

Private Wealth Management

Investment Strategy Bulletin

Australian Equities: Portfolio Strategy Review

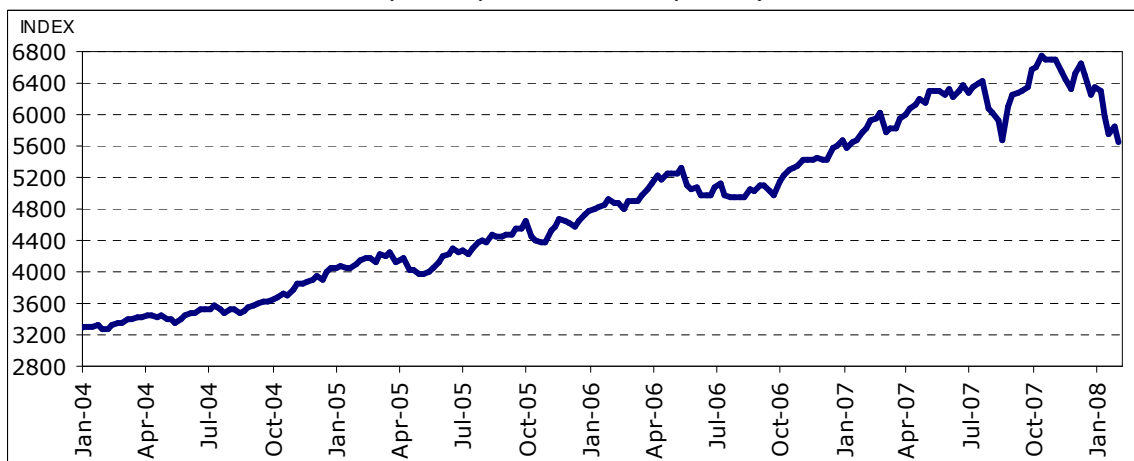
January 2008

- The Australian equity market (S&P/ASX200) experienced significant declines over the beginning of 2008. The downturn in equity markets has been driven by 2 primary factors: the spill-over of the housing collapse to the broader US economy and ongoing dysfunctionality in credit markets.
- Investor focus was mainly on identifying risk, particularly financial leverage or companies with direct exposure to the markets. Stocks whose earnings are leveraged to global activity were also impacted.
- January's economic data confirmed that the momentum in the domestic economy remains strong with retail sales, employment and building approvals all printing solid numbers. Concerns around inflationary pressures increased after the December qtr CPI reported underlying inflation is running at 3.6%, well above the RBA's target band.

Accumulation Index Performance			
	1 Month	6 Month	12 Month
S&P/ASX 200	-10.8%	-6.2%	1.6%
S&P/ASX 200 Industrials	-11.7%	-9.5%	-6.8%
S&P/ASX 200 Resources	-8.4%	3.8%	35.8%
S&P/ASX Small Ordinaries	-14.4%	-14.8%	-1.6%
Relative Index Performance to S&P/ASX 200			
Consumer Discretionary	-1.6%	-7.9%	-12.7%
Consumer Staples	-1.6%	7.3%	6.5%
Energy	-1.7%	2.9%	14.7%
Financials	-2.1%	-5.8%	-13.1%
Healthcare/Biotech	5.7%	15.5%	15.2%
Industrials	0.2%	-6.0%	-8.9%
Information Technology	-9.3%	-15.9%	-20.2%
Materials	4.0%	11.6%	32.8%
REITS	-3.1%	-10.9%	-24.6%
Telecommunication Services	2.0%	2.8%	6.2%
Utilities	-1.5%	-12.0%	-19.8%

Source: GSJBW Research, IRESS

Australian Equity Market Performance: S&P/ASX 200 Index
(January 2004 – January 2008)



Source: IRESS

All share prices shown are 31 January 2008 closing prices

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Company Performance: Best and Worst Performing Large-Cap Equities

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

Best	% Change	Worst	% Change
OneSteel Limited	8.0	Allco Finance Group	-46.1
Futuris Corporation	7.0	Paladin Energy Ltd	-34.8
Consolidated Media	6.2	Centro Properties	-34.7
Bluescope Steel Ltd	5.6	Babcock & Brown Ltd	-33.9
Newcrest Mining	5.5	Challenger F.S.G.Ltd	-29.9
Sims Group Limited	5.0	WorleyParsons Ltd	-24.5
Lihir Gold Limited	3.1	ASX Limited	-21.8
Incitec Pivot	2.5	Asciano Group	-21.4
CSR Limited	0.7	ING Office Fund	-21.3
Macquarie Infrastructure	0.3	United Group.Limited	-21.0

Source: IRESS

Significant Company/Economic News

Banks

Analyst: James Freeman

The month of January saw significant market volatility in the banking sector. Share prices fell 5-17% for the five major banks over the month. This month also saw the major banks increase their standard variable rates between 10-20bp to reflect the recent widening in the cash/bill spread. **National Australia Bank (NAB)** was the first to raise its rates in January, raising its rates on its Standard Variable Loans by 12bp on both NAB and Homeside (broker-based) loans. NAB also raised its rates on business lending by 15bp. **Australia and New Zealand Banking Group (ANZ)** followed NAB, announcing that it will increase its standard variable rate by 20bp to 8.77%. **Commonwealth Bank of Australia (CBA)** also announced in January an increase in its standard variable interest rate by 10bp to 8.67%. In addition, CBA will increase the loan term on variable business loans to 15bp. CBA also announced that, through the recent increase in cost of funding, the group has been exposed to additional funding costs of approximately \$100m to date. **St. George Bank (SGB)** during the month also increased its standard variable interest rate by 20bp to 8.77%. CFO Michael Cameron noted that this move was due to SGB absorbing funding costs of more than 0.3%pa over the past five months. SGB also announced in January that it has priced a new \$800m floating rate transferable deposit issue with a maturity of August 2009. **Westpac Banking Corp (WBC)** also increased its standard variable rate by 15bp to 8.14% in January. WBC was the last of the majors to change its rates.

Media & Telecommunications

Analyst: Christian Guerra, Adam Alexander

News Corporation (NWS) fell in line with markets over the month. In Film, "Alvin and the Chipmunks" continues to exceed expectations, surpassing "The Simpsons" for US Box Office receipts. In Television, the writers strike continues, though writers and major studios are said to be moving closer to a resolution. BskyB has announced plans to write down £343m relating to its investment in ITV after it was ordered to follow a Competition Commission (CC) recommendation to divest part of its stake in the terrestrial broadcaster. Despite the market volatility during January, **Consolidated Media Holdings (CMJ)** was underpinned by a takeover proposal from a consortium including major shareholder Consolidated Press Holdings and Mr Lachlan Murdoch's private company, Illyria. The offer of \$4.06 cash + 0.1116 SEK shares effectively places a cash floor under the stock.

Retail

Analyst: Phillip Kimber

During the month, **Billabong (BBG)** was sold off due to concerns regarding the impact of a slowdown in US consumer spending. **David Jones (DJS)** fell during the month. DJS announced the redevelopment of the Claremont store in Perth which is to be closed in early 2009, and reopened in early 2011. Management expects the majority of lost sales to be captured by other DJS stores in Perth and is anticipating no impact on store contribution during the redevelopment period. **Harvey Norman (HVN)** declined despite reporting a solid 2Q08 sales result. HVN System sales rose 13.1% to \$1.65bn in 2Q08. This was in line with our forecast of a 13.5% increase to \$1.65bn. On a comparable store basis, sales rose 7.9% (GSJBW 7.0%).

Gaming**Analyst: Adam Alexander**

During the month, **Aristocrat's (ALL)** main competitor, IGT reported its 1Q08 results in line with market expectations. The key take-outs for ALL were: 1) the US replacement cycle remains benign; and 2) ALL market share remains under pressure in Australia as IGT management indicated it continues to increase share in Australia.

Tabcorp (TAH) and **Tatts Group (TTS)** both finished the month lower as both companies await news from the Victorian Government on its decision on the future industry structure. During the month, data from the Victorian Commission of Gaming Regulation indicated that EGM revenue growth slowed to 0.2% from November YTD of 5.0%. The main reason for this was the implementation of regional caps on 19 December 2007. Early in the month, TTS announced the completion of the acquisition of European Gaming.

Crown (CWN) declined reflecting the derating of gaming companies globally. During the month, the Macau Gaming Inspection and Coordination Bureau released December 2007 quarter gaming statistics. The data indicated the Macau market growth remains robust, with total gaming revenues +54%, VIP segment revenues +54%, mass market revenues +38% and slot machine revenues +88%.

Energy**Analyst: Anthony Bishop**

Woodside Petroleum (WPL) announced a shut-down of the North West Shelf Venture's Karratha Gas Plant due to an electrical fault (which had an impact of 0.5mmboe deferred production, net to WPL). WPL also released its 4Q CY07 report, reporting full year CY07 production of 70.6mmboe and reiterating CY08 production guidance of 80-86mmboe. **AWE (AWE)** commenced drilling the Lisah-1 well, the first in a two well exploration program in Indonesia – this represents the first significant activity since making entry to Indonesia. **Roc Oil's (ROC)** share price fell upon news of a reserve downgrade at its Zhao Dong oil field in China, an unsuccessful start to the Bebiu Gulf exploration program (with no hydrocarbons observed in the first well) and several broker downgrades late in the month. ROC reported full year (CY07) production of 3.5mmboe and revenue of A\$248m.

Consumer Staples**Analyst: Phillip Kimber/Paul Ryan**

Woolworths (WOW) fell over the month, despite reporting a solid 2Q08 sales result with group sales growth of 8.3% (GSJBW 10.2%) with all key businesses delivering robust growth rates. The only concern was that relative to consensus expectations some divisions were lower than expected, namely Australian Food and Liquor and Big W. **Metcash (MTS)** finished the month higher with no company-specific news flow. **Goodman Fielder (GFF)** was flat over the month due to ongoing concerns regarding rising commodity costs, the ability to pass through price rises and the impact of retailers' private label initiatives on market share.

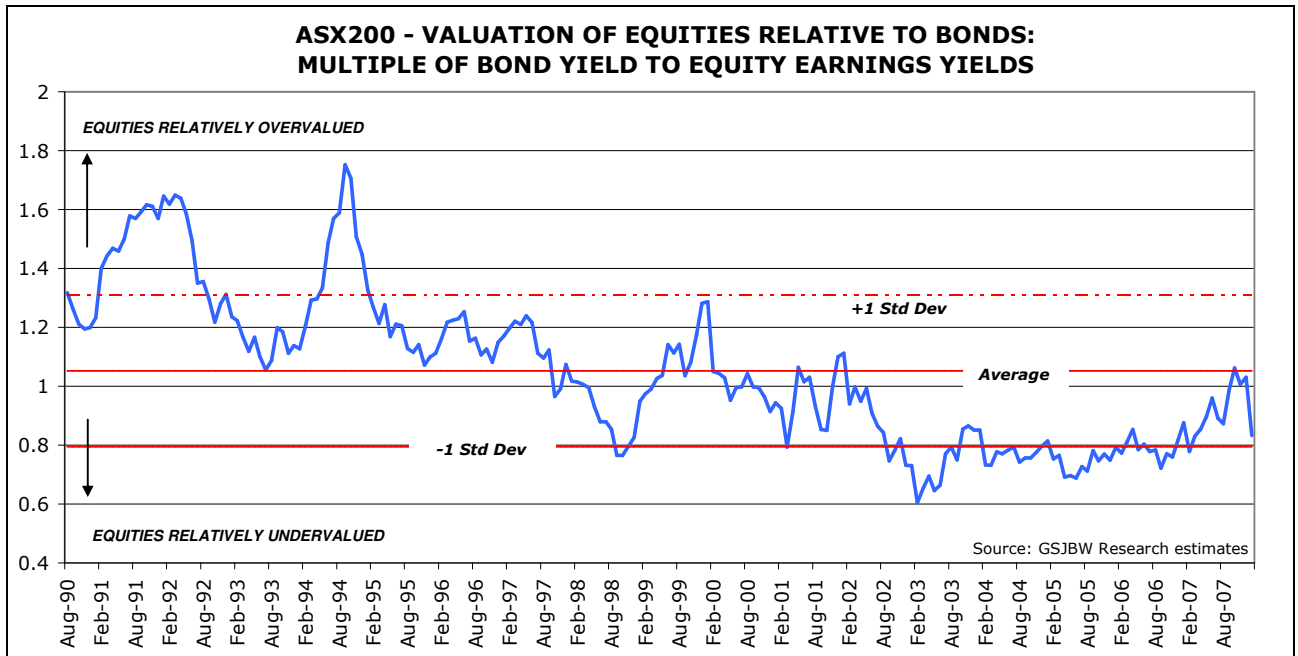
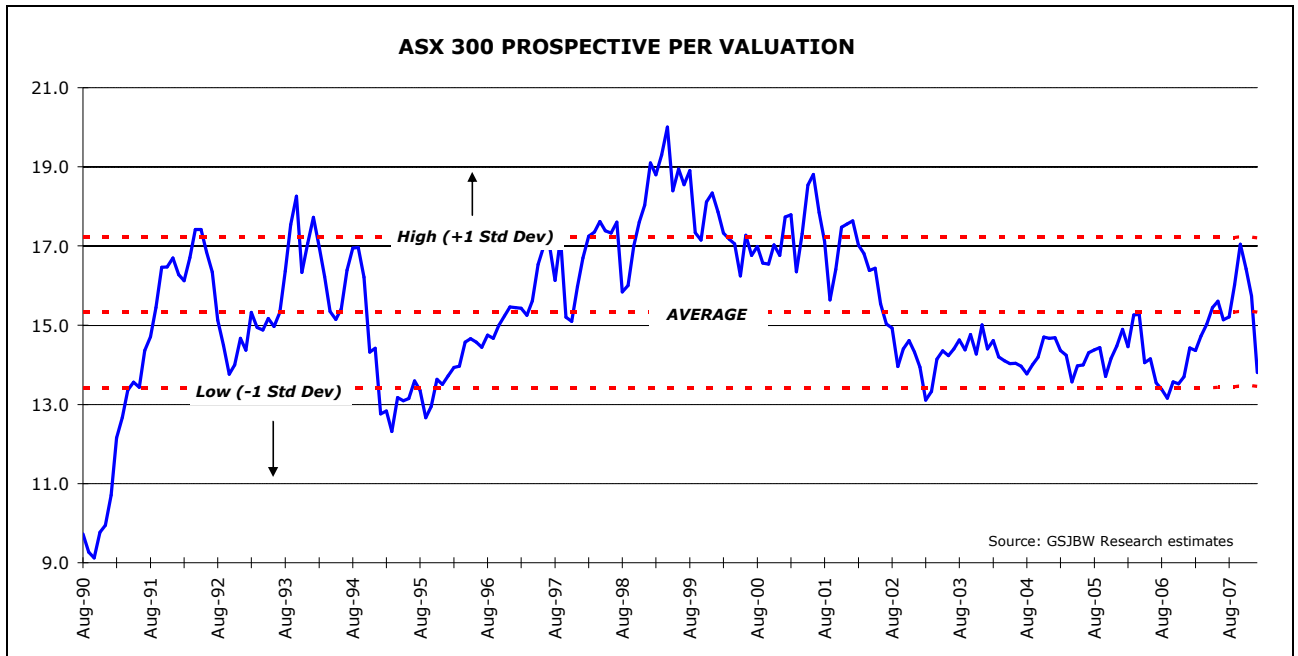
Coca-Cola Amatil (CCL) completed its \$170m off-market buyback program during the month, buying back 21.7m shares (2.9% of issued capital) at a price of \$7.84 per share. CCL will release its FY07 result on 13th February. **Foster's Group (FGL)** was sold off on concerns over its exposure to a slowing US/UK consumer environment, strong A\$ and rising wine COGS. Late in the month, FGL announced the appointment of Mr Angus McKay to succeed outgoing CFO Mr Pete Scott, who had announced his intention to retire by June 2008 last year. **Lion Nathan (LNN)** regained its share price following its mid month decline as investors sought defensive exposures in a volatile market. LNN completed its acquisition of J Boag & Son early in the month and assumed control of Boag's mainland distribution in mid-January following an agreement with Foster's to bring forward the handover from June 2008. In other news, LNN announced it had secured \$450m in new debt funding to refinance its existing debt facilities. LNN will provide a 1Q08 trading update at its AGM on 14th February.

Infrastructure**Analyst: Jonathon Collett**

Macquarie Airports (MAP) declined again this month as concerns emerged about airport exposure to slower global growth. MAP reported a solid set of traffic results from its airports in December. Sydney Airport's CY07 result came in above our expectations, with much stronger revenue growth partially offset by an increase in costs. **Australian Infrastructure Fund (AIX)** fell into line with the remainder of the sector despite its share price holding up during the last couple of months. Operationally, recent airline capacity increases (eg. Tiger) at several of its airports are driving very strong traffic growth.

Australian Equities: Key Issues for Portfolio Strategy

- Given the significant pull-back in prices during January, the key issue for investors is now becoming the trade-off between risks to corporate earnings versus increasingly attractive valuations for equities, particularly relative to other asset classes. As shown in the charts below, Australian equities now look more reasonably valued on a Price/Earnings (PE) and earnings yield (relative to bonds) basis than they have for a number of years.



- While prices appear more attractive on this basis, the risk remains on the 'E' (earnings) side of the equation, particularly as we head into the second half of FY08 and into FY09. Corporate profitability is facing a number of headwinds ranging from increasing costs (wages, raw materials, energy, interest rates), to an elevated AUD and softer demand (global and domestic) which will make passing on increased costs more difficult. We expect the net result to be greater pressure on margins and earnings.

- We remain cautious on the risks to earnings and the potential slowing of global growth as the US economy falls into an outright recession. While opportunities are arising to buy good quality Australian companies at more reasonable valuations than they have been for a number of years, investors must take a long-term view. Equity market volatility is likely to persist over the coming 3-6 months as the housing collapse spills over to the broader US economy and the global economic outlook remains uncertain. In this environment the priority should be defending the strong gains made over the last 4 years and limiting exposure to earnings risks.
- From a portfolio construction perspective, we continue to advocate a long-term strategic viewpoint. We caution investors from being distracted by what appear to be short-term opportunities, only to end up with portfolios that have shifted focus, with increased weightings in higher risk stocks/sectors. We recommend increasing weightings to more defensive sectors (consumer staples, healthcare, utilities, banks and telecommunications) given the increasing uncertainty in earnings outlook and pressures on profit margins.
- Whilst we continue to view the BRIC/Emerging economy thematic as a major driver of global demand, the prospect of a US recession suggests reducing large overweight global growth exposures in favour of more defensive domestic stocks. We recommend an underweight exposure to those sectors that are leveraged to the model of cheap debt and increasing asset valuations (diversified financials, highly leveraged REITs and infrastructure stocks). While this model has been successful over recent years, the leverage works both ways, where tighter credit puts downward pressure on asset values by increasing the cost of acquisitions and reducing the supply of potential buyers.
- In our view, investors should focus primarily on opportunities to add to positions in high quality stocks that are expected to generate strong cash flows and returns over complete market cycles. Such companies that we view as offering more attractive valuations following the recent pullback include: QBE Insurance (QBE, \$27.80, Buy), Wesfarmers (WES, \$35.30, Hold), ANZ Bank (ANZ, \$26.01, Buy), Westpac Bank (WBC, \$25.58, Buy), Brambles (BXB, \$10.67, Hold), AXA Asia Pacific (AXA, \$5.93, Buy), Origin Energy (ORG, \$8.72, Hold), News Corp. (NWS, \$21.40, Buy) and Macquarie Communications Group (MCG, \$5.02, Buy).

Beverage Sector

As discussed in our strategy update, given increasing uncertainty in the earnings outlook and pressures on profit margins in the Australian market, we recommend increasing weightings to more defensive sectors such as beverages. In this update we analyse the defensiveness of the beverages sector, the outlook for 2008 and our preferred stock exposures.

We are positive on the beverages sector in 2008 despite forecasting just 3% earnings growth for FY08 (June-year-end basis). While current valuations may seem uninspiring in an absolute sense, we believe the risk to earnings is low relative to the broader Industrials market. This is particularly the case when investors are questioning the outlook for some of the other classic defensive sectors of the market, be it due to potential regulatory (gaming) or financial leverage (REITS, infrastructure, banks) exposure.

Ongoing retail customer consolidation and shifting consumer preferences remain a challenge, however most beverage producers now have strategies in place to combat these dynamics, such as streamlining distribution, increasing brand investment and developing product innovation capabilities. Additionally, some of the headwinds that have plagued the sector over the past 2-3 years (cost inflation, poor capital allocation) are easing. We believe this should enable sector earnings growth to accelerate to 10% in FY09. With regard to capital positions, balance sheets are not stretched, however the recent spate of buybacks/bolt-on acquisitions means that near term capital allocation decisions have largely been made, leaving the FY09 operational outlook as the key focus.

Our preferred exposures to the sector are Coca-Cola Amatil (CCL) and Lion Nathan (LNN) given their lower risk profiles and attractive long-term growth outlook. The wine sub-sector has by far the greatest input cost volatility and least pricing power of any product segment. Given this is combined with an adverse currency impact and worsening consumer demand conditions in the key UK/US markets, we believe Fosters Group (FGL) and McGuigan Simeon Wines (MGW) carry a higher level of earnings risk.

Coca-Cola Amatil (CCL, \$9.36, Buy)

CCL has outperformed its sector peers on revenue management, offsetting cost inflation through price increases in addition to product/pack innovation, which is expected to continue. The company recently put through 4-5% price increases in Australia (route trade December 2007, grocery January 2008), which present upside risk to FY08 earnings should they stick. We believe the cost cycle has peaked for CCL, with the company confident in its guidance for 3-4% cost inflation in FY08 (vs ~7% in FY07), having hedged 80% of its US\$, sugar and aluminium exposures.

With regard to capital allocation, sale proceeds from the recent South Korea divestment are to be utilized on an off-market buyback (recently completed) and capital expenditure on production capacity expansion in Australia and Indonesia, with the balance used to reduce debt. Earnings dilutive bolt-on acquisitions remain a risk for the stock. We have recently upgraded CCL to a long-term Buy recommendation. Recent price increases and easing cost headwinds provide a high level of comfort around the earnings outlook for FY08, even in a slowing economic environment.

Lion Nathan (LNN, \$9.45, Buy)

We believe positive underlying business trends for LNN (accelerating mix shift in favour of national and higher margin premium beer products), combined with the benefits of increased brand investment and substantial capex spend on brewery upgrades will drive an acceleration in cash flow growth to ~10% pa in FY09-12. We also expect the cost cycle to peak for LNN in FY08.

We see low acquisition risk for the company following the recent Boag's acquisition and upcoming capital expenditure. Our recommendation on LNN has also been upgraded to a Buy. While the stock is a longer-term story, we expect accelerating earnings and cash flow growth to drive out-performance.

REIT Sector Update

The REIT sector has declined significantly over the December quarter of 2007 and into early 2008. This has come largely on the back of rising concern that increased interest rate margins would impact the sector as companies sought to extend existing debt facilities and secure additional new financing. Companies most penalized in this sell-off have been those with either significant funds management businesses, high gearing levels, large pending refinancings or lower quality foreign assets. Below, we summarize the key areas of focus in the REIT sector and the outlook for 2008.

Funding/Gearing

In light of recent announcements from Centro, our research analysts surveyed each REIT in their universe with regard to its respective debt position, shown in Table 1 below. All of the REITs with gearing at 50% or above have the majority of their assets overseas, with most of them being 100% global. This means that declining US and European/UK real estate values will be magnified at least double by gearing (ie. a 10% fall in asset values will lead to a 20%+ drop in equity value). While Centro faced the rare combination of very high gearing, a large debt expiry, and the prospect/perception that its asset values are declining, a number of REITs are exposed to these factors individually.

Table 1: Australian REIT Debt Profiles

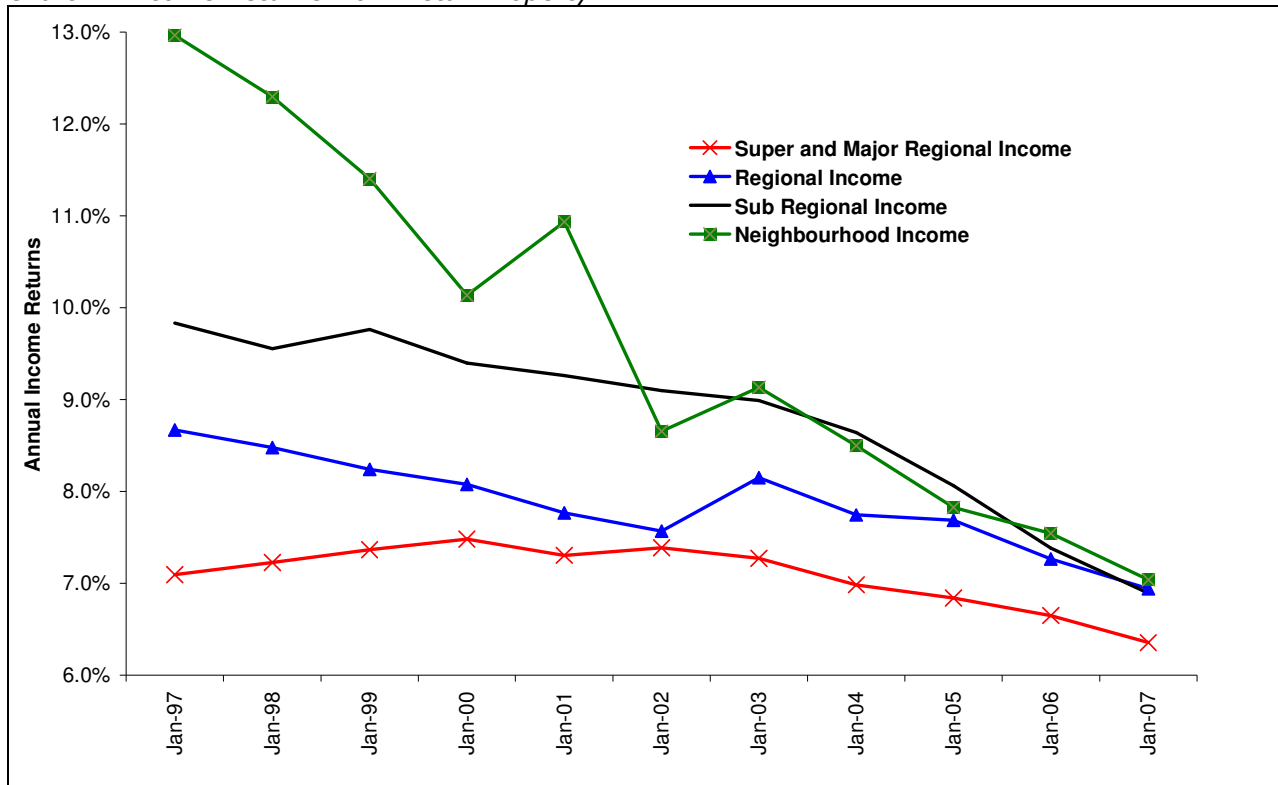
Stock	Gearing		Undrawn Facilities (\$'m)	Interest Cover Times	Credit Rating	
	Balance Sheet %	Look Through %			Rating	Agency
AEZ	50.7%	50.7%	n/a	2.5x	--	--
BJT	57.5%	57.5%	15	6.1x	--	--
BWP	28.0%	28.0%	110	3.2x	--	--
CFX	27.0%	27.0%	570	4.0x	A/A-1	S&P
CKT	52.0%	52.0%	298	4.0x	--	--
CPA	29.0%	29.0%	130	3.3x	A-/A-2 / A3/P-2	S&P / Moody's
DRT	32.0%	32.0%	750	2.9x	BBB+	S&P
GJT	53.7%	53.7%	n/a	n/a	--	--
GMG	43.0%	48.0%	835	3.5x	BBB+ / Baa1	S&P / Moody's
GPT	35.9%	43.6%	2,368	3.0x	BBB+ / Baa1	S&P / Moody's
IIF	36.0%	45.0%	322	3.3x	--	--
IOF	34.0%	37.0%	559	3.7x	--	--
MCW	26.5%	52.0%	392	2.3x	--	--
MDT	21.0%	52.0%	64	2.2x	--	--
MGR	35.0%	35.0%	837	3.1x	BBB	S&P
MOF	28.0%	44.0%	308	2.5x	--	--
RJT	60.0%	60.0%	n/a	3.1x	--	--
RNY	50.0%	50.0%	15	2.2x	--	--
SGP	25.1%	25.1%	1,000	3.7x	A-	S&P
TSO	47.7%	47.7%	233	2.0x	--	--
VPG	40.0%	50.0%	1,200	3.1x	--	--
WDC	30.0%	30.0%	8,000	2.6x	A- / A2	S&P / Moody's

Source: GSJBW Research

Asset Valuations

Aside from funding requirements, the other major concern the market currently has with the REITs is that the underlying assets remain overvalued and at risk of a correction in pricing. Although there is still little in the way of valuation or transaction evidence, in our view many lower quality/foreign property assets are likely to see an imminent upward movement in cap rates (fall in value). This issue applies to second-tier assets that have benefited from leveraged buyers over the past few years. Effectively the risk premium that existed between high quality, institutional-grade assets and secondary assets has shrunk (refer Chart 1 below).

Chart 1: Income Returns from Retail Property



Source: GSJBW Research

Chart 1 shows an example of the shrinking risk premium within the retail property market. Income returns (a reasonable proxy of cap rate movements) on high quality Regional and Super Regional shopping malls have reduced by approximately 75-100bp over the past 10 years, whereas lower quality Neighbourhood or Grocery-anchored centres have decreased by approx 500bp. While grocery-anchored centres are defensive in nature, the lower barriers to entry, lower occupancy costs and lower growth potential suggest these assets should trade at a discount to higher quality regional malls and are most at risk of an expansion in cap rates.

Outlook

There is likely to be significant volatility in the REIT sector over the coming months as investors assess the impact of reduced availability and the increased cost of credit across the sector. While REIT valuations appear more attractive than they have for a number of years, we remain cautious on the near-term outlook due to: downside risks to asset valuations in light of uncertain credit markets, the lack of confidence in the property market with few transactions taking place as well as the potential for income growth to slow in line with consumer spending.

We remain cautious on those companies where the business model is reliant on cheap debt and increasing asset values in order to drive value creation (tight credit puts downward pressure on asset values by increasing the cost of acquisitions and reducing the supply of potential buyers).

Consistent with this outlook, we recommend investors hold REITs characterized by high quality assets, strong cash flows, funding flexibility and the ability to secure financing at reasonable terms. In the near-term, these companies will also be well positioned to take advantage of any fallout that might develop from tighter credit conditions, particularly if some of the more highly geared REITs find it necessary to force-sell assets.

Sector Preferences

WDC - Westfield Group (\$18.50, Buy)

The combination of WDC's development pipeline and low gearing (<30%) give it tremendous flexibility. The company has a strong balance sheet, with relatively low gearing, providing it with the opportunity to acquire assets cheaply if market cap rates expand. Additionally, WDC's healthy development pipeline provides earnings growth opportunities, even if market yields are rising and asset values are decreasing.

GMG - Goodman Group (\$4.38, Buy)

We believe current prices offer an attractive entry level in a quality company following the market correction. It appears the market is concerned with the level of gearing (~45% on a look-through basis). Investors should gain comfort from the recent A\$1.6bn debt refinancing completed within the GMG-managed Goodman Australian Industrial Fund, achieved at reasonable rates. By 30 June 2008, we expect gearing closer to 40% and interest cover is already strong at current levels of ~3.5x. GMG provides exposure to quality assets, a robust strategy, a global platform, and amongst the strongest EPU/DPU growth prospects in the local REIT sector. The stock is currently on an attractive FY09 yield of ~8.5%.

GPT - GPT Group (\$3.75, Buy)

GPT is trading at a large discount to valuation and on an 8.0% yield and is forecasting 5% FY08 EPU/DPU growth. We see a number of short term earnings levers for GPT, such as the recognition of embedded profits on two major development projects, as well as the potential sell-down of interests in GPT's two existing Australian wholesale funds (freeing up capital). GPT has an emerging Australian development trading business with meaningful profits to be generated from several office projects in the near term. We believe market concerns about GPT's European exposure in the Babcock & Brown JV are overdone, with the investments largely still recorded at historical cost.

GSJBW Model Portfolios

Income Portfolio – (Inception Date: October 2002)

Westpac Banking Corporation	Woolworths
National Australia Bank	Metcash
Macquarie Communications Infrastructure Group	Qantas
BHP Billiton	QBE
Wesfarmers	Spark Infrastructure
ANZ Bank	Ramsay Healthcare
Coca-Cola Amatil	Fairfax Media
Tattersalls	Telstra
Suncorp-Metway	Crane Group
Australian Infrastructure Fund	Hills Industries
Foster's Group	Boral

Our changes to the Income Portfolio during January 2008:

No changes

Income Portfolio Summary: Fiscal 2008 (*Please note MCG is excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	2.4%
Price to Earnings Ratio	17.9x
Average Yield	4.8%
Franking	79%

Source: GSJBW Research estimates

Balanced Portfolio – (Inception Date: October 2002)

BHP Billiton	Suncorp-Metway
Macquarie Communications Infrastructure Group	Toll Holdings
National Australia Bank	Telstra
Woolworths	Lion Nathan
Westpac Banking	Woodside Petroleum
Rio Tinto	ANZ Bank
Brambles	Origin Energy
Ramsay Healthcare	AXA Asia-Pacific Holdings
Wesfarmers	Fairfax
News Corporation, Inc.	United Group
QBE Insurance Group	Singapore Telecom
Crown Gaming	

Changes to the Balanced Portfolio during January 2008:

Increased: QBE

Removed: BBG, CPU

Added: FXJ, LNN

Balanced Portfolio Summary: Fiscal 2008 (Please note MCG is excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	1.9%
Price to Earnings Ratio	18.5x
Average Yield	3.4%
Franking	73%

Source: GSJBW Research estimates

Growth Portfolio – (Inception Date: October 2002)

BHP Billiton	AXA Asia-Pacific Holdings
ANZ Bank	Lion Nathan
Brambles	Healthscope
Woolworths	QBE Insurance Group
Rio Tinto	Suncorp-Metway
Westpac Banking	Newcrest Mining
News Corporation, Inc.	Origin Energy
Ramsay Healthcare	Singapore Telecom
Resmed	Sonic Healthcare
Woodside Petroleum	United Group
Crown Gaming	

Changes to the Growth Portfolio during January 2008:

Increased: ORG, QBE, RMD

Removed: BBG, CPU

Added: LNN

Growth Portfolio Summary: Fiscal 2008 (*Please note AAN and CEU are excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	4.8%
Price to Earnings Ratio	18x
Average Yield	2.8%
Franking	76%

Source: GSJBW Research estimates

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

GSJBW Recommendation Changes in January

STOCK	ASX CODE	New Recommendation	Old Recommendation
Bradken	BKN	BUY	HOLD
Coca-Cola Amatil	CCL	BUY	HOLD
Goodman Group	GMG	BUY	HOLD
ING Industrial Fund	IIF	HOLD	SELL
Lion Nathan	LNN	BUY	HOLD
Roc Oil	ROC	HOLD	BUY
Tatts Group	TTS	BUY	HOLD
Telstra	TLS	BUY	HOLD
Transpacific Industries	TPI	HOLD	SELL
Zinifex	ZFX	HOLD	SELL

Source: GSJBW Research

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RECOMMENDATION DEFINITIONS

Sell (S)	Stock is expected to underperform the S&P/ASX 200 for 12 months
Hold (H)	Stock is expected to perform in line with the S&P/ASX 200 for 12 months
Buy (B)	Stock is expected to outperform the S&P/ASX 200 for 12 months

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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
CS	Coverage Suspended. GSJBW has suspended coverage of this company.
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Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon.

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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.

Prior to 20 July 2007, GSJBW had a dual-horizon recommendation system: Short Term & Long Term. The Short Term factors were Relative Earnings Outlook, Earnings Momentum, News Flow, Relative Performance, and Valuation Support. The Long Term factors were Industry Structure, EVA™ Trend, Growth Option and Price/DCF.

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 2 years. Designed to reflect "turnaround stories" or to highlight companies Goldman Sachs JBWere analysts believe will allocate capital poorly in the estimated timeframe.
Earnings Momentum:	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
Catalysts:	A qualitative and quantitative assessment of a company's long term catalysts 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

EVA™ Trend: ¹	ROE is used as a proxy for EVA. Rating takes into account the expected level and trend of ROE over the next 2-3 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

Strategy:	Used instead of industry structure as many REIT investors are intra rather than inter sector focussed.
EPU Growth:	Ranking of Earnings Per Unit growth relative to other listed Real Estate Investment Trusts. Used instead of EVA™ Trend.
Yield:	Yield relative to the REIT sector average. Used instead of Earnings revision.

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 50 Index (Gross) and not the S&P/ASX 200 index.
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Distribution of Recommendations – as at 31 December 2007

Recommendation	Overall	Corporate relationship* in last 12 months
Sell	9%	13%
Hold	61%	54%
Buy	30%	33%

* No direct linkage with overall distribution as the latter relates to the full Goldman Sachs JBWere stock coverage (>250 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.

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