

Avoca Resources Limited

Updating Estimates Post DIO Takeover

Materials | Metals & Mining | Australia

Event:

- AVO has provided further details of the potential production post the DIO takeover.

Key take Outs:

- The profile for Trident reflects a decline in annual production from ~195koz currently to ~65koz by FY17. This production is supplemented by production from Chalice, open pits and a new underground operation. This allows AVO to forecast a 7 year Life of Mine (LOM) to FY17 from the Higginsville field.
- AVO is forecasting at least a similar 7 year LOM for both Frog's Leg and South Kalgoorlie operations at flat production levels of 50koz/a Frog's Leg and 40koz/a South Kal.
- AVO believes that the upside potential from the DIO takeover may well be an expanded South Kalgoorlie operation based on a larger pit operation (both footprint and depth extensions), provided that the new exploration effort substantiates this interpretation.
- We have adjusted our production estimates to bring these more closely aligned to the AVO guidance, particularly lowering Trident production and we highlight that we still have lower production from both Frog's Leg and South Kal operations.
- Of note, our estimates are conservative compared to the AVO consolidated plan pending further details of this planned production. In particular, we are ~10koz/a lower at Frogs Leg and +10koz/a lower at the Higginsville operations.

Earnings and Valuation Impact:

- Adjusting our production estimates to more closely align them to the AVO production plan, results in a decline in earnings from FY12, but a lengthening of the LOM operations.

Investment View:

- Maintain BUY recommendation and 12 Mo PT of \$2.75.
- AVO has a strong high grade production profile and the acquisition of Dioro (DIO) means it can now fully participate in the production from Frog's Leg (49%).
- AVO is therefore multi-mine thus reducing operational risk and is well on the way to being established as a mid-tier producer.

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BUY

Key Information

| | |
|---------------------------|--------|
| Stock Code | AVO |
| Share Price | \$1.99 |
| 12 Month Price Target | \$2.75 |
| Expected 12M Total Return | 38.2% |

Investment Data

| | |
|-----------------------|---------------|
| Issued Capital | 287.8m |
| Market Capitalisation | \$573m |
| % of S&P 200 Index | 0.0% |
| Free Float | 100% |
| Turnover | \$41.0m/month |
| 12 Month Price Range | 226¢-142¢ |
| Debt/Equity | 14.5% |

Investment Arithmetic

| Jun year end | 09A | 10E | 11E | 12E |
|--------------------------|------------|------------|-------------|------------|
| Net Profit Rep. (\$m) | -16.3 | 60.4 | 48.4 | 61.5 |
| NPAT Pre-NRI's (\$m) | -6.9 | 58.2 | 48.4 | 61.5 |
| EPS Adj. (¢) | -2.9 | 21.3 | 16.8 | 21.3 |
| EPS Growth (%) | nm | nm | -21.1 | 26.8 |
| PER (x) | nm | 9.3 | 11.8 | 9.3 |
| Relative PER (%) | nm | -41.8 | -6.3 | -15.7 |
| Dividend (¢) | 0.0 | 0.0 | 0.0 | 0.0 |
| Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 |
| Franking (%) | 0 | 100 | 100 | 100 |
| FCFPS (¢) | 16.2 | 31.3 | 31.0 | 36.3 |
| P:FCFPS (x) | 12.3 | 6.4 | 6.4 | 5.5 |
| EV/EBITDA (x) | 13.7 | 4.8 | 4.5 | 3.2 |
| BV (¢) | 67 | 79 | 74 | 74 |
| P/BV (x) | 3.0 | 2.5 | 2.7 | 2.7 |
| Av. Full Dil. Shares (m) | 233.5 | 272.7 | 288.7 | 288.7 |

Share Price Chart



Relative Price Performance

| | 1m | 3m | 12m |
|-------------------|-------|-------|--------|
| vs. S&P 200: | 8.8% | 14.1% | -22.8% |
| vs. MSCI - World: | 10.9% | 19.8% | 7.1% |

Source: Company data, IRESS, and GSJBW Research estimates.

Recommendation - our thinking

We retain our BUY recommendation and 12 Mo TP of \$2.75.

AVO is now firmly established as a multi-mine operation with a dominant position in two of WA's premia gold belts (HBJ trend from Coolgardie to Jubilee) and Higginsville.

AVO believes (and we concur) that the potential for depth extensions to known deposits in these trends is material and requires systematic deeper drilling and interpretation. We also believe that by the discovery of Trident, AVO has a demonstrated exploration expertise and has the commitment and funding to pursue a systematic exploration strategy.

However, now that AVO is an established producer, the focus of the market moves to NPAT, EPS, cash generation and LOM valuations. As such, AVO also needs to demonstrate a continuing replacement of resources and reserves at existing operations.

On balance, we like the potential and near-term earnings growth and thus retain our BUY recommendation.

Earnings Change

We have adjusted our production estimates to bring these closer to the indicative production profile released by AVO after the acquisition of DIO. Of note, this reflects lower production (grade) from Trident compared to our previous estimates.

| | NPAT (\$m) | | | EPS (¢) | | | DPS (¢) | | |
|---------------------------------|------------|-------------|--------|---------|-------------|--------|---------|------------|-------|
| | Old | New | % Chg | Old | New | % Chg | Old | New | % Chg |
| F.'09a | -6.9 | -6.9 | 0.0 | -2.9 | -2.9 | 0.0 | 0.0 | 0.0 | n.a. |
| F.'10e | 57.7 | 58.2 | 0.8% | 21.2 | 21.3 | 0.8% | 0.0 | 0.0 | n.a. |
| F.'11e | 48.4 | 48.4 | 0.0% | 16.8 | 16.8 | 0.0% | 0.0 | 0.0 | n.a. |
| F.'12e | 67.0 | 61.5 | -8.3% | 23.2 | 21.3 | -8.3% | 0.0 | 0.0 | n.a. |
| F.'13e | 86.6 | 74.9 | -13.5% | 30.0 | 26.0 | -13.5% | 4.0 | 4.0 | 0.0% |
| DCF Valuation (¢/share): | | | | Old | New | % Chg. | | | |
| Base Valuation | | | | 1.72 | 2.43 | 41.1% | | | |

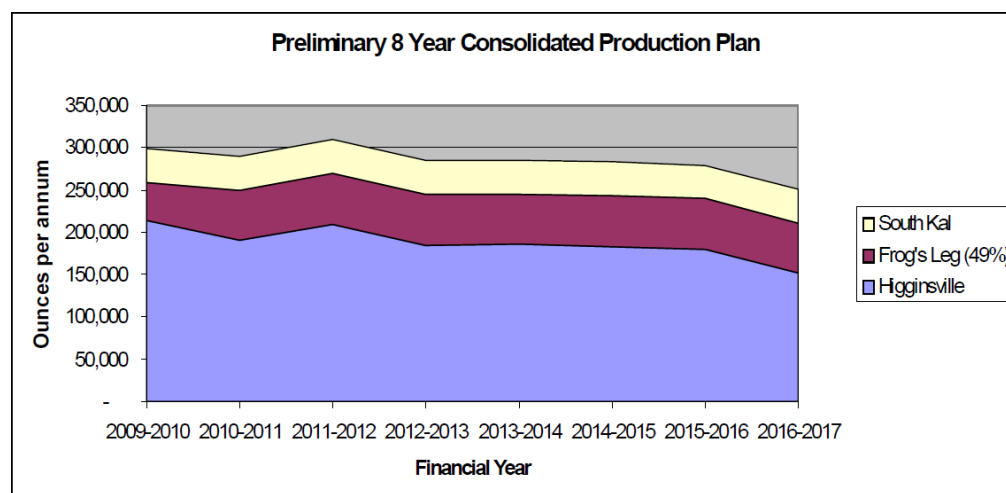
Source: Company data, GSJBW Research estimates

Revised Production Profile

Combined Operations

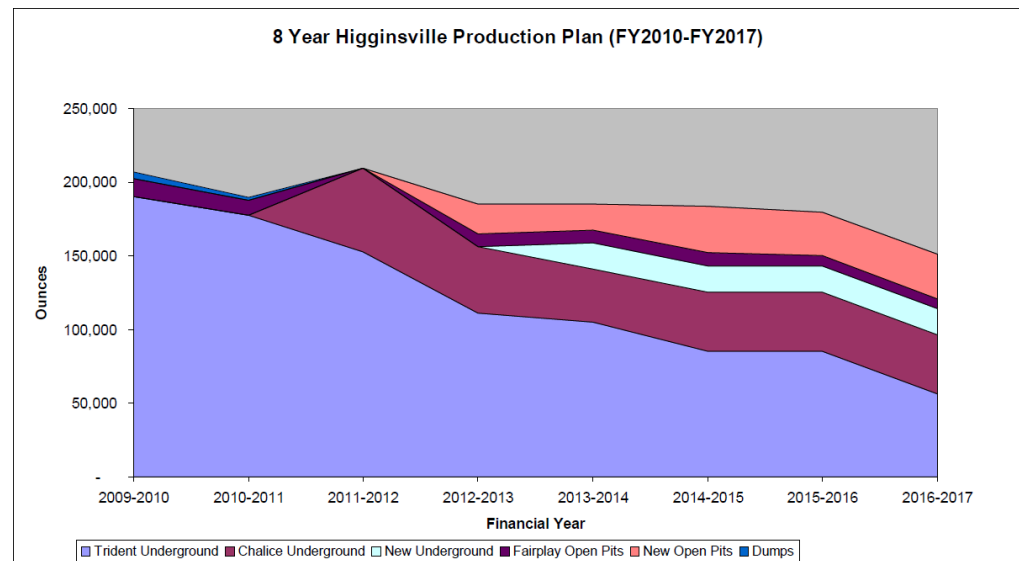
AVO has provided an initial production plan to FY17 to include Frog's Leg and South Kalgoorlie Operations post the DIO acquisition. This plan reflects conversion of resources to reserves and thus should be viewed as a base potential, as additional exploration may well result in extensions to the resources. In-fill drilling should certainly lead to an increase (through conversion of resources) in the overall reserves.

This plan incorporates 2.5mozs in the "mineable estimate" compared to the current reserves of 1.2mozs and resources of 3.6mozs.



Higginsville Production Centre

AVO includes Trident and Chalice, the two current operations as well as potential from new open pits and a further underground operation.



GSJBW Profile

- We have adjusted our estimates to take into account this new information.
- Our estimates assume production of 1.98Mozs (recovered) to FY17 which compares to the current reserves of 1.2mozs and resources of 3.6mozs and AVO's plan which reflects 2.5mozs.
 - Higginsville 1.28mozs versus current reserves 0.6mozs and resources 1.2mozs
 - South Kal and Frogs Legs 0.53mozs versus reserves 0.6mozs and resources 2.2mozs.

Our revised production profiles are shown below:

Group Summary

| AVO Consolidated | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Higginsville | 131 | 195 | 197 | 190 | 180 | 181 | 171 | 164 | 149 |
| Frogs Leg | 20 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| South Kal | 20 | 37 | 38 | 38 | 38 | 38 | 38 | 35 | 35 |
| TOTAL | 171 | 271 | 275 | 268 | 259 | 260 | 250 | 238 | 223 |
| Cost A\$/oz (Pre Royalty) | 653 | 629 | 546 | 578 | 600 | 636 | 616 | 622 | 637 |
| Cost A\$/oz (Pre Royalty) | 755 | 758 | 656 | 705 | 741 | 792 | 750 | 633 | 649 |
| Capex A\$m | 55.4 | 51.5 | 52.0 | 10.5 | 10.5 | 11.6 | 10.4 | 0.0 | 0.0 |

Source: Company data; GSJBW Research estimates

For Higginsville and Jubilee Operations:

Higginsville

| BASE CASE | >>Forecast | | | | | | | | |
|------------------------------|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Trident | | | | | | | | | |
| Production : mt. | | | 1.20 | 0.96 | 0.72 | 0.56 | 0.48 | 0.48 | 0.40 |
| Grade : g/t | | | 5.30 | 5.08 | 5.10 | 5.10 | 5.10 | 5.10 | 5.10 |
| Chalice | | | | | | | | | |
| Production : mt. | | | | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| Grade : g/t | | | | 5.08 | 5.50 | 4.80 | 4.80 | 4.80 | 4.50 |
| Fairplay Open Pits | | | | | | | | | |
| Production : mt. | | | | | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 |
| Grade : g/t | | | | | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 |
| New Open Pits | | | | | | | | | |
| Production : mt. | | | | | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 |
| Grade : g/t | | | | | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 |
| New Underground | | | | | | | | | |
| Production : mt. | | | | | | 0.24 | 0.24 | 0.24 | 0.24 |
| Grade : g/t | | | | | | 4.50 | 4.50 | 4.50 | 4.50 |
| Total | | | | | | | | | |
| Production : mt. | 1.11 | 1.21 | 1.20 | 1.21 | 1.47 | 1.55 | 1.47 | 1.47 | 1.39 |
| Grade : g/t | 3.73 | 5.13 | 5.30 | 5.08 | 3.98 | 3.83 | 3.76 | 3.76 | 3.63 |
| Recovery : % | 97% | 97% | 96% | 96% | 96% | 95% | 96% | 92% | 92% |
| Gold Production : koz | 131 | 195 | 197 | 190 | 180 | 181 | 171 | 164 | 149 |
| Cost A\$/t | 77.5 | 71.7 | 80.0 | 83.0 | 68.8 | 68.8 | 68.8 | 64.7 | 63.8 |
| Cost A\$/oz (Pre Royalty) | 653 | 446 | 488 | 530 | 561 | 614 | 584 | 582 | 594 |
| Cost A\$/oz (Post Royalty) | 755 | 583 | 629 | 695 | 747 | 820 | 763 | 582 | 594 |
| Capex A\$m | 52.8 | 51.4 | 51.6 | 10.0 | 10.1 | 11.1 | 10.0 | 7.1 | 6.7 |

Source: Company data; GSJBW Research estimates

Jubilee Plant - Frog's Leg

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Jubilee Operations | | | | | | | | | |
| Frogs Leg | | | | | | | | | |
| Production : mt. | 0.3 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Grade : g/t | 4.4 | 5.2 | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 |
| Recovery : % | 96% | 94% | 95% | 95% | 95% | 95% | 95% | 95% | 95% |
| Gold Production (atrib) : koz | 20 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| Cost A\$/t | 70.5 | 70.5 | 70.5 | 70.5 | 69.3 | 68.0 | 68.0 | 68.0 | 68.0 |
| Cost A\$/oz (Pre Royalty) | 507 | 445 | 436 | 436 | 428 | 421 | 421 | 421 | 421 |
| Cost A\$/oz (Post Royalty) | 537 | 475 | 466 | 470 | 466 | 461 | 457 | 457 | 457 |
| Capex A\$m | 0.5 | 0.9 | 0.9 | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 |

Source: Company data; GSJBW Research estimates

South Kal

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| South Kal | | | | | | | | | |
| Production : mt. | 0.4 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| Grade : g/t | 1.5 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.3 | 1.3 |
| Recovery : % | 95% | 92% | 92% | 92% | 92% | 92% | 92% | 92% | 92% |
| Gold Production (atrib) : koz | 20 | 37 | 38 | 38 | 38 | 38 | 38 | 35 | 35 |
| Cost A\$/t | 43.5 | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 | 41.0 |
| Cost A\$/oz (Pre Royalty) | 962 | 1002 | 966 | 966 | 966 | 966 | 966 | 1040 | 1066 |
| Cost A\$/oz (Post Royalty) | 994 | 1031 | 996 | 1000 | 1003 | 1006 | 1002 | 1076 | 1103 |
| Capex A\$m | 1.0 | 14.6 | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 | 4.5 | 5.6 |

Source: Company data; GSJBW Research estimates

Financial Summary | AVO

| Avoca Resources Ltd | | | | | | | Current Price A\$: \$1.99 | | Mkt Cap.: \$543m | | Free Float 76% | | Recommendation: BUY | | |
|------------------------------------|-----------------|----------|-------|-------|-------|-------|----------------------------------|----------------------------------|---------------------|--------|----------------|-------|-----------------------|-------|--------|
| | | | | | | | GSJBW DCF: \$2.43 | | ASX Code: AVO | | | | Price Target: \$2.75 | | |
| | | | | | | | Industry: Gold | | T'over (mth): \$78m | | | | Analyst: Ian Preston | | |
| | | | | | | | | | | | | | Data as at: 22-Mar-10 | | |
| Investments Statistics | | | | | | | Profit & Loss (A\$m) | | | | | | | | |
| | Year end | June | 2009a | 2010e | 2011e | 2012e | 2013e | Year end | June | 2009a | 2010e | 2011e | 2012e | 2013e | |
| Net Profit (reported) | | (A\$m) | -16 | 60 | 48 | 61 | 75 | Sales Revenue (excl JV & Assoc.) | | 146 | 239 | 264 | 286 | 299 | |
| -EPS (Reported) 1 | | (€) | -7.0 | 22.2 | 16.8 | 21.3 | 26.0 | Operating costs | | 109 | 19 | 141 | 146 | 146 | |
| -PER (Reported) 1 | | (X) | -28.5 | 9.0 | 119 | 9.3 | 7.7 | Operating EBITDA | | 37 | 119 | 123 | 140 | 152 | |
| NET PROFIT (Adj.) 2 | | (A\$m) | -7 | 58 | 48 | 61 | 75 | D&A | | 42 | 44 | 52 | 53 | 51 | |
| -EPS (Adj.) 2 | | (€) | -2.9 | 21.3 | 16.8 | 21.3 | 26.0 | Operating EBIT | | -5 | 75 | 71 | 86 | 101 | |
| -EPS Growth | | (%) | 400% | -827% | -2% | 27% | 22% | JV & Assoc. | | 0 | 0 | 0 | 0 | 0 | |
| -PER (Adj.) 2 | | (X) | n.a. | 9 | 12 | 9 | 8 | EBIT | | -5 | 75 | 71 | 86 | 101 | |
| Dividend | | (€) | 0.0 | 0.0 | 0.0 | 0.0 | 4.0 | Net Interest Exp./ (Rev) | | 9 | 4 | 2 | -1 | -6 | |
| -Yield | | (%) | 0.0% | 0.0% | 0.0% | 0.0% | 2.0% | PreTax Profit (pre ab's) | | -14 | 71 | 69 | 88 | 107 | |
| -Franning | | (%) | 0 | 100 | 100 | 100 | 100 | Tax Expense (pre abs) | | -7 | 20 | 21 | 26 | 32 | |
| Free Cash Flow | | (A\$m) | 38 | 85 | 89 | 105 | 165 | Minorities (after Tax) | | 0 | 0 | 0 | 0 | 0 | |
| -P/FCF 4 | | (X) | 12.3 | 6.4 | 6.4 | 5.5 | 5.0 | Pref. Dividends | | 0 | 0 | 0 | 0 | 0 | |
| EV(Adj.)/EBITDA 3 | | (X) | 13.7 | 4.8 | 4.5 | 3.2 | 2.2 | NET PROFIT (Pre NRI's) 1 | | -7 | 51 | 48 | 61 | 75 | |
| Avg. Shares (diluted) | | (mill) | 234 | 273 | 289 | 289 | 289 | Abnormal Items (after Tax) | | -9 | 9 | 0 | 0 | 0 | |
| EV Analysis / DCF Valuation | | | | | | | Cash Flow Analysis (A\$m) | | | | | | | | |
| A\$ DCF Valuation: 2.43 | | | | | | | Upside DCF: 2.87 | | | | | | | | |
| Price / DCF: 0.82 | | | | | | | WACC: 10.9% | | | | | | | | |
| Ke: 13.7% | | | | | | | RF: 6.5% | | | | | | | | |
| Kd: 5.3% | | | | | | | MRP: 6.0% | | | | | | | | |
| BETA: 120 | | | | | | | | | | | | | | | |
| | Year end | June | 2009a | 2010e | 2011e | 2012e | 2013e | Year end | June | 2009a | 2010e | 2011e | 2012e | 2013e | |
| EV(Adj.) 3 | | (A\$m) | 512 | 574 | 568 | 453 | 338 | Operating EBITDA | | 37 | 119 | 123 | 140 | 152 | |
| EV (Adj.) / EBITDA | | (X) | 13.7 | 4.8 | 4.5 | 3.2 | 2.2 | change in working cap. | | 20 | 0 | 3 | 3 | 2 | |
| EV (Adj.) / Sales | | (X) | 3.5 | 2.4 | 2.1 | 1.6 | 1.1 | Gross Cashflow | | 57 | 119 | 126 | 143 | 154 | |
| EV (Adj.) / Gross CF | | (X) | 9.0 | 4.8 | 4.4 | 3.2 | 2.2 | Net Interest Paid | | -5 | -4 | -2 | 0 | 5 | |
| Balance Sheet (A\$m) | | | | | | | FREE CASH FLOW | | | | | | | | |
| | Year end | June | 2009a | 2010e | 2011e | 2012e | 2013e | Dividends Paid | | 0 | 0 | 0 | 0 | 0 | |
| Cash | | | 39 | 14 | 62 | 166 | 282 | Expansion Capex | | -49 | -43 | -42 | 0 | 0 | |
| Property, Plant, Equip | | | 177 | 181 | 181 | 138 | 97 | Acquisitions | | 0 | -33 | 0 | 0 | 0 | |
| Other Assets | | | 72 | 97 | 99 | 100 | 100 | Asset Sales | | 0 | 0 | 0 | 0 | 0 | |
| Debt | | | 87 | 45 | 45 | 45 | 45 | Dividends Received/Other | | 18 | 5 | 0 | 0 | 0 | |
| Shareholders Equity | | | 157 | 215 | 215 | 215 | 215 | Share Issues/Repurchases | | 29 | 2 | 0 | 0 | 0 | |
| Net Debt / Equity | | (%) | 30% | 15% | n.a. | n.a. | n.a. | Change in Cash | | 36 | 16 | 47 | 105 | 115 | |
| Net Debt / (D+E) | | (%) | 23% | 13% | n.a. | n.a. | n.a. | Gross CF / Op. EBITDA | | (X) | 153 | 100 | 103 | 102 | 101 |
| Annual Production | | | | | | | ROE Analysis | | | | | | | | |
| | Year end | June | 2009a | 2010e | 2011e | 2012e | 2013e | | Year end | June | 2009a | 2010e | 2011e | 2012e | 2013e |
| Gold | | 000 oz | 131 | 225 | 275 | 268 | 259 | EBIT/Sales | | (X) | -0.04 | 0.31 | 0.27 | 0.30 | 0.34 |
| Cash Costs | | | | | | | ROCE WACC Analysis | | | | | | | | |
| | Year end | June | 2009a | 2010e | 2011e | 2012e | 2013e | | Year end | June | 2009a | 2010e | 2011e | 2012e | 2013e |
| Average (excl. royalty) | | A\$/oz | 653 | 629 | 546 | 578 | 600 | Adjusted NOPAT | | (A\$m) | -7 | 58 | 48 | 61 | 75 |
| Commodity Prices | | | | | | | Return on Equity (ROE) | | | | | | | | |
| | Year Average to | June | 2009a | 2010e | 2011e | 2012e | 2013e | | Year end | June | 2009a | 2010e | 2011e | 2012e | 2013e |
| Currency | | A\$/US\$ | 0.75 | 0.89 | 0.92 | 0.86 | 0.81 | Adj Cap employed | | (A\$m) | 202 | 225 | 222 | 146 | 36 |
| Gold Price Spot | | A\$/oz | 187 | 189 | 128 | 164 | 1492 | ROCE | | (%) | -3.4% | 25.8% | 21.7% | 42.0% | 206.5% |
| Gold Price Received | | A\$/oz | 116 | 106 | 959 | 1066 | 154 | WACC | | (%) | 10.9% | 10.9% | 10.9% | 10.9% | 10.9% |
| Earnings Sensitivity | | | | | | | ROCE Spread | | | | | | | | |
| | Year end | June | 2009a | 2010e | 2011e | 2012e | 2013e | | Year end | June | 2009a | 2010e | 2011e | 2012e | 2013e |
| Gold Price (+/-US\$ 10/oz) | | A\$m | 0.9 | 17 | 14 | 11 | 0.8 | Change in ROCE | | (abs) | -14% | 15% | 11% | 31% | 196% |
| AUD.USD (+/- 1¢) | | A\$m | -11 | -19 | -17 | -15 | -13 | | Year end | June | 2009a | 2010e | 2011e | 2012e | 2013e |

(1) Net Profit - Adjusted is after share based compensation and pref dividends, and before goodwill amortisation, NRI's and other non-operating AIFRS adjustments.

(2) Net Profit (Adj.) is before goodwill amortisation, NRI's and after Pref. Divs.

(3) EV Includes 100% of Mkt. Value of minorities

(4) ROE excludes Preference Capital

Source: Company data, IRESS, and GSJBW Research estimates.

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Australia - Research Recommendation Definitions

| | |
|----------|---|
| Sell (S) | Stock is expected to underperform the S&P/ASX 200 for 12 months |
| Hold (H) | Stock is expected to perform in line with the S&P/ASX 200 for 12 months |
| Buy (B) | Stock is expected to outperform the S&P/ASX 200 for 12 months |

Other Definitions

| | |
|----|--|
| NR | Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or Goldman Sachs JBWere policies in circumstances when Goldman Sachs JBWere is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations |
| CS | Coverage Suspended. GSJBW has suspended coverage of this company. |
| NC | Not Covered. GSJBW does not cover this company. |

Price Target

Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon.

Research Criteria Definitions

The above recommendations are primarily determined with reference to the recommendation criteria outlined below. Analysts can introduce other factors when determining their recommendation, with any material factors stated in the written research where appropriate. Each criterion is clearly defined for the research team to ensure consistent consideration of the relevant criteria in an appropriate manner.

Prior to 20 July 2007, GSJBW had a dual-horizon recommendation system: Short Term & Long Term. The Short Term factors were Relative Earnings Outlook, Earnings Momentum, News Flow, Relative Performance, and Valuation Support. The Long Term factors were Industry Structure, EVA Trend, Growth Option and Price/DCF.

| | |
|-------------------------|---|
| Industry Structure: | Based on Goldman Sachs JBWere industry structure ranking. All industries relevant to the Australian equity market are ranked, based on a combination of Porter's Five Forces of industry structure as well as an industry's growth potential, relevant regulatory risk and probable technological risk. A company's specific ranking is based on the proportion of funds employed in particular industry segments, aggregated to determine an overall company rating, adjusted to reflect a view of the quality of a company's management team. |
| EVA Trend: ¹ | EVA trend forecast for coming 2 years. Designed to reflect "turnaround stories" or to highlight companies Goldman Sachs JBWere analysts believe will allocate capital poorly in the estimated timeframe. |
| Earnings Momentum: | The percentage change in the current consensus EPS estimate for the stock (year 1) over the consensus EPS estimate for the stock 3 months ago. Stocks are rated according to their relative rank, effectively making it a market relative measure |
| Catalysts: | A qualitative and quantitative assessment of a company's long term catalysts that the analyst believes should be considered and possibly recognised by the market. |
| Price:Base Case DCF: | The premium or discount to base case DCF valuation at which the stock is trading relative to the average premium or discount across the market. |

For Insurers

| | |
|-------------------------|--|
| EVA Trend: ¹ | ROE is used as a proxy for EVA. Rating takes into account the expected level and trend of ROE over the next 2-3 years. |
| Balance Sheet: | Analyst's assessment of the quality and strength of the insurer's balance sheet, including conservatism of provisioning, sufficiency of capital, and quality of capital. |

For REITs

| | |
|-------------|--|
| Strategy: | Used instead of industry structure as many REIT investors are intra rather than inter sector focussed. |
| EPU Growth: | Ranking of Earnings Per Unit growth relative to other listed Real Estate Investment Trusts. Used instead of EVA Trend. |
| Yield: | Yield relative to the REIT sector average. Used instead of Earnings revision. |

For NZ Companies

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|-----------------|---|
| Relevant Index: | If a research report is published by the New Zealand affiliate of Goldman Sachs JBWere, the recommendation of a company or trust is based on their performance relative to the NZSX 50 Index (Gross) and not the S&P/ASX 200 index. |
|-----------------|---|

¹ EVA is a registered trademark of the U.S. consultancy firm Stern Stewart

Distribution of Recommendations – as at 31 December 2009

| Recommendation | Overall | Corporate relationship* in last 12 months |
|----------------|---------|---|
| Sell | 8% | 6% |
| Hold | 54% | 43% |
| Buy | 38% | 51% |

* No direct linkage with overall distribution as the latter relates to the full Goldman Sachs JBWere stock coverage (>250 companies). The above table combines the corporate relationships and recommendations of both Goldman Sachs JBWere Pty Ltd and its affiliate in New Zealand, Goldman Sachs JBWere (NZ) Limited.