

16 April 2012

International Biotechnology Trust

12 Months Ending	Total Share Return* (%)	Total NAV Return* (%)	Total Return NASBIOT Index* (%)	Total Return FTSE All-Share Index * (%)
13/04/09	(5.0)	(3.9)	9.9	(29.5)
13/04/10	28.0	26.3	35.4	50.8
13/04/11	8.9	0.5	4.2	8.7
13/04/12	17.0	17.6	18.2	(2.1)

Note: * 12-month rolling discrete performance.

Investment summary: Quoted portfolio continues to outperform

International Biotechnology Trust's (IBT) quoted portfolio has, for the past three years, outperformed the NASDAQ Biotechnology Index. Although the unquoted portfolio (c 16%) has been a drag on overall performance, it is reaching maturity and may provide uplifts on exit, as reflected in the 2011 sale of Cadent to Align Technologies at 3.1x the carrying book value. The manager reports that exit conditions have improved significantly during the past six months, and currently expects five to six actions per year for the next two years, with further events in 2014/15.

Investment strategy: Development-stage biotech

IBT invests in development-stage biotechnology companies and maintains a quoted portfolio (30-35 stocks) and an unquoted portfolio (20-25 stocks). The investment process employs extensive fundamental research with investments held for the longer term. Positions are actively monitored, particularly for trial events with a binary outcome. IBT can borrow on a short-term basis, unlikely to exceed 10% of the quoted NAV, but avoids structural gearing.

Sector outlook: Positive for biotechnology companies

A number of factors provide support to the biotechnology sector. Pharmaceutical companies have struggled to generate returns from internal R&D investment and there is a clear trend towards outsourcing the process to biotechnology companies. In addition, the sector benefits from a backdrop of increasing demand from growing and ageing populations. Obamacare now looks likely to be repealed by the Supreme Court, at least in part. However, given the potential removal of the tax on healthcare company profits this implies, as well as the expected demand profile from the currently uninsured, the manager expects the impact on biotech will be marginal.

Valuation: Discount in line with longer-term averages

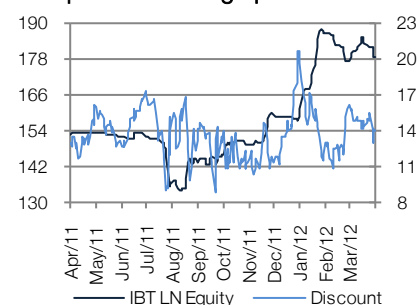
The cum-income discount, currently at 14.0%, is between its three- and five-year averages of 16.3% and 13.7% respectively, but above its broad target of 8%. The discount remains underpinned by a selective share repurchase programme, and we believe IBT offers an attractive means of gaining a diversified exposure to quoted and unquoted biotechnology companies.

Price	179.0p
Market Cap	£99.3m
AUM	£116.0m
NAV*	210.42p
Discount to NAV*	14.9%
NAV**	208.2p
Discount to NAV**	14.0%
Yield	0.0%

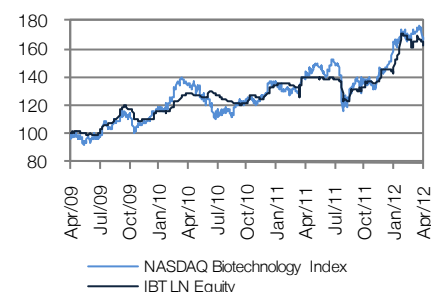
*Adjusted for debt at market value and excluding income. At 12 April 2012.

** Adjusted for debt at market value and including income. At 12 April 2012.

Share price/discount graph



3-year cumulative performance graph



Share details

Code	IBT
Listing	LSE
AIC Sector	Sector Spec: Biotech/Life Sciences
Shares in issue	55.5m

Price

52 week	High	Low
Price	188.00p	134.25p
NAV*	216.63p	153.95p

*Including income

Gross Gearing	0.0%
Net Gearing	(8.0%)

Analysts

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Exhibit 1: Trust at a glance

Investment objective and fund background				Developments last quarter	
IBT aims to achieve long-term capital growth by investing in development stage biotechnology and other life sciences companies, both quoted and unquoted, that have high growth potential. IBT invests in companies considered to have good prospects, experienced management and strong upside potential through the development and/or commercialisation of a product, device or enabling technology.				13 April 2012: Interim results for the six months ended 29 February 2012 released. 22 February 2012: Announcement that Andrew Barker will step down as both chairman and a director, from 13 April 2012. Alan Clifton to become chairman.	
Forthcoming		Capital structure		Fund details	
AGM	December 2012	Total expense ratio	2.19%	Group	SV Life Sciences Managers LLP
Preliminary	October 2012	Net gearing	(8.0%)	Managers	David Pinniger, Kate Bingham
Year end	31 August	Annual mgmt fee	See pg 7	Address	71 Kingsway London, WC2B 6ST
Dividend paid	N/A	Performance fee	See pg 7		
Launch date	May 1994	Trust life	Indefinite	Phone	+44 (0)20 7421 7070
Wind-up date	Vote every 2 yrs	Loan facilities	See pg 7	Website	www.ibtplc.com
Dividend policy and history			Share buyback policy and history		
Reflecting its capital appreciation objective, IBT's current policy is to not pay dividends.			Renewed annually, the trust has authority to allot up to 5.0% and purchase up to 14.99% of issued share capital.		
Shareholder base (as at 26 March 2012)			Geographic distribution of portfolio (as at 29 February 2012) *		
<ul style="list-style-type: none"> AstraZeneca (16.2%) Lazard Asset Mgmt (14.6%) Findlay Park (12.7%) East Riding Pens. Fund (7.9%) AXA Investment Mgmt (5.7%) Baillie Gifford (5.5%) M&G Investment Mgmt (3.8%) South Yorks Residuary (3.6%) Other (30.0%) 			<ul style="list-style-type: none"> North America (70.0%) Europe (15.0%) Middle East (4.0%) Australia (3.0%) Cash (8.0%) 		
Portfolio composition (as at 29 February 2012) *			Portfolio composition (as at 31 August 2011) *		
<ul style="list-style-type: none"> Amgen Inc (4.4%) Celgene (4.2%) Teva Pharmaceutical (4.0%) Insulet Corp (3.8%) Alexion Pharmaceuticals (3.5%) Pharmaxis (3.4%) Biogen Idec (3.1%) Shire (2.8%) Gilead Sciences Inc (2.8%) Aptiv Solutions** (2.8%) Other Quoted (43.9%) Other Unquoted (13.3%) Cash (8.0%) 			<ul style="list-style-type: none"> Amgen Inc (5.5%) Teva Pharmaceutical (4.8%) Gilead Sciences Inc (4.7%) Insulet Corp (3.9%) Pharmasset (3.9%) Celgene (3.7%) Shire (3.6%) Micromet (3.1%) Axis-Shield (3.0%) Actelion (2.9%) Other Quoted (38.1%) Other Unquoted (22.7%) Cash (0.0%) 		

Source: International Biotechnology Trust, Edison Investment Research

Note: *Geographic distribution and portfolio composition are as a proportion of total assets. As at 29 February 2012, IBT had borrowings equivalent to 0.0% of net assets. As at 31 August 2011, IBT had borrowings equivalent to 10.0% of net assets. ** Unquoted holding.

Exhibit 2: Top five quoted holdings at a glance

Amgen		Code: AMGN US	Market cap: US\$51,318m
		Div yield (trailing 12 months)	2.12%
		Industry/Sector	Medical-Biomedical/Gene
		Website	www.amgen.com
<p>Amgen is a biotechnology company that pioneered the development of novel products based on advances in molecular biology. It markets products that are used to treat anaemia, rheumatoid arthritis and other autoimmune diseases. The manager considers that Amgen's newly launched drug Prolia, for treating osteoporosis, could be the next biotechnology blockbuster. Amgen employs 17,000 people worldwide. Total revenues were \$15.6bn in 2011 (up from \$15.1bn in 2010).</p>			
Celgene		Code: CELG US	Market cap: US\$34,368m
		Div yield (trailing 12 months)	N/A
		Industry/Sector	Medical-Biomedical/Gene
		Website	www.celgene.com
<p>Based in the US and listed on the NASDAQ, Celgene is a biotechnology company engaged in the discovery, development and commercialisation of innovative therapies designed to treat cancer and immunological diseases. It has five marketed products (Revlimid, Thalomid, Vidaza, Abraxane and Istodax) and a full pipeline of drug candidates in clinical development. Total revenues were \$4.8bn in 2011 (up from \$3.6bn in 2010).</p>			
Teva Pharmaceutical		Code: TEVA US	Market cap: US\$41,644m
		Div yield (trailing 12 months)	2.38%
		Industry/Sector	Medical-Generic Drugs
		Website	www.tevapharm.com
<p>Based in Israel and listed on the NASDAQ, Teva Pharmaceuticals is a leading biopharmaceutical and generics company marketing products that range from branded injectables such as Copaxone to generic small molecules such as Adderall XR. Teva has adopted an aggressive acquisition strategy to sustain its growth rate. Total revenues were \$18.3bn in 2011 (up from \$16.1bn in 2010). Teva has production facilities in Israel, North America, Europe and Latin America. It acquired US-based Cephalon Inc. in 2011.</p>			
Insulet		Code: PODD US	Market cap: US\$828m
		Div yield (trailing 12 months)	N/A
		Industry/Sector	Patient Monitoring Equipment
		Website	www.myomnipod.com
<p>Based in the US and listed on the NASDAQ, Insulet is a medical device company that develops, manufactures and markets an insulin infusion system for people with insulin-dependent diabetes. The Omnipod is a handheld, tube-free, insulin management system with integral glucose meter and diabetes management software. Insulet signed a distribution agreement with Ypsomed Distribution, in January 2010 to distribute the OmniPod in 11 countries. Insulet acquired Neighbourhood Diabetes in June 2011.</p>			
Alexion Pharmaceuticals		Code: ALXN US	Market cap: US\$16,628m
		Div yield (trailing 12 months)	N/A
		Industry/Sector	Medical-Biomedical/Gene
		Website	www.alexionpharm.com
<p>Based in the US and listed on the NASDAQ, Alexion Pharmaceuticals (ALXN) is a biopharmaceutical company engaged in developing and commercialising treatments for severe, life threatening and usually very rare diseases. ALXN has one marketed product, Soliris, a 'complement inhibitor' approved in 35 countries for treating paroxysmal nocturnal hemoglobinuria, and in the EU and US, for treating atypical hemolytic uremic syndrome. Total revenues were \$783m in 2011 (up from \$541m in 2010).</p>			

Source: Bloomberg/Thomson Datastream/Edison Investment Research

Fund profile

Launched in May 1994, SV Life Sciences (SVLS) took over as adviser to IBT in November 2000, and became manager in January 2005. Kate Bingham has been responsible for the management of IBT's unquoted portfolio during SVLS's tenure. During this time the quoted portfolio has had three managers. Sarah Young managed a focused portfolio of about 15 larger, long-term holdings from 2000 to 2005. Andrew Smith's tenure saw the portfolio hold more positions in a smaller size. Under David Pinniger, who became responsible in February 2008, the quoted portfolio now has c 40 holdings that are traded more frequently, reflecting more active risk management. Because IBT has traditionally had a significant, unquoted element, there has been no unique benchmark against which to adequately assess its NAV performance. However, with unquoted holdings accounting for 16.1% of total assets, IBT now primarily evaluates its performance against the NASDAQ Biotechnology Index (NASBIOT).

The fund managers: David Pinniger and Kate Bingham

Managers' view

Following August's market rout, the broader equity market has performed strongly over the past six months with the biotechnology sector providing further outperformance. The managers ascribe this to two key factors:

- 1) An increased recognition that profitable biotech companies offer stable and predictable earnings growth and cash flow generation above the market average, which is welcome when set against an uncertain economic backdrop, and
- 2) Biotech's strong focus on R&D has finally led to a wave of innovative and highly valuable new drugs and technologies that are having a significant and high-profile impact on treatments.

The managers believe these trends will continue and that, with growing and ageing populations, the need for innovative new drugs, diagnostics and medical devices to prevent and treat complex diseases has never been higher. Pharmaceutical companies have struggled to generate returns from internal R&D investment and there is a clear trend towards outsourcing the process to biotechnology companies that continue to demonstrate higher success in providing the medical innovation required. Following the previous biotech boom, the sector has suffered a decade during which it has been out of favour with generalist investors. The managers believe that sentiment has improved, which is arguably reflected in recent performance, not least because healthcare and large-cap pharma companies need to replenish product pipelines, but also because of a more general recognition that the biotech sector has matured significantly. In terms of current themes, the consensus opinion has been that the sector will be a net beneficiary of healthcare reform in the United States and that emerging markets offer a very significant opportunity. At present, it appears that the Supreme Court will repeal Obamacare, at least in part. This was expected to bring c 30m individuals under coverage, but funded in part by a profits tax on healthcare companies. If repealed, the managers believe the impact on biotech will actually be marginal, particularly as the uninsured are typically the young and fit, who are less prevalent users of biotechnology companies' products. Direct emerging market investment remains difficult and the managers prefer to gain exposure using developed market companies with strong emerging market operations. With a portfolio of listed and

venture capital investments, the managers believe that the unique construction of IBT's portfolio enables investors to access returns from medical innovation in a diversified, risk-managed way.

Asset allocation

Investment process

The investment manager uses four stages to manage IBT's investments. 1) Asset allocation: the top-down part of the process, which determines the sectors favoured by the manager. This sets the portfolio's target structure, weightings and exposures. 2) Idea generation: investment ideas are generated from a range of internal and external sources. These include the SVLS team, strategic partners, medical investor conferences and recommendations from specialist brokers and analysts. 3) Review: investment ideas are reviewed and detailed analysis is undertaken. This uses SVLS's specialist knowledge and experience, which ultimately leads to an investment committee decision. 4) Position management: once included in the portfolio, positions are subject to continuous evaluation and risk management. Unquoted holding valuations are re-valued on a daily basis.

Overview

IBT has 67 investments: 42 quoted and 25 unquoted. As illustrated in Exhibit 1, the top holdings account for 34.8% of total assets while other quoted, other unquoted and cash account for 43.9%, 13.3% and 8.0%, respectively. The majority of the portfolio (70% of total assets) is invested in US stocks, so IBT has a significant exposure to the dollar. It is not IBT's policy to hedge its foreign currency exposures. Europe (including the UK) accounts for 15.0%, Israel (shown as Middle East) accounts for 4.0% and Australia 3.0% of total assets.

Unquoted companies

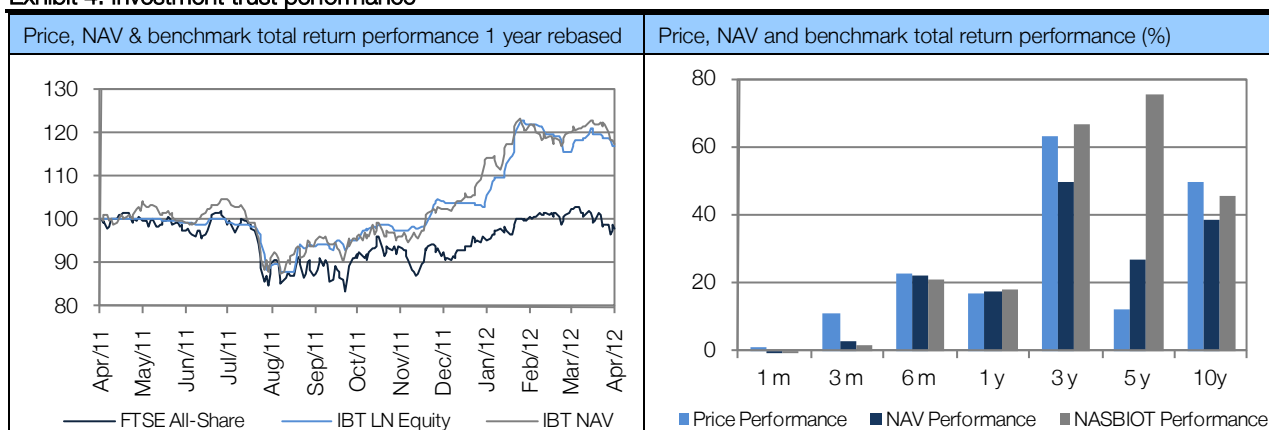
Exhibit 3: Top five unquoted holdings at a glance

Aptiv Solutions	Investment date: March 2007	Investment: £2.9m	Current valuation: £3.2m
Aptiv Solutions provides facilities and expertise for pharmaceutical and biotechnology companies looking to outsource early-stage R&D projects. Aptiv has acquired a number of businesses and is integrating these to achieve scale and breadth of ability.	Total IRR	N/A	
	Industry/Sector	Life Sciences, Tools, Diagnostics & Svcs.	
	Website	www.apativsolutions.com	
EUSA Pharma	Investment date: March 2007	Investment: £2.4m	Current valuation: £2.9m
EUSA Pharma is a specialty pharmaceutical company focused on oncology, pain control and critical care. It has been built through the acquisition of Talisker Pharmaceuticals, Opi and most recently Cytogen in May 2008. In 2011 total revenues were \$95m.	Total IRR	N/A	
	Industry/Sector	Specialty Pharmaceuticals	
	Website	www.eusapharma.com	
Entellus	Investment date: July 2008	Investment: £1.8m	Current valuation: £1.4m
Entellus is developing a minimally invasive treatment for chronic sinusitis. Its system uses a balloon that is inserted into the ostium of the targeted sinus, then inflated to dilate it by crushing bone around the opening.	Total IRR	N/A	
	Industry/Sector	Medical Devices	
	Website	www.entellusmedical.com	
Lux Biosciences	Investment date: July 2006	Investment: £1.4m	Current valuation: £1.4m
Lux Biosciences is a biotech company specialising in ophthalmic diseases. It develops medications to treat the underlying causes of these diseases and alleviate their symptoms. It strives to improve or preserve the eyesight of patients with these diseases.	Total IRR	N/A	
	Industry/Sector	Biotechnology	
	Website	www.luxbio.com	
Oxagen	Investment date: May 2005	Investment: £3.7m	Current valuation: £1.2m
Oxagen is a biotech company developing a pipeline of novel drugs to treat inflammatory diseases. Its portfolio includes a lead drug candidate with the potential to treat asthma and other serious respiratory and inflammatory conditions as a once daily pill.	Total IRR	N/A	
	Industry/Sector	Biotechnology	
	Website	www.oxagen.co.uk	

Source: International Biotechnology Trust/Edison Investment Research

Recent performance

Exhibit 4: Investment trust performance



Source: International Biotechnology Trust/Thomson Datastream/Edison Investment Research

Exhibit 5: Share price and NAV total return performance (sterling adjusted), relative to benchmarks

	1 month	3 months	6 months	1 year	3 years	5 years	10 years
Price relative to NASBIOT Index	4.0	9.4	2.0	(1.3)	(3.7)	(63.2)	4.5
NAV relative to NASBIOT Index	0.8	1.6	1.3	(0.6)	(17.5)	(48.6)	(6.7)
Price rel. to FTSE All-Share	5.5	8.3	15.5	19.1	2.7	7.4	(15.4)
NAV rel. to FTSE All-Share	2.4	0.4	14.8	19.8	(11.1)	22.0	(26.6)

Source: International Biotechnology Trust/Bloomberg/Thomson Datastream/Edison Investment Research

Exhibit 6: Quoted and unquoted NAV total return performance and benchmark performance (sterling adjusted), to 29 February 2012

	3 months	6 months	1 year	2 years	3 years
Quoted portfolio NAV	22.2	32.5	33.2	40.2	91.9
Unquoted portfolio NAV	0.4	1.8	(6.2)	(8.5)	(26.3)
NASBIOT	14.8	26.3	28.5	34.8	71.7

Source: International Biotechnology Trust/Bloomberg/Thomson Datastream

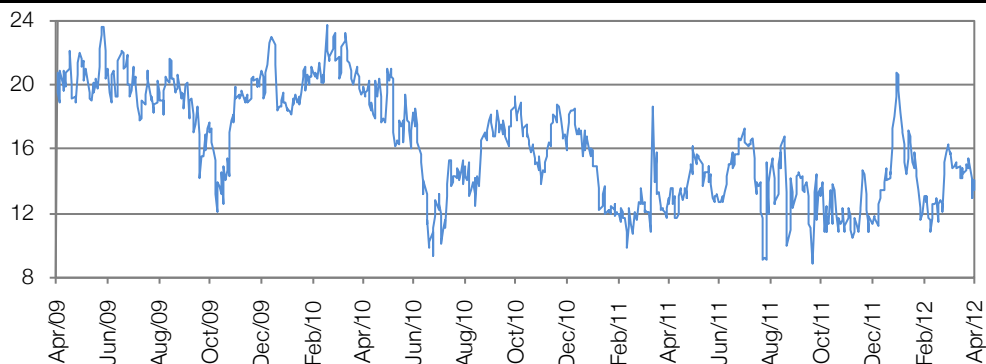
As Exhibit 4 illustrates, IBT has struggled against the NASBIOT in terms of both price and NAV total return (sterling adjusted). However, separating the NAV performance of the quoted and unquoted parts of the portfolio (as shown in Exhibit 6) reveals the unquoted portfolio has not generated meaningful returns, and has acted as a drag on overall NAV performance. Since most of the unquoted portfolio investments have been made since the c-share issue in February 2007, this is unsurprising given the relatively long-cycle nature of venture capital investing. Following on from the Cadent exit in 2011, the managers expect a number of these investments to mature over the next 12-24 months.

Discount

IBT has the authority, renewed yearly, to allot up to 5% or make market purchases of up to 14.99% of issued share capital, which provides the manager with a mechanism to influence the discount. As part of the c-share issue in February 2007 a target discount of 8%, subject to market conditions, was introduced. Following this a repurchase programme began in October 2008. However, IBT's board and manager are frequently inside on IBT's underlying unquoted investments. This is because part of the manager's strategy for the unquoted investments is to take a board position on most of these holdings. Being inside prevents instruction being given to the company's broker to buy back shares. As a consequence, repurchases were not possible between March and October 2009. To address this, a scheme was put in place in January 2010, since renewed, authorising IBT's broker to

repurchase shares selectively, with a view to managing the discount. This approach has been broadly effective, with the discount tightening over the last three years. However, a recurring issue is that the instruction automatically expires at each AGM and cannot be renewed immediately if the manager is inside on any of IBT's underlying holdings. The January spike occurred during this period as Cenkos could not provide liquidity on IBT's behalf, but a new arrangement, which expires in December, is now in place. The current discount of 14.0% is between its three- and five-year averages of 16.3% and 13.7% and above the broad target of 8%.

Exhibit 7: Discount over three years



Source: International Biotechnology Trust/Thomson Datastream/Edison Investment Research

Capital structure

IBT is a conventional trust, having only one class of share in issue – 25p ord. It is allowed to use gearing. There are no formal borrowing limits, but, given the inherent leverage in IBT's portfolio, the manager and board do not expect borrowings to ordinarily exceed 10% of the quoted NAV, on a short-term basis, avoiding longer term structural gearing. Reflecting this, IBT has a £15m overdraft facility with HSBC, which is drawn down at the manager's discretion. As at 29 February 2012, IBT had gross gearing of 0.0% and net gearing of -8.0%.

Fees

During 2011 the management and performance fee arrangements were changed to bring IBT more into line with its peers. From 1 September 2011 SVLS receives a management fee of 1.15% of net assets per year paid monthly in advance (previously 1.35% for the first £100m of net assets, falling to 1.25% thereafter). The performance fee for the quoted portfolio has been changed to 10% of any outperformance over the NASBIOT plus 0.5% (previously 10% of any outperformance of the quoted portfolio over a 7% hurdle rate reset each year). The performance fee for the unquoted portfolio and other clauses remained largely the same. That is, in line with SVLS's other funds, IBT pays an annual performance fee of 20% of any net gains made on the unquoted portfolio. In addition, there are three conditions for a performance fee to become payable. First, IBT must have experienced NAV appreciation during the year. Second, paying the performance fee cannot cause IBT's NAV to fall below its value at the start of the year (if this happens the fee is deferred and added to the next performance fee, as long as it is within 24 months). And third, the fee cannot exceed 3% (previously 5%) of IBT's closing NAV (any excess is placed in escrow and adjusted to reflect the share price performance over the next 12 months). No performance fee was paid for the year ending 31 August 2011. The total expense ratio (TER) was 2.17% for the year ending 31 August 2011 (2.17% for the year ending 31 August 2010), but is tracking towards 1.90% for the current financial year. We expect

that IBT's TERs will remain above its peers, but consider that the difference will not be unreasonable given the specialist resources required to manage the unquoted portfolio. The life of the trust is indefinite. However, a continuation vote is put to shareholders every two years. The next vote is due at the 2013 AGM.

Dividend policy and record

IBT's investment objective is to achieve long-term capital growth by investing in development-stage biotechnology and other life sciences companies. Such companies will, if successful, be at a growth stage in their development and will typically retain earnings in full for reinvestment. As a result, IBT's dividend income is comparatively small in relation to movements in the capital reserve and is more than offset by expenses that are charged against it. As such, it is IBT's policy not to declare dividends.

Peer group comparison

As Exhibit 8 illustrates, the AIC biotechnology/life sciences specialist sector is a relatively small peer group. There are only four constituents and, while they all invest in biotechnology companies, their investment objectives are markedly different. IBT invests in high-growth development-stage quoted and unquoted biotechnology companies, the Biotech Growth Trust invests primarily in emerging biotechnology companies, Worldwide Healthcare Trust invests in biotechnology and pharmaceutical companies, and the Polar Capital Global Healthcare Growth and Income Trust is a fixed-life vehicle that pays quarterly dividends. Within this group, IBT ranks second over one and three years and third over five years when considering share price total return.

Exhibit 8: Sector specialist: biotechnology/life sciences, updated 13 April 2012

Company	Share price total return on £100			Total expense ratio	(Disc)/ prem	Net gearing (100 = no gearing)	5 year dividend growth (%)	Div yield
	1 year	3 year	5 year					
Sector average	119.8	167.5	168.2	N/A	(5.9)	108	N/A	N/A
International Biotechnology	117.0	163.1	112.2	2.19	(13.7)	98	N/A	N/A
Biotech Growth	141.3	199.3	205.3	N/A	(2.4)	90	N/A	N/A
Polar Capital Global Healthcare	114.5	N/A	N/A	N/A	4.3	99	N/A	2.8
Worldwide Healthcare	113.0	154.7	168.3	N/A	(8.6)	122	38.0	1.9

Source: The Association of Investment Companies

The board

All directors are non-executive and independent of the investment manager. They are Alan Clifton (chairman), John Aston, Dr Véronique Bouchet, Dr David Clough and Alex Hammond-Chambers (directors). The average length of board member service is 5.7 years.

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