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.**

Registrar Number: 520028010

**Form 121**
**Public**

Date of Transmission: May 10, 2018

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

## Immediate Report

The Event: ICL – S&P Reaffirms ICL's BBB –rating with Stable Outlook

Attached is an immediate report of Israel Chemicals Ltd.

The Company is not a shell company as defined in the Stock Exchange Regulations

The date when the event first became known to the corporation: May 10, 2018

Time: 12:30

Name of report authorized signatory and name of authorized signatory electronic signatory: Maya Alcheh-Kaplan

Position: Vice President, General Counsel and Company's Secretary

Signing Date: May 10, 2018

Name of Electronic Reporter: Maya Alcheh-Kaplan. Position: Vice President, General Counsel and Company's Secretary. Address: Aranha 23, Millennium Tower. Tel Aviv 61204. Phone – 03-6844517 Fax: 03-6844587.

E-mail: mayaak@israelcorp.com.

May 10, 2018

## S&P Reaffirms ICL's BBB- Rating with a Stable Outlook

The Company hereby reports that S&P has reaffirmed the company's Long-Term Issuer Default Rating at BBB- with a Stable Outlook.

The S&P report is attached.

Name of the authorized signatory on the report and name of authorized electronic reporter: Lisa Haimovitz
Position: SVP, Global General Counsel and Company Secretary
Signature Date: May 10, 2018

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S&P Global Ratings

RatingsDirect®

## Research Update:

# Israel Chemicals Ltd. 'BBB-' Rating Affirmed; Outlook Stable

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Research Update:

# Israel Chemicals Ltd. 'BBB-' Rating Affirmed; Outlook Stable

## Overview

- After completing the sale of its fire safety unit in March 2018 for gross proceeds of about $1 billion and decreasing its debt to banks by $800 million using the sale proceeds, we estimate that Israel Chemicals Ltd.'s (ICL)'s debt to EBITDA is likely to be 3.0x-3.5x in 2018-2019, commensurate with the current rating.
- In our view, despite having sold the profitable fire safety unit, the company's business risk profile continues to be underpinned by competitive advantages including direct access to a concentrated source of high-quality, low-cost raw materials in the Dead Sea.
- We are therefore affirming our 'BBB-' rating on ICL.
- The stable outlook reflects our assessment that ICL will maintain an adjusted debt-to-EBITDA ratio of 3.0x-4.0x through the cycle and that it will generate positive free operating cash flow in 2018-2019.

## Rating Action

On May 10, 2018, S&P Global Ratings affirmed its 'BBB-' long-term issuer credit rating on Israel Chemicals Ltd. (ICL), which operates in the fertilizers and specialty chemicals industries. The outlook is stable.

## Rationale

The affirmation reflects our assessment that ICL's debt to EBITDA will remain around 3.0x-3.5x in 2018-2019, and that the company's EBITDA will be resilient amid the slowly recovering potash and phosphate market environments.

In March 2018, ICL completed the sale of its fire safety unit for gross proceeds of about $1 billion. The company used the net cash proceeds from the sale, about $900 million, to repay about $800 million of its debt. This was part of its policy to reduce its debt and leverage. On the other hand, ICL declared that it intends to undertake mergers and acquisitions (M&A) in the medium term, in accordance with its strategy to expand its specialty chemicals activity. Under our base-case scenario, we assume acquisitions of about $400 million in the short to medium term.

Following the sale of the fire safety unit, which was profitable and with growth potential, ICL's EBITDA decreased by about $80 million. Nevertheless, we believe the company's business risk profile remains stable, thanks to its inherent advantages in the potash and phosphate industries. These include: direct access to a concentrated source of unique high-quality raw materials in the Dead Sea; a good cost position of potash and bromine mining compared with competitors'; low storage costs and easier inventory maintenance due to the dry weather in the Dead Sea area; proximity to ports and strategic clients (China and India); and high synergy in manufacturing specialty products.

Potash and phosphate prices somewhat recovered in the fourth quarter of 2017 and the first quarter of 2018, but remain lower than top-of-the-cycle levels. ICL's shift from fertilizer production to production of value-added complementary products continues to enable it to maintain stable profitability, despite significantly lower margins in the fertilizer segment. In addition, in the past few years, ICL implemented cost-reducing steps in its phosphate mines in China and potash mines in England in order to minimize its losses in these sites, including personnel cutbacks and a shift toward value-added products. ICL has also committed to invest in its Spanish mines in order to make potash production more efficient and comply with local regulatory requirements. In our base-case scenario, therefore, we assume an increase in capital expenditures (capex) in upcoming years, due to high investment needs in England, Spain, the Negev, and the Dead Sea (including the salt harvest project). We estimate that these actions will erode profit margins in the near future, as production decreases while fixed costs remain unchanged. However, we believe these moves will allow ICL to return to full capacity in the medium term at somewhat lower production costs.

We understand ICL's board of directors approved the current dividend distribution policy, which is lower than the previous policy, despite the deleveraging following the fire safety unit sale, as mentioned above.

Our base-case scenario is underpinned by the following main assumptions:

- Annual revenues of $5.2 billion-$5.3 billion in 2018-2019.
- Reported EBITDA of about $1.0 billion in 2018-2019.
- Annual dividend distribution of up to 50% of adjusted net profit in 2018-2019.
- Larger capex needs in the upcoming year, about $650 million, including the salt harvest project, works in Spain, and Dead Sea pumping, up from $450 million in 2017.
- Positive free cash flow generation, but less than in 2017, owing to higher investment requirements.
- M&A, or simply acquisitions, of about $400 million in upcoming years, in line with ICL's stated strategy. Still, the timing of the acquisitions is uncertain.
- Lower interest expenses due to a nominal decrease in debt.

Under our base-case scenario, we expect the leverage and debt coverage ratios for 2018-2020 to be as follows:

- Adjusted EBITDA margin of about 19.5% in the years when facilities in Spain are shut down and production decreases in 2018-2019, and back to about 20% when work is complete. As mentioned above, the shift toward specialty products helps maintain relatively stable margins.
- Debt to EBITDA of 3.0x-3.5x in 2018-2019, down from 3.5x in 2017 and 3.9x in 2016.
- FFO to debt of about 22%-23% in 2018-2019, compared with 19% in 2017 and 18% in 2016.

### Liquidity

ICL's liquidity is adequate. Our assessment of ICL's liquidity reflects our expectation that the ratio between the company's sources and uses will exceed 1.2x in the 12 months started April 1, 2018, supported by available long-term committed credit lines of about $2 billion (as of the date of this report), with a relatively low maturity burden in the short term. We estimate that the company has good access to the banking system and to the Israeli and global capital markets.

We estimate ICL's main liquidity sources from April 1, 2018, until March 31, 2019, to be:

- Available cash and cash equivalents of about $800 million (prior to prepayment of debt completed in April).
- Available long-term committed credit facilities of about $1.4 billion (as of March 31, 2018. As of the date of this report it is about $2 billion).
- Operating cash flow of about $700 million.

We estimate ICL's main liquidity uses from April 1, 2018, until March 31, 2019, to be:

- Long-term debt maturities of about $655 million (including prepayment from sale proceeds completed in April).
- Non-discretionary capex of about $650 million.
- Dividend distribution of about $160 million-$220 million.

## Outlook

The stable outlook reflects our expectation that ICL will maintain adjusted debt to EBITDA of 3.0x-3.5x amid the slowly recovering fertilizer pricing environment. Our expectations are based on the company's strategy to perform medium-sized M&A in the upcoming years and maintain the current dividend policy. We anticipate ICL will generate EBITDA of about $950 million-$1 billion in 2018, benefiting from strong position in fertilizer markets and low production costs in Israel. We consider an adjusted debt-to-EBITDA ratio of 3.0x at the top of the business cycle and 4.0x at the bottom of the cycle to be commensurate with the current rating. We also expect the company to generate positive free cash flows over time.

### Downside scenario

We would consider a negative rating action if the company's debt to EBITDA was close to 4.0x without near-term prospects of recovery, and its operating performance deteriorated contrary to our expectations. In our view, this scenario is possible if ICL implements aggressive business or financial policies, whether by significantly deviating from its publicly stated dividend policy or through sizable leveraged acquisitions. Further deterioration in market conditions that may hurt operating results could also lead to a downgrade.

In the medium term, the rating could come under pressure if uncertainty regarding the renewal of the Dead Sea concession continues and ICL's debt burden is high. In this scenario, we expect pressure on the company's business risk profile, which currently benefits from its inherent advantages in the Dead Sea, and that refinancing will be difficult to achieve.

### Upside scenario

We would consider a positive rating action if ICL strengthened its financial risk profile, such that its adjusted debt to EBITDA dropped below 2.5x on a sustainable basis.

## Ratings Score Snapshot

Issuer Credit Rating: BBB-/Stable/--

Business risk: Satisfactory
- Country risk: Intermediate
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Significant
- Cash flow/Leverage: Significant

Anchor: bbb-

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

Stand-alone credit profile: bbb-

## Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, Aug. 14, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Commodity Chemicals Industry, Dec. 31, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Specialty Chemicals Industry, Dec. 31, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

Ratings Affirmed

| | |
|---|---|
| Israel Chemicals Ltd. | |
| Issuer Credit Rating | |
| Foreign Currency | BBB-/Stable/-- |
| Senior Unsecured | BBB- |

**Additional Contact:**
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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 information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.