

**Public Joint Stock Company PhosAgro**

APPROVED

by resolution of the Board of Directors of PJSC PhosAgro

dd. 18 May 2021

(Minutes of the Board of Directors Meeting

w/o No. dd. 19 May 2021)

**INTERNAL AUDIT POLICY  
(Internal Audit Regulations)**

*Revised*

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## **Terms, Definitions and Abbreviations**

In this Internal Audit Policy (Internal Audit Regulations), the following terms shall have the meanings indicated:

- “Company” means PJSC PhosAgro;
- “Policy” means the Internal Audit Policy (the Internal Audit Regulations);
- “IAD” means the Internal Audit Directorate;
- “IA Director” means the Internal Audit Director;
- “Board of Directors” means the Board of Directors of the Company;
- “Organizations” mean the legal entities, rendered internal audit consultancy services by the Company under the relevant agreements.
- “Audit Committee” means the Audit Committee, established by resolution of the Company’s Board of Directors.
- “Top Management” means the Chief Executive Officer of the Company, First Deputies and Deputies of the Chief Executive Officer of the Company, and the Chief Executive Officers of controlled entities and Organizations.

### **1. General Provisions**

- 1.1. This Policy establishes the general rules of internal audit, sets the goals, objectives and powers of the Internal Audit Directorate, as well as the rights and duties of the internal audit unit personnel.
- 1.2. The Policy has been developed according to the relevant Russian legislation, the Company’s Charter, other internal regulations of the Company, recommendations of the Corporate Governance Code (approved by the Bank of Russia Board of Directors on 21 March 2014), the Listing Rules of PJSC Moscow Exchange, as well as recommendations of the Bank of Russia on arrangement of risk management, internal control, internal audit, and activities of the Audit Committee of the Board of Directors (Supervisory Board) in public joint stock companies (Letter of the Bank of Russia No. IN-06-28/143 dd. 01.10.2020).
- 1.3. IAD shall be the body in charge of internal audit at the Company.
- 1.4. IAD shall implement internal audit projects included in the annual internal audit projects schedule, approved by the Board of Directors, as well as non-scheduled internal audit projects. Non-scheduled internal audit projects may be initiated by members of the Board of Directors or top management. The goals, objectives, deadlines, format and scope of details of unscheduled internal audit projects results are agreed with the initiator prior to the project implementation either orally or in writing.
- 1.5. The IAD shall be headed by the IA Director. The IA Director shall be appointed, and his appointment shall be terminated by the Company’s CEO according to resolution of the Board of Directors.
- 1.6. The IAD is a separate structural unit of the Company, reporting and accountable to the Board of Directors of the Company. It’s subordinate to the Company’s CEO.
- 1.7. Being the functional head of the IAD, the Board of Directors shall:
  - Approve the IAD performance schedule and budget upon preliminary consideration by the Audit Committee;
  - Receive information about progress in the performance schedule implementation and conduct of internal audit at the Company;
  - Upon preliminary consideration by the Audit Committee, approve the resolution on appointment and termination of appointment of the IA Director as well as the terms of the employment contract to be concluded with the IA Director;
  - Consider the material constraints on the IAD authority or other constraints which may adversely affect the conduct of internal audit.

- Approve the Internal Audit Policy (Internal Audit Regulations).
- 1.8. Being the administrative head of the IAD, the Company`s CEO shall:
  - Allocate funds according to the approved budget of the IAD;
  - Receive reports on the IAD performance;
  - Assist the IAD in interaction with the Company`s structural units;
  - Administer the IAD policies and procedures.
- 1.9. The rights, duties and responsibility of the IAD personnel are stipulated by the relevant job descriptions, drafted according to this Policy, as well as employment agreements and other internal regulations.

## **2. Goals of IAD**

IAD`s goal is to improve the efficiency of business management, internal control and risk management systems of the Company, its controlled entities and Organizations by means of independent and impartial assessment of their activities in risk management, corporate governance, information and internal control systems, as well as other projects within the IAD remit, in compliance with the International Professional Practices Framework of the Institute of Internal Auditors, including the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics.

## **3. Tasks and Functions of IAD**

- 3.1. IAD shall have the following tasks based on a systematical and consistent approach:
- 3.1.1. Independent and impartial assessment of internal control and risk management systems efficiency, as well as corporate management assessment.
  - 3.1.2. Assisting the Top Management and employees in development and implementation monitoring of procedures and measures to improve risk management and internal control systems, as well as corporate governance practices.
  - 3.1.3. Coordination of interaction with the external auditor of the Company and other persons (see Section 5 of this Policy for more details).
  - 3.1.4. Internal audit of controlled Organizations as per the established procedures.
  - 3.1.5. Drafting and submission to the Board of Directors, the Audit Committee and the CEO of the Company of information about the internal audit unit performance.
  - 3.1.6. Verification of compliance by the Company`s executive bodies and their personnel with the relevant legislation and internal regulations of the Company on insider information.
- 3.2. IAD shall perform the following functions to achieve its goal and accomplish the objectives:
- 3.2.1. Development of performance schedule (schedule of internal audit projects) basing on risk analysis which determines internal audit priorities in accordance with the Company`s goals.
  - 3.2.2. Collection of information required for efficiency assessment of internal control, risk management and corporate governance systems of the Company, which is conducted simultaneously with audit projects.
  - 3.2.3. Efficiency assessment of the risk management system includes, but is not limited to:
    - Verification of sufficiency and completeness of the risk management system elements for efficient risk management (goals and objectives, support services, process structuring, regulatory and methodological support, interaction among the risk management system units, reports);
    - Verification of whether all risks have been detected and whether they have been correctly assessed by the company management at all levels of corporate governance;
    - Verification of efficiency of control procedures and other activities in relation with risk management, including resource efficiency;
    - Analysis of information on realized risks (violations revealed in the course of internal audit, failures to reach the set goals, court proceedings);

- Reviewing the procedure for collecting and exchanging information about risks within the Company to ensure proper response to risks.

3.2.4. Efficiency assessment of the internal control system, which includes:

- Analyzing the consistency of business processes, projects and structural units objectives with the Company's goals, checking reliability and integrity control over business processes (activities) and information systems, including among other things reliability of procedures against unlawful actions, misconduct, or corruption;
- Verifying reliability of accounting (financial) reports, statistical reports, management statements and other reports, determining the extent to which the performance results of business processes and structural subdivisions of the Company stay in line with the objectives to be achieved;
- Determining the appropriateness of criteria established by executive bodies for analyzing the extent to which the set objectives have been achieved;
- Detecting the weaknesses of the internal control system, which did not (do not) let the Company achieve its objectives;
- Assessing the results of measures taken in order to eliminate the breaches and weaknesses and to improve the internal control system at all levels of corporate governance;
- Assessing the efficiency and appropriateness of resource application;
- Verification of assets protection;
- Verification of compliance with legislation, the Charter and internal regulations of the Company.

3.2.5. Efficiency assessment of corporate governance which includes verification of:

- Adherence to ethics principles and corporate values of the Company;
- Strategic and operational decision-making procedures at the Company;
- The procedure for setting the Company's goals, monitoring and achievement control;
- Compliance of the IT management system with the Company's strategy and goals;
- The level of regulatory support and information interaction procedures (including, among other things, internal control and risk management issues) at all levels of corporate governance, including interaction with interested parties;
- Securing the rights of shareholders, including the shareholders of controlled entities and the efficiency of interaction with interested parties;
- Procedures for disclosure of information on the Company's and its controlled entities' performance.

3.2.6. Internal audit projects implementation according to the performance schedule for the current year or non-scheduled audit projects, initiated by the IAD or implemented upon request of the Board of Directors or the Top Management.

3.2.7. Consulting and coordination of the Top Management in drafting action plans (follow-up plans) according to the results of internal audit projects, as well as control over such actions implementation by assessment of their appropriateness and efficiency following such plans implementation.

3.2.8. Regular submission to the Board of Directors, the Audit Committee and the Chief Executive Officer of information on the results of internal control, risk management and corporate governance systems efficiency assessment by the Internal Audit Directorate.

3.2.9. Consultancy projects upon request of the Top Management on issues of raising the efficiency of business processes, assets protection, provided that impartiality and independence of IAD activities are maintained (see Section 4 of this Policy for more details). The goals, objectives, deadlines, and format of consultancy projects results are agreed with the initiator prior to the project implementation either orally or in writing.

3.2.10. Monitoring the implementation of the Company's remedial action plans following the results of internal audit projects.

#### **4. Independence and Restrictions**

- 4.1. IAD shall be independent of activities being the subject matter of its projects.
- 4.2. IAD shall not be responsible for efficiency of risk management, corporate governance, information and internal control systems, as well as for promptness and quality of IAD recommendations implementation.
- 4.3. Therefore, IA Director and personnel shall not:
  - perform any duties which are not directly connected with the IAD` tasks;
  - take management decisions which are not directly connected with the IAD`s activities;
  - give instructions to the personnel of other structural units, except where such personnel is engaged in IAD projects implementation;
  - manage the functional areas of the Company`s activities, which require management decisions in relation with audit objects;
  - participate in any activity that might compromise or be perceived to impair impartiality of their assessment;
  - hold other positions (apart from the IAD position) at the Company, its controlled entities and Organizations as well as at any other legal entity being the Company`s competitor in its core business, if it prevents the IAD from achievement of its objectives;
  - take gifts, which could prejudice their professional opinion or could be considered as detrimental.
- 4.4. For the avoidance of conflict of interest the IAD personnel are not recommended to be shareholders (participants) of legal entities, being the Company`s competitors.
- 4.5. To ensure the IAD independence, its performance and managerial reports are separate (points 1.7-1.8).

#### **5. Interaction**

- 5.1. IAD shall interact with the Company`s external auditors in:
  - Coordination of work to reduce the annual (mandatory) audit costs and to avoid work duplication;
  - Receiving consultations (explanations) from the external auditor in relation with issues indicated in the external auditor`s opinion (report), or issues to be indicated in the external auditor`s opinion (report) according to legislation or agreement, as well as other issues at the IAD discretion.
- 5.2. In its performance, the IAD shall interact with other structural units of the Company, its controlled entities and Organizations, as well as with third parties to get consultations or guidelines and other relevant information within its remit.
- 5.3. Information shall be exchanged, as appropriate, orally, by e-mail, through memos, requests, meetings and in any other form.
- 5.4. In case a third party is engaged to perform certain internal audit tasks, the IA Director shall be responsible for their fulfillment and results.

#### **6. Rights and Powers of IAD Personnel**

IA Director and IAD personnel shall have the following rights and powers:

- 6.1. Get direct and unlimited access to the Top Management and the Board of Directors, including the Audit Committee.
- 6.2. Request and get unlimited access to any assets, documents, accounting records and other information on the Company`s activities, make copies of documents, take photos and videos.
- 6.3. Review and assess any documents or information, requested during projects implementation and submit such documents and/or information to the Top Management and the Board of Directors.

- 6.4. Request and receive, as agreed with the Top Management, the relevant assistance from the personnel of units involved in the projects as well as from the personnel of other units of the Company, its controlled entities and Organizations.
- 6.5. Inform the Top Management and the Board of Directors of proposals for improvement of the relevant systems, processes, policies, procedures, performance methods, as well as comments on issues within the IAD remit.
- 6.6. Engage, if necessary, employees of other structural units of the Company, its controlled entities and Organizations, as well as external experts in the course of projects implementation.

## **7. Internal and External Assessment of IAD Performance**

- 7.1. The IA Director shall arrange for internal and external independent assessments of IA performance to ensure the high standards of internal audit at the Company.
- 7.2. The internal assessment of internal audit shall be performed once a year and shall include a self-assessment for compliance with the International Professional Practices Framework of the Institute of Internal Auditors, including the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics, as well as compliance with the internal regulations of the IAD.
- 7.3. The Audit Committee of the Board of Directors shall regularly (at least once a year) evaluate the efficiency of the Company's internal audit functions.
- 7.4. The external independent assessment shall be carried out every three years as agreed upon by the Audit Committee of the Board of Directors. The candidate to carry out the assessment shall be preliminarily agreed upon by the Chairman of the Audit Committee of the Board of Directors.

## **8. Final Provisions**

- 8.1. This Policy, any amendments or additions shall be approved by the Company's Board of Directors.
- 8.2. Issues not covered by this Policy, shall be governed by Russian legislation, the Company's Charter and other internal regulations of the Company.
- 8.3. This Policy shall become effective upon approval.