over-year, it's mathematically almost impossible to have higher average prices in '16 than in '15, unless the large contracts are going to be negotiated dramatically higher. We do not assume this at the moment. But, I think there's a good case for potash prices to start to stabilize and maybe strengthen a little bit, especially in the second half of 2016. There is a good case for this, especially because of the curtailment of most of the players.

Stephanie Barsol:

Okay. Are you willing to give us your expectation in terms of where you think the contracts will settle?

Stefan Borgas:

No, because it depends on the week, our expectations change up and down. We will run many different scenarios. So, I would rather not give you any specific numbers, because I think I'll be wrong on whatever I say.

Stephanie Bothwell:

Okay. Then, just on the CAPEX for the next few years, you showed in a presentation recently that you don't expect it to exceed the $800 million level over the course of the next few years. Can you perhaps give us a bit more color in terms of where you expect CAPEX to be for 2016, and how that's going to be allocated across the divisions?

Stefan Borgas:

Yes, we have a CAEPX budget not exceeding $700 million for 2016. This even might be a little bit on the high side. We are looking at this, because we will have a weak first quarter. If we have a weak first quarter with weak cash flow in the second quarter, maybe we will move some of the CAPEX projects into the year after. But for sure, $700 million is the upper limit. From today's perspective, there is a good case that we could be below that.

Stephanie Bothwell:

Okay, and perhaps just one final question on the dividend. We have seen a number of your peers and other miners adjusting dividends in response to the lower commodity price environment. Obviously, ICL has a strong track record of paying out—or being a large dividend payer, but I wanted to get your sense in terms of your thinking about how your dividend is set. Would you, for example, consider at any point in time moving away from the payout base ratio to perhaps something like a cash flow metric, or even absolute number of progressive dividends?

Kobi Altman:

Yes, let me just add one more comment on the CAPEX. You asked about the breakdown between the segments. The segment with the highest CAPEX by far is commodity fertilizer. The other business units require much less capital.

In terms of the dividend, the Board did not discuss it so far. Usually, in annual events, we are discussing the dividend for the quarter in our March meeting, and this is why we cannot comment on that yet, because the discussion has not been made yet. However, I will say that, yes, we are considering looking at other mechanisms or ways for our dividend. We hear comments from you and others about our policy and we listen to you and we might look for other ways to connect our dividend to, but I would say that we are still very committed to very strong shareholder return in any of those scenarios.

Stephanie Bothwell:

Okay. Thank you very much.

Operator:

Thank you. Our next question is from the line of Milan Shah with BMO. Please go ahead with your question.

Milan Shah:

Hi, thanks. I am on on behalf of Joel Jackson this morning. Stefan, I think I recall you mentioning in the past you looking to gain volume in ’16 as you won’t have the impact of the strike, but then you also just mentioned some reason for hope in terms of potash pricing, given some of the scaling back in production, or sales in the potash industry. When might you abandon the idea of trying to increase volume in ’16, or is that something you would consider?

Stefan Borgas:

No, in ICL, the operating model is a little bit different from most of our competitors, because we have this large production asset in the Dead Sea, which will continue to produce flat out for sure, because that’s just the way the operating model works there. Whether we will sell it all or build a little bit of inventory, which is practically at zero at the moment, that’s a tactical question on the market. We have a historical inventory level of between 600,000 and 900,000 tonnes at the Dead Sea. We have close to nothing there at the moment. We are not producing granular potash at all now, the plant is shut down, because granular prices are not attractive, from our perspective. We are always reacting to the market situation actively and we will continue to do this, of course. When I said we would be fully back on track in 2016, that was for sure relating to the production.

Milan Shah:

Okay, thanks, and just one more here. Q4 potash costs were really, really low, quite impressive. I mean, obviously, you have implemented some cost-cutting efforts. Can you maybe give a little bit more color on what happened in the quarter? Was there a shift in mix? Maybe just a little bit more there, please.

Stefan Borgas:

Well, you know, we have been working on this now for two years. There are many different aspects to this. There are the labor costs at the Dead Sea. There is the use of raw materials at the Dead Sea. There are the day-to-day maintenance costs that go into this. The cash-out maintenance costs, this stuffmix? maybe ously, you'he mom is not capitalized. There is an optimization of our entire logistics chain. We use railcars more fully than before. We use trucks that have 25% more capacity. In the UK, we reduced 300 people. The first ones are already off the payroll in the fourth quarter. There are other variable cost reductions. Of course, we were a little bit helped by the oil price, our fuel costs are down, but our gas contracts also is linked to some of the global oil prices. We have a large basket of activities. This will continue in 2016. We have a few offsetting elements, like the salt harvesting in the Dead Sea, which will come on top of it, but I would expect in 2016 potash costs per tonne down, not up. We have not fully implemented all the opportunities in the Dead Sea. You have those programs that are initiated by Management and the Chief Engineers. Now, we have a thousand people, or close to a thousand people, who are starting to think about this every day, so they come back and says, “Oh, instead of buying two scuba divers, we can only buy one.” There are many—thousands of little things. Our procurement activities, of course, that we show in our efficiency reduction, as a block, in the P&L, that goes into the cost per tonne, we have a reduction here. So, it’s many, many different things, and this is not yet the end.

Milan Shah:

So, we can use Q4 as a reasonable run rate for ’16, is that fair, or …

Stefan Borgas:

I think Q4 is a good run rate for 2016, yes.

Milan Shah:

Perfect. Thank you.

Limor Gruber:

We will now move for questions in the room.

Chris Kapsch:

Yes, Chris Kapsch with BB&T Capital Markets. Looking on Page 11, focusing on the specialty businesses, and then looking at engineered materials, in particular, it looks like for ’16 you’re forecasting sort of flattish operating income on flattish sales, and I’m just wondering, with the comment on pricing looking improved for ’16, and bromine and bromine derivatives, and presumably incremental benefit from your operational excellence efforts and cost take-outs, and even raw material costs being low, why wouldn’t we see some improvement in operating income in 2016 for engineered materials.

Stefan Borgas:

This is a mix. The big red box you see on this slide for engineered materials is not just the bromine, it also includes advanced additives, phosphate, industrial engineered materials business. We have had a very, very strong fire safety business in phosphates in 2015. We always budget based on an average five-year fire safety business, which obviously is significantly lower than the actual result of 2015, because we do not know when it's going to burn where. That is one of the dampening factors in this. I think that is probably the main one. But maybe also this is a conservative estimate.

Kobi Altman:

The second element is—Stefan mentioned it earlier—the clear brine fluids, we also expect it to go down after a record year in 2015. So, this is why 2016, we modelled it more conservatively.

Chris Kapsch:

Then, just to follow up, if I look on that same page, looking at the anticipated CAGR through 2020, and again looking at industrial products, it looks like flattish on the industrial solutions side. I assume that has to do with the clear brine fluids. But, on the flame retardants, you're looking at 30 to 40% operating income CAGR. So, presumably, that is pricing. Could you just talk about what you expect in that business over the next few years? Thanks.

Kobi Altman:

Actually, in this business, there's two elements in flame retardants, there's two elements. There is a shift of older products to newer products, which have a better margin, but there is also a significant cost improvement. Most of the cost improvement in brominated compounds is visible in the flame-retardants.

Matthew Korn:

Good morning, folks. It is Matthew Korn with Barclays. A couple of questions. First, for Kobi, maybe a little illumination. There are several moving pieces in the tax rate this quarter, I think some bromine, magnesium. Could you illuminate a little bit more about what was going on for the quarter and what to expect, perhaps, or looking at over the rest of the year.

Then second, for Stefan, looking at Slide 20, the performance products aspect, it seemed like that the other OPEX item was a big part of the delta, versus my numbers. It seems that you are in somewhat of an investment phase in terms of spending, maybe on salaries and kind of building up of that business. Where are we in that process and what should we see around that normalizing as we go into, again, the next half of the year?

Kobi Altman:

On the tax rate, I would say that all those unusual items more or less offset each other, and we did have a slightly lower than usual tax rate, effective tax rate for the quarter, around 22%. We expect this to be around 25%. Last year, we had 29%, which was exceptionally high. It is the mixture of the sources of taxes in the various jurisdictions, and many, many moving parts, but I think going forward that 25% is a good number.

On the build-up of the future, we are expanding, mainly the food business, and this requires an additional infrastructure or sales force, that we are building, and this is now somewhat building on our operating expenses, but the main reason for the change year-over-year is the divested businesses that we had last year and we don't have it anymore.

Stefan Borgas:

Just a comment on the food business. We have built a significant add-on on the technical sales force, and also R&D, which we completed somewhere around the end of the third quarter 2015. You will see the effects of this coming into the P&L, probably starting in the second or third quarter of 2016, and beyond, without significant additional resources that need to be added. So, this is kind of a pre-investment, not in the form of CAPEX and plants, but in the form of people.

We have second one-time effect here. We had a fire in one of our phosphate plants in Israel, and that plant supplies product into the food business. So, the food guys, in order to keep their supply chain, they had to source their material from third parties and that was more expensive, and that's also included in here.

Thomas Wriggleswork:

Thomas Wriggleswork, Citi. Two questions, if I may. Firstly, on the Chinese JV, obviously, as the profitability improves, how will you repatriate the cash? What is the structure there to get funds back out of the country to the parent company?

Then, just on your bridges, on Slide 15. The price, negative $53 million, what volumes is that affecting; i.e., is that spot impact on a small percentage of your total volume? Could you give us some kind of color as to what total tonnage has been affected by price thus far?

Stefan Borgas:

This price decline, it's just the average—the delta, the price difference on the average volume is quarter four 2014 versus quarter four 2015.

Thomas Wriggleswork:

So, the spot versus contract.

Stefan Borgas:

It is just the average sales price year-over-year was $53 million lower.

Unidentified Male Speaker:

Sure, but there's a—I assume there's an amount that's fixed price year-on-year and an amount that's variable; i.e., on contracts versus …

Stefan Borgas:

The China contract was a little bit lower in '15 than '14, and then the spot price was dramatically lower, of course.

Thomas Wriggleswork:

Okay. Do you give that split of volume …

Stefan Borgas:

No, no, no.

Thomas Wrigglesworth:

Okay.

Stefan Borgas:

We have the average prices in the press release. You can see there the 14% and that's the impact.

Thomas Wrigglesworth:

Thank you.

Kobi Altman:
Obviously, spot prices went down much more than contract prices year-over-year.

Thomas Wrigglesworth:

And getting cash out of China?

Stefan Borgas:

Yes, in terms of getting out cash from China, the way—both partners funded the joint venture through partner loans, and because of that, at least in the next few years, we do not see any issue to take out the cash. However, we also have some plans to invest there, so we wanted to use the cash, where they will use in the short-term to fund their operational excellence and synergies related initiatives, but later on we have quite a few years of vehicle to take out the cash from China through those partner loans.

Kobi Altman:

And of course investments that are made in other parts of Asia, in Thailand, in Malaysia, places like this, where we will build subsidiary plants, that's all funded by this joint venture. So, we will use the CAPEX that ICL has to make from corporate.

Thomas Wrigglesworth:

Thank you.

Bruce Schoenfeld:

Hi, Bruce Schoenfeld from BlueStar Global Investors. Just on Slide 18, where you talked about the lower cost for phosphate, it's all benchmarked to 2012, and it looks like the full cost per tonne has gone down about 22%. So, without me having to do the entire math and everything, what is the current cost per tonne of phosphate rock?

Stefan Borgas:

It depends on the rock and it depends on the mine.

Bruce Schoenfeld:

Okay. So, what? That's your average across the Company?

Stefan Borgas:

Yes, but it is efficiently competitive, in order to be very comfortably competing in all of the markets at the moment.

Bruce Schoenfeld:

Okay, and that is all you want to say?

Stefan Borgas:

Yes.

Bruce Schoenfeld:

What about the average quality, I suppose you do not want to say anything about that, as well?

Stefan Borgas:

No, that is right.

Bruce Schoenfeld:

Okay. Thank you.

Stefan Borgas:

But, here the whole art of this is how to manage an integrated value chain and what to sell at which point in time into which market, and what not to sell, but to move into a downstream market, and that's why we don't want to be too open, because otherwise our competitors are going to see what we're doing and that's, I think, not good for the business, but you wouldn't like it at the end of the day.

Rosemarie Morbelli:

Rosemarie Morbelli, Gabelli & Company. I was wondering if you have seen any changes in the mercury removal market in the US vis-à-vis MATS legislation, and whether utilities are taking the mercury out, whether or not MATS has been officially put in place.

Stefan Borgas:

Charlie, did you get this question?

Charles Weidhas:

Yes, if I understand, the question is what is going on with mercury control in the United States; is that correct?

Stefan Borgas:

Yes.

Charles Weidhas:

The market continues to be okay. It is growing, as well, between 8 and 12%. The Court ruling that has occurred has not affected the demand.

Rosemarie Morbelli:

So, you are seeing utilities complying, even though the ruling is not in place?

Charles Weidhas:

Correct.

Rosemarie Morbelli:

Then, if we can move to China, still on the bromine, you said that you have a benefit from the service you are offering, and then the safety level. Have you picked up a lot of market share since the explosion in Tianjin? Have you seen a change in the way the Chinese are operating?

Stefan Borgas:

Charlie, let me answer and then you can jump in. We haven't gained a lot of market share in China itself, but the Chinese producers are starting to have a significant higher focus on the security and the safety of the supply chain, as well as on all of the emissions they have, in the water especially, but also into the air, and that has incentivized the Chinese producers to be more cost conscientious and price conscientious. Therefore, in China, not just the elemental bromine prices have gone up, but also the compound bromine prices have gone up, and that is starting to have now a positive effect on bromine pricing all over the world. So, it's more than indirect effect, but, you know, its one sausage, and if you press the sausage at one end it'll get thicker on the other end. So, it needs to be managed with a global perspective, and I think this is what our team has done very, very well in 2015.

Charlie, anything to add on the Chinese producers' behavior?

Charles Weidhas:

No, no further comment.

Howard Flinker:

Howie Flinker, Flinker & Company. Has your expansionary project in China been funded yet, or not yet?

Stefan Borgas:

Yes.

Howard Flinker:

Second, could you please explain your interest expense in the fourth quarter? There were some confusing debits and credits that threw me off. Your interest expense is way down, but that had to do with probably something with your deferred taxes, or something like that.

Stefan Borgas:

Yes …

Howard Flinker:

If you want to do it after the meeting, that's okay, too.

Stefan Borgas:

In general, actually, the unusual quarter was more last year, because of hedging activities, both on currencies, as well as on our oil, that we did last year. This quarter is more or less normal, but we can take you later on on the specifics of that.

Howard Flinker:

I will make a comment to you about the dividend after the meeting.

Stefan Borgas:

Okay.

Limor Gruber:

We have no more questions from the room and at this time, we will conclude the conversation. Thank you, everyone, for listening and for participating, and of course, if you need us, please do not hesitate to contact directly. Thank you and have a great day.

Operator:

Thank you. Today's conference has concluded. Thank you for your participation. You may now disconnect your lines at this time.