Managing our Risks

Fresnillo plc recognises that risk is inherent in all business activities. Successful management of these risks, therefore, is key to accomplishing our strategic goals. As such, we maintain a comprehensive risk management framework that serves to identify, assess and respond to our principal risks.

Our approach to risk management is not intended to eliminate risk entirely, but rather to provide the structural means to identify, prioritise and manage the risks involved in our activities.

Specifically, we continue to embed a culture of risk awareness through an effective risk governance structure and increasingly efficient risk management processes within each functional area, including finance, HSECR, human resources, procurement, IT, legal, security and insurance management, as well as across all mine sites, exploration and development projects.
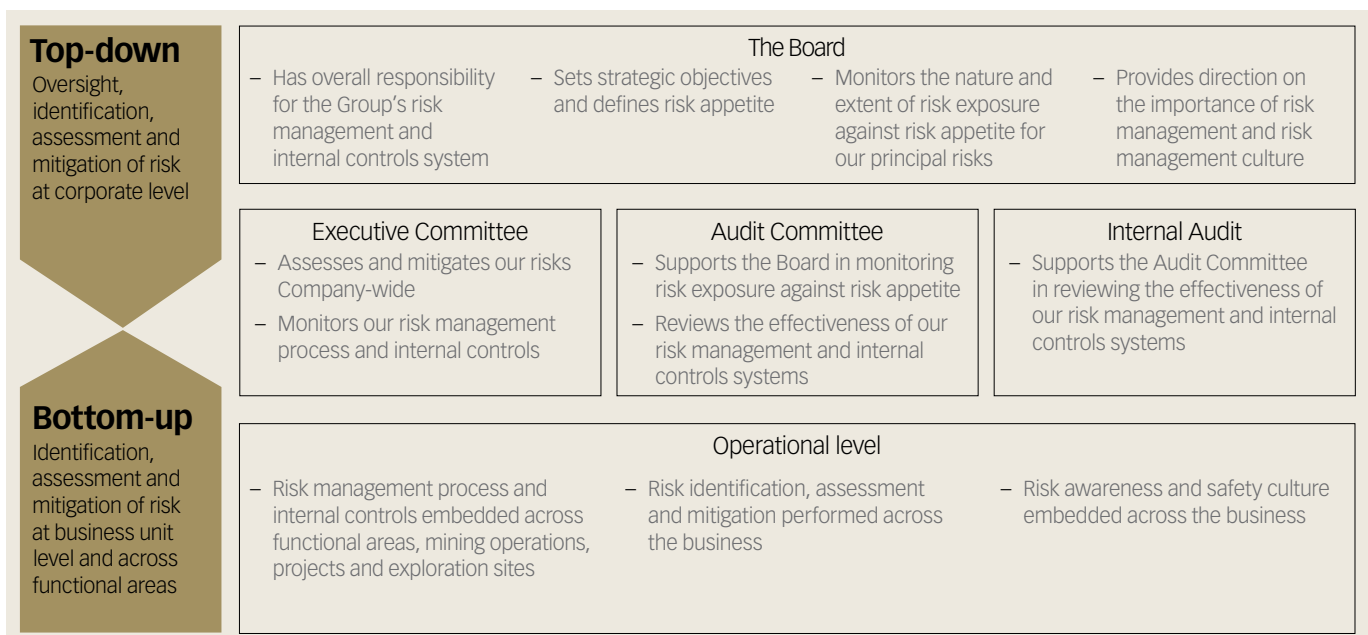
Governance

The Board of Directors is responsible for maintaining the Company's risk management and internal control systems. The Board's mandate includes defining risk appetite and monitoring 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 is responsible for reviewing the effectiveness of our risk management and internal control 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.

Executive Management reviews strategic objectives and risk appetite, assesses the level of risk attendant to achieving these objectives, and incorporates controls into the strategic and operating plans to mitigate them. This top-down risk identification and assessment process helps to ensure that the bottom-up process is aligned with and focused on current strategy and objectives.

Risk management framework diagram

Top-down
Oversight, identification, assessment and mitigation of risk at corporate level

The Board
– Has overall responsibility for the Group's risk management and internal controls system
– Sets strategic objectives and defines risk appetite
– Monitors the nature and extent of risk exposure against risk appetite for our principal risks
– Provides direction on the importance of risk management and risk management culture

Executive Committee
– Assesses and mitigates our risks Company-wide
– Monitors our risk management process and internal controls

Audit Committee
– Supports the Board in monitoring risk exposure against risk appetite
– Reviews the effectiveness of our risk management and internal controls systems

Internal Audit
– Supports the Audit Committee in reviewing the effectiveness of our risk management and internal controls systems

Bottom-up
Identification, assessment and mitigation of risk at business unit level and across functional areas

Operational level
– Risk management process and internal controls embedded across functional areas, mining operations, projects and exploration sites
– Risk identification, assessment and mitigation performed across the business
– Risk awareness and safety culture embedded across the business

Maturity of the risk management system

The annual and on-going elements of the risk management process have been formalised, including the risk identification, assessment and monitoring processes. We continue working towards embedding a risk management culture amongst all employees, who show increasingly greater awareness.

Key developments in 2014 included: 'risk management' competency being incorporated into annual staff performance reviews and the implementation of software to automate the assessment of risks in all our business units, projects and exploration offices. We continued to report quarterly on key risk indicators (KRIs) for our principal risks in order to detect and analyse trends, thereby allowing us to mitigate them more effectively.

We will continue to build on our existing risk management framework, enhancing risk governance and management across the business in line with the changes to the UK Corporate Governance Code. In order to support the Board responsibilities of i) monitoring and reviewing risk management and internal control systems; ii) satisfying itself that they are functioning effectively; and iii) that corrective action is being taken where necessary, in addition to the permanent risk management activities, our priorities for 2015 are to:

– develop a continuous monitoring process consisting of validating the effectiveness of current controls;

– continue promoting process ownership at the business unit level (first line of defence) through periodic reporting of the effectiveness of controls that mitigate process risks; and

– increase the scope and robustness of the risk framework for project development governance.

2014 risk assessment

The annual risk assessment exercise across all our operations, advanced projects, exploration offices, support and corporate areas identified and evaluated 104 risks in 2014. This universe was narrowed down into major risks monitored by Executive Management and the Audit Committee, and then further consolidated into the principal risks monitored by Executive Management and the Board of Directors.

For the bottom-up process, the teams in charge of each business unit determined the perceived level of risk for their individual unit. Executive Management then reviewed and challenged each perceived level through the evaluation of certain controls and relative risk levels, and compared it to Fresnillo plc's risk universe as a whole. The same risk analysis was conducted on advanced projects, detailing the specific risks faced by each project according to the unique characteristics and conditions of each site.

We believe a number of events in the Mexican mining industry in 2014, including major environmental incidents, on-going land access issues and labour union developments, have the potential to adversely impact the entire industry. As such we determined that certain risks facing Fresnillo plc have changed; the risk rating levels have increased for potential actions by the government, public perception against mining, and access to land; we also designated union relations as a separate principal risk from human resources, within which it had previously been included. As with all our key risks, the Board and the Executive Committee continue to closely follow these.
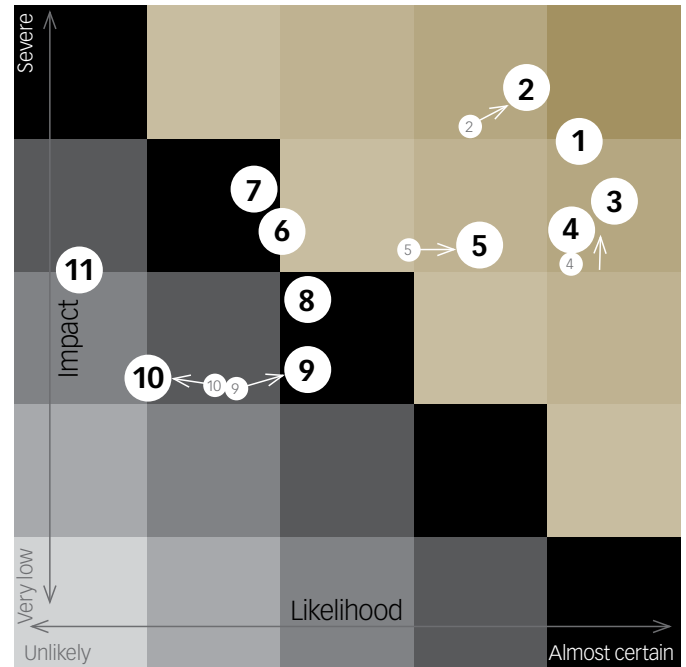
(X) 2014   (x) 2013

Risk*

1. Impact of global macroeconomic developments (silver and gold prices)
2. **Access to land**
3. Security
4. **Potential actions by the government (e.g. taxes/more stringent regulations)**
5. **Public perception against mining**
6. Projects (performance risk)
7. Safety
8. Exploration
9. **Union relations**
10. **Human resources**
11. Environmental incidents

* Bold text indicates those risks which have changed during 2014.