

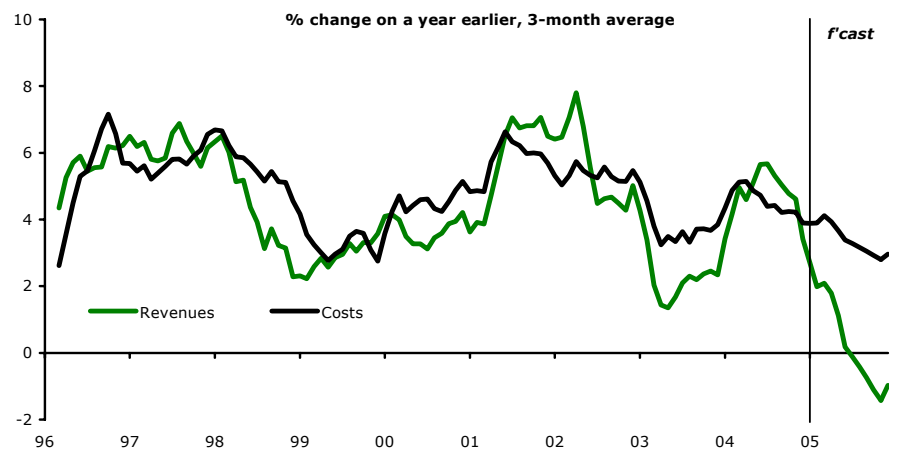
Economics Focus

Economics

Divine comedy

This year, UK consumers should stop borrowing and start saving. Higher interest rates and a weak housing market have already hurt spending. But worse is to come. We think unemployment will rise, causing more problems as households have no savings.

Chart 1 : Weaker retail profits will lead to job losses



Source: ABN AMRO estimates, National Statistics

UK

Inferno

Recent data have supported our long-held concerns about the UK consumer. Higher interest rates have reduced households' spending power. A weaker housing market has encouraged households to save more. Consumers have also bought too many durable goods in recent years and these do not need replacing.

Circles of hell

Optimists argue the slowdown in consumer spending will prove temporary as interest rates will not rise further. But worse is still to come as we expect unemployment to rise. As well as problems in the manufacturing sector, we see employment falling in the construction and retail sectors.

Purgatory

Higher unemployment in these sectors would have spillover effects in the rest of the economy. We estimate that for every 1,000 people made redundant, a further 400 jobs could be lost as those unemployed workers cut spending. UK consumers are vulnerable to higher unemployment as most workers have no liquid assets.

Paradise?

Under our scenario, the Bank of England should cut rates again. But the MPC is unlikely to cut interest rates until it is too late. It is currently fretting about rising import prices and weak activity data could push sterling lower. By the time the MPC changes its views on the inflation outlook, the damage could already be done.

Important disclosures and analyst certifications regarding companies that are the subject of this report can be found in the Disclaimer Appendix.

Analysts

James Carrick
 ABN AMRO Bank N.V.
 United Kingdom
 +44 20 7678 8199
 james.carrick@uk.abnamro.com

Robert Lind
 +44 20 7678 7175

Tim Drayson
 +44 20 7678 7339

Dario Perkins
 +44 20 7678 1849

Dominic White
 +44 20 7678 0417

www.abnamroresearch.com

Contents

ECONOMIC ANALYSIS

Divine comedy

3

This year, UK consumers should stop borrowing and start saving. Higher interest rates and a weak housing market have already hurt spending. Rising unemployment should cause more problems as households have no savings.

Inferno

4

Circles of hell

6

Purgatory

11

Paradise?

13

ECONOMICS FORECAST

Economic forecast table

15

Divine comedy

This year, UK consumers should stop borrowing and start saving. Higher interest rates and a weak housing market have already hurt spending. Rising unemployment should cause more problems as households have no savings.

We have long-held concerns about the vulnerability of the UK consumer to higher interest rates. Even though nominal interest rates are still 'historically low', households are highly indebted so only a small change in interest rates has damped the housing market and consumer spending.

We have long-held concerns about UK consumers

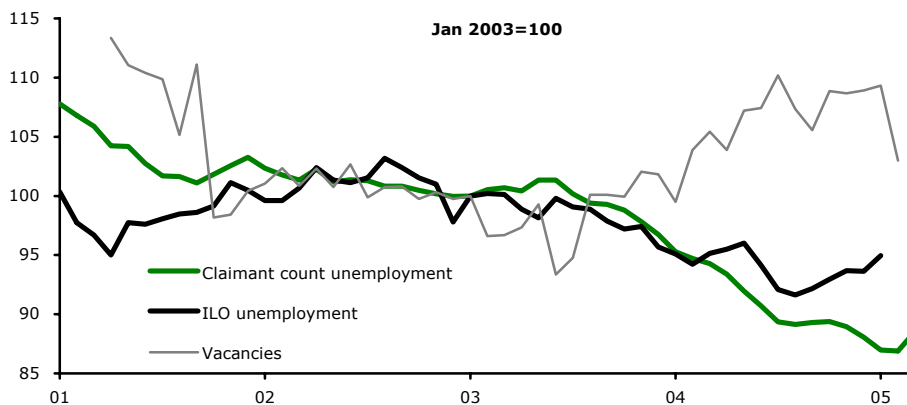
Consumer spending is slowing for three reasons. First, higher mortgage payments mean consumers have less disposable income. Second, a weaker housing market is encouraging households to save more. Finally, households have bought too many durable goods in recent years and these do not need replacing.

Higher interest rates have hurt

Optimists, including the Bank of England, argue the slowdown will prove temporary. We disagree. We think worse is to come as unemployment starts to rise. This is what happened in the late 1980s. After the housing bubble burst, employment fell in the construction and retail sectors. There is evidence this is happening again. Some retail jobs have already been lost and Rover's problems suggest we will see further manufacturing redundancies too.

But worse is to come as unemployment rises

Chart 2 : Labour market is starting to turn



Source: National Statistics

The explosion of household debt in recent years means the economy is far more vulnerable to higher unemployment than in the past. A quarter of workers on average earnings have no savings whatsoever, while another quarter have savings of less than one month's salary. Given the average duration of unemployment is seven months, households could run into a cashflow crisis. They might cut spending sharply and could even be forced to sell their homes to liquidate assets. Momentum will make things worse. For every 1,000 people made redundant, a further 400 jobs could be lost as those newly unemployed workers cut spending. We think over half a million jobs could be lost in the next few years.

Low savings means households are vulnerable to higher unemployment

The Bank of England should cut rates again. But the MPC is unlikely to cut rates until it is too late to make a difference. It is currently worried about rising import prices and weak activity data could push sterling lower. By the time the MPC changes its views on the outlook for inflation, the damage could already be done.

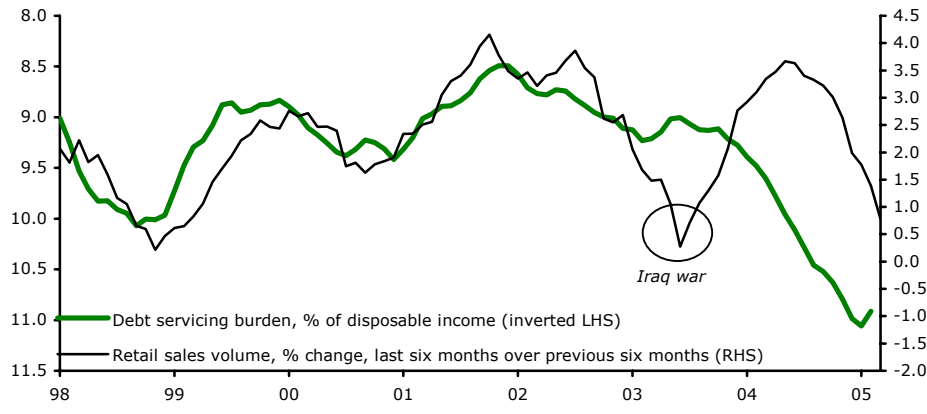
The MPC should cut rates again but is unlikely to do so soon

Inferno

We have long-held concerns about the vulnerability of the UK consumer to higher interest rates. Though interest rates are still 'historically low', households are highly indebted so only a small rise in interest rates has damped the housing market and consumer demand. Some people, including the Bank of England, believe the slowdown will prove temporary as the 'fundamentals' (low unemployment, rising wages) are fine. But higher interest rates and the need to repay debt have offset the resilience of the labour market. Our estimate of the household debt servicing burden (interest payments plus automatic repayment of mortgage principal) has shot up to levels consistent with negative retail sales growth.

Consumers have been hurt by higher interest rates

Chart 3 : Household debt servicing burden and retail sales

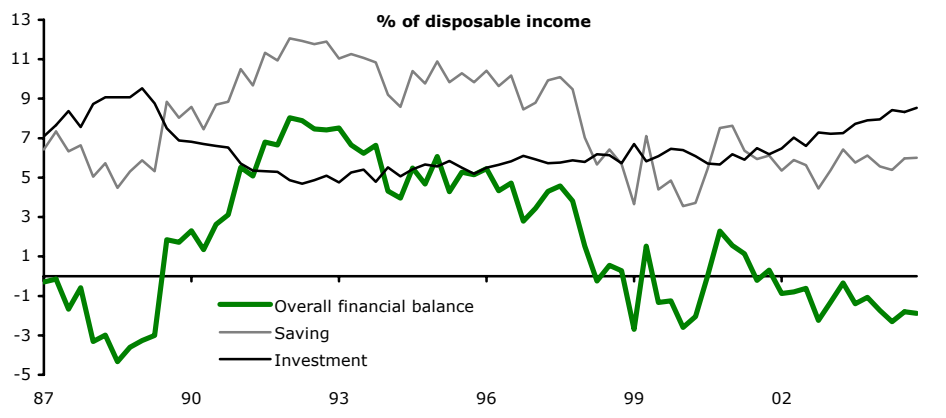


Source: ABN AMRO estimates, National Statistics, Bank of England

Households have less income to spend and they might also choose to save a greater proportion of their disposable income. There is a good relationship between the overall household sector financial balance (savings less investment) and real house prices. At the moment, households are running a cashflow deficit of 2% of disposable income. Household savings are historically low and households are also investing cash in physical assets by buying and upgrading homes. A recent survey by Mintel showed that 40 per cent of adults aged over 45 said they "preferred to invest their money in property than in savings products" (Source: Financial Times website).

Household finances are weak

Chart 4 : Household financial balance



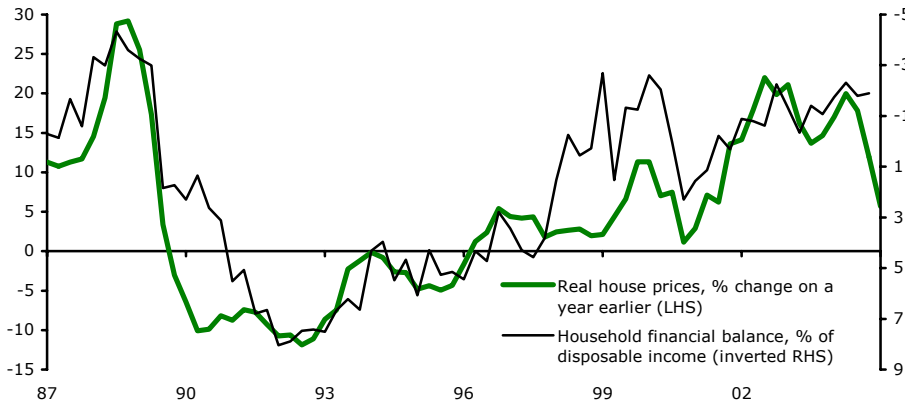
Source: National Statistics

But weaker returns from housing might change people's attitudes. Consumption has weakened even though the labour market remains tight, implying savings have risen. If real house prices remain flat (the best case scenario - we believe they could fall) households should start to run a *surplus* of 4% of income. They would invest less in

Households might save more

housing and more in financial products. So overall household spending (consumption plus investment) could fall by 6% of income or around 4% of GDP.

Chart 5 : Real house prices and household financial balance

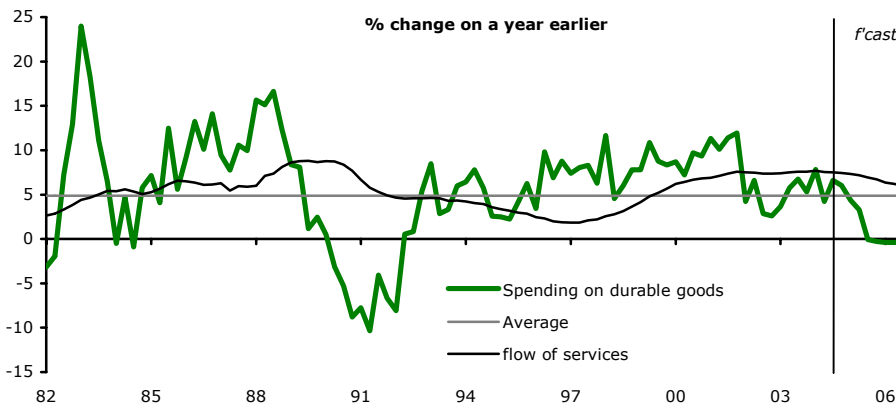


Source: National Statistics, HBOS

Consumers have also bought too many durable goods in recent years (cars, furniture, electrical equipment). Given their average lifespan is eight years, consumers will not need to replace these for some time. The flow of services households received from durable goods should remain above its long-term average even if spending on durable goods flattens off at current levels (see 'Spent up, Pent up', *Euro Vision*, 11 February 2004 for more details).

Households do not need to replace durable goods

Chart 6 : Flow of services from durable goods



Source: ABN AMRO estimates, National Statistics

Circles of hell

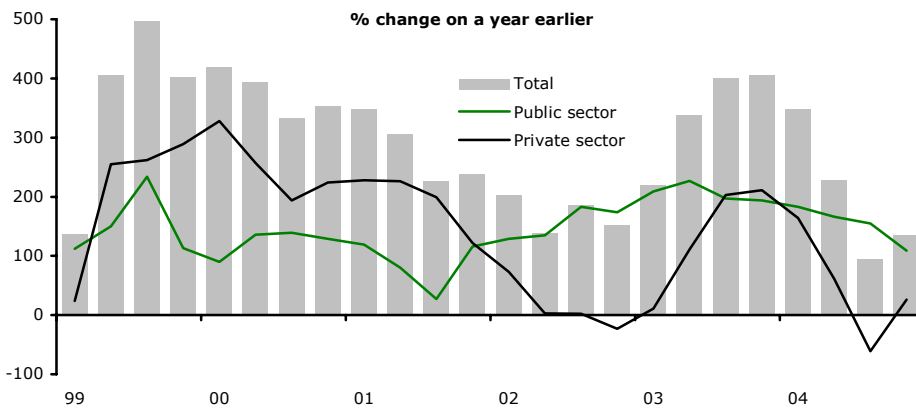
Optimists, including the Bank of England, believe the slowdown in consumer spending will prove temporary. We disagree. We believe worse is to come as unemployment begins to rise. We expect job losses in the manufacturing, construction and retail sectors as firms try to restore profitability. These trends will become self reinforcing. Because households have few savings, if they lose their jobs they will have to cut spending sharply, causing further job losses.

Worse is still to come

At the moment, the labour market remains tight. Employment was up 0.4% YOY in 4Q04. But of the 135,000 jobs created, the private sector added only 26,000. The public sector created the rest (109,000). Given the poor health of the public finances, the chancellor has promised to slow government spending. So public-sector employment growth should fall.

The labour market is currently tight

Chart 7 : Workforce jobs – public and private sector

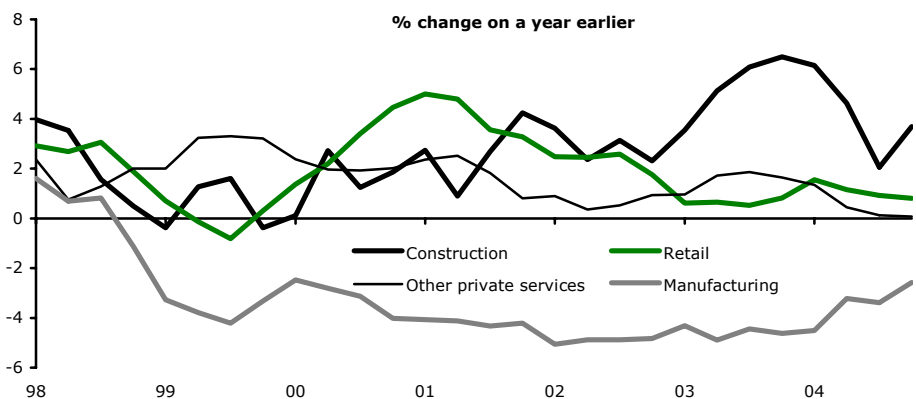


Source: National Statistics

If we look at private-sector jobs growth, most of the rise in employment in recent years has been in interest-rate-sensitive sectors such as construction and retail. If employment falls in these sectors and public-sector employment slows, overall jobs growth could turn negative in 2006.

Private sector job growth is weak

Chart 8 : Breakdown of private sector employment

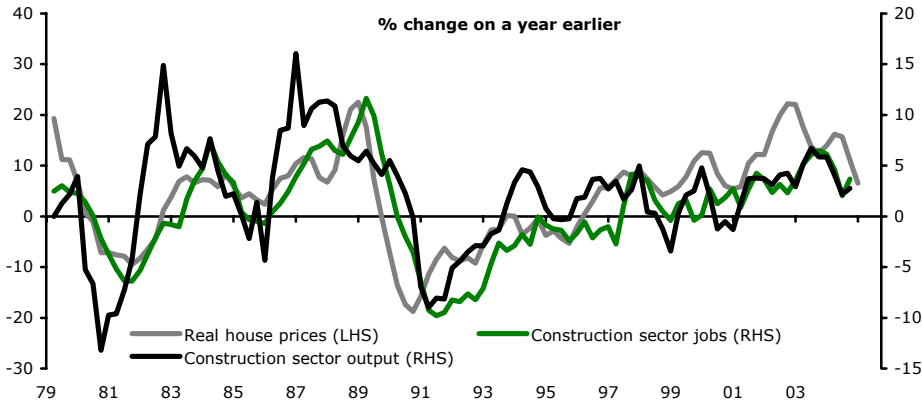


Source: National Statistics, Eurostat, ABN AMRO estimates

This is what happened in the late 1980s after the housing market collapsed. First, real house prices fell. Then construction jobs declined (Chart 9). We don't have a series of retail jobs going back that far. But total distribution (retail, wholesale, hotels and catering) employment fell after construction jobs declined (Chart 10). We then saw job losses in other service industries.

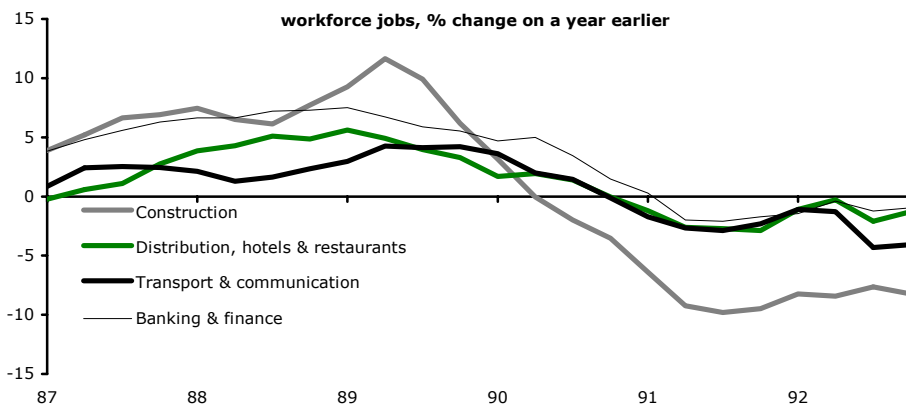
After the 1980s housing crash, employment fell

Chart 9 : Real house prices and construction jobs



Source: National Statistics

Chart 10 : Employment by sector after the 1980s housing bubble burst



Source: National Statistics

Manufacturing

We believe we will see similar declines in employment over the next year. Rover’s current problems suggest manufacturing employment will fall further. In 2004, manufacturing employment declined by 126,000, reducing overall employment by 0.4%. We expect a similar deterioration in manufacturing jobs this year.

Manufacturing will continue to shed staff

Construction

Over the past year, 78,000 jobs have been created in the construction sector, boosting overall employment by ¼%. If real house prices remain flat, Chart 9 suggests this boost to employment will disappear. If real house prices decline, we could see significant job shedding in this industry. We believe real house prices will fall by 10% by the end of 2006 as the recent collapse in transactions eventually feeds through to lower prices and a weaker labour market causes forced selling. Chart 9 suggests a 10% decline in real house prices would cause construction employment to fall by 5%. This is equivalent to over 100,000 workers, or 0.4% of total employment.

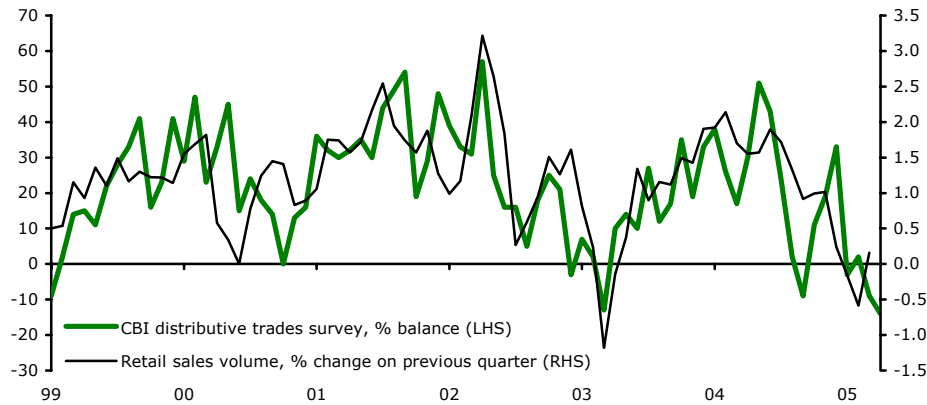
Construction jobs are under threat

Retail

We are also concerned about retail jobs. Retailers are suffering on two fronts. First, sales volume growth has fallen sharply. Indeed, the latest CBI distributive trades survey was the weakest since 1992, suggesting retail sales volume fell at an annualized rate of 2½% in April (Chart 11).

We are worried about retail employment

Chart 11 : CBI distributive trades survey and retail sales volume

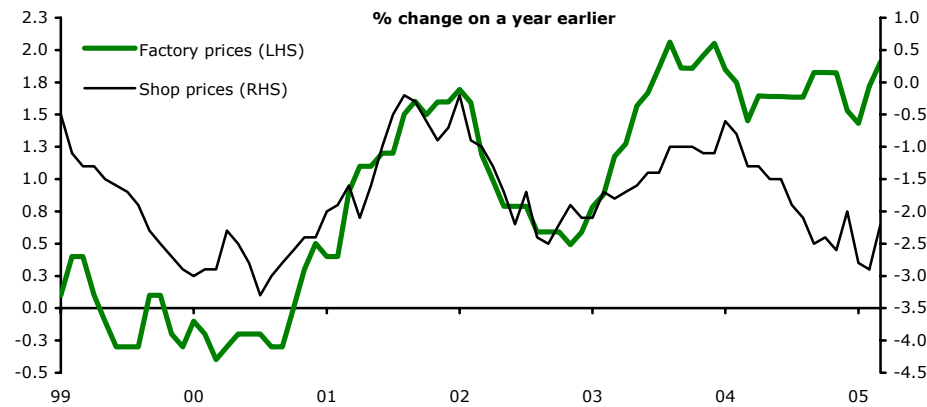


Source: National Statistics, CBI

Alongside weaker volumes, retailers are also suffering a margin squeeze. High commodity prices have pushed up the price of consumer goods leaving factories, but retailers have been unable to pass on these cost increases (Chart 12).

Retailers' margins are under pressure

Chart 12 : Prices of consumer goods

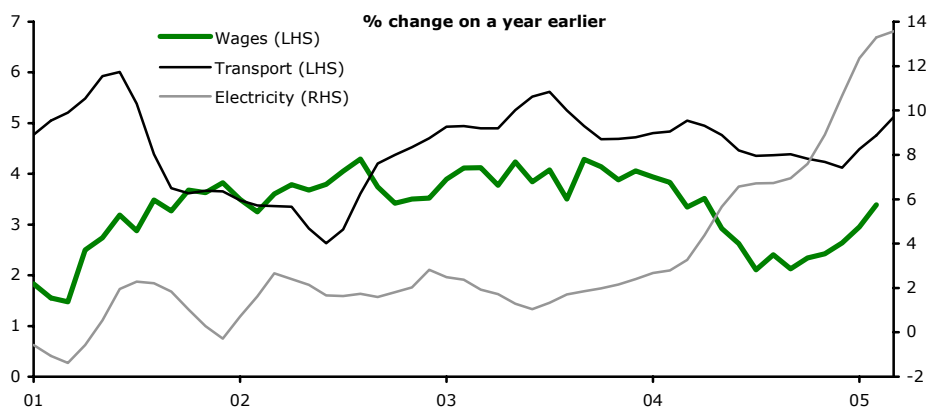


Source: National Statistics, Eurostat

Other costs are also accelerating. Wage growth has picked up, helped by increases in the minimum wage. Higher energy prices are also boosting firms' costs. Electricity prices are rising rapidly and higher petrol prices have boosted firms' transport costs.

Costs are rising

Chart 13 : Other retailers' costs



Source: National Statistics

We have created a composite measure of retailers' costs. This consists of both variable (factory and import prices, wages, transport) and fixed costs (electricity, rent, banking services).

Table 1 : Composition of our proxy of retailers' total costs

	Weight	Current inflation rate, % YOY (Dec '04)
Fixed Costs	16%	3.2
<i>of which:</i>		
Rent	10%	2.9
Electricity	1%	12.6
Banking	5%	1.9
Variable Costs	84%	2.0
<i>of which:</i>		
Wages	48%	2.5
Imported goods*	5%	-3.2
Domestic produced goods*	25%	1.5
Transport*	6%	4.2

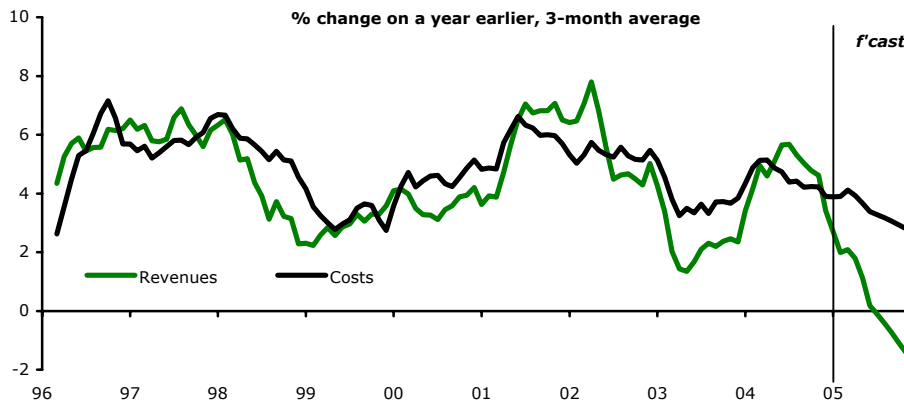
Source: ABN AMRO estimates, National Statistics * Assumed to also rise in proportion to sales volumes

Some variable costs will automatically fall in line with weaker demand. If firms are selling less, they should purchase fewer goods from factories and their transport costs will also fall. But other costs (wages, electricity, rent) are fixed unless they close stores and shed workers.

In Chart 14 we have plotted our measure of retailers' costs against their revenues (cash spending). We have also put in a forecast for revenues and costs assuming retail sales volume remain flat (sales have not risen since September 2004 – Chart 15). Revenues fall more rapidly than costs because only a small proportion of costs fall in line with sales.

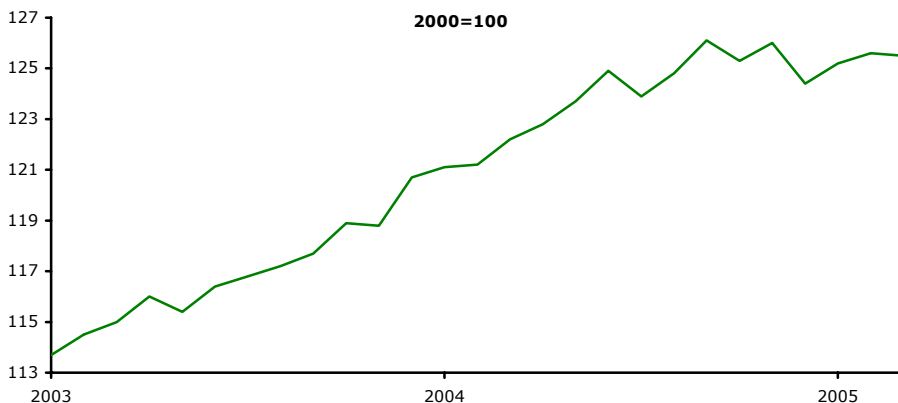
Revenues are slowing

Chart 14 : Retailers' costs and revenues



Source: ABN AMRO estimates

Chart 15 : Retail sales volume

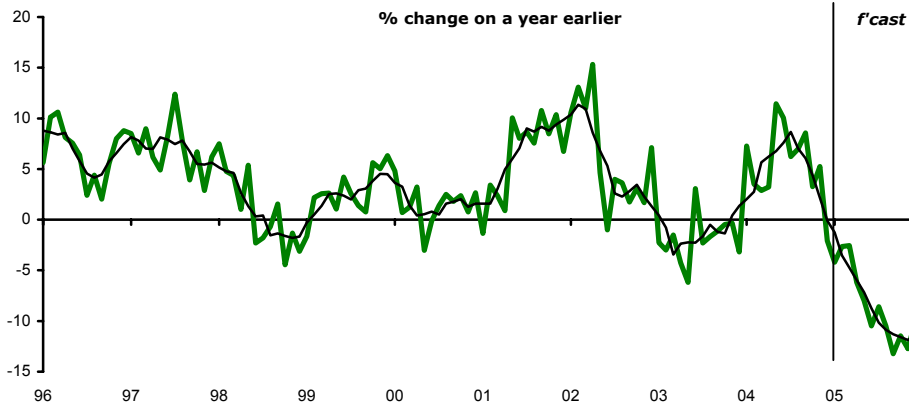


Source: National Statistics

By looking at the difference between costs and revenues, we calculate the level of retailers' profits. At the end of 2004 we estimate retailers' profits were down 2% YOY. If we assume retail sales volumes remain flat till the end of the year, profits would fall by over 10% YOY.

Profits could fall by 10% this year

Chart 16 : Retailers' profits



Source: ABN AMRO estimates

To rectify this, firms would need to close stores and slash employment. We estimate retailers would need to cut 5% of their capacity (stores and workers) to offset the squeeze in profits from flat retail sales. Over three million people are currently working in retail. So a 5% decline would imply a 150,000 decline in jobs. This sounds drastic. But the British Retail Consortium survey suggests capacity expanded by around 4% in 2004 (total sales volumes rose 4% more than like-for-like sales volume). Older, less efficient stores are likely to close as traditional retailers continue to lose market share to supermarkets.

Retailers need to cut 5% of capacity (stores and workers)

Chart 17 : Retail sector expansion



Source: National Statistics, BRC

Purgatory

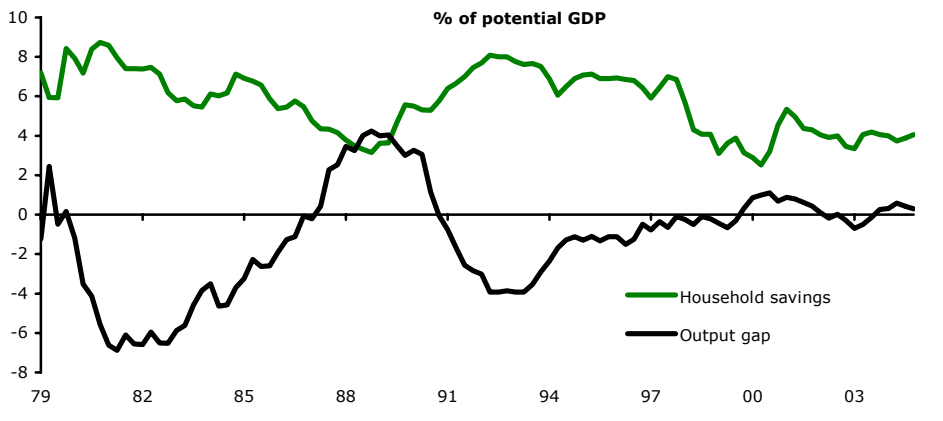
Our analysis suggests we could see significant job losses in the manufacturing, construction and retail sectors. But the ultimate decline in jobs will be more than this. For every 1,000 workers made redundant, we calculate another 400 would lose their jobs. This is because newly unemployed workers would be forced to cut spending, depressing firms' profits further, making more job cuts necessary.

For every 1,000 workers made redundant, another 400 lose their job

The biggest problem is that households do not behave 'rationally'. Economic theory suggests households try to smooth their consumption over their lifetimes. They save money in the good times (because they know it will not last forever) and run down their savings in the bad times. But UK households do the opposite – there is a negative correlation between the economy and savings (Chart 18). In the good times, households borrow because they think incomes will remain strong forever, allowing them to repay their debts. But when the bad times come, they struggle to pay back debt and are forced to slash spending.

Newly unemployed workers will be forced to cut spending

Chart 18 : Household savings and the output gap

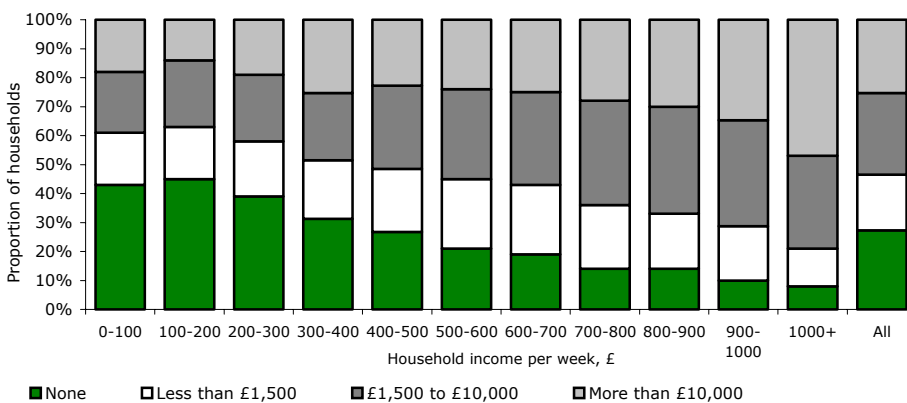


Source: National Statistics, OECD

This lack of savings means UK consumers are vulnerable to higher unemployment. A quarter of workers on average earnings (£26,300 per year or £506 per week) have no liquid assets. Another quarter have less than one month's pay (Chart 19). Take up of unemployment insurance for mortgages has also fallen in recent years (Chart 20). Given the average duration of unemployment is seven months, a newly unemployed household is likely to run into significant cashflow problems. Spending would fall sharply and this could cause further job cuts in the retail sector.

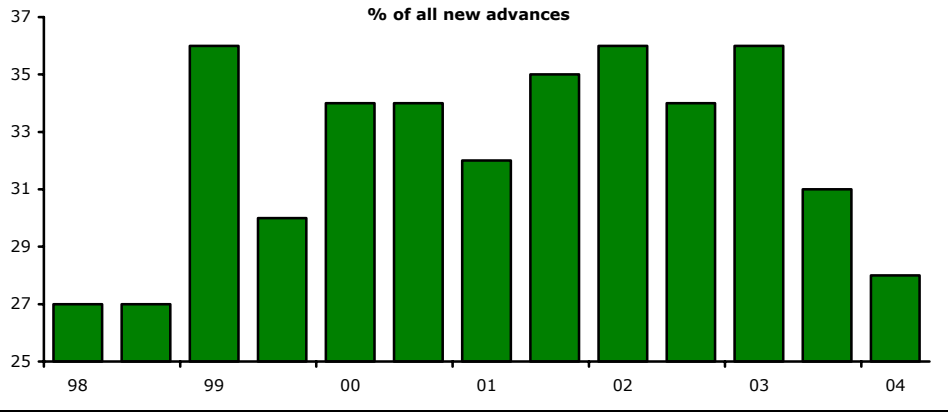
A quarter of workers on average earnings have no savings

Chart 19 : Savings by household income



Source: National Statistics, ABN AMRO estimates

Chart 20 : Mortgage payment protection insurance take up

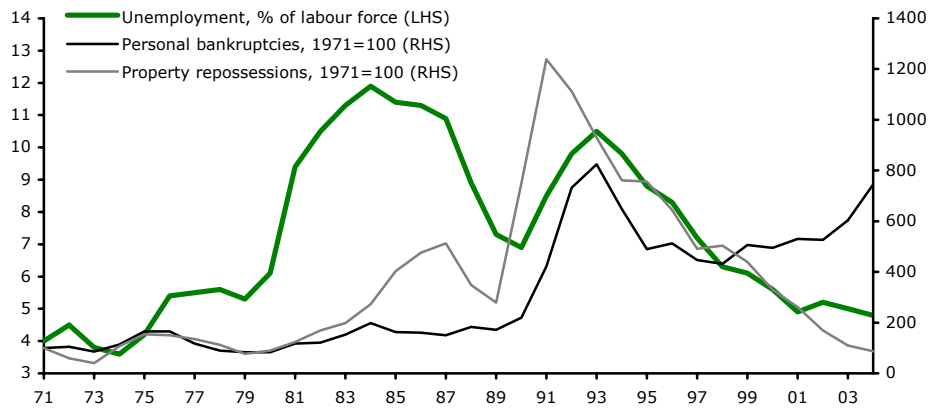


Source: CML

As rising unemployment causes households to struggle to repay debt, they might have to sell their home (Chart 21). Alternatively, given most of households' wealth is tied up in their home, they might voluntarily decide to sell their properties to liquidate assets to maintain consumption. Either way, house prices should fall, encouraging other households to invest less in physical assets, making matters worse for workers in the construction sector.

Households might have to sell their properties

Chart 21 : Unemployment, bankruptcies and property repossessions



Source: National Statistics

We have quantified this multiplier effect. If employment falls by 1%, the Bank of England's research suggests consumption could, after a while, fall by around 0.7%. This would reduce GDP by just under 1/2%. As the economy slows, more jobs will be lost (generally a 1% fall in GDP growth causes a 0.6% decline in employment growth). This would cause a further decline in consumption and so on. In the long run, an initial 1% decline in employment should lead to a further 0.4% fall in jobs.

So how many jobs are at risk? Over the next year we could see 125,000 manufacturing jobs lost, 100,000 construction jobs shed and a 150,000 decline in retail employment. This gives a total of 375,000. If we multiply by 1.4 we get a total of 525,000 jobs at risk over the next few years.

Over half a million jobs are at risk

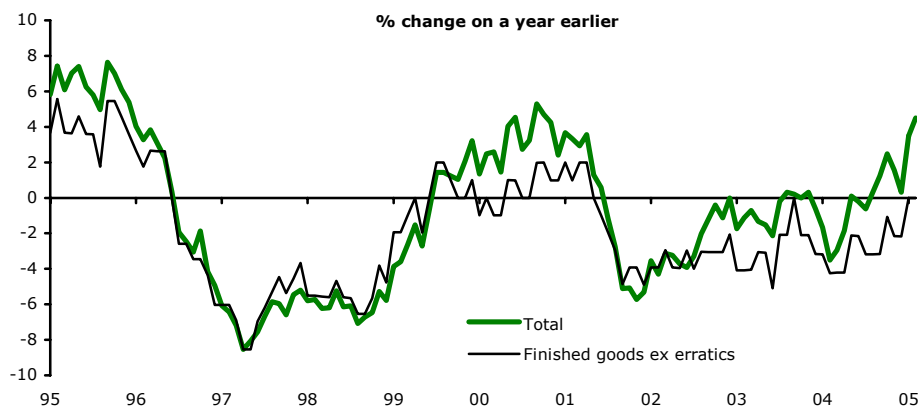
This suggests the UK economy is likely to remain depressed for several years. It therefore fits in with our previous research on money illusion ('The end', Euro Vision, 29 September 2004) which argued households have taken on too much debt and will struggle to pay it off in a low inflation world.

The UK economy will remain depressed for a long time

Paradise?

Our analysis suggests that if interest rates remain unchanged, the economy will deteriorate significantly. So the Bank of England should be considering cutting interest rates again. But the MPC is unlikely to cut rates for some time. It is far more optimistic about the economy than we are. As we predicted last year ('Stuck in the middle', *Euro Vision*, 27 October 2004), the committee is currently more worried about rising import prices than slower growth. So rate cuts are not on the agenda. Indeed, at its April meeting, two of the nine members voted to raise rates by 25bp.

Chart 22 : Import prices



Source: National Statistics

The MPC might be slow to react to weak economic data because it only tends to change its view on the economy every three months, in line with the publication schedule of its Quarterly Inflation Report. The next Inflation Report is due on 11 May, but the one after that won't be available until August.

Weak economic data could cause the Bank of England to revise down its inflation forecast. But this could be offset by a weaker pound. The FX market is open 24 hours a day, so sterling could fall before the MPC has the chance to reassess the economic outlook and cut interest rates. If sterling were to weaken, the MPC might make an offsetting upward revision to its inflation forecast, encouraging it to leave interest rates on hold a little longer. The Bank of England governor Mervyn King has previously warned that the growth-inflation mix will get worse.

The MPC might also prefer to see sterling weaken than cut rates. It might try and talk the pound down to encourage a rebalancing of growth away from housing and consumption towards exports. Some members of the MPC might be unhappy creating a 'moral hazard' in the housing market by cutting interest rates at the first signs of trouble if this were to encourage more property speculation. So even if economic growth slips below trend, the MPC could plausibly keep rates on hold at 4¾% until the end of the year.

It is unclear whether modest, delayed rate cuts could significantly boost the economy in 2006. The MPC raised interest rates in November 2003 and February 2004, but this had little effect on the real economy. It was only when the MPC hiked rates aggressively in summer 2004 that the consumer took notice.

So if the MPC waits until unemployment starts rising before cutting interest rates modestly, the positive impact on consumer spending and housing from lower interest rates would be offset by the negative impact from a deteriorating labour market. House prices would still be overvalued. The current housing affordability problem has little to do with interest rates. Instead, it reflects the difficulties households have in raising a deposit and repaying mortgage principal in a low inflation world (Chart 23).

The Bank of England should consider cutting rates

But the MPC is more worried about inflation

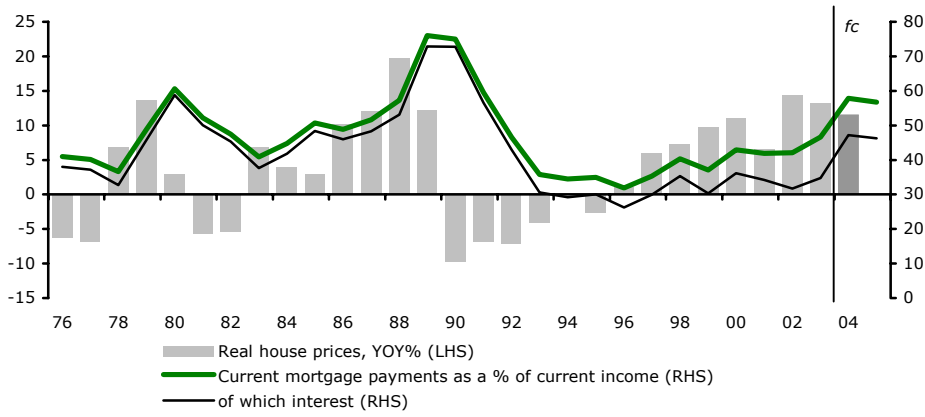
Sterling could fall

The MPC might not want to create a 'moral hazard' in the housing market

Modest rate cuts might have little impact

The MPC might cut too late

Chart 23 : Housing affordability



Source: ABN AMRO estimates

Moreover, higher unemployment could trigger forced selling, so house-price expectations could turn negative. Job fears and wealth effects could encourage households to save more of their income, regardless of the interest rate. So over the next couple of years, the UK is likely to stop being a credit-based economy. Instead, a new savings culture could develop.

The UK consumer might stop borrowing and start saving

Table 2 : Economic forecasts

(seasonally adjusted unless otherwise stated)		*Denotes last actual data														
ITEM	UNITS	2004	2005	2006	1q 04	2q 04	3q 04	4q 04*	1q 05	2q 05	3q 05	4q 05	1q 06	2q 06	3q 06	4q 06
GDP (DEMAND)																
Real GDP	£bn 1995 mkt prices	1066.1	1089.7	1108.6	263.3	266.0	267.4	269.3	270.6	271.9	273.0	274.2	275.4	276.6	277.7	278.8
	QOQ%				0.6	1.0	0.5	0.7	0.5	0.5	0.4	0.4	0.5	0.4	0.4	0.4
	YOY%	3.1	2.2	1.7	2.8	3.5	3.1	2.9	2.8	2.2	2.1	1.8	1.8	1.7	1.7	1.7
Consumers' expenditure	£bn 1995 mkt prices	691.6	704.4	715.7	171.3	172.6	173.5	174.2	175.0	175.7	176.4	177.1	177.9	178.6	179.3	180.0
	QOQ%				1.1	0.7	0.6	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
	YOY%	3.1	1.8	1.6	3.5	3.3	2.9	2.7	2.2	1.8	1.7	1.7	1.6	1.6	1.6	1.6
Government consumption	£bn 1995 mkt prices	213.1	221.5	229.8	52.6	53.0	53.6	54.0	54.6	55.1	55.7	56.2	56.8	57.2	57.7	58.1
	QOQ%				0.7	0.7	1.2	0.8	1.0	1.0	1.0	1.0	1.0	0.8	0.8	0.8
	YOY%	4.6	3.9	3.7	5.2	5.2	4.7	3.5	3.8	4.1	3.9	4.1	4.1	3.9	3.6	3.4
Investment: total	£bn 1995 mkt prices	184.0	190.4	192.5	45.0	45.8	46.3	46.9	47.2	47.5	47.8	47.9	48.0	48.1	48.2	48.3
	QOQ%				1.8	1.8	0.9	1.4	0.7	0.7	0.5	0.3	0.2	0.2	0.1	0.2
	YOY%	5.9	3.5	1.1	5.4	5.9	6.4	6.0	4.8	3.7	3.3	2.2	1.7	1.2	0.8	0.7
Exports G&S	£bn 1995 mkt prices	282.2	297.4	309.4	68.7	70.2	71.0	72.4	73.2	74.0	74.7	75.5	76.2	77.0	77.7	78.5
	QOQ%				-1.6	2.1	1.2	1.9	1.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0
	YOY%	2.6	5.4	4.1	-1.1	3.3	4.6	3.6	6.6	5.4	5.2	4.3	4.1	4.1	4.1	4.1
Imports G&S	£bn 1995 mkt prices	333.9	355.2	372.2	81.4	82.6	84.1	85.8	87.0	88.2	89.5	90.5	91.5	92.5	93.6	94.6
	QOQ%				0.2	1.4	1.9	2.0	1.4	1.4	1.4	1.2	1.1	1.1	1.1	1.1
	YOY%	5.1	6.4	4.8	1.9	6.3	6.7	5.6	6.8	6.9	6.4	5.5	5.2	4.9	4.6	4.5
INFLATION																
HICP	1996 = 100	111.2	113.1	115.0	110.4	111.2	111.2	112.0	112.2	113.2	113.2	113.8	114.0	115.1	115.1	115.8
	YOY%	1.3	1.7	1.7	1.3	1.4	1.2	1.4	1.7	1.8	1.8	1.6	1.6	1.7	1.7	1.7
LABOUR MARKET																
Unemployment rate	% of workforce	4.7	4.9	5.6	4.8	4.8	4.6	4.7	4.7	4.9	5.0	5.1	5.3	5.5	5.7	5.9
EXTERNAL TRADE																
Nominal trade	£bn	-39.3	-44.8	-50.0	-9.7	-9.5	-10.2	-9.9	-10.5	-11.0	-11.5	-11.8	-12.1	-12.4	-12.6	-12.9
- current prices as % of GDP	%	-3.4	-3.7	-4.0	-3.4	-3.3	-3.5	-3.4	-3.5	-3.6	-3.8	-3.9	-3.9	-4.0	-4.0	-4.1
OTHER KEY FORECASTS																
Base rate	%	4.75	4.75	4.75	4.00	4.50	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
Saving ratio	%	5.7	7.2	8.4	5.4	5.5	5.6	6.2	6.9	7.0	7.3	7.6	8.3	8.2	8.4	8.7
Output gap	% of potential GDP	0.4	0.2	-0.4	0.1	0.5	0.4	0.5	0.4	0.3	0.1	0.0	-0.2	-0.3	-0.5	-0.7
Public sector net borrowing	% of GDP (FY)	3.1	3.7	4.0												

Source: National Statistics, ABN AMRO estimates

DISCLAIMER APPENDIX

© Copyright 2005 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO"). All rights reserved.

This material was prepared by the ABN AMRO affiliate named on the cover or inside cover page. It is provided for informational purposes only and does not constitute an offer to sell or a solicitation to buy any security or other financial instrument. While based on information believed to be reliable, no guarantee is given that it is accurate or complete. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. The opinions, forecasts, assumptions, estimates, derived valuations and target price(s) contained in this material are as of the date indicated and are subject to change at any time without prior notice. The investments referred to may not be suitable for the specific investment objectives, financial situation or individual needs of recipients and should not be relied upon in substitution for the exercise of independent judgement. ABN AMRO or its officers, directors, employee benefit programmes or employees, including persons involved in the preparation or issuance of this material, may from time to time have long or short positions in securities, warrants, futures, options, derivatives or other financial instruments referred to in this material. ABN AMRO may at any time solicit or provide investment banking, commercial banking, credit, advisory or other services to the issuer of any security referred to herein. Accordingly, information may be available to ABN AMRO, which is not reflected in this material, and ABN AMRO may have acted upon or used the information prior to or immediately following its publication. Within the last three years, ABN AMRO may also have acted as manager or co-manager for a public offering of securities of issuers referred to herein. The stated price of any securities mentioned herein is as of the date indicated and is not a representation that any transaction can be effected at this price. Neither ABN AMRO nor other persons shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. This material is for the use of intended recipients only and the contents may not be reproduced, redistributed, or copied in whole or in part for any purpose without ABN AMRO's prior express consent. In any jurisdiction in which distribution to private/retail customers would require registration or licensing of the distributor which the distributor does not currently have, this document is intended solely for distribution to professional and institutional investors.

Australia: Any report referring to equity securities is distributed in Australia by ABN AMRO Equities Australia Ltd (ABN 84 002 768 701, AFS Licence 240530), a participant of the ASX Group. Any report referring to fixed income securities is distributed in Australia by ABN AMRO Bank NV (Australia Branch) (ABN 84 079 478 612, AFS Licence 238266). Australian investors should note that this document was prepared for wholesale investors only.

Canada: The securities mentioned in this material are available only in accordance with applicable securities laws and may not be eligible for sale in all jurisdictions. Persons in Canada requiring further information should contact ABN AMRO Incorporated.

Hong Kong: This document is being distributed in Hong Kong by, and is attributable to, ABN AMRO Asia Limited which is regulated by the Securities and Futures Commission of Hong Kong.

India: Shares traded on stock exchanges within the Republic of India may only be purchased by different categories of resident Indian investors, Foreign Institutional Investors registered with The Securities and Exchange Board of India ("SEBI") or individuals of Indian national origin resident outside India called Non Resident Indians ("NRIs") and Overseas Corporate Bodies ("OCBs"), predominantly owned by such persons or Persons of Indian Origin (PIO). Any recipient of this document wanting additional information or to effect any transaction in Indian securities or financial instrument mentioned herein must do so by contacting a representative of ABN AMRO Asia Equities (India) limited.

Italy: Persons in Italy requiring further information should contact ABN AMRO Bank N.V. Milan Branch.

Japan: This report is being distributed in Japan by ABN AMRO Securities Japan Ltd to institutional investors only.

New Zealand: This document is distributed in New Zealand by ABN AMRO NZ Limited an accredited NZX Firm.

Russia: The Russian securities market is associated with several substantial risks, legal, economic and political, and high volatility. There is a relatively high measure of legal uncertainty concerning rights, duties and legal remedies in the Russian Federation. Russian laws and regulations governing investments in securities markets may not be sufficiently developed or may be subject to inconsistent or arbitrary interpretation or application. Russian securities are often not issued in physical form and registration of ownership may not be subject to a centralised system. Registration of ownership of certain types of securities may not be subject to standardised procedures and may even be effected on an ad hoc basis. The value of investments in Russian securities may be affected by fluctuations in available currency rates and exchange control regulations.

Singapore: Any report referring to equity securities is distributed in Singapore by ABN AMRO Asia Securities (Singapore) Pte Limited (RCB Regn No. 198703346M) to clients who fall within the description of persons in Regulation 49(5) of the Securities and Futures (Licensing and Conduct of Business) Regulations and Regulations 34 and 35 of the Financial Advisers Regulations. Any report referring to non-equity securities is distributed in Singapore by ABN AMRO Bank NV (Singapore Branch) Limited to clients who fall within the description of persons in Regulations 34 and 35 of the Financial Advisers Regulations. Investors should note that this material was prepared for accredited investors only. Recipients who do not fall within the description of persons under Regulation 49(5) of the Securities and Futures (Licensing and Conduct of Business) Regulations or Regulations 34 and 35 of the Financial Advisers Regulations should seek the advice of their independent financial advisor prior to taking any investment decision based on this document or for any necessary explanation of its contents.

United Kingdom: All research is distributed by ABN AMRO Bank NV, London Branch, which is authorised by De Nederlandsche Bank and by the Financial Services Authority; and regulated by the Financial Services Authority for the conduct of UK business. The investments and services contained herein are not available to private customers in the United Kingdom.

United States: Distribution of this document in the United States or to US persons is intended to be solely to major institutional investors as defined in Rule 15a-6(a)(2) under the US Securities Act of 1934. All US persons that receive this document by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities. Any US recipient of this document wanting additional information or to effect any transaction in any security or financial instrument mentioned herein, must do so by contacting a registered representative of ABN AMRO Incorporated, Park Avenue Plaza, 55 East 52nd Street, New York, N.Y. 10055, US, tel + 1 212 409 1000, fax +1 212 409 5222.

- Material means all research information contained in any form including but not limited to hard copy, electronic form, presentations, e-mail, SMS or WAP.

Regulatory disclosures

The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.

For a discussion of the valuation methodologies used to derive our price targets and the risks that could impede their achievement, please refer to our latest published research on those stocks at www.abnamroresearch.com.

Disclosures regarding companies covered by ABN AMRO group can be found on ABN AMRO's research website at www.abnamroresearch.com.

Should you require additional information please contact the relevant ABN AMRO research team or the author(s) of this report.