

# Avoca Resources Limited

## 1Q FY09 Production Report: Now A Producer

Materials | Metals & Mining | Australia

### Result:

- AVO released its first quarter of production since commencing production in July this year.
- Production was ahead of our expectations: 21.8koz Au (GSJBW: 17.4koz Au).

### Key Take-outs:

- Trident processing plant commissioning completed on time and under budget. First gold poured on 8 July 2008.
- No negative surprises in this quarterly. Key for AVO from here is to meet production targets from FY09.
- Production: 21.8koz Au (GSJBW: 17.4koz Au) - Grade was slightly lower at 2.9g/t (GSJBW: 3.75g/t).
  - The processed ore included lower grade stockpiled ore. When looking at the mined grade it was 3.8g/t. (This included 54% stoping and 46% development ore).
  - Throughput of 251.6kt is at nameplate rates of 1mtpa. However, the mine tonnes were lower at 179kt.
- Grade reconciliation from the grade control drilling has exceeded the company's expectations in the central part of the Western Zone.
- No costs were released as the mine is still in ramp-up mode.

### Earnings and Valuation Impact:

- We have made small changes to our forecasts resulting in a small downgrade to earnings.

### Investment View:

- This was a good quarter of production from AVO given that it was the first since the mine started. The key from here is to maintain steady state nameplate rates of 1mtpa and increase the grade running to 5.5-6g/t.
- In our view, AVO and DOM (\$2.20 HOLD) stand out amongst the small cap gold stocks for the quality of the resource and AVO for its exploration potential.
- Due to the potential exploration upside which exists in the Higginsville district, AVO remains our preferred small cap gold play.
- No change to HOLD recommendation

**Stephen Gorenstein** | +61 3 9679 1779 | stephen.gorenstein@gsjbw.com  
**Ian Preston** | +61 3 9679 1453 | ian.preston@gsjbw.com  
**Andrew Quail** | +61 3 9679 1565 | andrew.quail@gsjbw.com

**HOLD**

### Key Information

Stock Code	AVO
Share Price	\$1.41
12 Month Price Target	\$2.35
Expected 12M Total Return	66.7%

### Investment Data

Issued Capital	222.9m
Market Capitalisation	\$314m
% of S&P 200 Index	0.0%
Free Float	100%
Turnover	\$24.2m/month
12 Month Price Range	291¢-88¢
Debt/Equity	22.5%

### Investment Arithmetic

Jun year end	08A	09E	10E	11E
Net Profit Rep. (\$m)	-1.3	43.2	49.7	40.8
NPAT Pre-NRI's (\$m)	-1.3	43.2	49.7	40.8
EPS Adj. (¢)	-0.6	19.5	22.5	18.4
EPS Growth (%)	nm	nm	15.4	-18.2
<b>PER (x)</b>	<b>nm</b>	<b>7.2</b>	<b>6.3</b>	<b>7.7</b>
Relative PER (%)	nm	-30.6	-30.2	-5.3
Dividend (¢)	0.0	0.0	7.0	6.0
<b>Yield (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>5.0</b>	<b>4.3</b>
Franking (%)	0	0	0	0
FCFPS (¢)	-6.1	29.6	32.8	28.9
P:FCFPS (x)	nm	4.8	4.3	4.9
EV/EBITDA (x)	390.0	3.6	2.7	2.7
BV (¢)	55	75	105	131
P/BV (x)	2.6	1.9	1.3	1.1
Av. Full Dil. Shares (m)	217.8	221.5	221.5	221.5

### Share Price Chart



### Relative Price Performance

	1m	3m	12m
vs. S&P 200:	-22.2%	-14.0%	-13.4%
vs. MSCI - World:	-38.8%	-33.7%	-34.6%

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

## RECOMMENDATION – OUR THINKING

This was a good quarter of production from AVO given that it was the first since the mine started. The key from here is for the operation to maintain steady state nameplate rates of 1mtpa with the grade running at 5.5-6g/t.

In our view, AVO and DOM (\$2.20 HOLD) stand out amongst the small cap gold stocks for the quality of the resource and AVO for its exploration potential.

Due to the potential exploration upside which exists in the Higginsville district, AVO remains our preferred small cap gold play.

No change to HOLD recommendation.

## KEY TAKE-OUTS FROM THE RESULT

### Trident Production

- Production: 21.8koz Au (GSJBW: 17.4koz Au) - Grade was slightly lower than our estimates at 2.9g/t (GSJBW: 3.75g/t).
  - The processed grade included stockpiled ore. When looking at the mined grade it was 3.8g/t. (This included 54% stoping and 46% development ore).
  - Throughput of 251.6kt is at nameplate rates of 1mtpa. However, the mine tonnes were 179kt.
- Grade reconciliation has exceeded the company's expectations in the central part of the Western Zone.
- No costs were released as the mine is still in ramp-up mode.

## EARNINGS CHANGE

Including the actuals from the first quarter we have made small changes to our modelling as shown:

	NPAT (\$m)			EPS (¢)			DPS (¢)		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
<b>F.'07a</b>	-4.4	<b>-4.4</b>	n.a.	-2.7	<b>-2.7</b>	n.a.	0.0	<b>0.0</b>	n.a.
<b>F.'08a</b>	-1.3	<b>-1.3</b>	n.a.	-0.6	<b>-0.6</b>	n.a.	0.0	<b>0.0</b>	n.a.
<b>F.'09e</b>	43.8	<b>43.2</b>	-1.4%	19.8	<b>19.5</b>	-1.4%	0.0	<b>0.0</b>	n.a.
<b>F.'10e</b>	50.1	<b>49.7</b>	-0.7%	22.6	<b>22.5</b>	-0.7%	7.0	<b>7.0</b>	0.0%
<b>F.'11e</b>	41.1	<b>40.8</b>	-0.7%	18.6	<b>18.4</b>	-0.7%	6.0	<b>6.0</b>	0.0%
<b>DCF Valuation (\$/share):</b>				Old	New	% Chg.			
Base Valuation				1.37	<b>1.33</b>	-2.7%			
Upside Valuation				2.55	<b>2.52</b>	-1.2%			
Source: Company data, GSJBW Research estimates									

## RESULT ANALYSIS

---

### Exploration

Exploration continued to deliver positive results during the quarter. Much of this has been released previously. Some of the highlights in this regard were:

At **Trident**, positive exploration continued on the Athena, Poseidon South, Western and Eastern Zones. Some of the better intersections included:

- Athena: 14.2m @ 13.9g/t and 6m @ 25.6g/t
- Poseidon South: 1.5m @ 162.3g/t and 1.5m @ 42.1g/t
- Western Zone: 36m @ 12g/t and 25.6m @ 14.7g/t
- Eastern 7.0m @ 16.2g/t and 6m @ 8.2g/t

### **Fairplay North and Two Boys**

- Fairplay - 17.2m at 18.9g/t Au (from 153.8m) and 16.0m at 6.4g/t Au (from 173m)
- Two Boys - 4.0m at 21.1g/t Au (from 88m) and 2.0m at 11.3g/t Au (from 79m)

### **Musket**

- Musket is a near surface discovery made by AVO in the Higginsville gold district in 2007 and is located ~40km south east of Trident. Musket mineralisation is 300m long and to a depth of 120m; in addition, AVO notes that it is open in all directions and is steeply west-dipping in orientation.
- Best intersections of the infill program were:
  - 10m at 5.0g/t (from 54m)
  - 8m at 5.5g/t (from 50m)
- AVO has stated that Musket will be subject to an aggressive drilling campaign over the next 12 months, and is hopeful it will supply the Trident treatment plant.

### Development Opportunities

Yesterday the company released the details of its positive pre-feasibility on the Chalice deposit.

- Current inferred resources at Chalice are: 741kt @ 5.2g/t for 123koz Au.
- AVO will commence a surface drilling program aimed at converting the inferred resource to indicated prior to completing a full feasibility study.
- Some of the key parameters of the pre-feasibility study are:
  - Throughput rates of between 150kt -350ktpa for production of 25-60kozpa Au
  - Based on current resources life of mine is 3.5years
  - AVO intends to use this as a satellite ore source to the Trident Gold Plant (thus extending the life of Trident)
  - Indicative cash cost of A\$570/oz
  - Pre-feasibility does not include any life extension outside the current resource despite there being significant potential in this regard.

### **Higginsville Resource Update**

During the quarter AVO completed a resource update on the Higginsville area.

As at 30 June 2008 the new resource was:

- **Higginsville total:** 12.2t @ 3.7g/t for 1.45moz;
- This includes **Trident:** 4.5mt @ 6.0g/t for 0.95moz.

### **Corporate**

At the end of the quarter Avoca had \$8m in cash and undrawn facilities of \$9m. In addition AVO has a performance bond facility of \$5m undrawn to \$1.2m.

During the September quarter finalising payments for the plant as well as development of the mine resulted in AVO consuming \$8.6m of cash. We believe that AVO will start generating positive cash flow from the current quarter.

AVO's \$71m Debt facility is broken up as shown:

- AUD\$25 million revolving line of credit with an initial term of 30 months from project commissioning which can be extended to a 42 month loan tenor upon certain conditions being met (Tranche 1);
- AUD\$43 million non-revolving facility with a 6 monthly amortising repayment schedule over a 30 month loan tenor from project commissioning (Tranche 2); and
- AUD\$3 million performance bond guarantee facility available for the term of the Tranche 1 facility.

We thus estimate that AVO has repayments of \$12m - \$15m due in FY09.

## Financial Summary | AVO

Avoca Resources Ltd							Mkt Cap. :		\$312m		Free Float 100%		Recommendation:		HOLD	
Current Price A\$: \$1.41							ASX Code:		AVO		Price Target:		Analyst:		\$2.35	
GSJBW DCF: \$1.33							T'over (mth):		\$34m		Data as at:		Stephen Gorenstein		30-Oct-08	
Industry: Gold																
Investments Statistics							Profit & Loss (A\$m)									
Year end June 2007a 2008a 2009e 2010e 2011e							Year end June 2007a 2008a 2009e 2010e 2011e									
<b>Net Profit (reported)</b> (A\$m) -4 -1 43 50 41							<b>Sales Revenue (excl JV &amp; Assoc.)</b> 0 0 181 230 199									
-EPS (Reported) 1 (¢) -2.7 -0.6 19.5 22.5 18.4							<b>Operating costs</b> 0 0 83 16 106									
-PER (Reported) 1 (X) n.a. n.a. 7.2 6.3 7.7							<b>Operating EBITDA</b> 0 0 98 115 93									
<b>NET PROFIT (Adj.) 2</b> (A\$m) -4 -1 43 50 41							<b>D&amp;A</b> 0 0 28 34 29									
-EPS (Adj.) 2 (¢) -2.7 -0.6 19.5 22.5 18.4							<b>Operating EBIT</b> -1 0 70 81 65									
-EPS Growth (%) n.a. n.a. -3305% n.a. -18%							<b>JV &amp; Assoc.</b> 0 0 0 0 0									
<b>- PER (Adj.) 2</b> (X) n.a. n.a. 7 6 8							<b>EBIT</b> -1 0 70 81 65									
Dividend (¢) 0.0 0.0 0.0 7.0 6.0							<b>Net Interest Exp/(Rev)</b> -1 -3 7 4 -1									
- Yield (%) 0.0% 0.0% 0.0% 5.0% 4.3%							<b>PreTax Profit (pre ab's)</b> 0 3 63 77 64									
- Franking (%) 0 0 0 0 0							<b>Tax Expense (pre abs)</b> 0 -3 0 21 17									
<b>Free Cash Flow</b> (A\$m) -11 -13 66 73 64							<b>Minorities (after Tax)</b> 0 0 0 0 0									
- P/FCF 4 (X) n.a. n.a. 4.8 4.3 4.9							<b>Prof. Dividends</b> 0 0 0 0 0									
<b>EV(Adj.) / EBITDA 3</b> (X) n.a. n.a. 3.5 2.5 2.5							<b>NET PROFIT (Pre NRI's) 1</b> 0 6 46 56 46									
Avg. Shares (diluted) (mill) 165 218 221 221 221							<b>Abnormal Items (after Tax)</b> -5 -7 -3 -6 -5									
							<b>Reported NPAT (post ab's)</b> -4 -1 43 50 41									
							<b>Sales Growth</b> (%) n.a. n.a. 28% -14%									
							<b>Op. EBITDA Growth</b> (%) n.a. n.a. 7% -8%									
							<b>NPAT (Adj.) Growth</b> (%) -72% 148% 735% 21% -17%									
							<b>EPS (Adj.) Growth</b> (%) n.a. n.a. -3305% n.a. -18%									
							<b>Op. EBITDA Margin</b> (%) n.a. n.a. 54.2% 49.7% 46.9%									
							<b>Interest Cover - EBITDA</b> (X) n.a. n.a. 14.6 31.2 80.7									
							<b>Return on Equity 5</b> (%) 0% 5% 29% 25% 17%									
EV Analysis / DCF Valuation							Cash Flow Analysis (A\$m)									
<b>A\$ DCF Valuation:</b> 1.33 Upside DCF: 2.52							Year end June 2007a 2008a 2009e 2010e 2011e									
<b>Price / DCF:</b> 1.06							Year end June 2007a 2008a 2009e 2010e 2011e									
<b>Ke:</b> 13.7%							<b>WACC:</b> 10.9%									
<b>Kd:</b> 5.3%							<b>RF:</b> 6.5%									
<b>BETA:</b> 120							<b>MRP:</b> 6.0%									
EV (Adj.) 3 (A\$m) 171 390 345 288 238							<b>Operating EBITDA</b> 0 0 98 115 93									
<b>EV (Adj.) / EBITDA</b> (X) n.a. n.a. 3.5 2.5 2.5							change in working cap. -1 -3 -2 -2 -2									
EV (Adj.) / Sales (X) n.a. n.a. 19 13 12							<b>Gross Cashflow</b> -2 -3 96 113 91									
EV (Adj.) / Gross CF (X) n.a. -10.6 3.6 2.6 2.6							Net Interest Paid -1 0 -5 -4 -1									
							Tax Paid (inc. abs) 0 0 -2 -22 -18									
							Exploration -8 -11 -11 -10 -4									
							<b>Operating Cash Flow</b> -11 -13 69 77 68									
							Sustaining Capex 0 0 -3 -4 -4									
							<b>FREE CASH FLOW</b> -11 -13 66 73 64									
							Dividends Paid 0 0 0 -6 -13									
							Expansion Capex -6 -134 -6 -1 0									
							Acquisitions -3 8 -1 0 0									
							Asset Sales 0 0 0 0 0									
							Dividends Received 0 0 0 0 0									
							Share Issues/Repurchases 79 6 0 0 0									
							<b>Change in Cash</b> 50 -133 49 56 51									
							Gross CF / Op. EBITDA (X) 5.30 0.98 0.98 0.98 0.98									
							Maint. Capex / Sales (%) n.a. 19% 19% 2.1%									
							Total Capex / Sales (%) n.a. 10.8% 2.4% 2.1%									
							Maint. Capex / D&A (X) 0.00 0.00 0.12 0.13 0.14									
							Total Capex / D&A (X) 43.32 786.06 0.70 0.16 0.14									
							Maint. Capex / GCF (%) 0.0% 0.0% 3.6% 4.0% 4.5%									
Annual Production							ROE Analysis									
Year end June 2007a 2008a 2009e 2010e 2011e							Year end June 2007a 2008a 2009e 2010e 2011e									
Gold 000oz 0 0 159 194 164							EBIT/Sales (X) n.a. #DIV/0! 0.39 0.35 0.33									
							Pretax Profit/EBIT (X) n.a. -17.32 0.90 0.95 0.98									
							NPAT / Pretax Profit (X) n.a. -177 6.86 15.12 39.80									
							Sales/Assets (X) n.a. 0.00 0.79 100 0.83									
							Assets/Equity (X) n.a. 2.04 143 103 0.87									
							<b>Return on Equity (ROE)</b> (%) 0% 5% 29% 25% 17%									
Cash Costs							ROCE WACC Analysis									
Year end June 2007a 2008a 2009e 2010e 2011e							Year end June 2007a 2008a 2009e 2010e 2011e									
Trident (excl. royalty) A\$/oz 0 0 433 461 504							Adjusted NOPAT (A\$m) -4 -1 43 50 41									
							Adj Cap employed (A\$m) 29 120 95 96 202									
							ROCE (%) -16.6% -1.1% 22.1% 25.4% 20.2%									
							WACC (%) 10.9% 10.9% 10.9% 10.9% 10.9%									
							<b>ROCE Spread</b> (abs) -26% -12% 11% 15% 9%									
							Change in ROCE (abs) -6% 14% 23% 3% -5%									
Commodity Prices																
Year Average to June 2007a 2008a 2009e 2010e 2011e																
Currency A\$/US\$ 0.79 0.89 0.78 0.75 0.77																
Gold Price Spot A\$/oz 816 919 129 187 124																
Gold Price Received A\$/oz n.a. n.a. 102 187 124																
Earnings Sensitivity																
Year end June 2007a 2008a 2009e 2010e 2011e																
Gold Price (+/-US\$ 1/oz) A\$m n.a. n.a. 7 7 6																
AUD:USD (+/- 1¢) A\$m n.a. n.a. -2 -2 -1																

(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.

### Goldman Sachs JBWere Base/Precious Metals Team:

Analyst: Ian Preston

Base/Precious Metals

ian.preston@gsjbw.com

+61 3 9679 1453

Analyst: Stephen Gorenstein

Base/Precious Metals

stephen.gorenstein@gsjbw.com

+61 3 9679 1779

Assistant Analyst: Andrew Quail

Base/Precious Metals

andrew.quail@gsjbw.com

+61 3 9679 1565

I, Stephen Gorenstein, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in this report.

## Disclosures of Interest

Avoca Resources Ord fp:

AVO: Goldman Sachs JBWere and/or its affiliates expect to receive or intend to seek compensation for financial and advisory services in the next 3 months from the company, its parent, or its wholly owned or majority owned subsidiary.

### Important Notice - Aus:

Australia - Research Important Notice

#### Company Specific Regulatory Disclosures

See company-specific regulatory disclosures for any of the following disclosures required as to companies referred to in the report: manager or co manager in a pending transaction; financial advisor in a strategic corporate transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/co-managed public offerings in prior periods; directorships; market making and/or specialist role.

The following are additional required disclosures: Ownership and Material Conflicts of Interest: Goldman Sachs JBWere policy prohibits its analysts, assistant analysts and their respective associates owning securities of any company in the analyst's area of coverage. Analyst compensation: Analysts are paid in part based on the profitability of Goldman Sachs JBWere, which includes investment banking revenues. Distribution of recommendations: See the distribution of recommendations disclosure on the following page.

#### Compendium Report

Please see disclosures at <http://www.gsibw.com/Disclosures>. Disclosures applicable to companies included in this compendium report can be found in the latest relevant published research.

#### Global Product; Distributing Entities

This report has been prepared by the Goldman Sachs JBWere Investment Research Division for distribution to clients of affiliates of Goldman Sachs JBWere and pursuant to certain contractual arrangements to clients of affiliates of The Goldman Sachs Group, Inc. (Group) (Collectively, Group and its affiliates, "GS"). Group owns indirectly 45% of the ordinary shares of Goldman Sachs JBWere Pty Ltd and Goldman Sachs JBWere Group Holdings Pty Ltd. Each share in Goldman Sachs JBWere Pty Ltd is stapled to a share in Goldman Sachs JBWere Group Holdings Pty Ltd, such that a share in one cannot be dealt with separately from a share in the other. Research views, investment opinions and recommendations published by Goldman Sachs JBWere Pty Ltd are developed independently from those published by the Goldman Sachs Global Investment Research Division.

This research is disseminated in Australia by Goldman Sachs JBWere Pty Ltd (ABN 21 006 797 897); in Canada by Goldman Sachs Canada Inc. regarding Canadian equities and by Goldman Sachs & Co. (all other research); in Germany by Goldman Sachs & Co. oHG; in Hong Kong by Goldman Sachs (Asia) L.L.C.; in India by Goldman Sachs (India) Securities Private Ltd.; in Japan by Goldman Sachs Japan Co., Ltd.; in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs JBWere (NZ) Limited; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W); and in the United States of America by Goldman, Sachs & Co. Goldman Sachs International has approved this research in connection with its distribution in the United Kingdom and European Union. Persons who would be categorized as private customers in the United Kingdom, as such term is defined in the rules of the Financial Services Authority, should read this material in conjunction with the last published reports on the companies mentioned herein and should refer to the risk warnings that have been sent to them by Goldman Sachs International. A copy of these risk warnings is available from the offices of Goldman Sachs International on request. Unless governing law permits otherwise, you must contact a Goldman Sachs entity in your home jurisdiction if you want to use Goldman Sachs JBWere's or GS's services in effecting a transaction in the securities mentioned in this material. European Union: Goldman Sachs International, authorised and regulated by the Financial Services Authority, has approved this research in connection with its distribution in the European Union and United Kingdom; Goldman, Sachs & Co. oHG, regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht, may also be distributing research in Germany.

#### General Disclosures

This research is for clients only, as stated above. Other than disclosures relating to Goldman Sachs JBWere, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than some industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment. Goldman Sachs JBWere and/or its affiliates conduct a global full-service, integrated investment banking, investment management, and brokerage business. We have investment banking and other business relationships with a substantial percentage of the companies covered by our Investment Research Division. Our salespeople, 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 research. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

We and our affiliates, officers, directors, and employees, excluding equity analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives (including options and warrants) thereof of covered companies referred to in this research. This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors.

In producing research reports, members of Goldman Sachs JBWere Investment Research may attend site visits and other meetings hosted by the issuers the subject of its research reports. In some instances the costs of such site visits or meetings may be met in part or in whole by the issuers concerned if Goldman Sachs JBWere considers it is appropriate and reasonable in the specific circumstances relating to the site visit or meeting. Our research is disseminated primarily electronically, and, in some cases, in printed form. Electronic research is simultaneously available to all clients. Disclosure information is also available at <http://www.gsibw.com/Disclosures> or from Research Compliance, Level 42, 1 Farrer Place Sydney NSW 2000.

Copyright 2008 Goldman Sachs JBWere Pty Ltd ABN 21 006 797 897 AFSL 243346

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of Goldman Sachs JBWere.

# 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: <sup>1</sup>	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.

<sup>1</sup> EVA™ is a registered trademark of the U.S. consultancy firm Stern Stewart

## For Insurers

EVA™ Trend: <sup>1</sup>	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

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.
-----------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

## Distribution of Recommendations – as at 30 September 2008

Recommendation	Overall	Corporate relationship* in last 12 months
Sell	11%	9%
Hold	60%	62%
Buy	29%	29%

\* 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.