

## Bangers and Tax

---

- **The UK Budget highlighted the savage deterioration in public finances caused by the credit crunch.**
- **The bulk of the measures introduced had been trailed in the press beforehand so the only real surprise was the increase in income tax rates to 50%. The government is hoping to generate growth towards the end of this year through a mixture of investment incentives and support for specific industries.**
- **The car 'scrappage' scheme provides £2000 for cars over 10 years old, but only £1000 of that is from the government. We doubt that it will provide much of a boost to UK industry given import penetration.**
- **Borrowing is expected to reach record levels next year and will only slowly fall in the years ahead.**
- **Still, the government has at last admitted that the recession is likely to be the deepest since the 1980s, forecasting GDP to contract by 3.5% this year, before rebounding to 1.25% in 2010 and then 3.5% in 2011.**
- **We believe that the UK economy will not experience such a swift upturn given the structural problems that it still experiences. Given high public and private sector debt levels, we believe that the continued need for deleveraging will see growth below the Treasury's optimistic 3.5% forecast from 2011.**
- **Further, with the government increasing taxation, whilst only marginally reducing the size of the public sector, it is questionable whether the trend rate of growth is as high as HMT estimate, especially as the financial sector could take longer to recover than expected.**
- **The Debt Management Office expects to issue a record £241.6 billion of government debt this year through £220 billion of gilt sales and £21.6 billion of Treasury Bill sales. Gilt yields have already risen in response to that announcement as markets fear that there could be some problems in digesting that amount.**
- **The Budget avoids any hard choices, with the increase in taxation relatively small. Further out, the scale and scope of the public sector is clearly up for review, but we will probably have to wait until the next general election for that debate to happen.**

With most of the measures having been trailed in the Press, there were only a few surprises in the March 2009 Budget.

Headlines will undoubtedly surround the decision to introduce a 50% income tax rate in 2010 for those earning over £150,000, but in reality HMT only expects it to generate £2.4 billion by 2011-12. In the context of tax receipts totalling £496 billion in this year alone, the measure seems to have more of an announcement effect than effective revenue raising.

In reality, the Budget does little to restore any sanity to UK public finances. We have already seen public sector borrowing reach a monthly record level in March 2008. The government's apparent unwillingness to look at the size of the public sector in the medium-term suggests that further measures will be needed. We will either need to see a much weaker increase in public spending than the 0.7% real terms increase now pencilled-in from 2011 onwards or even higher taxation.

Public sector borrowing is now expected to see a new set of records, reaching £175 billion in 2009-10, before easing back very slowly over the next few years. Borrowing in 2010-11 is forecast to be £173 billion, falling to £140 billion in 2011-12 and then to £118 billion in 2012-13. Combined with the outturn for 2008-09, public borrowing is scheduled to be some £238 billion higher overall, totalling £696 billion.

Given that HMT have traditionally underestimated their borrowing needs by a considerable magnitude, the risk is that actual borrowing is even higher.

Still, the package of measures could give some support for Chancellor Darling's contention that the economy could start to grow by the end of this year. The increase in VAT from 1<sup>st</sup> January 2010 could bring some consumption forward, while the increase in capital allowances looks like an attempt to spur business investment towards the end of the quarter.

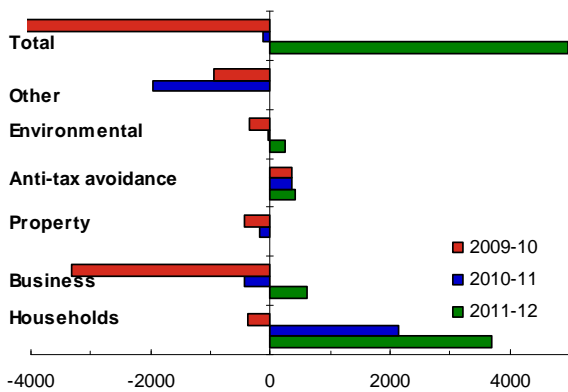
Given that we expect the ILO unemployment rate to increase to 10% in 2010, the focus on helping the unemployed find jobs, especially for 18-24 year olds is welcome. Whether these programmes prove more successful than those used in the 1980s remains open to question though.

As expected the Budget announced further efficiency savings, raising the Comprehensive Spending Review target by £5 billion to £35 billion. Those are expected to increase by a further £9 billion by 2013-14. Having spent the past decade increasing revenues by 'stealth' taxes, it now seems that the government is concentrating on 'stealth cuts' in order to balance its books.

## Policy Focus

With the fiscal position extremely precarious, the flurry of policy measures announced actually amounted to very little. We believe that the government actually loosened fiscal policy by around £5 billion or 0.3% of GDP. Policy is then effectively neutral in 2010-11 until we get around £5 billion of policy tightening in 2011-12.

### Net Impact of Budget 2009 policy measures

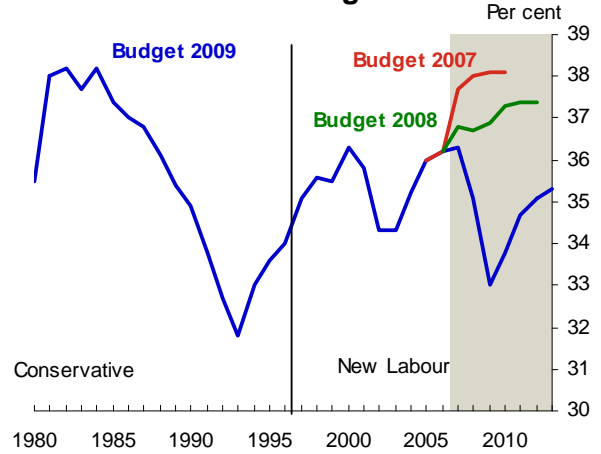


Source: Budget Report 2009, National Australia Bank

The main beneficiaries this year are UK businesses, who benefit the most from the decision to increase the first year capital allowance to 40% for this year to encourage investment. HMT calculates that this will cost the government around £1.64 billion this fiscal year, although it seems that this will ultimately depend on how confident firms are to invest given the fact that the economic activity is still contracting. The policy might gain traction in the final quarter of this year and in the first quarter of 2010 should firms believe that a recovery trend is firmly established. However, we suspect that generous as the increase in allowances is, the macroeconomic environment will be more important in determining investment than government tax breaks.

The increase in the top rate of income tax from 45% to 50% for those earning £150,000 in 2010-11 as well as the full withdrawal of the personal income tax allowance for those earning above £100,000 contribute most of the revenue raising measures in 2011-12. Of course, the Budget Report compares the current position with that after November's Pre-Budget Report. On that basis, it downplays the government's reliance on the increase in personal taxation as the withdrawal of personal allowances and the increase to 45% in 2011 had been trailed in November. The Budget Report suggests that the government will raise £1.9 billion from today's measures in 2011-2012. Including the Pre-Budget Report suggests that the measures will raise a total of £4 billion. Combining that with the 0.5% pre-announced increase in National Insurance Contributions (NICs) thus raises around £10 billion per year.

### Taxation as a Percentage of GDP

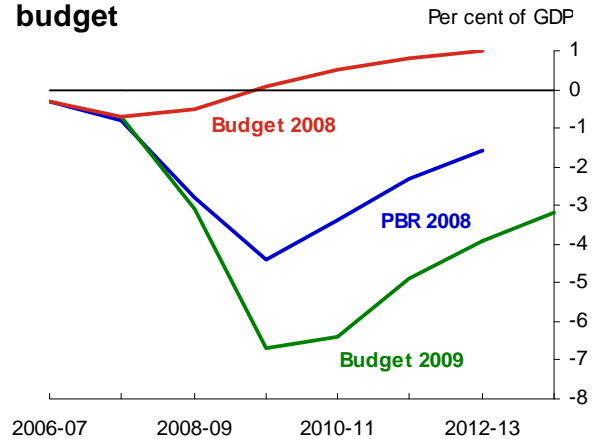


Source: Budget Reports from 2007 to 2009

The reason why households have been targeted by the government is that the global credit crunch has made it clear how narrow the tax base is. Even with the announced increases in income tax and NICs, taxation falls as a percentage of GDP as stamp duty and corporation tax receipts fade away. The chart above shows that levels are now expected to fall to their lowest since the 1990s recession.

But from a medium-term perspective, the government's policy options remain limited. The structural deficit remains large, as even after more than three years of above trend growth, it still remains in deficit. This means that there is still work to do in either reducing the size of the public sector, above the modest consolidation plans contained in the Budget, or by widening the tax base further by increasing both the 20% and 40% income tax rates.

### Cyclically-adjusted surplus on current budget



Source: Budget Report 2009

## Economics Focus

The economic projections set out by the Chancellor contain the near-term downgrades to economic growth most were expecting. But while the forecast for growth in 2009 was revised to show a credible 3.5% contraction, our concern is that forecasts for years from 2011 look fanciful to say the least. And if the Treasury projections prove too optimistic, that will push the peak level of national debt as a percentage of GDP considerably higher than the 79% of GDP it reaches in the Budget forecasts in the year 2016.

The Treasury likes to couch the UK recession firmly in the context of the global downturn, for obvious political reasons. It forecasts a contraction of world GDP of 1.25% in 2009 and a fall in world trade of 10%. These are very similar figures to the latest IMF WEO projections, which is unsurprising as the Treasury has no great expertise in forecasting global developments. But somewhat worryingly, the Budget makes clear that it is 'underpinned by the assumptions that the G20 authorities deliver on policy commitments and that financial conditions ease as a result'. As these stimulus measures get going global growth is forecast to grow by 2.5% in 2010, which is more optimistic than the IMF's projection of 1.9% in that year. And in 2011 world growth returns to 4.25%.

Looking at the UK projection, the Chancellor expects growth of -3.5% in 2009, 1.25% in 2010 and 3.5% in 2011. With a prospective fall in GDP in Q1 around the same as in Q4 last year and allowing for some stabilisation in output by the end of the year, it is hard to be too critical of the downward revision to 2009. Indeed the current consensus is -3.7%, so the Chancellor has moved the Treasury forecast towards the median view. For 2010 however the Treasury projections start to look a little optimistic compared to a consensus forecast of 0.3%.

Table B4: Contributions<sup>1</sup> to GDP growth<sup>2</sup>

	Percentage points, unless otherwise stated					
	Average 2000 to 2006	2007	2008	2009	Forecast 2010	2011
<b>GDP growth, per cent</b>	2½	3	½	-3½ to -3¼	1 to 1½	3¼ to 3½
<b>Main contributions</b>						
Private consumption	2	2	1	-2	¼	2¼
Business investment	¼	1	0	-1¼	-½	1
Dwellings investment <sup>3</sup>	¼	0	-¼	-½	-¼	¼
Government <sup>4</sup>	¼	½	1	1	¼	-¼
Change in inventories	0	¼	-½	-1	1	0
Net trade	-¼	-¾	¼	½	½	½

<sup>1</sup> Based on central case. For the purpose of preparing public finances, forecasts are based on the bottom of the GDP forecast range.  
<sup>2</sup> Components may not sum to total due to rounding and omission of transfer costs of land and existing buildings and the statistical discrepancy.  
<sup>3</sup> The sum of public corporations and private sector investment in new dwellings and improvement to dwellings.  
<sup>4</sup> The sum of government consumption and general government investment.

But it is in years 2011 and beyond that the Chancellor's forecast really starts to raise eyebrows. He projects growth of 3.5% in 2011, 2012 and in 2013. The turnaround is driven by a return to robust growth in private consumption, a rebound in business investment and a significant contribution from net trade. This is offset by a contraction in real government spending in 2011 but the result is a run of very strong growth over at least three years.

One justification for such a bounce-back is that the depth of the recession is such that the rebound when it occurs will

likely be strong as the economy makes up some of the 'lost' output rapidly. But while this argument has some appeal, looking back at the 1980s recession reveals that between 1982 and 1985, the average growth rate coming out of recession was 2.8%. In the three years following the 1990s recession the average was 3.2%. So the Treasury assumption looks optimistic for the current downturn. Moreover, much academic work points to the fact that economies take much longer to emerge from recessions generated by financial crisis, and when they do the rebound is weak.

A related concern we have with the Treasury projections is the maintenance of the trend growth projection. While a downward adjustment to the level of trend output is incorporated into the forecast, it is assumed that growth from this lower base will continue thereafter at the 2.75% rate assumed in previous projections. The Treasury's justification for this is that '...the capacity of the flexible and open UK economy to relocate resources and grow from this reduced level of trend output remains intact.' We would not disagree with this statement in the long-run. But in the medium term, which could conceivably last for up to ten years, the UK economy will have to deal with at least two challenges. First, resources will have to move from a smaller financial sector to other sectors of the economy such as manufacturing, and the disruption from this sort of reallocation of resources may well imply that trend growth will be depressed. And second, we view it as unlikely that the UK will be as large a magnet for inward migration as in the last ten years, especially given a higher rate of unemployment will make the UK a less attractive labour market option.

Overall the Budget has little additional macroeconomic impact over the Pre-Budget Report (PBR). In terms of policy decisions the Budget amounts to a small fiscal loosening in 2009/10, of the order of 0.3% of nominal GDP. 2011/12 is the first year of serious fiscal consolidation, with spending cuts and tax rises raising around 0.3% of GDP.

Indeed most of the deterioration in the finances since the PBR comes not from discretionary measures but from the 'automatic stabilisers' such as high unemployment rolls and slumping corporation tax receipts. While part of this is cyclical, in the sense it will be reversed as the economy emerges from recession, another part is structural as a result of the hole in the Exchequer's receipts from not to be repeated financial sector bonuses and profits.

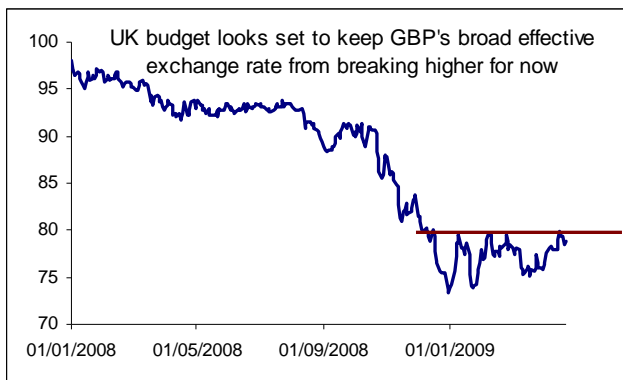
So even to make a start on reducing the debt burden next decade will mean a very considerable degree of fiscal consolidation. Current government spending is forecast to grow by just 0.7% in real terms between 2011 to 2014. And even under the Treasury's optimistic growth projections, balance on the current balance is not achieved until 2017-18.

## Markets Focus

The deterioration in the UK's public finances and collapse in economic growth have been so marked that few in the financial markets would have been expecting anything other than bleak news in today's Budget. Indeed, the UK Treasury had been very active in trailing the likely size of government borrowing over the next two years. Treasury had briefed the media on likely wheezes such as the introduction of a car 'scrappage' scheme aimed at boosting the auto industry and retail sales and plans to reduce personal tax allowances on savings for higher earners, boosting tax revenues.

However, if the government's aim in flagging up the likely borrowing numbers was to ease investor and financial market reaction to big revisions to November Pre-Budget Report numbers, it failed dismally. The combination of record levels of debt, over-optimistic economic growth forecasts, additional financial pain for high earners, little change in public spending and a significant rise in the government's gilt auction programme was met with broad disappointment and incredulity. As a result sterling moved sharply lower and is likely to remain weaker for a while.

A downward revision to 2009 economic growth from -1% in the November Pre-Budget Report to -3.5% brought official forecasts back into line with independent estimates. The 1.75% growth previously pencilled in for 2010 was pushed back to 1.25% - perhaps still a shade optimistic in our view, but again in line with the average of private forecasts. Where the Treasury is stretching its credibility in our view is from 2011 onwards.



Source: Bloomberg

Treasury sees growth rebounding to 3.5% and remaining there at least until 2013/14. Moreover, trend growth is seen steady at 2.75%, despite the anticipated sizeable reduction in contribution from financial services. In our view trend growth will be reduced to something closer to 2.2%. UK economic growth has not risen to the dizzy heights of 3.5% since the start of this decade.

The significant stimulus taken by the monetary authorities at home and abroad and the decline in sterling will go some way to boosting growth from 2010 onwards. However and as the IMF notes, a globally synchronised recession combined with a vicious financial bust tends to lead to a recession twice as long and deep, with the recovery twice as slow and half as strong. Against this it remains unclear why the Treasury sees growth rebounding to 0.75 percentage points above an unchanged trend level. Should that forecast turn out to be optimistic there will be implications for the level of public borrowing, which even on current projections does not fall below 5% of GDP for another 5-years.

One key question for ratings agencies and the UK's ability to retain its AAA sovereign debt rating will be how the UK returns the public finances back onto a sounder footing. For now and ahead of next year's general election, the Chancellor has passed up the idea of an even sharper tightening of fiscal policy. This leaves open the question of whether the UK has the economic growth regeneration capacity to increase tax revenues sufficiently. The UK clearly has a lot of micro-economic flexibility, but a slide into an Italian scenario whereby the UK accepts a permanent, structurally higher level of debt would doubtless have negative ratings implications.

Markets were primed for an increase in gilt issuance, but few will have expected the rise to £220bn for 2009/10 from the £146.4bn announced just a few weeks ago. 10-year yields have risen 13bps on the day to 3.45% and are fast approaching the level before the BoE's quantitative easing announcement. Further auction failures look inevitable in light of the amount of issuance across bond markets generally. The head of the DMO reckons buyers will be found at a price, but this is hardly a ringing endorsement from an institution which now has an enormous amount of debt to sell.

We've had a positive view on sterling over the last few months, believing it was oversold technically and fundamentally cheap. That extreme weakness appeared to be coming to an end in recent sessions, with a look at \$1.50 versus the dollar and the 80 level on a trade-weighted basis. Today's Budget will leave sterling vulnerable for a while longer, with weekend press in particular likely to make unpleasant reading. We should bear in mind though that the data flow from Europe and Germany in particular will look dreadful in coming weeks and we stick with our longer-term view that GBP/EUR has the potential to hit 1.20-1.25 later in the year. For the moment however, now does not look the time to be buying sterling. Better levels to do this should be seen over the next few weeks.

## Summary of public finances

	Per cent of GDP						
	Outturn Estimate		Projections				
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
<b>Fiscal consolidation</b>							
Surplus on current budget	-0.4	-3.6	-9.3	-9.4	-7.2	-5.6	-4.3
Cyclically-adjusted surplus on current budget	-0.7	-3.1	-6.7	-6.4	-4.9	-3.9	-3.2
Consolidation in the cyclically-adjusted surplus on current budget <sup>1</sup>	-	-	-	0.3	1.6	1.0	0.7
<b>Economic impact</b>							
Net investment	2.1	2.6	3.1	2.5	1.9	1.6	1.3
Public sector net borrowing (PSNB)	2.4	6.3	12.4	11.9	9.1	7.2	5.5
Cyclically-adjusted PSNB	2.7	5.7	9.8	8.9	6.8	5.5	4.5
<b>Sustainability</b>							
Public sector net debt <sup>2,3</sup>	36.5	43.0	55.4	65.0	70.9	74.5	76.2
Core debt <sup>2,3</sup>	36.6	42.5	52.4	59.2	63.2	65.7	66.9
Net worth <sup>4</sup>	28.9	25.5	21.1	10.5	4.0	-0.3	-2.9
Primary balance	-0.9	-4.6	-10.8	-9.3	-6.1	-4.1	-2.5
<b>Financing</b>							
Central government net cash requirement	2.3	11.3	15.6	12.3	9.6	7.3	6.0
Public sector net cash requirement <sup>3</sup>	1.5	4.2	13.3	12.3	9.7	7.5	6.0
<b>Stability and Growth Pact</b>							
Treaty deficit <sup>5</sup>	2.8	7.1	12.6	12.0	9.2	7.3	5.8
Cyclically-adjusted Treaty deficit <sup>5</sup>	3.1	6.6	10.0	9.0	6.9	5.7	4.7
Treaty debt ratio <sup>6</sup>	43.2	55.2	71.9	82.1	87.2	89.9	90.7
Memo: Output gap	0.6	-1.3	-4.8	-4.0	-3.0	-2.1	-1.2
Memo: PSND including financial sector interventions	43.1	52.4	64.9	74.2			
Memo: PSNCR including financial sector interventions	1.5	5.8	13.4	12.5			

<sup>1</sup> Change in the cyclically-adjusted surplus on the previous year.

<sup>2</sup> Debt at end March; GDP centred on end March.

<sup>3</sup> Excluding liabilities and unrealised losses from financial sector interventions.

<sup>4</sup> Estimate at end December; GDP centred on end December.

<sup>5</sup> General government net borrowing on a Maastricht basis.

<sup>6</sup> General government gross debt measures on a Maastricht basis.

Source: Budget Report 2009

## Research Contacts

---

Peter Jolly  
Head of Research  
+61 2 9237 1406

Alan Oster  
Group Chief Economist  
+61 3 8641 3464

### **Economics**

Rob Henderson  
Chief Economist  
+61 2 9237 1836

Spiros Papadopoulos  
Senior Economist  
+61 3 8641 0978

David de Garis  
Senior Economist  
+61 2 9237 1180

Tom Taylor  
Head of Economics, International  
+61 3 8641 3475

Stephen Toplis (NZ)  
Head of BNZ Market Economics  
+64 4 474 6905

Craig Ebert (NZ)  
Senior Markets Economist  
+64 4 474 6799

Tom Vosa (UK)  
Head of Market Economics  
+4420 7710 1573

David Tinsley (UK)  
Economist  
+4420 7710 2434

### **Credit Research**

Michael Bush  
Head of FI Research  
+61 3 8641 0575

Ken Hanton  
Senior Analyst  
+61 2 9237 1405

Jenny Khamphet  
Senior Analyst  
+61 2 9237 9538

### **Market Strategy**

John Kyriakopoulos  
Head of Currency Strategy  
+61 2 9237 1903

Danica Hampton (NZ)  
Currency Strategist  
+64 4 472 4767

Nick Parsons (UK)  
Head of Markets Strategy  
+ 4420 7710 2993

Gavin Friend  
Markets Strategist  
+44 207 710 2155

### **Technical Analysis**

Gordon Manning  
dingaroo@bigpond.com.au

### **Design and Distribution**

Loretta Damaso  
Desktop Publisher  
+61 2 9237 1510

## Important Notices

**ANALYST DISCLAIMER:** The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of National Australia Bank Limited (ABN12 004 044 937, AFSL230686). The views of the author(s) do not necessarily reflect the views of the National Australia Bank Group ("NAB") and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

**AUSTRALIAN DISCLAIMER:** National Australia Bank Limited (ABN 12 004 044 937, AFSL 230686), its affiliates, related bodies and any officer, employee, agent, adviser or contractor thereof ("NAB") does not warrant or represent that the information, recommendations, opinions or conclusions contained in this document ("Information") is accurate, reliable, complete or current. The Information has been prepared for dissemination to professional investors for information purposes only and any statements as to past performance do not represent future performance. The Information does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. In all cases, anyone proposing to rely on or use the Information should independently verify and check the accuracy, completeness, reliability and suitability of the Information and should obtain independent and specific advice from appropriate professionals or experts. The Information is not intended as an offer or solicitation for the purchase or sale of any financial instrument. To the extent permissible by law, NAB shall not be liable for any errors, omissions, defects or misrepresentations in the Information or for any loss or damage suffered by persons who use or rely on such Information (including by reason of negligence, negligent misstatement or otherwise). If any law prohibits the exclusion of such liability, NAB limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. NAB may hold a position or act as a price maker in the financial instruments of any issuer discussed within this document or act as an underwriter, placement agent, adviser or lender to such issuer. The Information is governed by, and is to be construed in accordance with, the laws in force in the State of Victoria, Australia, and any dispute or claim arising from, or in connection with, the Information is subject to the non-exclusive jurisdiction of the courts of that State.

**UK Disclaimer:** So far as the law and the Financial Services Authority Rules allow, National Australia Bank Limited and its subsidiaries, affiliates and other related bodies (together the "Bank") disclaims any warranty or representation as to the completeness, accuracy, reliability, legality, validity, effectiveness or enforceability of the information and statements in this document. The content of this document (including any amount, valuation and transaction structure): is preliminary, indicative and provided for information purposes only; may be subject to change and the Bank does not undertake to review the content or the financial condition, status or affairs of any relevant party;

- is not intended to create any legal relations;
- does not constitute an offer or commitment to enter into any transaction or provide finance, neither does it indicate or suggest that any such offer or commitment shall be forthcoming;
- does not purport to be complete or exhaustive and should be read in conjunction with other documentation;
- should not be relied upon; and
- remains subject to the Bank's internal approvals and negotiation of satisfactory legal documentation.

Recipients should not rely on the contents of the documentation and should make their own independent assessment as to the accuracy and suitability of the information and where appropriate, recipients should seek professional advice relevant to their circumstances. The Bank will not be liable (whether in negligence or otherwise) for any loss or damage suffered from relying on this document.

The Bank may have proprietary positions in any products described in this document and reserves the right to withdraw any product at any time without notification.

This document is strictly confidential and is provided for information purposes on the understanding that none of the material herein will be divulged to outside parties and that circulation, distribution or discussion of the contents will be limited to any intended recipient organisation to the extent possible.

Nothing contained in this document or any other information or explanation provided by the Bank will be considered an invitation to engage in business, a recommendation, guidance, proposal, advice or solicitation to provide investment, financial or banking services or an invitation to engage in business or invest or deal in any financial instruments.

National Australia Bank Limited, ABN 12 004 044 937, 88 Wood Street, London EC2V 7QQ. Registered in England BR1924. Head Office: 500 Bourke Street, Melbourne, Victoria. Incorporated with limited liability in the State of Victoria, Australia. Authorised and regulated in the UK by the Financial Services Authority.

**U.S DISCLAIMER:** This information has been prepared by National Australia Bank Limited or one of its affiliates or subsidiaries ("NAB"). If it is distributed in the United States, such distribution is by nabCapital Securities, LLC which accepts responsibility for its contents. Any U.S. person receiving this information wishes further information or desires to effect transactions in the securities described herein should call or write to nabCapital Securities, LLC, 28th Floor, 245 Park Avenue, New York, NY 10167 (or call (877) 377-5480). The information contained herein has been obtained from, and any opinions herein are based upon, sources believed to be reliable and no guarantees, representations or warranties are made as to its accuracy, completeness or suitability for any purpose. Any opinions or estimates expressed in this information is our current opinion as of the date of this report and is subject to change without notice. The principals of nabCapital Securities, LLC or NAB may have a long or short position or may transact in the securities referred to herein or hold or transact derivative instruments, including options, warrants or rights with securities, or may act as a market maker in the securities discussed herein and may sell such securities to or buy from customers on a principal basis. This material is not intended as an offer or solicitation for the purchase or sale of the securities described herein or for any other action. It is intended for the information of clients only and is not for publication in the press or elsewhere.

## Important Notices

**ASIA DISCLAIMER:** The attached materials (Materials) are confidential and have been prepared by National Australia Bank Limited (ABN 12 004 044 937, AFSL 230686) (NAB) and made available to you (Recipient) for general information purposes only without taking account of your objectives, financial situation or needs. The Recipient acknowledges that it is a sophisticated institutional investor. The Materials outline background information in relation to the assets/business described and the opportunity to engage in a transaction in respect of the entity/assets/business (Potential Transaction) for consideration and assessment by the Recipient. The Materials are intended to provide the Recipient with high-level information only concerning the assets/business to allow the Recipient to consider whether to conduct their own comprehensive investigations and due diligence enquiries into, and receive their own independent advice in connection with the entity/assets/business, with a view to entering into a Potential Transaction. The Materials are not, and are not intended to be, a prospectus, offering circular, profile statement or other form of offer document regulated or governed by any legislation of any country or a private placement memorandum, an information memorandum or any other form of invitation to treat.

The Materials do not constitute in any jurisdiction an offer, invitation, solicitation or inducement for the issue, subscription, sale, purchase or disposal of any securities, financial instruments, assets or businesses, or any advice or recommendation in relation to subscribing for, investing in, or acquiring or disposing of any securities, financial products, assets or businesses, or to engage in or refrain from engaging in any transaction whatsoever. Any transaction will only be able to be entered into on the basis of definitive transaction documentation to be negotiated and agreed directly between the Recipient and the relevant counterparty(ies). It is not the intention of NAB to create legal relations on the basis of the Materials.

Neither NAB nor any other company in the National Australia Bank Group or their respective officers, directors, employees, agents, advisers or associates (NAB Group) guarantee the performance of any security, financial product, person, entity, asset or business, or any particular rate of return, forecast, target or forward-looking statement, referred to in the Materials nor take responsibility for the Materials or their contents. Securities and financial products, or any assets or business, described in the Materials are not an investment in, a deposit with or other liability of NAB or any other company in the NAB Group and such investments or acquisitions, if made, will be subject to investment risk, including possible delays in repayments and loss of income or capital invested. Neither NAB nor any member of the NAB Group in any way stands behind the capital value of, nor does it guarantee the performance of, any person or entity, assets or business described in the Materials, including as to any income or other distributions. NAB also does not, nor does any other company in the NAB Group, provide a guarantee or assurance in respect of any entity, assets or business described in the Materials, the ultimate owners of such assets or businesses, their respective related companies or the underlying entities.

A member of the NAB Group may hold a position or act as price maker in respect of securities or financial products mentioned in the Materials or the securities or financial products of any entity or its related companies mentioned in the Materials, or act as underwriter, placement agent, adviser or lender in respect of such entities, securities or products.

No member of the NAB Group makes any representation or warranty, express or implied, as to the accuracy, reliability or completeness of any statement or information in the Materials including, without limitation, any target returns, forecasts (whether economic or otherwise), projections or other forward-looking statements (whose preparation involves elements of subjective judgement and analysis). The Materials do not purport to contain all relevant information and any statement as to any future matter is a present prediction of a possible future outcome, the accuracy of which is not and cannot be guaranteed. The Recipient of the Materials should not rely on the contents of the Materials, but should make and rely on their own assessment and evaluation and undertake their own investigations and inquiries and seek independent advice to enable them to make any decision concerning their own risk and in deciding whether to enter into any Potential Transaction. In particular, any person should seek their own tax advice on the local and foreign tax consequences of any Potential Transaction.

The Materials may contain "forward-looking statements". These forward-looking statements may be based upon certain assumptions. Actual events may differ from those assumed. There can be no assurance that any forward-looking statements will materialise or will not be materially lower than those presented. Except where otherwise indicated herein, the information in the Materials (including forward-looking statements) is based on information available as of the date of the creation of the relevant document and not as of any future date, and will not be updated or otherwise revised to reflect information that subsequently becomes available, or circumstances existing or changes occurring after the date hereof. Where provided, forecasts and estimates of future performance are sourced from company and broker reports. Past performance is no guarantee of future performance.

To the maximum extent permitted by law, the NAB Group (a) expressly disclaims all or any liability in connection with the Materials, including, without limitation, any express or implied representation for statements, conclusions and forward-looking statements contained in, and omissions from, the Materials; (b) expressly disclaims all and any liability which may arise out of the provision to or use by any person of the information and statements contained in the Materials or the preparation of the information contained in the Materials or otherwise arising in connection with the contents of, or any omission from, the Materials; and (c) accepts no liability (whether in negligence or otherwise) for any loss, damage, costs or expenses of any nature which may be suffered or incurred by any person relying on, disclosing or using any information or statement contained in, or otherwise arising in connection with, the Materials. No member of the NAB Group has any liability to the Recipient or to any of such Recipient's officers, directors, employees, agents or associates, legal counsel or other professional advisers or to any other person for any damages, claims, costs or losses resulting from the use of the information contained in the Materials.

By accepting the Materials, the Recipient acknowledges and agrees that NAB is acting, and will at all times act, as an independent contractor and is not acting, and will not act, in any other capacity, including a fiduciary capacity, with respect to the Recipient. NAB, in its capacity as principal or agent, is involved in a wide range of commercial banking and investment banking activities globally (including investment advisory, asset management, research, securities issuance, trading (customer and proprietary) and brokerage) from which conflicting interests or duties may arise. Members of the NAB Group may provide services to any other entity or person whether or not a member of the same group as the Recipient (Third Party), engage in any transaction (on its own account or otherwise) with respect to the Recipient or a Third Party, or act in relation to any matter for itself or any Third Party, notwithstanding that such services, transactions or actions may be adverse to the Recipient or any member of the Recipient's group, and members of the NAB Group may retain for their own benefit any related remuneration or profit.

The Materials are strictly confidential and should not be disclosed or circulated to any other person or reproduced or redistributed in any format without the prior written consent of NAB. NAB reserves the right at any time to suspend or terminate your access to or use of the Materials.