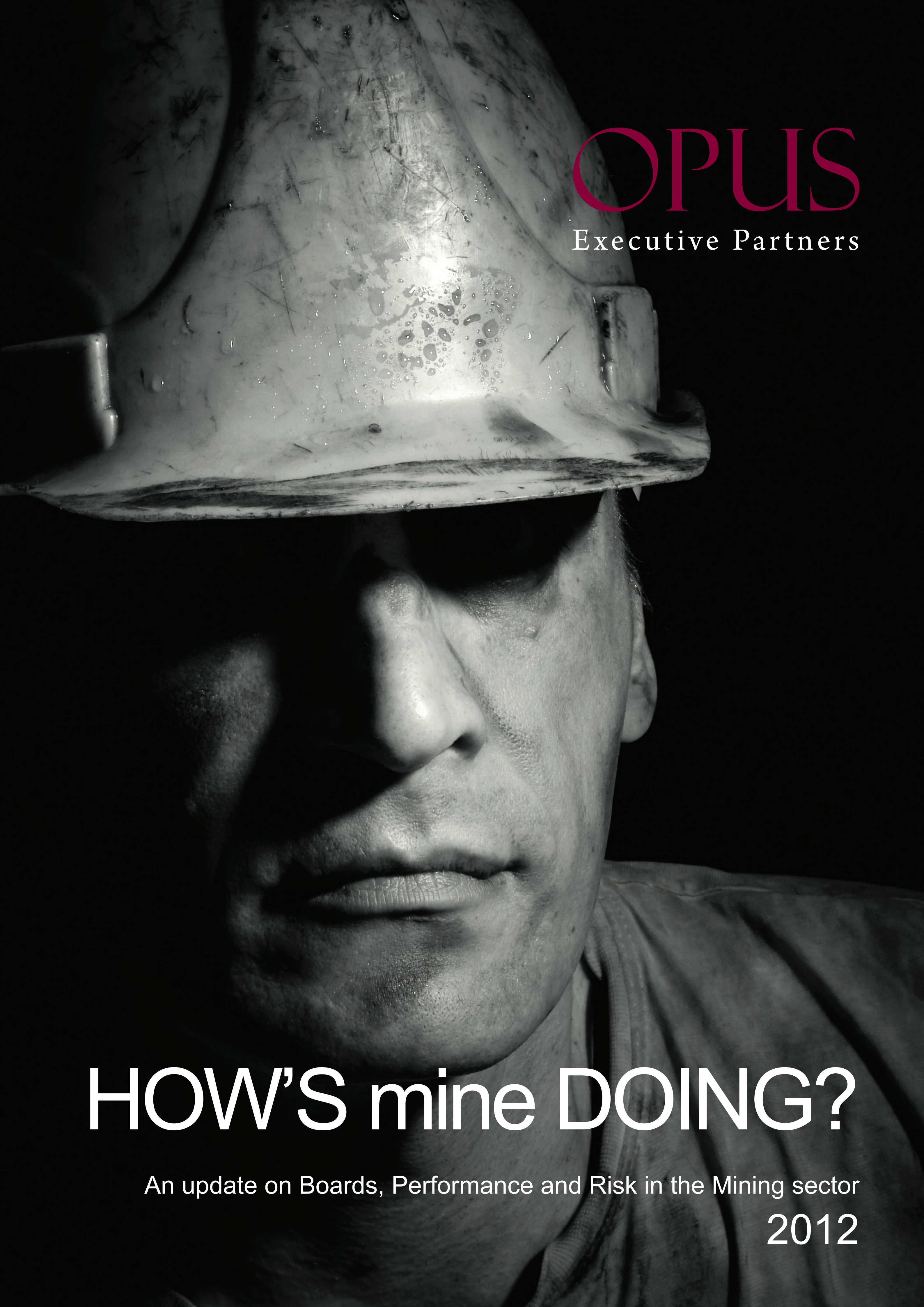

OPUS
Executive Partners

HOW'S mine DOING?

An update on Boards, Performance and Risk in the Mining sector

2012

Foreword by Brian Martin,
Managing Partner at Opus Executive Partners

In 2011 Opus published a report on the link between a specific corporate governance scoring system and share price performance over a sustained period within the London listed Mining sector. The findings were disappointing but not surprising. However we chose not to report on the actual abilities and skill-sets of the Boards themselves, as this could have been interpreted as subjective as opposed to the objective data reported.

Since then the markets have been challenging and it appears there is still an aversion to manageable risk within the resources industry. We have now revisited the sector, which has grown to 200 companies, to see how it compares to 2011. The findings are very interesting.

Please read and hopefully enjoy this updated report on ‘How’s Mine Doing?’.

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December 2012

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1. Introduction and Executive Summary

Although the period since our last report has undoubtedly been a challenging one for many companies there are some encouraging signs of confidence in the London-listed Mining sector. New companies are still choosing to list here and there has been a marked increase in the number of companies choosing to comply with the recommendations of the June 2010 UK Corporate Governance code. The study seeks to consider what effect good Corporate Governance can have on mitigating risks and improving returns. Some key findings are as follows:

Table 1:

Governance and Performance:	The average Corporate Governance score has increased by 24%	The top twenty Governance scoring companies decreased shareholder value by 27%	The bottom twenty Governance scoring companies decreased shareholder value by 75%
Board Composition:	The number of Independent Non Executive Directors has increased by 21%	15% of companies still have no Chief Executive Officer	Average Board size has increased by 25%

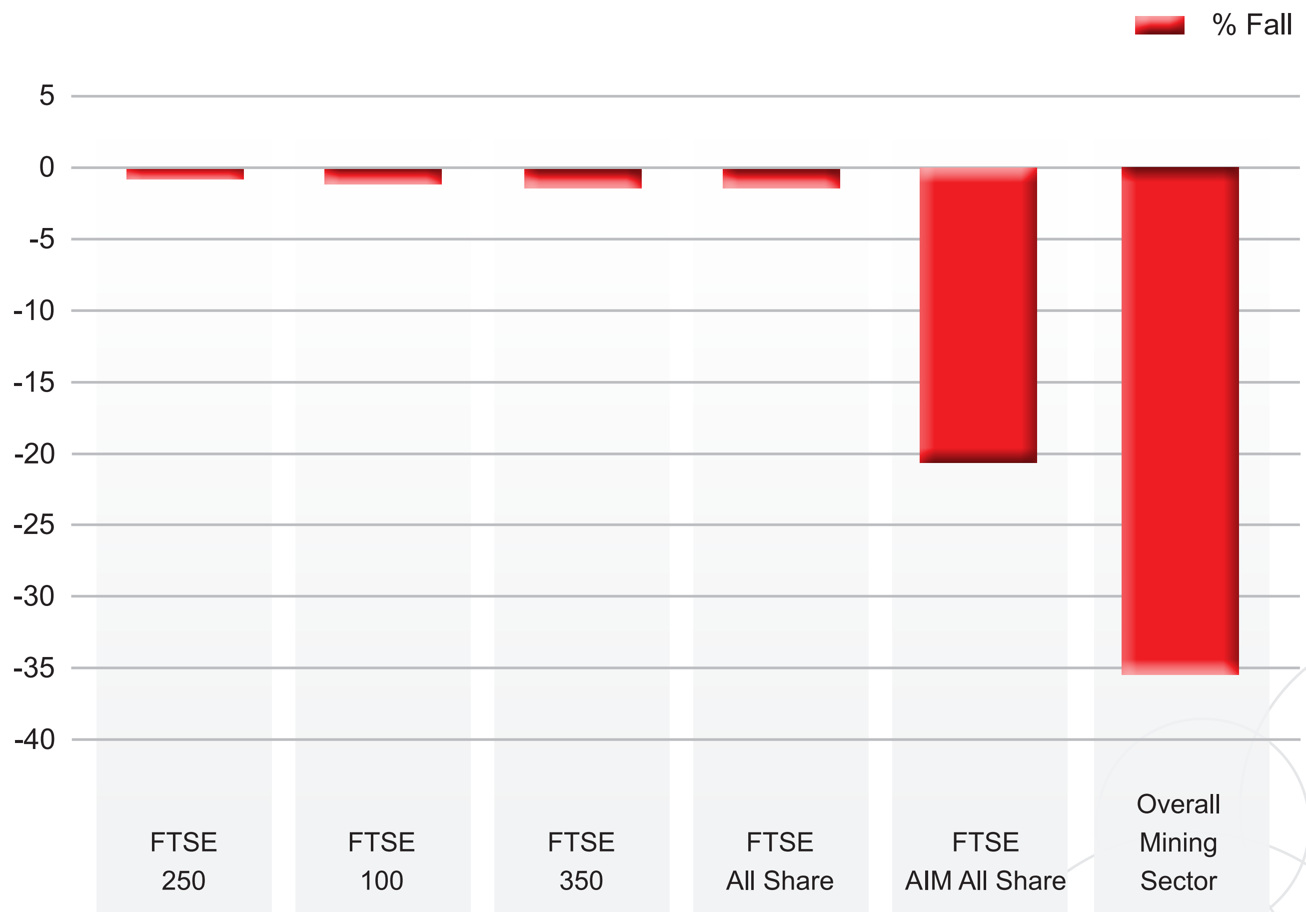
2. Main Report
2.1 Performance

Most companies have struggled to improve shareholder value

Share prices determined by the markets are still universally accepted as the overriding measure of a company's success or failure. Consequently, this study continues to use share prices as the key indicator of a company's performance. Share price performance was analysed for the whole LSE listed Mining sector from June 2011 to December 2012.

Of the 200 Mining companies that made up the sector in December 2012 166 had operated fully within the analysed period of eighteen months. The remaining 34 were listed during it. The ***full*** analysis is restricted to the 166 companies that operated during the period, but additional analysis covering the new companies is included where appropriate. To ensure the data was not distorted this was done on an absolute basis. The graph below compares the share price performance of the UK-listed Mining companies against other key Market Indices:

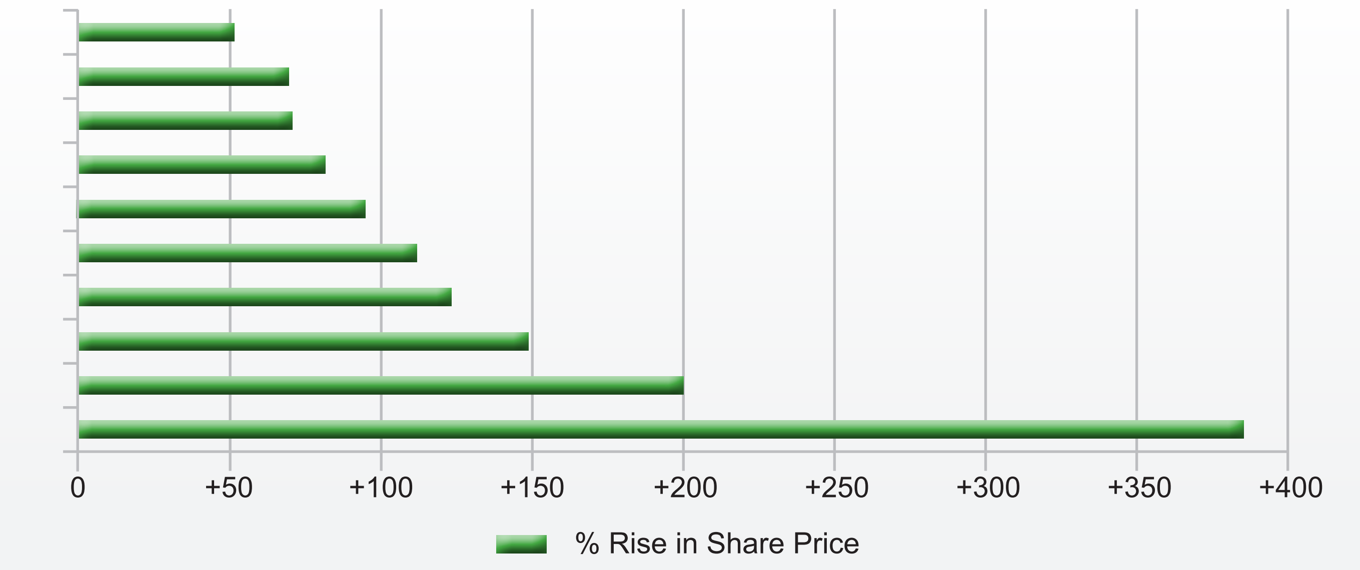
Graph 1: Percentage Performance of UK Indices June 2011 - December 2012.



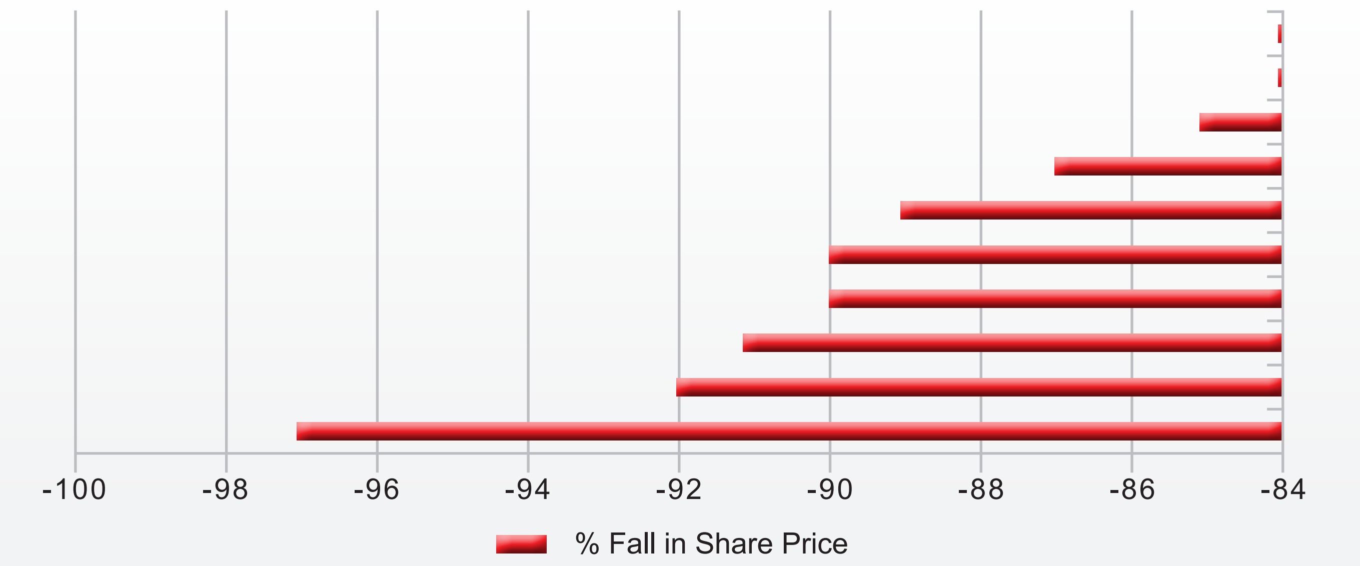
The performance of Main-Market listed companies was almost identical to their peers on AIM

The following two graphs show the upper and lower performance spectrum of the companies that have operated fully throughout the analysed period:

Graph 2: Share price performance of Top 10 Mining companies June 2011 - December 2012



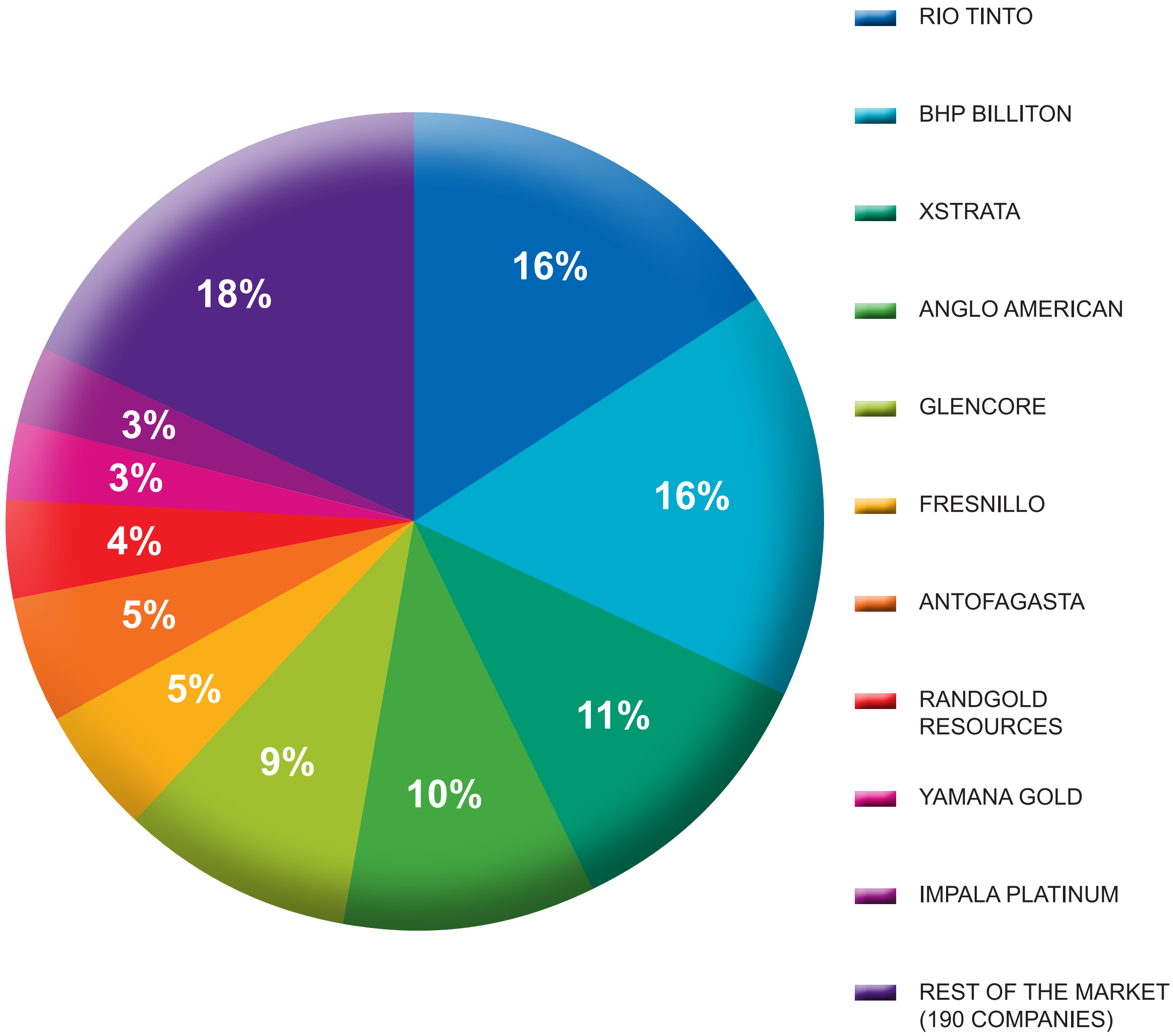
Graph 3: Share price performance of Bottom 10 Mining companies June 2011 - December 2012



Over the past eighteen months only 13% of companies in the Mining Sector managed to increase shareholder value *by an average of 72%*. The other 87% of companies delivered a decrease in shareholder value *by an average of 52%*. Investors now have *only* a 1-in-8 chance of randomly picking a successful company to invest in. This is significantly lower than last year's 50-50 chance and may be a general reflection of the Market's continuing risk averse sentiment.

The aggregate Market Capitalisation of the Mining Sector is £255 Billion

Graph 4: Domination of the Mining Sector (by share of total Mkt Cap) December 2012



The number of Mining companies listed in London has increased by 12% from 179 to 200

2.2 Corporate Governance

The average Corporate Governance score has increased from 38% to 47%

The Opus 2011 report developed a Corporate Governance scoring system to determine how closely Board structures relate to the recommendations of the Code. It is ranked out of a possible 8 points. This is based on the key *objective* recommendations of the Code regarding Board structure - it is not an assessment of collective or individual capabilities:

- A point was awarded for having a Chairman.
- A point was awarded for having a CEO.
- A point was deducted if the roles of the Chairman and CEO were held by the same person.
- A point was awarded for having the minimum level of Independent Non-Executive Directors (INEDs).
- A point was awarded for having one of the Independent Non-Executive Directors designated as the Senior Independent Non-Executive Director (SINEDs).
- A point was awarded for having at least half the board comprised of Independent Non-Executive Directors (Ratio of INEDs/EDs).
- A point was awarded for having a correctly set up Remuneration Committee.
- A point was awarded for having a correctly set up Audit Committee.
- A point was awarded for having a correctly set up Nomination Committee.

The average Corporate Governance score for the whole sector has increased by 24% from three to almost four out of a possible eight points. This represents a significant commitment by the London-Listed Mining companies to comply with the recommendations of the Code rather then explain why they have not. It might be surprising to note that, although they are not subject to the recommendations of the Code, this improvement is largely down to companies listed on AIM - not the Main Market. However, there is still a significant degree for improvement as the independence of Non-Executive Directors and the existence of Senior Independent Non-Executive Directors largely remains.

2.3 The link between Corporate Governance and Performance

In last year's report we accepted that the diverse factors influencing the long-term performance of a company are too numerous to enable a clear-cut relationship between Corporate Governance and performance to be proven. However, the data we analysed suggested there is a strong link between good governance and better shareholder return.

Since the 2011 report was published many of the companies listed on the London listed Mining Sector have provided *negative* shareholder returns. Leaving specific examples to one side, this performance seems to be a reflection of the continued risk averse sentiment within the financial markets. This may go some way to explaining why both the Mining and Oil & Gas Sectors, traditionally seen as potentially riskier investments, have both significantly under-performed against other key UK market indices.

This performance seems to be spread relatively evenly across all companies comprising the London-Listed Mining Sector from the biggest companies in the FTSE 100 down to the smallest companies listed on AIM. The general share price performance was very similar for both companies bound by the Code in the Main Market and those on AIM that are not.

Although this relatively even performance may largely mask any potential link between governance and shareholder return a correlation was still visible when the companies in the sector were ranked according to their Corporate Governance scores.

The top twenty performing companies had an average Corporate Governance score of 99% and delivered a decrease in shareholder value of 27% which was better than the overall sector. Conversely the bottom twenty companies had an average Corporate Governance score of only 21% and decreased shareholder value by 75% which was significantly worse than the overall sector.

This study is intended to be an objective study into the London listed Mining sector. As such we stress that because of diverse factors affecting company share price performances, not least the on-going uncertainty in financial markets, it may be subjective to identify this correlation between Corporate Governance and Performance as a causal link.

Despite a difficult year for many companies a positive correlation between good governance and shareholder value is still discernible

2.4 Board Composition

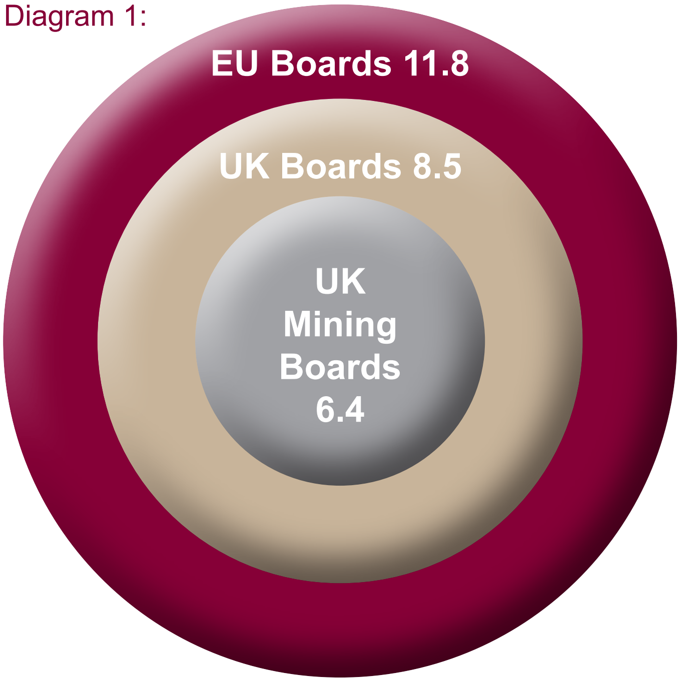
30 companies have no CEO

The UK Corporate Governance Code seeks to improve the stewardship of UK-listed companies through recommendations on how Boards should be structured and run. This report has sought to explore the relationship between Corporate Governance and performance but would like to recognise there may be other influential factors that The Code does not take into account. This section seeks to provide clarity on other objectively measurable aspects of Board composition.

The average UK-listed Mining company now has 6.4 Board Directors comprising 2.3 Executive Directors and 4.1 Non-Executive Directors. Although this has grown by 25% since our last report it still remains below the average UK Board size which, at 8.5 is one of the smallest in the EU which has an average of 11.8.

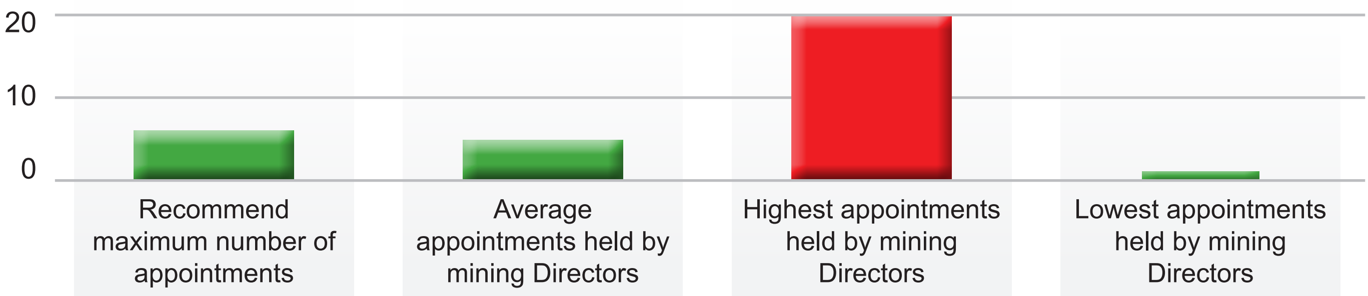
There are 452 Executive Director and 818 Non-Executive Directorships in the London Listed Mining sector. The average Director holds one position within this sector. Although this seems to compare favourably with the recommendations of the Code, as people are not spreading their time and talents too thinly, it is worth noting that many Directors still hold positions in companies outside of the London Listed Mining Sector.

Diagram 1:



Once public and private companies in all sectors are considered, Directors hold an average of 5 positions. Although this has fallen slightly over the period it is still very close to the six positions that are generally considered to be the maximum a Director should hold, less if Chairing the Board of Committees. Beyond this limit, time constraints can seriously compromise the ability of a Director to make effective contributions. However, there is still a considerable spread amongst individuals, some having as many as *almost 20* appointments.

Graph 5:

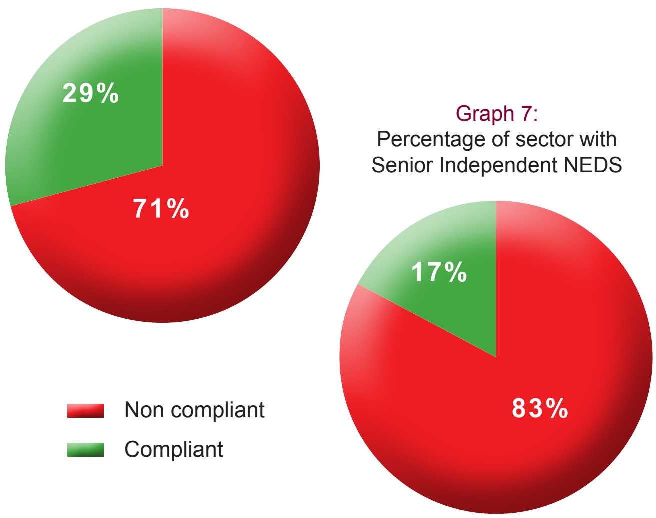


As per last year's report, many companies did not have a dedicated full-time Finance Director (FD/CFO) on their Boards. Only 108 of the 200 London Listed Mining companies currently have this position at Board level. Although the number of Finance Directors has increased by 20% over the period the growth in the total number of companies still means that in real terms almost half of the publicly listed companies are still overlooking the focused insight, treasury and cost control support and responsibility an FD can and should provide.

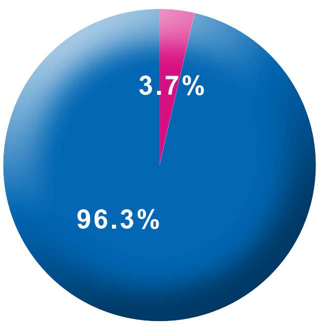
Last year our study found that despite companies having, on average, the correct balance of Non-Executive Directors, few of them can be considered independent according to the Code's requirements and even fewer of them were designated as a Senior INED. Since our last report there has been a strong increase in the numbers of Directors declared as independent with the levels of Senior Independent NEDS increasing by 38% and independent NEDs rising by 13%. Despite this increase the levels still remain relatively low in real terms. It is worth noting that the vast majority of Directors that have been declared independent over the period have come from the AIM market that is not bound by the recommendations of the Code - not the Main-Market.

Graph 6:
Percentage of sector with independent NEDS

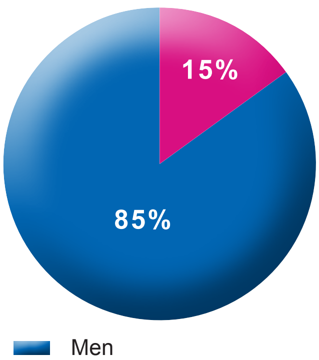
Graph 7:
Percentage of sector with Senior Independent NEDS



Graph 8:
Breakdown of Gender on Mining Boards



Graph 9:
Breakdown of Gender on all UK Boards



The number of women represented at Board level in the UK Mining sector has risen from 34 to 47 - an increase of 38%. However, in real terms the percentage of female Directors has remained unchanged at 3.7%. Like last year the majority of positions held by women are Non-Executive roles rather than Executive ones. It is worth noting that the number of mining companies without any women on their Boards has fallen slightly from 87% to 82%. This is largely due to changes on the Boards of AIM listed rather than Main-Market listed companies.

The size of the average Mining Board is now only 75% of the UK average

2.5 Closing the Gaps

At the moment the findings of the Code still remain recommendations and are not *yet* enforceable. Currently companies are expected to either comply with the recommendations or explain to stakeholders why not. However, the trend in EU legislation and in particular the example of the Scandinavian approach to legally enforceable female quotas is deepening and it is quite possible that a firmer line may be adopted in the UK.

Quite clearly if the sector wishes to achieve the recommendations of the Code there are companies that are already ahead of the pack - but many are not. The gaps that need to be closed have been set out in the table below:

Table 2:

Position/standard required:	Percentage of Sector currently complying:	Positions required to be compliant:
A dedicated full-time Chairman	99%	1
Chief Executive Officer	85%	30
Chairman and CEO positions to be held by different people	95%	11
Minimum level of truly Independent NEDS	29%	277
Senior Independent NED (as a subset of Independent Non-Executive Directors)	17%	(167)
15% of Board positions to be held by women (UK average)	8%	144

To comply with the findings of the Code, the Mining sector would need to appoint around 319 specific Board positions. These 319 appointments represent a minimum gap as we have assumed that 144 of these positions will be women, thereby bringing Board composition within the sector in line with the 15% UK average.

3. Conclusions

During the period since our last report the vast majority of companies comprising the UK-listed Mining Sector have found delivering shareholder value extremely challenging. The ongoing turmoil within the financial markets seems to have affected the largest of miners in the FTSE 100 through to the smallest of AIM-listed companies. Despite this a positive link between Corporate Governance and performance was still discernible.

Despite overall Opus Leadership Corporate Governance Ranking scores remaining relatively low a significant number of companies in the sector have made noticeable efforts to comply with the recommendations of the Code. This has resulted in the average score for the sector rising by 24% during the period under review. However, many companies are still not addressing the independence of their Non-Executive Directors thereby hindering the true effectiveness of Audit, Remuneration and Nomination Committees.

Every company's business model and circumstances are different and there will always be unforeseen risks and challenges. Nevertheless, how a company structures itself and the balance of skills a Board holds will help to address those challenges and help to reduce risks and improve shareholder value.

Some key findings of this report are:

1) The AIM Market, which is not subject to the recommendations of The Code, was largely responsible for the 24% increase in the sector's average Corporate Governance scores.

2) The 38% rise in the number of female Directors, although still low in real terms, has largely been down to Board appointments made within AIM-listed companies.

3) The top twenty scoring companies in the 'Opus Leadership Corporate Governance Ranking' achieved an average of 99% and delivered an average decrease in shareholder value of 27%. This contrasts with the bottom twenty companies in the ranking who had an overall score of 21% and shareholder value dropped by 75%.

Opus Executive Partners was created as a global advisory and executive search firm to support the evolving needs of today's natural resources industries. In an increasingly complex business environment strong leadership and good governance are paramount in overcoming the challenges that companies face.

Our defining strengths lie in the ability to understand clients' key business issues and challenges. Our reputation as a pre-eminent firm comes from unparalleled sector knowledge combined with robust and honest advice on the best solutions. This value can be transformational.

For over 30 years our partners have brought clarity to increasingly complex corporate relationships and pressures by strengthening board structures worldwide.

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