

**Fresnillo plc**  
(the “Company”)

**Audit Committee**

**Terms of Reference:**

References within this section to the “**Committee**” shall mean the Audit Committee.

**1 Membership**

- 1.1** The Committee shall be appointed by the Board, on the recommendation of the Nominations Committee in consultation with the Chairman of the Committee. The Committee shall be made up of at least three members, all of whom shall be independent non-executive directors, at least one of whom shall have recent and relevant financial experience. The Committee as a whole shall have competence relevant to the sector in which the Company operates.
- 1.2** Appointments to the Committee shall be for a period of up to three years, extendable by no more than two additional three year periods, so long as members continue to be independent.
- 1.3** Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board, Chief Executive, Finance Director, other directors, the heads of risk, compliance and internal audit and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate.
- 1.4** Where an internal audit function is discussed at a meeting, the head of internal audit should normally attend that meeting.
- 1.5** The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 1.6** The Board shall appoint the Committee Chairman who shall be an independent non-executive director. In the absence of the Committee Chairman, the remaining members present shall elect one of themselves to chair the meeting.

**2 Secretary**

The Company Secretary or his nominee shall act as the Secretary of the Committee.

**3 Quorum**

The quorum necessary for the transaction of business is two. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

**4 Frequency of Meetings**

- 4.1** The Committee shall meet not less than three times a year at appropriate times in the reporting and audit cycle and otherwise as required.<sup>1</sup>
- 4.2** The external auditors, Finance Director and/or the head of internal audit and/or officers responsible for risk assurance may request a meeting of the Committee if they consider that one is necessary.

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<sup>2</sup> Meetings should be organised so that attendance is maximised

- 4.3** At least once a year, without the presence of executive management and without the presence of internal auditors, the Committee shall meet with the external auditors.

## **5 Notice of Meetings**

- 5.1** Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members or at the request of external auditors or head of internal audit if they consider it necessary.
- 5.2** Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

## **6 Minutes of Meetings**

- 6.1** The Secretary (or his/her nominee) shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2** The Secretary (or his/her nominee) shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.3** Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, shall be circulated to all of the Board members once they had been approved by the Chairman of the Committee.

## **7 Annual General Meeting**

The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

## **8 Duties**

The Committee should carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

### **8.1 Financial Reporting**

**8.1.1** The Committee shall:

- (i) monitor the integrity of the financial and narrative statements of the Company, including its annual and half-yearly reports, preliminary results announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain; and
- (ii) review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature;

provided that such monitoring and review is not inconsistent with any requirement for prompt reporting under the Listing Rules.

**8.1.2** The Committee shall review and challenge where necessary:

- (i) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (ii) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/Group;
- (iii) the methods used to account for significant or unusual transactions where different approaches are possible;
- (iv) the basis and criteria (or judgements) used to calculate taxes and PTU charges;
- (v) the going concern basis of preparation for the Company accounts (including supporting cashflow analysis and funding options) and consider whether there are any material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of those accounts. The Committee shall also consider the wording of any disclosures to be made by the Board in connection with such assessments;
- (vi) the clarity of disclosure in the Company's financial reports and the context in which statements are made;
- (vii) compliance with the rules of the London Stock Exchange, the Listing Rules and other legal and regulatory requirements; and
- (viii) all material information presented with the financial statements, such as the strategic report and the corporate governance statement (insofar as it relates to the audit and risk management) and the reserves and resources data included in the annual report.
- (ix) Where requested by the Board, the Committee shall review the content of the annual and half-yearly report and accounts (as well as other public reports and reports to regulators), and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

## **8.2 Internal Controls and Risk Management Systems**

The Committee shall:

- 8.2.1** keep under review the process of management's implementation of the Company's enterprise risk management framework and risk governance systems and the Company's risk matrix;
- 8.2.2** ensure that a robust assessment of the principal and emerging risks facing the Company, including those that would threaten the business model, future performance, solvency and liquidity is undertaken at least once a year;
- 8.2.3** monitor the implementation and regular updating of the Company's anti-bribery and corruption ("**ABAC**") programme;
- 8.2.4** monitor the Company's risk management and internal controls systems, including, where relevant, the requirements of the ABAC programme, and at least annually carry out a review of their effectiveness (such monitoring and review to cover all material controls, including financial, operational and compliance controls);
- 8.2.5** annually review and seek assurance from management concerning compliance with mining licence provisions;
- 8.2.6** annually review a summary of the Company's insurance policies;

- 8.2.7 review, from time to time, the Company's treasury policy and strategies;
- 8.2.8 regularly review reports from management on litigation, IT strategy, and taxation risks and mitigation;
- 8.2.9 review information to be published by the Company on payments to governments and UK taxation strategy;
- 8.2.10 review and approve the processes underlying the statements to be included in the Annual Report concerning risk management and internal controls systems prior to making a recommendation to the Board that it approve the relevant statements.<sup>1</sup> and
- 8.2.11 ensure that, at least annually, an assessment of the prospects of the Company is undertaken, such assessment to consider: (i) the appropriate period over which such assessment should be made; (ii) the qualitative and quantitative analyses supporting the assessment; the adequacy of the stress and sensitivity analysis for different scenarios used; and (iii) any qualifications or assumptions to be included in the statement.

### **8.3 Whistleblowing**

The Committee shall review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and receive regular reports on cases raised. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action. The Committee will report to the Board on the effectiveness of the arrangements and the issues raised through these arrangements at least twice a year.

### **8.4 Internal Audit**

The Committee shall:

- 8.4.1 monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- 8.4.2 approve the appointment and removal of the head of the internal audit function;
- 8.4.3 consider and approve the remit of the internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- 8.4.4 review and assess the annual internal audit plan;
- 8.4.5 review the relationship between the internal and external audit work to improve the overall effectiveness of audit activities;
- 8.4.6 review regularly all reports on the Company from the internal auditors;
- 8.4.7 review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- 8.4.8 meet the head of internal audit at least twice a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the Chairman of the Board and to the Committee.

### **8.5 External Audit**

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<sup>1</sup> Unless this is done by the Board as a whole.

The Committee shall:

- 8.5.1** consider and make recommendations to the Board in accordance with all legal and regulatory requirements, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- 8.5.2** oversee the timing of and conduct of the selection process for new auditors ensuring that the requirements of the UK Corporate Governance Code, Competition and Markets Authority Order and EU Audit Directives and Regulations in relation to external audit tenders are adhered to;
- 8.5.3** ensure that at least once every ten years the audit services contract is put out to tender and in respect of such tender conduct the selection process and ensure that all tendering firms have appropriate access to information and individuals during the tendering process;
- 8.5.4** if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 8.5.5** oversee the relationship with the external auditor including (but not limited to):
  - (i) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (ii) approval of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
  - (iii) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
  - (iv) assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
  - (v) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business) which might compromise the independence of the external auditor in any way;
  - (vi) agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
  - (vii) overseeing the auditor's compliance with the additional reporting requirements in the Audit Report and report to the Board on the results of the statutory audit in accordance with the Statutory Audit Directive (Directive 2006/43/EC) (as amended); and
  - (viii) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
- 8.5.6** meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- 8.5.7** review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;

- 8.5.8** review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- (i) a discussion of any major issues which arose during the audit;
  - (ii) all significant accounting and audit judgments; and
  - (iii) levels of errors identified during the audit.
- 8.5.9** review the effectiveness of the audit;
- 8.5.10** review any representation letter(s) requested by the external auditor before they are signed by management;
- 8.5.11** review the management letter and management's response to the auditor's findings and recommendations;
- 8.5.12** develop and implement a policy on the supply of non-audit services by the external auditor, taking into account the impact on the independence of the external auditor and any relevant ethical guidance on the matter from time to time;
- 8.5.13** pre-approve permissible non-audit services as applicable in accordance with the Committee's policy on the supply of non-audit services after having assessed the threats to independence and the safeguards applied;
- 8.5.14** develop and implement a policy regarding the provision of tax services by the auditor; and
- 8.5.15** where the external auditor has disclosed to the Committee that it receives more than 15% of its total fees from the Company the Committee will:
- discuss with the external auditor the threats to its independence and applicable safeguards;
  - consider whether the audit engagement should be subject to an engagement quality review by another audit firm prior to the issuance of the audit report; and
  - decide whether the external auditor may continue to carry out the statutory audit for an additional period, when fees received from the Company exceed 15%. The additional period may not exceed the duration of two years.

## **8.6 Related Party Matters**

The Committee shall:

- 8.6.1** review the key financial and commercial terms of any proposed agreement which require the approval of independent directors of the Company under the Relationship Agreement, Chapter 11 of the UKLA Listing Rules and/or DTR 7.3 of the Disclosure Guidance and Transparency Rules prior to such agreement being reviewed and approved by the independent directors as provided for by the Relationship Agreement; and
- 8.6.1** once a year, undertake a review of all of the related party transactions between the companies within the Group and connected entities.

## **9 Reporting Responsibilities**

- 9.1** The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

- 9.2** The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3** The Committee shall compile a report to shareholders on its activities to be included in the Company's Annual Report in line with the UK Corporate Governance Code and related FRC Guidance specifically:
- 9.3.1** the significant issues that the Committee considered relating to the financial statements, and how these issues were addressed;
  - 9.3.2** an explanation of how it has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans;
  - 9.3.3** in the case of the Board not accepting the Committee's recommendation on the external auditor appointment, reappointment or removal, a statement from the Committee explaining its recommendation and the reasons why the Board has taken a different position;
  - 9.3.4** where there is no internal audit function, an explanation for the absence, how internal assurance is achieved, and how this affects the work of external audit; and
  - 9.3.5** an explanation of how auditor independence and objectivity are safeguarded, if the external auditor provides non-audit services.

## **10 Other**

The Committee shall:

- 10.1** have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
- 10.2** be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 10.3** give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing Rules as appropriate;
- 10.4** be responsible for co-ordination of the internal and external auditors;
- 10.5** oversee any investigation of activities which are within its terms of reference and act as a court of the last resort; and
- 10.6** at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

## **11 Authority**

The Committee is authorised:

- 11.1** to seek any information it requires from any employee of the Company in order to perform its duties;
- 11.2** to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference; and
- 11.3** to call any employee to be questioned at a meeting of the Committee as and when required.

*Approved by the Board of Directors of the Company on 26 February 2020*