ICL Q1 2016 Conference Call
May 18, 2016

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the ICL Analysts conference call. I must advise you the call is being recorded today, Wednesday, the 18th of May, 2016. I would now like to hand the conference over to your speaker today, Limor Gruber, Head of Investor Relations. Please go ahead.

Limor Gruber: Thank you. Hello, everyone. Welcome and thank you for joining our first quarter 2016 analyst conference call. Earlier today, we filed our first quarter 2016 report to the securities authorities and the stock exchanges in the US and in Israel. The reports, as well as the press release are available on our Web Site.

For your reference, this meeting is being Webcast live at www.icl-group.com.

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 slide number 2 with the disclaimer.

Our comments today contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectation and are not guarantees of future performance. Today, we will start with a presentation by Stefan Borgas, our President and CEO, followed by Kobi Altman, our CFO. In addition, ICL Executive Committee members are either here or on the line and we will all be happy to answer your questions after the call. Stefan, please.

Stefan Borgas: Thank you, Limor. Good morning, good afternoon, good evening to all of you listening to us. Thank you for dialing in.

In the past few years, ICL has been executing the Next Step Forward strategy. We have constantly achieved the milestones on our way to fulfill our growth and to fulfill our efficiency targets. Of course, our people, the great professional men and women in ICL all over the world have accomplished this.

In the past years, we have strengthened the market orientation of the Company. We have created fully accountable business units who actually run the P&Ls of the Company and we have built up global functions that support these business units at very competitive cost.

In the beginning of this quarter, of the second quarter, we have therefore changed the structure of ICL to adapt to the Next Step Forward strategy after having prepared it for quite a long time.

This new structure will allow ICL to better drive organic growth and to better drive cost improvements while, at the same time, continuously improve our governance and create administrative synergies in procurement, in IT, in HR, in finance, in legal, between all of our businesses, and to improve our overall innovation and business development in the Company.

These changes were just implemented. You see the new organizational chart here on slide 3 of the presentation. The business units will concentrate on their respective value drivers. The essential minerals division will be led by Nissim Adar and include our commodity potash and phosphate business units.

The specialty solutions division will be led by Mark Volmer and include our specialty fertilizers, advanced additives, which are the industrial phosphates, and food specialty business units. All of these three are phosphate downstream activities, at least to a large portion, and our industrial products business, which contains the bromine value chain.

The financial and legal corporate services will be managed by our CFO Kobi Altman. And all the other corporate services will be led by our COO Charlie Weidhas.

To help you in matching the past with the future, we will for the time being deliver the financial reports by the old segment structure and step by step transition to the new divisional structure. We have already added this quarter the sales for each one of the six business units for the first quarter 2016 and also the annual sales 2015.

These changes that we just implemented allow the business units to concentrate on their respective value drivers: efficiency, cost reduction, operational excellence, and process innovation for our more commoditized essential minerals business units, and organic growth marketing and distribution expansion, commercial excellence, and product innovation for our specialty solutions businesses.

This structure will also provide greater clarity for our shareholders as well as other stakeholders by making ICL's strategy more understandable and its businesses more distinct. This new organizational structure, last but not least, will help us to further streamline our operations and facilitate enhanced efficiency delivery of above $400 million by the end of 2016. Kobi will elaborate on that a little bit later.

And now, let's get back to the quarter's results. This quarter proved to be very challenging, not just for ICL, but for the entire fertilizer industry. There's a slowdown in the global economy, which doesn't help. We have crop prices that don't improve. And we have two specific aspects that weighed on our business in 2016, one in potash and one in phosphates.

In potash, the Asian markets are basically closed for shipments because the Chinese price has not been settled. And the Indian buyers are waiting for the Chinese price to be settled. This was the case also in the first quarter and continues to be the case into the second quarter so far. We don't expect this to change until the tail end of the second quarter.

In the commodity phosphate fertilizers, there is a major price competition between the two major exporting countries, Morocco and China. Both of those aspects weighed heavily on our essential minerals businesses, potash and phosphates. And you can see that in the numbers - these are the main reasons for the decline of our business quarter on quarter.

In general, our specialty businesses are less volatile and in this quarter provided the largest stake of our profits even. And it shows that our ongoing focus to strengthen these businesses is the right direction to go on.

In some of our business, especially the bromine value chain, we continued to benefit from our value-oriented strategy on the pricing side and from our efficiency plan at the same time.

In some of our specialty businesses, mostly in the phosphate-related ones, however, we felt the effect of the competitive pressure that is going on in the commodity markets because some of these lower costs is being passed on into the specialty markets. This is not a real reason for concern, but is still happening.

In light of this situation in our markets, disciplined capital allocation is ever more important. This quarter, we reported strong operating cash flow, also in comparison to our competitors. It's a cash flow through because of improved collections despite an increase in inventory because this is low-cost inventory.

However, we needed to adapt our dividend policy. And we have talked about this in the last few quarters and in many roadshows over the past 10 months in order to plan for the ongoing uncertainty in the environment. We have done that this quarter.

We have adapted our dividend policy, without, however, changing ICL's value proposition as a strong dividend stock. Kobi will elaborate on this later as well. Actually, maybe next time, he should start the presentation because he's got all the good messages.

Let me talk a little bit about the business environment. Potash exports to China basically came to a halt. We didn't ship. In the ICL case, this had an impact on the mix of our businesses because most of the Chinese and Indian suppliers are made from the Dead Sea. So, we didn't supply anything from the Dead Sea to these markets. And the effect of this is that, in the mix of the potash businesses, the European mines have a higher portion. And therefore, it looks like our cost position has deteriorated.

This is not the case at all. Actually, it has improved. But, it's just a matter of mix calculation. Once we start shipping again in the second half of this year, this will be reversed. So, we will get all the benefits still into 2016 because contracts in both countries are very solidly in place.

It is important I think to remember in this context as well that ICL is able to stockpile product, potash product, especially in the Dead Sea. So, our production has continued at full scale, actually at very good and satisfactory levels, much above the rates of production before the strike. So, we have maintained a very high level of output there. This is going to put us into a position that, as soon as the markets open, to fulfill the requirements of our customers.

In phosphates, I have already mentioned that prices came under pressure as Chinese and Moroccan producers compete against each other in the global marketplace, the global marketplace which is not really growing.

If one observes Chinese exports of phosphates in the past two years, they have more than tripled, and looks like the Moroccans have run out of patience on this. And therefore, they have reacted. Chinese exports in the first quarter have come almost to a halt. So, whatever the Moroccans wanted to do, it has worked for them at least. But, it has put price pressure everywhere. And you can see it in our results.

We're a little bit proud -- although we're, of course, disappointed about the financial result, we're a little bit proud to see that we're still generating a reasonable profit in our phosphate business. And this shows that all of the efficiency work that we have done over the past three years in this business is working, and we can sustain even a tough period.

In the specialty solutions businesses, our bromine business is the star. The team in the bromine business has worked for the last three years on turning around this business. We can now see it solidly in the P&L.

The profits grew by almost 50% on relatively stable sales versus the same quarter in 2015. It was driven by sustainably higher elemental bromine prices in China, a spillover now also into higher derivative prices, significant contribution from efficiency measures in our compound site in Israel, but also the addition of new high-margin products, especially FR-122P, our new flame retardant replacing HBCD in insulation foams in Europe. The offtake of this product is going very, very nicely.

Our phosphate businesses, food additives and advanced additives look weaker than they really are. This is due to the fact that we've had two very, very weak months in January and February, a lot of special effects here.

One example is the phasing out of the dishwasher products in Europe that led to some inventory adjustments, but also to some price pressure of competitors who hadn't yet exited these markets. Also, our oil additives business was very weak in the first two months because the oil industry didn't produce as much lubricants.

But, those are seasonal effects. So, we're not so concerned about this. March and April already look much better in these two areas. Especially our food business is making very encouraging progress when it comes to the delivery of the new products. Also, the acquired protein products are doing very, very well.

In industrial products, once again, here, you see the data on slide 7. The strategy that we have put in place is successfully being delivered. Prices are up. New product sales are up. Efficiency contribution is up. And we think that this is very sustainable. This is despite a very, very weak quarter of clear brine fluids for the oil industry, because of weak demand here, of course. We were able to balance this out.

When we talk about our food business, you can see at least graphically on the right of slide number 8 that the new product sales are continuing to increase very nicely compared to 2016. It's still on a relatively low level. So, from an overall ICL perspective, this doesn't rock the boat yet.

But, the applications are very encouraging because they're all going into new modern areas, such as catering to vegetarians and flexitarians, such as catering to the sport nutrition and lifestyle drinks, such as catering to the convenience in the global food market, such as cheese production, and so on. So, we're happy with the progress we do.

Even in difficult markets like Brazil, our food business is doing quite well. We have opened two research centers in the last six months, one in the US and one in Brazil, both of them with very large customer participation, with large food producers with whom we didn't have historic long connections with very exciting new products. So, we finally see a good turn and delivery in our food business.

With this, I want to pass onto Kobi, who will give you the explanation on the financials. And then we're happy, of course, to go into Q&A.

Kobi Altman: Thank you, Stefan. Good day, everyone.

The first quarter of 2016 highlighted, we believe, the importance of our backward-integrated value chain strategy, as the downstream specialty businesses showed a much better resilience, partially compensating the significant slowdown in the essential minerals businesses, which was driven, as Stefan explained, by depressed global markets. Our continued operational excellence program initiatives contributed to a stronger operating base.

Let's take a look into this quarter main results. Please note that, in these two bridges as well as in the following bridges of the potash and industrial product segment, we separated the 2015 strike impact on sales and operating profit in order to simplify your analysis, make the picture maybe a little bit clearer, but also from our perspective to show you an even more challenging comparison because you would see the impact of the quantities and the prices, not versus what was the real actual results of Q1 of last year, but more comparing to kind of a normal quarter in the 2015 view.

Our financial results mostly suffered from the lower sales volume. You see here the numbers, especially in the potash and the phosphate fertilizers and adjusted operating income, again mainly impacted by the lower sales volume and the prices -- all the numbers go to the bottom line, and on the quantities more or less 50% of that goes directly to the bottom line.

I would just like to note that we still don't see the full contribution of the lower raw material prices. And this will help to offset some of the negative impact from the prices in the following quarters on the green side.

The high operating cash flow is largely due to decrease in working capital, mainly as a result of strong collections we had during this quarter, following the strong sales in Q4 2015, offset or partially offset by increase in inventories due to the continued production at normal levels as we are getting ready for the markets to be open hopefully soon.

We are in the middle of executing our cash flow optimization plan that we announced in order to support our cash flow in the future quarters. CapEx level this quarter is consistent with our target of not to exceed $650 million this year and next year as well.

Free cash flow is a simple calculation of operating cash flow net of dividend and net of CapEx, and it was positive at $38 million. And we see first signs of our operating cash flow optimization project.

Moving now to the sales by business unit, you see here the main contribution of our specialty solution division in the various business units and, on the red, obviously the potash and as well as the phosphate. In the purple box here, you see the divestitures. Last year, we still had some non-core activities that we sold towards the end of the quarter. And this is still impacting us. From next quarter, you will probably not see this impact.

I think that the next slide, slide 12, is very interesting slide. Like last year, on the sales side, not a significant change. We are already -- more than half of the Company sales are coming from the Specialty Solutions, and already less than half is coming from the Essential Minerals.

The operating income picture is very, very different. You see here Q1 2015 versus this quarter. Maybe not for the right reasons, we were hoping to have better results on our commodities. But, you see here that, really, the contribution of our integrated value chain strategy is helping us to offset the significant challenging business environment that we are facing today on the commodities side.

Moving to the various units, let's start with the potash. Again, you see here very, very clearly the significant impact of prices year over year as well as the volume, the significant reduction in volume that we sold this quarter. And again, we put the strike impact in order to show you even a more challenging comparison. So, it's not the real picture we saw last year, but to a kind of a normal quarter that we were expecting last year to see.

And obviously, on the operating profit, it's even more severe, so only $27 million of operating income from our potash business units. However, I will say that it's very important to mention that all our sites are profitable. And this is due to our operational excellence activities that we've done in the last 2.5 years that are helping us also in this very challenging environment to be profitable in all our potash sites.

Phosphates, Stefan explained the challenging business environment. I would just mention here, and you see it on the green on the sales but on the red in the operating income, the YPH JV. We are consolidating it so, versus last year, it's contributing to sales, but unfortunately, not yet a positive contribution to the bottom line because of the current business environment.

We are working very hard on our operational excellence measures, the efficiency measures, and the synergies that are planned that we put in place for the YPH to cope with this challenging business environment and to bring them back to the positive picture.

Industrial products, you see the reduction in the volume which is mainly coming from the clear brine fluid that decreased versus 2015, which was a record year in this product. However, on the profit, you see the contribution of our price initiatives as well as the cost-cutting initiatives which are really contributing. And very, very encouraging results are coming from this segment this quarter.

Performance products, more or less, the story is the divestitures here seen again versus last year. This is the main reason for the change in the top line. On the bottom line, more or less, the volume mix or less profitable product mix that we had this quarter was offset by the saving initiatives and price initiatives that we did. So, the net-net difference versus last year is really the divestitures.

We are on track to achieve $400 million of savings by the end of this year. This is our enhanced target that we put in place a few months ago. And these quarter results further demonstrate the importance of this plan.

We are working on measures to reduce our G&A expenses. And the new organizational structure is a step in that direction, that will enable us to take even better control on the expenses and achieve further synergies that are so important in the current business environment.

Moving in the last two slides to some more financials and capital allocation topics, in April, we successfully completed the placement of our debentures in Israel of about just over $400 million in a very attractive rate for the Company. This clearly demonstrates the continuing confidence of the Israeli capital market in ICL financial strength and the Company's strategy, focus, and direction.

The bond issuance is not an increase to our total debt. This is a refinancing. We are in a period of market uncertainty, and we decided to free up credit lines and replace them with long-term loans. Note that the 2016 amount here in this graph that shows you our maturity picture is not really something we are going to pay in 2016. This is just representing a revolving debt.

Moving on the last slide to capital allocation approach, I want to conclude by reiterating our capital allocation views. The fundamental layer in our capital allocation strategy is, first and foremost, securing the financial health of the Company.

Excess cash flow, we are optimizing or balancing the usage of that between three components, long-term value creation in order to achieve our growth targets, managing our debt level, and maintaining our high shareholders' return through a healthy dividend distribution policy. As a result, we decided to adopt a new dividend policy of up to 50% of adjusted annual net income compared to 70% of net income that we had previously.

For this quarter, we announced $35 million, which is lower than the 50% of adjusted net income due to our short-term cash requirements in this quarter. The new dividend policy will provide enhanced predictability for you, as you will not have to estimate the one-time expenses in order to calculate the dividend. And we believe it will still provide very nice and adequate returns.

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

Operator: Stephanie Bothwell, BofA Merrill Lynch.

Stephanie Bothwell: Thanks. Good afternoon, and thanks for taking my two questions. Just firstly on your China phosphate JV, which reported a loss in the quarter, you commented earlier on the call that you are taking remedial actions there to address that. But, I wonder if you could give us perhaps a sense of your expectations for the full year.

If we don't see any improvement in China domestic demand and prices continue to be relatively low, can you give us a sense of what we should expect for the rest of the year. I'll start with that one. Thanks.

Stefan Borgas: Yes, thanks for the question, Stephanie. We expect the prices in China not to improve for the rest of the year. On that basis, we have drafted or put in place an accelerated improvement plan. We would expect to turn slightly profitable in the third quarter and then more or less come out with a black zero or a red zero, depends a little bit how the last quarter goes until the end of the year. But, we want to be profitable with this joint venture in a point in time at the end of this year.

Stephanie Bothwell: Okay. Thanks. That's helpful. And my second question was on your costs for the remainder of the year. So, your operating margin in Q1 was obviously negatively impacted by the fact that you had lower shipments from the Dead Sea.

If we look ahead to Q2, and assuming that we don't have higher sales volumes going to China, given that the contract is yet to be settled, should we anticipate that unit costs in potash in the second quarter should be at a similar run rate to what we had in Q1?

Stefan Borgas: Yes, you're absolutely correct because China and India are still closed in potash. Q2 will look very similar to Q1. And then of course, it will turn completely in the opposite direction once the shipments to these markets resume. It's sitting there. It's valued now at production cost inventory, variable production cost inventory. That's why you don't see a dramatic increase in working capital. So, as soon as these volumes are shipped, you will see all of the impact of the cost improvement that we have done.

Stephanie Bothwell: Okay. Thanks. I think that's my two questions. So, I'll stop there. Thank you.

Stefan Borgas: All right.

Operator: Sophie Jourdier, Liberum Capital.

Sophie Jourdier: Afternoon. First question on the potash industry. Obviously, you've got a lot of customers out in China that you're not shipping to at the moment. But, presumably, you're still in contact with them. I just wondered what intelligence you're picking up from them as to their need for potash and as to your view on how the year's likely to progress in terms of China's shipments. That's the first question.

And I'll ask the second question now. You mentioned in the press release that there's new European fertilizer legislation coming in with regards to polymer coatings on controlled-release fertilizers. I just wondered whether you could give us a bit more detail on that and also whether you can quantify how much affected fertilizers -- I guess, how much controlled-release fertilizers are as part of your specialty fertilizers business. Thanks.

Stefan Borgas: Yes, okay. So, the expectations we have for China are around what I said before. We would expect the price settlement between the big producers and the big importers to happen in June and we expect that because one level further down in the market, companies are starting to run very, very low on inventory.

So, I think the country's ready to move forward. Nobody apparently has an interest now on delaying this much more. That's how we see it. But, again, we're a little guy in the market. So, we only have the overview that we have. Therefore, we think that the second half will be in a catch up mode.

The polymer coating issue in Europe is an issue around environmental sustainability of the coating material. Actually, it's good news for us because we are developing products that are going to help to fulfill this new regulation. This is very early on in the discussion. There's no real solution.

There's not really even a definition in detail. What actually does it mean - biodegradable polymers? There's no technical way to measure it at this point in time. This is the level of the discussion right now, so not very meaningful to talk about quantification now.

We are just launching E-Max technology in Europe, which will give us significant cost reduction. And we see very nice uptake of this technology. We're launching this in Europe. And we will launch it in China later this year as well.

So, this is a part of the business that we're actually pretty excited about because we have a world-leading position here from the technology perspective as well as from a market perspective.

Sophie Jourdier: Okay. Thank you.

Operator: Matthew Korn, Barclays.

Matthew Korn: Hi, good day, everyone. Thanks so much for the time. Let me ask a little bit on industrial products. It seems as though everything outside of brine fluid is trending quite well. I'm wondering whether this quarter shows already most of the full negative hit on brine fluid sales that you'd expected or whether there's still some downside sale to risk quarter to quarter from here.

Stefan Borgas: Well, to take one quarter as a normalized average of the year in a business segment that's part of a business unit is very dangerous because two, three orders of a customer can always change the quarterly result. It's not that large of a business. It's 15% of our bromine business. Bromine business is about two-thirds of this division. So there's a significant reduction compared to last year.

We would think now that we're at the reduced level. But, it could very well be that, next quarter, we have a 10% increase or a 10% decrease, but this is more due to the volatility of one quarter to another.

Matthew Korn: Then let me ask this. And I'm very interested in your plans on the efficiency measures there with the Chinese JV which are going to push through which are causing it to accelerate. The question is whether you're planning any kind of job reductions, if there are any type of pushbacks or limits on your ability to actually make those happen. And then if you could spend maybe a little bit more time on explaining what the creation of this new marketing organization will actually entail. Thanks.

Stefan Borgas: Yes, we have actually about 450 full time employee reduction planned in this joint venture. This is fully supported by our partners. We have a plan on how to do this. This is not a radical cut from one moment to another. We will do this slowly month by month, very well supported. It's going with very little noise. So, we're very happy about the support that we have here.

But, people reduction is only one part of it. A much bigger part of the efficiency improvement is the actual operational improvements, eliminate truck transportation from the mine to the plant, replace it with a pipeline, improve the throughput of some of the plants, and improve the quality of some of the plants so that we can get better pricing in the market.

So, there's a whole series of these kinds of measures. And we're accelerating this as much as possible. But, I must say the support from our partner is just outstanding.

It continues to be really, really great. They follow our lead. And they're actually trying to learn from us for their own operations as well.

The creation of the marketing organization, as you can imagine, of course, takes more time because we need to hire people. We're at a level of about 60 commercial professionals now in this organization. We started from pretty much zero in October last year. And then those people need to be trained. They need to learn the products. They need to go to the customers. The customers need to make trials.

So, until the specialty products really make it into sales, then takes the trial cycle of the customer. So, we will not see very much of a sales effect until probably the middle of next year because of the buildup of this commercial organization.

And therefore, in the meantime, we have added a work track to go to what we call semi-specialty products which are not so difficult to sell from an agronomic perspective, but they add a little bit of value compared to the pure commodities that have been sold from this site in the past.

We're also having a branding initiative here because we're adding the ICL quality image to the portfolio of these sales. We have to be careful with this, of course, because we can only add the ICL quality stamp for those products that really have ICL quality. This is not yet in every product that is produced there. But, that's another activity.

Matthew Korn: Great. That's very helpful. Good luck to you.

Stefan Borgas: Thank you.

Operator: Vincent Andrews, Morgan Stanley.

Neel Kumar: Hi, good morning. This is Neel Kumar calling in for Vincent. I had a couple of questions about potash. Can you first talk about how the transition of your UK mine from potash to polysulphate has been progressing? And then also, what are your expectations for potash global demand for the full year?

Stefan Borgas: Okay. Global demand for the full year, demand from farmers should be pretty much the same than last year, maybe even a little bit better because, last year, the big disappointment on the demand side, on the usage side, was India because of the weak monsoon triggered by El Nino in the Pacific.

So, actual consumption, potash consumption, should be better than last year. And now, if you look at shipments and only the calendar year because of the weak first half, we might be a little bit lowered shipments. But, I think this is scheduling. So, I'm not so worried about this.

The UK transformation is moving quite nicely. We're planning to double our sales again in the UK this year for polysulphate. We're nicely on track to do this. Last year, we sold about 120,000 tons. So, this year, we should double this. Hopefully, we could do a little bit more even than that.

The product is very well taken up. Of course, it is also impacted by the potash pricing. So, pricing, of course, on polysulphate also is down because the nutrients are valued at the individual nutrient degrees.

The cost reduction, which is the other part of the transformation in the UK, the first phase of this cost reduction has been completed. All of the people who we had to let go have left in the meantime. These are tough times. And the mine in the meantime is back into a stable operation. Actually, from an output perspective, this mine was above budget in the first four months of this year, which shows us that, operationally, this is well managed now.

Neel Kumar: Great. Thanks.

Operator: Yonah Weisz, HSBC.

Yonah Weisz: Hi there. It's Yonah Weisz from HSBC.

Stefan Borgas: Hi, Yonah.

Yonah Weisz: A question perhaps on your dividend, which you have reduced to a maximum payout of 50%. I'm wondering what the decision dynamic wise between cutting the absolute cap and just stating for one or two years that, instead of 70%, we'll pay 50%. And what is the potential for that 50% cap to return back to 70% in the future?

Stefan Borgas: Kobi?

Kobi Altman: Yes, hi, Yonah. The way we looked at that is we were trying to balance the approach toward the dividend in a period or in a quarter where still the market uncertainty is quite big before the market opens in China and India.

So, the approach that we were taking is to continue to link it to earnings. We choose the 50% as we believe that this amount over the next few quarters will be sufficient, on one hand, to maintain our debt level, so that the debt level will start to at least not go up and continue with a very good dividend payout.

So, this is why we took the 50%. Again, we said that we will relook at that once the market conditions will start to stabilize. And we will examine that in the next few quarters again, following market conditions.

Yonah Weisz: Okay. And the second question, if I may, would be about current markets. With China and India silence during the first quarter and probably into the second quarter as well, you probably sold I assume most of your product into Europe and Brazil.

And I'm wondering if you could share some current color on how you see both markets, which are actually very divergent. Brazilian price is very low, Europe maintaining fairly high premium at the moment. How do you see that at the moment and developing throughout the second quarter?

Stefan Borgas: Europe is relatively stable. It's calm. But, as you said, it's a diversified market. And of course, we're kind of a local supplier. So, in addition to the commodity potash, we're adding a lot of either services or other products to this. So, we feel pretty good about stability in Europe.

In Brazil, we've had a very tough environment very early in the year, which then recovered in March, April timeframe. And instead of an additional recovery after that, it's kind of flattish somewhere in the $230-240 per tonne range.

We have also sold a little bit to the US, like in the past years as well. And in the US, we came from a much stronger pricing, but also now reaching these Brazilian levels over the course of the last weeks.

Yonah Weisz: Thank you very much.

Operator: Andrew Benson, Citi.

Andrew Benson: Yes, thanks very much. Just on the potash situation in China, you write on page 6 that imports are effectively -- in the first quarter are effectively flat on the prior year at nearly 2 million tonnes.

You have made perhaps -- tell me if I'm wrong here -- you have a contract which is about 1 million tonnes a year. And you haven't sold anything to them because the Russians and the Canadians haven't agreed on a price. And yet certainly someone is selling 2 million tonnes into China. So, I don't really understand why you're not selling anything when 2 million tonnes have gone into China in the first quarter.

On the phosphate situation, can you just give some more detail there? You -- in your preamble to start off with, you gave some issue about the dynamic between Morocco and China. I wonder if you could just explain that a little bit.

And if I can sneak in a third question, you do sell fire suppressants. There seems to be a monster fire in Canada. Is that a significant event for you that we should note for the second quarter?

Stefan Borgas: Okay. Let me start with the potash situation in China. You're a little bit falling into the trap of the timing of customs statistic because a big portion of these 2 million tonnes falling in the first two months, and they are imports from last year still.

So, the actual imports are really, really significantly down. As far as we know, the only people importing into China right now are the Russians through the rail. But, this is a limited quantity. So, inventories really are significantly down, as far as we can see and what we hear. Our Head of Sales is in China this week. And I spoke to him. And he confirmed this. So, there's pressure now on inventory in China.

What's happening on phosphate is the following. The Chinese phosphate producers have traditionally exported something around 5 million tonnes of commodity fertilizers, DAP, MAP, TSP, on average over the course of the last years, if you go back to 2007, something like this, a big part of this to Brazil, a big part to India, and then a little bit to other places around Southeast Asia as well.

Then in 2014, suddenly these quantities went from 5 million to 8 million and, in 2015, to almost 12 million tonnes. And this took market share away, of course, from the Moroccans. The reason why the Chinese did this is because the growth inside China came a stop because of the agricultural policies that have changed in the last two years in China, no more increase of nutrient consumption.

So, they redirected these volumes. And the Moroccans are just fed up I think, to put it bluntly, and have reduced the prices. So, exports now of Chinese DAP, MAP, and TSP in the first quarter was less than 1 million tons. If you calculate that for the year, this would be 4 million tonnes for the year, basically nothing to Brazil and just very small quantities to India. So, that's the situation on the phosphates.

And we've had these kinds of events before. The question is now, what will the Moroccans and Chinese do? And if they continue this skirmish, the pains will continue for a while. If everybody learns their lesson, then there's an opportunity for a slight decrease of the pressure. But, I wouldn't dare to forecast when this will happen at this point at least.

In Canada, the forest fires, shocking pictures actually, but we're doing everything we possibly can in order to help. We have three service sites around this fire. Our people are working day and night. One of our sites actually was almost caught by a fire as well. We had to extinguish the fire at our site, which we managed to successfully do. So, the site's back in operation. Yes, we're very heavily engaged there. And hopefully, in the next few weeks, we can help to extinguish this. But, it's a noticeable event for us.

Andrew Benson: Sorry, but can I just go back to the first question? And perhaps I was asking from a wrong point of view. And thanks for clarifying that that 2 million was actually orders placed in the end of 2015. So, that's clear. But, you do have your own contract to supply. So, is it simply that you don't want to agree price until other people have agreed price? Why?

Stefan Borgas: No, there's an import stop by the Chinese authorities, a still centrally controlled country. And as long as there's no centrally agreed price, nobody can import. Simply, we don't get an import license. The contracts are in place. Our customers need the material eventually. They have the full commitment to take it. That's why we're relatively relaxed for the second half of the year. But, we can just not legally import.

Andrew Benson: Okay. Understand. Thanks.

Stefan Borgas: Thanks, Andrew.

Operator: Nina Dergunova, Goldman Sachs & Co.

Nina Dergunova: Hi, everyone. Thank you for the call. Well, most of my questions have been answered already. Just a short follow up on the dividend policy. You mentioned that the new dividend implies payment of up to 50% of adjusted net income. What adjustment does this imply? What items could be eliminated? Thank you.

Stefan Borgas: Kobi?

Kobi Altman: Yes, this is Kobi. We will adjust the regular adjustments that we have done historically, so noncash provisions, impairment of assets, and those types of things, the regular adjustments that we are presenting you every quarter. And the payout will be out of the adjusted net income. And we believe that this will provide you an enhanced ability to predict our results and to calculate the actual dividend payout.

Nina Dergunova: That is perfect. Thank you very much.

Operator: Gilad Alper, Excellence Nessuah Research.

Gilad Alper: Thanks for taking my call. I hope my question hasn't been asked before. But, I don't think you spoke in your comments about any kind of developments in Israel because there are a lot of outstanding issues with the government, with the concession in 2030, maybe other issues.

Is it that the potash market is so bad that you don't even deal with those issues at the moment, or is it just nothing is happening, and there are no ongoing negotiations with the state at the moment? Thanks.

Stefan Borgas: Gilad, I very much appreciate the question. No news is good news actually in this case. A lot of work is being done on the concession topic, on the Barir topic, on some of the others as well. But, it's happening on a professional level. A lot of data is being exchanged. A lot of understanding is being looked for. And this actually is really the way it should be done because these issues have to be solved. It's moving forward slowly, slowly, but steadily, and on a professional level and not through a public discussion anymore. And once there's a resolution, you can rest assured that we will let you know.

Gilad Alper: Okay. Thanks.

Operator: Rosemarie Morbelli, Gabelli & Company Inc.

Rosemarie Morbelli: Thank you. Good morning, everyone. Stefan, I was wondering if you could go a little bit more in depth on the bromine side of the business. There have been some price increases in China recently, as you know. But, there is also a return to production. And do you think that these particular price increases can hold on, can actually go higher?

And at the same time, if you could talk about the markets, I know mercury removal is supposed to be using a little more. But, if you could quantify that and give us a feel for the electronics industry as well?

Stefan Borgas: Okay. Let me summarize it. And then maybe, when we meet, we can go more into detail. The prices that were increased, you can see it on slide 7 of the presentation that we have on the Website. The prices that went up in China for elemental bromine, we expected them actually to weaken in the second half because that's what always happens in the spring and in the summertime because production rates go up in China. It didn't happen.

Why did it not happen? We are not 100% sure because this is just a recent event. But, it looks like there are environmental pressures and sustainability topics in China from the enforcement perspective that give Chinese producers an incentive to keep prices where they are so that they can pay for all of this probably on an ongoing basis.

So, we are carefully optimistic that these price levels currently will be able to be maintained. They're, by the way, higher than we expected. They are making their way through now into the bromine compounds prices, because of higher volumes, we might see a bit of a softening in some of the large products in the third or fourth quarter because inventories have moved up. But, that shouldn't be a dramatic effect.

Then we have sales of new products, such mostly driven by the flame retardant FR-122P in the construction market. We have a smaller product also launching, but it doesn't have a big sales impact yet. Electronic sales are relatively stable. Oil drilling sales are very, very weak. And mercury control sales are stable at the level of, let's say, run rate second half of last year.

Rosemarie Morbelli: Okay. And when we look at FR-122P, what kind of a demand do you see in that particular market? At the moment, everyone is replacing HBCD by the polymerized -- however you pronounce that -- flame retardant. But, once all of the producers of the insulation have caught up and have transformed their operations, what kind of a long-term growth rate do you see for that demand?

Stefan Borgas: So, that isn't expected to happen until the end of 2017 probably. And remember, this is only Europe because the regulations are only in effect in Europe. We're starting to get the first inquiries for this product from Asia, where there's also a big styrene foam insulation market and where HBCD is still used to a large extent. This should then be the next frontier, to put it that way.

And some countries are starting to catch up. We're selling small quantities to Asia already because some of these producers are exporting to Europe. And so, I think we'll have some positive developments there once we are able to convince customers that this is really a great product.

Rosemarie Morbelli: Thank you. And if I could ask a question on the food side, what are the main applications on the protein side, protein drinks? Are we talking about liquid yogurt, or are we talking about other kind of protein drinks?

Stefan Borgas: No, protein drinks, the protein drink applications, the new ones that we're working on are mostly clear drinks. On the regular sports drink, this is pretty commoditized. This is not so interesting. But, then it's still very, very small. It just shows our innovation capability.

Operator: Kevin Whyte, VTB.

Kevin Whyte: Hi, yes. Thanks for taking my question. Just wanted to ask if you could put some kind of quantification, some numbers and targets, in terms of your leverage, and considering if you have to adjust your business plans, how -- when you would start to affect either CapEx plans or further change your dividends. So, if you have any leverage targets, for example, that would be good. Thank you.

Stefan Borgas: Let me turn it to a more detailed answer to Kobi. But, just from a general perspective, we have -- if you go to the last slide in this presentation, we are trying to balance three factors here. This is the leverage, the loans. It is the growth of the Company, which is reflected in CapEx, of course. And it’s the debt level.

We have already addressed the CapEx by reducing actually from last year to this year. And then we put an emergency plan in February when we saw the Chinese situation and put an additional cash flow optimization that Kobi mentioned in his presentation.

We have already also addressed the debt level by announcing after the first quarter that we were not going to increase debt in absolute terms in 2016. And now, we have addressed the third portion, which is the dividend. And with this, we should hopefully sail into the next six or eight quarters. Kobi, anything else?

Kobi Altman: Yes, maybe just to add a few more points, I think that the operational excellence, the cash flow optimization programs, and the CapEx cut that we did demonstrate our ability that we developed along the last few quarters to quickly adapt ourselves to the changing market conditions. And I think that this starts to bear fruit that starts to be visible.

Under our current plans and the forecast that we have, we don't currently see a need to do something in addition to the plans that we are already executing, as we speak. And again, with our target to contain the debt level at the level that you saw in slide 18 around 3.5 toward the end of the year, to maintain it, currently, we don't need to do something in addition to what we're already doing. But, we're obviously monitoring the situation on a weekly basis. And we will adapt as needed.

Kevin Whyte: And so, this basically comes on the assumption of market conditions and potash and phosphate, for example, remaining at the level of the first quarter, or what underlying assumption do you have?

Stefan Borgas: Well, the underlying assumptions are that prices will not recover very much from where they are, but potash volumes in the second half of the year will.

Kevin Whyte: Okay. Thank you.

Operator: Chris Kapsch, BB&T Capital Markets.

Chris Kapsch: Yes, hi, Chris Kapsch at BB&T Capital Markets in New York. I had a follow up on the industrial products business. Given the magnitude of the decline in the clear brine fluids, just wondering if you could elaborate how that decline affects the overall absorption variances or the cost accounting and therefore the mix of the broader bromine portfolio, if it does at all.

Stefan Borgas: It's not a major issue because we have a growth in the flame retardants, which are equally profitable.

Chris Kapsch: Okay. Are the clear brines relative to the other products, like, comparable or above average in terms of margin or profitability?

Stefan Borgas: No, they're a little bit more commoditized.

Chris Kapsch: Okay. And then also following up on your formal press release, you mentioned that, subsequent to the end of the first quarter, it sounds like there's been another leg up in bromine prices and this notion that you'd talked about also the migration into the derivative compounds.

Just wondering if you could quantify the order of magnitude of the most recent price increase as it plays out in your product portfolio and if you could talk about how much pricing you actually are seeing in the bromine derivative product at this point.

Stefan Borgas: Boy, you want me to make a quantification difference between what we have already seen in the first quarter and now the next step up. I can't tell you this. I have to go back. But, it's not dramatic as is reflected in the first quarter. It's not -- the numbers are not so dramatic.

Chris Kapsch: -- Okay. I'm just trying to get a feel for how much of this shifting from the pricing, just from elemental bromine is actually happening into more of the derivative products. Is that something that's just happening more recently, or is it -- has it benefited the results over the last couple quarters?

Stefan Borgas: Yes, last year, it has already started. We've already started to see it. So, it affects the derivative products that are produced in China, but already happened last year. And then that spills over to the rest of the world. But, the Chinese derivative prices were substantially below European and US derivative prices. So, the impact you see in these two large markets, which make up the bulk of our business, are not that dramatic. But, we've seen it already since the fourth quarter of last year.

Chris Kapsch: I see. Thank you very much. Appreciate it.

Operator: Thank you very much. That is the end of the Q&A session. Please continue.

Limor Gruber: Thank you, everyone, for joining us today. We will be happy to discuss further if you need. And we look forward to talk to you and see you soon. Have a good day.

Stefan Borgas: Thank you for listening.

Operator: Thank you very much. That does conclude the conference for today. Thank you for participating. You may all disconnect. Speakers, please stand by.

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