

Submission to the Second Sheshinski Committee on Mining Royalty and Tax Regime Issues

Israel Chemicals Ltd.

December 16, 2013



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I. Introduction

Qualifications

- Chartered Accountant (CA, CPA)
- Chartered Business Valuator (CBV)
- Certified Fraud Examiner (CFE)

- Global Leader – FTI International Arbitration Practice
- Global Leader – FTI Mining Industry Practice

- Over 30 years of valuation and damages experience

- Testified in over 200 contentious matters

- Extensive mining valuation experience
 - North America, South America, Africa, Asia, Europe

Qualifications (continued)

- Advisor to public sector companies and governments
- Vice Chairman – AGT
 - Publically listed with facilities in Canada, U.S., Turkey, India, Australia, China
- Co-author of two texts and numerous articles on valuation and economic damages
- Member of the IVSC working group related to global mining standards
- Active member of PDAC

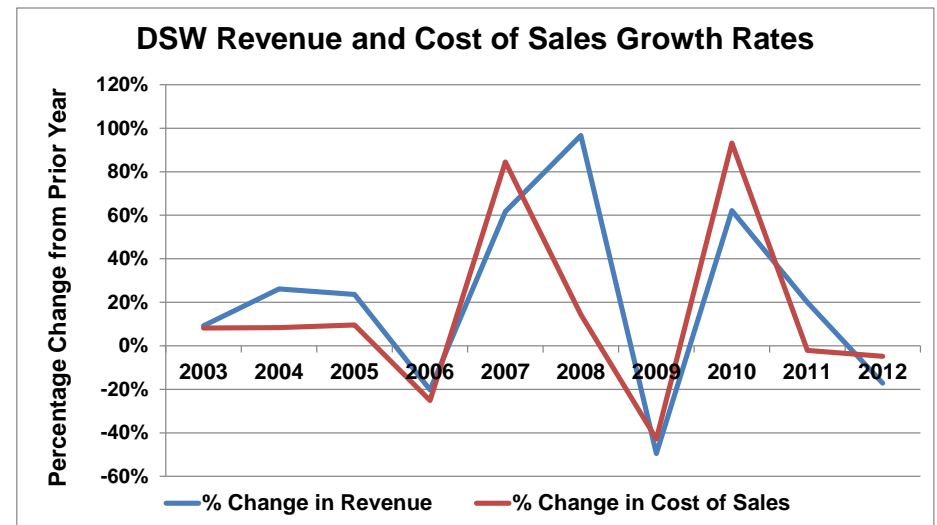
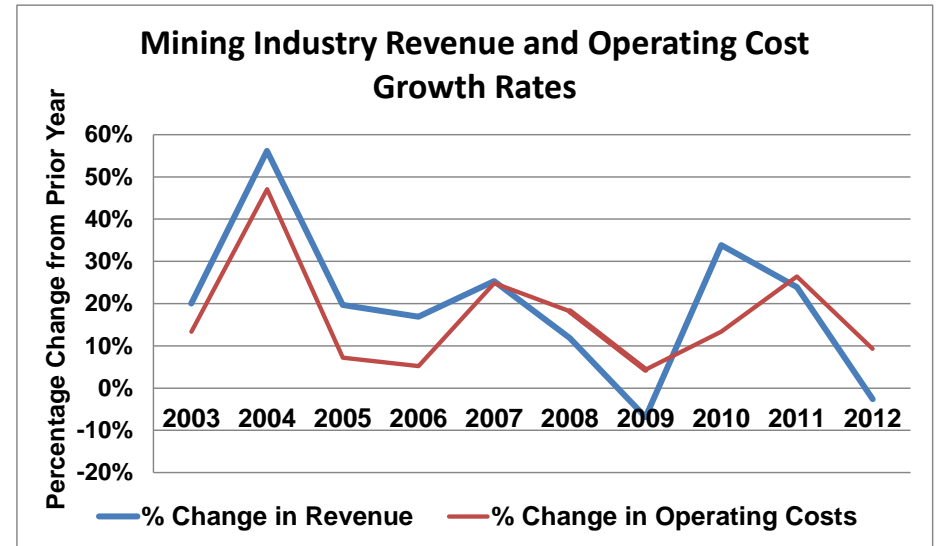
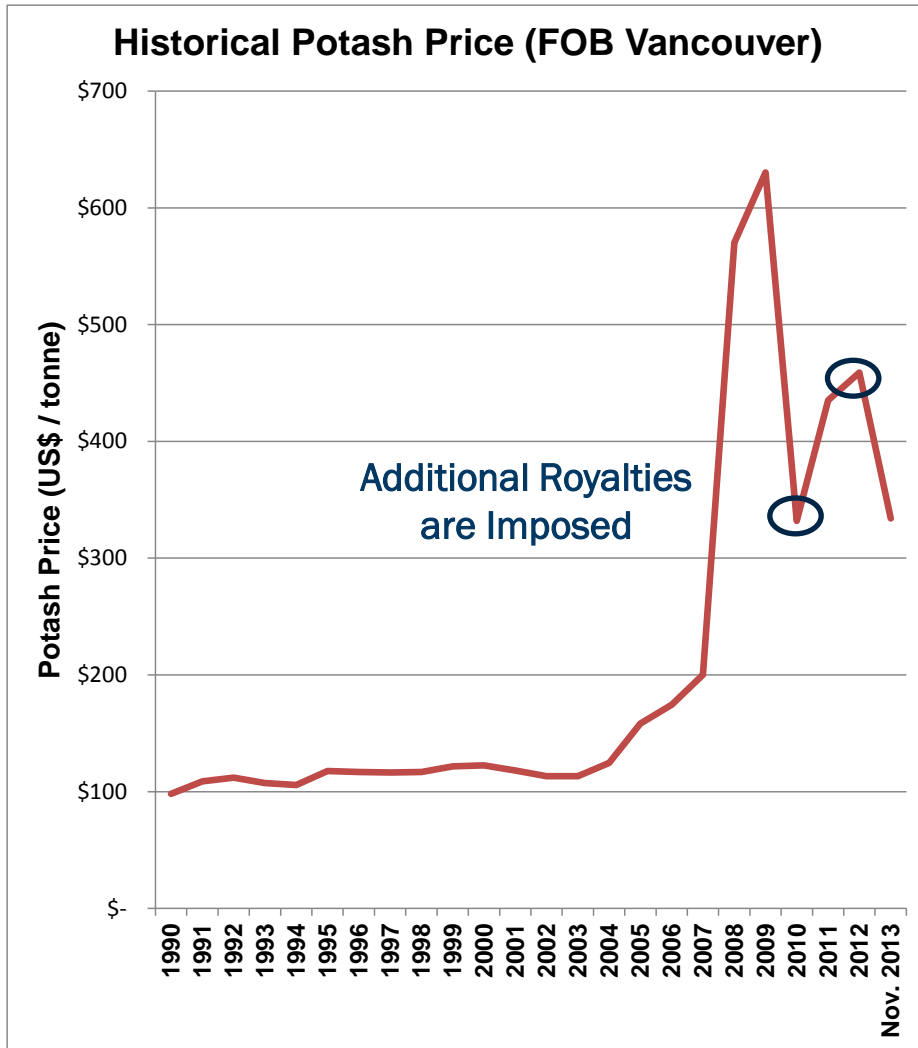
- **Recognized as a leading expert in mining valuation modeling**

FTI Mandate:

- Perform an analysis of the total economic transfers to the government from mining companies (the “Government Take” or “GT”), in the State of Israel as compared to countries around the world that are involved in potash mining:
 - Based on the prevailing state of the GT in the State of Israel; and,
 - Adjusted on a pro-forma basis to reflect recent and expected future changes to the GT imposed on ICL.
- Conduct an analysis of the historical rate of return of ICL since its privatization, both from the point of view of the Israeli natural resources business interests of ICL, and also from the point of view the ICL shareholders; and,
- Review quantitative and qualitative aspects of economic or other factors that I deem important to consider in the overall review of GT and its potential impact on ICL going forward.

Introduction (continued)

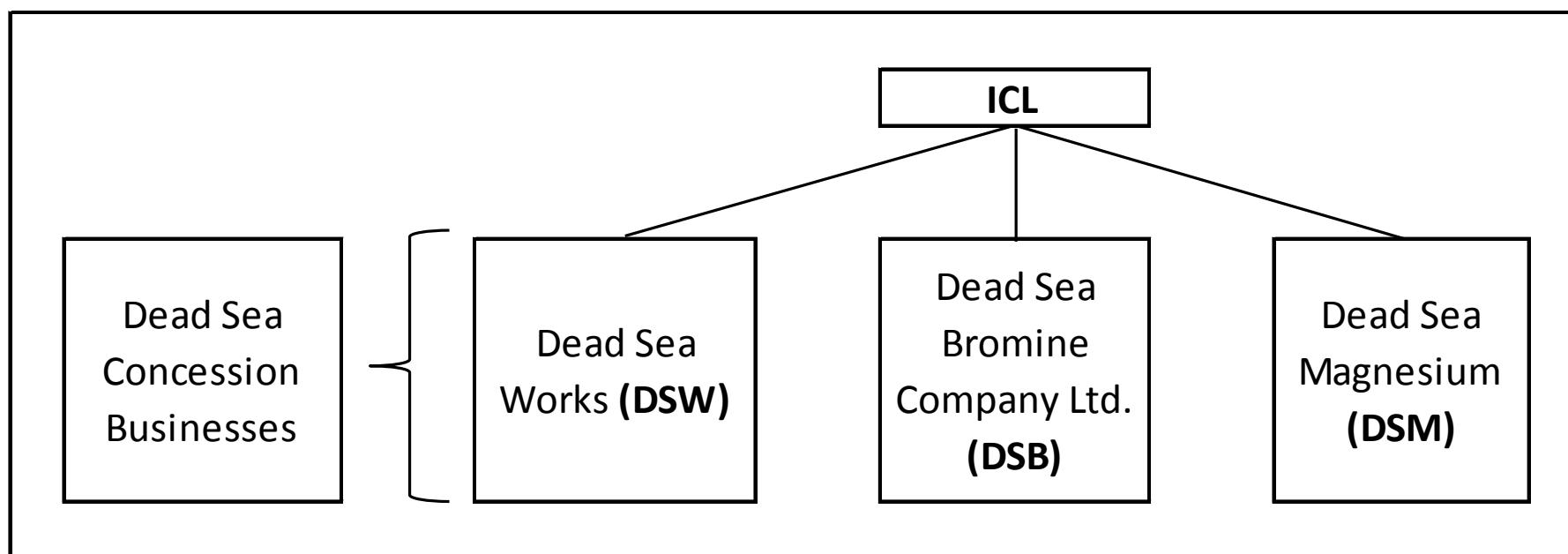
In times of rising commodity prices, governments tend to take more



Introduction (continued)

■ ICL overview

- Analysis restricted to ICL's Dead Sea Concession businesses:



II. GT analysis framework

Calculation of ICL's Government Take ("GT")

$$GT = \frac{\textit{Total Government Revenue}}{\textit{Gross Company Revenue, less: Total Company Costs}}$$

■ **Total Government Revenue** is comprised of all direct and indirect amounts received by the Government as a result of the purchase and operation of the Dead Sea Concession

■ Royalties

■ Corporate income taxes

■ Dividend taxes

■ ICL's unique GT:

– Signature bonus paid to the State of Israel on the purchase of the concession (amortized over life of concession)

– Incremental Salt Harvesting Project operating and capital expenditures (amortized over life of concession)

■ **Gross Company Revenue** is comprised of all revenue derived from the sale of minerals

■ **Total Company Costs** are comprised of all costs before GT

■ GT benchmarking Analysis

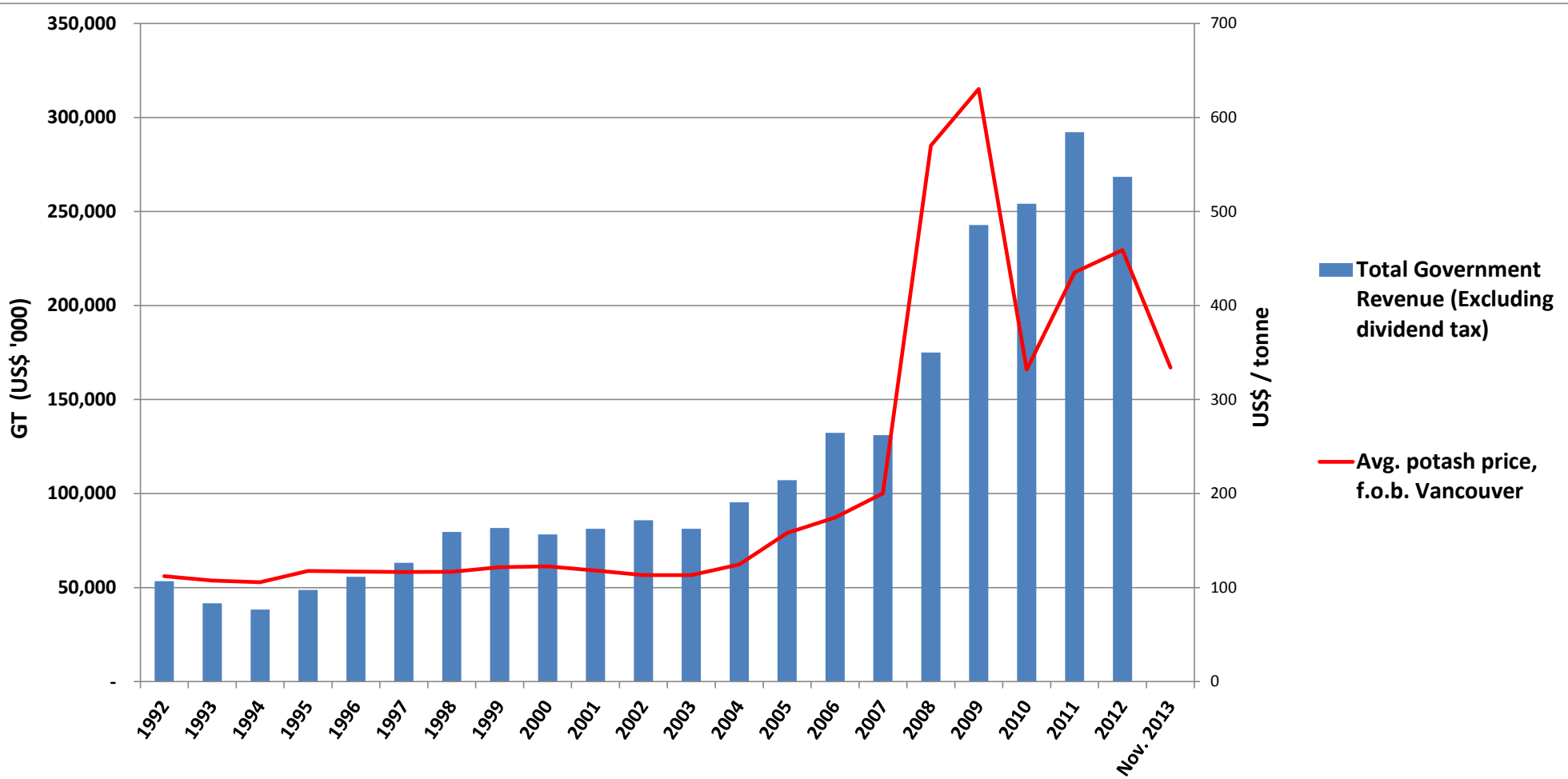
- Analysis to calculate the rates of direct GT among the major potash producing countries for the year 2012.

■ Pro forma GT analysis to include:

- Salt Harvest Project
- Changes to the Encouragement of Capital Investment Law

Historical GT analysis

Results: Dead Sea Concession GT in US\$'000, 1992 to 2012



III. GT benchmarking analysis

Calculation of actual GT for benchmark countries

■ Criteria:

- Discrete potash mining operations within country of domicile
- Public financial information related to the discrete potash mining business unit
- Specific disclosure of royalties and taxes paid for the mining of potash

■ Four potash companies identified for the purposes of my benchmark comparison:

- Arab Potash Company PLC of Jordan (“APC”);
- Potash Corporation of Saskatchewan Inc. of Canada (“PCS”);
- Uralkali Group of Russia (“Uralkali”); and
- K+S Group of Germany (“K+S”).

Global Potash Production

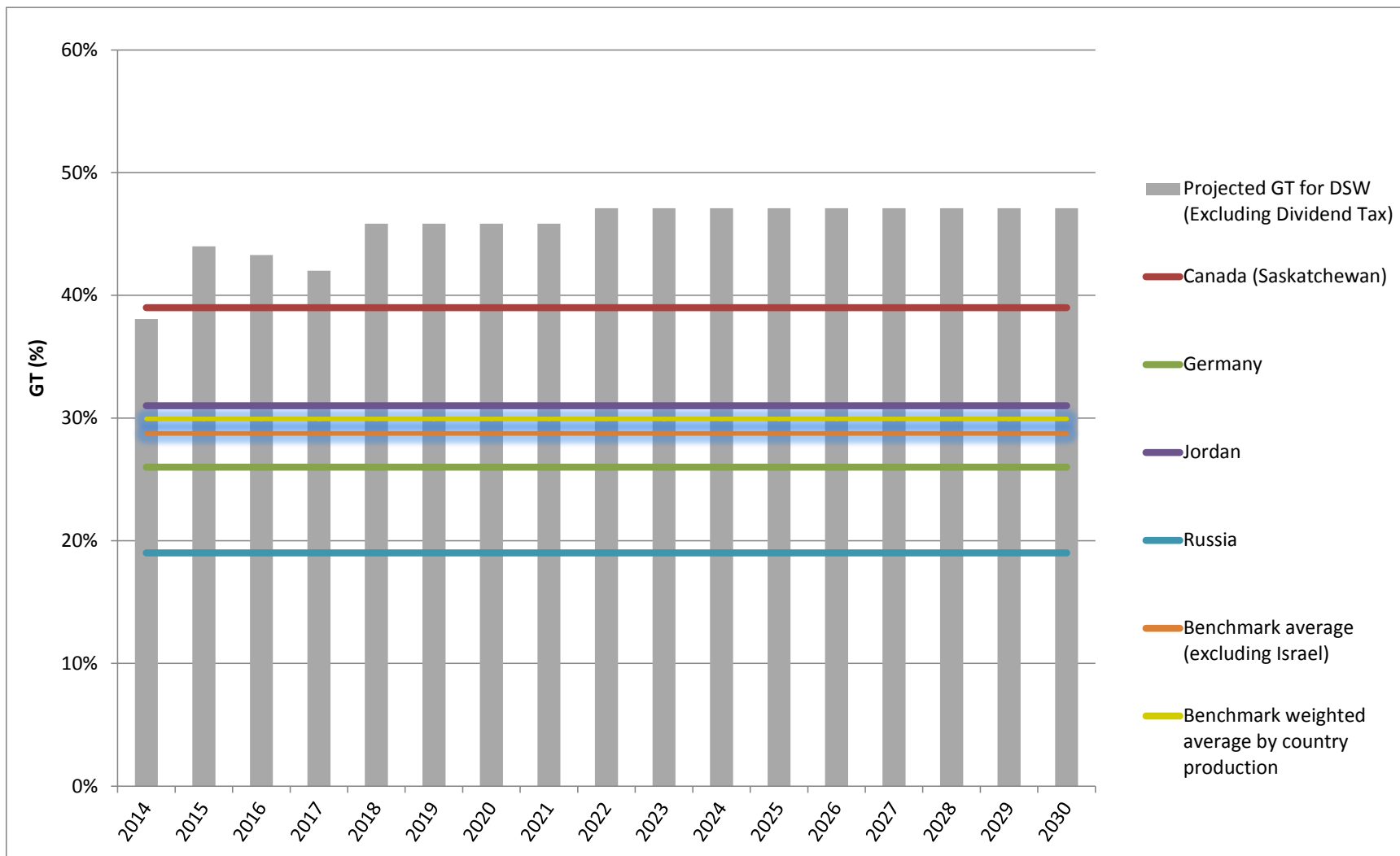
('000 Tons of K₂O equivalent)

	2012 Production	%
Canada	9.0	26%
Russia	6.5	19%
Belarus	5.7	16%
China	3.9	11%
Germany	3.0	9%
Israel	1.9	6%
Jordan	1.4	4%
Chile	0.9	3%
United States	0.9	3%
Brazil	0.5	1%
UK	0.4	1%
Spain	0.4	1%
Total	34.5	100%

Source: USGS Mineral Commodity Summaries, January 2013

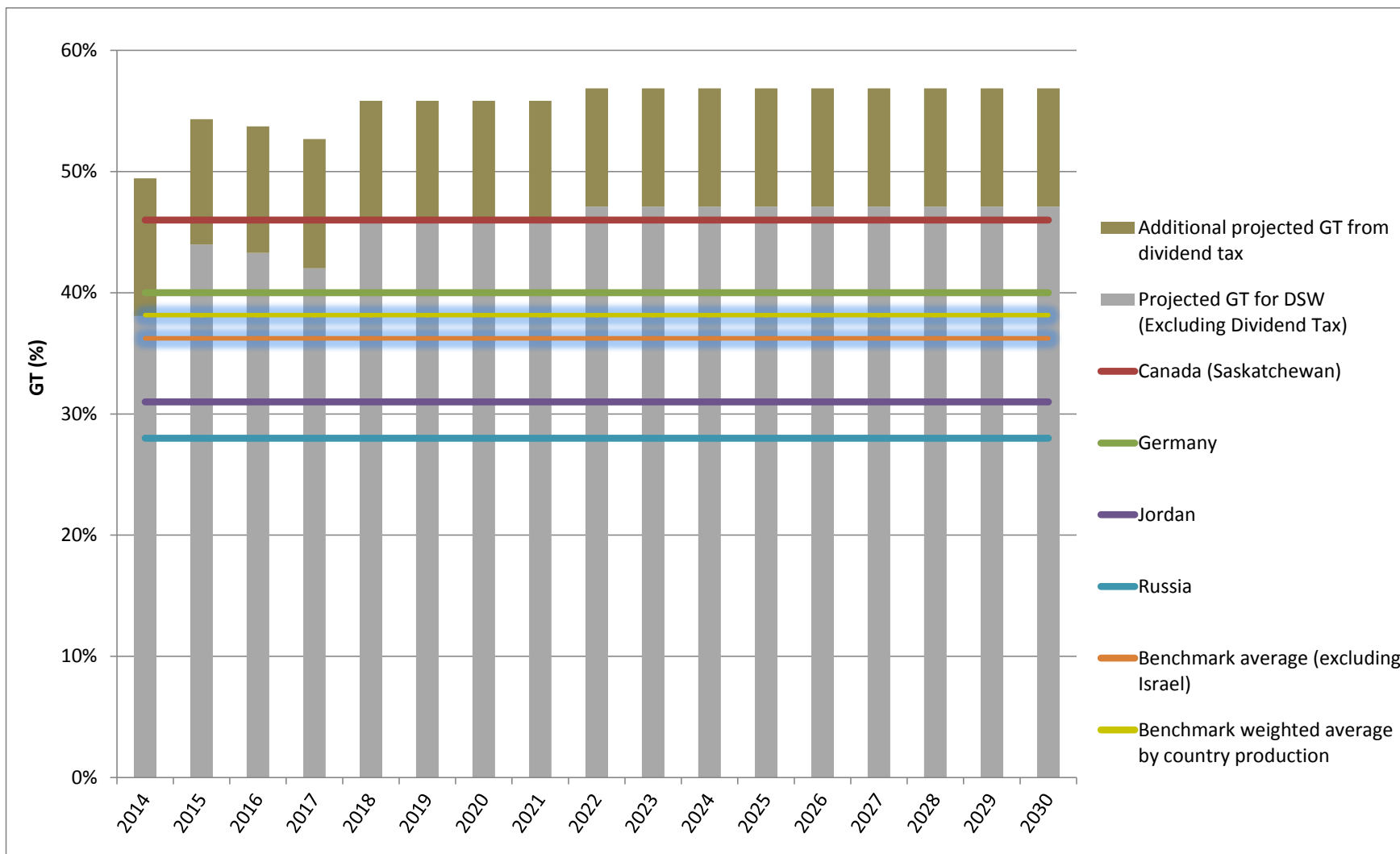
GT benchmarking analysis (continued)

Forward looking benchmark comparison for DSW (excluding dividend tax)



GT benchmarking analysis (continued)

Forward looking benchmark comparison for DSW (including dividend tax)



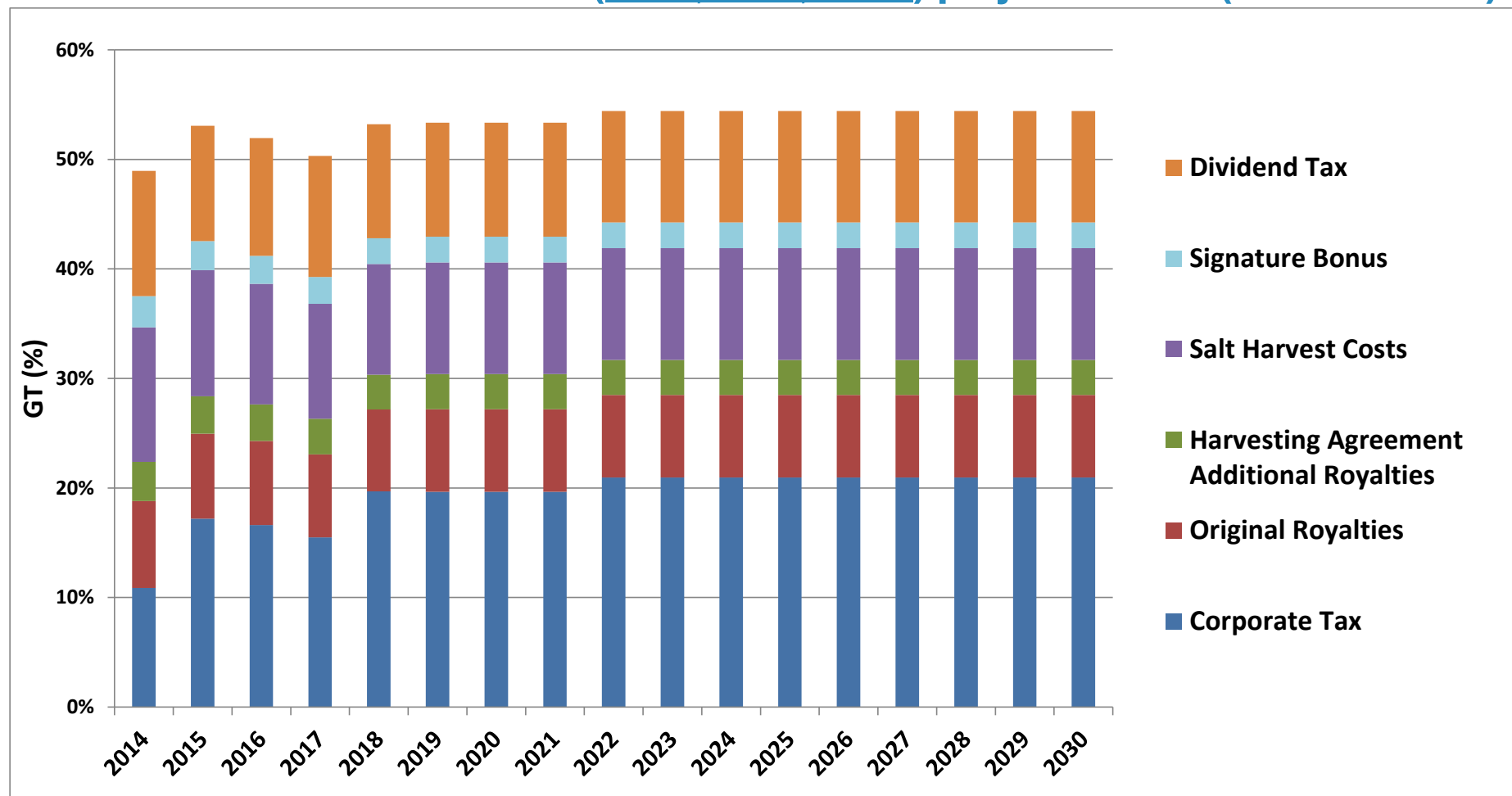
IV. GT projections

Objective

- To demonstrate future GT applicable to ICL over the remainder of the concession which includes the known and estimated impact of the below issues:
 - Allocation of the signature bonus paid during the privatization transaction
 - Additional royalties payable by DSW agreed under the July 2012 Agreement
 - Salt Harvesting Project incremental costs
 - Changes to the Encouragement of Capital Investments Law

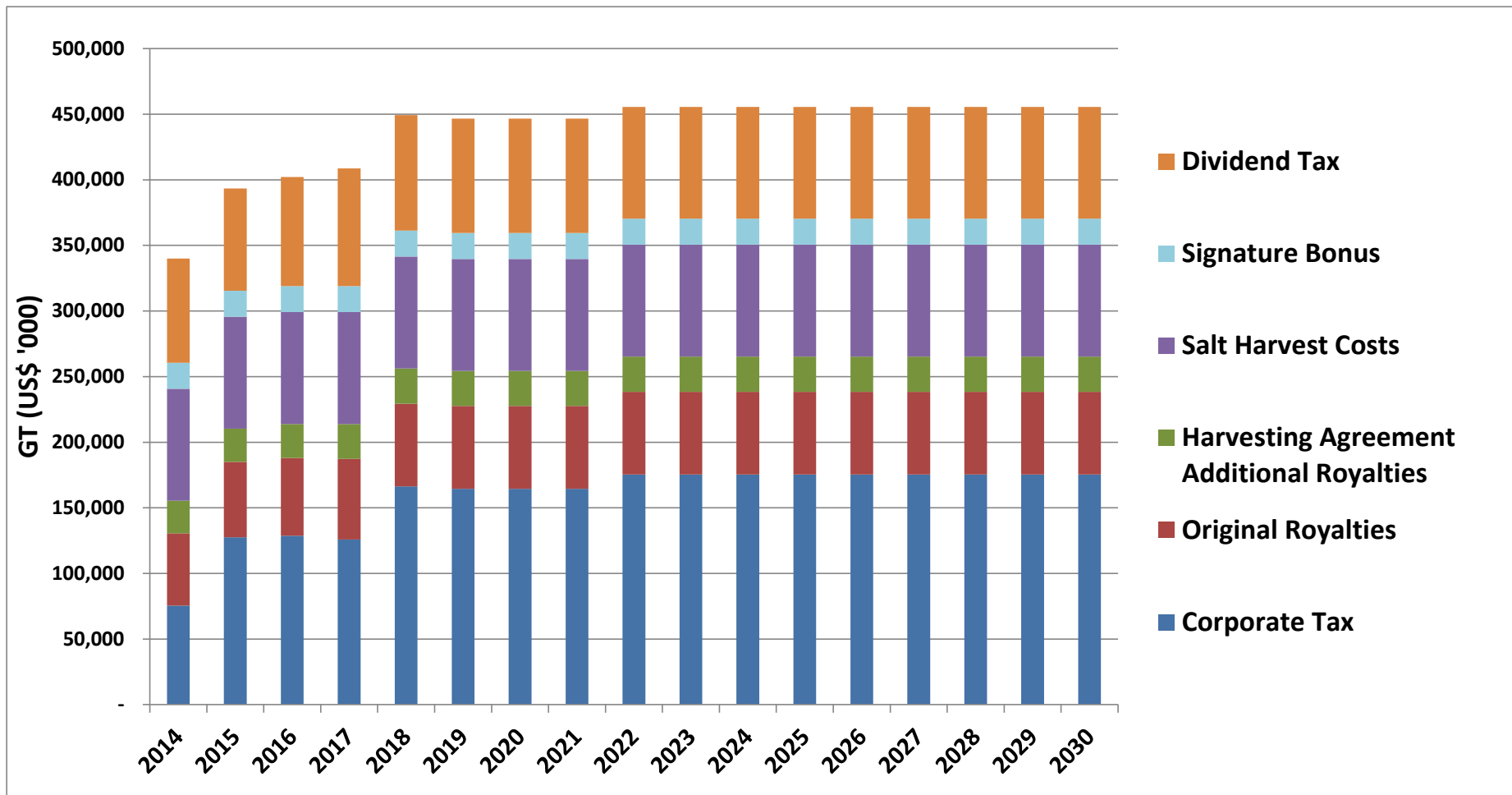
GT projections (continued)

Results: Dead Sea businesses (DSW, DSB, DSM) projected GT% (2014 – 2030)



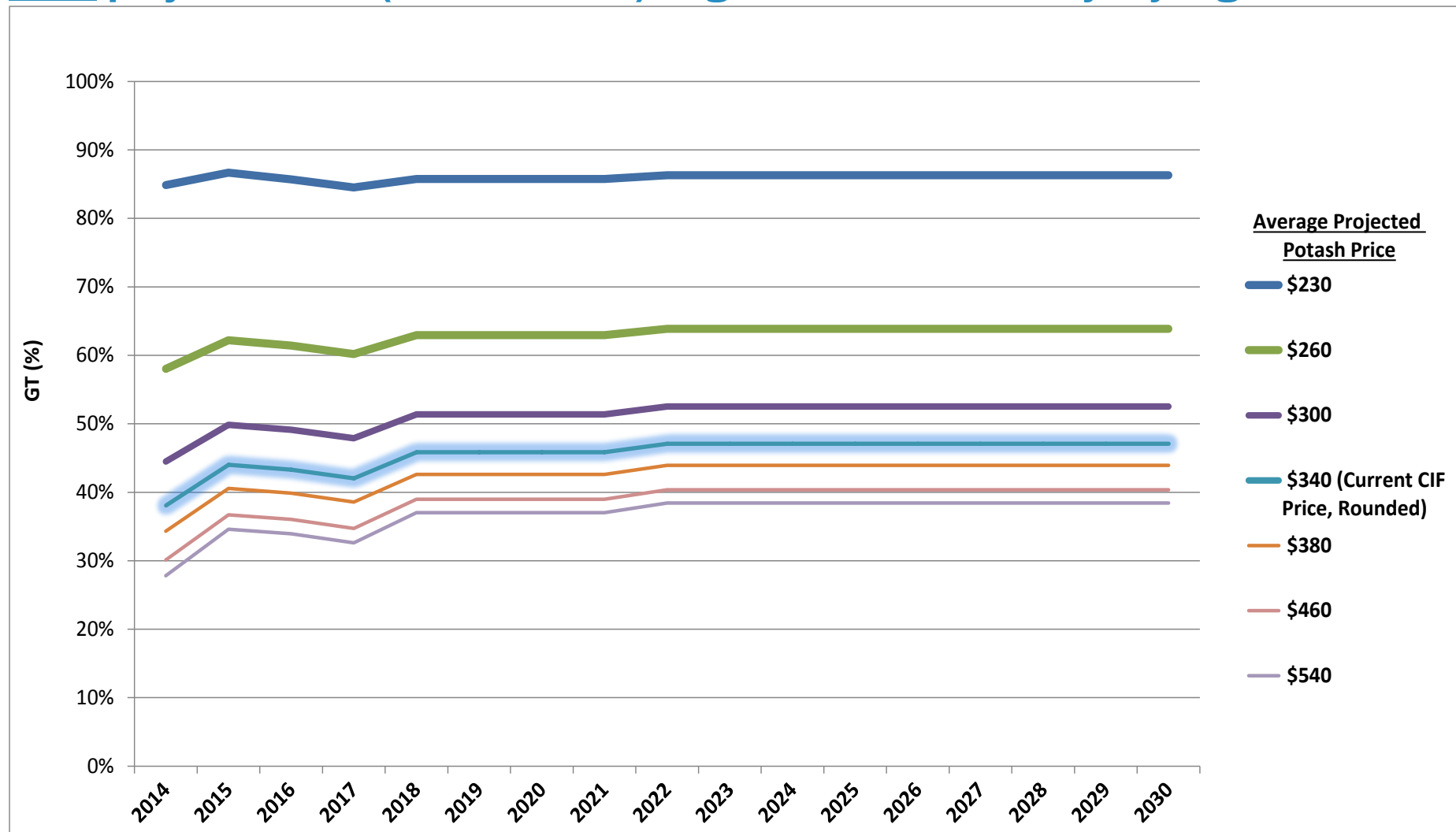
GT projections (continued)

Results: Dead Sea businesses (DSW, DSB, DSM) projected GT US\$'000 (2014 – 2030)



GT projections (continued)

DSW projected GT% (2014 – 2030): regressive nature of royalty regime



Conclusions

- The current system is regressive
- There is asymmetric risk
- The current system cannot be modified with additional tax

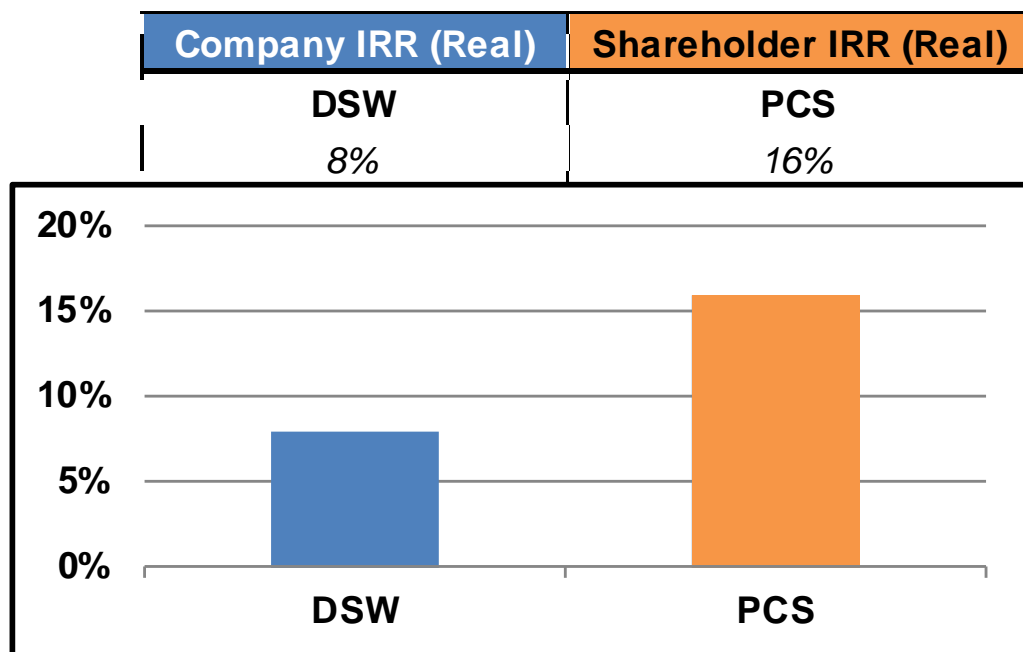
V. Rate of return analysis

Rate of return analysis

- It is appropriate to analyse IRR from the beginning of a concession

■ Internal Rate of Return:

- The discount rate that must be applied to a series of cash outflows and inflows over the life of the investment that will yield a net present value of nil.
- A metric used to measure the financial returns generated by an asset or investment



- CRU estimates the long-term cost of equity for US mining firms at 11.6%. The country risk premium for Israel relative to the US is 1.3% - 5.2%.

Impact of imposed change

- Market based reaction
- Change = uncertainty
- Discourages Foreign Direct Investment

Conclusions

- It's inappropriate to perform a financial analysis in the middle of a concession
- Real (Actual) IRR of 8% is low relative to the global mining industry
- Market based information indicates a cost of equity ranging from 13% to 17% for a mining firm in Israel.
- Tax reform must include financial modeling

VI. Additional considerations

Additional considerations

- The value of the Dead Sea Concession is intrinsically linked to the issue of GT



- Other Economic Benefits

- Payroll taxes
- Municipal taxes
- Direct/indirect multipliers (revenue received by domestic companies as a result of ICL's operations)
 - derived from operating expenditures and capital investments made by ICL, including transportation of mine output.
- Induced Multipliers
 - Impact of domestic spending on goods and services by ICL employees

Additional considerations (continued)

- Industry competitors have reacted to slumping demand for potash and future pricing uncertainty



UPDATE 2-Potash Corp to cut workforce by 18 pct as prices slump

Tue, Dec 3 2013



Belarus to cut the price of 2014 potash exports

Thu, Nov 14 2013

MINSK, Nov 14 (Reuters) - Belarus plans to cut the price of potash exports to \$300 a tonne in 2014, the economy ministry said, adding to pressure on global prices for the soil nutrient already hit by the breakup of its joint venture with Russia.



UPDATE 2-Potash market turmoil prompts K+S to cut costs

Thu, Nov 14 2013

* Says unclear how long potash demand will remain tepid

* Now sees year operating profit down by up to 25 pct to over 600 mln euros

* Q3 EBIT I down 26 pct at 116 mln euros vs analysts' forecast of 107 mln

VII. Conclusions

- Israel's GT is higher than competitors
- IRR for DSW is below industry expected returns
- Peak price \neq peak profits
- Costs often fluctuate along with revenues
- Tax reform must include financial modeling for the entire concession