



Compliance

Procedure for fraud prevention and deterrence

Objective Establishing the basic concepts and procedures to prevent, detect and mitigate fraud risk exposure in Peñoles (referred to as Peñoles or The Group), affiliates and subsidiaries according to the vision, Code of Conduct, CRIL values, best practices, regulations and norms applicable.

Scope All companies conforming Peñoles Group and all its subsidiaries.

Input	Output
<ul style="list-style-type: none"> • Fraud risk identification and analysis program. • Follow-up on strategies and controls to respond to fraud risk. • Results about the integrity environment perception test. • Reports about fraudulent behaviour via the Whistle blowing hot line (Línea Correcta). 	<ul style="list-style-type: none"> • Results of the regular fraud risk analysis at Peñoles. • Results of regular follow-up and monitoring on controls and transactions related to fraud risk. • Analysis of relative materiality of frauds reported via the Whistle blowing hot line. • Indicators related to fraud risk prevention and mitigation.

Operational Norms

Fraud Overview The term fraud, according to the present procedure, is defined as the people’s conscious behavior or set of behaviors to try and get any illicit financial benefit for themselves or in favor of third parties by deceiving or abusing their job/position and harming the company integrity. In serious cases, the consequences might harm Peñoles and its subsidiaries’ patrimony, reputation or operations.

Factors of influence

Several factors might exert any influence on the fraud risk exposure level, some of them are presented below:

- The type of industry in which Peñoles operates.
- Context where Peñoles operates and its business model.
- Internal Control effectiveness.
- Integrity and values of Peñoles and their employees.

Fraud Categories

At Peñoles there are two main fraud categories, internal and external fraud:

Internal fraud (also known as occupational fraud) is the abuse of employees’ position to gain any personal financial benefit, use or unduly appropriation of tangible or intangible resources owned by the company, or to pretend that Peñoles and its subsidiaries have a better or worse financial position than the one they really hold.

Potential risks posed by the illicit use or appropriation of Peñoles’ patrimony:

- Money or any securities transferred to false accounts for embezzlement purposes; consequently, gaining a personal financial benefit or for any third party (e.g. fake clients or providers, inexistent employees, among others).
- Altering information or any operational, administrative, accounting or financial records due to pressure exerted or to get any bonuses (e.g. zero accidents, sales, or financial results bonuses).
- Robbery or illicit amendment of any records related to working capital, inventories, components, machinery, and other pieces of equipment posted as fixed assets.
- Robbery, appropriation or illicit use of intangible assets (e.g. registered trademarks, results of any

specialized research on mining- metallurgy; operational technical information, among others) that might harm the value, reputation or competitive advantage of Peñoles.

- Illegal use of company's assets (e.g. any facilities, machinery, computers, Internet, telephones, or company vehicles) for personal purposes or to benefit any third party alien to Peñoles' operations.

Fraud in Financial Statements

False information in financial statements showing altered, inaccurate, or wrong financial information, with the purpose of either strengthening or weakening the actual company's financial position, to be disclosed to the company's stakeholders, any financial institution, risk rating agencies, or regulators (tax, authorities, stock exchange regulators, etc.). Next, there is a list of common fraudulent financial statements:

- Wrong or inaccurate revenue, cost and expenditure reports.
- Inaccurate financial information disclosure (e.g. General Balance Sheet, financial position, cash flow, reserves, among others).
- Inaccurate operational results information disclosure.
- Unrealistic business plans and forecasts, particularly due to any pressure exerted to achieve short-term results with no consensus or negotiation or without considering internal/external conditions.
- Hiding/altering assets (both tangible and intangible).
- Hiding/altering assets, goods and resources (e.g. money, valuables, inventory); or outflows of assets, goods and resources.
- Hiding/altering purchases/acquisitions/hiring.
- False accounting records to show misleading financial information.

Bribery or illicit rewards

- Illegal payments or fees received or demanded by someone holding an advantageous decision-making position at Peñoles to favor unfair advantageous conditions when awarding any projects, services or purchasing any goods from third parties or selling any products marketed by Peñoles.
- Any goods or valuable items given to any employee with Peñoles by a third party as a reward in exchange of granting advantageous conditions, projects/services contracted, or any goods purchased under questionable or illegal conditions.

For further information about bribery, corruption and conflicts of interest, please refer to the [Procedure to prevent corruption and bribery \(PR-CU-0009\)](#), [Procedure for conflicts of interest management \(PR-CU-0004\)](#) and the [Manual for Corporate Integrity \(MA-CU-0002\)](#).

External fraud: Dishonesty and/or collusion involving third parties or third parties and employees with Peñoles for unduly getting any benefit by harming the company. Some specific cases are listed below:

- Collusion to be awarded any purchase/bidding process.
- Purchasing/awarding any projects to a specific supplier or service provider with no reasonable support.
- Billing the company for goods/services that have not been supplied or rendered.
- Charging non-competitive, unreasonable or unfair prices over market value for goods/services.
- Any discounts, credit notes or rewards showing irregular conditions in favor of specific clients when compared to prices charged for similar transactions.
- Disclosure of any confidential information regarding technical specifications, services or cost estimates to benefit or award non-competitive, reasonable or fair unfair conditions in favor of any third party.
- Purchasing any goods or services with no respect to standards or specifications required to harm any company part of Peñoles.

For any further information, questions about the contents of the present document or any advice regarding fraud, please contact the Compliance Function via e-mail at Orientacion_Eticacumplimiento@penoles.com.mx

Fraud prevention and deterrence approach

The fraud prevention and deterrence approach is aimed at preventing, detecting and mitigating risk exposure by devising and implementing training, communication, advising, identification, analysis, control, and investigation strategies and actions to timely detect and manage any behavior and situation that might result in frauds. Additionally, the Three Lines of Defense Model support the fraud risk prevention and deterrence corporate strategy at Peñoles.

The Three Lines of Defense Model

First line of defense: all the divisions shall implement and operate strategies, courses of action and controls to prevent any fraud risk, ensure Peñoles' assets and information protection. This line includes Top Management and all Corporate and Divisional areas.

Second line of defense: within the scope of its responsibilities, the Compliance Function (i) identifies the different areas and processes exposed to fraud risk and assists on mitigation activities; (ii) follows up to ensure that all Compliance controls are in place and effectively operating; and (iii) communicates its activities and key findings to the Ethics and Corporate Values Committee, Top Management or, if the case, Peñoles Audit Committee. The Compliance Function aligns its activities to the other Corporate Governance and Risk Management bodies at Peñoles

Third line of defense: conformed by all the independent functions such as the Internal Audit Function or external auditors, that provide opinions and recommendations about the effectiveness of risk management, internal control system and Peñoles' Corporate Governance processes based on a control, standards and international practices framework. The Compliance program is aimed at ensuring that all guidelines, processes and controls are properly implemented, achieve their objectives and are regularly assessed.

Roles, responsibilities and interactions

Peñoles is responsible for setting up mechanisms to ensure timely fraud prevention and detection and creating awareness and training programs to embed a stance of zero tolerance to fraud into the corporate culture.

All employees are responsible for ethically using company resources available for them as part of their duties, including money in cash, valuables or securities, any other asset, real estate, machinery, among others. Some of these employees are those who are directly in charge of any payments, collection, reception and assets or third party relationship management.

All employees in charge of preparing records and reports, as well as meeting regulatory obligations shall be committed to ensure data truthfulness and accuracy in accordance with the norms and regulations in force and include appropriate details that allow proper operation transparency.

All employees shall be able to identify unusual behaviors, actions or activities in the workplace and be attentive to any irregularities or non-compliance with procedures and guidelines in force at Peñoles, and the laws in force.

Based on the Three Lines of Defense Model described in the Fraud prevention and deterrence approach in the present document, the different bodies and functions' responsibilities, activities and interactions at Peñoles are as follows:

Ethics and Corporate Values Committee (The Committee)

- Establishing strategies and approving new ideas and actions for fraud risk prevention, deterrence and mitigation at Peñoles.
- Closely follow up fraud risk response strategies and actions coordinated by the Compliance Function at Peñoles.
- Based on the cases reported via the whistle blowing hot line (Línea Correcta) and dully investigated for The Committee analysis, determine remedial actions or punishment and actions to be taken to prevent similar situations from happening again.

Top Management and Team of Corporate/Divisional Directors)

- Setting up objectives and approving response actions to risk fraud detected via risk analysis conducted by the Compliance Function.
- Facilitating and approving all resources required to implement fraud risk response strategies and actions.
- Promoting a culture of prevention and zero tolerance to behaviors and situations that might be

perceived as or result in fraud.

- Regularly follow up, along with the corresponding corporate/divisional areas and the Compliance Function at Peñoles, all the key fraud risk indicators.

Corporate/Divisional areas

- Designing, implementing and maintaining fraud response controls, strategies, and actions based on findings and recommendations identified by the fraud risk analyses carried out by the Compliance Function or resulting from internal or external audits.
- Enforcing procedures in place at Peñoles in connection with purchases of goods, services, financial and accounting transactions, among others to reduce or mitigate fraud risk exposure.
- Reporting to the Compliance Function any potential fraud risk for analysis and assistance to design and implement fraud risk response strategies, actions and controls.
- Embedding a fraud risk prevention culture.
- All divisions responsible for holding commercial relationships with third parties shall dully conduct the Third Parties Due Diligence process in compliance with the [Procedure for Third Parties Due Diligence \(PR-CU-0004\)](#).
- Implementing, executing and regularly following up key fraud risk indicators.

The Compliance Function

- Regularly promoting a corporate culture embedded with integrity and the organizational values at Peñoles.
- Developing, coordinating and attending communication strategies and training to prevent and deter any fraud risk at Peñoles.
- Thoroughly analyzing results from the integrity environment perception model especially in connection with fraud risk.
- Mapping, identifying and prioritizing fraud risks based on the different levels of corporate/divisional areas exposure and identified processes.
- Conducting regular clearly defined and prioritized fraud risk analyses.
- Communicating analyses results to the Ethics and Corporate Values Committee, Peñoles Audit Committee, Top Management and the different corresponding corporate/divisional areas at Peñoles.
- Supporting the design and implementation of strategies, actions and response controls to already defined and analyzed fraud risks.
- Devising, coordinating and advising on fraud risk indicators implementation.
- Monitoring strategies, actions, controls and indicators related to defined fraud risks. Communicating monitoring results to the Ethics and Corporate Values Committee, Peñoles Audit Committee, Top Management or the related Corporate/Divisional areas.
- In case of detecting any risk alerts that require independent assurance over processes or specific areas, requesting the assistance of the Internal Audit Function or any external assurance specialist.

Internal Audit Function

- Including fraud risks, with an independent, objective and free of any conflict of interest approach in its audit plans and assurance activities and providing the corresponding opinions and recommendations.
- Communicating the corresponding Corporate/Divisional areas, the Ethics and Corporate Values Committee, The Audit Committee and the Compliance Function the different findings and recommendations related to fraud risks resulting from audits completed.
- Conducting special fraud risk-related audits requested by the Ethics and Corporate Values Committee at Peñoles, Peñoles Audit Committee or the Compliance Function. Eventually, communicating the resulting findings and recommendations.

Regulatory and External Assurance Instances

Communicating Top Management and related Corporate /Divisional areas the findings result, in an independent, objective and free of conflicts of interest manner, about all the situations that could be categorized as fraud risk as well as the Compliance Function to coordinate response actions, strategies and controls to effectively manage the risks and findings detected.

Suspected or known fraudulent behaviors

All reasonable suspected or known fraudulent actions, based on the assumptions defined in the *Fraud Overview* section in the present document, shall be reported via the whistle blowing organizational channels available to all employees and stakeholders (Línea Correcta), refer to the [Procedure for reception, attention and follow-up to unethical behaviour reports \(PR-CU-0010\)](#) or contacting directly the Compliance Function at Orientacion_Eticacumplimiento@penoles.com.mx.

Definitions

Fraud	Any behaviour or set of behaviors aimed at gaining a personal or Third Party benefit by deceiving or abusing the position held in the organization and eventually harming the business integrity. Serious cases might also harm the patrimony, reputation or operations of Peñoles and its subsidiaries
Patrimony	All assets (e.g. tangible and intangible assets, working capital, etc.) property of Peñoles used to achieve its corporate goals and conduct its operations.
Tangible assets	All material assets owned by Peñoles and used to attain its corporate goals and conduct its operations, such as premises, money, valuables or securities, working capital, machinery, equipment, components, raw materials, inventory, etc.
Intangible assets	Industrial secrets, intellectual property, proprietary information either printed or stored in any electronic devices, mining rights, etc.
Third parties	Any individual or organization that holds any relationship with Peñoles (e.g. suppliers, service providers, contractors, among others).

Procedure Flowcharts

Related Procedures

Annexes

- [N/A](#)

- [Procedure to prevent corruption and bribery.](#)
- [Procedure for conflict of interest management.](#)
- [Procedure for Third Parties Due Diligence.](#)
- [Procedure for reception, attention and follow-up to unethical behaviour reports.](#)
- [Manual for Corporate Integrity.](#)

Information for document update

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