

APPROVED

By the Board of Directors of
OJSC “Uralkali”

(Minutes of the meeting of the Board
of Directors dated
11 September 2012, No.269)

RISK MANAGEMENT AND INTERNAL CONTROLS POLICY
of OJSC “Uralkali”

Preamble

1. DEVELOPED by the Directorate of Legal and Corporate Affairs of OJSC “Uralkali”.
2. ENTERED INTO EFFECT pursuant to the Order of the General Director dated 1281 No.13 September 2012.
3. DEVELOPED as a replacement of the Regulations on the System of Internal Control over the Financial and Economic Activity of OJSC “Uralkali” dated 16 April 2007.

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1. General provisions

1.1. Purpose and area of application

1.1.1. The purpose of this Policy is to:

- Establish the goals and principles of the system of management of risks and internal controls in the Company;
- Establish an internal interaction procedure between the divisions of the Company within the framework of the system of risk and internal controls management.

1.1.2. This Policy embodies the attitude of the Company toward risk and internal controls management, establishes basic requirements and principles of the process of risk management and the development and maintenance of internal control processes, and defines the responsibilities of the Management and the employees of the Company with regard to the indicated processes. Specific actions and activities pertaining to the SRICM are indicated in the Standard of Risk and Internal Controls Management. Certain complex and time-consuming SRICM procedures are described in the Regulations on Assessment of Risk and Control Procedures (definition of criteria applicable to the assessment of business processes, risks and controls, assessment of the risk appetite, acceptable and residual risk levels etc).

1.2. Regulatory framework

- Standard of Risk and Internal Controls Management
- Regulations on Assessment of Risk and Control Procedures

1.3. Terminology

Company – Open Joint Stock Company “Uralkali”.

Internal control – a system of procedures carried out by the Board of Directors, executive and control bodies, officers and other employees of the Company in order to achieve the desired results and to ensure the efficiency of the Company’s activities, reliability and truthfulness of all types of reports of the Company, to ensure compliance with the requirements of the legislation and internal documents of the Company and to guarantee the safety and integrity of the Company’s assets, employees and reputation.

Business process – a series of interrelated actions (combination of operational steps and management tools) in order to achieve particular goals.

Owner of business process – officer of the Company who has in his/her disposal the staff, infrastructure, software and machinery and information on the business process and who manages the business process and bears responsibility for the results and effectiveness of the business process at all its stages and bears responsibility for effective performance of the system of internal controls within the framework of the business process.

Control procedure (control) – actions of the employees of the Company taken in order to prevent risks.

The following procedures constitute the procedures of the system of risk and internal control management:

- Risk identification;
- Risk assessment and estimation of the risk appetite;
- Development of risk management actions (SRICM procedures);
- Risk monitoring.

Risk – a possible event which may negatively impact the Company and prevent the achievement of its goals.

Risk appetite – the degree of the aggregate risk which the Company considers acceptable in the

process of value creation, achievement of its goals or its mission and realization of its strategic vision.

Management of the Company – executive directors and middle management.

System of internal control – the totality of the procedures carried out by the management and employees of the Company, the purpose of which is to ensure the achievement of:

- Effective performance and efficiency of economic activity;
- Reliability and truthfulness of all types of reports;
- Compliance with the requirements of the current legislation;
- Safety and integrity of the Company’s assets, employees and reputation.

System of risk and internal controls management (SRICM) – interrelation of processes, methods, procedures, rules, controls and risk management tools in order to reduce (mitigate) any negative effect on the Company.

1.4. Abbreviations

Abbreviation	Stands for:
Company	Open Joint Stock Company “Uralkali”, OJSC “Uralkali”
SRICM	System of risk and internal controls management
ICS	Internal control system
IAD	Internal audit department

1.5. Users of documents

1.5.1. This Policy has been developed for all the divisions and employees of the Company – both for those who directly participate in the management of risks and internal controls and for those who are responsible for certain actions or are in any way involved in risk management or internal controls (preparation of information, approval of documents etc).

1.5.2. The users of the Policy are:

- The Risk Manager (Directorate of Legal and Corporate Affairs);
- Risk owners (Line directorates);
- Owners of control procedures (Line directorates);
- Other structural subdivisions which participate in the process of risk and internal controls management;
- Subsidiaries.

2. Goals and purpose of risk management and internal controls

2.1. The SRICM has been developed to ensure a proper balance between profit maximization and long-term stability of business for the shareholders and investors of the Company and is characterized by the following:

- Effective protection of the Company from the impact of negative events (risks);
- Timely identification of emerging opportunities for the Company, using these opportunities;
- Increased efficiency of the system of internal controls;
- Increased capitalization of the Company, satisfying the expectations of the Company’s investors.

2.2. The goals of the SRICM are achieved by way of executing the following tasks:

- Identification and assessment of material events which impact the achievement of strategic, operational and other goals;
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- Identification, assessment and management of the risks of business processes;
- Development and management of the system of key risk indicators (KRI);
- Timely notification of the management and the stakeholders of potential threats and opportunities;

- Development and execution of preventive measures in order to minimize the likelihood of the negative impact of risks on the Company’s goals;
 - Development and deployment of control procedures and actions in order to bring the risks of the Company to an acceptable level and formalization of the business processes of the Company;
 - Prevention of fraud;
 - Monitoring of risk control procedures;
 - Testing of internal controls which minimize the effect of risks;
 - Assessment of efficiency of the system of risk and internal controls management; development and management of the system of key risk indicators (KRI).
- 2.3. In order to achieve the goals of the SRICM, the system consistently performs the following tasks:
- Development (updating) of the SRICM policy, procedures, instructions, methods and rules of risk and internal controls management;
 - Development (updating) of organizational structure;
 - Annual development of the risk and internal controls management program for the entire Company;
 - Implementation of the program, monitoring and analysis of the performance of the SRICM.

3. Principles of the Policy

- 3.1. The Management of the Company recognizes that risk is an integral part of financial and economic activity and accepts the responsibility to manage the risks in order to provide reasonable guarantees that the goals of the Company for the benefit of its shareholders are properly achieved. The Company develops, deploys and improves the SRICM which covers all the levels of corporate governance and all the subdivisions of the Company. This system is an integral part of the corporate governance of the Company; it is based on the principles defined under the Code of Corporate Conduct and its purpose is to effectively control possible risks and not to avoid all risks.
- 3.2. The Integrated Model of risk management and the system of internal controls recommended by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) is used as the methodological basis of the system of risk and internal controls management in the Company.
- 3.3. As part of the accepted methodology, the system of internal controls is an integral part of the process of risk management in an organization. Risk management in organizations is a broader process than internal controls; it includes and develops the system of internal control and shapes it in such a way that it becomes more risk-oriented.
- 3.4. The internal control of the Company includes the following procedures:
- Identification of interrelated goals and objectives at various levels of the Company’s governance in order to reduce organizational risks;
 - Identification and analysis of potential and existing operational, financial, strategic and other risks which may affect the ability of the Company to achieve its goals;
 - Internal control over the financial and economic activity of the Company;
 - Control over compliance with the requirements of the current legislation of the Russian Federation, the Charter of the Company and other local regulations of the Company in the course of the Company’s financial and economic operations;
 - Discovery of violations through audits, inspections, monitoring and analysis of the results of conducted audits of the Company’s activities;
 - Control over the implementation of corrective/remedial actions;
 - Prevention of violations by notifying the relevant structures of the Company of the discovered significant violations and deficiencies;

- Assessment of the performance of the structural subdivisions, officers and other employees of the Company;
- Development of recommendations based on the results of conducted procedures including recommendations on how to improve the effectiveness of the financial and economic activity and the efficiency of the risk management system in the Company;
- Other procedures which may be necessary in order to achieve the goals of internal control.

3.5. The key elements of the SRICM are:

- **Internal environment.** In order to effectively manage risks at all levels and in all spheres of the Company’s activity, the following principles are observed:

Each employee and Manager of the Company is aware of the importance of risk management and observes risk management procedures accepted in the Company on a daily basis;

Risks are managed within the framework of risk appetites approved by the General Director of the Company;

The Company may knowingly accept business risks on balance the costs and consequences of mitigating the risk outweigh the losses and consequences coupled with the probability of the occurrence of the risk;

All employees of the Company have a general understanding of the main principles and approaches of risk management;

The employees of the Company accumulate knowledge and skills in the sphere of risk management, the Company trains its employees to apply standards, methods and tools which are relevant for the SRICM;

The employees and managers of the Company are responsible for effective management of all significant risks which are usually attributed to the processes for which they are responsible. The personal goals of the employees and managers of the Company must include risk management responsibilities;

The management of the Company is responsible for the formalization of business processes and control procedures which cover the main risks of business processes.

- **Setting tasks and goals.** The Company establishes long-term strategic goals and on their basis develops short-term tasks and business plans. The SRICM is interconnected with the processes of goal setting and planning in the Company as the opportunities and threats are identified in relation to the established goals of the Company, its subdivisions and managers.

The SRICM operates in 4 categories:

Strategic goals — high-level goals related to the mission of the organization;

Operational goals — goals related to ensuring economical and productive utilization of the organization’s resources;

Goals in the sphere of reporting – goals related to ensuring reliability of the organization’s reports;

Goals in the sphere of compliance with the legislation and the policies of the Company – goals related to compliance with the applicable legislation and norms by the organization.

- **Identification of risks.** The Company must provide for effective procedures that enable the Company to recognize potential external events which may impact the Company, including both threats and opportunities.

- **Risk assessment.** The Company develops and applies risk assessment criteria which determine the likelihood and impact of risks in order to rank the risks and allocate resources to manage them in compliance with the applicable criteria.

The following are identified in the course of risk assessment:

Inherent risk – the probability of risk arising out of circumstances or existing in an

environment, in the absence of any action to control or modify the circumstances by the management;

Residual risk – a risk which remains after the management has implemented certain measures to react to this risk (control procedure);

Acceptable risk – a risk whose level of impact on the Company is acceptable for the management and does not require any additional actions by the management. An acceptable risk for the Company is the risk appetite.

- **Reacting to risk.** The Management of the Company develops risk management plans in order to bring the identified risks to an acceptable level or to react to risks in another reasonable way. The following ways of reacting to risks which may negatively impact the activity of the Company are applied in the Company:

Mitigation of the risk – actions to mitigate the likelihood and/or impact of the risk,

Transfer of the risk – reduction of the risk by transferring the risk to a third party or transfer/re-distribution of a portion of the risk,

Acceptance of the risk – no action is taken to mitigate the risk, its significance is monitored (possible only if the risk does not exceed the risk appetite (acceptable level), risks which exceed the risk appetite of the Company may be accepted only if this is approved by the Audit Committee),

Avoidance of the risk – termination of all activities which lead to risk.

- **Operational control.** In order to ensure timely and proper execution of the chosen method to react to risks the Company develops Risk Management Action Plans and Emergency Action Plans (for risks which are likely to occur very soon). The Risk Manager exercises periodic control over the execution of plans and prepares a report based on the results of analysis. The report is submitted to the Management Board of the Company and to the Audit Committee of the Board of Directors.
- **Communication flow** The Company develops and maintains information exchange channels in order to ensure promptness, truthfulness and completeness of information communicated, its proper addressing, form and content as well as its compliance with the confidentiality of data requirements and adequate feedback. In order to prevent damages to the activity and/or reputation of the Company as the result of improper utilization of information on risks and risk management, the following confidentiality requirements are imposed:

All employees of the Company have unrestricted access to the registers of risks, description of risks and the results of their assessment by their subdivision unless otherwise indicated by senior Management.

Employees are provided with Corrective Action Plans and Emergency Action Plans on a need-to-know basis in order for the employees to perform their official duties in compliance with the decisions of the Management.

Based on the decision of the Management, the individuals who are granted access to the information on risks and risk management may be requested to sign an agreement (clause) on non-disclosure of confidential information.

- **Monitoring and training.** The monitoring of the general efficiency of the SRICM and the analysis of the experience accumulated in this sphere is conducted on a daily basis, the relevant regular reports are provided to the Audit Committee of the Board of Directors, regular inspections by the external and internal auditors are carried out and trainings in risk management are conducted.

3.6. The brief version of the SRICM Policy is provided in Annex 1.

4. Procedure of interaction

4.1. Interaction chart

The SRICM is functionally connected with the following management systems:

- Performance management;
- Plans and budgets;
- Fraud prevention;
- Compliance with the requirements of the legislation and the requirements of other regulatory authorities (including environmental management, industrial and labor safety etc);
- Strategic management;
- Investment management;
- RSA and IFRS accounting.

4.2. Roles and responsibilities

- **Board of Directors of the Company** – bears responsibility for the efficiency of the process of risk management and for the development and maintenance of the SRICM in the Company; approves the risk appetite of the Company, reviews the most important risks of the Company and monitors the measures and actions taken in relation to the indicated risks; the Board of Directors of the Company also imposes personal responsibility for the development of a proper risk management and internal controls process on the General Director.
- **Audit Committee of the Board of Directors** – an expert body of the Board of Directors; advises the Board of Directors on the issues related to the efficiency of the SRICM; upon request of the Board of Directors may review the most significant risks of the Company and the relevant risk management methods applied by the Management of the Company with regard to the indicated risks.
- **General Director** – exercises general management of the process of risk management, approves regulatory documents and the SRICM strategy, bears responsibility for effective implementation and functioning of the SRICM in the Company to the Board of Directors.
- **Management Board** – acts as an expert body for the Chairman of the Management Board in the sphere of risk management and internal controls, based on the decision of the Chairman, the Management Board may review and monitor the management of particular risks of the Company.
- **Managers of the Company** – independently or by delegating to others:
 - Ensure proper formalization of business processes in their respective spheres, set goals and assess key risks in case the set goals are not achieved,
 - Assess identified risks pertaining to their sphere of activity,
 - Identify the control procedures covering the identified risks;
 - Develop Corrective Action Plans in order to react to risks, develop Emergency Action Plans,
 - Supervise and control the implementation and monitor the efficiency of measures taken in relation to risks (operational control), monitor the efficiency of the system of internal controls and supervise the implementation of measures to improve the system of internal controls,
 - Support the implementation of the SRICM in the subdivisions of the Company supervised by them.
- **Risk Manager** (Directorate of Legal and Corporate Affairs) – coordinates the process of risk management in the sphere of:

Development of methodology and risk management program, anti-fraud measures and internal controls as a whole, further methodological support of the participants of the SRICM,

Identification of risks and opportunities, their submission for consideration by the management,

Assessment of risks by the managers of the subdivisions of the Company,

Identification and assessment of control procedures covering the identified risks,

Development of necessary control procedures, corrective action plans,

Control over timely performance of tasks and responsibilities by the participants of the process,

Day-to-day control over the efficiency of risk management processes, fraud prevention, development and functioning of the ICS,

Preparation of information on the process of risk management and the system of internal controls on all levels for the Audit Committee, the Board of Directors, the General Director and the Management Board of the Company.

- **The Internal Audit Department (IAD)** — is responsible for the provision of guarantees, identification of areas for potential improvement and for providing advice on remedial action which may be required in the following spheres:

- systems of internal control
- corporate governance systems
- risk management systems

and controls the compliance with the SRICM procedures and informs the Audit Committee of the discovered violations and deficiencies.

– **Employees of the Company** – carry out their responsibilities in compliance with the requirements of the SRICM in good faith, promptly notify the Management of the risks identified in the course of day-to-day activities, promptly notify the Management of facts signifying the occurrence of risk events; conduct initial assessment of identified risks and take other actions as indicated under the relevant Action Plans.

Model of the system of risk management and internal controls

