

15 September 2004

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NZ Consumer Banking

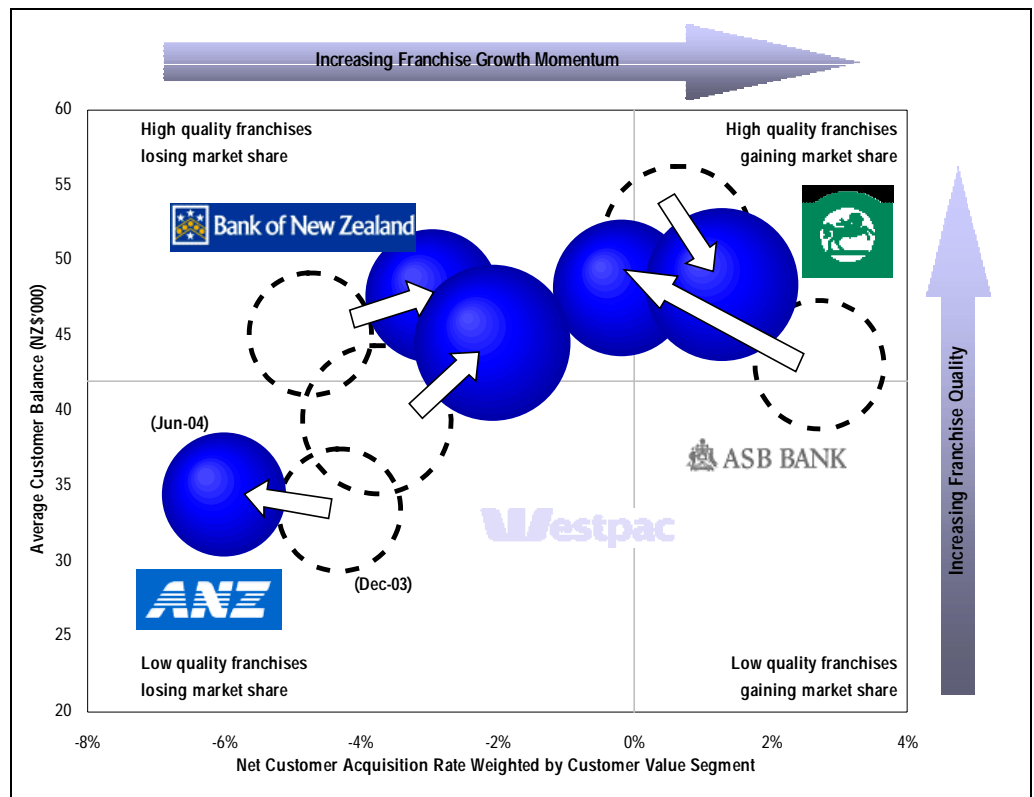
New Zealand Franchise Update Based on Data Supplied by Roy Morgan Research

Reason for Report: Industry update

Banks

Highlights:

- In May we released a review of the NZ consumer banking market based on data provided by Roy Morgan Research for the 12 months to December 2003. This note updates our analysis for the 12 months to June 2004
- During the 12 months to June 2004, customers continued to defect on balance from the Australian owned banks. Amongst the Australian owned banks NBNZ was the only net acquirer of customers in the top value segment during the period
- BNZ and WBC have shown improved momentum in customer acquisition at the higher value end of the market but ANZ continues to lag



Source: Roy Morgan Research, Merrill Lynch Analysis, Main Financial Institution Customers, Data based on 12 months to June 2004, Size of circles are proportionate to total bank footings

Data supplied by:

**Roy Morgan
- Research -**

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Refer to important disclosures on pages 8 to 10. Analyst Certification on page 7.

Summary & Conclusions

In May we released a review of the NZ consumer banking market based on data provided by Roy Morgan Research for the 12 months to December 2003. This note updates our analysis for the 12 months to June 2004¹. Our key observations area as follows:

Australian owned banks continue to lose share:

Customers continue to defect on balance from the Australian owned banks;

ANZ continues to lag on satisfaction & retention:

ANZ continues to lag the other large banks in terms of customer satisfaction and customer retention particularly at the higher value end of the market. We now project that ANZ's revenues will grow at 6 percentage points per annum below industry compared with our previous estimate of 4 percentage points below industry.

ASB experiences high attrition in March quarter:

Despite retaining the equal highest customer satisfaction ranking ASB experienced an unusually high level of customer defection in the March quarter which has since reversed. This appears to have been concentrated amongst higher value customers making NBNZ the only large bank to be a net acquirer of customers in the top value quintile. We now project that ASB will grow revenues in line with the industry compared to our previous estimate that projected growth of 3 percentage points per annum above industry.

BNZ experiences rising satisfaction & retention:

Customer satisfaction has continued to improve at BNZ in line with industry trends. Importantly, rising satisfaction seems to be stemming the rate at which customers leave the bank. We now project that BNZ's revenues will grow at 3 percentage points per annum below industry compared to our previous estimate of 5 percentage points below industry.

NBNZ still leads on service 9 months post acquisition:

The good news for ANZ is that NBNZ has remained a leader on customer service 9 months post acquisition. NBNZ is now the only large bank to be a net acquirer of high value customers. We now project that NBNZ will grow at 1 percent per annum above the industry compared to our previous estimate of growth in line with the industry.

WBC achieves better retention of high value customers:

Despite being behind on customer service, WBC has seen customer retention improve amongst higher value customers. We now project that WBC will grow at 2 percentage points per annum below the industry compared to our previous estimate of 3 percentage points below industry previously.

Kiwibank tracking very well in all segments:

Kiwibank continues to significantly lead the large banks in terms of customer satisfaction, acquisition, and retention across all value segments. That said, the bank's customer base is relatively skewed towards lower balance customers.

Table 1: Forecast Growth Rates

Bank	Parent	NZ Retail Banking Revenues	% of Parent Revenues	Forecast Growth Rate	
				Old	New
ANZ	ANZ	NZ\$378m	4%	4% below system	6% below system
ASB	CBA	NZ\$441m	4%	3% above system	In line with system
BNZ	NAB	NZ\$443m	3%	5% below system	3% below system
NBNZ	ANZ	NZ\$582m	6%	In line with system	1% above system
WBC	WBC	NZ\$602m	7%	3% below system	2% below system
ANZ/NBNZ	ANZ	NZ\$960m	10%	1% below system	2% below system

Source: Roy Morgan Research, Merrill Lynch analysis based on main financial institution customers during 12 months to June 2004

Ranking the Banks

Once again, employing data from Roy Morgan Research, we have ranked the five largest New Zealand consumer banking franchises from highest to lowest. We continue to rank the banks #1 NBNZ; #2 ASB; #3 BNZ; #4 WBC & #5 WBC. Our forced rankings are summarised in the table below along with Kiwibank for comparative purposes.

Table 2: NZ Consumer Bank Franchise Scorecard (Previous Ranking in Brackets¹) ADD KIW

	ANZ	ASB	BNZ	NBNZ	WBC	Kiwi
1. Avg footings per customer	\$35k	\$48k	\$48k	\$48k	\$45k	\$22k
- Rank from best to worst	5	2 (3)	3 (2)	1	4	n.a.
2. % customers unprofitable	42%	38%	30%	36%	35%	39%
- Rank from best to worst	5	4	1	3	2	n.a.
3. Customer satisfaction	68%	85%	77%	85%	71%	92%
- Rank from best to worst	5	2	3	1	4	n.a.
4. Customer acquisition rate	6%	8%	5%	7%	5%	51%
- Rank from best to worst	3	1 (2)	5	2 (1)	4	n.a.
5. Customer attrition rate	10%	6%	7%	5%	9%	4%
- Rank from best to worst	5	2 (1)	3	1 (2)	4	n.a.
Average ranking	4.6	2.2	3.0	1.6	3.6	n.a.
- Rank from best to worst	5	2	3	1	4	n.a.

Source: Roy Morgan Research, Merrill Lynch analysis
Main financial institution customers, Data based on 12 months to June 2004
¹See "New Zealand Franchise" (13 May 2004) for details of previous rankings

¹ See "New Zealand Franchise Review" (13 May 2004) for relevant explanation of data and framework

Company Snapshot - ANZ

Chart 1: ANZ – Net Customer Flow Over Time

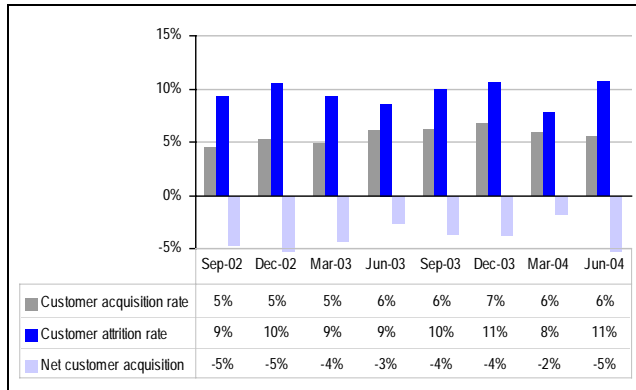


Chart 2: ANZ – Net Customer Flow by Customer Segment

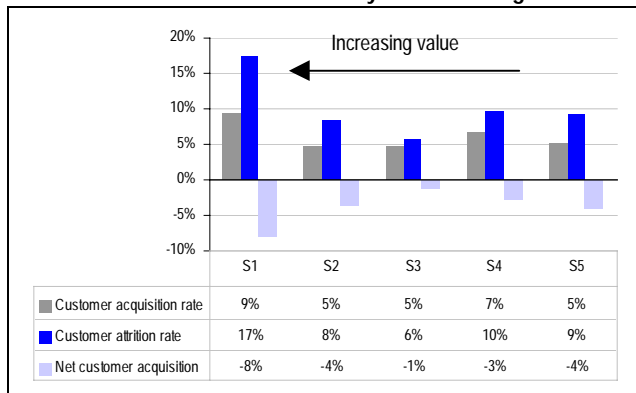


Chart 3: ANZ – Customer Satisfaction Over Time

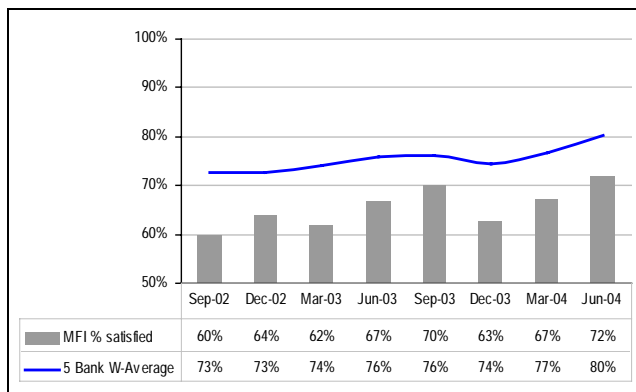
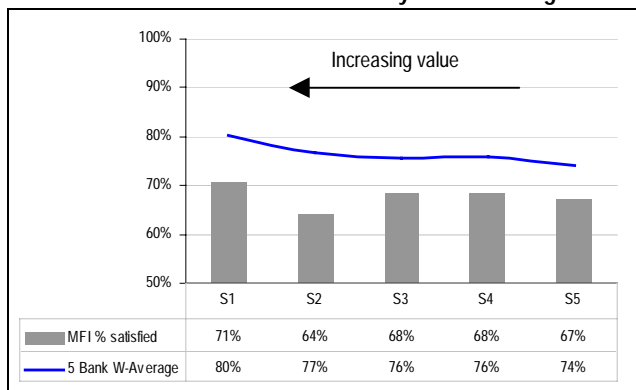


Chart 4: ANZ – Customer Satisfaction by Customer Segment



Source (all charts): Roy Morgan Research, Merrill Lynch analysis, Main financial institution customers, Charts 1&3: 3 month periods, Charts 2&4 : 12 months to June 04

Company Snapshot - ASB

Chart 5: ASB – Net Customer Flow Over Time

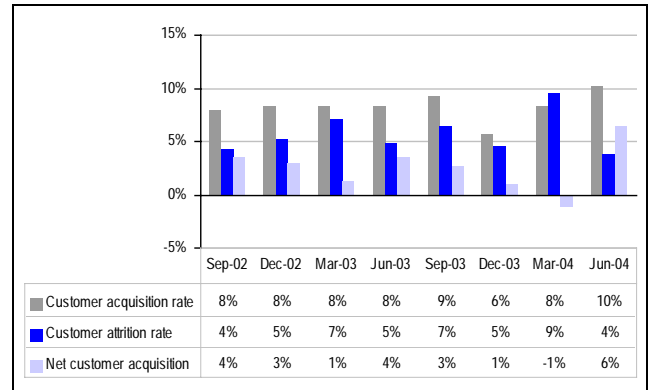


Chart 6: ASB – Net Customer Flow by Customer Segment

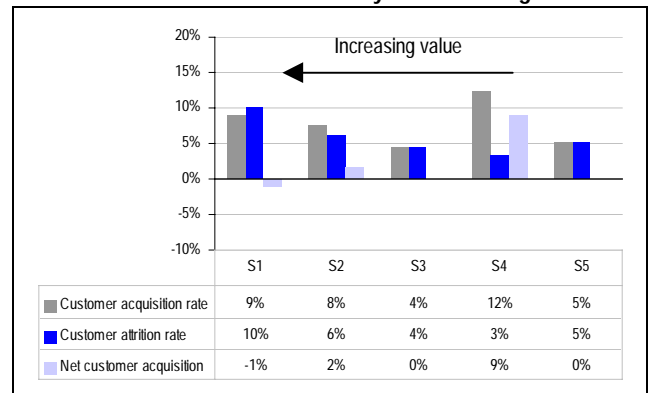


Chart 7: ASB – Customer Satisfaction Over Time

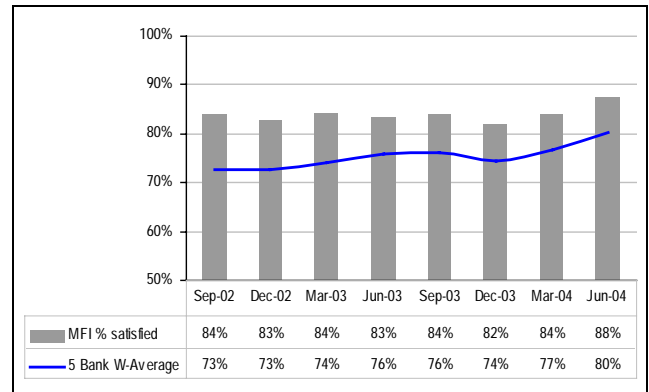
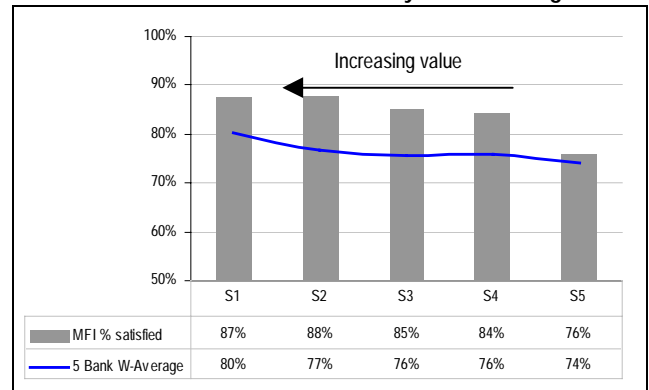


Chart 8: ASB – Customer Satisfaction by Customer Segment



Source (all charts): Roy Morgan Research, Merrill Lynch analysis, Main financial institution customers, Charts 5&7: 3 month periods, Charts 6&8 : 12 months to June 04

Company Snapshot - BNZ

Chart 9: BNZ – Net Customer Flow Over Time

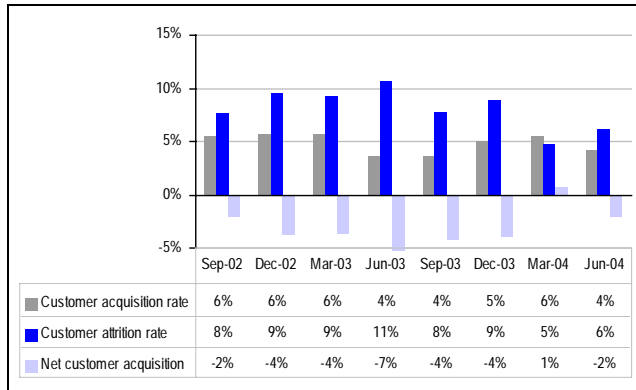


Chart 10: BNZ – Net Customer Flow by Customer Segment

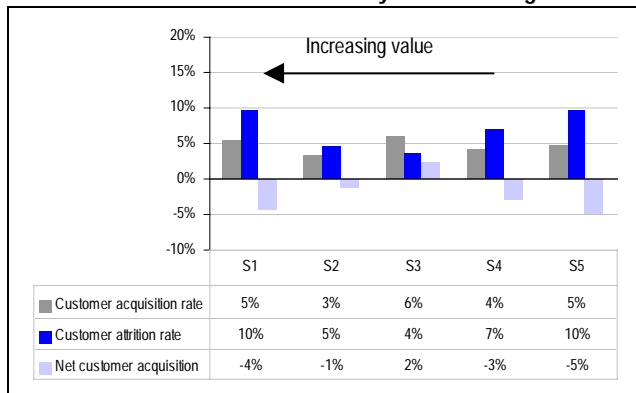


Chart 11: BNZ – Customer Satisfaction Over Time

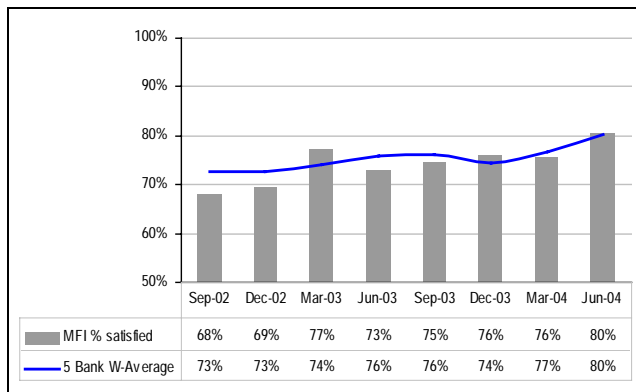
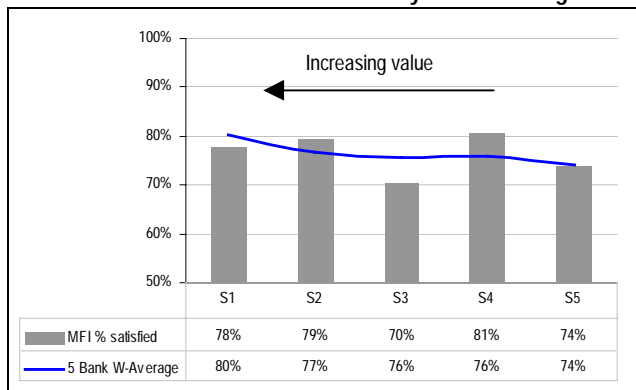


Chart 12: BNZ – Customer Satisfaction by Customer Segment



Source (all charts): Roy Morgan Research, Merrill Lynch analysis, Main financial institution customers, Charts 9&11: 3 mth periods, Charts 10&12 : 12 mths to June 04

Company Snapshot - NBNZ

Chart 13: NBNZ – Net Customer Flow Over Time

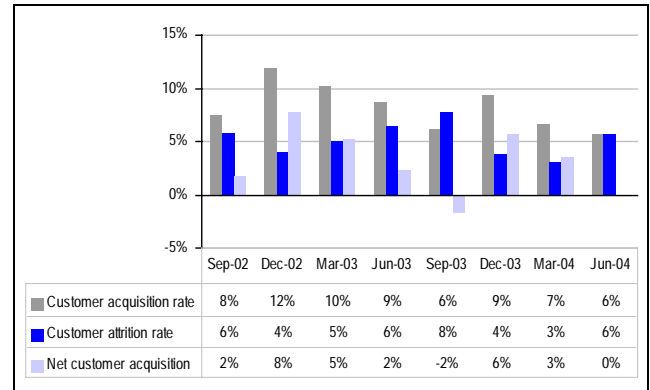


Chart 14: NBNZ – Net Customer Flow by Customer Segment

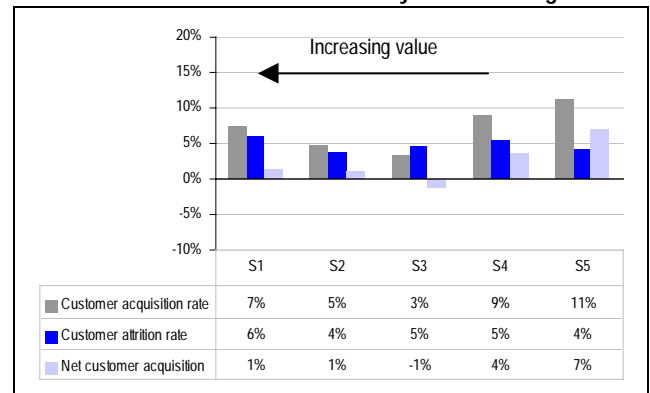


Chart 15: NBNZ – Customer Satisfaction Over Time

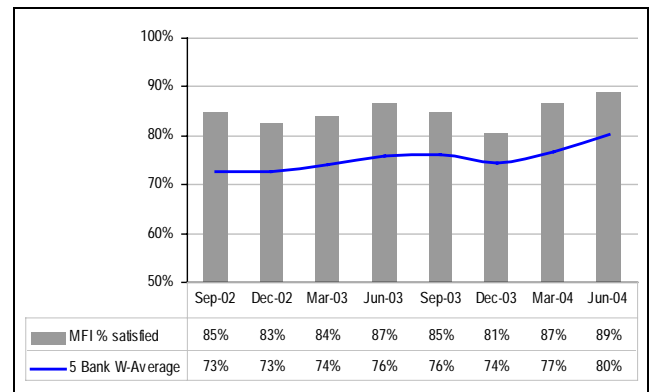
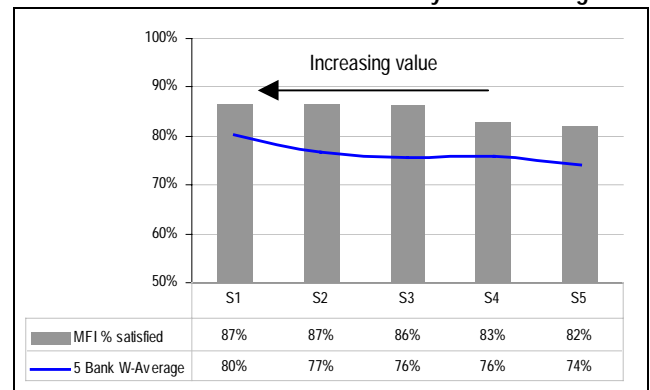


Chart 16: NBNZ – Customer Satisfaction by Customer Segment



Source (all charts): Roy Morgan Research, Merrill Lynch analysis, Main financial institution customers, Charts 13&15: 3 mth periods, Charts 14&16 : 12 mths to June 04

Company Snapshot - WBC

Chart 17: WBC – Net Customer Flow Over Time

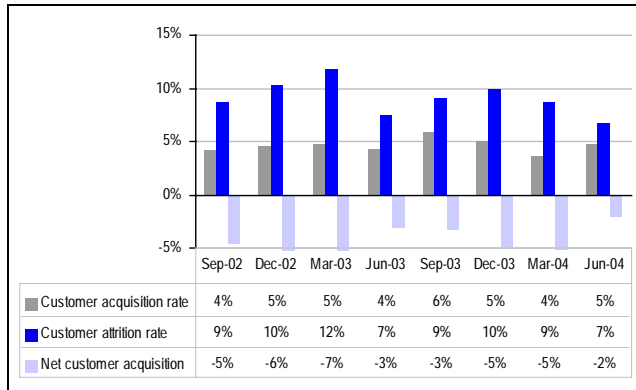


Chart 18: WBC – Net Customer Flow by Customer Segment

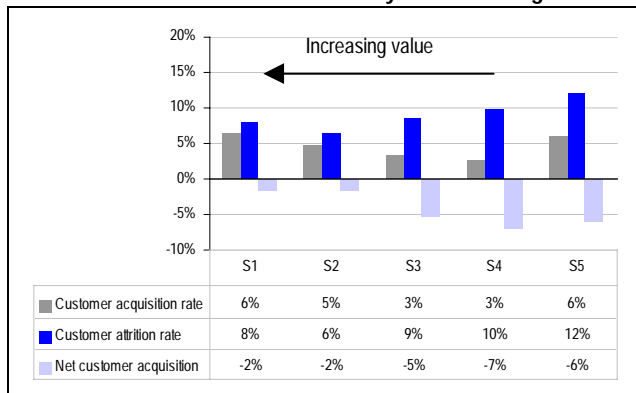


Chart 19: WBC – Customer Satisfaction Over Time

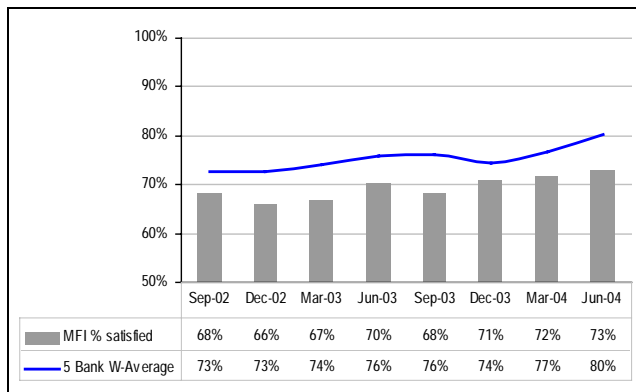
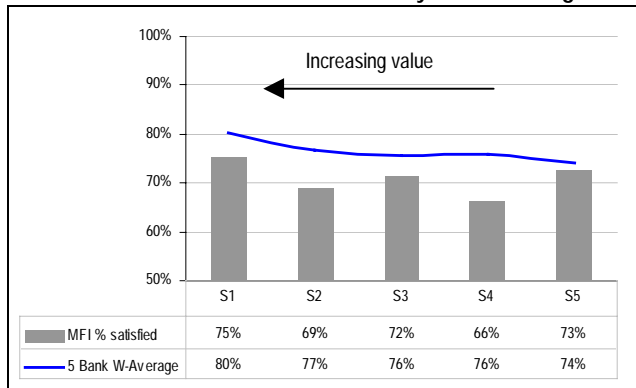


Chart 20: WBC – Customer Satisfaction by Customer Segment



Source (all charts): Roy Morgan Research, Merrill Lynch analysis, Main financial institution customers, Charts 17&19: 3 mth periods, Charts 18&20 : 12 mths to June 04

Company Snapshot - KiwiBank

Chart 21: KiwiBank – Net Customer Flow Over Time

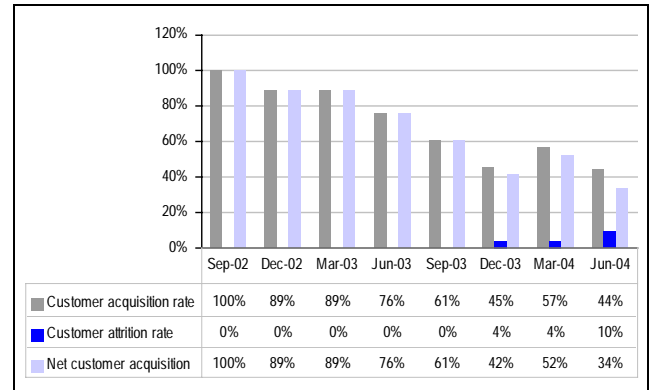


Chart 22: KiwiBank – Net Customer Flow by Customer Segment

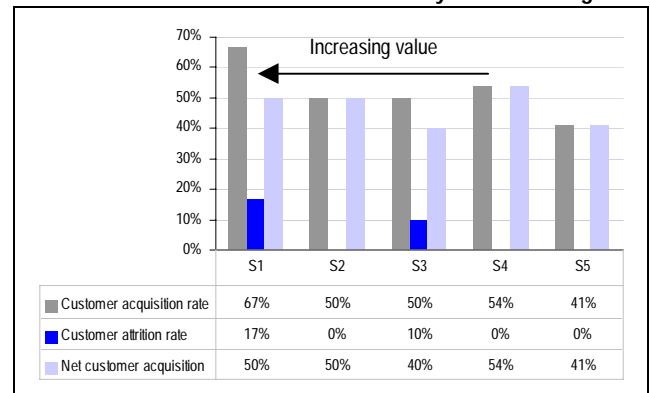


Chart 23: KiwiBank – Customer Satisfaction Over Time

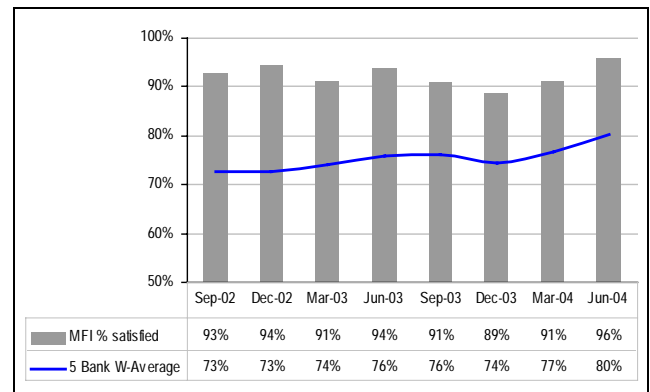
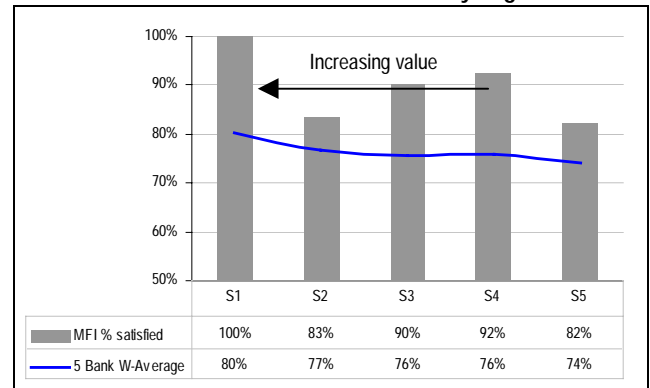


Chart 24: KiwiBank – Customer Satisfaction by Segment



Source (all charts): Roy Morgan Research, Merrill Lynch analysis, Main financial institution customers, Charts 21&23: 3 mth periods, Charts 22&24 : 12 mths to June 04

Table 3: Banking Sector Investment Arithmetic

A\$m	ANZ	CBA	NAB	WBC	SGB	ADB	BEN	BOQ
ML Ticker	ANEWF	CBAUF	NAUBF	WEBNF	STGKF	AXABF	BXRBF	BQUEF
Share Price	\$18.72	\$29.69	\$27.00	\$16.90	\$22.12	\$9.25	\$10.00	\$9.92
Price Objective					\$23.00	\$9.00		
Opinion	Neutral	Neutral	Neutral	Neutral	Buy	Buy	Neutral	Sell
ML Rating	B-2-7	A-2-7	A-2-7	A-2-7	B-1-7	B-1-7	C-2-7	B-3-7
ML Volatility Risk Rating	Medium	Low	Low	Low	Medium	Medium	High	Medium
Reported net profit:								
2003A	2348	2012	3956	2183	658	51	59	45
2004F	2753	2572	3938	2542	787	68	80	66
2005F	2888	3296	3836	2775	856	73	86	79
Adjusted net profit:								
2003A	2308	2707	4071	2271	714	52	63	40
2004F	2857	3129	3510	2551	825	63	78	56
2005F	3117	3293	3634	2778	898	70	91	72
3 Year CAGR	7%	5%	7%	7%	8%	8%	14%	18%
Adjusted EPS:								
2003A	1.46	2.16	2.69	1.25	1.42	0.60	0.50	0.56
2004F	1.61	2.49	2.31	1.38	1.62	0.68	0.58	0.63
2005F	1.71	2.58	2.32	1.50	1.74	0.74	0.64	0.72
3 Year CAGR	5%	4%	6%	6%	6%	6%	10%	10%
Adjusted PER:								
2003A	12.8x	13.7x	10.1x	13.6x	15.6x	15.5x	19.9x	17.7x
2004F	11.6x	11.9x	11.7x	12.2x	13.7x	13.7x	17.1x	15.8x
2005F	11.0x	11.5x	11.6x	11.3x	12.7x	12.5x	15.6x	13.8x
Free cash flow per share:								
2003A	1.47	2.37	2.72	1.28	1.53	0.51	0.47	0.38
2004F	1.62	2.76	2.26	1.43	1.81	0.60	0.55	0.39
2005F	1.73	2.86	2.33	1.56	1.95	0.69	0.61	0.49
3 Year CAGR	6%	4%	7%	7%	6%	8%	9%	13%
Free cash flow yield:								
2003A	7.8%	8.0%	10.1%	7.6%	6.9%	5.6%	4.7%	3.8%
2004F	8.6%	9.3%	8.4%	8.5%	8.2%	6.5%	5.5%	3.9%
2005F	9.3%	9.6%	8.6%	9.2%	8.8%	7.5%	6.1%	4.9%
Dividends per share:								
2003A	0.91	1.54	1.63	0.78	0.95	0.37	0.34	0.37
2004F	1.01	1.83	1.66	0.86	1.22	0.44	0.40	0.43
2005F	1.08	1.92	1.69	0.94	1.31	0.49	0.44	0.47
3 Year CAGR	7%	6%	4%	9%	7%	9%	9%	9%
Dividend yield:								
2003A	4.9%	5.2%	6.0%	4.6%	4.3%	4.0%	3.4%	3.7%
2004F	5.4%	6.2%	6.1%	5.1%	5.5%	4.8%	4.0%	4.3%
2005F	5.8%	6.5%	6.3%	5.6%	5.9%	5.3%	4.4%	4.7%
Price / NTA:								
2003A	2.9x	4.8x	3.0x	3.7x	4.9x	2.8x	2.8x	2.5x
2004F	3.0x	4.5x	2.5x	3.4x	4.5x	2.4x	2.4x	2.1x
2005F	2.7x	3.8x	2.4x	3.0x	3.9x	2.2x	2.2x	1.9x
Composite Valuation as at Sep-05:								
DCF	22.20	34.60	32.06	19.80	24.10	9.02	9.00	7.81
PER	18.59	31.76	27.89	16.94	23.16	8.60	9.67	9.79
Free cash flow yield	20.82	34.63	28.83	18.88	23.48	10.66	9.96	7.73
Dividend Yield	19.50	32.56	29.57	17.74	25.87	9.56	9.90	9.97
Average	20.28	33.39	29.59	18.34	24.15	9.46	9.63	8.83
<i>Discount / (Premium) to Current Price</i>	8%	11%	9%	8%	8%	2%	-4%	-12%

Source: Company accounts, Merrill Lynch estimates

Roy Morgan Research

Roy Morgan Research is the largest independent market research company in Australia. A full service research organisation, Roy Morgan has specialised in both syndicated and customised consumer and business research solutions for 60 years. In Australia Roy Morgan has offices in each state and is considered the authoritative sources for readership, financial service, voting, automotive and tourism market research. Internationally, Roy Morgan International has affiliations with leading research companies around the world, and has offices in New Zealand, the US and UK.

In Australia, Roy Morgan's financial services data is supplied to most major financial institutions, including the Reserve Bank of Australia.

Roy Morgan has been conducting interviews in New Zealand since 1997.

Roy Morgan Research Methodology

All interviews in this survey are conducted using a combination of telephone recruitment and self-completion booklets. Over 12,000 surveys were completed per year for the two years of data covered in this report. The sampling method for this survey collects information on all people aged 14 years and over. Quotas are enforced to ensure an even split of males and females and an even spread across age groups. Surveys are conducted continuously over a 12-month period with results being weighted to reflect the geographic, age and sex distribution of the population.

A commitment to quality service is fundamental to the way Roy Morgan does market research. This commitment occurs at every stage of the research process and is reflected by the recent certification of all offices of Roy Morgan Research to the AS/NZS ISO 9001:1994 quality standard.

Whilst the data provided by Roy Morgan Research for this publication has been prepared with all reasonable care no responsibility or liability is accepted by Roy Morgan Research for any errors or omissions or misstatements however caused.

Definitions

Cards:	All Visa, Mastercard, Bankcard and American Express cards held. "Share of Wallet" calculations based on amount carried forward
Customer:	People aged 18 and over with any type of product at the financial institution listed
Customer acquisition rate:	The proportion of customer who regard themselves as having joined a particular "Main Financial Institution" (MFI) during the last 12 months
Customer attrition rate:	The proportion of customer who regard themselves as having defected from a particular "Main Financial Institution" (MFI) during the last 12 months
Customer satisfaction:	The proportion of each group that are either "Very Satisfied" or "Fairly Satisfied" with their overall relationship with that financial institution
Deposits:	Savings and transaction accounts
Loans:	All non credit card lending
MFI:	Main financial institution as nominated by customer
Share of wallet:	The proportion of a customers total banking footings (ie loans, deposits & credit card outstandings) held with a particular financial institution
Size of wallet:	The gross value of all bank balances (ie loans, deposits & credit card outstandings) held with a financial institution.
Value quintiles:	These are based on a customer's "Size of Wallet", where S1 for example contains 20% of the population with the largest wallet value, through to S5 which represents the lowest 20% by wallet value

Analyst Certification

We, Hamish Carlisle, Matthew Davison and Flynn De Freitas, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Price Objectives / Risks

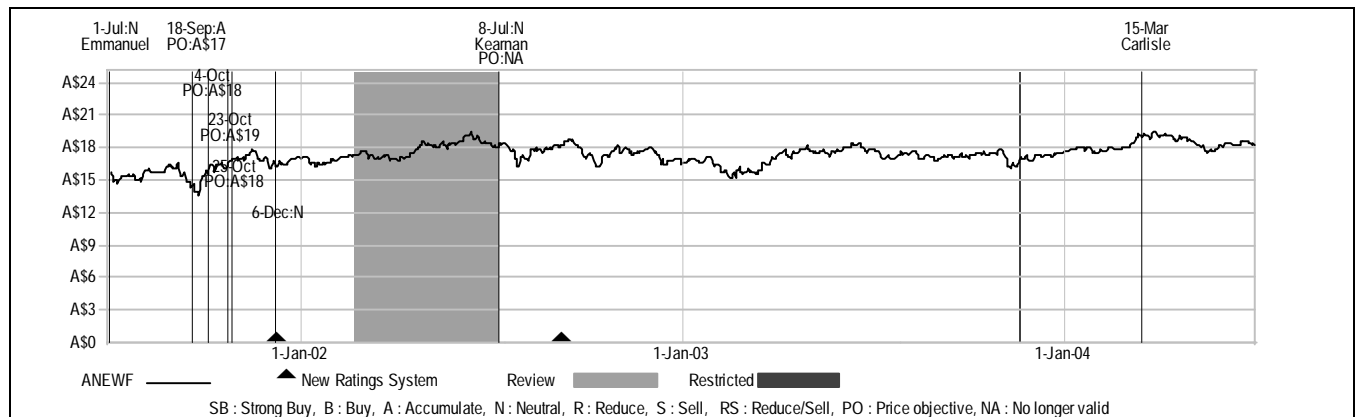
Banks are subject to various risks that can be broadly grouped under three categories – Credit Risk, Market Risk, and Operating Risk. Our forecasts and opinions take to account, where possible, such risks. Our price objectives, though, can differ from our DCF valuation in that the price objectives reflect composite valuations based on a range of metrics (DCF, PER, free cash flow yield & dividend yield).

Analyst Disclosure

One of our analysts covering ANZ is a former employee of the company and, in that capacity, received compensation from the company within the past 12 months.

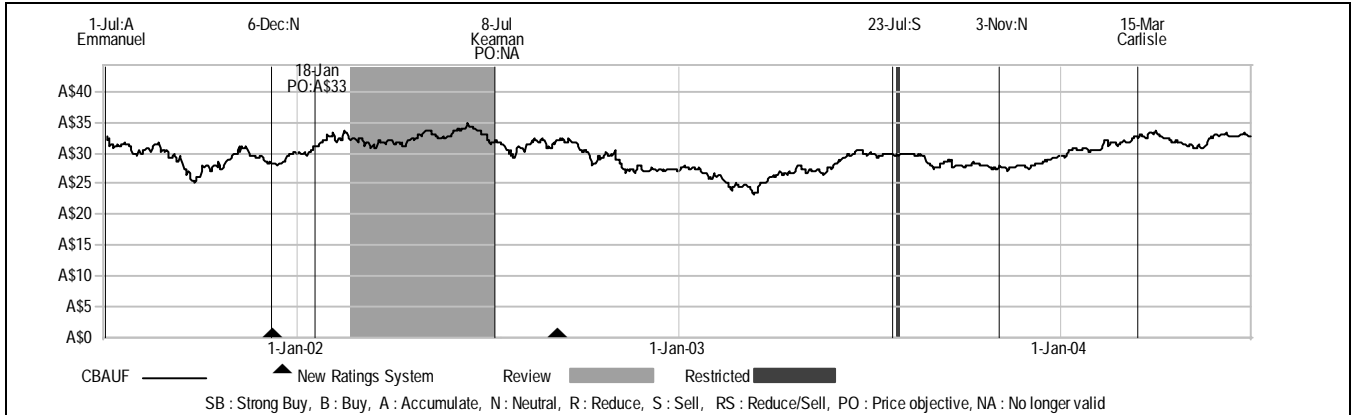
Important Disclosures

ANEWF Price Chart

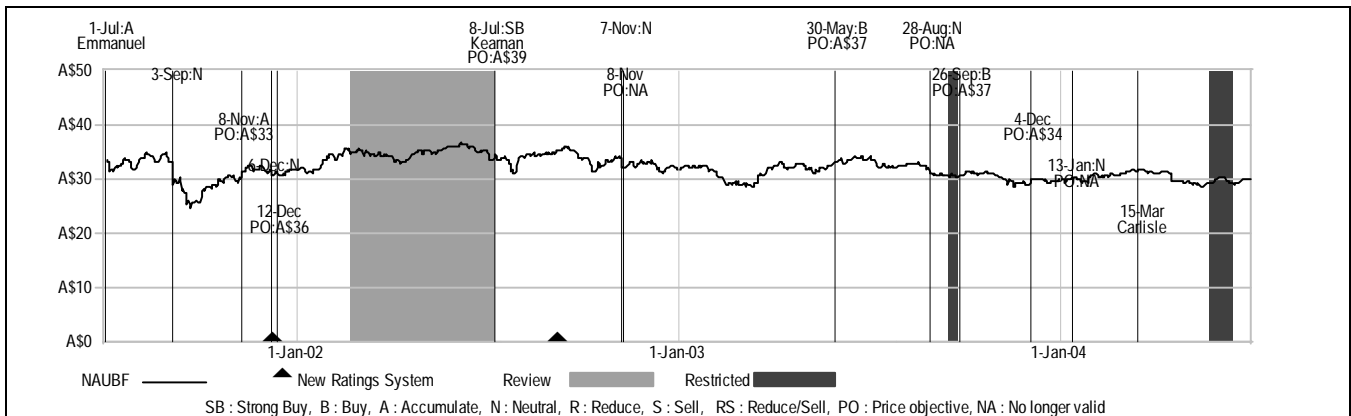


Prior to 8 Dec. 2001, the Investment Opinion System included: Buy, Accumulate, Neutral, Reduce and Sell. From 8 Dec. 2001 to 6 Sep. 2002, the Investment Opinion System included: Strong Buy, Buy, Neutral, and Reduce/Sell. On 8 Dec. 2001 Buy ratings became Strong Buy, Accumulate became Buy, and Reduce and Sell became Reduce/Sell. On 6 Sep. 2002, Strong Buy and Buy ratings became Buy, and Reduce/Sell became Sell. Any exceptions to these rating revisions are reflected in the chart. All price objectives for Neutral and Sell rated securities established before 6 Sep. 2002 were eliminated as of that date. The current Investment Opinion System is contained at the end of the report. Dark Grey shading indicates security is restricted with the opinion suspended. Light Grey shading indicates security is under review with the opinion withdrawn.

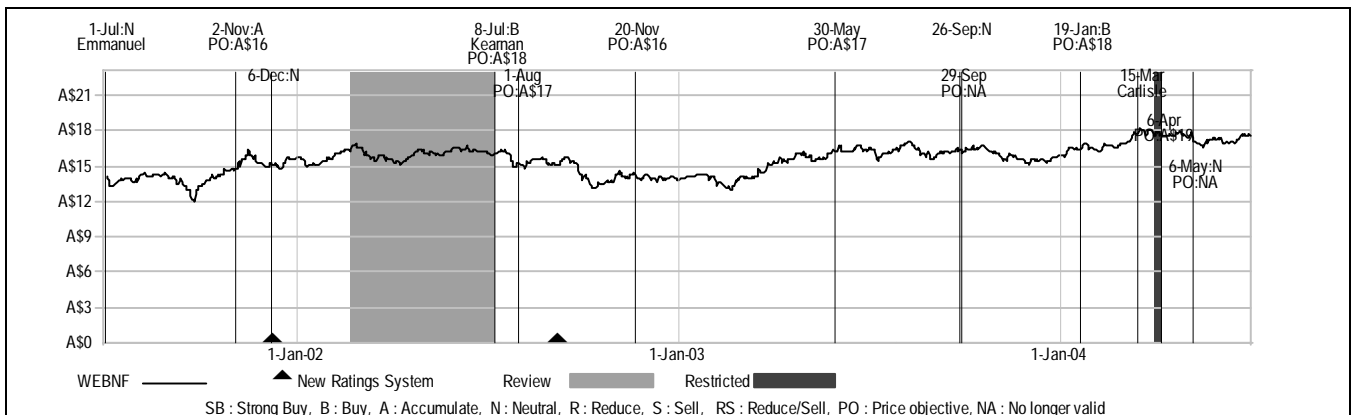
Refer to important disclosures on pages 8 to 10.

CBAUF Price Chart


Prior to 8 Dec. 2001, the Investment Opinion System included: Buy, Accumulate, Neutral, Reduce and Sell. From 8 Dec. 2001 to 6 Sep. 2002, the Investment Opinion System included: Strong Buy, Buy, Neutral, and Reduce/Sell. On 8 Dec. 2001 Buy ratings became Strong Buy, Accumulate became Buy, and Reduce and Sell became Reduce/Sell. On 6 Sep. 2002, Strong Buy and Buy ratings became Buy, and Reduce/Sell became Sell. Any exceptions to these rating revisions are reflected in the chart. All price objectives for Neutral and Sell rated securities established before 6 Sep. 2002 were eliminated as of that date. The current Investment Opinion System is contained at the end of the report. Dark Grey shading indicates security is restricted with the opinion suspended. Light Grey shading indicates security is under review with the opinion withdrawn.

NAUBF Price Chart


Prior to 8 Dec. 2001, the Investment Opinion System included: Buy, Accumulate, Neutral, Reduce and Sell. From 8 Dec. 2001 to 6 Sep. 2002, the Investment Opinion System included: Strong Buy, Buy, Neutral, and Reduce/Sell. On 8 Dec. 2001 Buy ratings became Strong Buy, Accumulate became Buy, and Reduce and Sell became Reduce/Sell. On 6 Sep. 2002, Strong Buy and Buy ratings became Buy, and Reduce/Sell became Sell. Any exceptions to these rating revisions are reflected in the chart. All price objectives for Neutral and Sell rated securities established before 6 Sep. 2002 were eliminated as of that date. The current Investment Opinion System is contained at the end of the report. Dark Grey shading indicates security is restricted with the opinion suspended. Light Grey shading indicates security is under review with the opinion withdrawn.

WEBNF Price Chart


Prior to 8 Dec. 2001, the Investment Opinion System included: Buy, Accumulate, Neutral, Reduce and Sell. From 8 Dec. 2001 to 6 Sep. 2002, the Investment Opinion System included: Strong Buy, Buy, Neutral, and Reduce/Sell. On 8 Dec. 2001 Buy ratings became Strong Buy, Accumulate became Buy, and Reduce and Sell became Reduce/Sell. On 6 Sep. 2002, Strong Buy and Buy ratings became Buy, and Reduce/Sell became Sell. Any exceptions to these rating revisions are reflected in the chart. All price objectives for Neutral and Sell rated securities established before 6 Sep. 2002 were eliminated as of that date. The current Investment Opinion System is contained at the end of the report. Dark Grey shading indicates security is restricted with the opinion suspended. Light Grey shading indicates security is under review with the opinion withdrawn.

Investment Rating Distribution: Banks Group (as of 30 June 2004)					
Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	73	40.56%	Buy	42	57.53%
Neutral	95	52.78%	Neutral	49	51.58%
Sell	12	6.67%	Sell	6	50.00%
Investment Rating Distribution: Global Group (as of 30 June 2004)					
Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1115	45.03%	Buy	390	34.98%
Neutral	1207	48.75%	Neutral	313	25.93%
Sell	154	6.22%	Sell	27	17.53%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium, and C - High. **INVESTMENT RATINGS**, indicators of expected total return (price appreciation plus yield) within the 12-month period from the date of the initial rating, are: 1 - Buy (10% or more for Low and Medium Volatility Risk Securities - 20% or more for High Volatility Risk securities); 2 - Neutral (0-10% for Low and Medium Volatility Risk securities - 0-20% for High Volatility Risk securities); 3 - Sell (negative return); and 6 - No Rating. **INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure); 8 - same/lower (dividend not considered to be secure); and 9 - pays no cash dividend.

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