

Integrating our risk controls and measures

Development of an effective risk management and internal control system is among the most important strategic objectives of Uralkali.

The purpose of this activity is to ensure timely identification of events that may adversely affect the Company's achievement of its goals and to take adequate response measures through a balanced distribution of roles among decision-makers.

In 2013, Uralkali continued its risk management activities as part of COSO ERM, an integrated risk management concept.

In 2013, we launched a project to create a system of internal controls that covers financial reporting accuracy, prevention of corruption and fraud, and regular re-assessment of risks.

Key risk factors

This section describes only the major risk factors, which may have a considerable impact on Uralkali's financial and operating performance. All estimates and forecasts contained herein should only be viewed taking due account of these risks.

Other risks, of which Uralkali is unaware or which are currently deemed insignificant, may become material in the future and have a considerable adverse effect on the Company's commercial, financial and operating performance.

The Integrated 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 applicable Russian laws and the Disclosure and Transparency Rules of the UK's listing authority.

Our risk management approach is based on our understanding of our current risk exposure, appetite and dynamics.

Activities completed in 2013

- ✔ Development of approaches to live risk monitoring
- ✔ Formalisation of the internal control system for financial reporting accuracy
- ✔ Formalisation of the internal control system for prevention of corruption and fraud
- ✔ Introduction of a corruption prevention system and a compliance system
- ✔ Further integration of risk management processes and formalisation of risk management development, implementation and monitoring practices for key risk areas

Plans for 2014

- ⊕ Implementation of a live risk monitoring system
- ⊕ Systematisation of risks in specialised IT products; development of a 'risk cloud' on the intranet site for prompt access by risk owners
- ⊕ Finalisation of the internal control system for financial reporting accuracy (implementation and testing)
- ⊕ Further formalisation of corporate level controls, IT controls, corruption prevention controls and exchange compliance controls
- ⊕ Further integration of risk management processes and formalisation of risk management development, implementation and monitoring practices for key risk areas

Principal risks

Risk	Description	Risk level	Dynamics	Description of change	Risk minimisation measures
Strategic risks					
Failure to meet targets set for investment projects	Expansion, productivity increase and other capital expenditures of the Company form a large part of its budget. There are risks that investment projects' timeframes and budgets will be exceeded; and risks that the projects' technical parameters will not be achieved.	●	↔	The Company continues implementation of its investment programme in line with previously adopted plans.	Our investment decisions are based on market outlook; the most economically efficient projects are then selected, and optimal implementation periods are determined. In project implementation, we use standard project management principles. Major investments are made after the design stage activities have been completed and after the timeframe, costs and feasibility of the projects have been confirmed.
Operating risks					
Lack of employees with sufficient proficiency	The specifics of our activities assume that our employees have adequate professional backgrounds and high qualifications. The Company may face difficulty in recruiting and retaining sufficiently qualified personnel and may be forced to incur additional time and financial costs to increase the qualifications of personnel, which may impact the ability of the Company to achieve its goals in a timely manner.	●	→	As competitors launch new capacity in the regions of Uralkali's operations, the risk of shortage of qualified personnel has increased.	The Company took measures to improve the quality of personnel management, create a transparent recruitment process, provide access to the best available workforce and establish an effective competence and performance assessment system.
Capacity production decline	Output of potash may be impacted by various internal factors such as equipment failures, deterioration of infrastructure and external factors such as lower ore quality or curtailment of capacity following modifications to the technology due to new instructions from regulators.	●	→	Following the adoption of a new strategy, the existing capacity is fully utilised, which increases the risk of equipment failures.	For these risks, the Company adopted a risk minimisation strategy through the use of preventative controls, which help timely identification of potential stability threats.
←	Probability of the risk decreased	↑	Potential impact of the risk increased	●	medium risk
→	Probability of the risk increased	↓	Potential impact of the risk decreased	●	high risk
↔	Probability of the risk unchanged	↕	Potential impact of the risk unchanged		











“ Given the significant opportunities and challenges facing us in our markets, a consistent approach to the development of the risk management and internal control system is crucial for timely identification and assessment of risks and efficient application of the tools we use in this process.

Paul Ostling

Chairman of the Audit Committee

Risk	Description	Risk level	Dynamics	Description of change	Risk minimisation measures
Non-fulfilment of contractors' obligations	The list of our suppliers of goods and services includes a number of key partners, relations with whom are strategically important. Failure of such suppliers to meet their contractual obligations may adversely affect our performance.			The Company's activities depend on monopolistic suppliers of energy and the Russian railroad system, whose throughput is decreasing each year.	The Company's demand for railcars is fully covered by an in-house fleet. Uralkali uses logistic optimisation techniques for deliveries to end users. At the same time, we continue to develop our energy efficiency programmes.
Expenditure increase	Risks that production costs may increase due to physical wear of production equipment, utilisation of obsolete technologies, or inefficient spending on operating activities. Occurrence of such risks may directly impact the profit of the Company.			The Company continues its mitigation activities in line with previously approved plans.	The Company is implementing various programmes to increase productivity and reduce operating expenditure.
Financial risks					
Inflation and currency fluctuations	Inflation processes and exchange rate fluctuations, which create additional costs through more expensive materials, resources and services (e.g. transport services), may reduce the net profit of the Company.			Inflation rate in Russia matches previous periods.	The Company tries to smooth exchange rate fluctuations by hedging its currency risks; it also takes necessary measures to maintain its strong credit position.
Environment/Development environment					
Environmental risks and risks related to mining operations	Uralkali's mining operations are exposed to risks associated with exploration, extraction and processing of minerals, which include flooding, fire and other types of incidents and may create unforeseen costs and reduce the overall efficiency of the Company's operations.			Given the unpredictable natural factors associated with mining, the Company takes a conservative approach to mitigation.	The Company follows its previously developed mining plan, which includes an extensive safety section. Uralkali regularly audits the effectiveness of measures aimed at minimising mining risks.
Risks related to the incident at Berezniki-1	The flooding of Berezniki-1 in October 2006 had a significant impact on the size of mineral reserves and may give rise to additional costs, losses and obligations.			The Company adheres to its safety and social responsibility policies and applies 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 issues in a timely manner.

Principal risks (continued)

Risk	Description	Risk level	Dynamics	Description of change	Risk minimisation measures
Environment/Development environment (continued)					
Non-compliance with environmental and health & safety regulations	Uralkali's operations and use of its property are governed by various health, safety and environment laws and regulations, which however may be interpreted differently. Compliance with these laws and regulations may create additional costs and obligations.			In 2013, the Company implemented comprehensive programmes to minimise the risk.	The Company developed a set of safety standards; it conducts regular safety training of personnel and implements measures to prevent occupational diseases among employees. Uralkali also pays special attention to compliance and performance improvement.
Marketing risks					
Potash demand decline	Macroeconomic factors, which include changes in the global population, insufficiency of cultivated land per capita, decrease in personal incomes and difficulties in raising loans to purchase potash fertilisers, may weaken the global demand for potash.			The potash demand growth rate does not match the current supply in the markets.	The management of Uralkali is developing a marketing strategy to promote potash and actively supports agricultural producers (e.g. by updating farmers' calculators). It also monitors and supports all key sales markets.
Potash price decrease	Producers' pursuit of high capacity utilisation together with insufficient demand may result in excessive supply of potash and a subsequent drop in global prices, reducing the Company's revenue and profit.			The potash demand growth rate does not match the current supply in the market, which affects sales prices.	We estimate future demand for our products and act accordingly to meet this.
Loss of share in a specific market	Competitors' actions and other circumstances may result in a decrease in the Company's sales or market share in one or several markets, thus affecting our revenue and financial performance.			A mismatch between potash demand and supply can intensify competition.	The management of Uralkali monitors and supports all key sales markets and is developing a marketing strategy to promote potash.
Lack of specific product	With its production capacity fully utilised, the Company may face a deficit of a particular product for a market.			Following a change in our strategy, our production capacity is fully utilised, which increases the risk of a shortage of a particular product.	To manage this risk, the Company applies preventative controls by identifying potential shortage of a particular product and adjusting the product mix.

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Legal risks					
Licensed activities	Uralkali's operations depend on the continued validity of its licences and the Company's compliance with licence terms. Legislative changes or decisions by regulators to terminate or restrict the licences may have an adverse effect on the activities of the Company.			The Company extended its main mining licences in 2013.	The Company has a plan to maintain existing licences and introduced internal controls to follow-up on the plan and respond promptly to any deviation from the plan.
Political, legal and regulatory risks	Uralkali operates in Russia and in a number of developing markets, which are exposed to higher risks than more developed markets. These include significant legal, economic and political risks. The Company may breach applicable laws or regulations, or Government may commit unlawful or damaging actions against the Company including tightening its regulation of our activities. It may create additional significant costs or sanctions, and may impact investors' expectations. Our activities are subject to audits by tax authorities, the federal health and safety agency (Rostekhnadzor) and other regulators from time to time, which may create additional obligations, costs and restrictions for the Company.			Uralkali was incorporated in Russia, but also operates in a number of emerging markets. This exposes Uralkali to higher risks than those inherent in developed markets, including legal, economic and political risks, in particular frequent changes in laws and law enforcement practices.	The Company's sustainable development depends on its ability to comply with and follow statutory rules and norms. The Company has developed a set of connected measures to ensure its compliance with applicable requirements. Uralkali also monitors any relevant legislative changes in all applicable jurisdictions and liaises with supervisory authorities to promptly adjust its activities where necessary.
Compliance with applicable legislation and internal policies	Uralkali's activities are governed by various laws, including anti-monopoly laws, in Russia and other countries where it operates. Claims, including anti-monopoly claims, may create additional costs for the Company.			The Company is subject to special state regulations in various jurisdictions.	The Company is developing a set of measures and internal controls to ensure its legal compliance, including compliance with anti-monopoly laws.