RISK MANAGEMENT

Key risk factors

The table below describes mainly the major and most significant risk factors, which may have a considerable impact on the financial and operating performance of Uralkali. All estimates and forecasts contained herein should only be viewed taking these risks into account.

Other risks, of which Uralkali is unaware or which are not currently deemed significant, may become material in the future and have a considerable impact on the financial and operating performance of Uralkali. All estimates and forecasts contained herein should only be viewed taking these risks into account.

Our risk management approach is based on an understanding of our current risk exposure, risk probability and impact, appetite and dynamics. The Annual Report does not aim to give an exhaustive description of all risks that may impact the Company. Uralkali will disclose any necessary information in a timely manner according to the applicable Russian and foreign laws. The Annual Report does not aim to give an exhaustive description of all risks that may impact the Company. The table below describes mainly the major and most significant risk factors, which may have a considerable impact on the Group's commercial, financial and operating performance. All estimates and forecasts contained herein should only be viewed taking these risks into account.

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An effective risk management and internal control system remains one of the Company’s priorities. As part of these activities, at all levels, measures are taken to reduce the likelihood of negative consequences that may result from certain events.

Pad O’Driscoll  
Chairman of the Audit Committee

Competitive advantages

Global scale of activities

Leadership in production costs

Transshipment capacity

9 sales and representative offices in key regions

Focus on expanding relations with international customers

RISK DESCRIPTION RISK LEVEL DEVELOPMENT COMMENTS RISK MINIMISATION MEASURES

Failure to meet targets set for investment projects

Expansion CAPEX costs associated with productivity increase and other investment costs of Uralkali are an important part of the Company's expenditure budget. There are risks that investment projects' deadlines and targets will not be achieved, which may result in risks that projects' technical parameters will not be achieved, as well as risks of project termination or taking into account current factors and forecasts.

The Company continuously monitors and controls the implementation of its investment programme. The Company monitors investment decisions throughout the project cycle, it selects the most technically efficient projects, based on its financial abilities and the market balance of supply and demand, establishes the relevant implementation periods. The Company follows the project management principles when implementing investment projects.

Major investments are made after the due diligence activities are completed and the investments are financially sound. All projects are confirmed.

The demand for potash on major sales markets does not comply with the level of the Company’s production and price of potash due to both political and economic factors, which may have a negative impact on the Company’s operations. The desire of potash producers to achieve high capacity utilisation in the context of insufficient demand can lead to potassium chloride oversupply and thereby to a reduction of the global prices. All this may affect revenues and result in a decrease of the Company’s profits.

Uralkali’s management is developing a marketing strategy to promote potash. The Company actively supports agricultural producers (e.g. by updating farmers’ calculators). It continuously monitors a flexible production strategy, increasing or decreasing production depending on demand and market forecasts.

Change of the supply and demand balance on the main potash markets

Change of the supply and demand balance on the main markets of potash consumption, as well as level of expected demand and price of potash due to both political and economic factors, may have a negative impact on the Company’s operations. The desire of potash producers to achieve high capacity utilisation in the context of insufficient demand can lead to potassium chloride oversupply and thereby to a reduction of the global prices. All this may affect revenues and result in a decrease of the Company’s profits.

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### Operating risks

**Reduction of production capacity/production volumes**

External and internal factors, including accidents, downtime, a general decline in potash demand, can affect potash production. **medium ➔**

Production capacity decreased in connection with the accident at Solikamsk-2 in 2014. - Uralkali continues to expand its production capacity and replace retired assets, maintaining them in working order. The Company sets the production targets in accordance with current market situation and the adopted strategy.

**Lack of qualified employees**

The specific nature of the Company’s business implies in-depth professional training and high qualification of its employees, particularly, in production, mining, and geology. Uralkali may face the difficulty of attracting and retaining staff with sufficient qualifications and the need for additional time and material resources to train and develop its employees. All this can negatively affect the Company's timely achievement of goals. **high ➔**

In the context of the planned launch and development of a number of mining projects in the Perm and neighbouring regions by other companies in the coming years, retention of qualified personnel is becoming one of the main tasks for the Company. - The Company constantly monitors the labour market and takes measures to retain personnel, mainly in production through different ways, including surveys to determine the degree of personnel engagement and monitoring the reasons for resignation. - The Company has implemented a system for in-house personnel assessment and training. For example, Uralkali has established a Corporate University, which is licensed to deliver 370 training programmes; an e-learning system is being implemented; also in place is the talent pool programme for key positions in the Company. Uralkali offers one of the most attractive social benefits packages in the industry, market-matching salaries, and compensates mortgage payments to the key employees.

### Non-fulfilment of obligations by contractors, suppliers or customers

The failure of key partners, relations with whom are strategically important, to meet their contractual obligations may adversely affect Uralkali’s performance. **high ➔**

The Company’s activities depend on monopolistic energy suppliers and the Russian railways. In the context of macroeconomic instability, suppliers and contractors can raise the price of their products and services. Timely fulfilment by suppliers, contractors and buyers of their obligations related to the implementation of the Company’s investment projects is critical in order to ensure compliance with deadlines within the approved financial investments.

### Expenditure increase

Risks of production costs increase may occur due to wear-and-tear of production equipment, utilisation of obsolete technologies, the inefficient spending of funds on operating activities or growth of energy prices. **medium ➔**

The Company is implementing programmes to increase productivity and reduce operating expenditures.

### Financial risks

**Currency rates fluctuations and interest rates growth**

Inflation processes and currency fluctuations significantly affect the financial performance of the Company and may lead to a reduction of net profits. **high ➔**

Part of the Company’s loan portfolio consists of loans with floating interest rates and is denominated in foreign currency. The bulk of Company’s expenses denominated in roubles, while the main export revenues are denominated in US dollars.

- The Company strives to ensure alternative suppliers and contractors are available for all its needs.
- Uralkali is working towards enhancing contractual discipline to ensure the obligations undertaken by the parties are fulfilled on time and in full, including monitoring compliance with the terms of contracts through the introduction of additional controls (including KYC, credit policy and risk assessment models) to improve the quality of documentation, interact with counterparties at various contractual stages, and to ensure timely and complete performance of the obligations assumed by the parties.

- The Company is engaged in thorough budgeting and planning activities, ensures continuous monitoring and control of expenses of its bodies and officials.
- The Company constantly improves performance discipline and implements additional controls that allow it to stay on budget and keep costs at an approved level.

- The Company minimises the currency fluctuation risks and the risk of a significant increase in the floating interest rate by means of financial derivatives and other available hedging instruments.
### Environmental risks

**Environmental and mining risks**

Uralkali’s ore mining and beneficiation activities are exposed to risks associated with the geological structure of the Verkhnechanskoye deposit of potassium salts, and general mineral exploration, extraction and processing risks including possible flooding, fires and other emergencies that can lead to unforeseen costs and a general decline in the efficiency of Company’s operations.

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<td>Environmental and mining risks</td>
<td>high</td>
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- Given unpredictable natural factors associated with mining, the Company takes a conservative approach to mitigate environmental risks.
- The Company follows its previously developed mining plan, which includes an extensive safety section.
- The Company regularly audits the sufficiency of measures aimed at minimizing mining risks.
- Mining safety monitoring is one of the key Company priorities that is regularly followed up by the CEO, the Board of Directors and their respective committees.

### HSE non-compliance

Uralkali’s activities and the use of its property are regulated by various health, safety and environmental laws and regulations. Additional costs and obligations may be incurred due to the need to comply with these requirements.

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- The Company pays considerable attention to industrial safety, treating human life and health as the highest value, and making HSE compliance its main task.
- The Company has adopted safety standards, including Cardinal Safety Rules. Regular safety training and examinations of personnel are held; a set of measures to prevent occupational diseases are in place.
- The Company pays close attention to complying with environmental legislation and improving its environmental performance; all recommendations and instructions from environmental supervisory authorities are duly taken into account and followed.

### Political and legal risks

**Risks related to the incidents at Berezniki-1 and Solikamsk-2**

The flooding of Uralkali’s Berezniki-1 in October 2006, as well as the incident at Solikamsk-2 in 2014 had a significant impact on the size of mineral reserves and may lead to additional costs, losses and obligations.

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- The Company adheres to the safety and social responsibility policies and adopts a conservative approach.
- The Company follows its social responsibility policy, under which it maintains a constructive and consistent relationship with state authorities to respond to any issue in a timely manner.

**Compliance with applicable legislation and internal policies**

Uralkali is subject to the laws of Russia and other countries of its operations, including anti-monopoly regulations. Claims, including anti-monopoly claims, may create additional costs for the Company.

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- The Company is subject to special state regulations in various jurisdictions. Due to macroeconomic instability, regulators can tighten their requirements.
- The Company constantly improves its internal control system in order to ensure compliance of its activities with the requirements of applicable law including anti-monopoly legislation.
- In 2017, the Russian Federal Anti-Monopoly Service (FAS) extended its recommendations on provision of non-discriminative access to purchase of potash in Russia for five years, whereby it confirmed the existing pricing and thus reduced destabilisation risks during domestic sales of potash by the Company.

- risk probability did not change
- risk probability increased
- risk probability decreased

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URALKALI TRANSFORMATION FOR THE FUTURE