

Equity Strategy

Trigger to reduce risk is missing; earnings momentum and quality to re-emerge as drivers of stock selection

On the heels of one of the sharpest market rebounds ever, the widely expected correction could even be seen as healthy. However, we believe the following points still hold:

- **Asset Allocation:** One should remain OW stocks and be buying the dips. Provided that the macro dataflow does not begin to disappoint again, we believe that the technical headwinds and the profit-taking will be transitory. The more “fundamental” trigger to take some risk off the table, in our view, would be when data confirms economic stabilisation. For example, when or if we get the first few ISM prints above 50, the “2nd derivative” story will be over, as per the table on the right.
- **Still underweight bonds and cash:** Even though the potential inflation end game is probably overly discounted for now, government bond yields could continue to grind higher, reflecting better dataflow momentum, and this should be taken positively by stocks. In addition, just through income generation alone, equities are beating both cash and bonds.
- **Sectorwise,** Cyclical have lost a chunk of their performance in the past few days, but this is on the back of a dramatic recent run. **We believe there will be one more leg of cyclical performance and think it would be a mistake to start wholesale rotation into Defensives now.**
- **At stock level,** low-quality names did very well during the rally (broadly defined as the most leveraged, the biggest underperformers, lower ROE and “value” stocks). The fundamental factors, such as earnings momentum, did badly, actually showing an inverse correlation with stocks’ relative performance.
- As volatility edges lower, we believe this will start to change, and we expect investors to become more selective, looking for “higher quality” stocks. In addition, we **see earnings momentum becoming an important positive driver of relative stock performance again** with the stocks of companies showing upgrades to earnings starting to outperform.
- In the report, we screen for the stocks that have underperformed in the latest rally but have seen outright EPS upgrades or have higher ROE than their peer group.

European Equity Strategy

Mislav Matejka, CFA^{AC}

(44-20) 7325-5242

mislav.matejka@jpmorgan.com

Emmanuel Cau, CFA

(44-20) 7325-1684

emmanuel.b.cau@jpmorgan.com

J.P. Morgan Securities Ltd.

Forward S&P500 performances* in different ISM ranges

| ISM ranges | Average S&P500 Fwd Returns* | | |
|--------------|-----------------------------|-------------|-------------|
| | +3m | +6m | +12m |
| 25-30 | 12.6% | 21.8% | 13.5% |
| 30-35 | 5.5% | 7.8% | 15.2% |
| 35-40 | 4.3% | 8.9% | 18.5% |
| 40-45 | 0.2% | 0.6% | 0.7% |
| 45-50 | -0.5% | -0.4% | 2.4% |
| 50-55 | 0.4% | 0.5% | 0.1% |
| 55-60 | -0.3% | -0.7% | -2.2% |
| 60-65 | -1.9% | -3.7% | -7.2% |
| 65-70 | -1.2% | -3.2% | -7.1% |
| 70-75 | -5.8% | -8.9% | -15.3% |
| 75-80 | 5.9% | 11.4% | 13.0% |

Source: Datastream, Bloomberg, *relative to long term average 3, 6 and 12 months S&P500 performance

European equities vs. government bonds — total returns and IFO



Source: Datastream, MSCI

See page 22 for analyst certification and important disclosures, including non-US analyst disclosures.

J.P. Morgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Customers of J.P. Morgan in the United States can receive independent, third-party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at www.morganmarkets.com or can call 1-800-477-0406 toll free to request a copy of this research.

Table of Contents

| | |
|---|----|
| Trigger to reduce risk is missing; earnings momentum and quality to re-emerge as drivers of stock selection | 3 |
| Appendix I | 8 |
| Appendix II | 11 |
| European Equity Strategy Key Calls and Drivers | 13 |
| Top Picks | 14 |
| Technical Indicators | 15 |
| Performances | 16 |
| Earnings | 17 |
| Valuations | 18 |
| Economic, Interest Rate and Exchange Rate Outlook | 20 |
| Sector, Regional and Asset Class Allocations | 21 |

Trigger to reduce risk is missing; earnings momentum and quality to re-emerge as drivers of stock selection

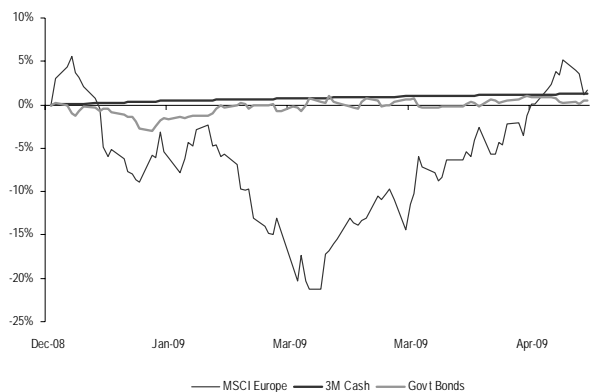
Table 1: European/Global asset class return and JPM expectation

| | J.P. Morgan Weightings | Deviations from benchmark | Ytd Total Returns | |
|-------------|------------------------|---------------------------|-------------------|--------|
| | | | Global | Europe |
| Equities | Overweight | 10 | 1.7% | 1.7% |
| Cash (3m) | Underweight | -5 | 1.1% | 1.3% |
| Bonds (10y) | Underweight | -5 | -1.0% | 0.4% |

Source: Datastream

Year to date, the performances of equities, bonds and cash have been bunched together. Equities are marginally beating cash with government bonds lagging somewhat.

Figure 1: Year-to-date total returns for European equities, cash and government bonds



Source: Datastream

This result is hiding a significant inflection point that took place in March when in the first two months of the year equities were dramatic underperformers only to make it all up in the rally in the past two months.

A number of commentators started looking for a rollover, but it appears that the negative arguments are mostly based on technical and valuation grounds. Clearly the dramatic equity run in the past few months is pushing the asset class into “overbought” territory, and a pullback could even be seen as healthy, but we think that the fundamental trigger is missing.

We remain overweight stocks but see the risk-reward as getting less supportive

Table 2: Forward S&P500 performances* in different ISM ranges

| ISM ranges | % of time | Average S&P500 Fwd Returns* | | |
|--------------|-------------|-----------------------------|-------------|-------------|
| | | +3m | +6m | +12m |
| 25-30 | 0.1% | 12.6% | 21.8% | 13.5% |
| 30-35 | 1.5% | 5.5% | 7.8% | 15.2% |
| 35-40 | 4.7% | 4.3% | 8.9% | 18.5% |
| 40-45 | 7.4% | 0.2% | 0.6% | 0.7% |
| 45-50 | 18.5% | -0.5% | -0.4% | 2.4% |
| 50-55 | 28.7% | 0.4% | 0.5% | 0.1% |
| 55-60 | 23.5% | -0.3% | -0.7% | -2.2% |
| 60-65 | 10.7% | -1.9% | -3.7% | -7.2% |
| 65-70 | 4.1% | -1.2% | -3.2% | -7.1% |
| 70-75 | 0.4% | -5.8% | -8.9% | -15.3% |
| 75-80 | 0.4% | 5.9% | 11.4% | 13.0% |

Source: Datastream, Bloomberg. *relative to long term average 3, 6 and 12 months S&P500 performance

Table 2 shows the average performances that the S&P500 delivered on top of the normalised 3, 6 and 12 months rolling return in different ISM regimes (which were 2%, 4%, and 8% capital appreciation respectively over the sample period of the past 70 years). It clearly shows how the risk-reward profile for stocks changes given different ISM backdrops:

- *With ISM readings below 40*, it hasn't paid to be bearish as equities have tended to deliver abnormally high returns.
- *With ISM in the 40-55 range*, stocks still appreciated on average, but one would not have been receiving extra compensation for owning them beyond the normalised 3, 6, and 12 months rolling averages.
- *When ISM were above 50, or 55*, then typically one should have been taking risk off the table.

The latest ISM print is at 40.1 so we are exiting the range of abnormal equity returns, but we think the “2nd derivative” trade is not exhausted yet and would look for the following triggers to reduce our exposure to equities:

- If/when we see 1-2 readings of ISM above 50. At that point there is no additional mileage in talking about “2nd derivative” as the “1st derivative” will become more relevant.
- 3-4 months of steady upgrades to GDP forecasts by economists as evidenced in Blue Chip data. We have had only 1 month of upgrades so far.
- a few months of strong inflows into developed equity funds. AMG data show only a very recent pickup.

- if/when developed world equities are up double digit on the year. Our MSCI Europe target remains 1080, offering 20% upside from current levels.

Naturally, all this is predicated on the ongoing steady improvements in macro dataflow, on further stabilisation in credit fundamentals and on no disorderly sell-off in government bond yields.

If the economic dataflow in particular turns lower again, the market will likely not be able to shrug it off, but this is not our base case view as reflation and credit stabilisation catalysts continue to track.

UW Bonds/Cash

In the past few months, government bond yields started to move higher. In our meetings, this is often raised as a concern for the performance of equities.

Table 3: Recent bond yields move in historical context

| 10-yr Bond yield | Latest | Jan-09 | 5-yr average |
|------------------|--------|--------|--------------|
| US | 3.1% | 2.3% | 4.2% |
| Japan | 1.5% | 1.2% | 1.5% |
| Germany | 3.3% | 2.9% | 3.8% |
| UK | 3.5% | 3.1% | 4.6% |

Source: Datastream

We agree that a potential bond sell-off is the key risk to this grand experiment of “money illusion/reflation” that developed world governments and central banks are performing, and it could derail what ultimately is a great carry trade (please see our February report for more on this).

However, the reason for the move up in bond yields is the key to decide the impact on stocks, in our view:

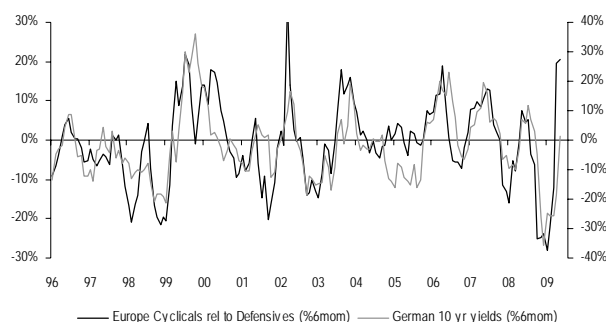
We believe that the 1. inflation driven and/or 2. “credibility” driven bond sell-off (loss of confidence in governments’ ability to pay off the accumulated debts in a manner that preserves the real value of the debt holders claims) will be seen as negative for stocks.

It is too early in our view to push bond yields higher on the inflation concerns when for at least the next 6-12 months, inflation dataflow will be printing lower.

We think that the market could be prepared to tolerate the debt overhang in the short term as long as the cyclical picture appears to be stabilising.

Chronic US current-account deficits are a good example here; investors are not really concerned about them as long as the economy appears to be growing/improving, but as soon as the cyclical weakness arrives, the structural imbalances could come to fore.

Figure 2: European Cyclical vs. Defensives and bond yields



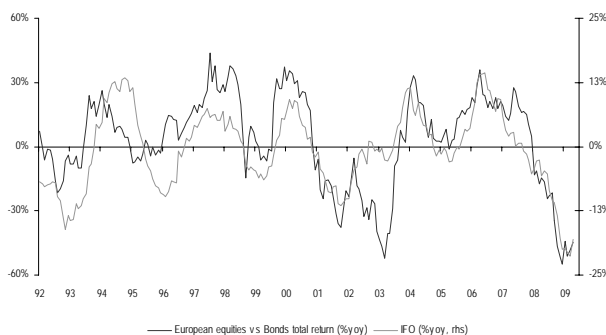
Source: Datastream

This leaves us with the change in growth outlook as a driver of bond yields, and this we believe should be seen as a positive for now.

As the chart above shows, the move up in bond yields is just starting to reflect what the sector rotation has already indicated — that global activity is troughing.

According to this relationship, bond yields should move up further just to catch up with the performance of cyclical sectors.

Figure 3: European equities vs. Government bonds — total returns and IFO



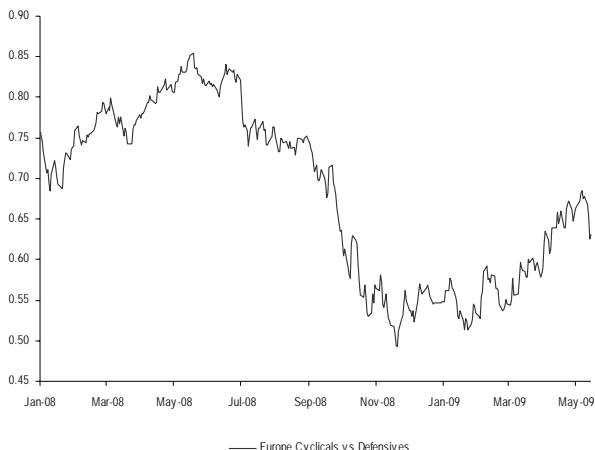
Source: Datastream, MSCI

The bottom line is that we would not interpret a pickup in bond yields as a constraint for the time being but merely as a reflection of an improved growth outlook.

This would start to change if bond yield sell-offs exceed 100bp from here (bunds above 4-4.5%, treasuries above 4-4.5%, gilts above 4.5%, in our view), or if the driver behind this move morphs into credibility concerns, as opposed to an improving dataflow.

At the sector level

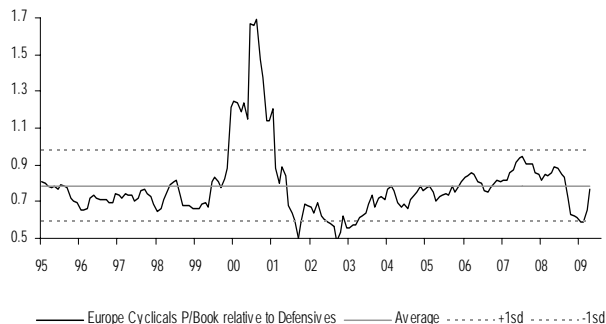
Figure 2: European Cyclical vs. Defensives



Source: Datastream

Cyclicals have taken a beating in the past few days as many investors appear to be seeing Cyclicals' strong relative performance in the past six months as overdone. It is hard to disagree with the view that the relative valuations, sentiment and positioning are not as attractive as they were a few months ago, but we believe that Cyclicals as a group will continue to outperform on a 3-month horizon.

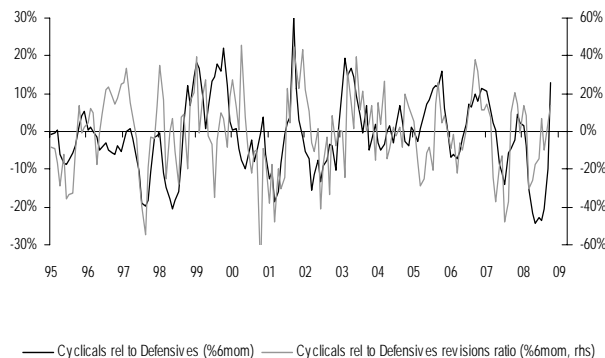
Figure 3: European Cyclical — Price/Book relative to Defensives



Source: Datastream

We acknowledge that on some valuation measures Cyclicals appear stretched, but we still see them as reasonably priced.

Figure 4: Cyclicals vs. Defensives and relative EPS revisions

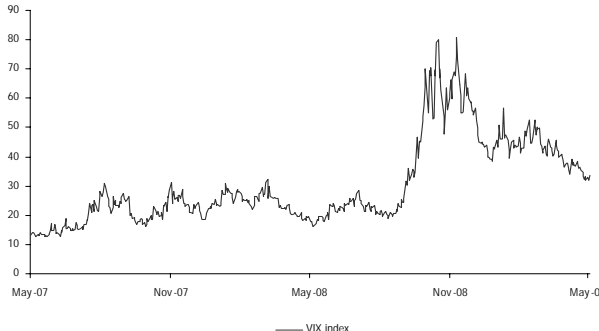


Source: Datastream, MSCI, IBES, J.P. Morgan

Ultimately, the valuation argument should be secondary to the call for which momentum dynamics are the key. As long as macro dataflow continues to move higher, Cyclicals should be supported.

At the stock level

Figure 5: VIX index



Source: Datastream

With a fall in volatility we would expect that stock picking becomes more relevant again. Up to now, the market has been predominantly macro focused.

Table 4: Factors that worked for European outperformers during the recent rally

| | | Performance vs. sector | | | | |
|-----------------------------|----------------|------------------------|-------|-------|--------|--------|
| | | Best | | | | Worst |
| | | Q1 | Q2 | Q3 | Q4 | Q5 |
| Factors at March market low | Trough to Peak | 46.7% | 14.8% | 1.0% | -10.4% | -23.8% |
| | MV weight | 13% | 18% | 29% | 19% | 20% |
| | Peak to Trough | -14.3% | -6.8% | 2.7% | 9.9% | 23.3% |
| | ND/Equity | 0.46 | 0.45 | 0.39 | 0.37 | 0.39 |
| | %ch EPS | -11.9% | -6.8% | -6.1% | -4.4% | 0.0% |
| | RoE | 11.4% | 12.6% | 13.0% | 13.7% | 15.7% |
| | P/E | 5.6 | 6.9 | 8.2 | 9.4 | 10.1 |
| | P/Book | 0.6 | 0.8 | 1.1 | 1.1 | 1.6 |
| | Div Yield | 6.2% | 6.1% | 6.0% | 5.8% | 4.6% |

Source: J.P. Morgan

In Table 4, we split the constituents of MSCI Europe into quintiles according to their relative performances in the rally since the March low. We assessed the following characteristics of these groups: market cap weight, relative performance during the bear market, leverage (net debt/equity), change in 12-month EPS integer over the past 2 months, quality (ROE) and valuations (P/E, P/Book, dividend yield).

The constituents of the first quintile, which were the best performers in the rally, appear to display lower quality than the members of the fifth quintile, the relative underperformers during the rally.

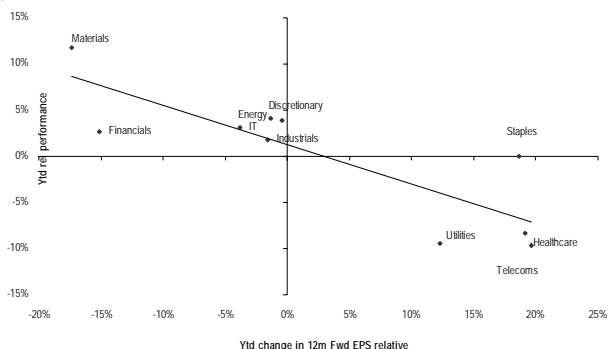
The outperformers were generally smaller cap stocks within the sector, the ones that have initially fallen more (probably were more shorted). They typically had worse EPS revisions during the rally than the underperforming stocks and were from the Value group, relatively cheap on P/E and P/B metrics to start with. They also tended to display higher leverage, but the conclusions on this metric are not clear cut. Lastly, they had lower ROEs than the underperforming stocks.

These findings hold for both defensive and cyclical sectors. Please find Appendix II for breakdown of the results at sector level.

We think that the characteristics of the outperforming stocks will be changing. The initial move up was driven by the names that were affected the most by the change in risk premiums, basically the lowest-quality stocks.

Going forward, we believe “higher quality” names will start to perform better. In Appendix I, we list European stocks that have high ROEs but have underperformed their peers in the rally.

Figure 6: European sectors — Year-to-date EPS revisions and performances



Source: Datastream, MSCI, IBES

In addition, we believe that earnings momentum will become an important positive driver of stock selection again, i.e., the stocks that are having EPS upgrades are likely to outperform, in contrast to the inverse correlation we have witnessed in the past few months.

Table 5 highlights the stocks that have underperformed their peers during the rally but which actually displayed rising EPS integers. Only 21% of European corporates experienced a pickup in rolling forward EPS integers vs. two months ago.

Table 5: European stocks that have underperformed their sectors since March 2009 but have had positive 12m Fwd EPS revisions

| | | Trough to Peak | MV (US) | Peak to Trough | ND/Equity | %ch EPS | RoE | P/E | P/Book | Div Yield |
|-------------------------|---------------|-------------------|---------|-------------------|-----------|---------|--------|-------|--------|-----------|
| MARFIN INV.GP.HDG. | FINANCIALS | -59.5% | 2,496 | 15.6% | n/a | 66.7% | 1.4% | 26.4 | 0.4 | 10.5% |
| ASML HOLDING | IT | -2.5% | 6,279 | 15.1% | -0.31 | 41.7% | -2.5% | -95.8 | 2.4 | 1.7% |
| ICADE | FINANCIALS | -67.8% | 3,217 | 17.5% | n/a | 38.6% | 7.5% | 19.4 | 1.5 | 7.1% |
| RYANAIR HOLDINGS | INDUSTRIALS | -10.9% | 5,390 | 19.2% | 0.26 | 21.1% | 9.9% | 15.2 | 1.5 | 0.0% |
| CIE.NALE.A PTF. | ENERGY | -76.3% | 4,569 | 43.9% | n/a | 15.7% | 5.7% | 12.1 | 0.7 | 2.5% |
| CABLE & WIRELESS | TELECOMS | -1.4% | 4,714 | 12.9% | -0.03 | 13.3% | 19.5% | 9.8 | 1.9 | 6.8% |
| SWEDISH MATCH | STAPLES | -17.2% | 3,278 | 14.7% | 3.13 | 13.3% | 116.9% | 12.2 | 14.3 | 3.9% |
| CENTRICA | UTILITIES | -22.6% | 16,535 | 27.5% | 0.27 | 12.5% | 19.7% | 10.5 | 2.1 | 5.5% |
| GETINGE | HEALTH CARE | -26.6% | 2,376 | 8.7% | 1.47 | 11.5% | 17.8% | 10.8 | 1.9 | 2.7% |
| SECURITAS 'B' | INDUSTRIALS | -23.1% | 2,339 | 27.5% | 0.85 | 10.7% | 23.4% | 9.5 | 2.2 | 5.1% |
| COMPASS GROUP | DISCRETIONARY | -22.0% | 7,486 | 36.1% | 0.41 | 10.3% | 21.8% | 11.1 | 2.4 | 4.7% |
| AUTONOMY CORP. | IT | -23.8% | 3,946 | 80.2% | -0.22 | 9.9% | 15.5% | 18.4 | 2.9 | 0.0% |
| REED ELSEVIER | DISCRETIONARY | -12.3% | 7,328 | 27.1% | 12.56 | 9.6% | 140.5% | 10.1 | 14.2 | 4.8% |
| HENNES & MAURITZ 'B' | DISCRETIONARY | -12.3% | 24,726 | 28.0% | -0.64 | 9.2% | 41.1% | 15.5 | 6.4 | 5.4% |
| IBERDROLA RENOVABLES | UTILITIES | -7.8% | 15,594 | -2.5% | 0.39 | 9.1% | 3.7% | 26.3 | 1.0 | 1.0% |
| PEARSON | DISCRETIONARY | -19.2% | 7,042 | 27.9% | 0.25 | 8.2% | 12.0% | 11.3 | 1.4 | 5.7% |
| HANNOVER RUCK. (XET) | FINANCIALS | -66.7% | 3,228 | 37.1% | n/a | 8.1% | 15.4% | 5.2 | 0.8 | 7.1% |
| CAPITA GROUP | INDUSTRIALS | -28.3% | 5,508 | 45.3% | 0.75 | 7.0% | 43.0% | 16.3 | 7.0 | 2.6% |
| BUNZL | INDUSTRIALS | -39.0% | 2,432 | 39.6% | 0.84 | 6.8% | 23.5% | 10.0 | 2.3 | 4.1% |
| SERCO GROUP | INDUSTRIALS | -31.8% | 2,409 | 38.1% | 0.10 | 6.7% | 19.7% | 13.1 | 2.6 | 1.8% |
| TERNA | UTILITIES | -8.6% | 5,687 | 27.3% | 2.10 | 6.3% | 15.1% | 13.9 | 2.1 | 7.2% |
| BRITISH SKY BCAST.GROUP | DISCRETIONARY | -21.0% | 10,526 | 24.4% | 10.78 | 5.9% | 377.8% | 14.0 | 52.8 | 4.4% |
| WPP | DISCRETIONARY | -4.8% | 6,621 | 8.9% | 0.37 | 5.5% | 12.8% | 7.6 | 1.0 | 4.3% |
| COBHAM | INDUSTRIALS | -43.4% | 2,875 | 47.6% | 0.31 | 5.3% | 19.8% | 10.5 | 2.1 | 3.0% |
| TELIASONERA | TELECOMS | -3.3% | 17,741 | 2.6% | 0.34 | 5.3% | 14.3% | 8.2 | 1.2 | 5.8% |
| SUEDZUCKER (XET) | STAPLES | -7.0% | 3,174 | 17.7% | 0.47 | 5.2% | 6.5% | 13.8 | 0.9 | 3.4% |
| UNITED UTILITIES GROUP | UTILITIES | -10.1% | 4,349 | 13.9% | 2.84 | 5.0% | 22.0% | 8.3 | 1.8 | 7.4% |
| MORRISON(WM)SPMKTS. | STAPLES | -11.9% | 8,922 | 12.0% | 0.24 | 5.0% | 10.0% | 13.4 | 1.3 | 2.6% |
| INVESTOR 'B' | FINANCIALS | -67.3% | 4,824 | 34.4% | n/a | 5.0% | 1.4% | 41.9 | 0.6 | 4.2% |
| NATIONAL GRID | UTILITIES | -18.2% | 18,783 | 16.0% | 3.88 | 4.9% | 24.7% | 9.9 | 2.4 | 6.8% |
| G4S | INDUSTRIALS | -23.8% | 3,420 | 41.2% | 0.54 | 4.8% | 16.7% | 9.1 | 1.5 | 4.2% |
| ERICSSON 'B' | IT | -24.6% | 23,086 | 16.7% | -0.34 | 4.8% | 10.6% | 14.5 | 1.5 | 2.9% |
| GBL NEW | FINANCIALS | -70.5% | 9,889 | 31.7% | n/a | 4.5% | 4.2% | 10.0 | 0.4 | 5.4% |
| BAE SYSTEMS | INDUSTRIALS | -28.7% | 16,345 | 43.6% | -0.14 | 4.3% | 19.5% | 8.0 | 1.6 | 4.6% |
| TUI TRAVEL | DISCRETIONARY | -11.8% | 3,538 | 22.8% | 0.02 | 3.3% | 11.4% | 8.3 | 0.9 | 5.6% |
| UNIBAIL-RODAMCO | FINANCIALS | -48.8% | 8,941 | 23.3% | n/a | 3.0% | 6.4% | 9.8 | 0.6 | 9.1% |
| INVESTEC | FINANCIALS | -0.1% | 1,019 | 2.9% | n/a | 2.4% | 12.5% | 4.5 | 0.6 | 8.9% |
| COLOPLAST 'B' | HEALTH CARE | -8.5% | 2,525 | 9.7% | 1.06 | 2.3% | 32.5% | 15.7 | 5.1 | 2.0% |
| BALFOUR BEATTY | MATERIALS | -22.8% | 2,114 | 32.3% | -0.42 | 2.3% | 22.8% | 8.0 | 1.8 | 4.3% |
| NOVO NORDISK 'B' | HEALTHCARE | -2.0% | 23,083 | 38.4% | -0.29 | 2.1% | 27.8% | 14.7 | 4.1 | 2.5% |
| BIOMERIEUX | HEALTHCARE | -10.0% | 2,882 | 29.4% | -0.03 | 1.8% | 16.8% | 17.0 | 2.9 | 1.8% |
| NOVOZYMES | MATERIALS | -47.5% | 3,778 | 42.5% | 0.32 | 0.8% | 22.2% | 21.7 | 4.8 | 1.4% |
| TITAN CEMENT CR | MATERIALS | -11.5% | 1,315 | 9.9% | 0.80 | 0.5% | 11.4% | 6.8 | 0.8 | 4.4% |

Source: J.P Morgan, Datastream, MSCI, IBES, stock performance relative to sector since March 2009 sector low, data is 12 months forward IBES estimates, ranked by descending order of EPS revisions

Appendix I

Table 6: European stocks that have underperformed their sectors during the rally since March but have higher ROEs than their peers

| Energy | Trough to Peak | MV (U\$m) | Peak to Trough | ND/Equity | %ch EPS | RoE | P/E | P/Book | Div Yield |
|--------------------------|----------------|-----------|----------------|-----------|---------|-------|------|--------|-----------|
| sector median | - | 4,750 | - | 0.32 | -8.7% | 14.6% | 7.3 | 1.0 | 6.9% |
| TOTAL | -6.8% | 102,965 | 2.9% | 0.21 | -8.3% | 18.7% | 7.4 | 1.4 | 6.9% |
| ENI | -2.3% | 70,508 | -4.9% | 0.34 | -9.2% | 15.5% | 6.8 | 1.1 | 9.6% |
| Materials | | | | | | | | | |
| Materials | Trough to Peak | MV (U\$m) | Peak to Trough | ND/Equity | %ch EPS | RoE | P/E | P/Book | Div Yield |
| sector median | - | 3,657 | - | 0.46 | -23.3% | 9.4% | 7.7 | 0.8 | 5.8% |
| BHP BILLITON | -0.3% | 32,171 | 12.1% | 0.36 | -25% | 23.2% | 7.5 | 1.7 | 5.7% |
| SYNGENTA | -45.2% | 19,572 | 38.6% | 0.21 | -6% | 22.6% | 11.7 | 2.6 | 2.8% |
| NOVOZYMES | -47.5% | 3,778 | 42.5% | 0.32 | 1% | 22.2% | 21.7 | 4.8 | 1.4% |
| GIVAUDAN 'N' | -39.5% | 4,032 | 29.0% | 0.92 | -15% | 16.8% | 9.6 | 1.6 | 3.2% |
| AIR LIQUIDE | -33.2% | 18,547 | 30.1% | 0.73 | -3% | 16.6% | 11.7 | 1.9 | 4.3% |
| YARA INTERNATIONAL | -9.7% | 5,650 | -1.9% | 0.37 | -1% | 16.5% | 7.1 | 1.2 | 3.8% |
| REXAM | -25.7% | 2,217 | 17.7% | 0.98 | -9% | 13.1% | 6.1 | 0.8 | 8.8% |
| JOHNSON MATTHEY | -7.8% | 2,736 | 11.5% | 0.40 | -6% | 12.5% | 11.7 | 1.5 | 4.2% |
| TITAN CEMENT CR | -11.5% | 1,315 | 9.9% | 0.80 | 0% | 11.4% | 6.8 | 0.8 | 4.4% |
| CRH | -18.8% | 10,401 | 27.9% | 0.63 | -13% | 11.0% | 8.5 | 0.9 | 4.2% |
| BASF (XET) | -5.7% | 24,022 | 9.2% | 0.64 | -18% | 10.9% | 9.2 | 1.0 | 9.0% |
| UMICORE | -2.1% | 1,792 | -2.0% | 0.23 | -31% | 10.2% | 9.6 | 1.0 | 5.7% |
| THYSSENKRUPP (XET) | -12.9% | 8,708 | -6.3% | 0.44 | -33% | 10.0% | 5.5 | 0.5 | 7.6% |
| Industrials | | | | | | | | | |
| Industrials | Trough to Peak | MV (U\$m) | Peak to Trough | ND/Equity | %ch EPS | RoE | P/E | P/Book | Div Yield |
| sector median | - | 3,071 | - | 0.42 | -5.5% | 15.5% | 8.2 | 1.3 | 5.1% |
| CAPITA GROUP | -28.3% | 5,508 | 45.3% | 0.75 | 7% | 43.0% | 16.3 | 7.0 | 2.6% |
| ALSTOM | -8.0% | 13,303 | 14.3% | -0.54 | -5% | 31.9% | 8.4 | 2.7 | 3.5% |
| SGS 'N' | -20.2% | 7,478 | 36.2% | -0.25 | -1% | 26.9% | 13.8 | 3.7 | 3.1% |
| ATLAS COPCO 'A' | -6.0% | 5,665 | 11.9% | 0.88 | 0% | 26.6% | 10.9 | 2.9 | 4.9% |
| SMITHS GROUP | -41.3% | 4,108 | 29.4% | 0.62 | 1% | 26.4% | 9.6 | 2.5 | 4.5% |
| EXPERIAN | -12.0% | 5,346 | 21.9% | 0.83 | 0% | 24.9% | 9.4 | 2.3 | 3.6% |
| ALFA LAVAL | -12.5% | 2,992 | 17.4% | -0.04 | 0% | 24.3% | 8.8 | 2.1 | 3.8% |
| BUNZL | -39.0% | 2,432 | 39.6% | 0.84 | 7% | 23.5% | 10.0 | 2.3 | 4.1% |
| SECURITAS 'B' | -23.1% | 2,339 | 27.5% | 0.85 | 11% | 23.4% | 9.5 | 2.2 | 5.1% |
| SCHINDLER 'P' | -21.1% | 2,227 | 26.6% | -1.34 | -4% | 23.4% | 10.7 | 2.5 | 3.5% |
| GEBERIT 'R' | -3.5% | 3,431 | 5.9% | -0.17 | -5% | 23.2% | 9.9 | 2.3 | 5.2% |
| BALFOUR BEATTY | -22.8% | 2,114 | 32.3% | -0.42 | 2% | 22.8% | 8.0 | 1.8 | 4.3% |
| ABB 'R' | -2.5% | 27,197 | 7.7% | -0.47 | -14% | 20.7% | 9.9 | 2.0 | 3.5% |
| COBHAM | -43.4% | 2,875 | 47.6% | 0.31 | 5% | 19.8% | 10.5 | 2.1 | 3.0% |
| SERCO GROUP | -31.8% | 2,409 | 38.1% | 0.10 | 7% | 19.7% | 13.1 | 2.6 | 1.8% |
| BAE SYSTEMS | -28.7% | 16,345 | 43.6% | -0.14 | 4% | 19.5% | 8.0 | 1.6 | 4.6% |
| G4S | -23.8% | 3,420 | 41.2% | 0.54 | 5% | 16.7% | 9.1 | 1.5 | 4.2% |
| ACS ACTIV.CONSTR.Y SERV. | -4.7% | 12,015 | 20.8% | 2.43 | -13% | 16.7% | 8.9 | 1.5 | 5.9% |
| Discretionary | | | | | | | | | |
| Discretionary | Trough to Peak | MV (U\$m) | Peak to Trough | ND/Equity | %ch EPS | RoE | P/E | P/Book | Div Yield |
| sector median | - | 3,726 | - | 0.31 | -3.4% | 12.9% | 8.7 | 1.2 | 5.2% |
| HENNES & MAURITZ 'B' | -12.3% | 24,726 | 28.0% | -0.64 | 9% | 41.1% | 15.5 | 6.4 | 5.4% |
| UNITED BUSINESS MEDIA | -12.2% | 1,351 | 5.2% | 0.11 | 0% | 32.0% | 7.1 | 2.3 | 6.6% |
| WOLTERS KLUWER | -14.8% | 4,166 | 7.4% | 1.02 | 1% | 29.1% | 7.5 | 2.2 | 6.3% |
| SES FDR (PAR) | -35.8% | 8,868 | 44.4% | 1.77 | -3% | 27.6% | 11.9 | 3.3 | 5.1% |
| COMPASS GROUP | -22.0% | 7,486 | 36.1% | 0.41 | 10% | 21.8% | 11.1 | 2.4 | 4.7% |
| SODEXO | -22.4% | 6,685 | 17.8% | 0.27 | 0% | 17.0% | 12.9 | 2.2 | 4.0% |
| EUTELSAT COMMUNICATIONS | -23.7% | 4,352 | 43.4% | 1.77 | 1% | 15.3% | 15.8 | 2.4 | 4.3% |
| PUBLICIS GROUPE | -4.3% | 4,723 | 14.3% | 0.19 | -1% | 14.9% | 9.2 | 1.4 | 3.4% |
| SANOMA | -12.7% | 1,786 | -4.2% | 0.75 | -4% | 13.1% | 8.9 | 1.2 | 8.9% |

Continued on next page

| | Trough to Peak | MV (U\$m) | Peak to Trough | ND/Equity | %ch EPS | RoE | P/E | P/Book | Div Yield |
|--------------------------|----------------|-----------|----------------|-----------|---------|-------|------|--------|-----------|
| Staples | | | | | | | | | |
| sector median | - | 8,235 | - | 0.52 | 1.2% | 14.8% | 10.5 | 1.3 | 3.7% |
| BRITISH AMERICAN TOBACCO | -13.1% | 47,290 | 20.4% | 0.81 | 3% | 34.5% | 11.4 | 3.9 | 5.7% |
| IMPERIAL TOBACCO GP. | -12.2% | 22,045 | 2.0% | 1.76 | 3% | 25.7% | 9.2 | 2.4 | 5.4% |
| COLRUYT | -18.5% | 7,327 | 43.1% | -0.36 | 2% | 25.6% | 16.9 | 4.3 | 2.3% |
| BEIERSDORF (XET) | -6.1% | 9,801 | -5.5% | -0.56 | -18% | 19.4% | 13.5 | 2.6 | 2.7% |
| NESTLE 'R' | -2.6% | 118,813 | 4.8% | 0.27 | -7% | 19.0% | 11.1 | 2.1 | 4.0% |
| AHOLD KON. | -8.7% | 12,524 | 23.6% | 0.27 | 3% | 17.4% | 10.6 | 1.9 | 2.8% |
| KERRY GROUP 'A' | -11.0% | 3,425 | 6.8% | 0.56 | 3% | 16.9% | 9.7 | 1.6 | 1.6% |
| | | | | | | | | | |
| Healthcare | | | | | | | | | |
| sector median | - | 4,604 | - | 0.03 | -3.5% | 17.9% | 11.9 | 2.2 | 2.3% |
| GLAXOSMITHKLINE | -5.6% | 75,073 | 9.0% | 0.82 | -1% | 59.4% | 8.8 | 5.2 | 6.0% |
| NOBEL BIOCARE HOLDING | -1.4% | 1,971 | -38.6% | 0.04 | -3% | 35.0% | 13.8 | 4.8 | 3.3% |
| ORION 'B' | -22.4% | 1,399 | 11.0% | -0.17 | 0% | 34.5% | 11.2 | 3.9 | 7.6% |
| COLOPLAST 'B' | -8.5% | 2,525 | 9.7% | 1.06 | 2% | 32.5% | 15.7 | 5.1 | 2.0% |
| NOVO NORDISK 'B' | -2.0% | 23,083 | 38.4% | -0.29 | 2% | 27.8% | 14.7 | 4.1 | 2.5% |
| GRIFOLS | -6.7% | 2,962 | 30.6% | 0.58 | -3% | 27.4% | 13.9 | 3.8 | 2.0% |
| ACTELION | -6.0% | 5,354 | 20.4% | -0.75 | -7% | 26.7% | 14.0 | 3.7 | 0.0% |
| SMITH & NEPHEW | -12.3% | 5,688 | 12.6% | 0.50 | 0% | 26.7% | 10.6 | 2.8 | 2.4% |
| SHIRE | -3.0% | 6,196 | 12.3% | -0.14 | -6% | 23.0% | 11.1 | 2.5 | 0.9% |
| | | | | | | | | | |
| Financials | | | | | | | | | |
| sector median | - | 3,483 | - | n/a | -12.1% | 9.2% | 5.0 | 0.4 | 8.6% |
| TOPDANMARK | -59.9% | 1,351 | 26.2% | n/a | -10.5% | 36.2% | 5.3 | 1.9 | 0.0% |
| DEUTSCHE BOERSE (XET) | -12.5% | 7,550 | 16.4% | n/a | -8.6% | 34.2% | 6.4 | 2.2 | 8.4% |
| TRYGVESTA | -78.8% | 3,131 | 39.0% | n/a | -11.2% | 22.1% | 8.0 | 1.8 | 6.3% |
| MEDIOLANUM | -19.7% | 1,972 | 13.2% | n/a | -12.5% | 20.7% | 8.9 | 1.8 | 8.4% |
| MAN GROUP | -36.7% | 3,654 | 6.5% | n/a | -27.9% | 19.1% | 3.9 | 0.8 | 19.5% |
| STANDARD LIFE | -45.4% | 3,949 | 17.1% | n/a | -7.1% | 16.3% | 5.1 | 0.8 | 9.7% |
| MAPFRE | -23.1% | 4,926 | 17.3% | n/a | -8.3% | 15.9% | 3.9 | 0.6 | 9.9% |
| RSA INSURANCE GROUP | -93.0% | 5,774 | 52.6% | n/a | 0.0% | 15.7% | 8.1 | 1.3 | 6.6% |
| NATIONAL BK.OF GREECE | -1.7% | 5,611 | 1.0% | n/a | -15.2% | 15.7% | 3.4 | 0.5 | 9.5% |
| ZURICH FINANCIAL SVS. | -24.2% | 15,614 | 12.8% | n/a | -7.2% | 15.5% | 4.1 | 0.6 | 10.1% |
| HANNOVER RUCK. (XET) | -66.7% | 3,228 | 37.1% | n/a | 8.1% | 15.4% | 5.2 | 0.8 | 7.1% |
| GENERALI | -24.1% | 17,800 | 10.5% | n/a | -16.1% | 15.2% | 5.7 | 0.9 | 8.1% |
| ALLIANZ (XET) | -38.2% | 28,068 | 9.8% | n/a | -13.0% | 15.0% | 4.1 | 0.6 | 9.3% |
| BANCO SANTANDER | -8.1% | 41,222 | 10.6% | n/a | -12.1% | 13.6% | 3.7 | 0.5 | 15.3% |
| SAMPO 'A' | -24.7% | 6,264 | 18.3% | n/a | -4.4% | 13.3% | 6.6 | 0.9 | 11.1% |
| ALLEANZA | -20.2% | 3,415 | 9.6% | n/a | -4.3% | 13.3% | 6.9 | 0.9 | 10.0% |
| STANDARD CHARTERED | -20.2% | 19,567 | 32.8% | n/a | -11.2% | 12.5% | 7.0 | 0.9 | 6.6% |
| MUENCHENER RUCK. (XET) | -66.2% | 21,134 | 39.1% | n/a | -5.7% | 11.7% | 5.9 | 0.7 | 7.0% |
| BALOISE 'R' | -23.4% | 2,306 | 21.1% | n/a | -12.1% | 11.7% | 5.0 | 0.6 | 7.9% |
| SCOR SE | -80.6% | 3,436 | 52.3% | n/a | -5.3% | 11.0% | 7.1 | 0.8 | 5.4% |
| POHJOLA PANKKI A | -22.6% | 958 | 12.1% | n/a | -23.1% | 10.9% | 4.9 | 0.5 | 9.9% |
| BANCO ESPIRITO SANTO | -37.4% | 2,938 | 6.8% | n/a | -1.6% | 10.6% | 4.7 | 0.5 | 8.5% |
| CNP ASSURANCES | -36.8% | 7,442 | 20.1% | n/a | -7.6% | 10.6% | 5.0 | 0.5 | 7.6% |
| BANCO DE VALENCIA | -57.4% | 3,055 | 31.7% | n/a | 0.0% | 10.5% | 18.9 | 2.0 | 0.6% |
| BANCO DE SABADELL | -35.3% | 4,671 | 14.0% | n/a | -4.7% | 10.5% | 7.0 | 0.7 | 7.3% |
| BANKINTER 'R' | -49.7% | 3,416 | 29.9% | n/a | -5.6% | 10.4% | 12.3 | 1.3 | 3.6% |
| SVENSKA HANDBKN.'A' | -30.0% | 6,260 | 25.0% | n/a | -12.3% | 10.3% | 7.1 | 0.7 | 6.8% |
| FONDIARIA-SAI | -32.9% | 1,306 | 0.9% | n/a | -19.0% | 10.1% | 3.7 | 0.4 | 11.1% |
| HSBC HDG. (ORD \$0.50) | -2.0% | 58,313 | 16.7% | n/a | -50.8% | 9.6% | 5.1 | 0.5 | 17.2% |
| SCHRODERS | -62.5% | 2,237 | 31.2% | n/a | -13.1% | 9.3% | 12.8 | 1.2 | 4.5% |
| | | | | | | | | | |
| IT | | | | | | | | | |
| sector median | - | 3,312 | - | -0.10 | 0.0% | 14.5% | 10.4 | 1.7 | 4.2% |
| NEOPOST | -22.3% | 2,214 | 19.4% | 1.1 | -0.6% | 30.6% | 11.5 | 3.5 | 6.7% |
| SAP (XET) | -14.4% | 38,804 | 27.2% | -0.1 | 2.1% | 24.3% | 13.2 | 3.2 | 2.2% |
| INDRA SISTEMAS | -29.8% | 2,861 | 33.2% | 0.1 | 0.9% | 21.3% | 11.8 | 2.5 | 4.6% |
| DASSAULT SYSTEMES | -19.5% | 3,848 | 16.6% | -0.6 | -0.9% | 16.3% | 11.9 | 1.9 | 2.2% |
| SAGE GROUP | -31.1% | 3,122 | 32.2% | 0.3 | 0.0% | 16.1% | 10.4 | 1.7 | 4.8% |
| AUTONOMY CORP. | -23.8% | 3,946 | 80.2% | -0.2 | 9.9% | 15.5% | 18.4 | 2.9 | 0.0% |

Continued on next page

| Telecoms | Trough to Peak | MV (U\$m) | Peak to Trough | ND/Equity | %ch EPS | RoE | P/E | P/Book | Div Yield |
|-------------------------|----------------|-----------|----------------|-----------|---------|-------|------|--------|-----------|
| sector median | - | 7,803 | - | 0.94 | 1.1% | 21.8% | 8.5 | 1.7 | 7.5% |
| MOBISTAR | -4.5% | 3,515 | 24.7% | 0.52 | -0.5% | 48.1% | 10.6 | 5.1 | 8.6% |
| KPN KON | -12.9% | 21,552 | 18.4% | 3.13 | 1.0% | 48.0% | 10.3 | 4.9 | 7.1% |
| BELGACOM | -8.1% | 9,495 | 12.1% | 0.55 | -3.2% | 33.9% | 8.8 | 3.0 | 8.9% |
| PORTUGAL TELECOM SGPS | -2.7% | 6,661 | 10.6% | 3.20 | 3.2% | 32.6% | 9.3 | 3.0 | 8.5% |
| SWISSCOM 'R' | -12.2% | 14,655 | 17.9% | 1.30 | -5.6% | 26.7% | 8.9 | 2.4 | 6.9% |
| Utilities | | | | | | | | | |
| sector median | - | 6,548 | - | 1.25 | -0.4% | 14.2% | 9.2 | 1.4 | 6.8% |
| DRAX GROUP | -15.3% | 2,302 | 30.9% | 0.37 | -2.5% | 40.4% | 6.6 | 2.7 | 8.9% |
| SCOT. & SOUTHERN ENERGY | -13.7% | 13,274 | 13.3% | 1.21 | 4.1% | 27.3% | 9.2 | 2.5 | 6.7% |
| RWE (XET) | -4.7% | 32,680 | -0.9% | 0.26 | -4.4% | 25.7% | 6.8 | 1.7 | 8.3% |
| NATIONAL GRID | -18.2% | 18,783 | 16.0% | 3.88 | 4.9% | 24.7% | 9.9 | 2.4 | 6.8% |
| RED ELECTRICA DE ESPANA | -4.3% | 4,728 | 17.9% | 2.34 | 1.6% | 22.2% | 11.3 | 2.5 | 5.3% |
| UNITED UTILITIES GROUP | -10.1% | 4,349 | 13.9% | 2.84 | 5.0% | 22.0% | 8.3 | 1.8 | 7.4% |
| SEVERN TRENT | -9.3% | 3,113 | 13.5% | 3.43 | 1.8% | 21.3% | 9.5 | 2.0 | 7.6% |
| CENTRICA | -22.6% | 16,535 | 27.5% | 0.27 | 12.5% | 19.7% | 10.5 | 2.1 | 5.5% |
| ENAGAS | -2.6% | 3,379 | 7.4% | 1.93 | 2.5% | 18.5% | 9.2 | 1.7 | 6.5% |
| FORTUM | -4.7% | 15,706 | -6.2% | 0.69 | -5.2% | 15.4% | 9.1 | 1.4 | 6.9% |
| TERNA | -8.6% | 5,687 | 27.3% | 2.10 | 6.3% | 15.1% | 13.9 | 2.1 | 7.2% |

Source: J.P.Morgan, Datastream, MSCI, IBES, stock performance relative to sector since March 2009 sector low, data is 12 months forward IBES estimates, sorted by descending order of ROE

Appendix II

Table 7: Factors that have worked for European outperformers during the rally since March — Sector breakdown

| Europe | Trough to Peak | MV weight | Peak to Trough | ND/Equity | %ch EPS | RoE | P/E | P/Book | Div Yield |
|--------|----------------|-----------|----------------|-----------|---------|-------|------|--------|-----------|
| Q1 | 46.7% | 13% | -14.3% | 0.46 | -11.9% | 11.4% | 5.6 | 0.6 | 6.2% |
| Q2 | 14.8% | 18% | -6.8% | 0.45 | -6.8% | 12.6% | 6.9 | 0.8 | 6.1% |
| Q3 | 1.0% | 29% | 2.7% | 0.39 | -6.1% | 13.0% | 8.2 | 1.1 | 6.0% |
| Q4 | -10.4% | 19% | 9.9% | 0.37 | -4.4% | 13.7% | 9.4 | 1.1 | 5.8% |
| Q5 | -23.8% | 20% | 23.3% | 0.39 | 0.0% | 15.7% | 10.1 | 1.6 | 4.6% |

| Energy | Trough to Peak | MV weight | Peak to Trough | ND/Equity | %ch EPS | RoE | P/E | P/Book | Div Yield |
|--------|----------------|-----------|----------------|-----------|---------|-------|-----|--------|-----------|
| Q1 | 46.3% | 4% | -25.7% | 0.43 | -11.1% | 16.7% | 5.2 | 0.9 | 4.3% |
| Q2 | 18.1% | 3% | -20.1% | 0.39 | -5.6% | 15.0% | 7.3 | 1.2 | 6.9% |
| Q3 | 6.4% | 32% | -12.0% | 0.30 | -13.2% | 13.9% | 7.3 | 1.3 | 7.1% |
| Q4 | -0.2% | 22% | -4.9% | 0.47 | -8.5% | 14.6% | 8.3 | 1.1 | 7.1% |
| Q5 | -6.8% | 40% | 2.9% | 0.20 | -8.3% | 14.0% | 7.4 | 1.2 | 8.3% |

| Materials | Trough to Peak | MV weight | Peak to Trough | ND/Equity | %ch EPS | RoE | P/E | P/Book | Div Yield |
|-----------|----------------|-----------|----------------|-----------|---------|-------|-----|--------|-----------|
| Q1 | 53.7% | 24% | -17.0% | 0.50 | -28.2% | 9.01% | 4.8 | 0.6 | 5.9% |
| Q2 | 12.3% | 12% | -1.3% | 0.46 | -26.4% | 7.8% | 6.7 | 0.5 | 6.1% |
| Q3 | -0.2% | 31% | 9.7% | 0.42 | -24.5% | 10.2% | 9.2 | 1.0 | 5.7% |
| Q4 | -11.5% | 9% | 9.9% | 0.40 | -10.7% | 9.05% | 8.0 | 0.8 | 4.7% |
| Q5 | -33.2% | 24% | 28.5% | 0.63 | -8.1% | 14.8% | 9.6 | 1.3 | 3.9% |

| Industrials | Trough to Peak | MV weight | Peak to Trough | ND/Equity | %ch EPS | RoE | P/E | P/Book | Div Yield |
|-------------|----------------|-----------|----------------|-----------|---------|-----|------|--------|-----------|
| Q1 | 51.6% | 7% | -14.5% | 0.42 | -16% | 15% | 5.4 | 0.7 | 7.1% |
| Q2 | 19.3% | 16% | -7.3% | 0.52 | -11% | 13% | 6.7 | 0.8 | 6.2% |
| Q3 | 3.6% | 18% | -0.7% | 0.71 | -6% | 16% | 7.4 | 1.3 | 5.8% |
| Q4 | -7.7% | 39% | 11.7% | 0.28 | -2% | 17% | 10.5 | 1.6 | 4.9% |
| Q5 | -25.4% | 19% | 28.4% | 0.34 | 1% | 20% | 9.6 | 1.8 | 4.1% |

| Discretionary | Trough to Peak | MV weight | Peak to Trough | ND/Equity | %ch EPS | RoE | P/E | P/Book | Div Yield |
|---------------|----------------|-----------|----------------|-----------|---------|-----|------|--------|-----------|
| Q1 | 57.9% | 8% | -20.3% | 0.39 | -11% | 8% | 6.5 | 0.6 | 5.1% |
| Q2 | 19.6% | 18% | -8.1% | 0.09 | -7% | 14% | 8.9 | 1.2 | 4.8% |
| Q3 | 6.5% | 29% | -2.0% | 0.31 | -4% | 12% | 8.8 | 1.1 | 5.0% |
| Q4 | -6.1% | 17% | 5.2% | 0.19 | -3% | 13% | 8.9 | 1.2 | 6.3% |
| Q5 | -23.1% | 28% | 17.8% | 0.36 | 0% | 16% | 11.2 | 2.2 | 4.7% |

| Staples | Trough to Peak | MV weight | Peak to Trough | ND/Equity | %ch EPS | RoE | P/E | P/Book | Div Yield |
|---------|----------------|-----------|----------------|-----------|---------|-----|------|--------|-----------|
| Q1 | 26.5% | 16% | -20.4% | 0.59 | -5% | 12% | 8.6 | 1.0 | 3.4% |
| Q2 | 8.6% | 15% | -17.0% | 0.63 | -4% | 16% | 9.1 | 1.1 | 4.7% |
| Q3 | 1.4% | 19% | 1.7% | 0.83 | 1% | 15% | 10.5 | 1.5 | 3.8% |
| Q4 | -6.1% | 32% | 4.8% | 0.27 | 0% | 15% | 13.8 | 2.1 | 3.4% |
| Q5 | -12.1% | 18% | 13.4% | 0.66 | 3% | 22% | 11.0 | 2.1 | 3.4% |

Continued on next page

| Healthcare | Trough to Peak | MV weight | Peak to Trough | ND/Equity | %ch EPS | RoE | P/E | P/Book | Div Yield |
|-------------------|----------------|-----------|----------------|-----------|---------|-----|------|--------|-----------|
| Q1 | 13.0% | 18% | -3.9% | -0.23 | -4% | 24% | 11.1 | 2.1 | 2.2% |
| Q2 | 1.7% | 30% | -8.9% | 0.03 | -4% | 20% | 13.3 | 2.1 | 3.8% |
| Q3 | -3.7% | 41% | 15.0% | 0.17 | -2% | 19% | 10.0 | 2.3 | 3.5% |
| Q4 | -9.3% | 6% | 25.2% | 0.13 | -3% | 22% | 15.3 | 3.3 | 1.4% |
| Q5 | -15.8% | 5% | 9.9% | 0.74 | 0% | 16% | 10.8 | 1.8 | 2.5% |

| Financials | Trough to Peak | MV weight | Peak to Trough | ND/Equity | %ch EPS | RoE | P/E | P/Book | Div Yield |
|-------------------|----------------|-----------|----------------|-----------|---------|-----|-----|--------|-----------|
| Q1 | 84.3% | 12% | -10.8% | - | -29% | 8% | 2.7 | 0.2 | 11.3% |
| Q2 | 15.9% | 22% | 0.6% | - | -10% | 10% | 4.3 | 0.4 | 9.5% |
| Q3 | -5.2% | 34% | 2.9% | - | -15% | 9% | 5.8 | 0.5 | 8.5% |
| Q4 | -35.3% | 17% | 12.5% | - | -11% | 11% | 5.3 | 0.6 | 9.5% |
| Q5 | -62.5% | 14% | 31.7% | - | 0% | 9% | 9.8 | 0.8 | 6.3% |

| Tech | Trough to Peak | MV weight | Peak to Trough | ND/Equity | %ch EPS | RoE | P/E | P/Book | Div Yield |
|-------------|----------------|-----------|----------------|-----------|---------|-----|------|--------|-----------|
| Q1 | 32.3% | 30% | -11.4% | -0.05 | -12% | -3% | 8.2 | 0.4 | 5.5% |
| Q2 | 15.6% | 7% | -8.9% | -0.31 | -1% | 14% | 7.6 | 2.2 | 1.7% |
| Q3 | -8.8% | 33% | 8.2% | -0.15 | 2% | 10% | 7.9 | 0.8 | 2.2% |
| Q4 | -21.7% | 9% | 18.0% | 0.00 | 0% | 16% | 11.7 | 2.4 | 3.8% |
| Q5 | -29.8% | 22% | 32.2% | 0.10 | 1% | 16% | 11.8 | 1.7 | 4.6% |

| Telecoms | Trough to Peak | MV weight | Peak to Trough | ND/Equity | %ch EPS | RoE | P/E | P/Book | Div Yield |
|-----------------|----------------|-----------|----------------|-----------|---------|-----|-----|--------|-----------|
| Q1 | 15.3% | 7% | -18.1% | 1.48 | 1% | 17% | 7.2 | 1.2 | 8.0% |
| Q2 | 11.0% | 25% | -0.7% | 0.65 | 4% | 17% | 8.4 | 1.4 | 5.8% |
| Q3 | -0.8% | 24% | 7.7% | 1.32 | 3% | 29% | 8.7 | 2.2 | 7.6% |
| Q4 | -3.9% | 18% | 5.5% | 0.62 | 1% | 17% | 9.6 | 1.4 | 8.0% |
| Q5 | -10.9% | 25% | 15.0% | 1.14 | -2% | 30% | 8.8 | 2.7 | 8.0% |

| Utilities | Trough to Peak | MV weight | Peak to Trough | ND/Equity | %ch EPS | RoE | P/E | P/Book | Div Yield |
|------------------|----------------|-----------|----------------|-----------|---------|-----|------|--------|-----------|
| Q1 | 11.9% | 22% | -9.7% | 1.17 | -10% | 11% | 7.5 | 0.8 | 8.2% |
| Q2 | 4.3% | 25% | -15.6% | 1.31 | -5% | 16% | 8.0 | 1.0 | 6.8% |
| Q3 | -4.7% | 31% | 4.5% | 0.54 | -1% | 14% | 9.5 | 1.3 | 6.7% |
| Q4 | -10.1% | 8% | 13.5% | 2.47 | 3% | 14% | 10.3 | 1.6 | 6.5% |
| Q5 | -19.2% | 14% | 21.7% | 0.79 | 4% | 22% | 10.2 | 2.3 | 6.3% |

Source: J.P. Morgan, Datastream, MSCI, IBES, quintile performance relative to sector since March 2009 sector low, data is 12 months forward IBES estimates

European Equity Strategy Key Calls and Drivers

Although the scepticism abounds, macro momentum is stabilising as inventories are run down, and substantial policy initiatives start to gain traction. Equity valuations appear undemanding, where it pays to be in the market vs. cash and bonds. We believe that “**Money Illusion**” could work again, at least temporarily, through improving disposable incomes, and therefore, we advocate overweighting Cyclicals — in particular, Materials, Industrials, Discretionary. Regionally, we believe European equities offer more value than their US counterparts.

Table 8: J.P. Morgan Equity Strategy — Factors driving our medium-term views

| Driver | Impact | Our Core Working Assumptions | Recent Developments |
|-----------------|----------|---|---|
| Global Growth | Neutral | Global recession to end mid-year | ISM showing some stabilisation |
| European Growth | Neutral | Europe recession to end mid-year | IFO rebounded in April |
| Inflation | Positive | Disinflation for a long time | Latest US headline CPI at -0.4%, core at 1.8% |
| Monetary Policy | Positive | All key central banks in maximum dovish mode | Central banks moving further into QE |
| Currency | Positive | European currencies to remain weak | |
| Earnings | Neutral | Looking for 30% EPS fall in Europe, but market is there | Q1 reporting season accepted well |
| Valuations | Positive | We expect some P/E rerating | Valuation models in cheap territory |
| Technicals | Neutral | Equities not oversold anymore | |

Source: J.P. Morgan estimates.

Table 9: J.P. Morgan Equity Strategy — Scenarios: Base Case and Risks

| Scenario | Macro environment in 2009E |
|--------------------|--|
| Upside scenario | Govt. action works with US growth rebound in 2H Modest multiple expansion |
| Base-case scenario | Global recession, but no structural distress Profit margins to cyclically fall, but not structurally P/E expansion as “money illusion” works |
| Downside scenario | Govt. response to credit crisis insufficient Deep global recession Systemic financial crisis Structural fall in profit margins |

Source: J.P. Morgan estimates

Table 10: J.P. Morgan Equity Strategy — Key sector calls*

| Sector | Recommendations | J.P. Morgan Views |
|-------------|-----------------|--|
| Materials | Overweight | Upgraded on 2nd Dec, cheap on trend earnings, favoured by sector rotation |
| Industrials | Overweight | Cycle adjusted undemanding valuations, should respond to stabilisation in macro dataflow |
| Pharma | Underweight | Political risk, structural risks remain |
| Utilities | Underweight | Expensive, regulatory risks, lack of pricing power, over leverage |

Source: J.P. Morgan estimates. * Please see the back page for full list of our calls and sector allocation.

Table 11: J.P. Morgan Equity Strategy — Key regional calls

| Region | Recommendations | J.P. Morgan Views |
|---------------|----------------------|---|
| Global | OW Europe vs. US | Europe cheaper, central bank support is here, supportive currency |
| Within Europe | Underweight Eurozone | Eurozone is more cyclically geared than the UK |
| Within Europe | Overweight UK | Currency support, UK ULCs in line with Eurozone for the first time in 5 years |

Source: J.P. Morgan estimates

Top Picks

Table 12: J.P. Morgan European Strategy: Top European Picks

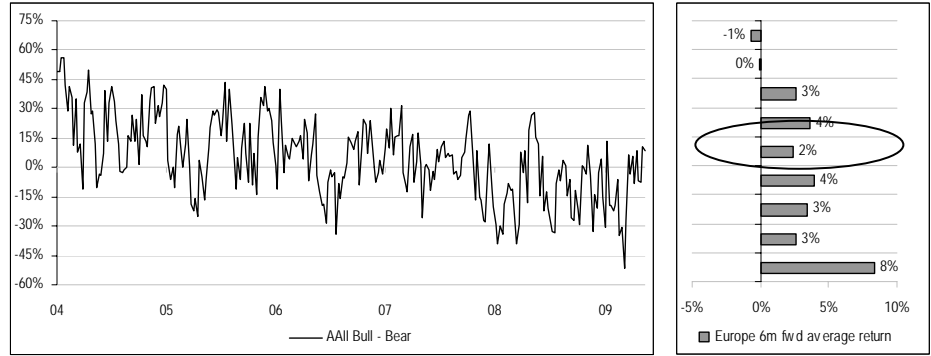
| Name | Price | Ticker | Fundamental Rating | Sector | IBES consensus estimates | | | Performance | | |
|-------------------------|----------|----------|--------------------|---------------|--------------------------|---------|----------------|-------------|--------|--------|
| | | | | | '09/08e EPS | '09eP/E | '09e Div Yield | YTD | -3m | -12m |
| BG Group | 1096.0 £ | BG/ LN | OW | Energy | -18.7% | 14.7 | 1.1% | 14.5% | 2.6% | -15.9% |
| Air Liquide | 61.7 E | AI FP | OW | Materials | -3.8% | 13.6 | 3.8% | -5.8% | 2.4% | -28.3% |
| Syngenta | 251.5 SF | SYNN VX | N | Materials | 13.3% | 13.6 | 2.7% | 25.5% | 5.3% | -22.6% |
| BASF | 27.5 E | BAS GR | OW | Materials | -49.2% | 17.3 | 5.3% | -0.1% | 11.7% | -39.9% |
| Voestalpine | 17.0 E | VOE AV | OW | Materials | -27.9% | 5.0 | 5.5% | 13.0% | 2.5% | -68.4% |
| Rio Tinto | 2594.0 £ | RIO LN | N/A | Materials | -55.8% | 11.1 | 3.4% | 74.1% | 30.4% | -62.3% |
| BHP Billiton | 1392.0 £ | BLT LN | OW | Materials | -32.4% | 11.3 | 3.7% | 7.6% | 8.9% | -34.3% |
| Titan Cement | 18.3 E | TITK GA | OW | Materials | -27.0% | 9.9 | 2.5% | 31.3% | 30.7% | -40.0% |
| Deutsche Post | 9.5 E | DPW GR | OW | Industrials | 65.6% | 11.9 | 6.4% | -20.1% | -7.4% | -54.3% |
| HHLA | 27.1 E | HHFA GR | OW | Industrials | -38.5% | 19.9 | 2.7% | 14.8% | 26.5% | -51.2% |
| MAN | 44.6 E | MAN GR | OW | Industrials | -64.5% | 15.0 | 2.9% | 15.3% | 22.3% | -54.9% |
| Siemens | 50.5 E | SIE GR | OW | Industrials | 147.1% | 10.7 | 3.2% | -4.3% | 9.0% | -32.9% |
| Schneider | 53.1 E | SU FP | N | Industrials | -39.5% | 12.5 | 4.5% | 0.1% | 0.1% | -29.9% |
| Atlas Copco | 72.8 SK | ATCOA SS | N | Industrials | -36.2% | 15.1 | 3.8% | 9.0% | 11.5% | -30.7% |
| ABB | 16.5 SF | ABBN VX | N | Industrials | -20.1% | 13.7 | 2.7% | 6.0% | 5.2% | -50.8% |
| LVMH | 57.4 E | MC FP | OW | Discretionary | -11.2% | 15.1 | 2.7% | 20.1% | 18.1% | -23.5% |
| M&S | 321.8 £ | MKS LN | OW | Discretionary | -36.2% | 11.6 | 5.0% | 49.8% | 20.8% | -18.3% |
| PPR | 55.4 E | PP FP | OW | Discretionary | -23.6% | 10.4 | 5.4% | 19.0% | 30.3% | -34.0% |
| Publicis | 23.1 E | PUB FP | OW | Discretionary | -6.8% | 11.2 | 2.6% | 25.6% | 16.4% | -9.8% |
| ITV | 31.0 £ | ITV LN | OW | Discretionary | -66.7% | 35.0 | 0.0% | -22.0% | 10.7% | -50.7% |
| JCDecaux | 11.0 E | DEC FP | OW | Discretionary | -71.1% | 46.0 | 0.4% | -10.3% | -4.9% | -41.1% |
| Daimler | 25.2 E | DAI GY | OW | Discretionary | -176.6% | -23.3 | 2.4% | -5.7% | 4.3% | -51.1% |
| Renault | 23.6 E | RNO FP | UW | Discretionary | -509.9% | -2.6 | 1.6% | 27.3% | 44.5% | -65.8% |
| Ahold | 8.6 E | WKL NA | N | Staples | 9.2% | 11.3 | 2.5% | -2.6% | -2.4% | -11.7% |
| BAT | 1714.0 £ | BATS LN | OW | Staples | 12.9% | 11.7 | 5.5% | -4.8% | -6.1% | -14.0% |
| Britvic | 267.5 £ | BVIC LN | OW | Staples | 4.7% | 10.3 | 5.0% | 1.2% | 11.1% | -20.3% |
| Carlsberg | 317.5 DK | CARLB DC | OW | Staples | 9.0% | 13.1 | 1.1% | 85.4% | 67.8% | -40.9% |
| Grifols | 13.2 E | GRF SM | OW | Healthcare | 27.8% | 18.1 | 1.8% | 7.2% | 1.2% | -30.3% |
| Roche | 147.0 SF | ROG VX | OW | Healthcare | 9.7% | 12.9 | 3.6% | -9.5% | -1.1% | -15.3% |
| Credit Suisse | 44.2 SF | CSGN VX | OW | Financials | -147.7% | 11.8 | 2.8% | 55.1% | 34.7% | -22.3% |
| Intesa | 2.3 E | ISP IM | OW | Financials | -47.7% | 12.2 | 1.7% | -9.0% | -1.7% | -49.8% |
| ZFS | 196.5 SF | ZURN VX | OW | Financials | 3.1% | 7.3 | 5.9% | -13.4% | -1.1% | -37.4% |
| National Bank of Greece | 16.0 E | ETE GA | OW | Financials | -28.7% | 7.2 | 2.2% | 21.0% | 24.4% | -53.8% |
| Unibail-Rodamco | 111.3 E | UL FP | OW | Financials | 5.6% | 12.4 | 7.2% | 4.5% | -0.3% | -34.9% |
| Nokia | 10.2 E | NOK1V FH | N | IT | -51.5% | 15.5 | 3.1% | -8.1% | 6.8% | -44.7% |
| ASML | 14.0 E | ASML NA | OW | IT | -165.2% | -25.4 | 1.2% | 9.6% | 0.4% | -26.9% |
| SAP | 29.9 E | SAP GR | N | IT | -6.3% | 16.8 | 1.8% | 18.3% | 4.5% | -8.3% |
| KPN | 9.6 E | KPN NA | OW | Telecoms | 22.1% | 10.2 | 7.2% | -7.6% | -10.7% | -16.9% |
| Telefonica | 14.7 E | TEF SM | OW | Telecoms | 3.1% | 8.7 | 7.8% | -7.6% | 1.1% | -24.2% |
| E.ON | 24.1 E | EOAN GR | N | Utilities | -9.2% | 8.8 | 6.3% | -15.4% | 5.0% | -44.4% |
| IPR | 267.8 £ | IPR LN | OW | Utilities | -8.8% | 9.0 | 4.4% | 11.4% | 1.6% | -37.5% |

Source: Datastream, MSCI, IBES, J.P. Morgan, Prices and Valuations as of COB 14 May 2009

Please see the most recent company-specific research published by J.P. Morgan for an analysis of valuation methodology and risks on companies recommended in this report. Research is available at <http://www.morganmarkets.com>, or you can contact the covering analyst or your J.P. Morgan representative.

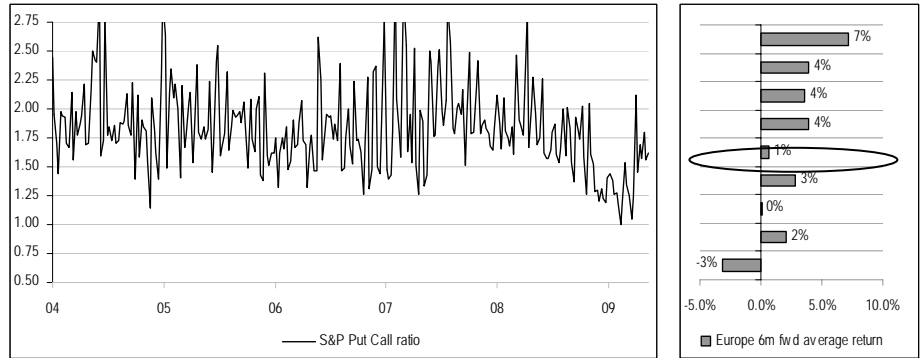
Technical Indicators

Figure 7: AAll Bulls vs. Bears



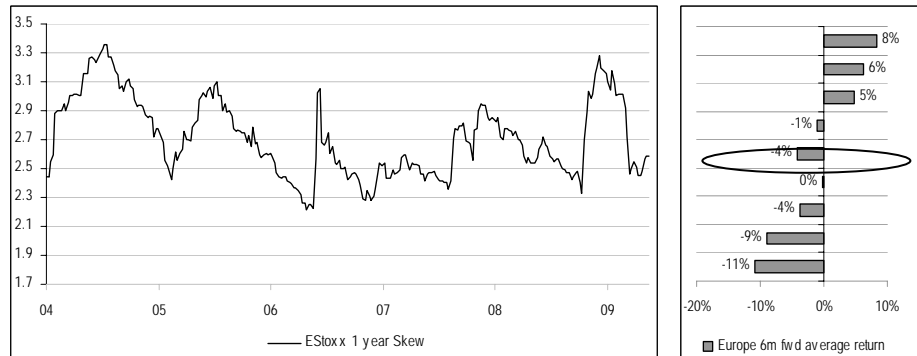
Source: Datastream, Bloomberg, J.P. Morgan

Figure 8: Put Call ratios



Source: Datastream, Bloomberg, J.P. Morgan

Figure 9: Skew



Source: Datastream, Bloomberg, J.P. Morgan

Performances

Table 13: Sector Index Performances — MSCI Europe

| (%change) Industry Group | Local currency | | | |
|-----------------------------|-------------------------------|--------|--------|--------|
| | 4week | 12m | 09YTD | |
| Energy | 11.5 | (26.2) | 1.3 | |
| Materials | 1.7 | (51.0) | 11.1 | |
| | Chemicals | 0.4 | (36.9) | 5.2 |
| | Construction Materials | 5.3 | (43.2) | 5.9 |
| | Metals & Mining | 0.9 | (59.1) | 20.2 |
| Industrials | 4.0 | (38.7) | 2.1 | |
| | Capital Goods | 4.0 | (40.1) | 2.7 |
| | Transport | 2.8 | (44.0) | (4.0) |
| Consumer Discretionary | 0.9 | (30.7) | 3.7 | |
| | Automobile | (3.5) | (39.1) | 1.9 |
| | Consumer Durables | 4.0 | (33.5) | 11.6 |
| | Media | 3.3 | (26.1) | (4.2) |
| | Retailing | 2.4 | (10.0) | 22.3 |
| | Hotels, Restaurants & Leisure | (0.6) | (30.6) | 0.1 |
| Consumer Staples | 7.0 | (21.0) | (1.3) | |
| | Food & Drug Retailing | 4.4 | (22.2) | 1.4 |
| | Food Beverage & Tobacco | 8.3 | (20.6) | (1.7) |
| | Household Products | 2.4 | (21.3) | (3.8) |
| Healthcare | 3.2 | (12.8) | (9.4) | |
| Financials | 6.2 | (50.3) | 2.8 | |
| | Banks | 7.2 | (52.0) | 6.2 |
| | Diversified Financials | 7.8 | (53.2) | 16.9 |
| | Insurance | 4.6 | (42.9) | (11.2) |
| | Real Estate | (5.8) | (54.1) | (10.7) |
| Information Technology | (4.5) | (35.9) | 2.8 | |
| | Software and Services | 2.9 | (18.5) | 12.4 |
| | Technology Hardware | (8.7) | (40.7) | (2.0) |
| | Semicon & Semicon Equip | (5.5) | (50.7) | 0.9 |
| Telecommunications Services | (1.8) | (27.1) | (10.9) | |
| Utilities | 4.9 | (33.9) | (10.8) | |

Source: MSCI, Datastream, as at cob May 14, 2009.

Table 14: Country and Region Index Performances

| (%change) Country | Index | Local Currency | | | US\$ | | |
|----------------------|---------------|----------------|--------|-------|-------|--------|-------|
| | | 4week | 12m | 09YTD | 4week | 12m | 09YTD |
| Austria | ATX | 4.4 | (55.9) | 10.9 | 7.5 | (61.2) | 8.4 |
| Belgium | BEL 20 | 5.6 | (48.4) | 3.7 | 8.8 | (54.6) | 1.3 |
| Denmark | KFX | 13.6 | (35.4) | 15.9 | 17.1 | (43.1) | 13.2 |
| Finland | HEX 20 | 4.8 | (43.6) | 2.4 | 8.0 | (50.5) | 0.1 |
| France | CAC 40 | 3.9 | (37.6) | (1.9) | 7.0 | (45.1) | (4.1) |
| Germany | DAX | 2.8 | (33.1) | (1.5) | 5.9 | (41.2) | (3.7) |
| Greece | ASE General | 7.6 | (50.3) | 18.9 | 10.9 | (56.3) | 16.2 |
| Ireland | ISEQ | 5.7 | (60.0) | 9.2 | 8.8 | (64.8) | 6.7 |
| Italy | MIB 30 | 7.0 | (42.7) | 0.1 | 10.2 | (49.6) | (2.2) |
| Japan | Topix | 3.7 | (37.2) | 0.4 | 7.5 | (30.9) | (4.9) |
| Netherlands | AEX | 4.4 | (49.0) | 1.3 | 7.6 | (55.2) | (1.0) |
| Norway | OBX | 14.0 | (45.2) | 21.6 | 17.2 | - | 31.0 |
| Portugal | BVL GEN | 8.3 | (33.4) | 16.8 | 11.6 | (41.5) | 14.2 |
| Spain | IBEX 35 | 1.2 | (36.7) | (2.3) | 4.3 | (44.3) | (4.5) |
| Sweden | OMX | 1.6 | (25.2) | 14.4 | 7.2 | (42.9) | 14.6 |
| Switzerland | SMI | 3.8 | (29.4) | (3.2) | 7.4 | (32.8) | (7.0) |
| United States | S&P 500 | 3.2 | (36.6) | (1.1) | 3.2 | (36.6) | (1.1) |
| United States | NASDAQ | 1.1 | (32.3) | 7.1 | 1.1 | (32.3) | 7.1 |
| United Kingdom | FTSE 100 | 7.6 | (29.8) | (1.6) | 9.3 | (45.3) | 3.6 |
| EMU | MSCI EMU | 2.6 | (41.2) | (1.7) | 5.7 | (48.3) | (3.9) |
| Europe | MSCI Europe | 4.5 | (36.2) | (0.8) | 7.3 | (45.8) | (0.8) |
| Global | MSCI AC World | 3.6 | (36.5) | 0.2 | 5.2 | (39.8) | 0.1 |

Source: MSCI, Datastream, as at cob May 14, 2009.

Earnings

Table 15: IBES Consensus EPS Sector Forecasts — MSCI Europe

| | EPS Growth (%) | | | |
|-------------------------------|----------------|--------------|-------------|-------------|
| | 2008E | 2009E | 2010E | 2011E |
| Europe | -21.9 | -16.7 | 18.0 | 15.6 |
| Energy | 19.0 | -44.9 | 27.1 | 17.2 |
| Materials | 3.3 | -57.4 | 28.7 | 27.6 |
| Chemicals | 8.9 | -30.1 | 20.8 | 15.5 |
| Construction Materials | -26.7 | -35.4 | 2.9 | 15.9 |
| Metals & Mining | 11.2 | -69.7 | 40.4 | 37.3 |
| Industrials | -9.3 | -18.6 | 7.3 | 16.7 |
| Capital Goods | -5.3 | -18.5 | 3.8 | 14.4 |
| Transport | -38.9 | -21.8 | 38.1 | 33.5 |
| Discretionary | -19.2 | -42.5 | 40.2 | 24.8 |
| Automobile | -39.0 | -111.0 | - | 75.6 |
| Consumer Durables | -19.5 | -18.8 | 8.4 | 14.4 |
| Media | 2.8 | -5.9 | 5.5 | 10.5 |
| Retailing | -12.0 | -12.9 | 11.1 | 16.9 |
| Hotels, Restaurants & Leisure | 11.5 | -12.7 | 4.2 | 12.5 |
| Staples | 7.8 | 0.5 | 10.0 | 10.0 |
| Food & Drug Retailing | 4.4 | 1.7 | 9.4 | 11.4 |
| Food Beverage & Tobacco | 7.4 | 1.2 | 10.5 | 9.7 |
| Household Products | 19.9 | -8.0 | 6.2 | 10.0 |
| Healthcare | 12.1 | 5.4 | 7.7 | 9.3 |
| Financials | -67.2 | 32.1 | 24.2 | 19.4 |
| Banks | -42.6 | -39.7 | 21.5 | 33.7 |
| Diversified Financials | -176.4 | - | 44.5 | 2.3 |
| Insurance | -55.7 | 36.4 | 19.3 | 10.2 |
| Real Estate | 0.0 | -14.9 | -1.8 | 11.8 |
| IT | -4.4 | -44.3 | 57.2 | 19.6 |
| Software and Services | 14.8 | -4.5 | 11.4 | 11.7 |
| Technology Hardware | -5.6 | -48.8 | 59.6 | 18.2 |
| Semicon & Semicon Equip | -45.1 | -205.2 | - | 126.0 |
| Telecoms | 3.5 | 2.0 | 6.3 | 7.1 |
| Utilities | -0.1 | -4.1 | 6.3 | 5.0 |

Source: IBES, MSCI, Datastream. As at May 14, 2009

Table 16: IBES Consensus EPS Country Forecasts

| Country | Index | EPS Growth (%) | | | |
|-----------------|-------------------|----------------|---------|-------|--------|
| | | 2008E | 2009E | 2010E | 2011E |
| Austria | ATX | (51.5) | 5.5 | 24.3 | 16.3 |
| Belgium | BEL 20 | 9.0 | 6,592.7 | 21.7 | (24.3) |
| Denmark | Denmark KFX | (18.4) | (43.0) | 26.1 | 48.2 |
| Finland | MSCI Finland | (29.1) | (44.5) | 27.8 | 17.8 |
| France | CAC 40 | (141.0) | (23.7) | 21.9 | 15.9 |
| Germany | DAX | (46.8) | 6.0 | 29.1 | 13.1 |
| Greece | MSCI Greece | (15.0) | (15.5) | 4.2 | 22.8 |
| Ireland | MSCI Ireland | (84.8) | (28.8) | 5.8 | 19.8 |
| Italy | MSCI Italy | (9.7) | (33.9) | 14.2 | 18.1 |
| Netherlands | AEX | (141.0) | (37.6) | 42.4 | 21.1 |
| Norway | MSCI Norway | 4.5 | (37.9) | 28.9 | 22.5 |
| Portugal | MSCI Portugal | (15.9) | 3.6 | 11.0 | 0.4 |
| Spain | IBEX 35 | (1.9) | (13.0) | 5.6 | 8.3 |
| Sweden | OMX | (4.8) | (40.3) | 14.5 | 26.8 |
| Switzerland | SMI | (44.9) | 279.6 | 15.3 | 12.0 |
| United Kingdom | FTSE 100 | (23.5) | (33.5) | 18.1 | 21.1 |
| EMU | MSCI EMU | (66.2) | (15.5) | 19.8 | 13.3 |
| Europe ex UK | MSCI Europe ex UK | (51.2) | (6.4) | 19.3 | 14.3 |
| Europe | MSCI Europe | (23.0) | (16.7) | 18.0 | 15.6 |
| United States | S&P 500 | (23.1) | (13.4) | 27.6 | 23.5 |
| Japan | Topix | (106.7) | - | 85.9 | 22.0 |
| Emerging Market | MSCI EM | (8.0) | (18.3) | 26.2 | 29.5 |
| Global | MSCI AC World | (15.3) | (15.9) | 21.2 | 20.5 |

Source: IBES, MSCI, Datastream. As at May 14, 2009 ** Japan refers to the period from March in the year stated to March in the following year – EPS post-goodwill.

Valuations

Table 17: IBES Consensus European Sector Valuations

| | P/E | | | Dividend Yields | | | EV/EBITDA | | | Price to Book | | |
|-------------------------------|-------------|-------------|-------------|-----------------|-------------|-------------|------------|------------|------------|---------------|------------|------------|
| | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E |
| Europe | 11.8 | 10.0 | 8.7 | 4.3% | 4.7% | 5.2% | 5.8 | 5.2 | 4.6 | 1.3 | 1.2 | 1.2 |
| Energy | 11.0 | 8.6 | 7.4 | 5.7% | 6.0% | 6.4% | 4.1 | 3.4 | 2.9 | 1.4 | 1.3 | 1.2 |
| Materials | 15.4 | 12.0 | 9.4 | 3.2% | 3.4% | 3.8% | 6.0 | 5.3 | 4.3 | 1.2 | 1.1 | 1.0 |
| Chemicals | 14.7 | 12.2 | 10.5 | 3.8% | 4.2% | 4.4% | 7.0 | 6.1 | 5.4 | 1.6 | 1.5 | 1.4 |
| Construction Materials | 12.2 | 11.8 | 10.2 | 3.1% | 3.4% | 3.9% | 6.8 | 6.4 | 5.6 | 0.9 | 0.8 | 0.8 |
| Metals & Mining | 16.4 | 11.7 | 8.5 | 2.7% | 2.9% | 3.4% | 5.3 | 4.6 | 3.5 | 1.1 | 1.0 | 1.0 |
| Industrials | 13.3 | 12.3 | 10.6 | 3.5% | 3.6% | 3.9% | 6.7 | 6.3 | 5.6 | 1.5 | 1.4 | 1.3 |
| Capital Goods | 12.7 | 12.2 | 10.7 | 3.5% | 3.6% | 3.9% | 6.8 | 6.5 | 5.7 | 1.4 | 1.3 | 1.2 |
| Transport | 17.7 | 12.8 | 9.6 | 3.6% | 3.9% | 4.3% | 6.1 | 5.5 | 4.9 | 1.4 | 1.3 | 1.3 |
| Discretionary | 18.3 | 13.1 | 10.5 | 3.6% | 4.0% | 4.5% | 5.2 | 4.6 | 4.2 | 1.4 | 1.3 | 1.2 |
| Automobile | - | 16.3 | 9.3 | 1.9% | 2.6% | 3.8% | 3.1 | 2.6 | 2.5 | 0.6 | 0.6 | 0.6 |
| Consumer Durables | 15.6 | 14.4 | 12.6 | 2.3% | 2.5% | 2.8% | 6.9 | 6.4 | 5.5 | 1.9 | 1.8 | 1.7 |
| Media | 10.8 | 10.3 | 9.3 | 5.2% | 5.4% | 5.8% | 5.8 | 5.3 | 4.9 | 1.7 | 1.6 | 1.5 |
| Retailing | 16.6 | 14.9 | 12.8 | 4.1% | 4.3% | 4.8% | 8.0 | 7.4 | 6.4 | 2.3 | 2.1 | 2.0 |
| Hotels, Restaurants & Leisure | 13.0 | 12.5 | 11.1 | 4.6% | 5.0% | 5.4% | 5.7 | 5.4 | 4.9 | 1.9 | 1.8 | 1.7 |
| Staples | 12.4 | 11.3 | 10.3 | 3.5% | 3.8% | 4.1% | 7.6 | 6.9 | 6.4 | 2.2 | 2.0 | 1.9 |
| Food & Drug Retailing | 12.0 | 11.0 | 9.9 | 3.4% | 3.7% | 4.1% | 6.1 | 5.7 | 5.2 | 1.7 | 1.5 | 1.5 |
| Food Beverage & Tobacco | 12.3 | 11.1 | 10.2 | 3.6% | 3.9% | 4.3% | 7.9 | 7.1 | 6.7 | 2.4 | 2.2 | 2.0 |
| Household Products | 14.7 | 13.8 | 12.6 | 2.8% | 3.0% | 3.3% | 9.2 | 8.5 | 7.8 | 2.8 | 2.5 | 2.4 |
| Healthcare | 10.0 | 9.2 | 8.5 | 4.1% | 4.5% | 4.9% | 6.6 | 6.1 | 5.5 | 2.1 | 1.9 | 1.7 |
| Financials | 11.3 | 9.1 | 7.6 | 3.8% | 4.7% | 5.5% | - | - | - | 0.8 | 0.8 | 0.8 |
| Banks | 13.5 | 11.1 | 8.3 | 3.2% | 4.0% | 4.9% | - | - | - | 0.8 | 0.8 | 0.7 |
| Diversified Financials | 11.2 | 7.7 | 7.5 | 3.6% | 5.0% | 5.9% | - | - | - | 0.8 | 0.8 | 0.9 |
| Insurance | 7.9 | 6.6 | 6.0 | 5.0% | 6.0% | 6.5% | - | - | - | 0.9 | 0.9 | 0.8 |
| Real Estate | 13.3 | 13.6 | 12.1 | 7.0% | 6.9% | 6.9% | - | - | - | 0.8 | 0.9 | 0.8 |
| IT | 21.0 | 13.4 | 11.2 | 2.5% | 2.8% | 3.0% | 8.5 | 6.3 | 5.3 | 2.0 | 1.9 | 1.8 |
| Software and Services | 14.4 | 12.9 | 11.6 | 2.0% | 2.2% | 2.5% | 8.6 | 7.6 | 6.5 | 2.5 | 2.3 | 2.1 |
| Technology Hardware | 20.0 | 12.5 | 10.6 | 2.9% | 3.4% | 3.7% | 7.5 | 5.3 | 4.5 | 1.8 | 1.7 | 1.7 |
| Semicon & Semicon Equip | - | 33.6 | 14.9 | 2.0% | 2.0% | 2.1% | 32.8 | 7.2 | 5.3 | 1.3 | 1.3 | 1.3 |
| Telecoms | 8.8 | 8.3 | 7.7 | 7.1% | 7.6% | 8.1% | 4.8 | 4.6 | 4.4 | 1.4 | 1.3 | 1.2 |
| Utilities | 10.1 | 9.5 | 9.1 | 5.6% | 5.8% | 6.2% | 6.6 | 6.2 | 5.9 | 1.4 | 1.3 | 1.3 |

Source: IBES, MSCI, Datastream. As at COB 14 May 2009

Table 18: IBES Consensus P/E and 12-Month Forward Dividend Yields — Country Forecasts

| Country | Index | P/E | | | Dividend Yields 12-Month Forward | |
|-----------------|-------------------|------------|-------|-------|-------------------------------------|-------|
| | | 12-Mth Fwd | 2009E | 2010E | | 2011E |
| Austria | ATX | - | 12.1 | 9.7 | 8.3 | - |
| Belgium | BEL 20 | 7.4 | 8.1 | 6.6 | 8.6 | 4.6% |
| Denmark | Denmark KFX | 15.6 | 17.3 | 13.7 | 9.3 | - |
| Finland | MSCI Finland | 14.7 | 16.4 | 12.9 | 10.9 | 4.3% |
| France | CAC 40 | 10.8 | 11.8 | 9.7 | 8.3 | 6.1% |
| Germany | DAX | 11.1 | 12.5 | 9.7 | 8.5 | 4.5% |
| Greece | MSCI Greece | 9.2 | 9.4 | 9.0 | 7.0 | 4.9% |
| Ireland | MSCI Ireland | 15.7 | 16.0 | 15.1 | 12.6 | 3.7% |
| Italy | MSCI Italy | 10.4 | 11.0 | 9.7 | 8.1 | 4.2% |
| Netherlands | AEX | 11.3 | 13.3 | 9.3 | 7.7 | 5.4% |
| Norway | MSCI Norway | 10.0 | 11.3 | 8.7 | 7.1 | 2.4% |
| Portugal | MSCI Portugal | 11.2 | 11.7 | 10.5 | 10.5 | 5.2% |
| Spain | IBEX 35 | 9.4 | 9.7 | 9.1 | 8.4 | 7.4% |
| Sweden | OMX | 14.9 | 15.8 | 13.8 | 10.9 | 4.5% |
| Switzerland | SMI | 11.2 | 11.9 | 10.4 | 9.2 | 2.9% |
| United Kingdom | FTSE 100 | 11.7 | 12.5 | 10.6 | 8.7 | 5.5% |
| EMU | MSCI EMU | 10.6 | 11.5 | 9.6 | 8.4 | 5.1% |
| Europe ex UK | MSCI Europe ex-UK | 11.0 | 11.9 | 10.0 | 8.7 | 4.5% |
| Europe | MSCI Europe | 11.0 | 11.8 | 10.0 | 8.7 | 4.9% |
| United States | S&P 500 | 14.5 | 16.2 | 12.7 | 10.3 | 2.7% |
| Japan | Topix | 27.6 | 31.9 | 17.1 | 14.4 | 2.2% |
| Emerging Market | MSCI EM | 12.4 | 13.7 | 11.0 | 8.7 | 2.8% |
| Global | MSCI AC World | 13.7 | 14.9 | 12.0 | 9.9 | 3.4% |

Source: IBES, MSCI, Datastream. As at COB May 14 2009; ** Japan refers to the period from March in the year stated to March in the following year – P/E post goodwill

Economic, Interest Rate and Exchange Rate Outlook

Table 19: Economic Outlook in Summary

| | Real GDP % oya | | | | Real GDP % oqa, saar | | | | | | Consumer prices % oya | | | |
|------------------|-------------------|-------|-------|-------|-------------------------|-------|-------|-------|-------|-------|--------------------------|-------|-------|-------|
| | 2008 | 2009E | 2010E | 4Q08E | 1Q09E | 2Q09E | 3Q09E | 4Q09E | 1Q10E | 2Q10E | 4Q08E | 2Q09E | 4Q09E | 4Q10E |
| United States | 1.1 | -2.5 | 2.7 | -6.3 | -6.1 | -0.5 | 1.0 | 2.0 | 3.0 | 4.0 | 1.5 | -1.0 | 0.3 | 0.7 |
| Eurozone | 0.7 | -3.1 | 1.2 | -6.3 | -6.0 | -1.5 | 0.0 | 1.0 | 1.5 | 2.0 | 2.3 | 0.4 | 0.8 | 1.1 |
| United Kingdom | 0.7 | -4.0 | 0.5 | -6.1 | -7.4 | -2.5 | -1.0 | -0.5 | 1.0 | 1.5 | 3.9 | 2.0 | 1.4 | 2.1 |
| Switzerland | 1.6 | -2.0 | 1.1 | -1.2 | -6.0 | -2.0 | 0.5 | 1.0 | 1.5 | 1.5 | 1.6 | -1.0 | -0.7 | 0.5 |
| Japan | -0.7 | -6.4 | 2.3 | -12.1 | -15.5 | 0.0 | 2.0 | 4.5 | 3.5 | -0.5 | 1.0 | -0.7 | -1.3 | -0.4 |
| Emerging markets | 4.9 | 0.2 | 4.7 | -6.3 | -4.2 | 3.3 | 6.1 | 4.8 | 4.7 | 4.8 | 6.5 | 3.9 | 3.8 | 4.3 |
| Global | 1.6 | -2.6 | 2.5 | -6.8 | -6.9 | -0.1 | 1.8 | 2.5 | 2.9 | 2.9 | 2.9 | 0.7 | 1.1 | 1.5 |

Source: J.P. Morgan economic research, J.P. Morgan estimates, as of 14 May 2009.

Table 20: Official Rates Outlook

| % | Official interest rate | Current | Last change (bp) | Forecast | Forecast for | | | | | |
|----------------|------------------------|---------|---------------------|------------------|--------------|---------|---------|---------|---------|-------|
| | | | | next change (bp) | Jun 09E | Sep 09E | Dec 09E | Mar 10E | Jun 10E | |
| United States | Federal funds rate | 0.125 | 16 Dec 08 (-87.5bp) | on hold | 0.125 | 0.125 | 0.125 | 0.125 | 0.125 | 0.125 |
| Eurozone | Refi rate | 1.00 | 7 May 09 (-25bp) | 2 Jul 09 (-25bp) | 1.00 | 5.00 | 0.50 | 0.50 | 0.50 | 0.50 |
| United Kingdom | Repo rate | 0.50 | 5 Mar 09 (-50bp) | on hold | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Switzerland | 3-month Swiss Libor | 0.25 | 12 Mar 09 (-25bp) | on hold | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| Japan | Overnight call rate | 0.10 | 19 Dec 08 (-20bp) | on hold | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |

Source: J.P. Morgan estimates, Datastream, as of 14 May 2009.

Table 21: 10-Year Government Bond Yield Forecasts

| % | 14 May 2009 | Forecast for end of | | | |
|----------------|-------------|---------------------|---------|---------|---------|
| | | Jun 09E | Sep 09E | Dec 09E | Mar 10E |
| United States | 3.11 | 3.00 | 2.90 | 2.75 | 3.00 |
| Eurozone | 3.30 | 3.35 | 3.20 | 3.30 | 3.35 |
| United Kingdom | 3.47 | 3.65 | 4.00 | 4.20 | 4.40 |
| Japan | 1.43 | 1.35 | 1.50 | 1.45 | 1.40 |

Source: J.P. Morgan estimates, Datastream, as of 14 May 2009.

Table 22: Exchange Rate Forecasts vs. US Dollar

| | 14 May 2009 | Forecast for end of | | | |
|-----|-------------|---------------------|---------|---------|---------|
| | | Jun 09E | Sep 09E | Dec 09E | Mar 09E |
| EUR | 1.36 | 1.30 | 1.32 | 1.34 | 1.35 |
| GBP | 1.51 | 1.37 | 1.38 | 1.43 | 1.47 |
| CHF | 1.10 | 1.15 | 1.14 | 1.13 | 1.15 |
| JPY | 96 | 92 | 95 | 99 | 102 |

Source: J.P. Morgan estimates, Datastream, forecasts as of 14 May 2009

Sector, Regional and Asset Class Allocations

Table 23: J.P. Morgan Equity Strategy — European Sector Allocations

| | MSCI Europe Weights | J.P. Morgan Allocations | Deviation From MSCI | J.P. Morgan Recommendation |
|-----------------------------|---------------------|-------------------------|---------------------|----------------------------|
| Energy | 11.8% | 11% | -0.8% | Underweight |
| Materials | 7.7% | 11% | 3.3% | Overweight |
| | | | | = |
| | | | | = |
| | | | | + |
| Industrials | 9.7% | 12% | 2.3% | Overweight |
| | | | | + |
| | | | | + |
| Consumer Discretionary | 8.1% | 9% | 0.9% | Overweight |
| | | | | + |
| | | | | = |
| | | | | + |
| | | | | = |
| | | | | = |
| Consumer Staples | 11.9% | 10% | -1.9% | Underweight |
| | | | | - |
| | | | | = |
| Healthcare | 10.9% | 9% | -1.9% | Underweight |
| Financials | 21.6% | 22% | 0.4% | Neutral |
| | | | | = |
| | | | | = |
| | | | | + |
| | | | | = |
| Information Technology | 3.4% | 3% | -0.4% | Neutral |
| | | | | + |
| | | | | = |
| | | | | = |
| Telecommunications Services | 7.9% | 8% | 0.1% | Neutral |
| Utilities | 6.9% | 5% | -1.9% | Underweight |
| | 100% | 100% | 0% | Balanced |

Source: MSCI, Datastream, J.P. Morgan

Table 24: J.P. Morgan Equity Strategy — European Regional Allocations

| | MSCI Europe Weights | J.P. Morgan Allocations | Deviation From MSCI | J.P. Morgan Recommendation |
|----------------|---------------------|-------------------------|---------------------|----------------------------|
| Eurozone | 50% | 47% | -3% | Underweight |
| United Kingdom | 33% | 36% | 3% | Overweight |
| Others* | 17% | 17% | 0% | Neutral |
| | 100% | 100% | 0% | Balanced |

Source: MSCI, J.P. Morgan estimates * Switzerland, Sweden, Norway and Denmark.

Table 25: J.P. Morgan Equity Strategy — European Asset Class Allocations

| | Benchmark Weightings | J.P. Morgan Allocations | Deviation From MSCI | J.P. Morgan Recommendation |
|----------|----------------------|-------------------------|---------------------|----------------------------|
| Equities | 60% | 70% | +10% | Overweight |
| Bonds | 30% | 25% | -5% | Underweight |
| Cash | 10% | 5% | -5% | Underweight |
| | 100% | 100% | 0% | Balanced |

Source: J.P. Morgan. Note: We use the MSCI Europe Developed index as the benchmark against which to determine our sector and regional allocations. Our Overweight/Underweight recommendations reflect our belief that the relevant sector/region will out- / underperform the index in the next 6 to 12 months

Analyst Certification:

The research analyst(s) denoted by an “AC” on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analyst denoted by an “AC” on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers; and (2) no part of any of the research analyst’s compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

Important Disclosures

Important Disclosures for Equity Research Compendium Reports: Important disclosures, including price charts for all companies under coverage for at least one year, are available through the search function on J.P. Morgan’s website <https://mm.jpmorgan.com/disclosures/company> or by calling this U.S. toll-free number (1-800-477-0406)

Explanation of Equity Research Ratings and Analyst(s) Coverage Universe:

J.P. Morgan uses the following rating system: **Overweight** [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] **Neutral** [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] **Underweight** [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] The analyst or analyst’s team’s coverage universe is the sector and/or country shown on the cover of each publication. See below for the specific stocks in the certifying analyst(s) coverage universe.

J.P. Morgan Equity Research Ratings Distribution, as of March 31, 2009

| | Overweight (buy) | Neutral (hold) | Underweight (sell) |
|-------------------------------------|---------------------|-------------------|-----------------------|
| JPM Global Equity Research Coverage | 35% | 46% | 19% |
| IB clients* | 54% | 54% | 42% |
| JPMSI Equity Research Coverage | 35% | 51% | 14% |
| IB clients* | 75% | 73% | 57% |

*Percentage of investment banking clients in each rating category.

For purposes only of NASD/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category.

Valuation and Risks: Please see the most recent company-specific research report for an analysis of valuation methodology and risks on any securities recommended herein. Research is available at <http://www.morganmarkets.com>, or you can contact the analyst named on the front of this note or your J.P. Morgan representative.

Analysts’ Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

Registration of non-US Analysts: Unless otherwise noted, the non-US analysts listed on the front of this report are employees of non-US affiliates of JPMSI, are not registered/qualified as research analysts under NASD/NYSE rules, may not be associated persons of JPMSI, and may not be subject to NASD Rule 2711 and NYSE Rule 472 restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

Other Disclosures

J.P. Morgan is the global brand name for J.P. Morgan Securities Inc. (JPMSI) and its non-US affiliates worldwide.

Options related research: If the information contained herein regards options related research, such information is available only to persons who have received the proper option risk disclosure documents. For a copy of the Option Clearing Corporation’s Characteristics and Risks of Standardized Options, please contact your J.P. Morgan Representative or visit the OCC’s website at <http://www.optionsclearing.com/publications/risks/riskstoc.pdf>.

Legal Entities Disclosures

U.S.: JPMSI is a member of NYSE, FINRA and SIPC. J.P. Morgan Futures Inc. is a member of the NFA. JPMorgan Chase Bank, N.A. is a member of FDIC and is authorized and regulated in the UK by the Financial Services Authority. **U.K.:** J.P. Morgan Securities Ltd. (JPMSL) is a

member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority. Registered in England & Wales No. 2711006. Registered Office 125 London Wall, London EC2Y 5AJ. **South Africa:** J.P. Morgan Equities Limited is a member of the Johannesburg Securities Exchange and is regulated by the FSB. **Hong Kong:** J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission in Hong Kong. **Korea:** J.P. Morgan Securities (Far East) Ltd, Seoul branch, is regulated by the Korea Financial Supervisory Service. **Australia:** J.P. Morgan Australia Limited (ABN 52 002 888 011/AFS Licence No: 238188) is regulated by ASIC and J.P. Morgan Securities Australia Limited (ABN 61 003 245 234/AFS Licence No: 238066) is a Market Participant with the ASX and regulated by ASIC. **Taiwan:** J.P.Morgan Securities (Taiwan) Limited is a participant of the Taiwan Stock Exchange (company-type) and regulated by the Taiwan Securities and Futures Bureau. **India:** J.P. Morgan India Private Limited is a member of the National Stock Exchange of India Limited and Bombay Stock Exchange Limited and is regulated by the Securities and Exchange Board of India. **Thailand:** JPMorgan Securities (Thailand) Limited is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission. **Indonesia:** PT J.P. Morgan Securities Indonesia is a member of the Indonesia Stock Exchange and is regulated by the BAPEPAM. **Philippines:** J.P. Morgan Securities Philippines Inc. is a member of the Philippine Stock Exchange and is regulated by the Securities and Exchange Commission. **Brazil:** Banco J.P. Morgan S.A. is regulated by the Comissao de Valores Mobiliarios (CVM) and by the Central Bank of Brazil. **Mexico:** J.P. Morgan Casa de Bolsa, S.A. de C.V., J.P. Morgan Grupo Financiero is a member of the Mexican Stock Exchange and authorized to act as a broker dealer by the National Banking and Securities Exchange Commission. **Singapore:** This material is issued and distributed in Singapore by J.P. Morgan Securities Singapore Private Limited (JPMSS) [MICA (P) 132/01/2009 and Co. Reg. No.: 199405335R] which is a member of the Singapore Exchange Securities Trading Limited and is regulated by the Monetary Authority of Singapore (MAS) and/or JPMorgan Chase Bank, N.A., Singapore branch (JPMCB Singapore) which is regulated by the MAS. **Malaysia:** This material is issued and distributed in Malaysia by JPMorgan Securities (Malaysia) Sdn Bhd (18146-X) which is a Participating Organization of Bursa Malaysia Berhad and a holder of Capital Markets Services License issued by the Securities Commission in Malaysia. **Pakistan:** J. P. Morgan Pakistan Broking (Pvt.) Ltd is a member of the Karachi Stock Exchange and regulated by the Securities and Exchange Commission of Pakistan. **Saudi Arabia:** J.P. Morgan Saudi Arabia Ltd. is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia (CMA) to carry out dealing as an agent, arranging, advising and custody, with respect to securities business under licence number 35-07079 and its registered address is at 8th Floor, Al-Faisalyah Tower, King Fahad Road, P.O. Box 51907, Riyadh 11553, Kingdom of Saudi Arabia.

Country and Region Specific Disclosures

U.K. and European Economic Area (EEA): Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by JPMSL. Investment research issued by JPMSL has been prepared in accordance with JPMSL's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require that a firm to establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Australia:** This material is issued and distributed by JPMSAL in Australia to "wholesale clients" only. JPMSAL does not issue or distribute this material to "retail clients." The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of JPMSAL. For the purposes of this paragraph the terms "wholesale client" and "retail client" have the meanings given to them in section 761G of the Corporations Act 2001. **Germany:** This material is distributed in Germany by J.P. Morgan Securities Ltd., Frankfurt Branch and J.P.Morgan Chase Bank, N.A., Frankfurt Branch which are regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for persons licensed by or registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months' prior.) J.P. Morgan Broking (Hong Kong) Limited is the liquidity provider for derivative warrants issued by J.P. Morgan International Derivatives Ltd and listed on The Stock Exchange of Hong Kong Limited. An updated list can be found on HKEX website: <http://www.hkex.com.hk/prod/dw/Lp.htm>. **Japan:** There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading, and that a loss may occur due to the exchange rate in the case of foreign share trading. In the case of share trading, JPMorgan Securities Japan Co., Ltd., will be receiving a brokerage fee and consumption tax (shouhizei) calculated by multiplying the executed price by the commission rate which was individually agreed between JPMorgan Securities Japan Co., Ltd., and the customer in advance. Financial Instruments Firms: JPMorgan Securities Japan Co., Ltd., Kanto Local Finance Bureau (kinsho) No. 82 Participating Association / Japan Securities Dealers Association, The Financial Futures Association of Japan. **Korea:** This report may have been edited or contributed to from time to time by affiliates of J.P. Morgan Securities (Far East) Ltd, Seoul branch. **Singapore:** JPMSS and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Important Disclosures section above. **India:** For private circulation only, not for sale. **Pakistan:** For private circulation only, not for sale. **New Zealand:** This material is issued and distributed by JPMSAL in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. JPMSAL does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of JPMSAL.

General: Additional information is available upon request. Information has been obtained from sources believed to be reliable but JPMorgan Chase & Co. or its affiliates and/or subsidiaries (collectively J.P. Morgan) do not warrant its completeness or accuracy except with respect to any disclosures relative to JPMSI and/or its affiliates and the analyst's involvement with the issuer that is the subject of the research. All pricing is as of the close of market for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual

client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein. JPMSI distributes in the U.S. research published by non-U.S. affiliates and accepts responsibility for its contents. Periodic updates may be provided on companies/industries based on company specific developments or announcements, market conditions or any other publicly available information. Clients should contact analysts and execute transactions through a J.P. Morgan subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.

“Other Disclosures” last revised January 30, 2009.

Copyright 2009 JPMorgan Chase & Co. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of J.P. Morgan.