Goldman Sachs JBWere

Research Bulletin

Australian Equities: Portfolio Strategy Review 30 November 2005

- The Australian equity market rebounded strongly in November, with the benchmark **S&P/ASX200 index rising +3.9%** over the month, largely recouping the losses of the previous month. Stronger equity markets were driven by a benign AGM season, continued evidence of both domestic and global economic strength as oil prices eased from their peaks and signs that the US Federal Reserve may take a less aggressive tightening path into 2006.

- Despite falling US long bond yields, gold prices reached fresh, multi-decade highs during November. Meanwhile, the Australian dollar bounced off its recent lows to end the month around the US$0.74 level and the domestic economy continued to show signs of life, with retail spending rebounding in the face of lower oil prices.

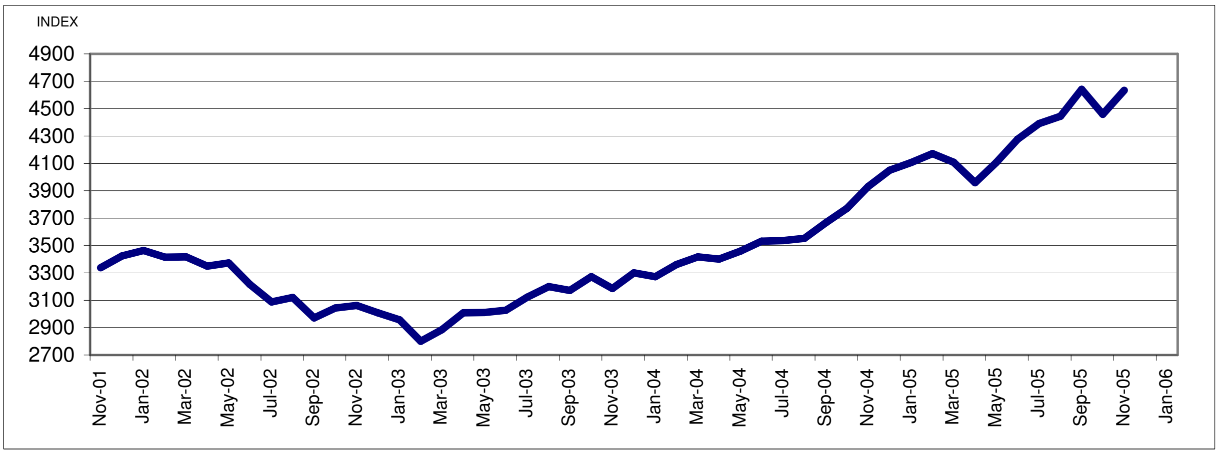
- Sectoral performance was mixed during November and corporate activity remained a key theme, with the **Healthcare** sector benefiting from renewed interest following the breakup of the Mayne Group, while the **Telecommunications** sector fell following Telstra's strategy review. The **Energy** sector held up well, despite the falls in the oil price, but **Consumer Discretionary** stocks weakened in the face of a continued strong competitive environment and concerns over the upcoming December retail trading period.

	Accumulation Index Performance		
	1 Month	**6 Month**	**12 Month**
S&P/ASX 200	4.5%	15.8%	23.0%
S&P/ASX 200 Industrials	4.1%	12.4%	19.1%
S&P/ASX 200 Resources	6.0%	31.1%	41.3%
S&P/ASX Small Ordinaries	3.0%	18.4%	17.6%
	Relative Index Performance to S&P/ASX 200		
Consumer Discretionary	-3.5%	-12.0%	-24.2%
Consumer Staples	-2.8%	-6.6%	-9.4%
Energy	1.8%	10.5%	26.5%
Financials	0.4%	-1.0%	1.8%
Health Care	3.5%	16.6%	22.5%
Industrials	1.2%	-6.9%	-7.5%
Information Technology	-0.3%	4.5%	1.6%
Materials	1.5%	15.3%	12.9%
REITs	-1.1%	-5.3%	-10.7%
Telecommunications	-11.1%	-31.8%	-34.4%
Utilities	-0.2%	-0.4%	13.7%

Source: GSJBW Research, IRESS

Australian Equity Market Performance: S&P/ASX 200 Index

(November 2001–November 2005)



Source: IRESS

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Company Performance: Best and worst performing stocks

In November, the best and worst performing stocks (absolute share price returns) in the ASX 100 were as follows:

Best	% Change	Worst	% Change
Lihir Gold	34.3	Bluescope Steel	-16.2
Symbion Health	21.5	Telstra Corporation	-8.6
Newcrest Mining	17.0	Lion Nathan	-5.7
Brambles Industries	14.7	Fairfax	-4.9
Sigma Company	14.0	Tabcorp Holdings	-3.1
Downer EDI	13.8	Macquarie Communications	-3.0
Metcash	12.1	Foster's Group	-2.6
Toll Holdings	11.0	ING Industrial Group	-2.2
PaperlinX	11.0	National Australia Bank	-1.6
Woodside Petroleum	10.6	Billabong	-1.5

Source: IRESS

Significant Company/Economic News

Brambles Industries (BIL) **Analyst: Paul Ryan**

- **Investment View: Short Term Outperform; Long Term Buy**
- **Share Price as at 30/11/05: $9.69** **Valuation: $10.45**

Brambles has announced that it proposes to restructure its operations in order to focus on the core CHEP and Recall businesses. The company will divest Cleanaway, Industrial Services and Regional Services, creating at least "$2.8bn in surplus capital". Management has indicated that "New Brambles" will focus on growing CHEP (organically) and Recall (through a combination of organic and acquisition driven expansion). The company will also seek to unify its dual-listed structure through a scheme of arrangement, whereby both shareholders in the Australian listing (Ltd) and UK listing (plc) will have the option of accepting shares (in the ASX-listed "New Brambles" on a 1-for-1 basis) or cash. The cash alternative may be scaled back *pro rata*, depending on availability of surplus capital. An on-market share buyback will be enacted both pre- and post-unification.

Aristocrat Leisure (ALL) **Analyst: Ashwini Chandra**

- **Investment View: Short Term Outperform; Long Term Buy**
- **Share Price as at 30/11/05: $12.34** **Valuation: $13.10**

Aristocrat announced an additional on-market share buyback of up to $100m, after completing its last $100m buyback in October 2005, on the back of the group's strong balance sheet and robust cash flow generation. The stock was up 7% for the month. The company also acquired a 50% strategic interest in the Slovenian gaming company, Electroncek, which will enable the expansion of its product offering into 'centrally determined' games and may provide new geographical market opportunities.

Commodity Prices **Analyst: Malcolm Southwood**

November proved another very strong month for the major commodity markets. Speculation that the Chinese State Reserve Bureau was facing losses associated with a short copper position drove the copper price through US$2.00/lb. Nickel also enjoyed a return to strength, on signs that a de-stocking trend among European stainless steel producers was drawing to an end. Late in the month, aluminium recorded a fresh 10 year high and zinc traded to levels not seen in 15 years. On the precious metals front, gold continued its stellar run, breaching the US$500 per ounce level. In regard to the bulks, we believe there is a growing acceptance from Japanese buyers that a roll over in iron ore contract prices for JFY2006/07 now represents a best case scenario. The coking coal situation appears less clear cut. Despite easing infrastructure constraints, availability of premium grade low-volatile hard coking coal remains exceptionally tight. The outlook for lower grade coking coals, however, remains cause for concern given that Japanese still mills are sitting on very high inventories of semi-soft coking coal and PCI. Finally, spot thermal coal prices have recently dipped below US$40/t and show no sign of recovering in the near term, largely as a result of higher export supply from Indonesia.

Bluescope Steel (BSL) **Analyst: Andrew Gibson**

- **Investment View: Short Term Marketperform; Long Term Hold**
- **Share Price as at 30/11/05: $7.10 Valuation: $8.49**

In early November, Bluescope stated that it expects fiscal 2006 earnings will be in the range of $0.85-$1.00 per share, below consensus estimates of $1.15 per share. The profit warning came as a result of declining global spot slab prices exacerbating the financial impact of the Western Port disruptions; excess inventory and customer destocking activity adversely impacting Bluescope's Asian-based businesses; and some weakness in sales to the Australian auto, distribution and manufacturing segments. Management indicated that some of these issues are likely to be resolved by the second half. The stock was punished following the announcement, given the market's continued focus on near term earnings risk.

Metcash Group (MTS)/Woolworths (WOW) **Analyst: Phillip Kimber**

- **Investment View – MTS: Short Term Outperform; Long Term Buy**
- **Investment View – WOW: Short Term Outperform; Long Term Buy**

Foodland Associated ceased trading on the Australian Stock Exchange during November, following the approval of the demerger and sale of the company to Woolworths and Metcash by the shareholders of Foodland and the Federal Court. By acquiring the Australian assets, Metcash grocery wholesale purchases increase by ~50% and its Australian market share from 13% to 18%. Metcash also reported its first half result, highlighting a solid performance by IGA Distribution. Woolworths gained control of Foodland's New Zealand assets.

Harvey Norman (HVN)/David Jones (DJS) **Analyst: Phillip Kimber**

- **Investment View – HVN: Short Term Underperform; Long Term Hold**
- **Investment View – DJS: Short Term Marketperform; Long Term Hold**

Harvey-Norman's group sales growth for the four months to October 2005 indicated a slowing trend when compared to the three months to September 2005, highlighting that difficult trading conditions and negative earnings risks remain. Meanwhile, although David Jones' sales growth declined in the first quarter of fiscal 2006, it was in line with management's previous guidance to the market. Further, the company reconfirmed its net profit growth forecast of 5%-10% for fiscal 2006, despite a tough operating environment and indicated that the findings from its capital management review will be announced in December 2005. Both stocks ended the month marginally higher.

Toll Holdings (TOL)/Patrick Corporation (PRK)/Virgin Blue (VBA) **Analyst: Paul Ryan**

- **Investment View – TOL: Short Term Marketperform; Long Term Hold**
- **Investment View – PRK: Short Term Marketperform; Long Term Hold**
- **Investment View – VBA: Short Term Marketperform; Long Term Hold**

Virgin Blue and Patrick Corporation reported their respective fiscal 2005 results during November. While Virgin's earnings per share fell 40% compared to the previous fiscal year, on the back of an unhedged exposure to higher fuel prices, this result came in largely in line with our (and consensus) expectations. What did come as a surprise, however, was the announcement of a final dividend of 25 cents per share (versus our expectation for no dividend), with the board adopting a 'substantial' dividend payout policy, subject to any capital requirements of the business. Patrick's result saw earnings per share fall 7.5% relative to the previous corresponding period, in line with last month's Target Statement and the Virgin distribution was directly passed through to investors in the form of a 24 cents per share special dividend. Meanwhile, Toll Holdings put forward undertakings to the ACCC in relation to its proposed acquisition of Patrick, including the sale of Patrick's two Bass Strait ships (plus berthing rights in Melbourne and Burnie); sale of its 33% interest in the PrixCar JV (pre-delivery vehicle preparation); and Pacific National to lease 6 locomotives to a leasing company for 2 years to on-lease to other operators and to permit track owner Australian Rail Track Corporation to adjust East-West corridor train paths, where necessary, to facilitate access by another operator. The ACCC is due to make its decision in relation to this acquisition on the 21 December.

Australian Equities: Key Issues for Portfolio Strategy

- The outlook for global markets into early 2006 is still relatively bright. Fears of imminent economic weakness continue to be dispelled by a reality of solid economic growth – more so in Asia and the US – and strong corporate performance. While this environment should ensure that the uptrend in global interest rates continues, we still believe that it will be mid-2006 at the earliest before rising rates pose a material threat to corporate performance. The mild relief from the high oil price that has emerged over recent months is obviously a positive development, particularly with respect to providing global consumers with some extra spending power through the key November-January period.
- The US Federal Reserve will ultimately determine the duration of the current global business cycle. Goldman Sachs Research believes that the Federal Funds rate will continue to rise into 2006, peaking around the 5.00% level (currently 4.00%). Until recently, the Fed's ability to contain rising inflation risks (and an increasingly speculative US property market) had been curtailed by the resilience of long term bond prices. While this resilience was again in evidence during November, we still believe US bond yields will trend higher over the next 3-6 months. The Fed will become a far more potent risk for the global economy in 2006 if its "measured" increases in short term rates are accompanied by higher long term rates.
- Looking at the Australian economy, discretionary consumer spending has been soft since late last year, residential construction activity remains in a contraction phase and the export sector is struggling to generate meaningful volume growth. Business spending remains the one bright spot. While the softer macro environment of the past year is not a surprise – given the boom conditions of 2002/04 – it remains an open question as to whether it will develop into a genuine cyclical downturn (ie. rising unemployment) that persists well into 2006 or, with the help of a still-supportive policy stance, prove to be short-lived. We believe that the risks are tilted in favour of the latter scenario. If so, it will imply that little has been gained in terms of resolving the structural imbalances/inflationary risks that now overhang the economy. Thus, interest rate pressures would quickly re-emerge. After growth of 2.3% in FY05, GSJBW Research expect production (GDP) to expand by 3.4% in FY06 and 3.4% in FY07.
- The policy stance in Australia remains on the generous side of neutral. Interest rates are relatively low, the terms of trade are at a 50-year high, the Australian Dollar has retreated, further income tax cuts are likely at the next Budget and asset prices are healthy. While the Reserve Bank has recently expressed contentment with the prevailing trends in domestic spending, inflation, house prices and consumer borrowing, we are not convinced that this will continue into 2006. Accordingly, we still expect that interest rates will move higher over the next year (5.50% currently), although much will depend on whether household spending rebounds over the next 3-6 months.
- After a sharp retreat through early October, the equity market has enjoyed a broad-based recovery. Accordingly, valuations are again looking full-to-expensive and, on a 'fair value' basis, the industrial market will struggle over the next year to generate a return that outpaces a cash investment. The issues that triggered the October correction – interest rate and inflation fears – have not gone away and are set to remain front-of-mind for investors well into 2006. While these issues remain "fears" rather than "reality" they will be a source of volatility rather than a fundamental drag. On the basis of the prevailing outlook for profits, interest rates and liquidity, we continue to believe that the risk of a prolonged correction at this point is low. Material price weakness requires material profit disappointment and while FY06 and FY07 earnings estimates have been tempered over recent months, we still believe that the risks of major market-wide downgrades remains relatively contained – particularly while the RBA sticks to its more cautious approach. Appropriate portfolio construction, however, will continue to be critical. The market is likely to remain wary about stocks directly exposed to interest-sensitive spending – particularly in the US. Likewise, the more aggressive financial engineering models that have emerged over recent times in the infrastructure, property and utilities sectors will, we believe, eventually be challenged by the impact of higher global interest rates on asset valuations and the pricing of credit risk.
- Consistent with our view that the market is fully valued, we are finding it difficult to identify stocks that offer compelling absolute value at current prices. Within the large-cap defensive universe, **Origin Energy**, **Macquarie Communications Infrastructure Group**, **Coca-Cola Amatil**, **Promina**, **Publishing & Broadcasting** and **Tabcorp Holdings** (more compelling into weakness) represent good relative value. The major banks have performed strongly over recent months and the sector is now looking fully valued – into any share price weakness we prefer **Commonwealth Bank** and **St. George**. We continue to believe the medium term outlook for the resources sector is favourable although higher interest rates will, at some point in 2006, trigger a cyclical downturn in the global economy and, in all likelihood, dampen sentiment towards the sector. We continue to view periods of share price weakness as an opportunity to add to positions in **BHP Billiton**, **Rio Tinto** and **Oil Search**.

GSJBW Market Forecasts:

As at 31/10/2005	Price Earnings Ratio (PER)			Earnings Per Share Growth (%)			Dividend Yield (%)		
	FY05	FY06E	FY07E	FY05	FY06E	FY07E	FY05	FY06E	FY07E
S&P/ASX 300	16.1x	14.2x	14.0x	28.8	14.0	1.7	3.8	4.1	4.3
S&P/ASX 300 Industrials	16.7x	15.5x	14.3x	12.1	8.1	8.7	4.6	4.8	5.1
S&P/ASX 300 Resources	14.9x	11.9x	13.3x	80.9	26.0	-11.0	2.0	2.5	2.7

Source: GSJBW Research estimates

Portfolio Management: Build Positions

Programmed Maintenance Services (PRG) **Analyst: Nga Luu**

- **Investment View: Short Term Marketperform; Long Term Buy**
- **Share Price as at 31/10/05: $3.45** **Valuation: $4.05**

Year End March	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$20.1m	$21.6m	$22.7m
EPS Growth (%)	8.0%	7.0%	5.3%
PER (x)	12.1x	11.3x	10.8x
Yield (%)	4.9%	5.2%	5.5%

Source: GSJBW Research estimates

Programmed Maintenance Services (PRG) is an Australian-based property maintenance company, predominantly focused upon painting services, but also increasingly in grounds management, industrial and building services. We have warmed to PRG's investment case since its recent first half result for fiscal 2006 (the company has a March year end), in particular, the move to frank dividends at 100%. We believe that this level of franking is sustainable, assuming an ongoing dividend payout ratio of ~60% of earnings.

We remain comfortable that PRG will continue to deliver its consistent double-digit earnings growth into fiscal 2006. Further, the stock is trading at a material discount to its small cap peers (on a price/earnings ratio basis, using fiscal 2006 forecasts) and, in the longer term, we believe that the company deserves a re-rating to reflect its reliable earnings growth profile (11% per annum over the last 5 years) and improved cash flow generation. In addition, the stock is trading on a supportive fiscal 2006 dividend yield.

PRG's history of profit growth has been largely organic in nature and even its acquisition strategy has been to buy small, strategically valuable businesses and then to grow them to make more meaningful contributions to company profitability. PRG has not had a history of making large acquisitions, but we would not discount this as a possibility, given the group's strong balance sheet position. We estimate PRG has the capacity to spend at least $100m on a debt-funded acquisition given its comfortable interest coverage position.

Brambles Industries (BIL) **Analyst: Paul Ryan**

- **Investment View: Short Term Outperform; Long Term Buy**
- **Share Price as at 31/10/05: $9.69** **Valuation: $10.45**

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$707.8m	$791.1m	$905.5m
EPS Growth (%)	17.6%	11.6%	14.3%
PER (x)	23.4x	21.0x	18.4x
Yield (%)	2.7%	3.3%	3.8%

Source: GSJBW Research estimates

We view Brambles' restructuring as a strong positive for the stock. Earning quality should improve as lower growth/returning businesses are divested in a robust M&A environment, the unwinding of the DLC structure will eliminate the share price discount which has been associated with the UK-listed stock (and is likely to result in increased Australian index weighting) and the announcement of substantial capital management initiatives (we estimate these may be as high as $4.2b) signals a considered approach by management in dealing with the group's under geared balance sheet.

Following the completion of the divestment program, CHEP will represent ~75% of group earnings with the balance derived from Recall. While both CHEP and Recall are high quality, growth and returning businesses, CHEP is the star. CHEP is a unique global franchise with robust market positions in the major European and American markets and offers long duration, relatively low risk, and organic growth while generating substantial free cash flow.

We estimate the restructured group can generate 12-15% per annum organic earnings per share growth while generating in excess of $300m annually in net cash flow to either invest in CHEP and accelerate earnings growth or alternatively to undertake additional capital management initiatives. While the restructuring is expected to be earnings per share neutral, earning quality and cash flow per share should improve and support a stock re-rating. Buy.

Portfolio Management: Reduce/Switch Exposures

Amcor (AMC) **Analyst: Ashwini Chandra**

- **Investment View: Short Term Marketperform; Long Term Hold**
- **Share Price as at 31/10/05: $7.01** **Valuation: $7.10**

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$446.3m	$478.6m	$514.9m
EPS Growth (%)	-3.0%	5.5%	6.0%
PER (x)	13.7x	13.0x	12.3x
Yield (%)	4.7%	5.0%	5.4%

Source: GSJBW Research estimates

We believe there remains a heightened level of near term earnings risk for Amcor. As indicated at its recent AGM, while the company has been able to side-step input cost inflation over recent months (due to its large raw material inventories), this protection will soon roll off, leaving the business exposed to the significant – and ongoing – step-up in input prices that is being experienced across the packaging industry. The outlook for volume growth also remains soft, with the global macro landscape not supportive of any resurgence in demand for packaging over the near term.

The recent rally in the share price has seen the stock re-rate to a level significantly above our $7.10 valuation. Yield support, which we had previously identified as providing a degree of protection against material downside, can no longer be relied upon, with Amcor now trading on a sub-market yield of 4.5% versus the core ASX300 Industrials on 4.8% (on fiscal 2006 estimates). We recognise that recent sector consolidation has increased market speculation (source: IRESS) that Amcor could be the subject of a takeover bid. However, we cannot build an investment case on this alone, given especially the significant operational issues that Amcor still faces. At the moment, we believe that there are more attractive sectors in which to invest.

Symbion Health (SYB)/Mayne Pharma (MYP) **Analyst: Jack Mordes**

- **Investment View – SYB: Short Term Outperform; Long Term Buy**
- **Share Price as at 31/10/05: $3.68** **Valuation: $3.15**
- **Investment View – MYP: Short Term Marketperform; Long Term Hold**
- **Share Price as at 31/10/05: $2.68** **Valuation: $2.39**

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$101.5m	$130.5m	$148.9m
EPS Growth (%)	9.7%	27.9%	13.4%
PER (x)	23.3x	18.2x	16.1x
Yield (%)	2.4%	3.0%	3.4%

Source: GSJBW Research estimates

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$62.3m	$74.6m	$95.8m
EPS Growth (%)	5.4%	18.4%	28.5%
PER (x)	27.3x	23.1x	18.0x
Yield (%)	0.4%	0.9%	1.1%

Source: GSJBW Research estimates

The Mayne Group demerger during the month resulted in the separate listing of Symbion Health and Mayne Pharma. Symbion comprises Mayne's former domestic businesses – pathology, radiology, pharmacy distribution and consumer products. Mayne Pharma contains the offshore generics business, specialising in oncology injectables. From a broad industry perspective, we believe the domestic healthcare sector offers exposure to a very strong structural growth story. The ageing of the Australian population will likely drive solid volume growth and government expenditure on healthcare allows for a defensive earnings base.

In regard to company specifics, we note significant turnaround potential in the **Symbion Health** business. The company's margins in pathology, diagnostic imaging and pharmacy are a long way below those achieved by other competitors given high overheads, subscale operations in several markets and deteriorating market share. We are confident that the combination of new management and capital discipline brought about by the demerger will drive material improvement in divisional performance. We would look to build positions in the stock around our DCF valuation. For **Mayne Pharma**, the inherent volatility in its earnings base, an acknowledged weakness in the product pipeline and uncertainty as the outcomes of the CEO's strategic view, together leave us with a low level of confidence as to the likely earnings performance of the business in the near term. Whilst we are cognisant that Mayne Pharma may have corporate appeal, we believe a reasonable takeover premium is already priced and we recommend risk averse shareholders reduce their exposure to Mayne Pharma in favour of Symbion.

Portfolio Management: Reduce/Switch Exposures

Telstra Corporation (TLS) **Analyst: Christian Guerra**

- **Investment View: Short Term Underperform; Long Term Hold**
- **Share Price as at 31/10/05: $3.85** **Valuation: $4.60**

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$3,509.0m	$3,749.5m	$3,737.1m
EPS Growth (%)	-22.5%	6.7%	-0.3%
PER (x)	13.7x	12.8x	12.8x
Yield (%)	8.8%	7.3%	7.3%

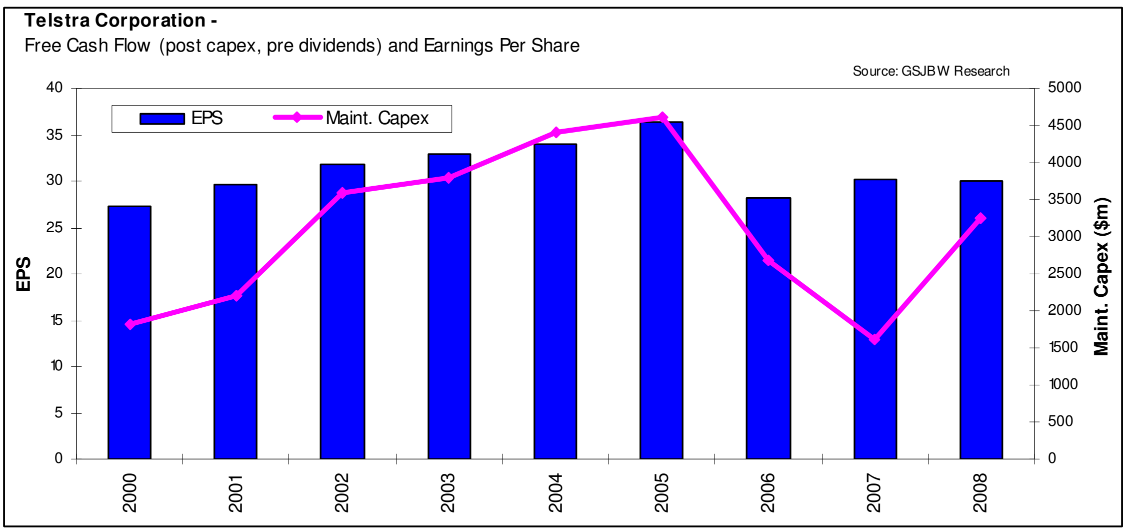
Source: GSJBW Research estimates

The Telstra of today is clearly a far different beast compared to the company that listed on the Australian Stock Exchange through a partial sell down by the Australian Government in 1997. As we have highlighted in previous bulletins, TLS's earnings base is in structural decline as revenues from the fixed line operation suffer under the weight of changing consumer preferences. The business is also facing aggressive competition in stronger growth but lower margin operations (eg. mobiles and broadband) and a regulatory regime which the company believes stifles its ability to compete.

Company management recently outlined its five year strategic plan to drive material improvement in the returns from the business. The Business Transformation Program (BTP) involves the transition to an internet protocol (IP) next generation network, the construction of a 3G mobile network to enable the closure of the subscale CDMA network and the introduction of a new billing and customer relationship management (CRM) system. These initiatives are all aimed at reducing the cost of servicing the customer base. The implementation of the plan will require an investment of $25-26 billion over the next five years. Even on the company's own forecasts this expenditure will generate a level of earnings growth inferior to that forecast for the broader ASX/S&P200 from fiscal 2006 through to fiscal 2010 (ie. sub-market earnings growth).

In the near term, we believe there is very little scope for the stock to outperform. The regulatory framework under which Telstra will be forced to operate remains an area of significant uncertainty, creating a strong headwind for the stock. An adverse regulatory decision may force the company to significantly amend its proposed BTP strategy. Even with a favourable regulatory outcome, the market will likely retain a degree of scepticism as to the ability of the management to deliver the plan on time and budget. We believe that the experience of Bell Canada (BCE) provides some insight into the challenges which Telstra will have to overcome. BCE recently announced delays in the delivery of its business transformation cost savings initiatives and the transition of mobile customers to the company's new billing/CRM system has proven problematic and led to a material loss in market share.

We believe the risk profile of the business has changed markedly. Telstra no longer offers investors access to the defensive style annuity revenues generated by the traditional telco model. We encourage investors to look through the attractive headline yield and take into account the rising operational and earnings risk when considering the investment case for the stock.



Portfolio Management: Business Cycles – Prospects for the Year Ahead

The 'business cycle' consists of a collection of individual industry cycles – many of which, in turn, are subject to variation across geographic regions. As such, we thought you may be interested in a brief snap shot of where we think these various industrial cycles (at least, those that are most pertinent to the equity market) are placed as we head into the new year and our preferred long term exposures to these cycles.

Australian residential construction: Peaked in late-2003 and has since worked through a relatively shallow downturn (less so NSW). We expected it to recover through 2006 on the back of favourable demographics. Major risk remains higher inflation, which would force an aggressive interest rate response from the RBA. Preferred exposures: **Boral** and **Alesco Corporation**.

Australian non-residential construction: A solid, multi-year upswing is set to continue into 2006, led by infrastructure and mining-related projects. Preferred exposure: **Coates Hire** and **Bradken**.

US residential construction: A strong upswing that began in late 2000 finally looks to be running out of steam. If US interest rates keep rising through the March quarter, US housing activity will contract through the second half of calendar 2006. As has been the case in Australia, the downturn should prove relatively mild as the market is not oversupplied and the demographics remain favourable. Preferred exposure: **Rinker Group**.

US non-residential construction: Slumped through the 2001–2003 period. Despite a mild recovery through 2004 and 2005, activity levels are still relatively low. The recovery should continue through 2006, offsetting part of the drag coming from the residential side. Preferred exposure: **Rinker Group**.

Australian discretionary retail spending: It has been a struggle since late 2004 – housing-related spending has been hit by the building downturn, the high oil price has acted as a tax and the willingness to consume home equity has cooled in line with house prices. While top-gear could prove elusive for sometime, 2006 should be a bit brighter if oil prices stabilise and the government delivers another round of tax cuts. Preferred exposure: **Just Group** (although **Harvey Norman** would also be a beneficiary of this dynamic).

US discretionary retail spending: The US consumer has had a reasonable couple of years – ultra-low interest rates, booming house prices (and thus a steep pick-up in the consumption of home equity) and a solid job market, partly offset by soaring energy prices. 2006 is looking a little more challenging, but, as with the residential construction cycle, a lot will depend on what happens to US interest rates through the March quarter. Preferred exposure: **Billabong International**.

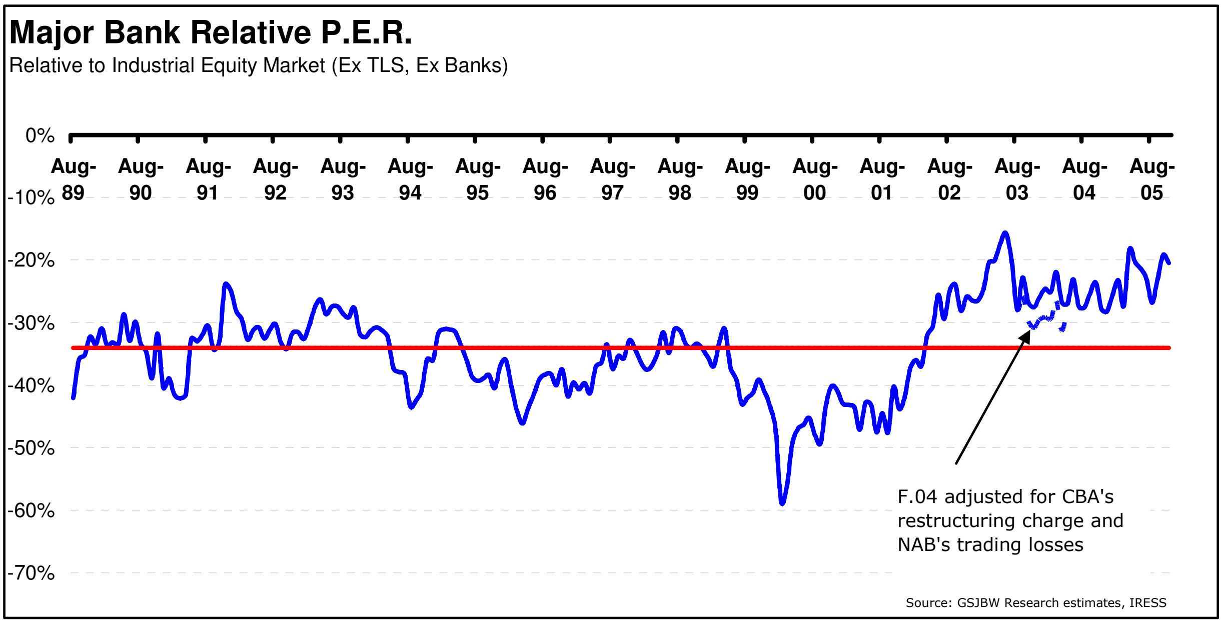
Financial transactions: A broad cycle which encompasses turnover in security markets, flows into managed investment products and merger and acquisition activity. Clearly, the environment has been favourable over recent years – particularly in Australia. Rising interest rates and more subdued equity markets will likely take the heat out of the cycle in the year ahead, but we expect that overall activity levels will stay healthy. Stocks exposed to this cycle all look fully valued at this point. Into weakness we prefer **Computershare**, **Sydney Futures Exchange** and **Perpetual Trustees**.

Australian advertising: After a strong 2003-2004, advertising demand has slowed across all forms of traditional media during 2005. While largely driven by the mixed performance of the domestic economy, a share-shift in favour of new-media is also playing a part. We suspect that the cycle will remain tough in 2006, although investor attention is more likely to focus on the implications of any change to media ownership laws. Preferred stocks: **Publishing & Broadcasting** and **Seek**.

New Zealand: In light of its size and industry mix, the NZ economy has a tendency towards a high amplitude business cycle. Inflation risks and a rapid deterioration in the current account deficit (8% of GDP) have forced the RBNZ to take a relatively hard line approach. NZ short term interest rates are now 7.0% and likely to move higher over the coming months. We believe that the risks of a sharp economic slowdown in NZ through 2006 are high. As such, we are wary about stocks with a large NZ exposure – **APN News & Media**, **Fairfax**, **ANZ Banking Group** and **Westpac**.

Portfolio Management: Banking Sector Review

The five major Australian banks have outperformed the S&P/ASX200 over the past 10 months, resulting in a significant decrease in the bank's average price/earnings ratio (PER) discount relative to the non-bank industrials (refer chart below). Whilst we believe the banks are fully valued at current levels, near term earnings certainty relative to the increasing earnings uncertainty of the non-bank industrials will likely provide some support for the banks, despite the absence of any major positive earnings revision at the recent full year reporting season. Below, we review our preferences within the sector.



We expect that the NZ economy will continue to weaken in 2006 and the banking environment remains highly competitive. **Westpac** and **ANZ**'s higher exposure to the NZ market (relative to peers) and weak performances from their Institutional businesses continue to weigh on these bank's earnings. Given Westpac's continued poor performance in the Australian retail franchise and more demanding valuation than ANZ (the stock is trading on a fiscal 2006 PER of 14.0x compared to 13.2x for ANZ), Westpac is our least preferred banking exposure.

Our sector preferences remain Commonwealth Bank, St. George Bank and National Australia Bank. In our view, the **Commonwealth's** returns profile remains appealing and we believe that delivery of both an improvement in the core business and above-target synergies from the *Which New Bank?* restructuring program (which management is confident of achieving) will contribute to a further re-rating of the stock.

Recently, we neutralised our recommendations on both St. George Bank and National Australia Bank. While we continue to like **St. George Bank** from a longer term perspective, given its positive earnings momentum, lower relative risk, above-peer average dividend yield and our view that its growth options (interstate expansion and product diversification) will offset slowing system loan growth, the valuation case is challenging in the near term. In relation to **National Australia Bank**, our downgrade was driven by a disappointing full year result and the bank's decision to reinvest the cost benefits from the restructuring program back into the core franchise. Although this strategy has the merit of improving longer term earnings potential, it effectively pushes our improving returns profile out further (beyond fiscal 2008). Further, we estimate that National Australia Bank's franking levels will remain at 80% and the dividend payout ratio will not increase over the next three years, which is unattractive for Australian-based income-seeking investors, particularly when compared to its peers.

As at 30/11/05	Price Earnings Ratio (PER)			Earnings Per share Growth (%)			Dividend Yield (%)			Franking (%)		
	F05H	F06E	F07E	F05H	F06E	F07E	F05H	F06E	F07E	F05H	F06E	F07E
Commonwealth Bank	15.6x	14.1x	13.1x	29.5	10.9	7.6	4.7	5.2	5.6	100	100	100
St George Bank	16.0x	14.5x	13.1x	11.6	10.3	10.9	4.8	5.3	5.9	100	100	100
National Bank	15.7x	14.4x	12.7x	-7.9	9.3	13.5	5.1	5.1	5.3	80	80	80
ANZ Bank	14.2x	13.2x	12.4x	8.9	7.2	7.0	4.6	5.0	5.3	100	100	100
Westpac Bank	15.1x	14.0x	13.0x	12.9	7.7	7.6	4.5	4.8	5.2	100	100	100

Source: GSJBW Research estimates

Stock Selection Using Quantitative Techniques

Goldman Sachs JBWere's Quantitative Research Team has recently released its key bi-annual publication, the *Encyclopedia of Stock Screening* (Fourth Edition). Over the past decade, the Quant team has tested well over one hundred different stock selection models – the *Encyclopedia* is an attempt to draw all these screens together in a comprehensive publication, providing full back-test results and a range of topical studies.

Key conclusions from this review of our universe of stock selection models are as follows:

- We continue to favour screens that are based upon **consensus analyst estimates**, such as changes in earnings per share forecasts across the market, but also complementary measures of earnings per share/dividends per share forecast dispersion (ie. the magnitude of variation among analysts' estimates).
- The success of **momentum factors**, in particular share price and earnings momentum, has previously been documented and our research highlights the consistency that has been demonstrated by these screens over the medium to long term and particularly when combined with **value factors**. For example, the top-performing screen in our sample over the last decade continues to be a so-called "low PEER" screen (positive earnings revisions over the most recent 3-month period, adjusted for a low one-year forecast price/earnings ratio). A screen based on this factor would have returned 24.8% per annum over the last decade, post-fees. Stocks that currently rate well on this screen include **Macquarie Airports**, **CSR**, **AXA Asia-Pacific**, **Promina** and **Macquarie Communications Infrastructure Group**.
- However, the **turnover on individual strategies** can be high. Portfolio turnover occurs when a screen is updated on a monthly basis and suggests different stocks to the previous month's selections. For example, the screen highlighted above has a monthly turnover in excess of 50%. Hence, screens such as these can be more cost-effectively employed by private investors on a more selective basis (ie. for picking entry points into individual stocks, rather than whole portfolios), or through combination into multifactor models.
- **Multifactor models** that aim to achieve diversification and deliver stable, through-the-cycle returns should provide investors with, in our opinion, exposure to both value and momentum factors, with lower levels of turnover. The current top rankings in GSJBW's large industrial stock selection model are shown on the table below.

Rank	Company	EVA Spread: Level	EVA Spread: Trend	Earnings Revision: Actual 3 Month	Earnings Revision: Predicted	Positive RSI	ROFE/ PEG	TOTAL	Previous Rank (31-Oct-05)	Move in Rank
		(out of 15)	*(out of 15)*	*(out of 15)*	*(out of 15)*	*(out of 10)*	*(out of 30)*	*(out of 100)*		
1	RIN	13	15	4	15	9	28	**84**	2	1
2	PPT	15	15	14	8	4	27	**83**	3	1
3	JHX	14	14	4	15	3	29	**79**	1	-2
4	ASX	15	4	14	8	8	30	**78**	7	3
5	RIO	11	2	15	15	4	28	**75**	6	1
6	ALL	14	5	14	8	4	29	**75**	12	6
7	TOL	13	14	4	8	7	26	**72**	10	3
8	CPU	9	13	12	8	3	24	**68**	5	-3
9	SHL	7	10	13	15	9	13	**68**	4	-5
10	COH	9	12	4	15	2	25	**67**	11	1
11	MTS	1	1	14	15	10	25	**66**	n/a	-
12	WOW	12	0	4	15	6	27	**64**	8	-4

Source: GSJBW Quantitative Research

GSJBW Model Portfolios

Income Portfolio

Commonwealth Bank of Australia	West Australian Newspapers
Westpac Banking Corporation	Rural Press
St. George Bank	Alesco
The Australian Gas Light Company	Hills Industries
Tabcorp Holdings	Foster's Group
Promina	Ten Network
Woolworths	Macquarie DDR Trust
Macquarie Communications Infrastructure Group	Australand Holdings
Wesfarmers	Publishing & Broadcasting
Coca-Cola Amatil	Alinta
Rio Tinto	

Source: GSJBW Research

Our changes to the Income Portfolio during November 2005:
Removed: Telstra Corporation
Added: Publishing & Broadcasting
Increased: Alinta, Macquarie Communications Infrastructure Group, Rio Tinto, Hills Industries

Income Portfolio Summary: Fiscal 2006 (*Please note, MCG and ALN excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	13.5%
Price to Earnings Ratio	15.0x
Average Yield	5.4%
Franking	81%

Source: GSJBW Research estimates

Defensive Portfolio

Commonwealth Bank of Australia	Australian Foundation Investment Company
BHP Billiton	Ramsay Health Care
Woolworths	Coca-Cola Amatil
St. George Bank	Sonic Healthcare
Origin Energy	Brambles Industries
Promina	Mirrabooka Investments
Macquarie Communications Infrastructure Group	The Australian Gas Light Company
Tabcorp Holdings	Macquarie DDR Trust
Rio Tinto	Wesfarmers
Foster's Group	Rinker Group
Publishing & Broadcasting	
Westpac Banking Corporation	

Source: GSJBW Research

Our changes to the Defensive Portfolio during November 2005:
Removed: Telstra Corporation
Reduced: Westpac Banking Corporation
Added: Publishing & Broadcasting
Increased: BHP Billiton, Tabcorp Holdings, Publishing & Broadcasting, Macquarie Communications Infrastructure Group

Defensive Portfolio Summary: Fiscal 2006 (*Please note, MCG excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	19.0%
Price to Earnings Ratio	15.6x
Average Yield	4.4%
Franking	80%

Source: GSJBW Research estimates

All figures or amounts stated in the table above are an estimate only and provided by way of illustration.
Actual figures or amounts may vary from those figures or amounts

Balanced Portfolio

BHP Billiton	Coca-Cola Amatil
Commonwealth Bank of Australia	News Corporation, Inc.
Woolworths	Sonic Healthcare
St. George Bank	AXA Asia-Pacific Holdings
Origin Energy	Australian Foundation Investment Company
Macquarie Communications Infrastructure Group	Alesco
Promina	Computershare
Rio Tinto	Australian Gas Light Company
Healthscope	Billabong International
Brambles Industries	Wesfarmers
Publishing & Broadcasting	Rinker Group
Westpac Banking Corporation	

Source: GSJBW Research

Our changes to the Balanced Portfolio during November 2005:
Removed: Telstra Corporate
Reduced: Westpac Banking Corporation, Promina
Added: Publishing & Broadcasting
Increased: Billabong International, BHP Billiton, Publishing & Broadcasting, Macquarie Communications Infrastructure Group

Balanced Portfolio Summary: Fiscal 2006 (Please note, MCG excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	21.5%
Price to Earnings Ratio	15.4x
Average Yield	3.9%
Franking	86%

Source: GSJBW Research estimates

Growth Portfolio

BHP Billiton	Computershare
Commonwealth Bank of Australia	Alinta
Woolworths	Sonic Healthcare
St. George Bank	Australian Foundation Investment Company
Origin Energy	Salmat
Rio Tinto	Rinker Group
Healthscope	Macquarie Airports
Promina Group	Symbion Health
News Corporation, Inc.	Billabong International
Aristocrat Leisure	Toll Holdings
Brambles Industries	Cochlear
Alesco Corporation	

Source: GSJBW Research

Our changes to the Growth Portfolio during November 2005:
Removed: Mayne Pharma
Reduced: Promina, Origin Energy
Increased: Symbion Health, Billabong International, BHP Billiton

Growth Portfolio Summary: Fiscal 2006 (*Please note, ALN excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	18.7%
Price to Earnings Ratio	15.4x
Average Yield	3.4%
Franking	96%

Source: GSJBW Research estimates

All figures or amounts stated in the table above are an estimate only and provided by way of illustration. Actual figures or amounts may vary from those figures or amounts

GSJBW Recommendation Changes in November

STOCK	ASX CODE	SHORT-TERM Recommendation		LONG-TERM Recommendation	
		NEW	OLD	NEW	OLD
Alumina	AWC	Marketperform	Underperform	No Change	Hold
Commander Communications	CDR	Underperform	Outperform	No Change	Hold
Centennial Coal	CEY	No Change	Underperform	Sell	Hold
Commonwealth Property Office Fund	CPA	Marketperform	Underperform	No Change	Hold
Crane Group	CRG	Marketperform	Outperform	No Change	Hold
Felix Resources	FLX	Underperform	-	Hold	-
Housewares	HWI	Marketperform	Underperform	No Change	Hold
Jubilee Mines	JBM	No Change	Marketperform	Hold	Sell
Lion Nathan	LNN	Underperform	Marketperform	No Change	Hold
Macquarie Countrywide	MCW	Marketperform	Underperform	No Change	Hold
Mayne Pharma	MYP	Marketperform	-	Hold	-
National Australia Bank	NAB	No Change	Marketperform	Hold	Sell
Resmed	RMD	Marketperform	Underperform	No Change	Hold
SFE Corporation	SFE	Marketperform	Outperform	No Change	Hold
St. George Bank	SGB	Marketperform	Outperform	No Change	Hold
Symbion Health	SYB	Outperform	-	Buy	-
Telstra Corporation	TLS	Underperform	Marketperform	No Change	Hold
Transpacific Industries	TPI	Outperform	-	Hold	-
Virgin Blue Holdings	VBA	Marketperform	Underperform	Hold	Sell
Westpac Banking Corporation	WBC	Underperform	Marketperform	No Change	Hold
Zinifex	ZFX	Outperform	Marketperform	Hold	Buy

Source: GSJBW Research

Referred to in Document:

Company Name	Stock Code	Share Price (as at 30 Nov 2005)	Valuation	Short Term Recommendation	Long Term Recommendation
Australian Gas Light Company	AGL	$16.30	$12.70	Not Rated	NOT RATED
AFIC	AFI	$4.04	$4.24	N/A	BUY
Aristocrat Leisure	ALL	$12.34	$13.10	Outperform	BUY
Alinta	ALN	$11.05	$11.00	Outperform	BUY
Alesco	ALS	$9.65	$8.15	Marketperform	BUY
Australand Holdings	ALZ	$2.03	$1.83	Marketperform	BUY
Amcor	AMC	$7.01	$7.10	Marketperform	HOLD
ANZ Banking Group	ANZ	$23.91	$21.42	Marketperform	HOLD
APN News & Media	APN	$4.78	$4.70	Underperform	HOLD
Alumina	AWC	$6.36	$5.26	Marketperform	HOLD
AXA Asia-Pacific Holdings	AXA	$5.08	$4.90	Marketperform	BUY
Billabong International	BBG	$12.74	$13.15	Outperform	BUY
BHP Billiton	BHP	$21.87	$17.85	Outperform	BUY
Boral	BLD	$8.21	$7.48	Marketperform	HOLD
Bluescope Steel	BSL	$7.10	$8.49	Marketperform	HOLD
Brambles Industries	BIL	$9.69	$10.45	Outperform	BUY
Bradken	BKN	$4.09	$3.25	Outperform	HOLD
Commonwealth Bank of Australia	CBA	$41.80	$39.30	Marketperform	HOLD
Coca-Cola Amatil	CCL	$7.63	$8.80	Marketperform	BUY
Commander Communications	CDR	$2.04	$1.67	Underperform	HOLD
Centennial Coal	CEY	$4.00	$4.23	Underperform	SELL
Coates Hire	COA	$5.17	$3.60	Marketperform	HOLD
Cochlear	COH	$39.80	$42.57	Outperform	BUY
Commonwealth Property Office Fund	CPA	$1.265	$1.24	Marketperform	HOLD
Computershare	CPU	$7.00	$6.25	Marketperform	BUY
Crane Group	CRG	$9.75	$9.85	Marketperform	HOLD
CSR	CSR	$3.16	$2.53	Underperform	HOLD
David Jones	DJS	$2.42	$2.42	Marketperform	HOLD
Fairfax	FXJ	$3.92	$4.10	Underperform	HOLD
Felix Resources	FLX	$2.30	$2.41	Underperform	HOLD
Foster's Group	FGL	$5.65	$6.10	Outperform	BUY
Harvey Norman	HVN	$2.89	$2.93	Underperform	HOLD
Hills Industries	HIL	$4.78	$4.30	Outperform	HOLD
Healthscope	HSP	$6.03	$5.41	Outperform	BUY
Housewares International	HWI	$1.66	$2.50	Marketperform	HOLD
Jubilee Mines	JBM	$7.25	$4.02	Marketperform	HOLD
Just Group	JST	$2.48	$2.90	Outperform	HOLD
Lion Nathan	LNN	$7.44	$7.60	Underperform	HOLD
Macquarie Airports	MAP	$3.12	$3.73	Outperform	BUY
Macquarie Communications	MCG	$5.58	$6.71	Marketperform	BUY
Macquarie CountryWide Trust	MCW	$2.04	$1.99	Marketperform	HOLD
Macquarie DDR Trust	MDT	$1.18	$1.18	Marketperform	HOLD
Mirrabooka Investments	MIR	$3.52	$4.03	Marketperform	HOLD
Metcash	MTS	$4.53	$4.60	Outperform	BUY
Mayne Pharma	MYP	$2.68	$2.39	Marketperform	HOLD
National Australia Bank	NAB	$32.46	$31.44	Marketperform	HOLD
News Corporation, Inc.	NWS	$21.33	$26.50	Outperform	BUY
Origin Energy	ORG	$7.05	$7.20	Outperform	BUY
Oil Search	OSH	$3.48	$3.03	Outperform	BUY
Publishing & Broadcasting	PBL	$16.55	$15.75	Marketperform	BUY
Patrick Corporation	PRK	$7.32	$6.35	Marketperform	HOLD
Promina	PMN	$4.82	$5.25	Marketperform	BUY
Perpetual Trustees	PPT	$65.00	$62.25	Marketperform	HOLD
Programmed Maintenance Services	PRG	$3.45	$4.05	Marketperform	BUY
Ramsay Health Care	RHC	$9.85	$8.96	Marketperform	HOLD
Rinker Group	RIN	$15.68	$15.80	Outperform	BUY
Rio Tinto	RIO	$61.76	$53.50	Outperform	BUY
ResMed	RMD	$5.60	$4.16	Marketperform	HOLD
Rural Press	RUP	$11.20	$9.20	Marketperform	HOLD
Seek	SEK	$3.15	$2.20	Marketperform	BUY
SFE Corporation	SFE	$13.34	$11.20	Marketperform	HOLD
St. George Bank	SGB	$28.30	$28.51	Marketperform	HOLD
Sonic Healthcare	SHL	$15.00	$14.12	Outperform	BUY
Salmat	SLM	$3.42	$4.81	Marketperform	BUY
Symbion Health	SYB	$3.68	$3.15	Outperform	BUY
Tabcorp Holdings	TAH	$15.50	$17.30	Underperform	HOLD
Transurban	TCL	$6.77	$5.96	Marketperform	SELL
Ten Network Holdings	TEN	$3.46	$3.40	Marketperform	HOLD
Telstra Corporation	TLS	$3.85	$4.60	Underperform	HOLD
Transpacific Industries	TPI	$5.53	$3.96	Outperform	HOLD
Toll Holdings	TOL	$13.88	$13.00	Marketperform	HOLD
West Australian Newspapers	WAN	$8.37	$8.10	Marketperform	HOLD
Westpac Banking Corporation	WBC	$22.44	$20.81	Underperform	HOLD
Wesfarmers	WES	$35.54	$36.13	Marketperform	HOLD
Woolworths	WOW	$17.01	$17.85	Outperform	BUY
Virgin Blue Holdings	VBA	$1.57	$1.75	Marketperform	HOLD
Zinifex	ZFX	$5.35	$3.93	Outperform	HOLD

Source: IRESS, GSJBW Research

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I, Michael Hawkins, 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 the specific recommendations or views expressed in this report.

Recommendation Definitions

Short Term

Underperform (UP)	Stock is expected to underperform the S&P/ASX 200 on a 0-6 month timeframe
Marketperform (MP)	Stock is expected to perform in line with the S&P/ASX 200 on a 0-6 month timeframe
Outperform (OP)	Stock is expected to outperform the S&P/ASX 200 on a 0-6 month timeframe

Long Term

Sell (S)	Stock is expected to underperform the S&P/ASX 200 for beyond 6 months
Hold (H)	Stock is expected to perform in line with the S&P/ASX 200 for beyond 6 months
Buy (B)	Stock is expected to outperform the S&P/ASX 200 for beyond 6 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

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.

SHORT TERM (0-6 MONTHS)

Relative Earnings Outlook: Forward looking assessment of risk to consensus EPS estimates relative to estimated EPS risk across the market.

Earnings Revision: 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.

News Flow: The consideration of stock specific news flow, market and/or cyclical thematics and other issues such as index changes. Addresses two issues: (1) What is the potential news flow; and (2) What is the share price reflecting?

Relative Performance: Historic rolling 3 month performance versus the broader market. Stocks are rated according to their relative ranking.

Valuation Support: Considers a range of valuation methodologies, including discounted cash flow (DCF) valuation, PER, dividend yield and any other relevant measure.

LONG TERM (> 6 MONTHS)

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: [1] EVA™ trend forecast for coming two years. Designed to reflect "turnaround stories" or to highlight companies Goldman Sachs JBWere analysts believe will allocate capital poorly in the estimated timeframe. (An ROE measure is used for insurance stocks in conjunction with an assessment of the strength of an insurer's balance sheet).

Growth Option: A qualitative and quantitative assessment of a company's long term growth options 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.

[1] *EVA™ is a registered trademark of the U.S. consultancy firm Stern Stewart*

For Insurers

Return On Equity: Rating taking into account the expected level and trend of ROE over the next two to three 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

EPU Growth: Ranking of Earnings Per Unit growth relative to other listed Real Estate Investment Trusts. Used instead of EVA™ Trend.

Strategy: Used instead of industry structure as many REIT investors are intra rather than inter sector focussed.

Yield: Yield relative to the REIT sector average. Used instead of Valuation Support.

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 40 Index (Gross) and not the S&P/ASX 200 index.

Distribution of Recommendations - As at 30th September 2005

Short Term	Overall	Corporate relationship* in last 12 months	Long Term	Overall	Corporate relationship* in last 12 months
Underperform	16%	13%	Sell	8%	6%
Marketperform	59%	59%	Hold	61%	58%
Outperform	25%	28%	Buy	31%	37%

* No direct linkage with overall distribution as the latter relates to the full GSJBW stock coverage (>200 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.

Goldman Sachs JBWere Offices

Melbourne		**Sydney**		**Brisbane**	
Telephone	(03) 9679 1111	Telephone	(02) 9321 8777	Telephone	(07) 3258 1111
Facsimile	(03) 9679 1493	Facsimile	(02) 9321 8621	Facsimile	(07) 3258 1112
Gold Coast		**Adelaide**		**Perth**	
Telephone	(07) 5582 2444	Telephone	(08) 8407 1111	Telephone	(08) 9422 3333
Facsimile	(07) 5582 2400	Facsimile	(08) 8407 1112	Facsimile	(08) 9422 3399
Canberra					
Telephone	(02) 6218 2000				
Facsimile	(02) 6218 2001				

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