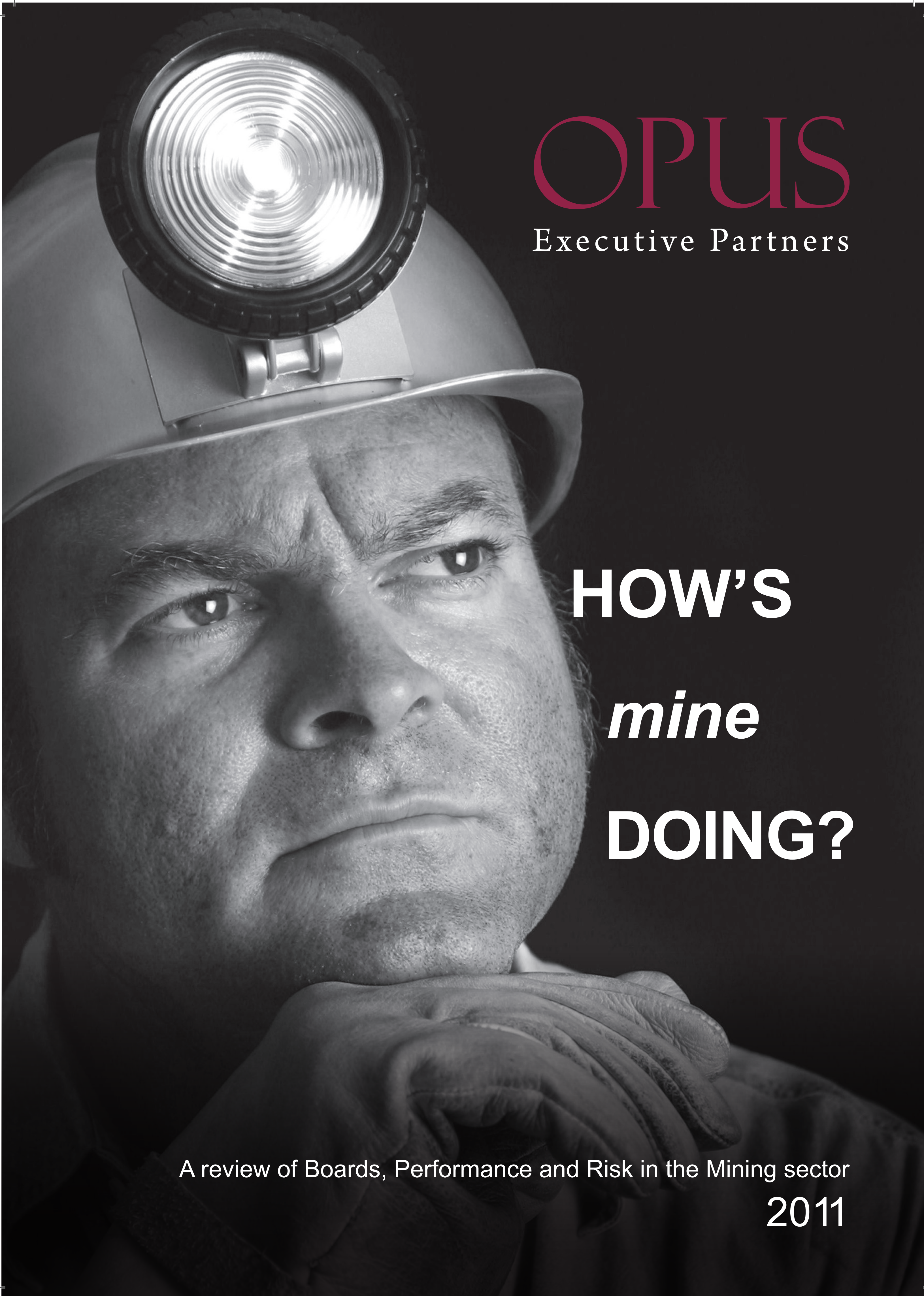


OPUS

Executive Partners

HOW'S *mine* DOING?

A review of Boards, Performance and Risk in the Mining sector

2011

Foreword by Brian Martin,
Managing Partner at Opus Executive Partners

The current turmoil and uncertainty experienced by the global financial markets came to the forefront of international attention in September 2008 with the failure and merger of some of America's most respected and trusted financial institutions. Some say it is now becoming apparent that the Global Financial Crisis is spreading and entering a new phase of uncertainty. The exposure of individuals and companies to bad risk still remains but this risk is now spreading to the level of sovereign states.

The past few decades has seen increasing regulation and debate in the West to protect the interests of shareholders after some notable corporate collapses. Traditionally shareholders have been seen as the ones with the most to lose as they ultimately own the company.

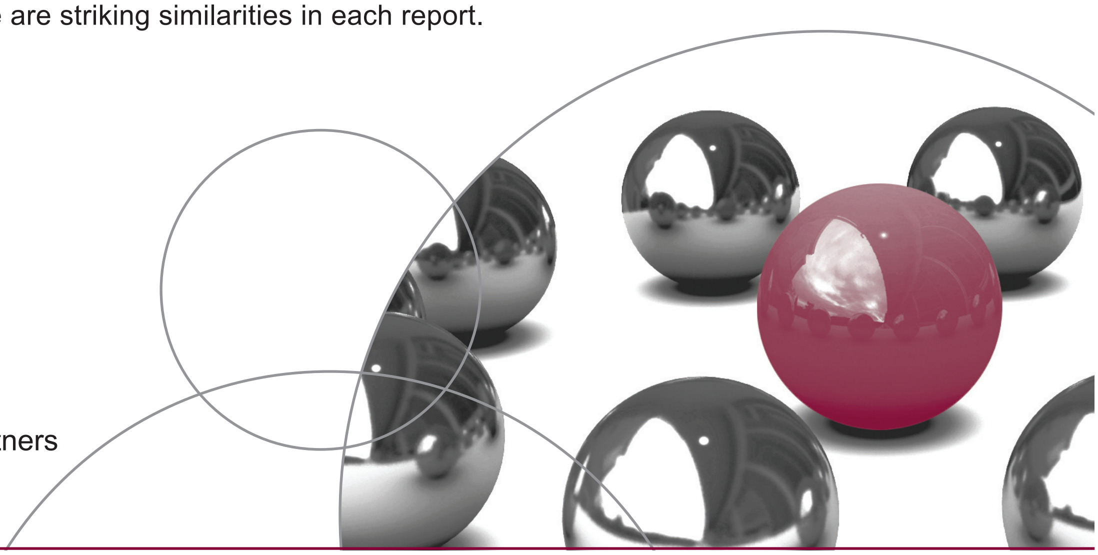
This traditional view of protecting the shareholders is now being reviewed and enhanced to reflect broader stakeholder interest. The potential fallout from a badly run company or sector can stretch far beyond the immediate impact on employees and shareholders (underwriting private banks with tax-payer money is but one example).

Whatever one's thoughts about the nature and reason for the current crisis the regulations that are being introduced will hopefully limit the possibility and impact of such an event occurring again. Notable examples of the strengthening of controls can be seen, earlier, in the Sarbanes- Oxley Act 2002 in the USA and more recently The Corporate Governance Act 2010 in the UK. These regulations are designed to cause a structural change in the way companies operate and these changes are here to stay. A company and stakeholders can never be fully protected from bad decisions but by having a well-balanced Board, effective leadership, complemented with good governance, it is believed that trust and confidence in business leaders can be improved.

Private and public institutions are moving towards a new international order that links performance and therefore investment risk with good Corporate Governance.

This report seeks to identify and analyse Boards, performance and risk in the UK Mining sector and is not intended to be a commentary upon the performance of individual companies. It follows up on our well-received report into the London listed Oil and Gas sector which recently formed the basis of an article in the national press. There are striking similarities in each report.

Brian Martin
Managing Partner
Opus Executive Partners



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1. Introduction and Executive Summary

Half of the 179 London-listed Mining companies have lost shareholders almost 60% of their investments over the past 5 years. The study seeks to consider what effect good Corporate Governance can have on mitigating risks. Some key findings are as follows:

Table 1:

Governance and Performance:	The Main Market, subject to tough Governance standards, outperformed the lesser regulated AIM	The top 10 Governance scoring companies increased shareholder value by 92%	The bottom 10 Governance scoring companies decreased shareholder value by 80%
Board Composition:	50% of companies did not have a Finance Director	15% of companies did not have a Chief Executive Officer	Only 3.7% of all Board positions are held by women

2. Main Report

2.1 Performance

Share prices determined by the markets are universally accepted as the overriding measure of a company's success or failure. Consequently, this study uses 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 2006 to June 2011. It was considered that a five year period was the best time frame to conduct an analysis into Board structure and shareholder value for three main reasons:

1) It is more likely to eradicate any news-related short-term dramatic share price changes that may not give a true reflection of a company's longer term performance.

2) The period covers the time before, during and after the Global Financial Crisis and assesses how companies have ridden that storm.

3) The value of good leadership is without question and needs to be assessed over a period of years, allowing for changes on the Board, in order to gauge the team's effectiveness.

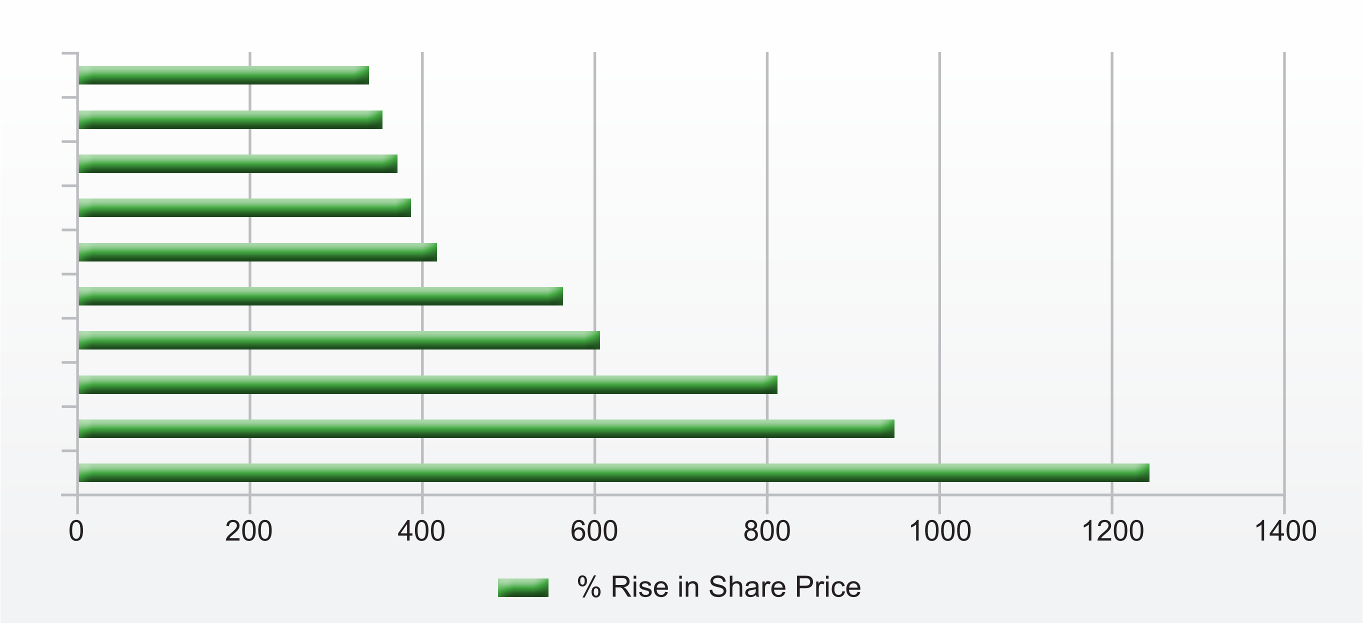
The 179 companies in the sector were ranked according to their investment returns. The results were strikingly similar to those of our report that analysed the London listed Oil and Gas sector. Not unexpectedly, bearing in mind the character of major mining operations, there was considerable spread in the share price performances of companies within the London-listed Mining sector. Some companies saw their share price decline to a point that rendered investments almost worthless. It would be wrong to conclude that companies that have experienced substantial problems, which were inevitably reflected in their share price, cannot be turned around. One of the few companies that we name in this report is Western Coal; its share price when restructured was a fraction of what it had been prior to operational and financial difficulties, but this was transformed due to its merger with Cambrian Mining and its subsequent takeover by Walter Energy in 2010.

Of the 179 Mining companies that made up the sector in June 2011: 101 had operated fully within the analysed period, the remaining 78 listed during it. The ***full*** analysis is restricted to the 101 companies that operated during the full five year period, but additional analysis covering the other 78 companies is included where appropriate. To ensure the data was not distorted this was done on an absolute basis.

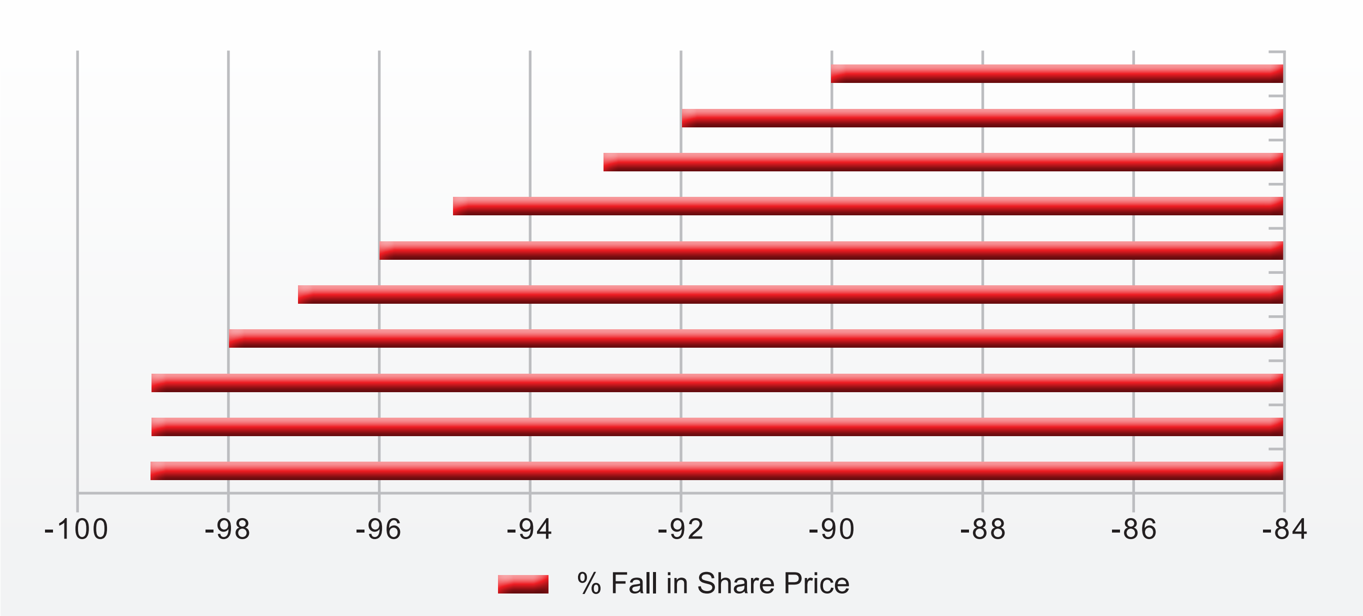
Once the top ten performing companies are removed the sector returned a loss to investors of 3%

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

Graph 1: Share price performance of Top 10 Mining companies June 2006 - June 2011



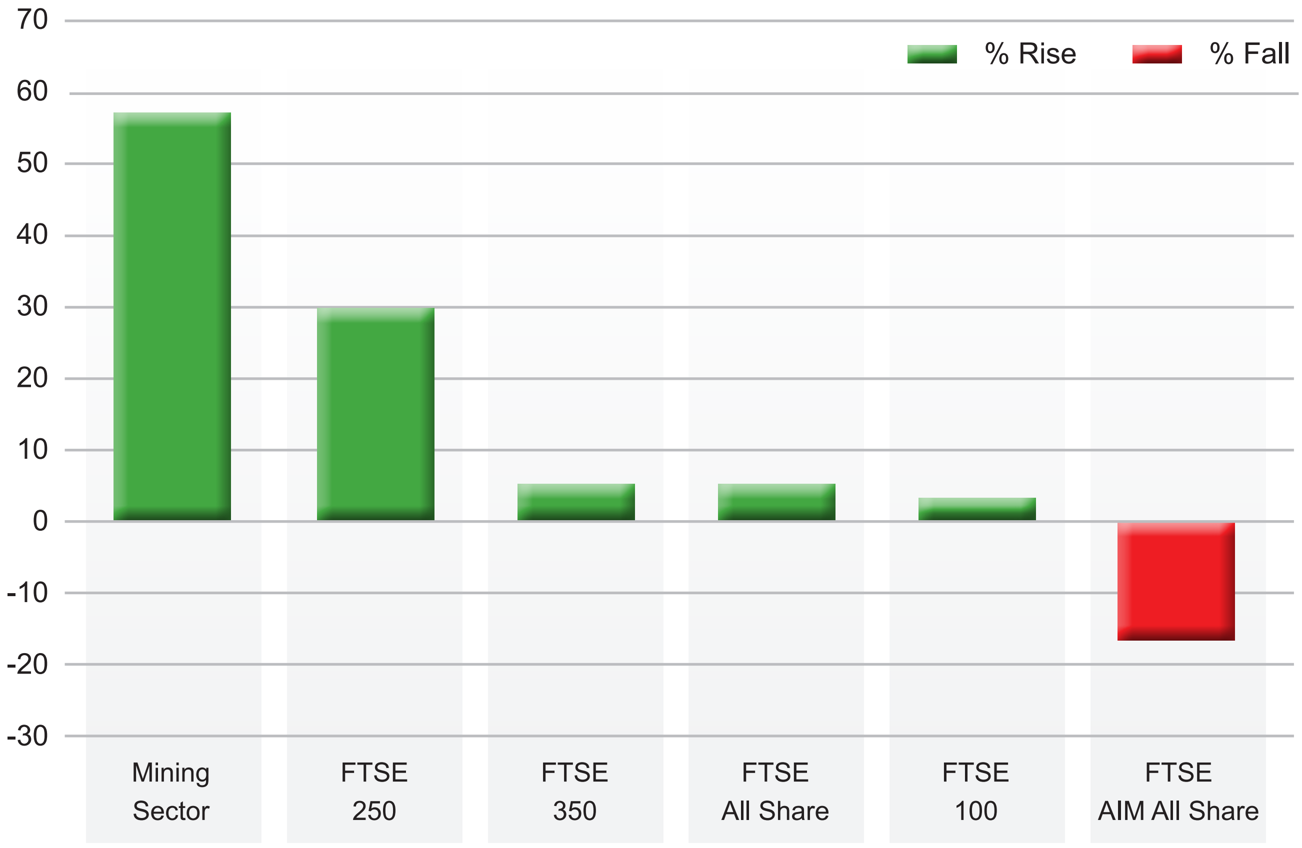
Graph 2: Share price performance of Bottom 10 Mining companies June 2006 - June 2011



Companies listed on the Main-Market performed better than those listed on AIM

If an equal sum of money had been invested in June 2006 on each of the companies in the sector the overall return after five years would only have been a growth of 57%. However this figure is highly skewed by the data of the top 10 performing companies. Removing their performance to give a truer reflection of the overall market results in a loss to investors of 3%; even worse when inflation is taken into account. This contrasts to the price rises of the following commodities over the same period: Coal 410%, Silver 231%, Gold 157%, Iron Ore 128%, Copper 26%, Nickel 9% and Aluminium 3%. When compared against the main FTSE indices the relative performance of the Mining sector is revealed. Over the period the FTSE 100 rose by 3%, FTSE 250 by 30% and the FTSE Aim All share, where most Mining companies are listed, fell by 17%. The graph below compares the share price performance of the UK-listed Mining companies against other key Market Indices:

Graph 3: Percentage Performance of UK Indices June 2006 - June 2011



However, despite an aggregate return of 57% being produced by the overall market, 49% of companies almost trebled the value of initial investments over the five years. The other 51% delivered a *decrease* in initial investments posting an average loss of 60%. Perhaps it is surprising to note that this means investors have roughly a 50-50 chance of picking a successful company if they had randomly selected companies to invest in.

Main-Market listed companies are bound by the June 2010 Corporate Governance Code; they have outperformed AIM-Market companies which are not subject to The Code's recommendations

As previously stated: 78 Mining companies listed *during* the five year study period, representing almost half of all current companies. Due to the varying nature of the list dates a straightforward approach of assessing their 'absolute' performance was taken from their list date until June 2011.

If an equal sum of money had been invested pro rata on these new companies when they were listed investment would have grown by an average of 31%. This is a much weaker return than the previous group which existed throughout the full five-year period. This may reflect that these new companies have not benefitted from a fuller exposure to rising commodity prices over the past few years.

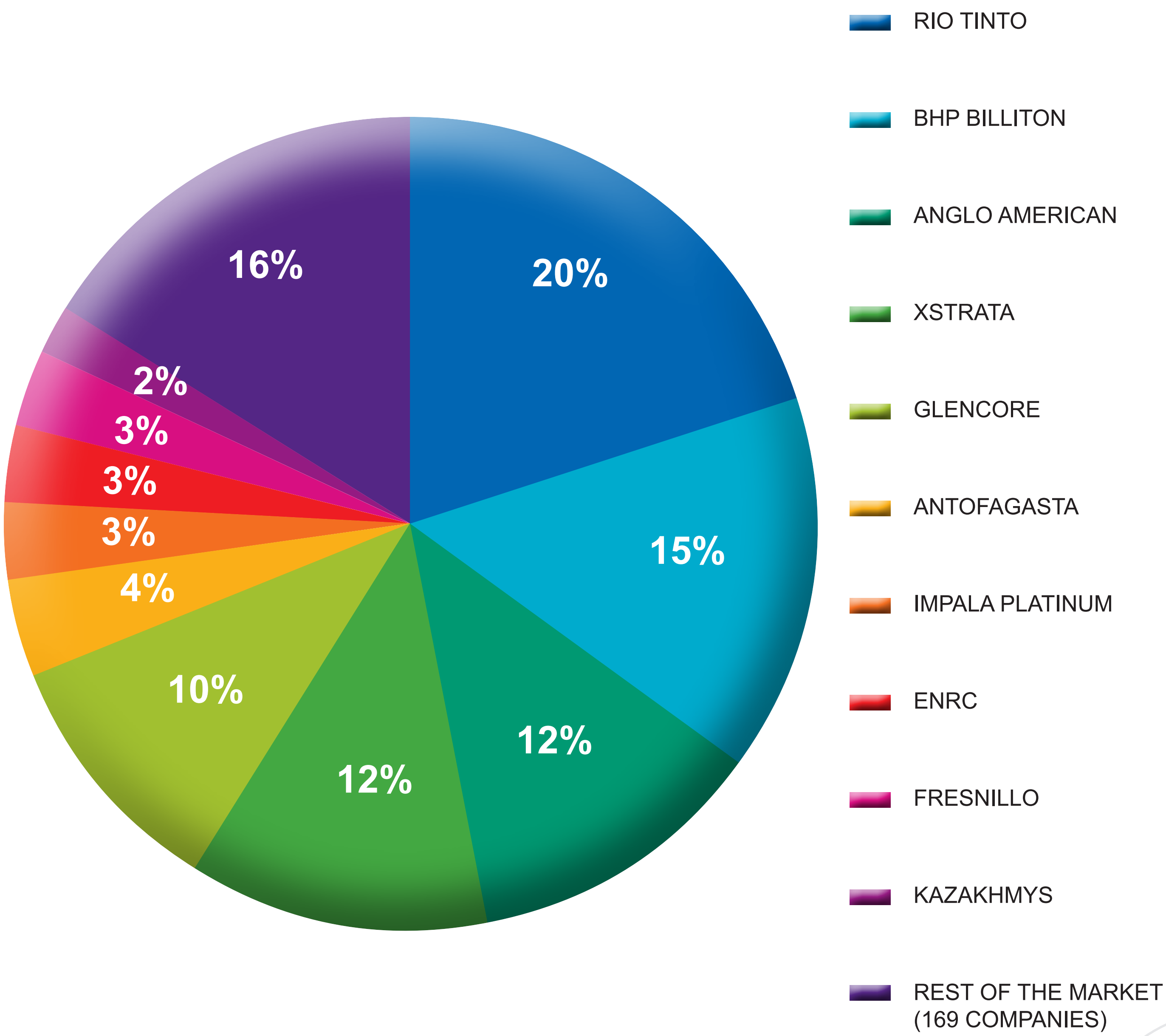
Few investors would deny that the Mining sector, like Oil and Gas, is an inherently risky place in which to invest. Mining companies are not only subject to the 'usual' kind of risks faced by most companies but geo-political and geological uncertainties as well. Despite this there appears to be enthusiasm for investing in this sector. There is investor confidence that opportunities with a considerable upside do exist.

As a final note on share prices the performances of the different markets that make up the London-listed Mining sector have been analysed, with the overall market having grown by 57%. However, AIM-Market Mining companies grew by 29%, Main-Market companies grew by 83% and FTSE 350-Market companies grew by 92%. Clearly the Main-Market Mining companies - which are bound by the Corporate Governance Code - have performed markedly better than their AIM-Market equivalents which are not. This relationship between performance and Corporate Governance is covered in more detail in section 2.3.

The performance of companies within the sector was also analysed by considering their Market Capitalisation values as a share of the whole sector. The top ten Mining companies listed in June 2011 account for 84% of the UK LSE listed market by Market Capitalisation value. The other 169 companies account for the remaining 16%. The majority of small and mid-cap companies do not have any production and consequently have little or no income other than shareholder funds. This is reflected in their share of the overall market which is, predictably, dominated by the international majors. Over time some smaller companies have done well to get where they are today but many of the other successful smaller companies have exited through Merger and Acquisition activity.

7 of the top 10 share price performers ***are*** AIM listed

Graph 4: Domination of the Mining Sector (by share of total Mkt Cap) June 2011



The bottom 10 share price performers are ***also*** AIM listed

2.2 Corporate Governance

There is increasing reference, not only at industry meetings, but also within government and public discussions, to the importance of good Corporate Governance within the Resources Sector. The first version of the UK Code on Corporate Governance (the Code) was produced in 1992 by the Cadbury Committee. Its paragraph 2.5 is still the classic definition of the context of the Code:

> *"Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business to laws, regulations and shareholders in general meeting."*

Corporate Governance is therefore about what the Board of a company does and how the values of the company are set. It is to be distinguished from the day-to-day operational management of the company by the Executive Board.

To develop investor and stakeholder trust in company Boards the Code has made a number of key recommendations. These are not enforceable *at the moment*; instead the approach of 'comply or explain' is more effective in encouraging companies to adhere to the recommendations.

> *"The "comply or explain" approach is the trademark of corporate governance in the UK... It is strongly supported by both companies and shareholders and has been widely admired and imitated internationally."*[1]

[1] Financial Reporting Council, 2010. The UK Corporate Governance Code - June 2010, p4.

Many Non-Executive Directors hold excessive appointments - the most extreme being 22

89% of companies have not stated who their Senior Independent Non-Executive Director is

The key recommendations of the Code that are relevant to this study are as follows:

A.2 There should be a clear division of responsibilities at the head of the company between the running of the Board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

A.2.1 The roles of Chairman and Chief Executive should ***not*** be exercised by the same individual.

A.3.1 The Chairman should on appointment meet the independence criteria set out in B1.1 below. A Chief Executive should ***not*** go on to be Chairman of the same company.

A.4.1 The Board should appoint one of the Independent Non-Executive Directors to be the Senior Independent Director to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors when necessary.

B.1.1 The Board should identify in the annual report each Non-Executive Director it considers to be independent. The Board should determine whether the Director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. The Board should state its reasons if it determines that a Director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the Director:

- has been an employee of the company or group within the last five years;
- has or has had within the last three years, a material business relationship with the company either directly, or as a partner, shareholder, Director or senior employee of a body that has such a relationship with the company;
- has received or receives additional remuneration from the company apart from a Director's fee, participates in the company share option or a performance-related pays scheme, or is a member of the company's pension scheme;
- has close family ties with any of the company's advisers, Directors or senior employees;
- hold cross-Directorships or has significant links with other Directors through involvement in other companies or bodies;
- represents a significant shareholder; or
- has served on the Board for more than nine years from the date of their first election.

Most AIM companies state they want to embrace the June 2010 Corporate Governance Code as best practice

B.1.2 Except for smaller companies (those below the FTSE 350), at least half the Board, excluding the Chairman, should comprise of Non-Executive Directors determined by the Board to be independent. A smaller company should have at least two Independent Non-Executive Directors.

B.2.1 There should be a nominations committee which should lead the process for Board appointments and make recommendations to the Board. A majority of members of the nomination committee should be Independent Non-Executive Directors.

B.3 All Directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.

C.3.1 The Board should establish an audit committee of at least three, or in the case of smaller companies two, Independent Non-Executive Directors. In smaller companies the company Chairman may be a member of, but not chair, the committee in addition to the Independent Non-Executive Directors, provided he or she was considered independent on appointment as Chairman. The Board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.

D.2.1 The Board should establish a remuneration committee of at least three, or in the case of smaller companies two, Independent Non-Executive Directors.

Just 27% of companies declared their Non-Executive Directors to meet the required standards of independence

Opus have 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:

- 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.

If the recommendations of the Code are being followed correctly then a company will score a maximum of 8 points. We acknowledge that this Board structure scoring system does not exhaustively cover every recommendation in the Code. It has been weighted to encompass the key, objective, recommendations regarding Board structure only.

6% of all companies have the same person holding the Chairman and CEO posts - in clear breach of the June 2010 Corporate Governance Code

The following table illustrates some possible permutations of board structures and their resultant Corporate Governance scores. It is not intended as an exhaustive list of all possibilities, just an example.

Table 2:

Chairman:	CEO:	Ratio INEDs/EDs	INEDs:	SINEDs:	Audit:	Remuneration:	Nomination:	CG Score:
1	1	>1	3	1	Y	Y	Y	8
1	1	>1	3	1	Y	Y	N	7
1	1	>1	3	1	Y	N	N	6
1	1	>1	3	1	N	N	N	5
1	1	>1	2	0	N	N	N	4
1	1	<1	2	0	N	N	N	3
1	1	<1	0	0	N	N	N	2
Joint	Joint	<1	0	0	N	N	N	1

The average Corporate Governance score for the *whole* sector was only 3 out of a possible 8 points. At 38% this is a disappointing result. Clearly the sector has quite a large gap to close should it wish to be compliant with the recommendations of the Code. The Independence of Non-Executive Directors and the existence of a Senior Independent Non-Executive Director underpin many of the recommendations of the Code. Many of the Corporate Governance scores were low because companies are not addressing the issue of independence of Directors at Board level. This is despite Directors being bound by The Companies Act 2006 to exercise independent judgment. It could be said that because many of the companies that comprise the London Listed Mining sector are listed on AIM as such they are not subject to the recommendations of the Code. This is, indeed, the case but Lucy Leroy, the Head of UK Primary Market Regulation at the LSE, has said that

> *"The Exchange believes that good corporate governance is just as relevant and important for AIM companies as it is for those on the Main Market... whilst full adherence to the CGC should not necessarily be the expectation for all AIM companies, we believe it continues to serve as a standard that public companies should aspire to..."* [2]

The average Corporate Governance score was only 38%

[2] INSIDE AIM, Issue 2 - July 2010, Page 1.

Most Directors are appointed through personal friendships or contacts - only 4% are interviewed formally

This view would seem to be echoed by many of the Boards within the sector as virtually every company that we have assessed on AIM publicly states that although the Code is not yet applicable to them they will adopt the recommendations as a matter of best practice. At face value this sounds like many Boards are attempting to go ‘above-and-beyond’ what is required of them.

The reality is, perhaps, a little different.

Upon closer inspection it is apparent that the sector as a whole is inconsistent with the set of standards to which it refers. Some companies refer to the newly updated June 2010 Corporate Governance Code, some to the original Combined Code and others to AIM Rule 26.

Furthermore, it might be considered that some companies are merely ‘cutting-and-pasting’ various recommendations and commitments to their websites as mere ‘window-dressing’. This is evidenced by the wording of some companies’ commitment to and practice of Corporate Governance being word for word identical to as those found in the Code.

> *“An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a Chairman or a Non-Executive Director.”* [3]

The Code requires that shareholders be informed, in Annual Reports, as to whether there has been independent input in the Appointments process for Board Directors for example using Executive Search firms. Few Mining companies include reference to Executive Search firms - anonymous or otherwise - in their Annual Reports. This view has also been confirmed in a recent study by Higgs and Tyson finding that almost half of the directors they surveyed had been recruited through personal friendships and contacts, only 4% having a formal interview and only 1% through responding to press advertising. [4]

It is in the interests of stake-holders and good corporate governance that the Board of Directors should be comprised of only the very best candidates available to a company. Appointing people through personal contacts, networks or recommendations is unlikely to cover the breadth of candidates necessary to ensure only the best are selected. Furthermore, external Advisors are not independent. NOMADs, Brokers, Auditors etc. have a business relationship with their clients which negates the independence of any candidates they introduce.

[3] Financial Reporting Council, 2010. The UK Corporate Governance Code - June 2010, p14.
[4] Balancing Boards, Opportunity Now. 2010

2.3 The link between Corporate Governance and Performance

This section shows that companies with better Corporate Governance have generally delivered better shareholder value. It is acknowledged that the diverse factors influencing the long-term performance of a company are too numerous to enable a straightforward and clear-cut relationship between Corporate Governance and performance. Like our Oil and Gas report what is surprising is that this relationship is evident at all.

When the London-listed Mining sector is broken down by market-type a link between Corporate Governance and performance becomes apparent. AIM companies are *not* subject to the recommendations of the Code and they had an average Governance score of only 29%, the overall return to shareholders over the five year period was 50%. Both sets of figures were below the sector average. Main-Market companies, who are subject to the recommendations of the Code, had an average Governance score of 65% and delivered a return to shareholders of 83%. Both sets of figures are above the sector average. Even more noticeable was the performance of the FTSE 350 Mining companies. They had an average Governance score of 77% and delivered a return to share holders of 92%. Whilst it is acknowledged that some companies do not fit the trend, it seems clear that those markets bound by greater Corporate Governance legislation were more likely to deliver better share holder value.

It might be argued at this stage that any apparent correlation between Corporate Governance and performance may only be a reflection that indices bound by tougher regulations are naturally comprised of larger more established companies. However, we do not think that this correlation reflects self-selection bias as this link was discernible elsewhere in data that comprised of a mix of both companies listed on the Main and AIM markets. In order to reduce the possibility of data bias we ranked all companies in order of their Corporate Governance scores and compared these scores against their share price performance. We then ranked all companies according to their performance and compared these against their governance scores. Both methods yielded a correlation.

A relationship between Corporate Governance and performance was also seen when ranking companies according to their share price performance over the 2006-2011 period. The top ten performing companies delivered an average increase in shareholder value of 504% and they had an average Corporate Governance score of 38%. The shareholder value of the bottom 10 performing companies dropped by 96%. These companies had an average Corporate Governance score of just 26%.

Companies with better Governance generally delivered better shareholder value

However, the correlation between Corporate Governance and performance was most noticeable when companies were ranked according to their Corporate Governance scores. The top ten companies had an average Corporate Governance score of 96% and delivered a growth in shareholder value of 92%. Conversely the bottom ten companies had an average Corporate Governance score of only 13% and decreased share holder value by 80%.

As previously stated, the Code contains recommendations that main market companies are encouraged either to comply with or explain to stakeholders why they have not. It is not yet applicable to AIM listed companies, despite being identified as a set of standards that should be aspired to. Although the correlation we have identified above is not a hard and fast rule we think it is an incentive for companies to comply with the Code rather than regard it as an optional extra.

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 ongoing uncertainty in the financial markets, it may be subjective to identify the correlation between Corporate Governance and Performance as a causal link.

However, there are accepted links between the standards of Corporate Governance within companies and the finance options available to them. Poor Corporate Governance standards make it more difficult to attract high quality individuals to Boards and less attractive Boards pose a higher risk to investors. This in turn can make it more difficult to secure funding. Companies which recognise good Corporate Governance may have a competitive advantage over others who do not.

The top ten companies in the "Opus Leadership Corporate Governance Ranking" had an average score of 96% and delivered average shareholder returns of 92%

2.4 Board Composition

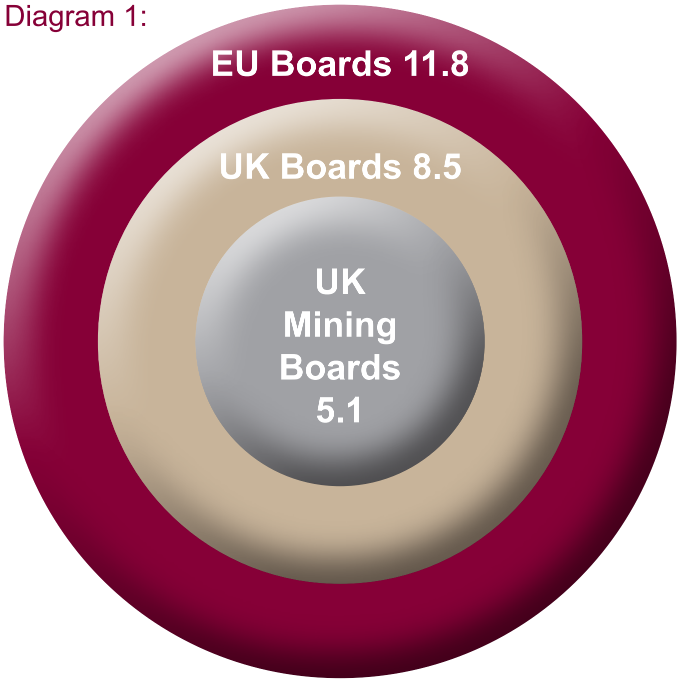
27 companies have no CEO

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 has 5.1 Board Directors comprising of 2 Executive Directors and 3.1 Non-Executive Directors. This is below the average UK Board size which, at 8.5 is considered one of the smallest in the EU which has an average of 11.8.

There are 350 Executive Director and 562 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 hold positions in companies outside of the London Listed Mining Sector.

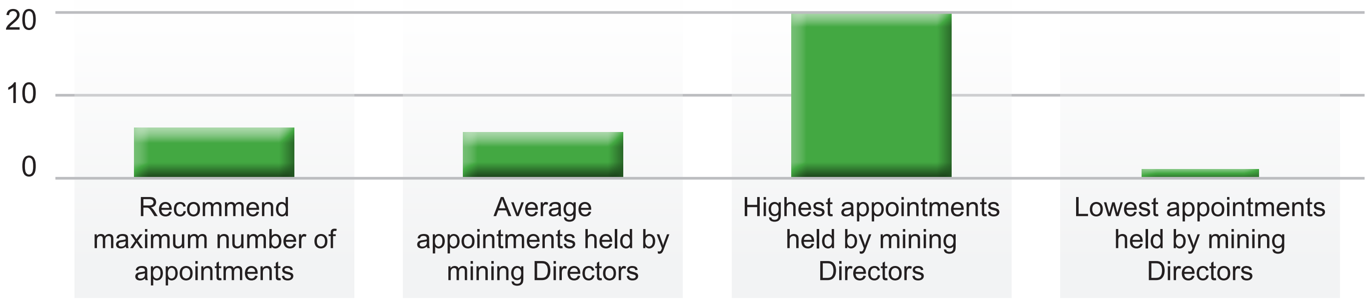
Diagram 1:



Once public and private companies in all sectors are considered, Directors hold an average of 5.5 positions. This is very close to the six positions that are generally considered to be the maximum a Director can hold. Beyond this limit time constraints can seriously compromise the ability of a Director to make effective contributions. However, there is a considerable spread amongst individuals, some having as high as almost 20 appointments. These figures might be understated, however, as they don't take into account Director's non-company interests such as the membership of committees or charities. Further to this, based on a random sample of Directors, there appears to be a negative correlation between the number of positions held by Directors and the share-price performance of the companies they work for. Directors with fewer appointments tend to work with companies that are more successful.

Only 50% of all companies employ a Finance Director

Graph 5:



As per our oil report, many companies did not have a dedicated full-time Finance Director (FD/CFO) on their Boards. Only 90 of the 179 London Listed Mining companies currently have this position represented at Board level i.e. 50%. Given that Directors, and the CEO in particular, can be held fiscally liable for the controls of a company, it is surprising that so many publicly listed companies are overlooking FD roles and the focused insight, support and responsibility they can provide. The role of an FD can be roughly broken down into three main components:

1. **Controllership duties** - These hold the FD responsible for presenting and reporting an accurate picture of a company's finances at all times. This information is important, as not only do companies rely on it to make informed strategic decisions but so do stakeholders, shareholders and analysts.

2. **Treasury duties** - These hold the FD responsible for the financial condition and capital structure of the company. This plays an important part in the potential success of a company as they consider risk and liquidity in deciding how best to invest the company's money and the various finance options available to them (such as equity, bonds, debt etc.).

3. **Economic strategy and forecasting** - An FD is responsible for a company's past, present and future financial situation. Using economic modelling and strategy review they must be able to make recommendations on the best way to ensure the company's success in the future.

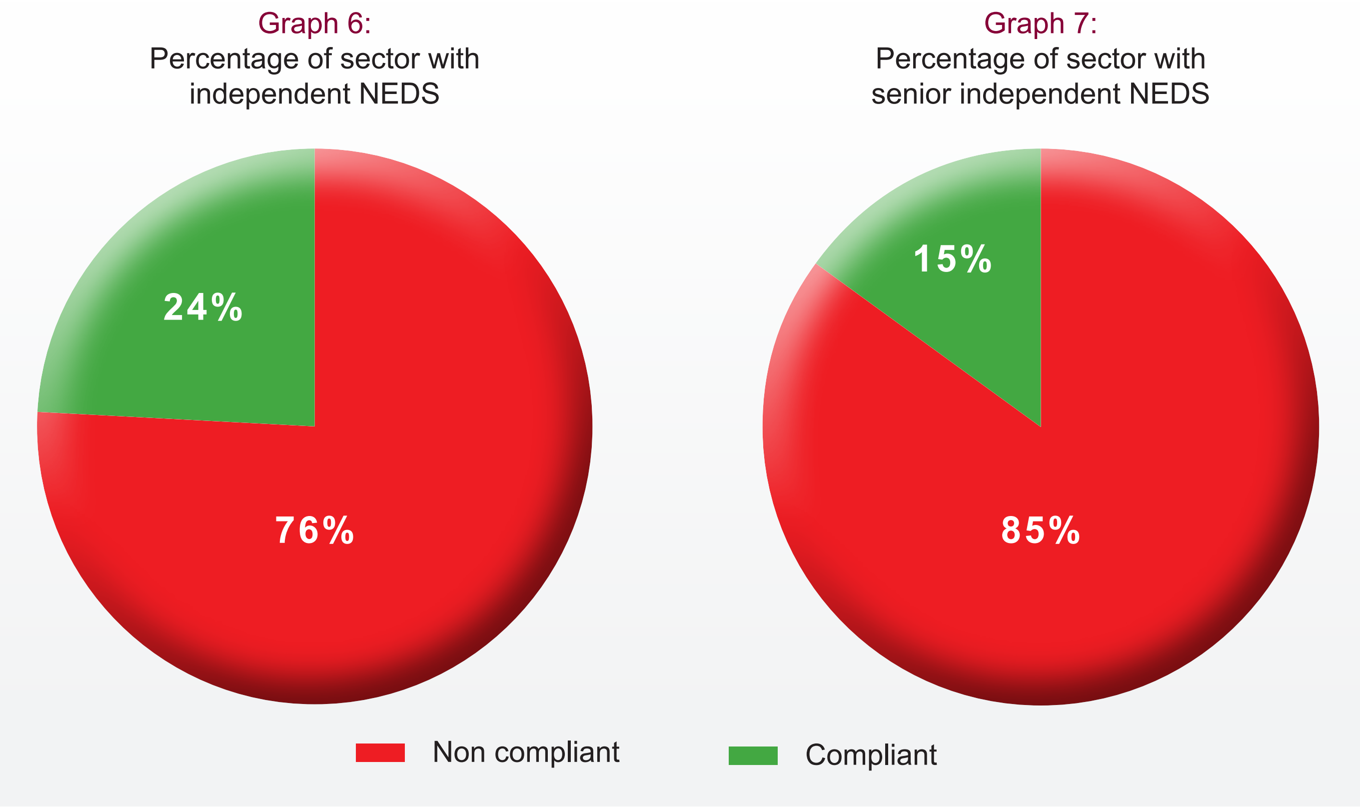
The FD's role is far more important then that of an internal accountant. They play an essential role in shaping the finance options available to a company and should have an active role in deciding how those options are best exercised to ensure long-term success. Furthermore an FD plays an essential part in the check and balance mechanism between the investors who provide capital and the other Directors who want to spend it. The FD must be free of any undue influence from other Directors, their decisions or recommendations should be attained independently and always in the best interests of the company and all external shareholders.

It is important to note that under The Companies Act 2006 a Director who is in breach of duty is liable to compensate the company for any loss suffered as a result - this responsibility cannot be delegated. The absence of an FD not only inhibits the independent insight available to a Board of Directors but also potentially increases the liable risk to which they are exposed.

The lack of FDs within this sector may go some way to explaining why many companies struggle to finance their business development plans and others produce disappointing returns on capital investments.

The size of the average Mining Board is only 60% of the UK average

The Code recommends that for FTSE 350 companies at least half the Board, excluding the Chairman, should comprise of Non-Executive Directors determined to be independent (two for smaller companies outside the FTSE 350) and one of these should be designated the Senior Independent Director. Our study has found that despite companies having, on average, the correct balance of Non-Executive Directors, very few of them can be considered independent according to the Code's requirements and even fewer have been designated as a Senior INED.

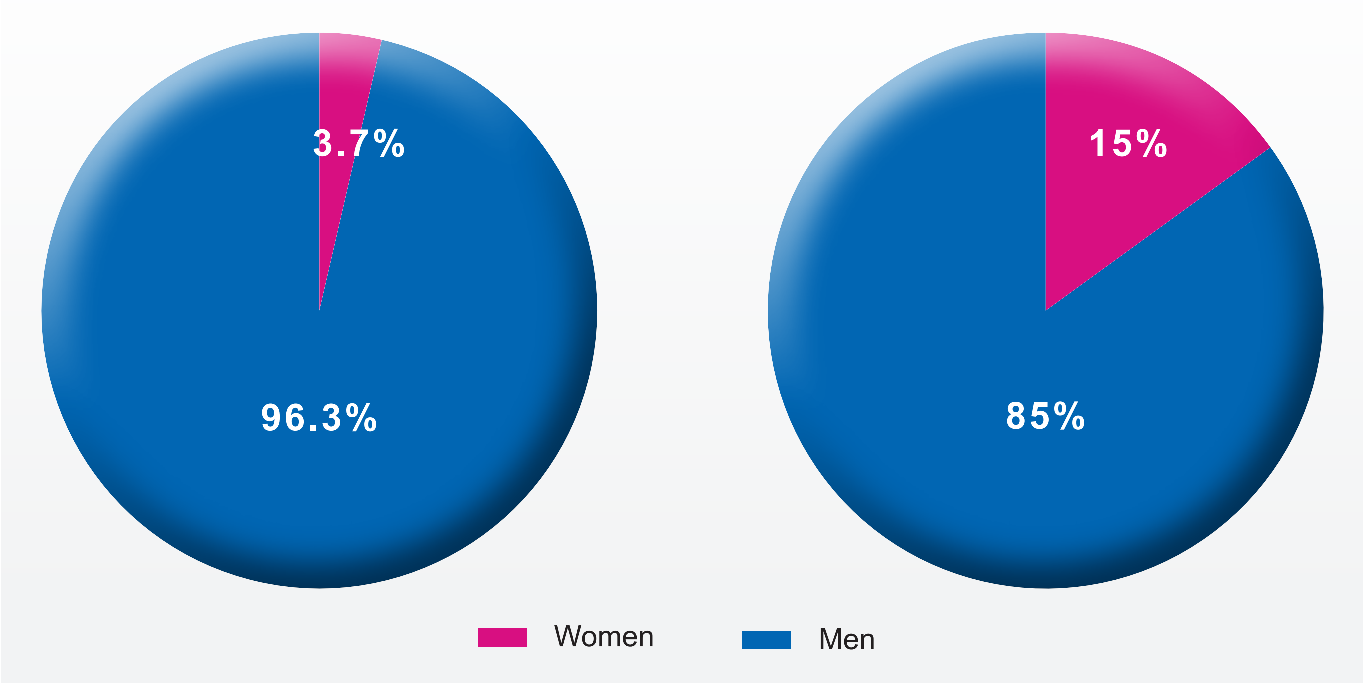


The percentage of female Directors on all UK Boards compares *relatively* favourably with the EU average, being 15% and 10% respectively, but this is not reflected in the UK-listed Mining sector. Out of the 912 Board level Directors in Mining, only 34 are women (3.7%). In addition to this 87% of Mining companies have no women at all on their Boards. This compares very poorly to the UK where 18% of companies have no women at Board level and also to the EU average of 31%.

Out of 912 Directors only 34 are women - just 3.7%

Graph 8:
Breakdown of Gender on Mining Boards

Graph 9:
Breakdown of Gender on all UK Boards



The current trend in EU and UK law may result in the Mining sector requiring rapid alignment to imposed targets. If this is the case then appointments of women to their Boards from other market sectors or bigger companies may have to be made, not least because many companies are simply too small to be developing internal human resources for senior appointments.

It is important to remember that the diversity of the Board can benefit the performance of a company. The UK Women on Boards 2010 report states on page 7:

> *This business case is backed by a growing body of evidence. Research has shown that strong stock market growth among European companies is most likely to occur where there is a higher proportion of women in senior management teams. Companies with more women on their boards were found to outperform their rivals with a 42% higher return in sales, 66% higher return on invested capital and 53% higher return on equity... It is about the richness of the board as a whole, the combined contribution of a group of people with different skills and perspectives to offer, different experiences, backgrounds and life styles and who together are more able to consider issues in a rounded, holistic way and offer an attention to detail not seen on all male boards which often think the same way, and sometimes make poor decisions.*

2.5 Closing the Gaps

At the moment the findings of the Code are recommendations and are not yet legally 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 3:

Position/standard required:	Percentage of Sector currently complying:	Positions required to be compliant:
A dedicated full-time Chief Executive Officer	85%	27
Chairman and CEO positions to be held by different people	94%	11
Minimum level of Independent NEDS	24%	266
Senior Independent NED (as a subset of Independent Non-Executive Directors)	15%	(150)
15% of Board positions to be held by women (UK average)	13%	103

To comply with the findings of the Code, the Mining sector would need to appoint around 304 specific Board positions. These 304 appointments represent a minimum gap as we have assumed that 103 of these positions will be women, thereby bringing Board composition within the sector in line with the 15% UK average.

3. Conclusions

This study concludes that there is a positive a link between Corporate Governance and performance. Companies run with better Governance generate better rates of returns for their shareholders. Conversely, poorer Governance generates poorer shareholder returns.

The sector overall has not performed well in the Opus “Leadership Corporate Governance Ranking”. The main causal factor for this is that many companies are not addressing the issue of the independence of their Non-Executive Directors. Without these Directors being independent the role they play in constructively challenging and helping to develop proposals on strategy is severely compromised. This in turn hinders 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 to address those challenges can help to reduce risks.

The spread in performance and Board structures within the London-listed Mining sector is diverse. There are always anomalies and some companies with disappointing scores in our ranking have done well and vice versa. However, it is clear that this report has demonstrated some major links between Governance and performance:

1) The Main Market, subject to the recommendations of The Code, has out-performed AIM which is not bound by the recommendations of The Code.

2) The top ten performing companies by share price performance over the period had an overall Governance score that was higher than the average. This contrasts with the bottom ten performing companies which had an overall lower than average score.

3) The top ten scoring companies in the ‘Opus Leadership Corporate Governance Ranking’ achieved an average of 96% and delivered an average share price growth of 92%. This contrasts with the bottom ten companies in the ranking who had an overall score of 13% and shareholder value dropped by 80%.

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.

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