

**“APPROVED BY”**  
The Board of Directors of OJSC “PhosAgro”  
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**INTERNAL AUDIT POLICY**  
(Regulations on Internal Audit)

Moscow  
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## Terms, Definitions and Abbreviations

The following terms are defined in this Internal Audit Policy (these Regulations on Internal Audit) as follows:

- “Company” – PJSC “PhosAgro”;
- “Policy” – the Internal Audit Policy (the Regulations on Internal Audit);
- “IAD” – the Internal Audit Directorate;
- “Director” – the Internal Audit Director;
- “Board of Directors” – the Board of Directors of the Company;
- “Entities” – the legal entities, to which the Company renders consultancy services in relation with internal audit under the respective agreements.
- “Audit Committee” – the Audit Committee, established according to the decision of the Company’s Board of Directors.
- “Top Management” – 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 companies and Entities.

### 1. General Provisions

1.1. This Policy provides for the general rules of internal audit, defines the goals, objectives and tasks of the Internal Audit Directorate, and establishes the rights and duties of employees working with the structural subdivision, which performs internal audit functions.

1.2. The Policy has been developed according to the Russian legislation in force, 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 March 21, 2014) and the Listing Rules of Closed Joint-Stock Company “MICEX Stock Exchange”.

1.3. In OJSC “PhosAgro” the body responsible for internal audit shall be the Internal Audit Directorate (IAD), which shall include the internal audit department and the special projects department.

1.4. The internal audit department shall perform internal audit projects included in the annual plan of internal audit projects, approved by the Board of Directors.

1.5. The special projects department shall perform nonscheduled projects of internal audit.

1.6. The IAD is headed by the Internal Audit Director. The Internal Audit Director shall be appointed by the Chief Executive Officer of the Company and his appointment shall be terminated by the Company’s CEO according to the resolution of the Board of Directors.

1.7. The IAD is a separate structural subdivision of the Company, which takes instructions of the Board of Directors of OJSC “PhosAgro” and reports to the Company’s CEO.

1.8. As the functional head of the IAD the Board of Directors shall:

- Approve the IAD’s performance plan after preliminary consideration by the Committee;
- Receive information about the progress in the performance plan and internal audit performed in the Company;
- Approve after the preliminary consideration by the Audit Committee the decision on appointment and termination of appointment of the Internal Audit Director;
- Consider the material constraints on the IAD authority or other constraints which may have an adverse effect on performing the internal audit.

1.9. As the executive head of the IAD the Company’s CEO shall:

- Allocate funds according to the approved budget of the IAD;
- Receive reports on the IAD’s activities;
- Assist the IAD in interaction with the Company’s structural subdivisions;
- Administer the policies and activities procedures of the IAD.

1.10. The rights, duties and responsibility of the IAD`s employees are provided for by the respective job descriptions, developed according to this Policy, employment agreements and other internal documents of the Company.

## 2. Goals of IAD

The IAD`s goal is to improve the efficiency of business management, internal control and risk management systems of the Company, its controlled companies and Entities by means of independent and impartial assessment of their activities in risk management, corporate governance, information systems and internal control system, as well as other projects within the authority of the IAD, in compliance with the International Standards of Internal Audit, approved by the Institute of Internal Auditors.

## 3. Objectives and Tasks of IAD

3.1. The IAD shall perform the following tasks through application of a systematical and consistent approach:

3.1.1. Independent and impartial assessment of efficiency of internal control and risk management systems, as well as corporate management assessment.

3.1.2. Assistance to the Top Management in the development of, and monitoring of implementing the procedures and measures for improvement of the risk management and internal control systems and corporate governance of the Company.

3.1.3. Coordination of activities with the external auditor of the Company and other persons (see Section 5 of this Policy for more details).

3.1.4. Performance under the established procedure of internal audit of controlled companies.

3.1.5. Drafting and submission to the Board of Directors, the Audit Committee and the CEO of the Company of information about the activities of the internal audit subdivision.

3.1.6. Verification of compliance of the Company`s executive bodies and their employees with the provisions of legislation and internal documents of the Company related to insider information.

3.2. The IAD shall perform the following tasks to achieve its goal and accomplish the objectives:

3.2.1. Development of the performance plan (the plan of internal audit projects) basing on risks analysis which shall define internal audit priorities in accordance with the Company`s goals.

3.2.2. Collection of information necessary for efficiency assessment of internal control, risk management and corporate governance systems of the Company, performed while audit projects fulfillment.

### **Assessment of efficiency of the risk management system includes:**

- 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 between structural subdivisions within the risk management system, 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 about occurred risk events (violations identified as a result of the internal audit, failures to reach the set goals, court proceedings).

### **Assessment of efficiency of the internal control system includes:**

- Analyzing the consistency of the objectives of business processes, projects and structural subdivisions 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 acts, wrongdoings and 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 in 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 resources application;
- Verification of assets protection;
- Verification of meeting the requirements of legislation, the Charter and internal documents of the Company.

**Assessment of corporate governance efficiency includes verification of:**

- Observing the principles of ethics and business values of the Company;
- The procedure for setting the Company's goals, monitoring them and control over their achievement;
- 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 companies and the efficiency of interaction with interested parties;
- Procedures for disclosure of information about the Company's and its controlled companies' activities.

3.2.3. Fulfillment of internal audit projects according to the performance plan for the current year or nonscheduled audit projects, initiated by the IAD or performed at requests of the Board of Directors or the Top Management.

3.2.4. Consulting and coordination of the Top Management activities in relation with drafting activity plans (follow-up plans) according to the results of internal audit projects, as well as control over such activities implementation by assessment of their appropriateness and efficiency basing on the results of performing the plans.

3.2.5. Providing on a regular basis to the Board of Directors, the Audit Committee and the Chief Executive Officer of the Company of information about the results of efficiency assessment by the Internal Audit Directorate of the internal control, risk management and corporate governance systems.

3.2.6. Performing consultancy projects at request of the Top Management on issues of raising the efficiency of business processes, assets protection, subject to ensuring impartiality and independence of the IAD's activities (see Section 4 of this Policy for more details).

#### **4. IAD's Independence and Restrictions on its Activities**

4.1. The IAD is independent of those activities and dealings which are the subject matter of its projects.

4.2. The IAD shall not be responsible for the efficiency of risk management, corporate governance, information and internal control systems, as well as for promptness and quality of implementing the recommendations proposed by the IAD.

4.3. In this regard the IAD's Director and employees shall not:

- Perform any operational and job duties which are not directly connected with the IAD's tasks;
- Take management decisions which are not directly connected with the IAD's activities;
- Direct the activities of other structural subdivisions' employees, except for cases where such employees participate in (or assist with) implementation of the IAD's projects;

- Manage the functional areas of the Company's activities, which require management decisions in relation to audit objects;
- Participate in any activities that could prejudice the impartiality of their assessment and that could be considered as detrimental;
- Hold other positions (besides the position in the IAD) in the Company, its controlled companies and Entities as well as in any other legal entity which competes with the Company in the core areas of activities, if it prevents the IAD from achievement of its objectives;
- Take any things as a gift, which could prejudice their professional opinion or could be considered as detrimental.

4.4. For the avoidance of conflict of interest the IAD's employees are not recommended to hold shares of (participate in) any legal entity, which competes with the Company.

4.5. For ensuring the IAD's independence its performance and managerial reports are separate (Clause 1.7).

## **5. Interaction of IAD**

5.1. The IAD shall interact with the Company's external auditors with regard to:

- Activities coordination in order to reduce the costs of the annual (obligatory) audit 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 which are to be indicated in the external auditor's opinion (report) according to legislation or a contract conditions, as well as other issues at the discretion of the IAD.

5.2. While performing its activities the IAD shall interact with other structural subdivisions of the Company, its controlled companies and Entities, as well as with third parties for receiving consultations, guidance papers and other necessary information within its authority.

5.3. Information interchange shall be effected when necessary by word of mouth, by e-mails, internal memos, requests, at meetings and in any other form.

## **6. Rights and Functions of IAD's Employees**

The Director and employees of IAD shall have the following rights and functions:

6.1. Receive direct and full access to the Top Management and the Board of Directors.

6.2. Request and receive full 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. Consider and assess any documents and information, requested during performing the projects and provide such documents and/or information to the Top Management and the Board of Directors.

6.4. Request and receive subject to agreement with the Top Management any necessary assistance of employees of those structural subdivisions which also deal with the projects' issues as well as assistance of other structural subdivisions of the Company, its controlled companies and Entities.

6.5. Inform the Top Management and the Board of Directors of proposals aimed at improvement of the respective systems, processes, policies, procedures, methods of performing the activities, as well as comments to issues within the authority of the IAD.

6.6. To engage, if necessary, employees of other structural subdivisions of the Company, its controlled companies and Entities, as well as external experts while performing the projects.

## **7. Final Provisions**

7.1. This Policy and any amendments and additions to it shall be approved by the Company's Board of Directors.

7.2. Issues which are not stipulated by this Policy, shall be regulated by the legislation of the Russian Federation, the Company`s Charter as well as other internal regulations of the Company.

7.3. This Policy shall come into force from the moment of its approval.