2006 CEDA / Fujitsu Economic & Political Overview

Financial Assets : Where to now?

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Asset Class Performance

		2005	2004	2003
EQUITIES				
Australia				
	ASX300	22.3%	28.0%	15.0%
	Industrials	16.6%	28.3%	12.4%
	Resources	50.1%	26.6%	29.2%
Global				
	A$ terms	17.6%	10.8%	0.0%
	US$ terms	10.0%	15.3%	33.8%
FIXED INTEREST		5.9%	6.9%	3.1%
LISTED PROPERTY		12.1%	32.8%	8.8%
CASH		5.7%	5.6%	4.9%

Performance as at 31 December 2005

Source : ASX, MSCI, UBS

Core Investment Themes

- The world is becoming increasingly dynamic – major structural shifts in relative competitiveness, relative prices, technological advance and demographics. A world of big winners & big losers – particularly at the industry level.

- The key driver of global cyclical conditions over the coming years will be "policy normalisation" in the US, China, Japan. Relative to the past decade, cyclical volatility will increase.

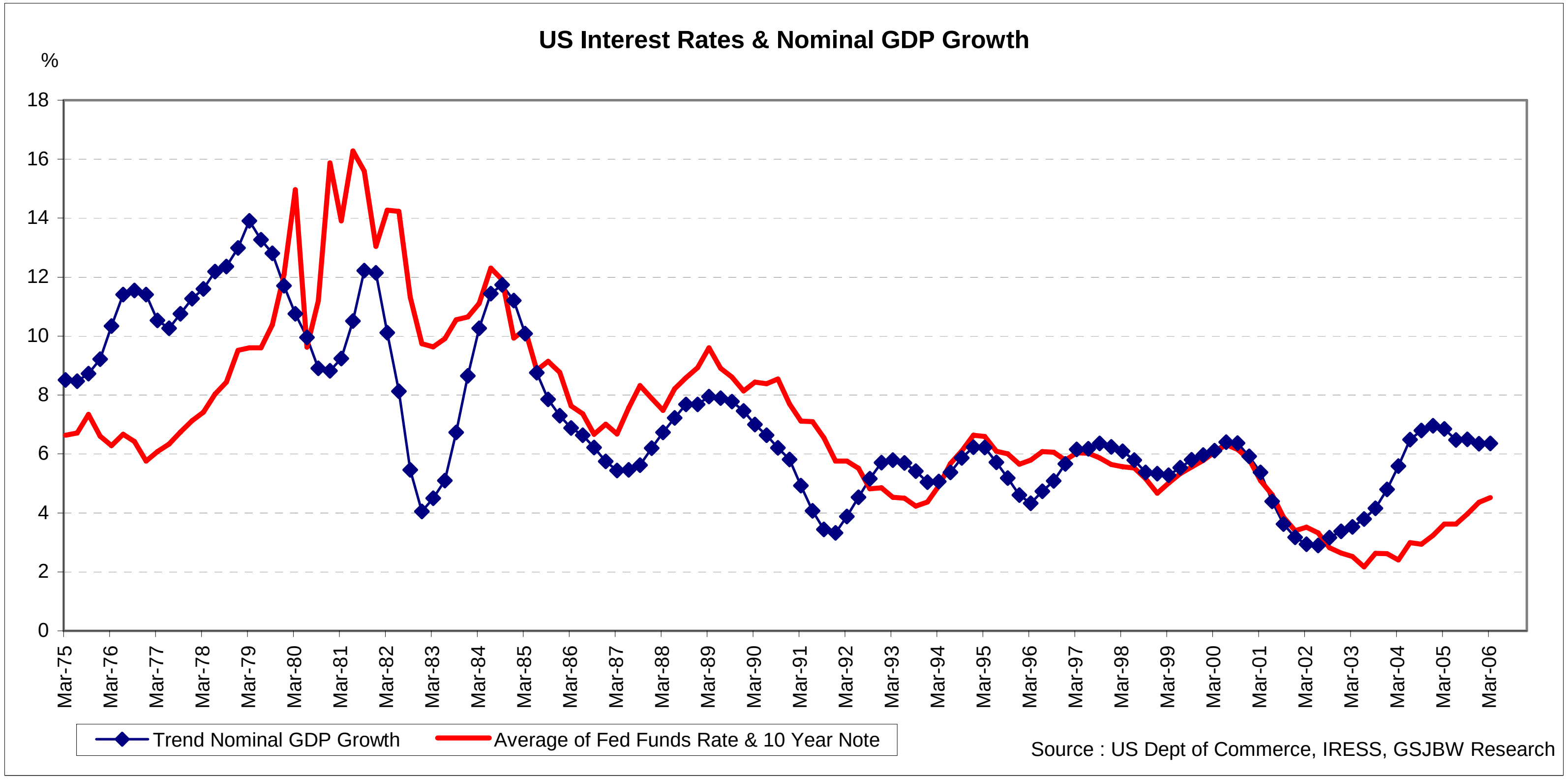
- "Policy normalisation" – which may yet take another 2-3 years to unfold – will expose mis-pricing in asset classes where valuations have been inflated by the "abnormal" policy setting of recent years – US government debt, property, credit, Chinese Yuan and, to a lesser extent, commodities.

- In the interim, the "abnormal" policy stance will underpin robust cyclical conditions – particularly in the US &, potentially, in Japan.

- While dormant at the moment, we believe that global "financial risk" remains high. The key points of vulnerability are – inflated asset prices (property, debt, credit); high levels of consumer debt; leverage where the viability will be threatened by "policy normalisation".

- Australia remains in a late-cycle phase. The scope for a sustained cyclical upswing remains capped by major macro imbalances – capacity limitations (inflation), overvalued property markets (low household saving), a significant trade gap (increasing sensitivity to swings in the terms of trade). Once these imbalances are worked-off (2-3 years), the medium/long term outlook is bright.

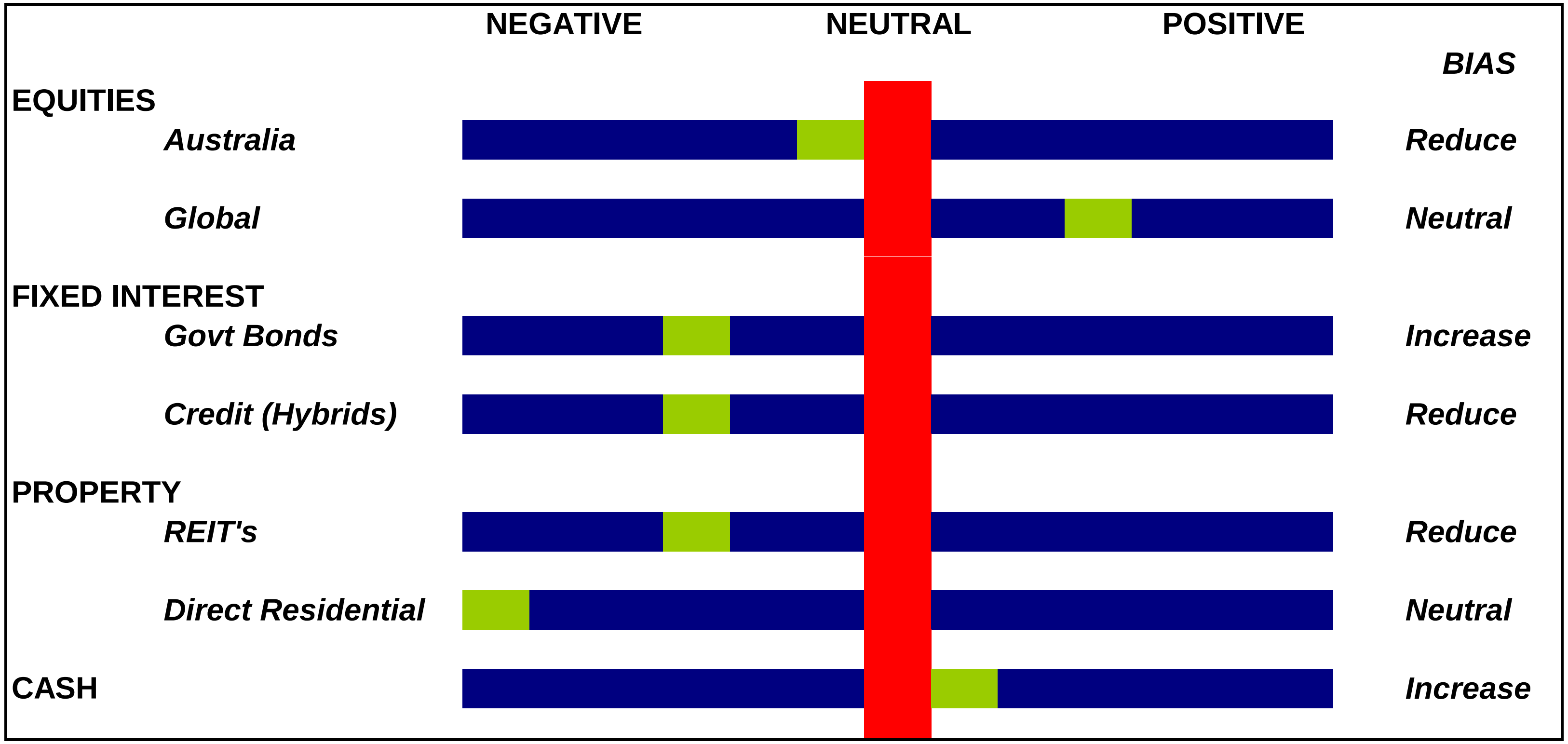
The pace of 'policy normalisation' in the US should ease from mid-2006, but it will still leave a very supportive liquidity environment for financial assets.



Source : US Dept of Commerce, IRESS, GSJBW Research

The Major Asset Classes

Our view of the relative prospects over the next 12 months



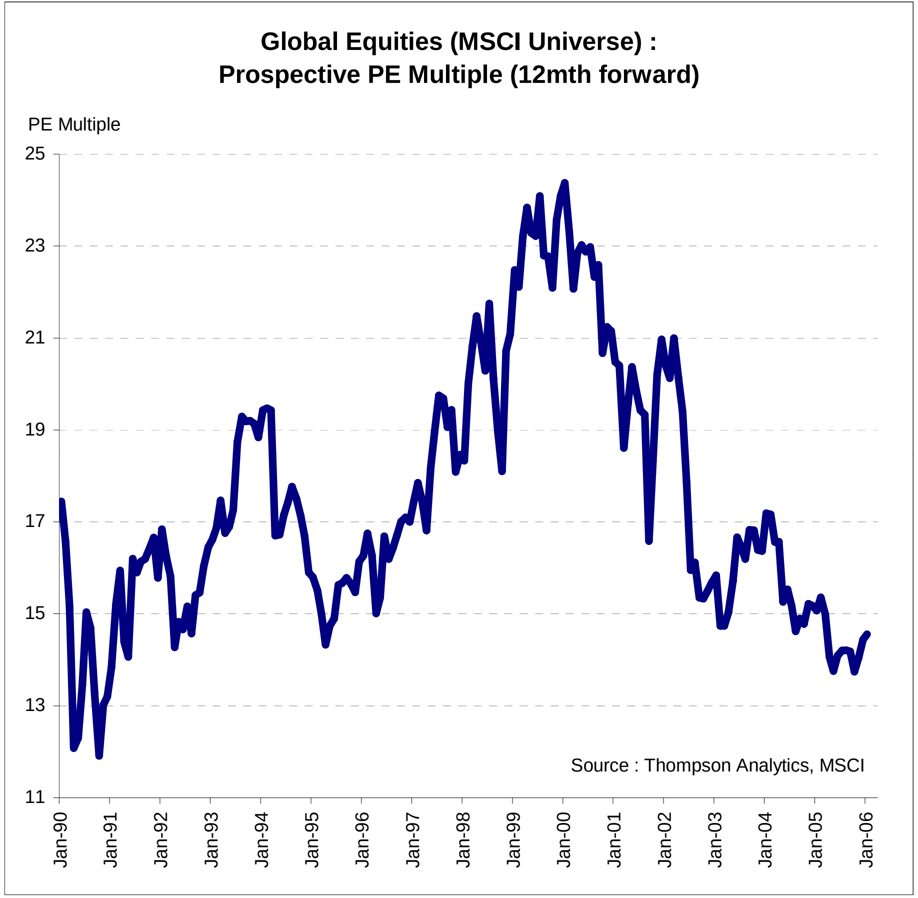
As at 31 January 2006

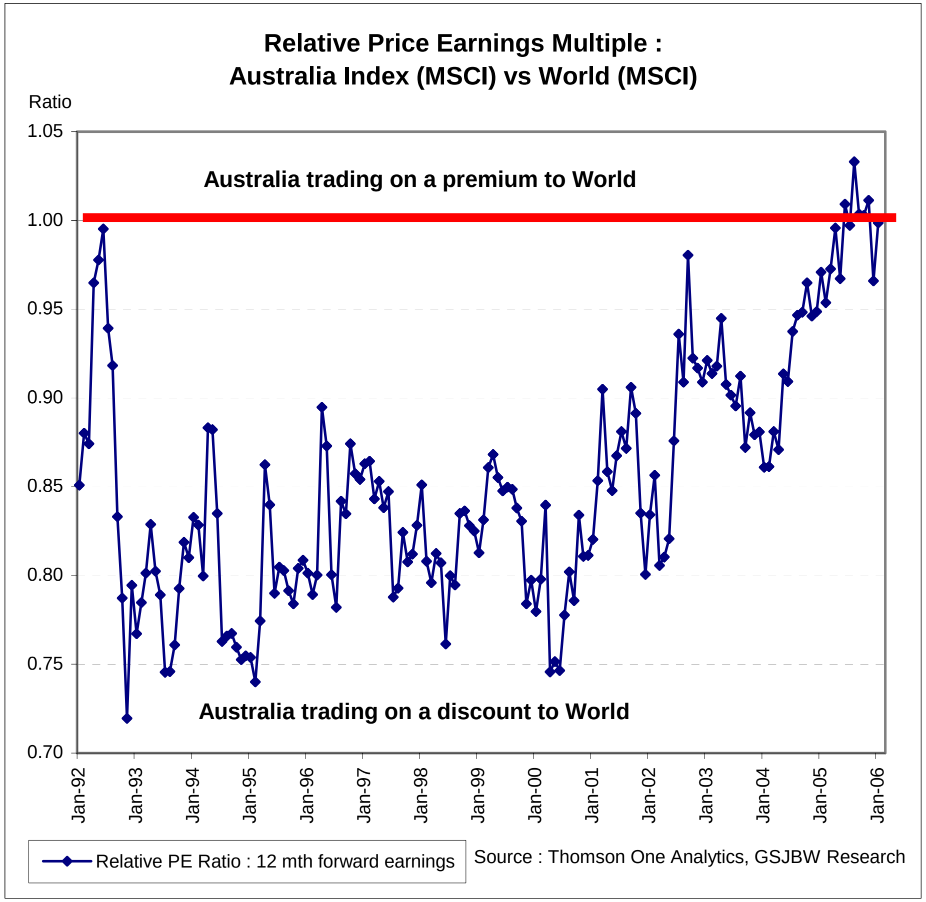
Source: GSJBW Research

Goldman Sachs JBWere

Australian Equities : You are paying more for less

Offshore is the place to be





Australian Equities

Fully valued & the positive drivers are starting to fade

POSITIVE DRIVERS

- Valuation relative to the level of interest rates is still supportive.
- Merger & acquisition activity set to continue.
- At this point, the risk from higher interest rates is low.
- Scope for household spending in Australia to pick-up through 2006 – tax cuts will help.
- Commodity prices continue to outpace forecasts.
- The marginal investor is confident.

NEGATIVE DRIVERS

- Absolute valuations are full.
- Full absolute valuations and receding potential for profits to beat expectations – more so industrials.
- Cost pressures evident – energy, commodities, wages.
- Inflation/interest rate risks may yet reappear.
- Speculative flows into commodities/pure-play resources.
- Geo-political surprises.

Australian Equities : Profit Outlook

Margin pressure now evident. Will it spread to the large-caps?

GSJBW Analyst Australian EPS growth estimates

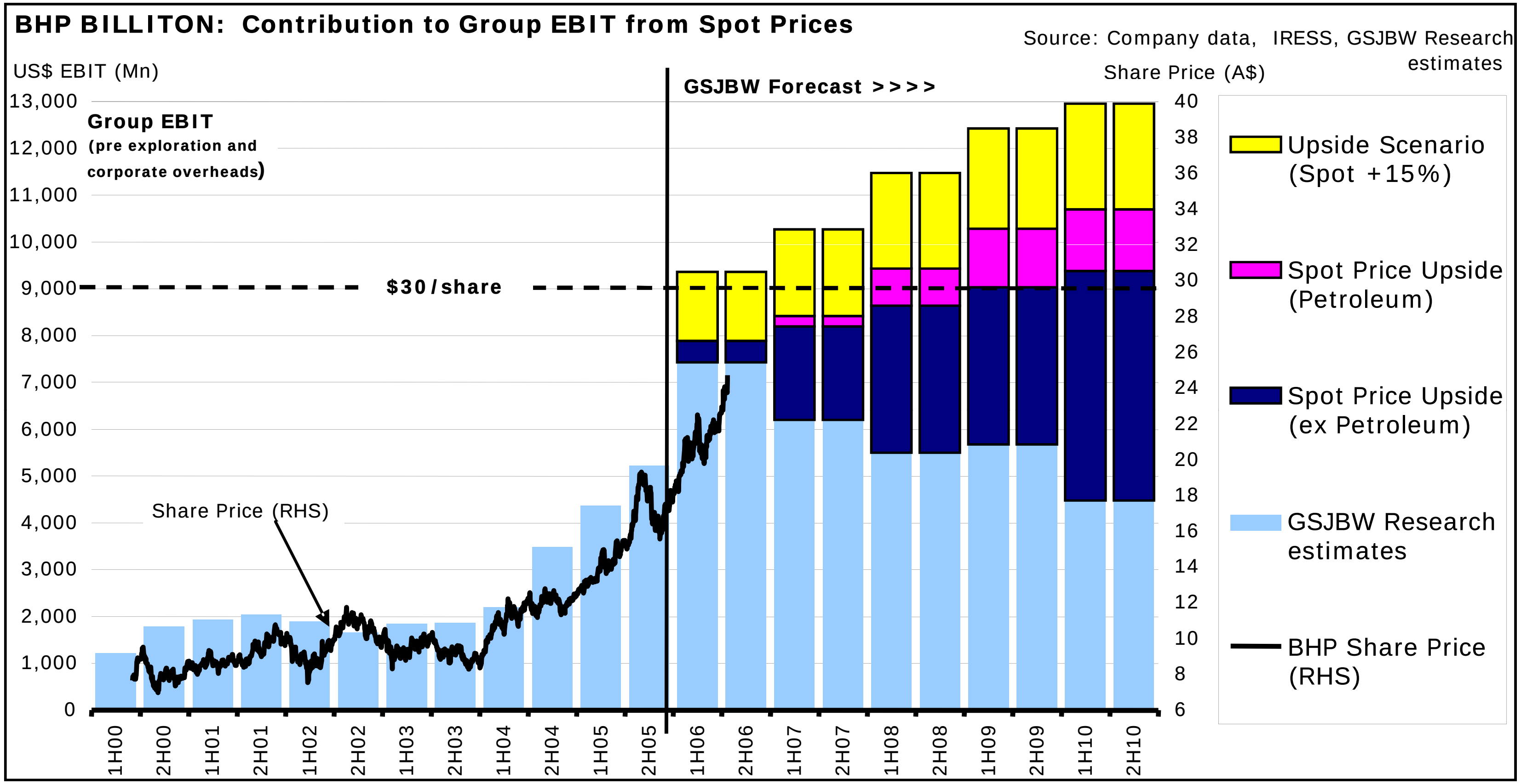
	2005	2006(f)	2007(f)
ASX 300	29%	17%	0%
ASX 300 Industrials	12%	8%	9%
Major Banks	9%	9%	9%
Ex-financials (ex TLS, NWS)	8%	14%	13%
ASX 300 Resources	81%	36%	-16%

At 10 February 2006

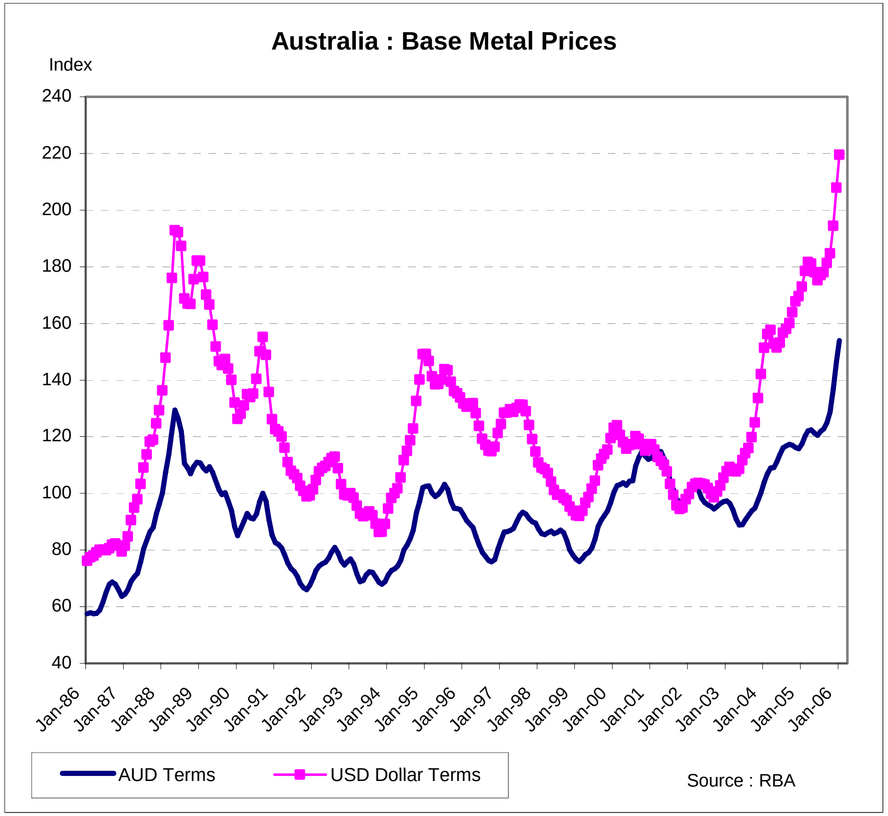
Source GSJBW Research estimates

GSJBW Currency assumption	***FY06***	***USD 0.76***
	FY07	***USD 0.78***

BHP Billiton : NPAT of US$188mn per week in FY06



Commodity Prices Continue To Soar
How much is pure speculation? Someone has to pay?



- While the structural backdrop remains sound, favourable cyclical conditions look to be driving the latest surge in commodity prices; more-so base metals.
- Coming into 2006, risk premia are falling for fairly traditional cyclical reasons – accelerating global growth, tame Fed, liquidity. As a result, the marginal global investor is looking for 'beta'.
- As risk premia fall, volatility will increase.
- Who is paying? - An issue for 2006 and 2007. ***We have now seen a massive shift in absolute & relative prices. The second and third round implications are yet to be fully revealed.***

Would you participate in this transaction?

A residential property is for sale. It was purchased by the current owner 12 months ago for $950,000.

The owner wishes to sell 80%, maintain 20% and continue to live in the house.

The property value is now $1,000,000. The rental yield is 6.00%.

The existing owner will maintain the economic utility of the property in a way they deem to be appropriate.

For this role they will be paid a series of fees on top of their 20% share of the rental distribution.

: Asset Management Fees = 3% of the total rental revenue stream.
: Incentive Fee = 1% of the market value of the property.
: Performance Fee = 20% of any price appreciation in excess of the national average (based on the market value of the property).
: Development Fee = based on the valuation uplift to the property from any improvements undertaken by the owner.

The owner will use the proceeds of the sale to reduce debt. You will have to borrow to fund your investment.

The gross cash flows for each party to this transaction are as follows.

Property Value	$1,000,000
Yield	6.00%
Annual Rental	$60,000

Existing Owner	
Share	20%
Value	$200,000
Annual Rental	$12,000
Asset Management Fee	$1,800
Incentive Fee	$10,000
Performance Fee	$6,000
Development Fee	$250
Total	**$30,050**
Gross Yield Post Fees	**15.0%**
Interest Saving	**$40,500**
Profit on sale	**$50,000**

New Joint Owner	
Share	80%
Value	$800,000
Annual Rental	$48,000
Asset Management Fee	-$1,800
Incentive Fee	-$10,000
Performance Fee	-$6,000
Development Fee	-$250
Total	**$29,950**
Gross Yield Post Fees	**3.7%**
Interest Expense	**$32,400**

Performance Fee : Assume 3% outperformance via market falling 3% & property valuation remaining steady.
Development Fee : Assume 1% of the valuation uplift from putting in a pool : $25,000
Interest Expense : Assume 6.75% borrowing rate & 40% equity.

Financially Engineered Investment Performance
Why are we concerned?

- **Do you know what you are paying for?** Investors need to ensure they appreciate the risks they are taking on and/or the fees that they are paying.
- **We believe the 'model' has an internal conflict:** The fee structure incentivises the external manager to maximise 'growth in capital employed' rather than 'return on capital employed'. Base/management fees flow from growth in market capitalisation, not growth in shareholder returns.
- **Potential dilution of portfolio quality:** Thus, the 'external manager model' encourages a growth-by-acquisition strategy. This brings the risk that shareholders will have their exposure to high quality assets diluted by the addition of lower quality (and higher priced) acquisitions.
- **Dividends/distributions which are not fully covered by cash flow**: In many instances, distributions are being inflated by utilising the proceeds of refinancing/regearing. This practice effectively draws on future cash flows to bolster current day dividends.
- **The 'model' is spreading and becoming more aggressive.**

"We are here to make money with you, not off you." ***Warren Buffet***

Financial Assets in 2006 - Conclusions

Value is difficult to find - both at the asset class level and the stock/security level.

- From a relative performance perspective, we believe equities will outperform fixed interest, property and cash over the next 6-12 months. The relative attraction of fixed interest and cash, however, would rapidly improve if interest rates trend higher through 2006.
- The fundamental drivers for global equity markets remain relatively supportive. We believe 2006 will continue to be a battle between favourable corporate fundamentals and periodic interest rate/fears. Corporate fundamentals should prevail.
- Prefer cash to fixed interest/credit.

Australian equities. Valuations are full - particularly the non-bank industrials.

- Relative to the global market, the Australian market is expensive – investors are paying more for less.
- Little scope to absorb any bad news. In the absence of higher rates from the RBA and/or a hit to the "China story" any such bad news is likely to be stock-specific rather than market-wide. Prefer global stocks over domestic stocks and large caps over small-caps.

Stock Name	Stock Code	Short Term Recommendation	Long Term Recommendation	Price * (At 09.02.2006)	Valuation *
BHP Billiton	BHP	Outperform	Buy	$24.89	$17.46

* Valuation & Price in $A unless otherwise stated.

Source: GSJBW Research Estimates, IRESS

Disclosure of Interest:

BHP: Goldman Sachs and Goldman Sachs JBWere each have research coverage of the company the subject of this report. Any views, investment opinions or recommendations relating to the subject company published by Goldman Sachs JBWere are independently developed and may differ from those published by Goldman Sachs. BHP: Goldman Sachs JBWere and/or its affiliates expect to receive or intend to seek compensation for financial and advisory services in the next 3 months from the company, its parent, or its wholly owned or majority owned subsidiary. BHP: Goldman Sachs JBWere and/or its affiliates make a market in the securities of the company.

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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 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 2 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 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

EPU Growth: Ranking of Earnings Per Unit growth relative to other listed Real Estate Investment Trusts. Used instead of EVATM 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 50 Index (Gross) and not the S&P/ASX 200 index

Distribution of Recommendations - As at 31 December 2005

Short Term	Overall	Corporate relationship* in last 12 months	Long Term	Overall	Corporate relationship* in last 12 months
Underperform	16%	10%	Sell	8%	5%
Marketperform	61%	62%	Hold	63%	60%
Outperform	22%	28%	Buy	29%	36%

* 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.

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