

### Rio's Pilbara railway extension begins operating (Mon, 22<sup>nd</sup> Feb)

**THE first trainload of iron ore has been dispatched from Rio Tinto's new Mesa A/Warramboe mine, signalling the start of a new generation of iron ore operations for the company in the Pilbara region of Western Australia.** Mesa A/Warramboe, about 50km west of the township of Pannawonica, is part of the Robe River Joint Venture in which Rio has a 53 per cent interest.

It will have an initial production of 20 million tonnes a year, rising to 25 million tonnes by 2011, and will employ about 220 people.

The first full-length train of 163 ore cars left the mine on Friday, following the 49km rail extension to connect to the Deepdale railway running from Pannawonica to the Cape Lambert port.

Developed at a cost of \$US900 million, the Mesa A project has been described by Rio as important to its future aspirations as it is to the 800 or so permanent residents of Pannawonica, who since the late 1960s have worked the iron ore mines that dot the inland Robe River Valley.

In recent years most of Pannawonica's residents have worked the nearby Mesa J mine, once a 35 million tonnes a year mine but now reduced to 7 million tonnes a year as it exhausts its supplies of pisolite ores to its mainly Japanese customers.

Rio has plans to lift total production to 330mtpa based on the Mesa A and Warramboe mine sites which sit either side of the North West Coastal Highway that runs parallel with the northwestern coast.

With high-grade reserves of close to 250 million tonnes, the pair have justified the 49km spurline to the Pannawonica rail line that also improves the economics of a range of smaller deposits between Warramboe and Pannawonica.

Rio is expected soon to give its detailed plans for a second extension of its mining business at the Brockman 4 mine site near Tom Price in the central Pilbara.

Two years ago, when announcing the new mines, Rio Tinto Iron Ore chief executive Sam Walsh said they were integral to the Pilbara production platform behind the company's expansion of its global network of assets.

"Mesa A/Warramboe and Brockman 4 demonstrate our strategy of substantial investment in high-quality, long-life, low-cost assets," he said at the time. "They are outstanding deposits."

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#### Ocean Comment:

**IOH is well positioned to execute another commercial agreement with RIO due to its proximity to Mesa A/Warramboe:** We note specifically that Iron Ore Holdings ("IOH") Buckland Hill's deposit is favourably located to Rio Tinto ("RIO") and its JV partners West Pilbara infrastructure (Exhibits 1 & 2). The Buckland Hills prospect is located 35km southeast of RIO's Mesa J mine (historic production of ~26mtpa/resource 135mt @ 56.4% Fe – now winding down to 7mtpa), and is adjacent to the southern extent of RIO's Bungaroo CID project. RIO's Pannawonica operation is within ~55km (via existing roads) of both IOH's target areas, and the Mesa A/Warramboe mine, ~50km from Pannawonica, is expected to have initial production of 20mtpa increasing to 25mtpa by 2011 (total high grade reserves ~249mt with a total mine life of 11 years). Capex for the Mesa A/Warramboe project was ~US\$900m and includes a 49km rail extension.

The Mesa J/ Pannawonica and West Angelas operations are owned by Robe River Iron Associates of which RIO has a 53% operating interest with Mitsui (33%), Nippon Steel (10.5%) and Sumitomo Metal Industries (3.5%) retaining minority interests. It is worth highlighting that IOH's Managing Director, Matt Rimes, had been with Robe River for the previous 10 years before he joined IOH, having held senior operational positions at both Pannawonica and West Angelas. Matt spent a period of this time on the board of Robe River Mining Co Pty Ltd. As such IOH has a very good understanding of the Robe River assets and relationship with their shareholders. Additionally Sumitomo, Japan's third-largest steelmaker, is the second largest shareholder of IOH.

While we believe Buckland Hills will be potentially an attractive asset to RIO and its Japanese JV partners. This is due to the favourable characteristics of its ore (which is at surface, dry/above the water table, with high Fe units and favourable impurity levels), the potential size of the project (with a 49mt resource already delineated on a small section of the tenement which is open at Target 2 and no resource yet defined at Target 1), and its location (close to under utilised infrastructure). It is also worth highlighting that the asset is also favourably located to Aquila's Western Pilbara iron ore assets. Aquila's Mt Elvire Iron Ore project, which is owned by the Australian Premium Iron ("API") Joint Venture, is located immediately to the south of the Buckland Hills project. Aquila enjoys a strategic co-operation agreement with its major shareholder Baosteel, and the "development decision" for the West Pilbara iron ore project, and associated infrastructure, is expected mid 2010.

A major maiden resource at Buckland Hills was announced by IOH on the 22<sup>nd</sup> Feb after assay results from the 1,390m drilling programme that was completed in Oct'09, targeting two areas have confirmed the discovery of a new high-grade channel iron mineralised zone with intersections of up to 58m at 61% Fe. Mineralisation has been identified at the Target 2 zone over a length of 1,200 metres and is up to 500 metres wide and has formed the basis of a 47.9mt @ 58.05% Inferred JORC resource.

A follow-up infill campaign is planned to test continuity and extensions at Target 2 (which remains open), as well IOH will test additional targets, primarily in the southern area of Target 1, with follow up drilling expected to commence once the current programme at Iron Valley is completed. During 2010, IOH intends to prioritise the exploration and development of the Buckland Hills tenements. We believe Buckland Hills is well positioned to be the next project IOH commercialises after Iron Valley.

**Major shareholders and directors exercise IOH options:** Recently Kerry Stokes (via Wroxy Pty Ltd) exercised 7 million options (strike price of A\$1.00/sh) bringing his total shareholding in the Company back up to 53.07%. Furthermore, earlier this week Chairman Mal Randall and director Richard Court also exercised options. The Company remains comfortably funded with ~A\$18.7m in the bank, with an aggressive 20,000 metre (~A\$5.5m) drilling programme budgeted for 1H'10.

**More positive newsflow expected to drive IOH:** After the delineation of a maiden resource at Buckland Hills, IOH's high grade inventory totals 281.2mt (total JORC resources of 328mt including the Extension Deposit). We expect this high grade total will approach towards ~300mt by the end of Feb/Mar'10 and we believe these catalysts could see IOH at least A\$3/sh if the current macroeconomic and sector environment does not significantly deteriorate (refer to Exhibit 2). In the medium term, as the next 6 months of aggressive drilling is complete, we believe there is significant further scope to increase resources as known targets are followed up for infill drilling and further extensions. Furthermore, over this period we expect any positive conclusion of negotiations with RIO for Iron Valley (expected by July 31<sup>st</sup>) to be a company transforming announcement. The announcement today (Feb 24<sup>th</sup>) indicating significant widths of iron ore mineralisation at Iron Valley and extension beyond the current known resource presents a positive indication from the current drilling program from the first diamond drill hole, and we await assay results.

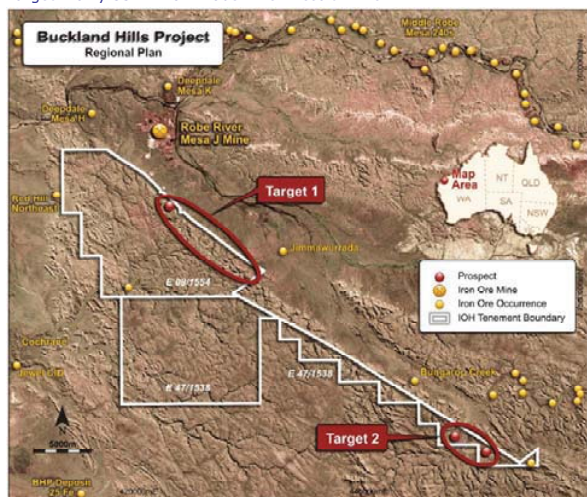
**Key potential company specific catalysts are expected to be:**

- Further resource upgrade for Iron Valley by Mar/Apr'10.
- Phil's Creek mining contractor expected to be appointed with further details for project funding to be announced by 2Q'10.
- Results from the aggressive 20,000 metre drilling programme in 1H'10 targeting Iron Valley, Buckland Hills (Targets 1 & 2), Lamb Creek (Boundary project), and Koodaideri South (including Fingers, Hidden Valley, Bight, and Kurrajura West/East prospects).
- Negotiations for potential sale and/or commercial transaction for Iron Valley to RIO by July 31st.
- Further potential commercial transactions for other IOH projects and resource upgrades.

**Key potential sector specific catalysts are expected to be:**

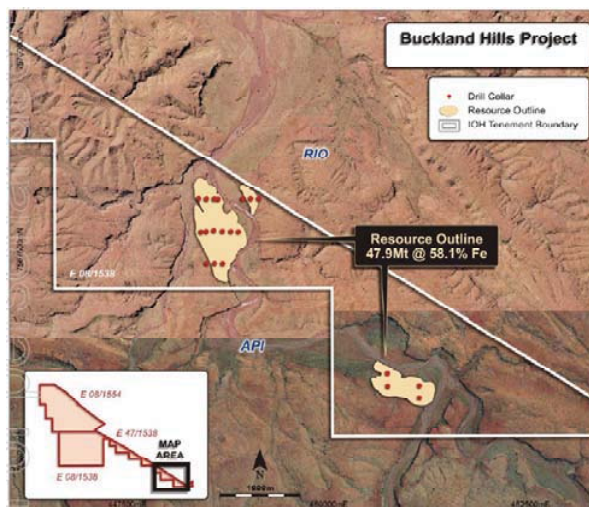
- JFY10/11 contract price negotiations have recently become a focus with reports that a number of Asian steel mills have already agreed an interim price increase of 40%. The current Australian CIF spot price is US\$129.5/t (63.5% Fe) or US\$118.9/t FOB (current freight rate US\$9.75/t) which equates to 93% above the current contract price. The sharp rise in spot prices has led to increase in consensus forecasts, and while a number of analysts are now forecasting a +40% increase, we believe anything above a 30% final contract price increase would be an extremely positive result and further support the share prices of the iron ore juniors and majors alike.
- Third party rail access has been a long discussed topic and while we do not expect actual facilitation of access in the medium term, we believe that the proposed Pilbara JV between RIO and BHPB could see a road map for the juniors gaining access in the near term. We believe such an announcement would be a significant catalyst to the Pilbara iron ore juniors.
- Given IOH's portfolio of development projects we believe it is extremely well positioned to benefit from any favourable sector specific news flow.

**Exhibit 1:** Buckland Hills Location Plan with Targets 1 and 2, with Target 2 only 35km from Robe River Mesa J mine



Source: Iron Ore Holdings, Ocean Equities

**Exhibit 2:** Buckland Hills Maiden Resource Outline at Target 2



Source: Iron Ore Holdings, Ocean Equities

## Iron Ore Holdings reports on significant mineralisation at Iron Valley (Weds, 24<sup>th</sup> Feb)

**Emerging Western Australian iron ore company Iron Ore Holdings (ASX:IOH) has encountered significant widths of visual iron ore mineralisation in the current drilling program at the Iron Valley Project.** Drilling at Iron Valley re-commenced in early February with two Diamond and one Reverse Circulation (RC) rig working simultaneously. A second RC drilling rig is expected to be on site in early March, adding to the already aggressive drilling campaign.

This campaign was designed to target previously advised deep extensions of the main resource area, as well as testing the southern limits of the currently defined resource envelope.

The first diamond hole completed (IV106), has intersected a zone of iron mineralisation which extends to a depth of up to 100 meters below the current known JORC resource. Assay results have not yet been received for this drill core.

This significant zone of mineralisation is interpreted to represent a similar zone to that encountered in Hole IV198 which is 200 meters to the north. Additional diamond drilling on this section is underway to fully understand the significance and extent of this wide zone of iron mineralisation.

RC drilling is focused on extending a zone of mineralisation to the south of the main Iron Valley resource. Significant visual mineralisation has again been identified well outside the currently defined JORC resource.

Three consecutive RC drill holes (IV215, IV216 and IV220) on section 7481000m have encountered similar zones of iron mineralisation, with one hole ending in iron ore at a depth of 282 meters below surface. The zone of mineralisation remains untested and open to the south and at depth.

The occurrence of such thick mineralisation is very encouraging and is expected to increase the current Mineral Resource at Iron Valley of 191Mt (111.7Mt Indicated and 79.8Mt Inferred). The Company intends to continue drilling at Iron Valley to ensure that the full potential of the project is realised.

Drilling is continuing with 3 rigs on site. Work is continuing to fully evaluate the resource potential of Iron Valley.

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## FerrAus ramping Pilbara studies (Weds, 24<sup>th</sup> Feb)

**IRON ore hopeful FerrAus will move to a prefeasibility study after a scoping study indicated its Pilbara iron ore projects could potentially have a net present value of up to \$A1.1 billion.** FerrAus has opted to combine its Robertson Range and nearby Davidson Creek and Murrumunda projects, which will now be referred to as the FerrAus Pilbara project.

The scoping study assumed a production rate of 15 million tonnes per annum with a single process plant to be built in the Davidson Creek area.

Using an 8% real after tax discount rate, the project NPV ranges from \$880 million to \$1.1 billion, with indicative tax margins of near 20%.

Capital costs are estimated to be in the range of \$600 million to \$1 billion, including capital for train rolling stock and railroad construction to existing infrastructure, as well as allowances for engineering, procurement and construction management and contingency.

Internal rate of return ranges from 21-30%, with a payback period of 6-8 years.

The company used an iron ore price of \$US81.20 per dry metric tonne free on board for Hamersley Fines, based on long-term forecasts, and an exchange rate of 75c.

However, the 2009 contract price is \$97/t FOB and the January 2010 spot price was \$158.06/t FOB.

"With capital of \$30 to \$56 per annual tonne of capacity, this project is very competitive," FerrAus managing director Mike Amundsen said.

"A range of life of mine production scenarios was considered with rail transport via either the Mt Newman JV railroad or the TPI railroad, with shipping from the North West Iron Ore Alliance port facility."

The FerrAus Pilbara project has 166Mt of resources and the company will carry out further exploration drilling.

Based on the study results, FerrAus will move to a prefeasibility study to be completed by the end of the year.

Sinclair Knight Merz has been appointed as the lead engineering company for the study.

[\(\[miningnews.net\]\(http://miningnews.net\)\)](http://miningnews.net)

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## Northam Platinum likely to go to market for R3bn Booyendal – CEO (Tues, 23<sup>rd</sup> Feb)

**JSE-listed platinum miner Northam was likely to go to the market to finance the proposed R3-billion 1 200-employee Booyendal platinum mine in Mpumalanga province, its CEO Glyn Lewis said on Tuesday.** Lewis said in reply to mining analyst Nic Dinham that the timing of the expected equity raising was dependent on the timing of the proposed unbundling of its majority shareholder, Mvelaphanda Resources.

Lewis added that the timing of the environmental-management programme (EMP) approval for the long-awaited platinum project would also dictate the rate at which the capital would be spent.

"We have done some work on exploring various funding options, but more remains to be done. In the meantime, I must reiterate that we remain cash positive.

"We have an unencumbered balance sheet without any debt and in all likelihood we should be in a position to start the development of Booyendal from internal cash retentions," Lewis said.

Northam's cash balance was just below R1-billion as at December 31 and the company on Tuesday declared a three-times covered 20c dividend.

"I certainly think that, in time to come, we'll have to come back to the market to raise additional capital," Lewis said.

Meanwhile, the board had approved R340-million capital expenditure (capex) from its own cash for early works at the Booyendal site, on the eastern limb of the Bushveld Complex.

Northam's René Rautenbach told fund managers, analysts and journalists at the results presentation that Booyendal's project capex would be R3,05-billion, in addition to the R340-million contingency allowance for the provision of access roads, water, power and other basic infrastructure at the Booyendal site, which abuts Aquarius' Everest South platinum mine and is close to AngloPlat's Der Brochen and Implat's Two Rivers.

Rautenbach said that the proposed Booyendal mining operation was expected to produce 130 000 oz/y of platinum from 2014.

Commissioning of the platinum concentrator was expected in May 2013 and the peak capex of R1,2-billion-plus would be required in 2012.

The start of construction of the mine would depend on the approval of the amendment to Anglo Platinum's approved EMP, which Northam inherited as part of Mvelaphanda Resources' black-economic empowerment transaction with AngloPlat.

"We expect approval in June and when that happens, we can start real construction," Rautenbach added.

Some R97-million will be spent on early works by June and the rest of the R340-million by December.

Northam marketing manager Jerry White told the meeting that Northam's market outlook was one of "cautious optimism".

White said that vehicle sales in China had surpassed 13-million units during the course of 2009, an increase of 40% on 2008, and there were good indications that further growth could yet be achieved, creating demand for platinum-group metals.

He said that jewellery demand would remain price sensitive and the current environment of higher platinum prices would result in the likelihood of reduced demand for platinum "at least in the immediate term".

The outlook for investment interest in platinum and palladium exchange-traded funds remained positive, but only a modest recovery was likely in the industrial market, where demand in the chemicals, glass and electrical sectors remained suppressed.

[\(\[miningweekly.com\]\(http://miningweekly.com\)\)](http://miningweekly.com)

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## **Iron Ore Sector Update: Iron ore spot prices enter the New Year with momentum; market fundamentals are looking positive into 2010 (Jan 11<sup>th</sup> 2010)**

**Source of the Opportunity:** There has been a significant rise in iron ore spot prices since mid-Dec'09, up 27% to US\$135/t, establishing a premium of ~100% to the non-China JFY'09/10 contract price which was agreed by the Japanese and Koreans in May'09. Chinese steel production remains robust and we believe the sustained strength of Chinese imports in the last quarter has caught most market participants by surprise in a period where the traditional industrialised steel countries are now raising capacity utilisation. In our view this has led to an extremely tight iron ore market with limited visibility for supply catching up soon.

General consensus is becoming increasingly more positive about near term seaborne demand and future increases in iron ore contract prices with expectations for an increase in the order of ~20-30% yoy for JFY'10/11. Unlike previous rallies in spot iron ore prices the recent surge in pricing, and increased press coverage, has fed through to the equity prices of a number of iron ore juniors with the sector enjoying a modest re-rating. Probably the best reflection of this is Fortescue rallying 18% in the last week to A\$5.29/sh on no company specific news flow – its highest level in Sep'08.

The driving force behind the recent rally in spot prices has been a tight seaborne market, driven by extremely strong Chinese imports as evident in Dec'09 preliminary data totalling 62.16mt (up 21.7% mom, +80% yoy, and the second highest monthly import figure on record), coupled with seasonal factors and increased market speculation. While it is likely that iron ore spot prices may experience a period of consolidation in the upcoming months, we do believe that the short to medium term fundamentals for the seaborne iron ore market remain extremely favourable and highlight that China's full year imports were up 40.8% yoy.

We believe the majority of renewed investment interest in the sector has been made with a medium to longer term view realising that even at the 'current JPY'09/10 contract price' that the majority of Brazilian and Australian iron ore opportunities with economic access to infrastructure will generate significant operating margins. Furthermore, we believe iron ore junior equities offers greater leverage to the favourable outlook for iron ore pricing than the traditional diversified iron ore suppliers, and we expect stock picking in the junior sector to offer significant alpha.

**Review of 2009:** In our view the initial catalyst for the recent spot price appreciation was the tight iron ore market, with Chinese imports for Dec'09 up 21.7% and the second highest month on record (behind Sep'09 which we believe is an anomaly). Tightness in other steel feed commodities can also be seen in a number of bulk commodities including coking and thermal coal. However, the extent of the rally has also been influenced by the: combination of net supply/demand fundamentals; seaborne trade flows and regional demand; a more bullish tone to general commodities; increased trader speculation; and availability of cargo for spot deliveries. Seasonal factors such as: Chinese buying before Chinese New Year; adverse seasonal weather; and, potentially iron ore consumers topping up supply potentially ahead of the upcoming annual contract price negotiations, have also added to the rally in the iron ore spot price.

2009 saw the seaborne iron ore market contract in absolute terms for the first time since 1999, with spot prices hitting a low of ~US\$60/t (CFR China) in 2Q'09. The lower prices curtailed a significant portion of Chinese domestic iron ore supply – it is estimated that ~200mt of supply is marginal or loss making at between US\$60/t and US\$80/t. The notional cost curve for Chinese domestic production in Exhibit 2 illustrates this point and official Chinese statistics report a headline increase in domestic iron ore production of only 3.5% for 9M'09; we believe this actually reflects a significant decrease on a contained Fe basis (not reported).

The economics of regional iron ore production had a significant impact on traditional supply and demand flows in the seaborne market. China significantly increased its demand for foreign sourced ore, consuming what is traditionally shipped to Europe and other industrialised countries, and DSO operations of the Australian and Brazilian suppliers remained extremely profitable and record levels of production. This trend is probably best reflected by China importing 628.3mt of iron ore in 2009, up 182.2mt or 40.8% yoy.

**Outlook for 2010:** The prospect of returning global economic growth in 2010 and traditional mills in Europe, Japan, Taiwan and Korea now raising capacity utilisation bodes well for iron ore demand, despite it being likely that a further significant portion of higher cost supply comes back on stream, particularly in China. Expectations are for global crude steel production to rise by +10% in 2010, to a record 1.4bt, which would support a ~125mt rise for imported iron ore taking global seaborne trade >1bt – however, against Chinese imports increasing 182.2mt yoy during CY'09 these forecasts look conservative. To help put the significance of this into a historical context, the average growth rate in the global seaborne market over the last five years (pre CY'09) has been ~60mtpa with iron ore contract prices having increased 169% over this period. China's steel production up until 2008 had grown from a base of ~100mt to more than 550mt in eight years (estimates are for CY'09 production of 565mt with capacity of up to 700mtpa), accounting for almost the entire global growth in the iron ore market in that time. The fact that China imported 62.16mt of iron ore in Dec'09 is a timely reminder of China's likely impact on pricing and demand in the seaborne market during 2010.

In our view the current rally in pricing for bulks is being driven by the positive outlook for the steel sector, both in China and globally ex-China, and supply remaining tight. A key element contributing to this tight market has been China's imports for bulks having increased significantly consuming supply that traditionally flows to Europe, Japan, Taiwan and Korea. With prices for steel production now improving in most regions, albeit at a lesser rate than the recent appreciation in spot iron ore prices, short term demand and pricing for iron ore is expected to remain favourable particularly given supply appears set to struggle to meet demand, impacted by availability of freight, infrastructure and the long lead time for new project development.

### **IRON ORE RELATED RESEARCH:**

**Ocean Equities Research: Stocks to Highlight in 2010 (Jan 19<sup>th</sup> 2010)**

**United Minerals Corp - UMC shareholders vote in favour of the BHPB offer (Jan 28<sup>th</sup> 2010)**

**United Minerals Corp: BHPB deal announced, now awaiting final approvals or an unlikely counter offer (Jan 15<sup>th</sup> 2010)**

**Iron Ore Holdings Ltd: 2009 a transformational year; we see further value accretion in 2010 driven by the development of Iron Valley (Jan 11<sup>th</sup> 2010)**

**Iron Ore Holdings Ltd: Is 191.5mt in the price? ...We think not & the blue sky is only getting bigger (Nov 24<sup>th</sup>)**

**Iron Ore Holdings: New assay results support a further significant resource upgrade and likely positive share price catalyst (Nov 5<sup>th</sup>)**

**Iron Ore Holdings: Comparable transactions highlight favourable valuation anomaly **\*\*Initiation of Coverage\*\*** (Oct 21<sup>st</sup>)**

**UMC & Pilbara Iron Ore sector update: Conditional cash offer at a 43% premium for UMC by BHPB - further rally in the juniors (Oct 16<sup>th</sup>)**

**UMC & Pilbara Iron Ore sector update: Positive re-rating of the junior sector if there is a "potential change of control transaction" for UMC (Oct 7<sup>th</sup>)**

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### **More Ocean Equities Research:**

**Wavenet International Ltd (ASX-WAL): Option over a World class Tungsten asset & Current Valuation offers an Attractive entry point **\*\*Ocean Equities Research Initiation\*\*** (Dec 18<sup>th</sup> 2009)**

**Electrum Capital Inc: A junior company with big scale assets, a big company management team and first class shareholder register (Nov 30<sup>th</sup>)**

**Nyota Minerals Limited (AIM,ASX: NYO): Highly Prospective Gold in Ethiopia with Clear Upside **\*\*Ocean Equities Research Initiation\*\*** (Nov 30<sup>th</sup>)**

**Griffith Mining: New Mining Licence Application Accepted and Cajijaying Returns to Profitability in September Quarter (Oct 27<sup>th</sup>)**

**Norseman Gold Plc: Company Update - Sept'09 Quarterly Report (Oct 30<sup>th</sup>)**

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