This is an English convenience translation of the original Hebrew version. In case of any discrepancy, the binding version is the Hebrew original.

**Israel Corporation Ltd.**

Form 121

Public

Registrar Number: 520028010
Securities of the Corporation are listed in the Tel Aviv Stock Exchange
Short name: Israel Corporation
Address: P.O.B. 20456, Tel Aviv 61204
Tel: 03-6844517, 6844500, Fax: 03-6844587
Email: MAYAAK@ISRAELCORP.COM

Date of Transmission: June 21, 2016

Reference: 2016-01-053673

| To: | To: |
|---|---|
| The Securities Authority | The Tel Aviv Stock Exchange |
| www.isa.gov.il | www.tase.co.il |

## Immediate Report

The Event: ICL - Rating Reports

Attached is an immediate report of Israel Chemicals Ltd.

The date when the event first became known to the corporation: June 20, 2016 Time: 19:00

The name of the authorized signatory to the report and the name of the authorized electronic signatory: Maya Alcheh-Kaplan
Position: Vice President, General Counsel and Company Secretary
Date of signing: June 21, 2016

Standard & Poor's
Maalot
S&P Global

# Israel Chemicals Ltd.

**June 20, 2016**

## Research Update

# 'ilAA' Rating Affirmed; Outlook Stable

**Primary Credit Analyst**
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# Research Update
# 'ilAA' Rating affirmed; Outlook Stable

## Summary


- Due to weak market conditions and debt increase on the back of an investment in a phosphate joint venture in China, we currently forecast the adjusted debt to EBITDA ratio for Israel Chemicals Ltd. ("ICL") at approximately 3.0x-3.5x in 2016 and at approximately 2.5x-3.0x in 2017.
- In reaction to challenging market conditions and in an attempt to strengthen its financial position, ICL has decided to implement several measures, including modifying its dividend policy, cutting costs, and reducing capital expenditure (capex). We believe that the measures the company has taken and the ones it is expected to take will reduce its leverage in the medium term, provided that market conditions do not deteriorate further.
- In our opinion, ICL's credit profile is strong compared to companies in the same rating category, and is among the strongest of S&P Maalot-rated companies.
- We affirm the 'ilAA' rating on fertilizer and specialty chemicals producer Israel Chemicals Ltd.
- The stable outlook reflects our assessment that ICL will maintain its business position and present coverage ratios commensurate with the current rating, i.e. adjusted debt to EBITDA of about 2.0x-3.0x.


## Rating Action

On June 20, 2016, Standard & Poor's affirmed the 'ilAA' rating on fertilizer and specialty chemicals producer Israel Chemicals Ltd. The Outlook is stable.

## Rationale

The affirmation reflects our assessment that despite the weakness in market conditions and given the measures ICL is implementing, the company will be able to maintain coverage ratios commensurate with the current rating, namely a debt to EBITDA ratio of about 2.0x-3.0x. The affirmation also reflects our assessment that despite the recent deterioration in the company's operating performance, its credit profile is still strong compared to local companies in the same rating category, and is among the strongest of S&P Maalot-rated companies.

Following the continuous weakness in the fertilizers market, we have revised down our forecasts for ICL's cash flow generation over the next two years. The price of potash has been under pressure because of an ongoing supply-demand imbalance, stemming from the arrival of new capacity and inventory accumulation in major markets during 2015. In addition, until the recent recovery in crop prices, farmers' incomes were under pressure, which hampered their ability and willingness to acquire fertilizers. ICL's average free-on-board (FOB) selling price per ton of potash in the first quarter of 2016 was $235, down from $280 in 2015. Although we expect potash price to remain relatively stable in the near future, we recognize that a key risk remains in the form of the additional industry capacity coming on stream in the next couple of years. In addition to the relatively low selling price, low potash shipment volumes, particularly in China and India, weighed on ICL's operating performance in the first quarter of 2016, due to the high level of inventory and the delay of the contract with China, which is one of ICL's main markets and usually has significant influence on the general price dynamic for the entire industry.

In addition to the adverse effect of weakened operating performance on leverage, ICL's debt increased in the first quarter of 2016 on the back of the completion of the $450 million investment in a joint venture (JV) in China with Yunna Yuntianhua which includes mining phosphate rock and manufacturing, marketing, and distributing downstream phosphate products, and purchasing of 15% of its JV partner's shares. The JV will provide ICL with access to vast reserves of low-cost phosphate rock and strengthen its position in the global phosphate market, which we view as positive. However, given the challenging market conditions and relatively low efficiency of the operation, we expect the contribution to EBITDA from the new joint venture to be limited in 2016 with a gradual increase in 2017 and 2018.

In reaction to challenging market conditions and in an attempt to improve its financial position and reduce leverage, ICL has decided to implement several measures, including modifying its dividend policy (in 2016 and 2017 up to 50% of the adjusted net profit will be distributed, compared to 70% in previous years), cutting costs, and reducing capital expenditure (capex). We intend to continue monitoring the additional measures management plans to implement in order to improve its coverage ratio and general financial position. We estimate that the measures the company has taken and the ones it is expected to take will reduce its leverage in the medium term, provided that market conditions do not deteriorate further.

**In our base case for ICL, we assume:**

- An average FOB selling price per ton of potash of $230-$250 in 2016 and 2017.
- Total potash shipments volume of about 4.0 million-4.2 million metric tons in 2016 and about 4.2 million-4.5 million metric tons in 2017.
- Capex of $650 million in 2016 and 2017.
- A dividend payout of up to 50% of net profit.

**Based on these assumptions, we arrive at the following credit measures:**

- Adjusted FFO to debt of 20%-25% in 2016 and 25%-30% by the end of 2017.
- Adjusted debt to EBITDA of 3.0x-3.5x in 2016 and 2.5x-3.0x in 2017.

## Liquidity

We consider ICL's liquidity to be adequate. We estimate that the ratio of sources of liquidity to uses of liquidity will exceed 1.2x over the next year. We estimate that the company has good access to the banking system and to the Israeli and global capital market. ICL's liquidity profile is also supported by current long-term committed credit facilities of $1 billion.

ICL's principal liquidity sources and uses, as of March 31, 2016, for a period of 12 months, include:

| Principal Liquidity Sources | Principal Liquidity Uses |
|---|---|
| • Cash and cash equivalents of $212 million;<br>• Available long-term committed credit facilities of $550 million;<br>• Operating cash flow of about $850 million-$950 million per year;<br>• Debt issuance of $435 million in April 2016. | • Maturing long-term debt of $14 million until year-end 2017;<br>• Repayment of uncommitted short-term loans and credit lines, including securitization of about $670 million;<br>• Capex of $650 million in 2016 and 2017;<br>• A dividend payout of up to 50% of net profit;<br>• Repayment of long-term committed facilities of about $450 million in April 2016. |

## Outlook

The stable outlook reflects our assessment that ICL will maintain its business position and present coverage ratios consistently commensurate with the current rating, namely, adjusted debt to EBITDA of about 2.0x-3.0x. The stable outlook also reflects our expectation that ICL will generate positive operating cash flows in the upcoming years, and that the measures taken by management will mitigate the increase in leverage.

### Downside Scenario

We may consider a negative rating action if the company continuously deviates the abovementioned debt coverage ratio. This could happen if operating performance is significantly weaker than our estimate, whether because market conditions continue to deteriorate or because measures the company has taken to improve its leverage are ineffective.

### Upside Scenario

We may consider a positive rating action if the company's financial risk profile improves, as reflected in a debt to EBITDA ratio continuously lower than 2.0x, while the current business risk profile and liquidity profile remain unchanged (or improve).

## Modifiers

- Diversification/Portfolio effect: Neutral
- Capital structure: Neutral
- Liquidity: Neutral
- Financial policy: Neutral (no impact)
- Management and governance: Neutral
- Comparable rating analysis: Neutral

## Related Criteria And Research

- National And Regional Scale Credit Ratings, September 22, 2014
- Corporate Methodology, November 19, 2013
- S&P Global Ratings' National And Regional Scale Mapping Tables, June 1, 2016
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, December 16, 2014
- Standard & Poor's Ratings Definitions, February 1, 2016
- Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, October 24, 2013
- Key Credit Factors For The Commodity Chemicals Industry, December 31, 2013

| Rating Details (As of 20-June-2016) | |
|---|---|
| **Israel Chemicals Ltd.** | |
| **Issuer rating(s)** | |
| Local Currency LT | ilAA/Stable |
| **Issue rating(s)** | |
| Senior Unsecured Debt | |
| Series E | ilAA |
| **Issuer Rating history** | |
| Local Currency LT | |
| 06-Oct-2014 | ilAA/Stable |
| 11-Dec-2013 | ilAA+/Negative |
| 04-Aug-2013 | ilAA+/Watch Neg |
| 05-Aug-2010 | ilAA+/Stable |
| 27-May-2010 | ilAA+/Watch Neg |
| 02-Sept-2009 | ilAA+/Negative |
| 22-April-2009 | ilAA+/Stable |
| 09-Feb-2009 | ilAA+/Negative |
| 12-May-2008 | ilAA+ |
| 03-Dec-2007 | ilAA+/Stable |
| 15-Dec-2004 | ilAA |
| 01-Dec-2001 | ilAA- |
| **Other Details** | |
| Time of the event | 20/06/2016 15:10 |
| Time when the analyst first learned of the event | 20/06/2016 15:10 |
| Rating requested by | Issuer |

**Credit Rating Surveillance**
S&P Maalot conducts surveillance activities on developments which may affect the creditworthiness of issuers and specific bond series which it rates, on an ongoing basis. The purpose of such surveillance is to identify parameters which may lead to a change in the rating.

S&P Global
Ratings

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## Research Update:

# Israel Chemicals 'BBB' Ratings Placed On CreditWatch Negative Due To Weaker Credit Metrics

**Primary Credit Analyst:**
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**Research Update:**

# Israel Chemicals 'BBB' Ratings Placed On CreditWatch Negative Due To Weaker Credit Metrics

## Overview

- Due to weak market conditions, we now forecast that the credit measures of Israel Chemicals Ltd. (ICL) will be below the levels we view as commensurate with a 'BBB' rating in 2016 and 2017.
- Over the coming weeks, we will review management's plans to improve credit metrics on top of the various steps it has already implemented.
- We are placing our 'BBB' ratings on ICL on CreditWatch with negative implications.
- The CreditWatch placement reflects the fact that we could lower the ratings if debt-to-EBITDA leverage remains higher than 2.5x and we conclude that management's actions will not be sufficient to reduce leverage to the level we view as commensurate with the current rating.

## Rating Action

On June 20, 2016, S&P Global Ratings placed its 'BBB' corporate credit rating on fertilizer and specialty chemicals producer Israel Chemicals Ltd. on CreditWatch with negative implications. We also placed our 'BBB' ratings on the company's senior unsecured debt on CreditWatch negative.

## Rationale

The CreditWatch placement reflects the high likelihood that, due to weak market conditions, ICL's credit metrics will be below the level we view as commensurate with a 'BBB' rating in 2016 and 2017. We currently forecast an S&P Global Ratings-adjusted ratio of debt to EBITDA of 3.0x-3.5x in 2016, recovering to 2.5x-3.0x in 2017, which is weaker than our threshold for the current rating of 2.5x or below. The CreditWatch placement also reflects the potential that the various steps that have been and will be implemented by ICL's management could enhance its credit metrics and its overall financial standing.

The fertilizer market environment has weakened materially over the last few months. Consequently, we have revised down our forecasts for ICL's cash flow generation over the next two years. We consider that the price of potash has been under pressure because of an ongoing supply-demand imbalance, including the arrival of new capacity and inventory accumulation in major markets during 2015. In addition, until the recent recovery in crop prices, farmers' incomes were under pressure, which hampered their ability and willingness to acquire fertilizers.

ICL's average free-on-board (FOB) selling price per ton of potash in the first quarter of 2016 was $235, down from $280 in 2015. Although we expect potash price to remain relatively stable in the near future, we recognize that a key risk remains in the form of the additional industry capacity coming on stream in the next couple of years, notably from K+S, Eurochem, and other competitors.

Relatively low potash shipment volumes, particularly in China and India, weighed on ICL's operating performance in the first quarter of 2016. This was directly related to the high level of inventory and the delay of the 2016 contract with China, which is one of ICL's main markets and usually has significant influence on the general price dynamic for the entire industry. We expect potash shipment volumes to recover in the second half of the year, reaching 4.0 million-4.2 million tons by year-end 2016 and 4.2 million-4.5 million tons in 2017.

At the same time, ICL's debt increased in first-quarter 2016 on the back of the completion of the $450 million investment in a joint venture (JV) in China with phosphate producer Yunna Yuntianhua and purchase of 15% of its JV partner's shares. The new JV is engaged in mining phosphate rock and manufacturing, marketing, and distributing downstream phosphate products. The JV will provide ICL with access to vast reserves of low-cost phosphate rock and strengthen its position in the phosphate market, which we continue to view as positive. However, given the challenging market conditions and relatively low efficiency of the operation, we expect the contribution to EBITDA from the new joint venture to be limited in 2016 with a gradual increase in 2017 and 2018.

In reaction to challenging market conditions and in an attempt to reduce leverage, ICL has decided to implement several credit-enhancing measures, including modifying its dividend policy, cutting costs, and reducing capital expenditure (capex). Over the coming weeks, we will review management's plans to enhance ICL's credit metrics and its overall financial standing on top of the various steps ICL's management has already implemented.
In our base case for ICL, we assume:

- An average FOB selling price per ton of potash of $230-$240 in 2016 and 2017.
- Total potash shipments volume of 4.0 million-4.2 million metric tons in 2016 and 4.2 million-4.5 million metric tons in 2017.
- Capex of $650 million in 2016 and 2017.
- A dividend payout of up to 50% of net profit.

Based on these assumptions, we arrive at the following credit measures:

- Adjusted FFO to debt of 20%-25% in 2016 and 25%-30% in 2017.
- Adjusted debt to EBITDA of 3.0x-3.5x in 2016 and 2.5x-3.0x in 2017.

### Liquidity

We consider ICL's liquidity to be adequate. We base our liquidity assessment on our estimate that the ratio of sources of liquidity to uses of liquidity will exceed 1.2x over the next year. In addition, ICL has a relatively flat maturity schedule, it has demonstrated good access to financing from global and Israeli financial institutions, and it currently has available long-term committed credit facilities of $1 billion.

In our base case, ICL's principal liquidity sources include:

- Cash and cash equivalents of $212 million as of March 31, 2016;
- Available long-term committed credit facilities of $550 million;
- Cash flow from continuing operations of about $850 million-$950 million per year; and
- Debt issuance of $435 million in April 2016.

Principal liquidity uses include:

- Maturing long-term debt of $30 million until year-end 2017;
- Repayment of uncommitted short-term loans and credit lines, including securitization of about $670 million;
- Capex of $650 million in 2016 and 2017;
- A dividend payout of up to 50% of net profit; and
- Repayment of long-term committed facilities of about $450 million in April 2016.

## CreditWatch

We aim to resolve the CreditWatch within three months, once we have more information about management's actions to bolster credit quality. We will lower the ratings on ICL if our revised forecast continues to indicate that debt to EBITDA will remain higher than 2.5x and FFO to debt will remain below 35%, without near-term prospects of recovery. We could affirm the ratings if we conclude that management's actions are going to be sufficient to reduce leverage sufficiently or if industry conditions turn significantly more positive than we assume in our current base-case scenario.

## Ratings Score Snapshot

Corporate Credit Rating: BBB/Watch Neg/--

Business risk: Satisfactory

- Industry risk: Moderately high
- Country risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Intermediate

- Cash flow leverage: Intermediate

Anchor: bbb

Modifiers
- Diversification: Neutral (no impact)
- Quality of capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: (no impact)
- Management and governance: Fair (no impact)
- Comparable ratings analysis: Neutral (no impact)

## Related Criteria And Research

### Related Criteria
- S&P Global Ratings' National And Regional Scale Mapping Tables, June 1, 2016
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Standard & Poor's Maalot (Israel) National Scale: Methodology For Nonfinancial Corporate Issue Ratings, Sept. 22, 2014
- Key Credit Factors For The Commodity Chemicals Industry, Dec. 31, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

CreditWatch Action

| | To | From |
|---|---|---|
| Israel Chemicals Ltd. | | |
| Corporate Credit Rating | | |
| Foreign Currency | BBB/Watch Neg/-- | BBB/Negative/-- |
| Senior Unsecured | BBB/Watch Neg | BBB |

**Additional Contact:**
Industrial Ratings Europe; Corporate_Admin_London@standardandpoors.com

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further