



ARBUTHNOT

On the March

By any standards, 2008 was a difficult and unprecedented year in the markets, with widespread volatility and uncertainty. Against this backdrop however, Arbuthnot:

- Admitted 4 companies to AIM
- Advised on 16 M&A mandates, with a combined value in excess of £500m
- Acted for 92 corporate clients with an average market cap of over £100m
- Won 26 new clients (Hemscott cited Arbuthnot as a *"name to watch... marching relentlessly up the table, quarter by quarter"*)
- Additionally, one of our corporate clients, Randgold Resources (RRS.L) was included into the FTSE 100 in Q4 of last year

Today we advise 96 listed companies with an average market cap of over £100m, and research over 120 companies.

Through our affiliate in New York, Auerbach Grayson, we continue to be able to access opportunities in the United States, as well as those in the Middle East, with Arbuthnot's membership of the Dubai International Financial Exchange and local contacts.

2009 will remain challenging, but we are continuing to see exciting opportunities. We are optimistic about prospects for the Group and our ability to raise money for the right projects. We look forward to working with you over the coming year.

Yours sincerely

Neil Kirton
Chief Executive

Arbuthnot Securities
www.arbuthnotsecurities.co.uk



ARBUTHNOT

2009 UPDATE

Outlook for 2009

The phrase 'corporate Darwinism' is becoming increasingly fitting for the current economic environment. There is pressure on an unprecedented scale on many corporates, large or small. However, while the economic backdrop is clearly challenging, the turmoil is throwing up opportunities which, in more benign markets, would be difficult to spot or exploit. Survival is not just about being the fittest; it is as much about being ready to take advantage of strategically attractive opportunities that present themselves at attractive prices. Against the backdrop of tight credit, though, it is critical to remain focused on cash and cash flow. As such, we would expect to see an increase in consolidation in certain sectors where companies effectively 'pool' resources in order to survive.

While it is far too early to be pointing to any signs of economic recovery, there is a growing sense of realism to the new world order, as opposed to purely extrapolating the down-trend. Nevertheless, the implied equity risk premium remains high (at over 8% compared to 4% in more normal times), which suggests a market still unable to bring itself to believe earnings forecasts. There are some exceptions, and the market is rewarding those with high levels of cash and clear forward visibility.

The current environment, while brutal, will result in a more efficient market. While it is hard to call the timings, this episode will end with both companies and markets more cautious, more transparent, and more proficient.

Xavier Gunner: Head of Research

Economic Perspectives – Ruth Lea

Ruth Lea has been Non-Executive Director of Arbuthnot Banking Group since 2005, and is the Group's Economic Adviser. She was previously Director for the Centre for Policy Studies and prior to that, spent 16 years in the Treasury and the DTI. She is a frequent macro-economic commentator across a range of broadcast media, and her publication 'Perspectives' is widely read across the City.

In the latest edition of 'Perspectives', Ruth discusses the 'quantitative easing' measures being provisionally lined up by the Bank of England under the framework of the Asset Purchase Facility.

A link to the full report can be found on our website in the Research Area.



ARBUTHNOT

Appointments

We have taken advantage of the current opportunities for recruitment of high quality candidates, and have added the following new hires in the past 6 months.

CORPORATE

Nick Tulloch joined us as Head of Corporate Finance in January 09. Nick was previously a Managing Director at Altium, and in his career has worked at both Schroders and Cazenove.

Nicholas Banzky joined us in September 08 with a specific remit to develop business opportunities for us emanating from India. He started his career at N.M Rothschild, and subsequently became Head of International Capital Markets at Smith New Court.

SALES

Jonathan Clements joined the Sales team in January 09 as a Director with a focus on Emerging and Growth companies. Jonathan joined from Bridgewell Securities, and has previously been both a fund manager and a broker.

Matt Hasson joined in September 08 from Hitchens, Harrison and Co, as a specialist salesperson in Natural Resources.

SALES TRADING

Mark Barnes joined the Sales Trading team in September 08. During his career he has worked at HSBC, Investec, Deutsche, and Ingenious Securities.

RESEARCH

Sneha Shah joined the research team in March 09 from Deutsche Bank, and will be covering the Equity Special & Relative Value Situations area.

Jean Roche joined in October 08, and is a CFA charterholder covering the retail sector. She joined from Daniel Stewart, and prior to that, was at the Treasury and Morgan Stanley.

Kate Moy joined us in September 08 from Numis as an analyst covering Housebuilders and related areas. Prior to Numis she was at Teather and Charterhouse.

Oliver Cummings joined the Emerging Companies team as an analyst in October 08. He is CA qualified, and joined us from Ernst & Young.



ARBUTHNOT

Selected recent sector research reports

Consultants & Managed Services report – Jan 09

Analyst David Brockton expects uncertainty in the sub-sector to persist through the early part of 2009, with the market undecided if the full extent of economic weakness has been factored into share prices. In this report, David looks at how this uncertainty, combined with downward pressure on forecasts through weakening demand, could constrain price progression. However, he notes a number of players in the sector have relatively robust business models, which goes some way to mitigate some of the risks.

Housebuilders report – Dec 08

Arbuthnot published a 60-page in-depth report on the Housebuilding sector, covering Barratt Developments, Bellway, Bovis Homes, Persimmon, Redrow and Taylor Wimpey. The current economic climate has put the housebuilding sector under significant duress in recent months. In this report, analyst Kate Moy models cash generation for the six largest UK housebuilders. She also analyses land impairment charges and estimates notional trough NAVs. The report compares this against current valuations, and also considers normalised profitability, achievable once cash is recycled into lower-priced, full margin land.

Coal report – Nov 08

With the attention now on the outlook for coal, analyst Tim Dudley has undertaken a comprehensive review of the coal sector to identify opportunities in a weakening economic environment, and published a 100-page report entitled "Raking over the coals". The report covers ATH Resources, Bisichi, Caledon Resources, Cambrian Mining, Coal of Africa, New World Resources, UK Coal and Western Canadian Coal. In the report he analyses the quality of each companies asset-base, price exposure and cost base to identify strengths and weaknesses in the sector at a company level. Tim updated the report in February 09, and in his update, 'The Darkest Hour', he reviewed coal price forecasts against the backdrop of the start of annual price negotiations and the recent rapid rate of decline in the coal market.



ARBUTHNOT

Events

Arbuthnot Securities NED event

Arbuthnot Securities hosted a well-attended event for the non-executive directors of our corporate clients in November 08. The key speaker was Dr Tracy Long, who runs the Boardroom Review consultancy. She presented on Board effectiveness, how individual contributions can be maximised, and how Boards can better prepare themselves for future challenges.

Forthcoming events

Retail conference – 2 July 09

The central theme of the upcoming retail conference is 'online fashion retail', with confirmed speakers including the Chief Executives of ASOS, IMRG, N Brown and M&M Direct, as well as the Chief Financial Officer of New Look.

Property conference – Sept 09

Further details TBC in late April.



ARBUTHNOT

Selected transactions in 2008

<p><i>Joint Broker, Financial Adviser and Sponsor</i></p>  <p>Placing, open offer and acquisitions</p> <p>£65m</p> <p>June 2008</p>	<p><i>Financial adviser, Nominated Adviser and Broker</i></p>  <p>Recommended share offer for Sagentia Group AG and Admission to AIM</p> <p>£11m</p> <p>July 2008</p>	<p><i>Nominated Adviser and Broker</i></p>  <p>Recommended sale of business to IGT and liquidation</p> <p>£35m</p> <p>June 2008</p>	<p><i>Nominated Adviser and Broker</i></p>  <p>Recommended merger with Lighthouse Group plc</p> <p>£1.3m</p> <p>March 2008</p>
<p><i>Broker</i></p>  <p>Placing and AIM Admission</p> <p>£173m (mkt cap)</p> <p>April 2008</p>	<p><i>Financial adviser</i></p>  <p>Successful defence of hostile bid</p> <p>£3.3m</p> <p>February 2008</p>	<p><i>Nominated Adviser and Broker</i></p>  <p>Placing and AIM Admission</p> <p>£11m</p> <p>February 2008</p>	<p><i>Nominated Adviser and Broker</i></p>  <p>Acquisition of Midas Capital</p> <p>£102m</p> <p>February 2008</p>



ARBUTHNOT

About Arbuthnot Securities

Arbuthnot Securities is an integrated Investment Bank servicing small and medium sized growth companies. The business offers a full range of services from corporate finance through to research, sales, trading and market making business. The Securities business is the investment banking subsidiary of Arbuthnot Banking Group, which has a 175 year history of serving its customers, as well as a long track record of profitability against the background of a continually changing environment.

Contact details

Neil Kirton, Chief Executive – neilkirton@arbuthnot.co.uk / 0207 012 2108

Nick Tulloch, Head of Corporate Finance – nicktulloch@arbuthnot.co.uk / 0207 012 2158

James Steel, Managing Director, Corporate Finance – jamessteel@arbuthnot.co.uk / 0207 012 2100

John Prior, Director, Corporate Broking – johnprior@arbuthnot.co.uk / 0207 012 2132