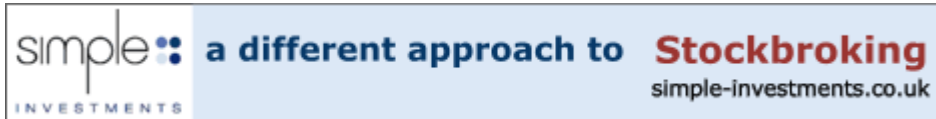


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The banking season got off to an inauspicious start with disappointing results from **Bradford & Bingley (BB)** (see below) dragging down the sector. Meanwhile, the Bank of England's inflation report cast a shadow over the markets, as it warned interest rates may not come down as quickly or as far as the market has been expecting, due to the risks posed by rising agricultural, energy and commodity prices to the Bank's inflation target. It also warned that tighter credit conditions, constraining both investment and consumer demand, could lead to a "*deeper and more persistent*" slowdown than it expected in November. However, Wall Street provided some support during the afternoon, with the US markets buoyed by an unexpected rise in retail sales last month. At the London close, the **Dow Jones** was up 90.8 points at 12,464.21 and the **Nasdaq** was up 30.61 points at 2,350.47.

Back in London, the **FTSE 100** slipped 29.9 points to 5,880.1; the **FTSE 250** fell 44.1 points to 9,996.1; the **FTSE All-Share** dropped 14.66 points to 3,006.13; but the **FTSE AIM Index** rose 0.2 points to 970.8.

Brokers' Notes

Goldman Sachs upgraded its rating for platinum miner **Lonmin (LMI)** to 'neutral' from 'sell' and raised its price target to 3,600p from 2,665p, arguing that problems with the South African power supply should lead to higher platinum prices. The broker said the power shortages are likely to disrupt mine, smelter and refinery operations for some years to come, resulting in a tighter platinum market over the next two years. Lonmin shares fell 20p to 3,280p despite the bullish broker outlook.

Credit Suisse hiked its price target for **British American Tobacco (BATS)** to 2,050p from 1,950p and reiterated its 'outperform' rating, as it reckons the weaker pound will benefit the company. "*FX has turned into a tailwind as sterling continues to weaken against all major BAT currencies (except for the rand), which should provide the group with additional earnings flexibility,*" said the broker. It also said the company should benefit from having approximately half its exposure to emerging markets. However, the broker did point out that BAT is facing tougher competition in Brazil and South Africa as well as litigation risks in Canada. Shares in BAT finished 3p lower at 1,850p.

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Shares in fashion group **Burberry** ([BRBY](#)) climbed 13.25p to 441.5p after Goldman Sachs removed the shares from its 'conviction sell' list and moved its stance to 'neutral'. The broker acknowledged the fact that Burberry shares have lost around 26% since being added to the conviction sell list back in December 2007, which is why it is taking a more favourable stance. However, it also cut its 12-month price target to 480p from 530p and said downside risks remain, in the form of slowing sales in Spain and the US.

Meanwhile, concerns over lower consumer spending in South Africa and a weakening rand led Lehman Brothers to cut its price target on brewer **SABMiller** ([SAB](#)) to 1,240p from 1,450p. Its shares slipped 9p to 1,086p.

Blue-Chips

Household products supplier **Reckitt Benckiser** ([RB](#)) posted a 15% increase in full-year adjusted net income to 905 million pounds on net revenues up by 7% to 5.27 billion pounds for the year to end-December 2007. Profit growth was driven by strong gross margin expansion and BHI synergies coming in ahead of schedule, the group said. *"Reckitt Benckiser had a great year in 2007 due to the success of its 18 Powerbrands behind new products such as Air Wick Freshmatic or Vanish Oxi Action Multi, and strong growth for the ex-BHI brands Nurofen, Strepsils and Clearasil,"* commented chief executive Bart Becht. The company brought the total dividend up to 55p, a 21% increase on 2006. Becht played down fears of a slowdown in 2008, saying Reckitt is currently experiencing *"very normal"* rates of growth. *"The market growth rate is between 3% and 4% globally and we are looking for very solid growth for the full year which is reflected in our guidance,"* he added. Reckitt shares advanced 68p to 2,723p.

Shares in real estate firm **Liberty International** ([LII](#)) fell 25p to 983p, after it revealed its net asset value per share for the year to end-December 2007 decreased by 5% to 1,264p and that it slipped into losses of 125 million pounds compared with pre-tax profits of 903 million pounds in 2006. This was due to a revaluation deficit on properties of 316 million pounds as opposed to a revaluation gain of 587 million pounds in 2006. However, excluding valuation movements, underlying pre-tax profits increased by 6% to 129 million pounds, helped by a 10% rise in net rental income to 374 million pounds. *"2007 was certainly a transitional year when, particularly in the second half, investor enthusiasm for UK property diminished rapidly with negative sentiment abounding as the US sub-prime mortgage market contagion spread across the Atlantic and credit market conditions deteriorated rapidly,"* commented chairman Robert Finch. *"February 2008 is too early to form a view on the length and the breadth of the turbulence now evident in the property market as a whole,"* he added. The total dividend payout was increased by 10% to 34.1p per share.

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Rio Tinto (RIO) unveiled a 31% hike in its full-year dividend payout to 68.72p after what has been a year of record underlying earnings for the world's third largest miner. Underlying EBITDA jumped 11% to 13.9 billion dollars on the back of sales of 29.7 billion dollars compared with 22.5 billion dollars in 2006. *"Our assessment of the economic and demand outlook remains very positive, despite recent unsettled conditions in the financial markets,"* said Rio Tinto's chairman, Paul Skinner. *"The strong increases seen in global minerals demand are driven by demographic and economic fundamentals in fast-growing countries like China and India, whose large populations continue to urbanise. These long term trends are driven by domestic developments, and are therefore largely insulated from any potential near term weakness in western economies,"* he added. Rio shares eased back 23p to 5,500p.

British Energy (BGY) shares powered ahead by 44p to 533p after the company declared a special dividend and posted third-quarter earnings just below the middle of the range of expectations for a period marked by problems at the firm's nuclear reactors. During the nine months to the end of 2007, adjusted EBITDA declined to 745 million pounds from 775 million pounds; analysts had been forecasting EBITDA figures ranging from 741 million pounds to 755 million pounds. Revenues were slightly higher at 2.158 billion pounds compared with 2.113 billion pounds in 2006. The company said that the boiler issues at some of its nuclear power plants are likely to continue to have a significant adverse impact for the remainder of this financial year.

Mid-Caps

Shares in **Bradford & Bingley (BB)** slumped a whopping 56.25p to 187p as the mortgage lender said pre-tax profits for the year to 31 December 2007 plunged to 126 million pounds from 247 million pounds in 2006 after it took 226 million pounds of impairment charges across a range of financial instruments. Those write-downs included 64.2 million pounds on structured vehicles and 30.2 million pounds on collateralised debt obligations. Meanwhile, in its core buy-to-let and residential mortgage business, the loan book rose by 27% to 39.4 billion pounds, while loans in arrears rose to 1.63% of the total book from 1.3% last time. Net interest margins fell to 1.1% from 1.19% in 2006. The company maintained that its funding position remains strong. *"We believe the fundamentals that drive our specialist markets remain strong, and expect the buy-to-let market to continue to grow at a faster rate than the mainstream mortgage market. Rental levels are particularly healthy and well supported, rents are rising and tenant demand is at its strongest level for five years,"* said chief executive Steve Crawshaw. The full-year dividend payout was increased by 5% to 21p.

Engineering consultant **WS Atkins (ATK)** saw its shares rally 31p to 1,084p after it reassured the market that trading is in line with expectations and that its core markets remain robust. The company said its financial position remains strong but that the management consultancy business has had a poor start to the year, adding that improvements in this department are unlikely to be seen until the fourth quarter. The rail, highways and transportation businesses are performing to expectations, while the design and engineering unit has performed particularly well. Moreover, the Middle East business continues its expansion with strong growth particularly in Abu Dhabi. *"We are confident that the group*

will continue to perform in line with our expectations and our forward workload remains strong," said the company.

Small Caps, AIM and PLUS

News that **Allied Gold (AGLD)** has made its first gold pour at its Simberi Gold Project in Papua New Guinea helped lift its shares 4.25p to 37.5p. The project is forecast to produce an average of 84,000 ounces of gold per year over a life-span of at least 8 years, but this could be increased to 135,000 ounces per annum by engineering work already in progress. *"We are proud of our effort to commission a significant gold mining operation, against a backdrop of labour shortages and input price pressures"* said chairman Mark Caruso.

Upmarket jewellery designer **Theo Fennell (TFL)**, shares in which moved 1p higher to 73p, announced that the man who gave the company its name is to step down from the board but will stay on as a consultant for the company. It added that current trading remains solid with sales up by 3% in the year to date. Theo Fennell commented, *"Design has always been the hub of my professional life and so it will remain. However, there are a number of other design areas outside luxury goods with which I would like to become involved. Going forward, I hope to continue my relationship with the group and yet have the flexibility to enter new creative arenas."*

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