

APPROVED by:
the Board of Directors
of Open Joint Stock Company
United Chemical Company URALCHEM
(Minutes No. 1 of 17.10.2008)

PROVISIONS
INTERNAL CONTROL OVER
FINANCIAL AND BUSINESS ACTIVITIES OF
OPEN JOINT STOCK COMPANY
“United Chemical Company URALCHEM”

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1. General Provisions

1.1. These Provisions for the Internal Control over Financial and Business Activities are made for the Open Joint Stock Company *United Chemical Company URALCHEM* (hereinafter – “the Company”) in accordance with applicable laws, Corporate Code of Conduct¹, Regulations on the Board of Directors of the Open Joint Stock Company *United Chemical Company URALCHEM*, Regulations on the Audit Committee of the Open Joint Stock Company *United Chemical Company URALCHEM*, Provisions on Structural Subdivisions and other regulatory documents of the Open Joint Stock Company *United Chemical Company URALCHEM* (hereinafter – “the Corporate Documents”).

1.2. To ensure uniform approach toward organization and efficient performance of internal control over financial and business activities of all companies comprising the group of companies of the Open Joint Stock Company *United Chemical Company URALCHEM* (hereinafter together referred to as “the *URALCHEM* Group” or “the Group”), provisions of this policy are recommended for adaptation and introduction at each affiliate and subsidiary company of the Group using the existing corporate management methods applicable to affiliate and subsidiary companies, based on the management contracts and other methods of ensuring the Company’s interests in relation to activities of affiliate and subsidiary companies.

1.3. These Provisions define the applied terms, organizational principles, aims, objectives and procedures of internal control over financial and business activities, compliance with requirements, preparation of the Company’s accounts (hereinafter collectively referred to as “the internal control”), as well as tasks of the internal control bodies concerning the performance of and control over compliance with the internal control requirements established by the Company.

2. Terms and Definitions

2.1. Internal Control is control exercised by the Board of Directors, Committees of the Board of Directors, Revision Commission, Sole Executive Body (Chief Executive Officer) of the Company, Directorate for Internal Control and Audit, committees, commissions and other collective bodies or structural subdivisions, directors and other employees subordinate to the Sole Executive Body of the Company, to ensure sufficient confidence that the Company achieves its objectives in the most efficient manner.

2.2. Internal Control Procedures is properly documented arrangements for the promotion of efficient control over the achievement of objectives² by the Company, detection of irregular transactions, as well as for limitation and prevention of negative impact from financial, operational and other risks and potential unfair actions of the Company’s directors and the third parties, carried out by the bodies of internal control of the Company.

2.3. Internal Control System is a complex of organizational arrangements, methods and procedures applied by the Company’s management as a tool of regular and efficient control over financial and business activities of the Company, safekeeping of the assets, prevention of errors and misrepresentation of information, serving as well to promote prompt detection and elimination of errors and violations. These internal control arrangements, methods and procedures serve to promote the achievement of aims and objectives of the Company, compliance with requirements and preparation of accurate reports.

2.4. Internal Audit³ is activities aimed at providing objective and independent warranties and consulting services, aiming to improve the company’s performance. Internal audit helps the Company to accomplish the objectives through application of systematic and consistent approach to evaluation and enhancement of risk management processes, control and corporate management.

¹ approved by Decree of the Federal Commission on the Securities Market No. 421/r dated 04.04.2002, as amended and modified

² parameters and values of financial and business plan (budget, business plan), strategy provisions, etc., approved by the Board of Directors of the Company

³ as defined by International Standards for the Professional Practice of Internal Auditing published by International Institute of Internal Auditors

2.5. Internal Audit Procedures are a complex of arrangements and procedures applied by the Company's Auditors to facilitate the audit, confirmation or assurance of compliance with requirements, validity of data or reports, and accomplishment of objectives of financial and business activities. Unlike the internal control procedures, these procedures shall include the unbiased assessment of available audit evidence, stating the independent (of the object of audit) and unbiased opinion on the process, system, specific data and other objects of audit.

2.6. Audit Procedures are a complex of arrangements and procedures performed in the course of internal control and aimed at establishment of availability, consistency or verification of specific statements, which, however outwardly resembling the internal audit procedures, require no mandatory formalization as an audit opinion backed up by the audit evidence in established form.

2.7. Self-control is the internal control procedures developed and performed within subdivisions engaged in controlled actions and transactions, or within a company, by specifically authorized officers or employees of the Company other than individuals performing the controller transactions; in doing so, the said individuals responsible for control act as "functional supervisors".

2.8. Self-assessment is the assessment of subdivision managers and the Chief Executive Officer of the Company, carried out in conjunction with functional supervisors and on the basis of results of self-control, internal control efficiency and corporate risk management, made available to the Board of Directors, Audit Commission and other internal control bodies.

2.9. Functional Supervisors are managers of structural subdivisions or employees of the Company (or companies) who, acting in accordance with their functions (responsibilities), shall be in charge of development, documenting, introduction, monitoring (checking) and improvement of the internal control procedures in their respective subdivisions or Company profiles. Certain functions of internal control over transactions or processes in the Company's business may also be assigned to corporate special-purpose subdivisions, commissions or individual officers within the scope of responsibility of their respective subdivisions.

2.10. Bodies of Internal Control of the Company are corporate management bodies participating in the internal control system, primarily – Board of Directors, Audit Committee and other committees of the Board of Directors, Sole Executive Body (Chief Executive Officer) of the Company, Directorate for Internal Control and Audit, Revision Commission, committees and commissions with the Sole Executive Body, and other structural subdivisions and employees of the Company duly authorized and responsible for the performance of their respective internal control functions⁴.

3. Objectives of Internal Control

3.1. Strategy and main business objectives:

(a) promote the investor's confidence in the Company and its management bodies, and protect investments of Shareholders and assets of the Company;

(b) ensure the achievement of stated strategic development goals and fulfillment of financial and business plans of the Company;

(c) promote security of the assets and efficient use of the Company's resources;

(d) efficient prevention, prompt detection and analysis of the risks in the business conducted by the Company to maximize the achievement of business goals;

3.2. Adequate accounting and accurate information:

(a) make sure that financial, accounting and management information and corporate accounting are complete, reliable, useful and accurate.

3.3. Performance of requirements applicable to the Company's business:

(a) efficient prevention, detection and elimination of violations in the course of financial and

⁴ set forth in the relevant documents of the Company

business transactions performed by the Company;

(b) promote compliance with requirements of applicable laws, both Russian and foreign, in the aspects and spheres of Company's business subject to regulations, as well as compliance with accounting and reporting rules⁵ applicable to the Company, including internal policies, regulations and procedures of the Company.

4. Internal Control Structure, Organization and Procedures

4.1. Major responsibility for efficient organization and maintenance of proper functioning of the internal control system within the Group and the Company lies on the following management bodies and individuals comprising the internal control bodies:

- Revision Commission of the Company;
- Board of Directors and its committees (Audit, etc.);
- Sole Executive Body (Chief Executive Officer);
- Sole Executive Bodies (Chief Executive Officers) of the affiliated and subsidiary companies, directors of the branches of management company⁶;
- Directorate for Internal Control and Audit of the Company (including the internal control and audit subdivisions in affiliated and subsidiary companies of the Group).

4.2. Internal control procedures shall be based on the integrated organizational and legal platform, the core of which is comprised of the following corporate documents:

- Charter;
- Regulations on the Revision Commission;
- Regulations on the Board of Directors;
- Regulations on Committees of the Board of Directors;
- Provisions on Individual Subdivisions, Committees and Commissions Responsible for Internal Control;
- The Company's Code of Corporate Conduct; and
- other internal standard documents, regulations and decisions of the Company's management bodies (policies, standards, regulations, instructions, provisions, orders, decrees).

4.3. Pursuant to applicable laws of the Russian Federation, the Audit Commission shall control the financial and business activities of the Company to the extent established by the laws, and report to the General Meeting of Shareholders.

4.4. The Board of Directors shall define the Company's policy concerning the internal control and, regardless of arrangements carried out by the Revision Commission, shall monitor functioning of the corporate internal control system on a regular basis. For this purpose, the Board of Directors shall:

- approve internal documents of the Company regulating the internal control procedures, while making and performing the management solutions and executing major business processes, including risk management procedures;

⁵ including without any limitation requirements to internal control over preparation of financial statements established by the relevant stock exchanges wherein the Company's shares and other equity securities are floated, as well as requirements of the Federal Service on Financial Markets of the Russian Federation, UK Listing Authority (UKLA), Combined Code on corporate Governance (See: *Turnbull Report*) and other regulatory authorities.

⁶ Directors of the branches shall be responsible for management and organization of efficient internal control concerning the controlled companies on the basis of management contracts (affiliated companies within the Group), acting by the authority identified in powers of attorney and provisions on subdivisions.

- monitor, analyze and appraise the risk management and internal control system functioning on a regular basis;
- approve strategies, budgets, Company development and investment programs, and, from time to time, hear the Chief Executive Officer of the Company, members of the company's Directorates, Chief Executive Officer and other officers of the management company and its structural subdivisions, directors and other executive officers of affiliated and subsidiary companies of the Group and the Company on the performance of approved plans and adopted decisions;
- review and appraise the performance of the approved development strategies, annual and quarterly budgets and plan targets, performance of the Company, its subdivisions, management bodies of the affiliated and subsidiary companies within the Group and their outputs on a regular basis.

4.5. For efficient implementation by the Board of Directors of the Company of direct control over the financial and commercial activities of the Company, supervision of the work of managing bodies in the risk management areas, internal control as well as for cooperation with external independent auditor, the Company's Revision Commission, the Company's Board of Directors has created an Audit Committee acting under the approved regulation on the audit committee.

4.6. To enable the Audit Committee to exercise the efficient control, and to make sure that the Company is acting in full compliance with the purpose of internal control, regardless of the Company's management and in addition to the control arrangements carried out by the functional supervisors and other internal control bodies, an independent structural subdivision of the Company – Directorate of Internal Control and Audit, which reports to the Audit Committee and acts on the basis of the approved Provisions on Subdivisions, shall perform the internal audit procedures and report the audit results (specifically, the appraisal of efficiency of internal control conducted by other bodies of internal control) and the detected violations directly to the Audit Committee.

4.7. For efficient implementation by the Board of Directors of the Company of direct control over the compliance with investment and other budgets of the Company, the Company's Board of Directors has created an Investment and Budget Committees acting under the approved regulations on committees.

4.8. The Chief Executive Officer shall ensure the creation and daily function of an efficient and reliable internal control system of the Company.

4.9. To enable the Chief Executive Officer exercise the efficient control over compliance with legal requirements, regulatory documents of the Company and instructions of its management by all subdivisions and employees of the Company, and to promote the achievement of other objectives of the internal control, Directorate of Internal Control and Audit shall perform all necessary arrangements and procedures related to inspection of subdivisions, transactions, documents and businesses of the Company, and report the results and detected violations directly to the Chief Executive Officer.

4.10. In addition to performance of internal control procedures by the abovementioned bodies acting in accordance with Provisions on Subdivisions, job descriptions and other corporate documents, it is hereby decided that procedures of internal control over financial and business activities of the Company shall be included in its major business processes, and represent the duties of functional supervisors within the scope of their jurisdiction, including, but not limited to:

- control over implementation of the corporate strategies of direct and portfolio investments of the Company;
- planning, approval and control over the corporate budget implementation;
- making the investment decisions and control over the investment projects implementation;
- monitoring of asset acquisition/alienation and restructuring;
- monitoring of compliance with title to assets of the Company;
- control over financial discipline within the Company;

- control over execution of decisions made by the management bodies and directors of the Company;
- financial and operational risk management in the course of the Company’s activities;
- monitoring of financial restrictions and established efficiency criteria upon the Company’s conclusion of transactions;
- control over the accounting policy and compliance with corporate reporting procedures (accounting, management, financial, taxation), and ensuring reliability and accuracy of accounting;
- control over compliance with legal requirements during the preparation for and conclusion of transactions;
- control over compliance with the established disclosure procedures;
- control over efficient interaction between structural subdivisions of the Company in the course of performance of financial and business plans;
- control over performance of decisions made by the Board of Directors, as well as orders, decrees and instructions of the Sole Executive Body of the Company;
- control over compliance with the established corporate document flow.

4.11. To promote efficient control over compliance with all necessary requirements and rules, achievement of financial and business objectives, efficient risk management in all corporate processes and transactions, functional supervisors shall regularly perform all necessary internal control procedures, designed and established in the Company, acting within the scope of their respective duties (self-control). Functional supervisors shall report the results of self-control (self-appraisal) and the detected violations to their immediate supervisors, Chief Executive Officer of the Company and other internal control bodies in accordance with procedures set forth in the Company’s documents.

4.12. For more details on operating procedures and functions of the internal control bodies, see relevant Provisions on Subdivisions and other documents of the Company.

5. Evaluation of Efficiency of Organization and Performance of Internal Control Procedures

5.1. Revision Commission of the Company shall appraise the efficiency of internal control system in the Company based on the results of the revisions and present the reports to the General Shareholders Meeting, the Board of Directors, its Audit Committee and other management bodies of the Company according to the procedure set forth in the Regulations on the Revision Commission.

5.2. The Company’s Board of Directors shall appraise the efficiency of internal control system as a whole and decide on the improvement of the effective procedures for internal control in the Company based on the recommendations of the Audit Committee, Revision Commission, reports on the checks carried out by the Revision Commission, Directorate for Internal Control and Audit, reports of external auditors and the engaged experts, data from other internal control bodies, at its own discretion or on the basis of the decisions of the Company’s General Shareholders Meeting.

5.3. Annually not later than two weeks prior to the date of the mandatory annual shareholders meeting of the Company the Board of Directors shall prepare, consider at its meeting and present to the general shareholders meeting an annual consolidated report on the condition of the internal control in the company

during the previous year based on the results of the work of internal control bodies.