

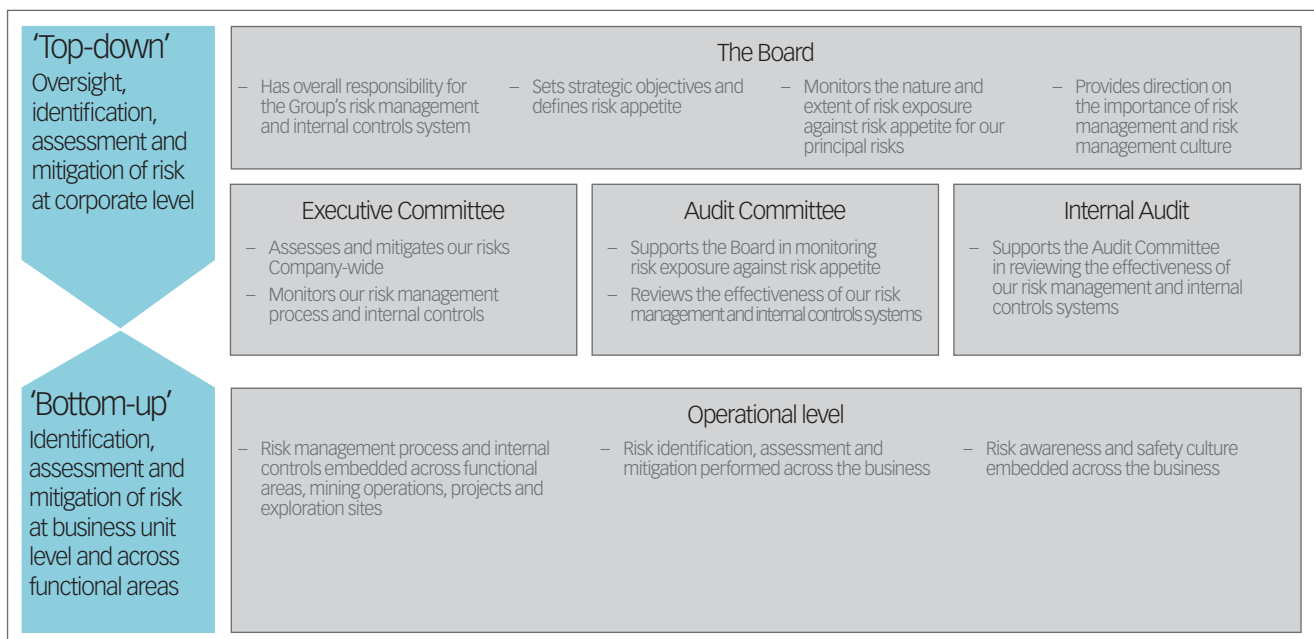
# Our Risk Management Framework

Our comprehensive risk management framework ensures that we manage and mitigate the risks that could impact our ability to execute our strategy. A more deeply embedded risk management culture supports long-term value creation for all Fresnillo stakeholders.

The Board of Directors is responsible for maintaining our risk management and internal controls systems. Through its risk governance mandate, the Board defines risk appetite and is responsible for monitoring our risk exposures to ensure that the nature and extent of significant risks taken by the Company are aligned with our overall goals and strategic objectives. The Audit Committee supports the Board of Directors in monitoring our risk exposures and has been delegated the responsibility for reviewing the effectiveness of our risk management and internal controls systems. Internal Audit supports the Audit Committee in evaluating the design and operating effectiveness of our risk mitigation strategies and the internal controls implemented by management.

Risk management processes and internal controls operate across our mine sites, exploration and development projects and corporate offices. Risk management and internal control procedures are embedded within our business practices across functional areas including finance, HSECR, human resources, procurement, IT, legal, security and insurance management. Risk identification, assessment and mitigation is performed at various degrees of granularity from a very detailed assessment of safety risk at the operational hazard level at each mine site, to the analysis and monitoring of project delivery risks within each of our major capital projects, to the assessment and mitigation of strategic and financial risk at the Executive Management and Board level.

## Risk management framework diagram



## What we did in 2011

We view risk management as an evolving process, and have taken significant steps during 2011 to build on our existing risk management framework to enhance risk governance and risk management across the business. We had three key priorities for improving our risk management in 2011:

- Formalise the definition of risk appetite for our principal risks
- Augment our risk identification and assessment process throughout the business
- Implement an anti-bribery and corruption programme

## What we plan to do in 2012

Now that we have a more formalised definition of risk appetite and enhanced risk identification and assessment processes, we will continue to evolve our risk management process in 2012 with our priorities being:

- Continue to embed risk management processes within the business. Formalise our practices for defining, implementing and monitoring risk management action plans for the principal risk areas, particularly where the current level of risk exceeds our risk appetite.
- Continue to refine our risk monitoring processes. Define and implement Key Risk Indicator metrics in alignment with our Key Performance Indicators to allow management to identify changes to our risk exposures and to highlight new and emerging risks.
- Managers across the business will undergo refresher training so that we may continue to integrate risk management processes, giving us a consistent risk management approach, risk language and risk culture.

What we did in 2011

Benefits for our Stakeholders

### Formalise the definition of risk appetite for our principal risks

Risk appetite was defined by the Board of Directors through a series of workshops and dedicated time during the July and October Board meetings. During these sessions the Directors reviewed our goals and strategy from a risk perspective, the expectations of our stakeholders and the current level of risk exposure for our principal risk areas. Risk appetite is not static, and going forward the Board of Directors will continue to monitor and reassess our principal risks and risk appetite to ensure it continues to be aligned with our goals and strategy.

Formalising the definition of risk appetite strengthens our risk governance structure within which opportunities can be pursued and the downside of risks mitigated by setting out which risks and how much risk we are willing to take in the pursuit of our goals.

### Augment our risk identification and assessment process throughout the business

We implemented a more structured approach for risk identification and assessment incorporating a 'top-down' and 'bottom-up' perspective on risk. The 'top-down' process involved the identification and assessment of risks by the Board, Executive Management and other management at the Corporate level. The 'bottom-up' process involved a more comprehensive and operationally focused identification and assessment of risks provided by senior and line management at the Business Unit level and across functional areas. Each risk identified through these processes was assessed and scored based on both quantitative and qualitative criteria for likelihood of occurrence and the degree of impact on the achievement of our objectives.

We have enhanced our mechanism for understanding, documenting, analysing and responding to risks as they emerge at different levels throughout the organisation, while maintaining focus by the Board of Directors and Executive Management on our strategic risks. This enriches our ability to analyse risks and respond to opportunities as we pursue our strategic objectives.

### Implement an anti-bribery and corruption programme

The Board of Directors appointed a Compliance Officer and a Compliance Manager, and established an Honour Commission to provide oversight and governance for the anti-bribery and corruption programme. Meetings of the Honour Commission have begun, and reports received through our enhanced whistleblower mechanism continue to be analysed and responded to directly by the Honour Commission. We have implemented a bribery and corruption risk assessment process, which provides management and the Board with deeper insights into the potential transactions and third-party relationships through which bribery and corruption may occur. As well as performing an assessment of Fresnillo plc's exposure to potential bribery and corruption risks, core anti-bribery and corruption policies were designed, approved and implemented across the business through training, with employees now required to certify their understanding and compliance with the policies.

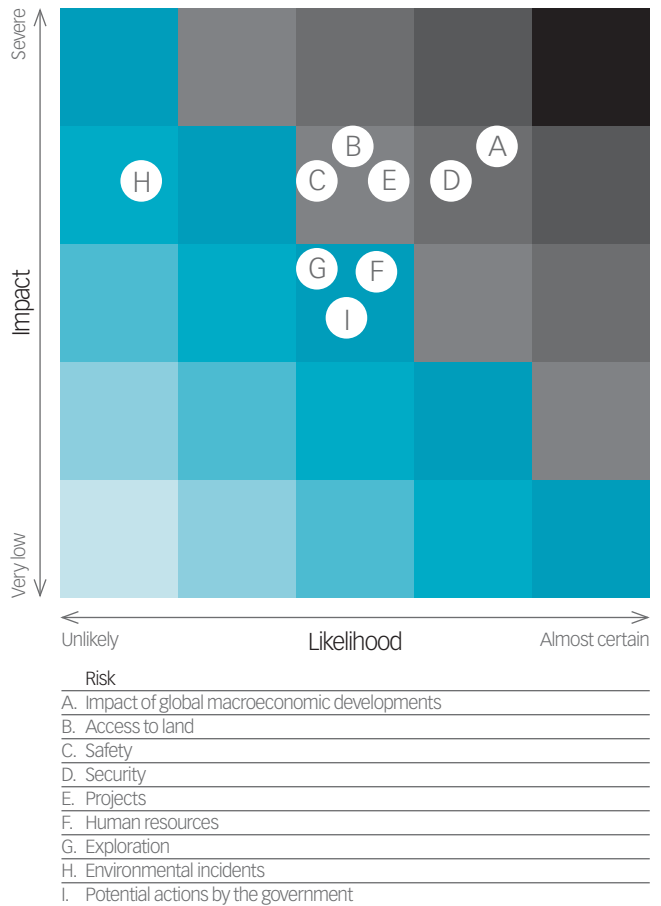
The implementation of the anti-bribery and corruption programme demonstrates our dedication to conducting business with the highest standards of integrity and ethical values. We have formalised our mechanisms for ensuring that the six principles for bribery prevention, as set out in the Bribery Act 2010 Guidance published by the Ministry of Justice, are embedded within our business. The work we have completed in 2011 to implement an anti-bribery and corruption programme provides our stakeholders with greater comfort that we have the commitment, structure and procedures in place to effectively counter bribery and corruption.

## Our risk profile

97 risks were identified and assessed through our risk identification and assessment processes in 2011. Executive Management and the Board of Directors performed further analysis to prioritise these risks with a focus on highlighting the principal risks to the achievement of our strategic objectives. Of the total risks identified, 25 were highlighted as higher priority and then further consolidated into our nine 'principal' risks. These nine risks are monitored closely by Executive Management and the Board of Directors. While these principal 'top 9' risks represent a significant portion of our overall risk profile, Executive Management and the Audit Committee continue to monitor the entire universe of risks to identify and assess any changes in risk exposure, new or emerging risks for consideration by the Board of Directors.

## Risk heat map

The following risk heat map illustrates the relative positioning of our principal risks in terms of impact and likelihood:



Our approach for managing risk is underpinned by our understanding of our current risk exposures, risk appetite and how our risks are changing over time.

Risk	Risk rating	Risk appetite	Risk change during 2011	Description of risk change
A. Impact of global macroeconomic developments	High	High	↑	Considering the cyclical nature of metals prices the likelihood of a drop in the price of gold and silver has increased
B. Access to land	High	Medium	↑	More challenging negotiations for land in Mexico combined with an increase in requirement for land
C. Safety	High	Low	↑	Increased reliance on contractors, not all of whom are initially familiar or in compliance with our safety policies and procedures
D. Security	High	Low	↑	Increased state of insecurity in Mexico
E. Projects	High	Medium	—	We continue to mitigate project risk through our investment governance process and system of capital project controls
F. Human resources	Medium	Medium	↑	Greater competition for skilled personnel
G. Exploration	Medium	Medium	—	Continued investment in the exploration programme has stabilised this risk
H. Environmental incidents	Low	Low	↓	Mature environmental management programme continues to reduce the likelihood of a significant environmental incident
I. Potential actions by the government	Medium	Low	↑	Pressure for a mining tax in Mexico has increased. Mining taxes have recently been implemented in other Latin American countries (Chile and Peru), and Mexican legislators continue to take steps to move in this direction.

For those risks with a risk rating that is above our risk appetite, management takes action to reduce the level of risk. See Risk Response/Mitigation in the following table.