

Charles Stanley Research Policy

Introduction

Charles Stanley & Co. Ltd (“Charles Stanley”) is committed to providing customers with research produced to high quality standards. As a firm authorised and regulated by the Financial Services Authority, Charles Stanley is required to act in accordance with the Principles for Business as set out in the FSA Handbook. These Principles include: conducting our business with integrity (Principal 1) and due skill, care and diligence (Principle 2); paying due regard to the interests of customers and treating them fairly (Principle 6); communicating information to clients in a way that is clear, fair and not misleading (Principle 7); and managing conflicts of interest fairly (Principle 8).

Invariably, all financial services firms will face areas of potential conflicts of interest. The nature of these areas will depend upon the nature of a firm’s business model. Charles Stanley conducts a full service investment management, corporate finance and brokerage business.

Charles Stanley has or may seek corporate finance and broking relationships with a number of the businesses referred to in our published research (known as “covered companies”). Furthermore, Charles Stanley and its connected companies, their directors, members, employees and members of their families may have positions in the securities, including derivatives (such as options and warrants) thereof, of covered companies referred to in our published research. From time to time, the author of a research report might be remunerated by reference to the profitability of the corporate finance and broking division of Charles Stanley.

As a result, investors should be aware that Charles Stanley might have actual or potential conflicts of interest that could affect the objectivity, independence and impartiality of our research reports. Where such conflicts exist, it is our policy to disclose them publicly, in accordance with Principle 8 of the Principles for Business set out in the FSA Handbook.

We believe that our research is produced to a high quality standard. It is our view that the long-term interests of our firm and of all our clients, whether investment clients or corporate finance and broking clients, are best provided for by the provision by us of research that is well-researched and drawn from sources which we believe to be reliable.

Our research may be published under the names Charles Stanley & Co. Ltd, Charles Stanley Sutherlands or Charles Stanley Securities. Both Charles Stanley Sutherlands and Charles Stanley Securities are divisions of Charles Stanley & Co. Ltd.

This policy sets out the systems, controls and procedures by which Charles Stanley produces research.

Relevant research

We consider the following Charles Stanley publications to be research:

- Individual research notes
- Research Handbooks
- Quarterly Equities Briefing
- The Week in Preview
- Retail Sector Review
- Croesus
- Morning Comment
- The Weekly Economic and Bond Briefing
- Market Focus
- Traders Bulletin

- Bond Recommended Buys & Sells
- Sterling Corporate Strategy
- Euro Corporate Strategy
- Charles Stanley Sutherlands Sunshine
- Daily Interest/Corporate Credit Updates
- Sector Strategy
- Stock Reports
- Asset Summary
- New Issue Reports
- Bond Pricing Service
- Covenant Ratings
- Other publications (except personal recommendations) that summarize the contents of any of the above

This list may not be comprehensive and may change from time to time without notification, but at all times our research publications will be clearly marked as such. If you are in doubt as to whether a communication constitutes research, please contact our Compliance department at our London head office.

Research methodologies and definitions of research recommendations

Equity research methodologies and definitions

Our equity research is based on a fundamental analysis of the companies covered, using the application of multiples and, where appropriate, discounted cash flow valuation models. In arriving at our equity research recommendations, macroeconomic conditions are also taken into account.

Our equity research recommendations (for example 'Buy', 'Hold' or 'Sell') have the following definitions:

Private Client Research (12 month timescale)

Strong Buy	over +25% total absolute return
Buy	+15 to +25% total absolute return
Accumulate	+5 to +15% total absolute return
Hold	up to +5% to - 5% total absolute return
Reduce	-5% to -15% total absolute return
Sell	less than -15% total absolute return

Charles Stanley Securities (12 month timescale)

Buy	expected absolute change of +20% or more
Add	expected absolute change between +10% and +20%
Hold	expected absolute change between -10% and +10%
Reduce	expected absolute change between -20% and -10%
Sell	expected absolute change of -20% or more

Please note that Private Client Research and Charles Stanley Securities use different research recommendation definitions.

Fixed interest research methodologies and definitions

The Charles Stanley Sutherlands Bond Pricing Service is a quantitative analysis producing model prices and yields calibrated to market data. It is an evolution of the Jarrow, Lando and Turnbull model and utilises default and transition probabilities taken from historic information enhanced by the current market risk factor. The Bond Pricing Service draws on our market overview, experience and other relevant credit issues to impose a qualitative screen to our quantitative bond model output. Using either our inputs or the client's inputs, the Bond Pricing Service produces prices, yields and spreads which are compared with actual market data (sourced from iboxx) to indicate whether a bond is cheap or dear. Variable inputs to the model include: credit ratings, recovery rates, liquidity premiums and prices. A further feature of the model is the Transition Matrix. This enables clients to calculate price and yield movements resulting from changes in credit rating and recovery rates and is excellent for pricing new issues, deciding spread levels, undertaking risk assessments for bonds and optimising performance.

This Service uses the following research recommendation definitions:

- “Recommended Buys” includes those bonds which the model calculates as trading cheaply and offering investors good value, but which are also supported by our qualitative criteria and screens and therefore opportunity. As such, these bonds trade on higher market spreads than that predicted by our quantitative process. These bonds will generally trade on implied credit ratings below that of their composite credit rating.
- “Recommended Sells” lists those bonds which the model calculates as trading rich and expensive, but which also fail to be supported by our qualitative criteria and screens and are therefore at risk. As such, these bonds trade on lower market spreads than that predicted by our quantitative process. These bonds will generally trade on implied credit ratings above that of their composite credit rating.

Technical analysis research methodologies and definitions

Technical analysis is a method of evaluating securities on the assumption that market data, such as charts of price, volume, and open interest, can help predict future (usually short or medium term) market trends. Unlike fundamental analysis, the intrinsic value of the security is not considered, instead the technical analyst looks at a security's historical prices and other trading variables. Technical analysis assumes that market psychology influences trading in a way that enables predicting when a stock will rise or fall. Technical analysis recommendations may often be contingent, that is to say that an individual recommendation may be conditional upon future price movements occurring. Where this is the case, this fact will be indicated in the research itself.

In this context, a short-term Buy recommendation indicates the potential for an increase in that security price of 5% or more in the near future, whilst a short-term Sell recommendation indicates the potential for a decrease in that security price of 5% or more in the near future.

A medium-term Buy recommendation indicates the potential for an increase in that security price of 10% or more over the next six months, whilst a medium-term Sell recommendation indicates the potential for a decrease in that security price of 10% or more over the next six months.

Management of potential conflicts of interest

Identification of potential conflicts of interest

Senior management regularly review the policies set out below in order to ensure their ongoing effectiveness and appropriateness for the management of potential conflicts of interest in relation to our research.

Supervision and management of analysts

Analysts report to the relevant head of research.

The head of Private Client research reports to a main board director of Charles Stanley Group plc. The head of Charles Stanley Securities Research reports to the head of Charles Stanley Securities, who in turn reports to a different main board director of Charles Stanley Group plc.

The corporate finance and corporate broking departments have no responsibility for the supervision and management of analysts, nor do they have any role in the production or the content of research although they may be aware of the timing of research reports on corporate finance and broking clients.

The research departments are physically segregated from the corporate finance departments.

The research departments are solely responsible for the determination of research coverage, timing, content and recommendations, with the final decision in all cases resting with the relevant research department head. In practice, research is prepared on corporate finance/broking clients. From time to time, the corporate finance department may request a delay in the publication of a particular research report on a corporate client where, for example, publication clashes with a corporate transaction and might lead to a false market in the shares.

Remuneration of analysts

Analysts are paid in part based on the profitability of Charles Stanley, which includes revenues derived from corporate finance and broking clients. Under no circumstances is analyst pay linked to the success of individual corporate transactions, although analysts may be paid in part indirectly based on the profitability of the corporate finance and broking division of Charles Stanley.

Personal account dealing policy for analysts

Analysts and connected persons are not permitted to buy securities, including derivatives (such as options and warrants), of companies covered by that analyst, or in companies that have a formal corporate finance and broking relationship with Charles Stanley. Where an analyst holds securities or another financial interest in companies covered by them, this fact will be disclosed.

Involvement of analysts in non-research activities

Analysts do not produce research for use by Charles Stanley prior to circulation to investment clients.

Charles Stanley Securities analysts (but not Private Client Research analysts) may occasionally be involved in the marketing of the shares of corporate finance and broking clients, such as attending corporate finance and broking client fundraising exercises. All analysts may attend non-fundraising meetings between investors, investment clients and corporate finance and broking clients and may provide advice to corporate finance and broking clients on corporate matters, such as potential acquisition opportunities.

Where Charles Stanley Securities is considering forming a corporate finance and broking relationship with a company, the opinion of an analyst may be sought. Ordinarily, an analyst would meet with management of a company as part of the due diligence process and his or her view would be taken into consideration in deciding whether to enter into the corporate finance and broking relationship.

Principal trading by Charles Stanley

From time to time, Charles Stanley may have a principal position in the securities, including derivatives thereof, of a covered company. Chinese walls are in place to prevent those responsible for making principal trading decisions from having prior access to research, or from influencing the content or recommendations therein.

Where Charles Stanley has a principal position exceeding 5% of the total issued share capital of a covered company, this fact will be disclosed. Where Charles Stanley's discretionary clients have an aggregate position exceeding 5% of the total issued share capital of a covered company, this fact will be disclosed. Where Charles Stanley has a principal position in the securities of a company with which it has a corporate finance and broking relationship, this fact will be disclosed.

Policy on inducements and editorial influences on research

Charles Stanley does not produce "paid for" research, meaning research paid for directly by a company.

Where a corporate finance and broking client retains Charles Stanley Securities for the provision of corporate finance and broking services, Charles Stanley Securities may commit to producing regular research reports on the corporate finance and broking client. Companies that are the subject of research may be asked to review draft research reports, as may non-analysts within Charles Stanley, but in all cases for factual errors only. The heads of research are responsible for signing off on research reports prior to publication.

Analysts are not permitted to receive cash gifts from current, prospective or former clients. Any other gift, favour or entertainment in excess of a certain amount must be reported to a compliance officer and will be disclosed where appropriate.

Traders Bulletin

Traders Bulletin uses technical analysis to seek to predict the future trend of indices, share, currency or commodity prices without taking account of the economic background or individual companies' prospects.

Due to the nature of this form of analysis, the author of Traders Bulletin is responsible for the timing, content and recommendations and therefore this publication does not conform to Charles Stanley's research policy. The methodology used in technical analysis and the meaning of the recommendations made are set out above.

Timing and manner of publication, distribution and communication

Our research is disseminated primarily electronically and, in some cases, in printed form.

Disclosure of actual or potential conflicts

Investors should be aware that Charles Stanley might have actual or potential conflicts of interest that could affect the objectivity, independence and impartiality of our research reports. Where such conflicts exist, it is our policy to disclose them publicly, in accordance with Principle 8 of the Principles for Business set out in the FSA Handbook.

General regulatory disclosures

This document is a marketing communication.

This research has not been prepared in accordance with regulatory requirements designed to promote the independence of investment research.

This report has been forwarded to you solely for your information and should not be considered as an offer or solicitation of an offer to sell, buy or subscribe to any securities or any derivative instrument or any other rights pertaining thereto ("financial instruments").

Other than disclosures relating to Charles Stanley, the information and opinions expressed in this report have been compiled from publicly available information considered to be reliable, but, neither Charles Stanley, nor any of its directors, officers, or employees accepts liability from any loss arising from the use hereof or makes any representations as to its accuracy and completeness.

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As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity, independence and impartiality of this report. Investors should consider this report as only a single factor in making their decision. Our policy on managing actual or potential conflicts of interest can be found at:

www.charles-stanley.co.uk/documents/researchpolicy.pdf

Equity, bond and technical analysis use different research recommendations definitions.

Our equity sales staff, traders and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this report. Our Asset Management area, our proprietary trading desks and investment advisers may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

Charles Stanley may have issued other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them. Prior to publication, a draft of this report may have been provided by Charles Stanley to the subject of the report for factual corrections only.

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Member of the London Stock Exchange
Authorised and regulated by the Financial Services Authority

Registered office: 25 Luke Street, London EC2A 4AR
Tel: 020 7739 8200 Fax: 020 7953 2822

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