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## The Round Up

4 May 2010

Issue No. 323

The Round Up is a comprehensive daily note produced by the RBS Warrants team providing an overview of market movements along with quality ideas for warrant traders and investors.

<b>Global Market Action</b>	Scoreboard, commentary
<b>Aussie Market Action</b>	SPI Comment, Events & Dividends
<b>News Corp. (NWSKZJ)</b>	<b>MINI Trading Buy</b> - 2Q result drives higher guidance
<b>Equinox (EQNKZA)</b>	<b>MINI Trading Buy</b> – Favoured copper play
<b>ANZ (ANZKZN)</b>	<b>MINI Trading Buy</b> – Still Restoring
<b>Australian Strategy</b>	<b>US Reporting Season</b>

### Equities

	Move	Last	% Move	Range	Volume
ASX 200	-21.9	4785.5	-0.5%	-54 to +	\$5.8 bn(A)
SPI - yesterday	-24.0	4795.0	-0.5%	-62 to -20.u.c	22,768(A)
Dow Jones	+143.2	11151.8	+1.3%	+1 to +169	High
S&P 500	+15.6	1202.3	+1.3%	+2 to +18	High
Nasdaq	+37.6	2498.7	+1.5%	+11 to +42	High
FTSE	-64.6	5553.3	-1.1%	-77 to +26	High

### Commodities

	Move	Last	% Today	% Past Month	
Oil-WTI spot	-0.09	86.06	-0.1%	+1.4%	
Gold Spot	+1.87	1181.07	+0.2%	+5.5%	
Nickel (LME)	+40.87	1190.42	+3.6%	+5.1%	
Aluminium (LME)	+2.56	100.93	+2.6%	-3.0%	
Copper (LME)	+3.50	335.50	+1.1%	-4.7%	
Zinc (LME)	+0.82	102.21	+0.8%	-3.9%	
Silver	+0.16	18.80	+0.9%	+4.9%	
Sugar	-0.17	14.98	-1.1%	-10.3%	

# Equity Structured Products and Warrants

## Dual Listed Companies (DLC's)

	Move	%Move	Last	AUD Terms	Diff to Aus
NWS (US)	+0.59	+3.3%	18.38	19.85	+0.59
RIO (UK)	-154.0 p	-4.4%	£33.79	55.63	-154.0 p
BLT (BHP UK)	-64.0 p	-3.1%	£20.255	33.34	-64.0 p

## American Depository Receipts (ADR's)

	Move	%Move	Last	AUD Terms	Diff to Aus
BHP (US)	-1.35	-1.9%	71.44	38.57	-95.5 c
AWC (US)	+0.14	+2.5%	5.75	1.55	-1.8 c
TLS (US)	+0.18	+1.2%	14.77	3.19	+1.0 c
ANZ (US)	+0.99	+4.5%	23.18	25.03	+29.2 c
WBC (US)	+4.86	+3.9%	129.00	27.86	-662.8 c
NAB (US)	+0.48	+1.9%	25.98	28.06	+15.6 c
LGL (US)	-1.76	-5.0%	33.59	3.63	-4.3 c
RMD (US)	+0.25	+0.4%	68.68	7.42	+2.7 c
JHX (US)	+1.26	+3.5%	36.72	7.93	-2878.5 c
PDN (CAN)	-0.11	-3.0%	3.61	3.86	+0.6 c

## Overnight Commentary

### United States Commentary

The Dow had a good night after some positive eco numbers again let investors focus on the improving US economy. The Dow was up 143pts, the S&P added 1.3% and the Nasdaq rose 1.5%.

Eco - Manufacturing grew at the fastest pace since 2004 with ISM Manufacturing 60.4 vs 60 expected and up from 59.6 prior. Construction Spending rose unexpectedly, +0.2% vs -0.5% predicted and up from -1.3% prior, and it was the first rise since October. Personal Income and Spending were in line as was the PCE Deflator and PCE Core.

Financials - Goldmans jumped 3% after Warren Buffet came out in support of the embattled firm and its chief. Capital One was the best on the S&P100 up 6.3% whilst on the big board JP's rose 2.2% and BoA was up 1.3%.

Growth Proxies - Caterpillar was up 2.7% and was best on the Dow on the back of the ISM numbers. GE climbed 2.1%, United Tech rose 1.8%, HP also added 1.8% and 3M ended 1.3% higher. Apple was up 2% after saying it sold 1m iPads in the first month.

Airlines - The tie up between UAL and Continental saw those stocks jump 2.4% and 2.3% respectively. Boeing climbed 2.7% to be equal best on the Dow with American 2.8% higher with analysts saying it will be looking for partnerships.

### United Kingdom & Europe Commentary

European indices were generally higher Monday boosted by an agreement to provide Greece with 110b Euros of fiscal support and better than expected economic data out of the US. However banks continue to struggle as investors fear what impact the bailout package will have on the Euro. The FTSE 100 was closed for a bank holiday, the DAX +0.5% and the CAC+0.3% .

Euro - Norwegian aluminium play rose 2.6% after agreeing to buy mine assets from heavyweight Vale for \$4.6B and as the countries trade minister stated the governments long term goal was to raise its stake in the company to 40%.

### Commodities Commentary

**Commodities** : Oil -0.1%, Gold +0.2%. LME closed

# Equity Structured Products and Warrants

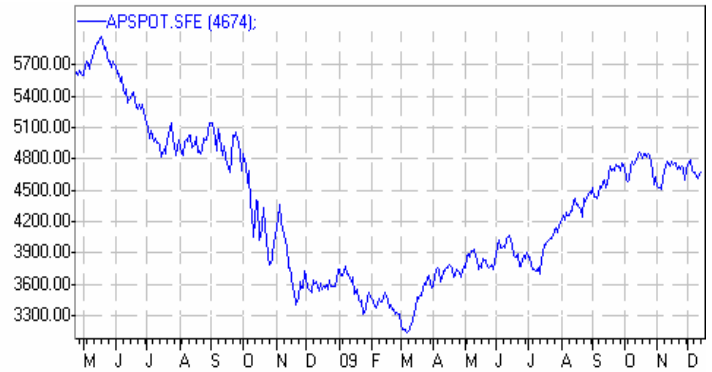
## SPI Commentary

The SPI traded down 23pt to 4795. Open at 4818 with a high of 4835 and a low of 4742. Volume 27,121. Overnight the SPI traded up 17pts 4815.

### SPI Intraday



### SPI Daily



\*SPI report taken from the 9:50am open to the 4:30pm close on the previous trading day. Charts taken from IRESS

## Upcoming Economic Events for the Week

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**Monday** AUS

US

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**Tuesday** AUS

US

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**Wednesday** AUS

US

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**Thursday** AUS

US

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**Friday** AUS

US

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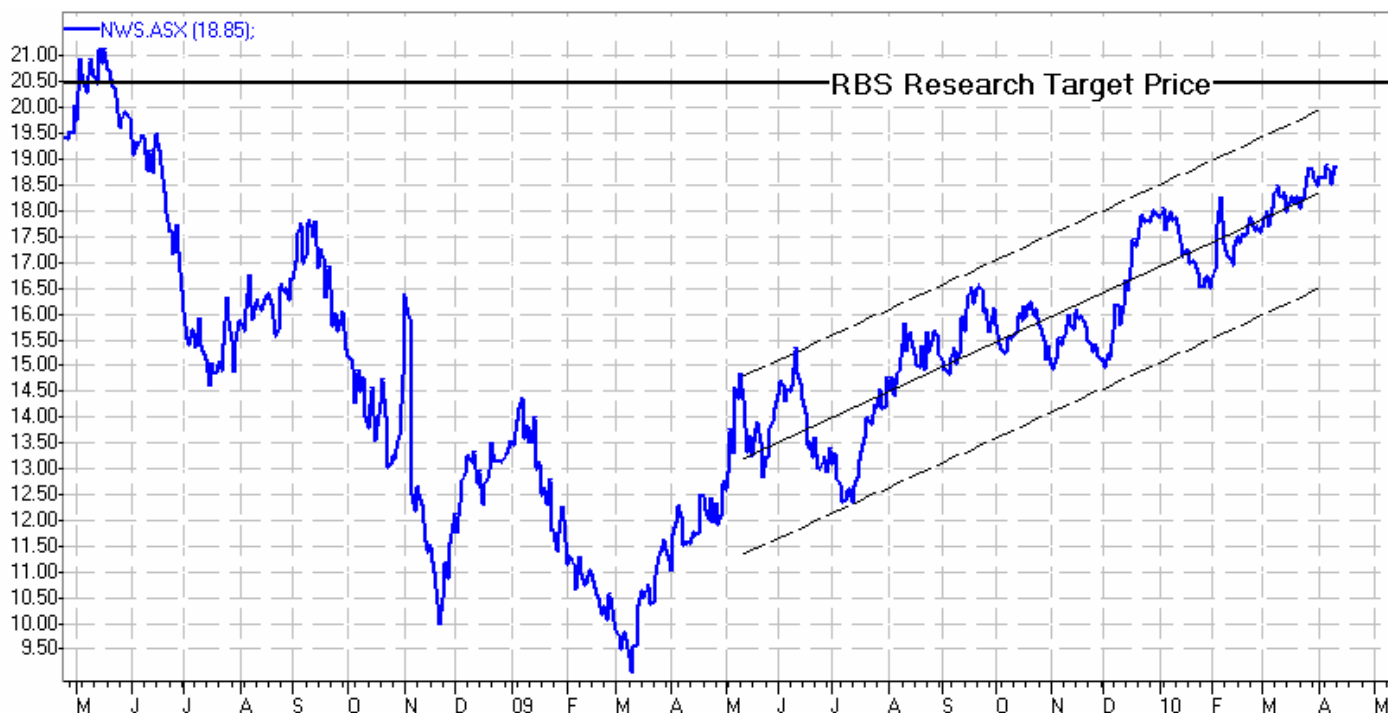
\*Dates are indicative only and may change

## MINI Trading Buy:

### News Corp (NWSKZJ) – 2Q result drives higher guidance

News Corp reported a strong 2Q10 result and raised FY10 guidance. We expect the focus to now turn to FY11 earnings, with RBS Research FY11F EPS of US\$1.13 c13% ahead of Bloomberg consensus of US\$1.00. We see the return to ad growth at the WSJ as a key positive for sentiment towards News Corp's newspaper assets.

RBS Research has a \$20.87 Target Price on NWS which represents a healthy 17.4% upside. **Get Long NWS with NWSKZJ.**



Source: IRESS

#### 2Q10 result strong and upgrade to guidance; raise FY11F EPS to US\$1.13

2Q10 operating profit of US\$1,212m was above RBS Research's US\$983m forecast and up 44% on the pcp. 2Q10 normalised EPS of US\$0.25 was ahead of RBS Research's US\$0.20 forecast (consensus US\$0.20). The company doubled its FY10 op profit growth guidance to 'low 20's' from 'high single to low double digit'. We believe this guidance remains conservative in light of the 26% growth already delivered in the first half and pcp's getting easier. RBS has raised FY10F op profit to US\$4,340m or 26% growth (vs +20% previously).

#### Cable continues to power ahead

Cable had another very strong quarter, with op profit up 35%. RBS raise FY10F cable op income 9% to US\$2.23bn. Cable makes up over 50% of News Corp's op profit and is the key driver of earnings growth. Filmed earnings were also strong, with very strong Avatar profits still to come.

#### WSJ delivers advertising growth – a key positive for sentiment

A key positive was an improved Newspaper performance, with the Wall Street Journal print ad revenue up 5%. This sets the WSJ apart from its US newspaper peers, which continue to report big declines in ad revenues. TV op profit stayed weak, but stations returned to revenue growth (+6% in 2Q10) and News Corp said 3Q10 station revenue was up 18-19%. Sky Italia was the main disappointment, with subscribers falling 63,000.

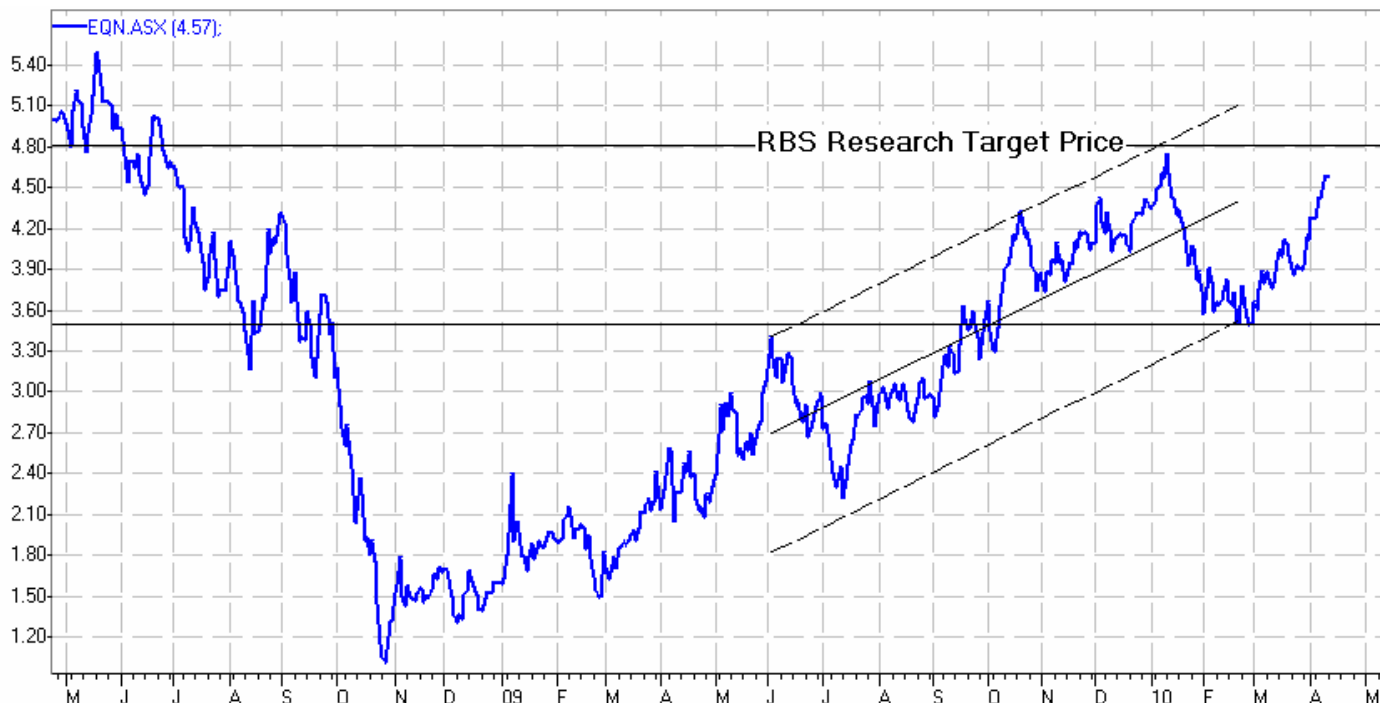
### RBS MINIs over NWS

Security	ExPrc	Stop Loss	CP	ConvFac	Delta	Description
NWSKZJ	1190.26	1302	Long	1	1	MINI Long

## MINI Trading Buy:

### Equinox (EQNKZA) – Wet season almost over, still favoured copper play

Now that the wet season is almost over and guidance is still intact, we expect the market to become more comfortable with the outlook. We believe EQN continues to have the greatest expansion potential of the copper stocks; maintain Buy. **Buy Long MINI EQNKZA for short term trade to \$4.80 or hold for the long term.**



Source: IRESS

### Result below forecast on debt refinancing charges

The reported net loss of US\$183m was skewed by a non-cash mark-to-market hedge loss of US\$329m. The underlying profit of US\$38m (ex non-cash derivative loss) was lower than RBS Research expected, mostly due to higher financing costs related to refinancing the Lumwana project debt (not forecast). Cash costs of US\$1.53/lb in 4Q09 were also above RBS estimate of US\$1.35/lb owing to additional expenses preparing for the wet season.

### 2010 guidance maintained at 135kt

The company has reconfirmed its guidance of 135kt at a cash cost of US\$1.35/lb for CY10, which factors in lower production in 1Q10 due to the wet season impacts. Management did not elaborate on how much production was down, only noting the wet season had been neither good nor bad. The worst of the rains are expected to stop over the next few weeks.

### On track to hit 20Mtpa in 2H10

Ramp up to a nameplate capacity of 20Mtpa is on track for 2H10. The company expects to continue the ramp up process over the next two years, with the aim of achieving a 24Mtpa rate within 18 months or reaching full production. We are more conservative and don't expect a consistent throughput of 24Mtpa until 1Q13. An expansion beyond 20Mtpa in the near term may also require opening up of the Chimiwungo pit, which could incur additional capex.

### Investment view – wet season uncertainty evaporating

EQN continues to have the greatest expansion potential of the copper stocks RBS cover, in our view, and trades at a significant discount to our NPV. We see this discount correcting as production results improve through 2010 and expansion plans move closer to reality. RBS Research maintain Buy call on a 12-month view. There is still some risk that 1Q production may disappoint the market, but long term we believe the stock should re-rate significantly once the ramp up is complete.

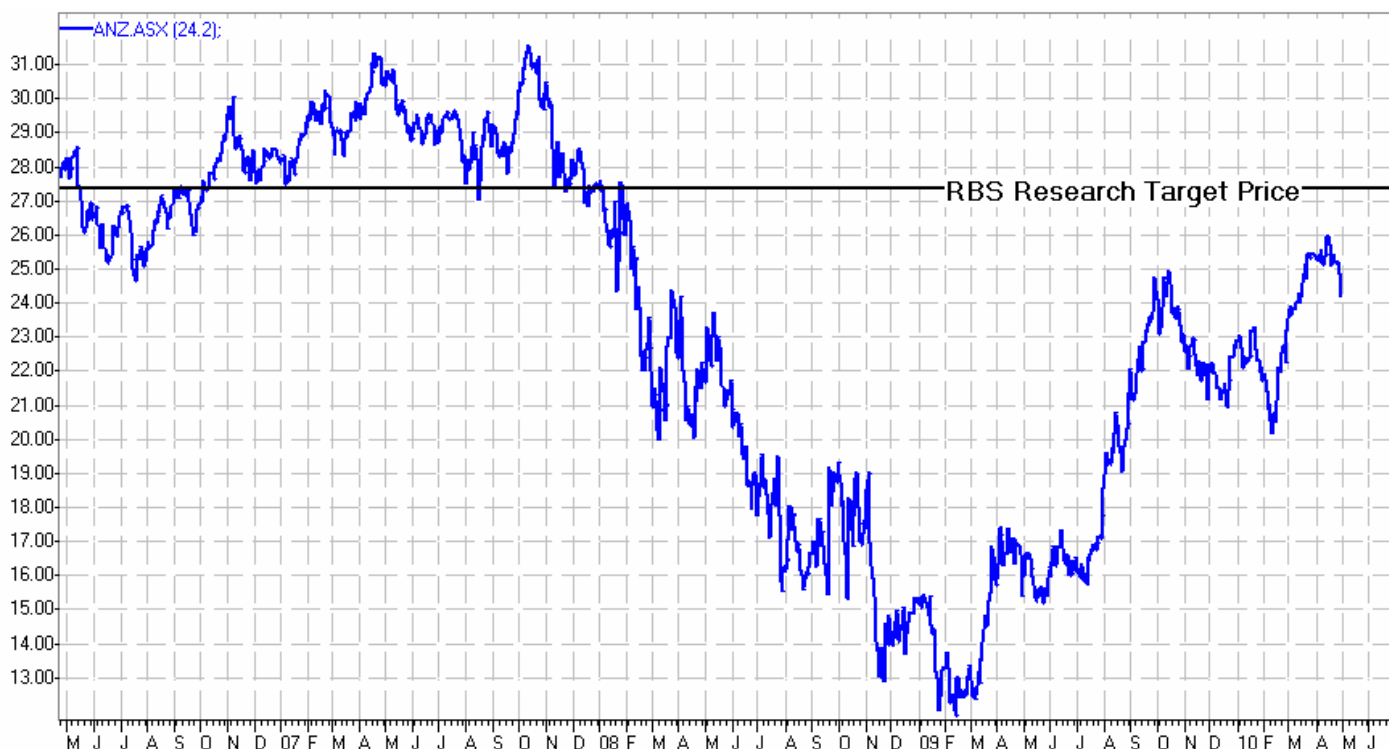
### RBS MINIs over EQN

Security	ExPrc	Stop Loss	CP	ConvFac	Delta	Description
EQNKZA	2.1262	2.54	Long	1	1	MINI Long

## MINI Trading Buy:

### ANZ Banking Group (ANZKZN) – Still Restoring

ANZ's 1H10 result was 3% above our cash EPS estimate, although the dividend was 4% below our forecast. In our view, ANZ's revenue was held back by wider sector trends, but its interest margin should outstrip peers in FY10. We lift our FY10 cash EPS forecast 3.9% and maintain our Buy recommendation.



Source: IRESS

#### 1H10 cash EPS was 4% above Bloomberg consensus

ANZ's 1H10 results (underlying EPS \$0.913, cash EPS \$0.944) beat consensus by 4%, although the \$0.52/share dividend fell short of RBS Research's \$0.54/share forecast. Adjusted for FX movements and assuming full ownership of ING, ANZ's 1H10 underlying revenue rose 3.2% on 2H09 and profit before bad debts and tax grew just 3.6% on 2H09.

#### ANZ's top line held back by sector trends

We see wider sector influences held back top-line growth. In FY10, all major banks face flat loan balances, softer trading income, weakness in wealth management and lower retail banking fees. With this industry backdrop, higher net interest margins are all that's left to boost revenues. ANZ lifted its group net interest margin by a healthy 6bp, despite a big drag from trading activities. The main company-specific drag for ANZ was cost growth.

#### But most of these drags should lift by 1H11

Even so, some of these clouds may start to clear in 2H10. ANZ highlighted a pick-up in corporate loan applications, although it concedes that drawdowns have yet to budge. Corporate loan repricing and higher free funds earnings should lift 2H10 margins again. Operating cost growth looks to have peaked, and momentum should return in the Asian unit.

#### We upgrade cash EPS 3.9% for FY10F

RBS Research has lift their forecasts to account for better margins, recent acquisitions, the New Zealand recovery, and a lower payout ratio. Cash EPS forecast rises 3.9% for FY10, 6.1% for FY11 and 5% for FY12. RBS Research's FY10F dividend falls to \$1.14 /share.

#### Retaining Buy, raising price target to \$27.26/share (from \$26.28/share)

We see less pressure on ANZ's earnings by 2H10 and 1H11. ANZ has about \$3bn in excess capital relative to the peer average and trades on a 4% discount to peers (IBES 12m fwd). RBS Research price target is \$27.26/share (DDM of \$26.26/share and \$1.00/share for extra capital).

**ANZ last traded \$24.74, BUY ANZKZN for 1-for-1 upside towards RBS Target Price of \$27.26**

#### RBS MINIs over ANZ

Security	ExPrc	Stop Loss	CP	ConvFac	Delta	Description
ANZKZL	1431.99	1493	Call	1	1	MINI Long
ANZKZM	1314.88	1371	Call	1	1	MINI Long
ANZKZN	1733.96	1808	Call	1	1	MINI Long

## RBS Round Up Corner:

### US Reporting Season Summary

We enter the 1Q10 US reporting season with both the US and Aussie equity markets looking fairly valued, and earnings revision cycles in both countries flat. Therefore, we see US reporting as a significant sign post for both markets. We identify the key sectors and stocks to watch from Oz.

#### Looking for top-line sales growth in the US for 1Q10

A key barometer for this US reporting season will be the extent to which companies deliver both top-line sales as well as earnings surprise. Of the last four US reporting seasons, only 4Q09 delivered both sales and earnings surprises. This outcome was generally seen as evidence of the US recovery accelerating and not just corporate cost-cutting.

#### Revenue growth of 12% pcp (just 8% delivered last quarter)

For 1Q10, Bloomberg is looking for revenue growth of 12% on 1Q09, which compares with 8% actual for December 2009. On a sector basis, the key contributors are likely to be Energy, which accounts for 36% of the expected aggregated revenue growth, and Financials at 15%.

#### Which US stock results should we focus on in Oz?

During the peak of US reporting, we are generally inundated with results on a daily basis, some of which have more relevance than others for the Australian market. To help prioritise the US results, we have surveyed the RBS research analysts and asked them to identify which are the key US stocks to watch in their sectors. These are presented in the table below, along with their expected reporting date and key forecast expectations.

**Table 3 : Key US stocks for the Aussie market, their 1Q10 reporting dates and consensus forecasts**

	Expected reporting date	Fwd PE *	Fcst NPAT growth (%)		Fcst sales growth (%)	
			Pcp fcst. growth	Qoq fcst. growth	Pcp fcst. growth	Qoq fcst. growth
<b>Airlines</b>						
AMR Corp	15-April-2010	n.a.	-5%	9%	6%	35%
Delta Airlines	21-April-2010	9.8	71%	-28%	5%	3%
Southwest Airlines	22-April-2010	22.8	84%	-104%	10%	-4%
<b>Beverage</b>						
Coca-Cola (CCL)	20-April-2010	16.1	12%	10%	8%	3%
Molson Coors	04-May-2010	12.7	-16%	-56%	14%	-22%
Constellation	05-May-2010	11.7	8%	135%	0%	26%
<b>Cons. Material</b>						
CEMEX	28-April-2010	26.0	4994%	69%	-11%	48%
Vulcan Materials	04-May-2010	131.1	-14%	-66%	-15%	-14%
Martin Marietta	05-May-2010	34.4	-105%	-355%	-14%	-14%
<b>Fertiliser</b>						
Terra Ind	21-April-2010	15.4	38%	-26%	-4%	12%
Agrium Inc	05-May-2010	14.4	218%	-17%	5%	27%
Mosaic	22-July-2010	27.9	646%	82%	38%	27%
<b>Finance</b>						
JP Morgan Chase	14-April-2010	14.9	35%	-12%	4%	12%
Bank of America	16-April-2010	23.3	-32%	197%	-22%	12%
Citigroup	19-April-2010	125.4	137%	105%	-16%	34%
Goldman Sachs	20-April-2010	9.8	54%	-47%	18%	15%
Wells Fargo	21-April-2010	16.6	-35%	-19%	3%	-4%

\*The company's price/earnings ratio using the best current year estimated earnings per share.

Source: Bloomberg, RBS

## Equity Structured Products and Warrants

**Table 3 : Key US stocks for the Aussie market, their 1Q10 reporting dates and consensus forecasts (Cont'd)**

	Expected reporting date	Fwd PE *	Fcst NPAT growth (%)		Fcst sales growth (%)		
			Pcp fcst. growth	Qoq fcst. growth	Pcp fcst. growth	Qoq fcst. growth	
<b>Fund Managers</b>							
Alliance Bernstein Holding Lp	22-April-2010	14.9	625%	-18%	n.a.	n.a.	
Federated Investors Inc-CI B	22-April-2010	13.6	-6%	-11%	-15%	0%	
Janus Capital Group Inc	22-April-2010	18.0	1092%	-13%	55%	1%	
T Rowe Price Group Inc	23-April-2010	22.0	218%	0%	49%	5%	
Blackrock Inc	26-April-2010	19.1	346%	29%	125%	44%	
Waddell & Reed Financial-A	27-April-2010	19.5	110%	12%	45%	3%	
Franklin Resources Inc	28-April-2010	18.1	217%	-1%	46%	-7%	
Legg Mason Inc	05-May-2010	24.0	117%	25%	7%	-4%	
Eaton Vance Corp	20-May-2010	20.9	80%	3%	37%	1%	
<b>Gaming</b>							
WMS Technologies	21-April-2010	24.5	22%	12%	13%	8%	
IGT	22-April-2010	21.6	36%	-14%	8%	-1%	
Bally Technologies	29-April-2010	19.3	8%	-5%	-4%	-7%	
Melco Crown Int	20-May-2010	n.a.	32%	87%	155%	38%	
<b>Gold</b>							
Newmont	27-April-2010	15.3	95%	-28%	38%	-15%	
Barrick Gold	28-April-2010	15.0	113%	196%	31%	2%	
Royal Gold	07-May-2010	55.6	191%	26%	63%	-2%	
<b>Home Builders</b>							
DR Horton	04-May-2010	21.5	95%	-109%	11%	-22%	
Martin Marietta	05-May-2010	34.4	-105%	-355%	-14%	-14%	
Pulte Homes	05-May-2010	n.a.	64%	71%	102%	-31%	
Toll Bros	26-May-2010	n.a.	-589%	-62%	-19%	-2%	
Lennar Homes	25-June-2010	153.3	105%	14279%	-7%	45%	
KB Home	25-June-2010	n.a.	-58%	8%	-3%	41%	
<b>Insurers</b>							
Progressive Corp	15-April-2010	13.5	-8%	-7%	5%	n.a.	
Chubb Corp	22-April-2010	10.2	-32%	-39%	n.a.	n.a.	
Travelers Cos Inc/The	23-April-2010	9.1	-5%	-34%	8%	n.a.	
Alleghany Corp	23-April-2010	17.4	n.a.	n.a.	n.a.	n.a.	
Allstate Corp	28-April-2010	8.5	6%	-19%	-5%	-7%	
Hartford Financial Svcs Grp	29-April-2010	9.6	113%	-78%	n.a.	n.a.	
Cna Financial Corp	03-May-2010	11.0	n.a.	n.a.	n.a.	n.a.	
Markel Corp	06-May-2010	20.4	-13%	-50%	10%	-6%	
AIG	07-May-2010	7.7	99%	100%	n.a.	-5%	
Berkshire Hathaway Inc-CI A	07-May-2010	22.6	21%	2%	n.a.	-5%	
<b>Logistic</b>							
FedEx	16-June-2010	24.3	83%	72%	15%	4%	
<b>Media</b>							
Viacom	29-April-2010	13.4	28%	-66%	0%	-29%	
News Corp	04-May-2010	16.5	71%	-13%	9%	-7%	
Time Warner	05-May-2010	15.3	7%	-15%	-9%	-14%	
CBS	05-May-2010	16.1	162%	-80%	9%	90%	
Disney	11-May-2010	18.0	8%	-2%	4%	-14%	
<b>Oil &amp; Gas</b>							
Conoco Phillips	28-April-2010	9.5	140%	16%	8%	-23%	
Exxon Mobil Corp	29-April-2010	12.0	34%	1%	57%	2%	
Exxon	29-April-2010	12.0	34%	1%	57%	2%	
Chevron	30-April-2010	10.0	146%	6%	72%	25%	
<b>Paper &amp; Packaging</b>							
Bemis	28-April-2010	14.7	-12%	-21%	13%	5%	
Sealed Air	28-April-2010	13.3	2%	-10%	10%	-5%	

\*The company's price/earnings ratio using the best current year estimated earnings per share.

Source: Bloomberg, RBS

# Equity Structured Products and Warrants

**Table 3 : Key US stocks for the Aussie market, their 1Q10 reporting dates and consensus forecasts (cont'd)**

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			Pcp fcst. growth	Qoq fcst. growth	Pcp fcst. growth	Qoq fcst. growth
<b>Pharma</b>						
Quest Diagnostic (SHL)	21-April-2010	13.9	2%	0%	4%	2%
Baxter	22-April-2010	13.7	9%	-10%	10%	-11%
Merck	04-May-2010	10.8	55%	11%	109%	12%
Talecris	21-May-2010	15.4	n.a.	70%	n.a.	0%
<b>REITs</b>						
Taubmans	22-April-2010	55.5	-68%	-89%	-19%	-32%
Simon Properties	30-April-2010	41.9	-35%	-65%	-9%	-19%
<b>Retail</b>						
Wal-Mart	18-May-2010	13.8	6%	-28%	4%	-13%
Costco	27-May-2010	20.8	25%	-6%	11%	-6%
<b>Steel</b>						
A.K. Steel	20-April-2010	16.3	138%	-38%	51%	6%
Nucor	22-April-2010	27.7	116%	-61%	32%	20%
US Steel	27-April-2010	94.0	47%	11%	35%	11%
<b>Surf retail</b>						
Zumiez	21-May-2010	34.8	13%	-114%	16%	-33%
Pacific Sun wear	21-May-2010	n.a.	-162%	24%	-17%	-47%
Quicksilver	08-June-2010	50.1	-30%	288%	-8%	6%
<b>Telco</b>						
AT&T	21-April-2010	11.9	-8%	5%	1%	0%
Verizon	22-April-2010	12.8	-10%	5%	1%	-1%
Sprint Nextel	28-April-2010	n.a.	-636%	-3%	-2%	2%

\*The company's price/earnings ratio using the best current year estimated earnings per share.

Source: Bloomberg, RBS

For further information please do not hesitate to contact us on the details below



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# Equity Structured Products and Warrants

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## Explanation of Warrant Tables

**Security** – refers to the code ascribed to the warrant, **ExDate** – refers to the date on which the warrant expires or is reset, **ExPrc** – refers to the exercise price, or second instalment payment, **CP** – tells you whether the warrant is a call or a put, **ConvFac** – the conversion factor of the warrant which tells you how many warrants you need to exercise in order to take possession of 1 share, **Delta** – tells you how much the warrant will move for a 1c move in the underlying security, **Description** – Tells you the type of warrant.

*All charts taken from IRESS unless indicated otherwise*