

# An EPS beat despite headwinds

## 2Q adjusted EPS of \$1.77 beats by \$0.19

AIG's adjusted operating EPS of \$1.77 beat our estimate of \$1.58 and consensus of \$1.61. Noteworthy items we could identify, including excess partnership income, helped earnings by \$0.10, suggesting an underlying beat.

## Underlying foreign life earnings up a BTE 14.3%

Excluding one-time times in the year-ago quarter, foreign life earnings grew by 14%, better than our 12% growth expectation. Foreign life sales (excluding annuities) were well into double digit territory, even in local currency.

## P/C combined ratio beats

The combined ratio of 87.1% beat our estimate by 2 points. The accident year loss ratio was even with a year ago and prior year reserve development improved. Catastrophe losses were \$77 million, within our expectations for a normal quarter.

## \$82 Price Objective. Good downside support.

Our target is based on a price-to-forward book value multiple of 1.82x book value, a multiple that is supported by solid and more sustainable ROE. The target is 11.8x our 2007E estimate, a reasonable multiple in our view given AIG's growth opportunities.

## Raising '07 and '08 estimates. Strong pace of buybacks.

We are raising our 2007 estimate by \$0.30 to \$6.75 partly due to the beat in the 2Q. We are raising our 2008 estimate by a dime to \$6.95. AIG bought back 22 million shares in the 2Q and an additional 24.5 million to date in the 3Q, a pace that was somewhat above our expectations.

## Sub-prime exposure is manageable

AIG's RMBS and CDO sub-prime exposure is highly rated. Also, AIG ceased writing protection for super-senior protection for CDOs with any sub-prime exposure.

### Estimates (Dec)

(US\$)	2005A	2006A	2007E	2008E	2009E
EPS	3.16	5.86	6.75	6.95	7.56
GAAP EPS	3.24	5.93	6.73	6.95	7.56
EPS Change (YoY)	-13.2%	85.4%	15.2%	3.0%	8.8%
Consensus EPS (First Call: 26-Jul-2007)			6.53	7.03	7.69
Dividend Rate	0.55	0.66	0.80	0.66	0.97

### Valuation (Dec)

	2005A	2006A	2007E	2008E	2009E
P/E	21.0x	11.3x	9.8x	9.6x	8.8x
GAAP P/E	20.5x	11.2x	9.9x	9.6x	8.8x
Dividend Yield	0.8%	1.0%	1.2%	1.0%	1.5%
Price to Book Value	2.0x	1.7x	1.6x	1.4x	1.2x



Jay A. Cohen +1 212 449 5206

Research Analyst  
MLPF&S  
jay\_a\_cohen@ml.com

Alison Jacobowitz +1 212 449 8081

Research Analyst  
MLPF&S  
alison\_jacobowitz@ml.com

Matthew Palazola +1 212 449 0767

Research Analyst  
MLPF&S  
matthew\_palazola@ml.com

### Stock Data

Price	US\$66.48
Price Objective	US\$82.00
Date Established	5-Jan-2007
Investment Opinion	B-1-7
Volatility Risk	MEDIUM
52-Week Range	US\$58.24-72.97
Mrkt Val / Shares Out (mn)	US\$171,510 / 2,579.9
ML Symbol / Exchange	AIG / NYS
Bloomberg / Reuters	AIG US / AIG.N
ROE (2007E)	16.7%
Total Dbt to Cap (Mar-2007A)	62.9%
Est. 5-Yr EPS / DPS Growth	13.0% / 12.0%



### Quarterly Earnings Estimates

	2006	2007
Q1	1.29A	1.68A
Q2	1.60A	1.77A
Q3	1.53A	NA
Q4	1.47A	NA

Merrill Lynch 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 Merrill Lynch in the US can receive independent, third-party research on companies covered in this report, at no cost to them, if such research is available. Customers can access this independent research at <http://www.ml.com/independentresearch> or can call 1-800-637-7455 to request a copy of this research.

Refer to important disclosures on page 13 to 14. Analyst Certification on page 11. Price Objective Basis/Risk on page 11.

09 August 2007

# iQprofile<sup>SM</sup> American International Group

## Income Statement Data (Dec)

(US\$ Millions)	2005A	2006A	2007E	2008E	2009E
Total Earned Premiums	40,809	43,451	45,694	47,742	49,400
Net Investment Income	4,031	5,696	6,135	6,156	6,572
<b>Total Revenue</b>	<b>44,840</b>	<b>49,147</b>	<b>51,829</b>	<b>53,897</b>	<b>55,972</b>
Total Cost of Benefits and Claims	(33,091)	(28,052)	(29,266)	(31,052)	(32,680)
S,G & A (Including Commissions)	(9,752)	(10,742)	(10,890)	(11,654)	(12,172)
<b>Total Operating Expenses</b>	<b>(42,843)</b>	<b>(38,794)</b>	<b>(40,155)</b>	<b>(42,706)</b>	<b>(44,852)</b>
<b>Pre-Tax Operating Earnings</b>	<b>1,997</b>	<b>10,353</b>	<b>11,674</b>	<b>11,191</b>	<b>11,120</b>
Income Tax Expense	(3,572)	(7,063)	(6,956)	(7,548)	(8,090)
<b>Operating Earnings After Tax</b>	<b>8,354</b>	<b>15,693</b>	<b>17,421</b>	<b>17,611</b>	<b>18,877</b>
<b>Net Income (Reported)</b>	<b>8,495</b>	<b>15,593</b>	<b>17,473</b>	<b>17,611</b>	<b>18,877</b>
Diluted Shares	2,624	2,624	2,597	2,534	2,498
Operating Earnings Per Share	3.16	5.86	6.75	6.95	7.56
Net Income (Reported) Per Share	3.24	5.93	6.73	6.95	7.56

## Balance Sheet Data (Dec)

(US\$ Millions)	2005A	2006A	2007E	2008E	2009E
Fixed Income Securities	410,589	427,184	434,007	442,011	450,091
Total Cash and Investments	680,942	722,218	729,506	738,056	746,686
<b>Total Assets</b>	<b>853,051</b>	<b>914,007</b>	<b>928,342</b>	<b>944,161</b>	<b>960,335</b>
Reserves	57,476	62,630	67,985	73,257	77,778
LT Debt	109,849	126,097	126,097	126,097	126,097
<b>Total Liabilities</b>	<b>766,548</b>	<b>812,330</b>	<b>821,147</b>	<b>824,428</b>	<b>826,461</b>
<b>Total Equity</b>	<b>86,503</b>	<b>101,677</b>	<b>107,195</b>	<b>119,733</b>	<b>133,873</b>
<b>Total Equity (Ex FAS 115)</b>	<b>74,473</b>	<b>89,647</b>	<b>95,165</b>	<b>107,703</b>	<b>121,843</b>
Book Value per Share (Reported)	33.24	39.09	42.33	48.04	54.41
Book Value per Share (Ex FAS 115)	28.66	34.51	37.70	43.29	49.60

## Ratios (Dec)

(US\$ Millions)	2005A	2006A	2007E	2008E	2009E
Expense Ratio	23.9%	24.7%	23.8%	24.4%	24.6%
Loss Ratio	81.1%	64.6%	64.0%	65.0%	66.2%
<b>Combined Ratio</b>	<b>105.0%</b>	<b>89.3%</b>	<b>87.9%</b>	<b>89.5%</b>	<b>90.8%</b>
Avg Assets / Avg Eq (Ex FAS 115) Ratio	11.4x	10.8x	10.0x	9.2x	8.3x

## Growth Rates (YoY) (Dec)

(US\$ Millions)	2005A	2006A	2007E	2008E	2009E
Total Earned Premium	5.9%	6.5%	5.2%	4.5%	3.5%
Net Investment Income	26.1%	41.3%	7.7%	0.3%	6.8%
Total Revenue	7.5%	9.6%	5.5%	4.0%	3.9%
Operating Earnings per Share	-13.2%	85.4%	15.2%	3.0%	8.8%
Asset	6.8%	7.1%	1.6%	1.7%	1.7%
Reported Book Value per Share	8.3%	17.6%	8.3%	13.5%	13.3%

## Performance Metrics (Dec)

(US\$ Millions)	2005A	2006A	2007E	2008E	2009E
Operating ROE	10.0%	16.7%	16.7%	15.5%	14.9%
Operating ROE (Ex FAS 115)	11.6%	19.1%	18.9%	17.4%	16.4%
Operating Return on Average Assets	1.0%	1.8%	1.9%	1.9%	2.0%
Operating Margin	18.6%	31.9%	33.6%	32.7%	33.7%
Long Term Debt to Cap Ratio (Ex FAS 115)	59.6%	58.4%	57.0%	53.9%	50.9%
Net Income % Operating Income	101.7%	99.4%	100.3%	100.0%	100.0%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

## Company Description

American International Group is the largest underwriter of commercial coverages and the leading US-based international insurer. Its global networking and infrastructure development has positioned AIG to grow premiums on the life and P/C sides of the business in markets such as Asia, Eastern Europe, and Latin America. AIG also has sizable asset management and financial services businesses.

## Stock Data

Average Daily Volume	16,388,494
Brokers Covered (FirstCall)	21

## 1Q demonstrates earnings power

**Table 1: American International Group - Key Variances in the Quarter**

	Actual 07:Q2A	ML Est. 07:Q2E	Variance to Est.	06:Q2	07:Q1
Net Written Premiums	\$12,139.0	\$11,896.9	\$242.1	\$11,634.0	\$12,106.0
% Change	4.3%	2.3%	2.1	9.3%	7.6%
Loss Ratio	63.9%	64.8%	(0.9)	63.3%	64.2%
Expense Ratio	23.7%	24.4%	(0.7)	23.8%	23.2%
<b>Combined Ratio</b>	<b>87.6%</b>	<b>89.2%</b>	<b>(1.6)</b>	<b>87.1%</b>	<b>87.4%</b>
Net Investment Inc PT	\$1,628.0	\$1,355.9	\$272.1	\$1,614.0	\$1,563.0
% Change	0.9%	-16.0%	16.9	52.3%	39.8%
Life Insurance-Pre Tax	\$2,899.0	\$2,754.0	\$145.0	\$2,520	\$2,537
% Change	15.0%	9.3%	5.8	\$0	\$0
Financial Services-Pre Tax	\$512.0	\$597.1	(\$85.1)	\$613	\$444
% Change	-16.5%	-2.9%	(0.1)	\$0	(\$0)
Other-Pre Tax	(\$790.0)	(\$690.0)	(\$100.0)	(\$569.0)	(\$771.0)
% Change	38.8%	20.8%	0.2	\$0.3	\$0.1
Asset Management	\$776.0	\$550.0	\$226.0	\$880.0	\$1,014.0
% Change	-11.8%	-32.2%	20.4	\$0.8	\$1.3
<b>Operating Inc / Share</b>	<b>\$1.77</b>	<b>\$1.58</b>	<b>\$0.18</b>	<b>\$1.60</b>	<b>\$1.68</b>
Reported Book Value	\$40.44	\$41.36	(\$0.92)	\$33.76	\$39.64
ROE Operating	17.6%	15.6%	2.0	18.9%	17.1%

Source: Merrill Lynch and company documents

**Table 2: Underwriting Margin Analysis**

	07:Q2A	06:Q2	Chg
Loss Ratio (LR)	63.9%	63.3%	0.5
Catastrophes	0.7%	0.0%	0.7
Prior Reserve Change	-1.0%	-1.4%	0.4
Loss Ratio ex Cats	63.2%	63.3%	(0.1)
AY LR with Cats	64.8%	64.7%	0.1
AY LR ex Cats	64.2%	64.7%	(0.6)
Expense Ratio (ER)	23.7%	23.8%	(0.1)
<b>Combined Ratio (CR)</b>	<b>87.6%</b>	<b>87.1%</b>	<b>0.5</b>
CR ex Cats	86.9%	87.1%	(0.2)
AY CR with Cats	88.5%	88.5%	0.0
AY CR ex Cats	87.9%	88.5%	(0.7)
EPS Effect			
		#DIV/0	
Catastrophes	\$0.02	\$0.00	!
Prior Per Reserve	(0.03)	(0.04)	(0.18)
1 Point Chg/Share Impact	\$0.03	\$0.03	18.8%

Source: Merrill Lynch and company documents

### Strong earnings despite headwinds

AIG has not been immune to the well-documented turmoil impacting the financial markets (i.e. real estate downturn and pressure on sub-prime mortgage market). The company's consumer lending business felt earnings pressure and its mortgage insurance operation missed our forecast. Yet despite these factors, AIG's overall earnings comfortably bested our expectations, even if we exclude a positive accounting adjustment and our estimate of excess partnership income in the quarter. The solid bottom line result highlights the benefits of AIG's diversity – both product and geographic.

### Clearly, the company's growth prospects are more interesting outside the U.S.

Much has been written about the continued economic boom occurring in developing nations and the stocks certain global manufacturing concerns have clearly benefited from this expansion. We believe that AIG is the best positioned insurance organization in the world to mine this growth opportunities. The company continues to expand its products and services and geographic reach in developing nations and it is difficult to name other insurance and financial services organizations that will be able to tap the expected growth in areas such as eastern Asia, China, India, Russia and Latin America. Clearly, this growth will not come in a straight line, but with economic growth and evolving insurance and savings products, longer term growth is clearly achievable. That growth has been evident during the past twenty years and we believe it can continue for the foreseeable future.

**Property/casualty profitability has been better than expected.** Like other non-life companies, underwriting results have been better than we have modeled and AIG's overall combined ratio beat our forecast by 2 points. A rational claims environment, particularly in liability lines of business, has offset the pricing pressure. AIG appears to be remaining disciplined and top line growth in the

company's U.S. commercial lines operation decelerated from recent quarters in reaction to the pricing pressures.

### Noteworthy items in the quarter

There were several noteworthy items that impacted the quarterly earnings that we were able to identify.

- **\$50 million charge for consumer finance.** This charge was similar to the \$128 million charge taken in the first quarter and is not related to the underlying credit characteristics of this business.
- **\$123 million out of period adjustments.** This adjustment reflects accounting restatements, largely related to income tax remediation.
- **\$209 million of excess partnership income.** The company is now providing more detail on partnership income and balances. The annualized return on partnerships was 16.8%. If we assume that the normalized return is 12.5%, the "excess" returns would be \$209 million pre-tax.

### Sub-prime exposure manageable in our view

As of June 30<sup>th</sup>, AIG had \$32.6 billion of mortgage backed securities and CDO's with any sub-prime exposure. 87% of these securities are rated AAA and another 10.5% is rated AA. The company also has another \$21 billion of Alt-A MBS exposure, 92% of which is rated AAA. In addition, the company has super senior credit derivative business with over \$450 billion of notional exposure. In its 10Q, management noted that it ceased writing protection for super-senior protection for CDOs with any sub-prime exposure. The company will present more in-depth mortgage-related data tomorrow.

### Raising '07 and '08 estimates

We raise our 2007E EPS by \$0.30 to \$6.75, partly due to the beat in the 2Q. We raise our 2008 estimate by a dime to \$6.95. AIG bought back 22mn shares in the 2Q and an additional 24.5mn to date in the 3Q, a pace that was somewhat above our expectations. We have made a host of changes to our model including:

- **We have slowed our property/casualty premium growth** forecast modestly. The change was mostly in the U.S. commercial lines operation where pricing pressure is most intense. We are now looking for premium growth of 3.5% in the second half, down from 4.3% in the 2Q.
- **We have improved our combined ratio assumption** for the balance of year by 1 point. We are not assuming the 2Q result is sustainable and have built in bigger weather losses over the course of the rest of the year. Given the 1H results, however, our margin assumption does look conservative in our view.
- **We improved our P/C investment income forecast.** Excluding the excess partnership income, the underlying investment income was more than we had modeled.
- **We reduced our earnings assumption for the consumer finance unit.** 2Q results suggest more margin pressure than we had been modeling and given market conditions, it is reasonable to be more cautious on the second half results in this unit.

We made similar changes to our 2008 earnings model and the net result was a \$0.10 per share increase in our estimate.

## Attractive at current price. P.O. is \$82

Our price target is based on a price-to-forward book value multiple of 1.82x book value, a multiple that is supported by solid and more sustainable ROE relative to other property/casualty companies. We have not changed this target multiple despite the higher earnings and ROE although the price target does assume some expansion of the multiple from current levels. The target is 11.8x our 2008 estimate, a very reasonable multiple, in our view, given the company's long-term growth opportunities. Assuming a floor multiple on the year-ahead book value of 1.5x book value, the stock is trading just below the year-ahead support level, based on our estimates.

**Risks to AIG achieving our price objective** are further negative developments from regulatory investigations, private litigation and internal audit reviews, additional management changes, regulatory investigations outside of the U.S., loss reserve shortfalls, price competition increasing faster than we expect, a return of SARS or an outbreak of the avian bird flu, a terrorist event, or other similar catastrophic event, a dramatic downturn in the airline business, a downturn in equity markets, prolonged and severe weakness in the housing sector and an inverted yield curve that would pressure fixed annuity sales.

## Highlights from the earnings release

### Property/Casualty operation

**Property/casualty earnings were \$434 million better than expected.** Better than expected underwriting margins and net investment income were the drivers of the earnings beat.

**AIG's property/casualty gross premium growth was 4.5%, a sequential slow down.** Net premiums written rose by 4.3%, (ML estimate: 2.3%), a reasonably good number relative to the company's peers. Currency helped by one percentage point.

**The combined ratio of 87.2% was about two points lower than expected** and both the loss and expense ratios were better than our forecast.

- **Losses incurred were \$204 million less than our forecast** (63.9% loss ratio versus our 64.8% estimate). Total prior period loss reserve adjustments (including accretion of reserve discount) netted to a release of \$108 million aiding the loss ratio by 1 point and earnings by \$0.03 per share (we had modeled nil). While there was still some adverse development from the pre-2003 accident years (offset by favorable development in more recent years), this development has lessened from recent years.
- The expense ratio was 23.7%, 0.7 points better than our forecast.

**Net investment income pre-tax was about \$270 million better than expected** due in part to partnership income. We estimate that excess partnership income in the property/casualty segment was \$105 million suggesting the underlying investment income was better than we had modeled.

### Life/Retirement Services

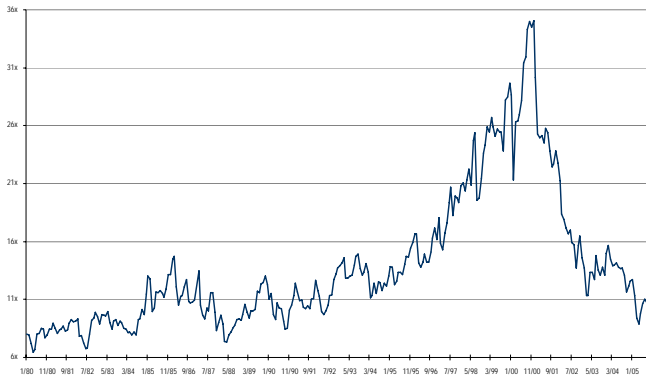
- **Life insurance** earnings pre-tax were \$145 million better than expected.
- **Underlying foreign life earnings up a BTE 14.3%.** Excluding an out of period adjustment in the year-ago quarter, foreign life earnings grew by 14.3%, better than our 12% forecast of underlying growth. Total foreign premiums and deposits (sales) were up by 8.2% in local currency, a slight acceleration from the 1Q. Excluding annuities, the growth rate was well into the double digits. We note that the bulk of the bottom line earnings in the foreign life business come from life and personal accident products (annuities account for 12% of foreign life and retirement savings earnings).
- **Domestic life and retirement services earnings were up by 23.9%,** due in large part to very strong partnership earnings. Partnership income was \$221 million above the year ago level and we estimate that it was \$92 million above a normalized level. Fixed and variable deposits were up from the year ago level, and spreads widened, largely due to partnership income and other enhancements.

### Other

- **Financial services** earnings pre-tax were \$85 million lower than expected, partly due to the \$50 million charge at the consumer finance unit. Underlying credit quality at this unit slipped a bit but remained quite good. The real estate delinquency rate rose modestly to 1.95% from 1.83% in the 1Q and net charge offs edged up to 0.41% from 0.33%. ILFC's earnings were up modestly from the year ago quarter, somewhat below our estimate. The company did not sell any aircraft in the 2Q versus three in the year ago causing an \$18 million hurdle.
- **Minority interest expense higher than expected.** We believe that this higher expense related to the strong partnership income.
- **Asset management** results were about \$226 million better than expected pre tax. This number is quite volatile quarter to quarter and partnership income can distort the bottom line results. Indeed, we believe that excess partnership income was \$107 million, explaining about half of the difference.
- **Book value** finished the quarter at \$40.44, \$0.92 worse than we modeled. A more aggressive buyback hindered book value growth and a negative mark-to-market also nipped the growth in equity. Going forward, the share repurchase program will continue to limit book value per share growth, although aid the ROE. This issue is already factored into our estimate.

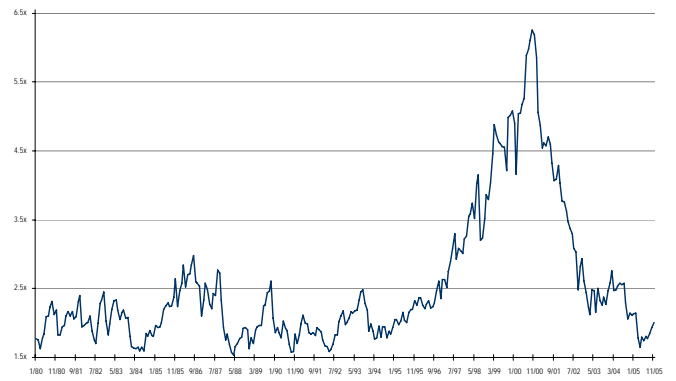
09 August 2007

**Chart 1: AIG – Historic Price to Earnings**



Source: Merrill Lynch and company documents

**Chart 2: Historic Price to Book**



Source: Merrill Lynch and company documents

09 August 2007

Table 3: American International Group - Variance Analysis

	Actual 07:Q2A	ML Est. 07:Q2E	Variance to Est.	Year ago 06:Q2	Sequential 07:Q1	Trend 8Q Avg.
Property/Casualty						
<b>Net Written Premiums</b>	<b>\$12,139</b>	<b>\$11,897</b>	<b>\$242</b>	<b>\$11,634</b>	<b>\$12,106</b>	
% Change	4.3%	2.3%	2.1	9.3%	7.6%	5.1%
Earned Premiums	\$11,363	\$11,523	(\$160)	\$10,678	\$11,219	
% Change	6.4%	7.9%	(1.5)	4.4%	7.2%	5.4%
Paid Losses/LAE	\$6,223	\$5,992	\$231	\$5,812	\$5,758	
Reserve Change	\$1,036	\$1,471	(\$435)	\$952	\$1,442	
<b>Losses Incurred</b>	<b>\$7,259</b>	<b>\$7,463</b>	<b>(\$204)</b>	<b>\$6,764</b>	<b>\$7,200</b>	
<b>Loss Ratio</b>	<b>63.9%</b>	<b>64.8%</b>	<b>(0.9)</b>	<b>63.3%</b>	<b>64.2%</b>	<b>71.2%</b>
Underwriting Expenses	\$2,693	\$2,811	(\$118)	\$2,540	\$2,607	
<b>Expense Ratio</b>	<b>23.7%</b>	<b>24.4%</b>	<b>(0.7)</b>	<b>23.8%</b>	<b>23.2%</b>	<b>24.4%</b>
<b>Combined Ratio</b>	<b>87.6%</b>	<b>89.2%</b>	<b>(1.6)</b>	<b>87.1%</b>	<b>87.4%</b>	<b>95.6%</b>
Point improvement Yr-Yr	0.45	2.03		(5.75)	(1.65)	
<b>Net Investment Income Pretax</b>	<b>\$1,628</b>	<b>\$1,356</b>	<b>\$272</b>	<b>\$1,614</b>	<b>\$1,563</b>	
% Change	0.9%	-16.0%	16.9	52.3%	39.8%	33.4%
Average Pretax Yield	5.9%	5.0%	1.0	6.5%	5.8%	5.5%
<b>Net Investment Income After Tax</b>	<b>\$1,234.0</b>	<b>\$1,027.8</b>	<b>\$206.2</b>	<b>\$1,223.4</b>	<b>\$1,184.8</b>	
% Change	0.9%	-16.0%	16.9	52.3%	39.8%	33.4%
<b>P/C Op. Inc. Pre-Tax</b>	<b>\$3,039</b>	<b>\$2,605</b>	<b>\$434</b>	<b>\$2,988</b>	<b>\$2,975</b>	
<b>Life Insurance-Pre Tax</b>	<b>\$2,899</b>	<b>\$2,754</b>	<b>\$145</b>	<b>\$2,520</b>	<b>\$2,537</b>	
% Change	15.0%	9.3%	5.8	10.6%	5.1%	11.2%
Financial Services-Pre Tax	\$512	\$597	(\$85)	\$613	\$444	
Other-Pre Tax	(\$790)	(\$690)	(\$100)	(\$569)	(\$771)	
Asset Management	\$776	\$550	\$226	\$880	\$1,014	
% Change	-11.8%	-32.2%	20.4	84.5%	128.4%	23.6%
<b>Operating Income-Pre Tax</b>	<b>\$6,436</b>	<b>\$5,816</b>	<b>\$620</b>	<b>\$6,432</b>	<b>\$6,199</b>	
<b>Operating Income Per Share</b>	<b>\$1.77</b>	<b>\$1.58</b>	<b>\$0.18</b>	<b>\$1.60</b>	<b>\$1.68</b>	
% Change	10.4%	0.0%	10.4	28.1%	29.6%	-4.3%
<b>Reported Book Value</b>	<b>\$40.44</b>	<b>\$41.36</b>	<b>(\$0.92)</b>	<b>\$33.76</b>	<b>\$39.64</b>	
<b>ROE Operating</b>	<b>17.6%</b>	<b>15.6%</b>	<b>2.0</b>	<b>18.9%</b>	<b>17.1%</b>	<b>14.0%</b>

Source: Company documents and Merrill Lynch



09 August 2007

**Table 4: American International Group - Segment Variance Analysis**

Net Written Premium	07:Q2A	07:Q2E	Variance	06:Q2	07:Q1	8Q Trend
Domestic Brokerage Group	\$6,439	\$6,480	(\$41)	\$6,480	\$6,009	
Personal Lines	1,203	1,196	7	1,180	1,229	
Transatlantic Holdings	983	969	14	914	984	
Mortgage Guaranty	272	241	31	193	266	
Domestic General Insurance	8,897	8,887	10	8,767	8,488	
Foreign General Insurance	\$3,242	\$3,010	\$232	\$2,867	\$3,618	
<b>Percent Change</b>						
Domestic Brokerage Group	-0.6%	0.0%	(0.6)	10.8%	2.5%	3.0%
Personal Lines	1.9%	1.4%	0.6	0.6%	2.6%	1.8%
Transatlantic Holdings	7.5%	6.0%	1.5	3.4%	7.7%	1.5%
Mortgage Guaranty	40.9%	25.0%	15.9	33.1%	35.0%	28.7%
Domestic General Insurance	1.5%	1.4%	0.1	8.9%	3.9%	3.1%
Foreign General Insurance	13.1%	5.0%	8.1	10.4%	17.2%	11.8%
Total Premium	4.3%	2.3%	2.1	9.3%	7.6%	5.1%
<b>Percent of Total</b>						
Domestic Brokerage Group	53.0%	54.5%	(1.4)	55.7%	49.6%	54.1%
Personal Lines	9.9%	10.1%	(0.1)	10.1%	10.2%	10.5%
Transatlantic Holdings	8.1%	8.1%	(0.0)	7.9%	8.1%	8.2%
Mortgage Guaranty	2.2%	2.0%	0.2	1.7%	2.2%	1.9%
Domestic General Insurance	73.3%	74.7%	(1.4)	75.4%	70.1%	74.6%
Foreign General Insurance	26.7%	25.3%	1.4	24.6%	29.9%	25.4%
	<b>07:Q2A</b>	<b>07:Q2E</b>	<b>Variance</b>	<b>06:Q2</b>	<b>07:Q1</b>	<b>8Q Avg.</b>
<b>Revenue</b>						
Aircraft Finance	\$1,156.0	\$1,198.3	(\$42.3)	\$1,042.0	\$1,087.0	
% Change	10.9%	15.0%	(4.1)	16.9%	12.6%	14.5%
Capital Markets	\$461.0	375.0	86.0	\$375.0	\$313.0	
% Change	22.9%	0.0%	22.9	34.4%	-17.2%	15.6%
Consumer Finance	\$932.0	798.2	133.9	\$939.0	\$921.0	
% Change	-0.7%	-15.0%	14.3	5.4%	-0.3%	8.0%
Other	\$39.0	32.0	7.0	\$33.0	\$32.0	
% Change	10.0%	-66.2%	76.2	57.1%	10.0%	8.0%
Total Revenue - ex FAS 133	\$2,588.0	\$2,403.5	\$184.6	\$2,389.0	\$2,353.0	
% Change	8.3%	0.6%	7.7	14.7%	2.7%	12.1%
<b>Operating Income</b>						
Aircraft Finance	\$190.0	\$207.9	(\$17.9)	\$189.0	\$193.0	
% Change	0.5%	10.0%	(9.5)	0.5%	49.6%	1.1%
Capital Markets	\$273.0	200.0	73.0	\$211.0	\$153.0	
% Change	29.4%	-5.2%	34.6	50.7%	-26.4%	22.9%
Consumer Finance	\$58.0	169.2	(111.2)	\$199.0	\$74.0	
% Change	-70.9%	-15.0%	(55.9)	-16.4%	-57.7%	-22.4%
Other	(\$9.0)	20.0	(29.0)	\$14.0	\$24.0	
% Change	-164.3%	-66.2%	(98.1)	-12.5%	300.0%	-77.4%
Inter-company	\$0.0	0.0	0.0	\$0.0	\$0.0	
% Change	NM	NM	NM	NM	NM	NM
<b>Total Operating Income</b>	<b>\$512.0</b>	<b>\$597.1</b>	<b>(\$85.1)</b>	<b>\$613.0</b>	<b>\$444.0</b>	
% Change	-16.5%	-2.9%	(13.6)	5.3%	-14.3%	-4.7%

Source: Company documents and Merrill Lynch

09 August 2007

Table 5: American International Group - Earnings Model

	2005	2006A	2007E	2008E	2009E	06:Q1	06:Q2	06:Q3	06:Q4	07:Q1	07:Q2A
<b>Property/Casualty</b>											
Gross Written Premiums	\$52,725	\$56,280	\$61,030	\$63,772	\$66,166	\$14,592	\$14,450	\$14,066	\$13,172	\$16,012	\$15,105
% Change	1.3%	6.7%	8.4%	4.5%	3.8%	1.9%	8.0%	5.9%	12.2%	9.7%	4.5%
<b>Net Written Premiums</b>	<b>\$41,872</b>	<b>\$44,866</b>	<b>\$46,979</b>	<b>\$48,467</b>	<b>\$50,286</b>	<b>\$11,255</b>	<b>\$11,634</b>	<b>\$11,224</b>	<b>\$10,753</b>	<b>\$12,106</b>	<b>\$12,139</b>
% Change	3.2%	7.2%	4.7%	3.2%	3.8%	4.3%	9.3%	8.8%	6.2%	7.6%	4.3%
Retention	79.4%	79.7%	77.0%	76.0%	76.0%	77.1%	80.5%	79.8%	81.6%	75.6%	80.4%
Earned Premiums	\$40,809	\$43,451	\$45,694	\$47,742	\$49,400	\$10,470	\$10,678	\$11,217	\$11,086	\$11,219	\$11,363
% Change	5.9%	6.5%	5.2%	4.5%	3.5%	3.3%	4.4%	10.7%	7.6%	7.2%	6.4%
Increase in UPR	\$1,063	\$1,415	\$1,285	\$725	\$886	\$785	\$956	\$7	(\$333)	\$887	\$776
Paid Losses/LAE	\$22,241	\$23,694	\$23,999	\$25,780	\$28,158	\$5,678	\$5,812	\$5,807	\$6,397	\$5,758	\$6,223
% Earned	54.5%	54.5%	52.5%	54.0%	57.0%	54.2%	54.4%	51.8%	57.7%	51.3%	54.8%
% Incurred	67.2%	84.5%	82.0%	83.0%	86.2%	81.4%	85.9%	82.8%	87.7%	80.0%	85.7%
Reserve Change	\$10,850	\$4,358	\$5,266	\$5,271	\$4,522	\$1,299	\$952	\$1,210	\$897	\$1,442	\$1,036
% Earned	26.6%	10.0%	11.5%	11.0%	9.2%	12.4%	8.9%	10.8%	8.1%	12.9%	9.1%
% Incurred	32.8%	15.5%	18.0%	17.0%	13.8%	18.6%	14.1%	17.2%	12.3%	20.0%	14.3%
Losses Incurred	\$33,091	\$28,052	\$29,266	\$31,052	\$32,680	\$6,977	\$6,764	\$7,017	\$7,294	\$7,200	\$7,259
Loss Ratio	81.1%	64.6%	64.0%	65.0%	66.2%	66.6%	63.3%	62.6%	65.8%	64.2%	63.9%
% Change	13.1%	-15.2%	4.3%	6.1%	5.2%	-4.1%	-4.9%	-21.7%	-25.0%	3.2%	7.3%
Underwriting Expenses	\$9,752	\$10,742	\$10,890	\$11,654	\$12,172	\$2,348	\$2,540	\$2,973	\$2,881	\$2,607	\$2,693
<b>Expense Ratio</b>	<b>23.9%</b>	<b>24.7%</b>	<b>23.8%</b>	<b>24.4%</b>	<b>24.6%</b>	<b>22.4%</b>	<b>23.8%</b>	<b>26.5%</b>	<b>26.0%</b>	<b>23.2%</b>	<b>23.7%</b>
% Change	2.7%	10.2%	1.4%	7.0%	4.4%	2.2%	6.4%	25.9%	6.5%	11.0%	6.0%
<b>Combined Ratio</b>	<b>105.0%</b>	<b>89.3%</b>	<b>87.9%</b>	<b>89.5%</b>	<b>90.8%</b>	<b>89.1%</b>	<b>87.1%</b>	<b>89.1%</b>	<b>91.8%</b>	<b>87.4%</b>	<b>87.6%</b>
GAAP UW P/(L)-Pretax	(\$2,034)	\$4,657	\$5,539	\$5,036	\$4,548	\$1,145	\$1,374	\$1,227	\$911	\$1,412	\$1,411
GAAP UW P/(L)-After Tax	(\$1,333)	\$3,027	\$3,600	\$3,273	\$2,956	\$744	\$893	\$798	\$592	\$918	\$917
Net Investment Income Pretax	\$4,031	\$5,696	\$6,135	\$6,156	\$6,572	\$1,118	\$1,614	\$1,370	\$1,594	\$1,563	\$1,628
% Change	26.1%	41.3%	7.7%	0.3%	6.8%	10.1%	52.3%	38.8%	64.5%	39.8%	0.9%
Average Pretax Yield	4.8%	5.7%	5.6%	5.3%	5.2%	4.6%	6.5%	5.4%	6.1%	5.8%	5.9%
% Earned	9.9%	13.1%	13.4%	12.9%	13.3%	10.7%	15.1%	12.2%	14.4%	13.9%	14.3%
Tax Rate	24.2%	24.2%	24.2%	24.2%	24.2%	24.2%	24.2%	24.2%	24.2%	24.2%	24.2%
<b>Net Investment Income After Tax</b>	<b>\$3,055</b>	<b>\$4,318</b>	<b>\$4,651</b>	<b>\$4,666</b>	<b>\$4,982</b>	<b>\$847</b>	<b>\$1,223</b>	<b>\$1,038</b>	<b>\$1,208</b>	<b>\$1,185</b>	<b>\$1,234</b>
% Change	26.1%	41.3%	7.7%	0.3%	6.8%	10.1%	52.3%	38.8%	64.5%	39.8%	0.9%
% Change - Sequential	26.1%	41.3%	7.7%	0.3%	6.8%	15.4%	44.4%	-15.1%	16.4%	-1.9%	4.2%
<b>P/C Op. Inc. Pre-Tax</b>	<b>\$1,997</b>	<b>\$10,353</b>	<b>\$11,674</b>	<b>\$11,191</b>	<b>\$11,120</b>	<b>\$2,263</b>	<b>\$2,988</b>	<b>\$2,597</b>	<b>\$2,505</b>	<b>\$2,975</b>	<b>\$3,039</b>
% Change	-32.3%	418.4%	12.8%	-4.1%	-0.6%	43.4%	68.6%	NA	NA	31.5%	1.7%
Life Insurance-Pre Tax	\$9,062	\$9,961	\$10,879	\$12,057	\$13,455	\$2,414	\$2,520	\$2,624	\$2,403	\$2,537	\$2,899
% Change	15.0%	9.9%	9.2%	10.8%	11.6%	6.7%	10.6%	15.9%	6.5%	5.1%	15.0%
Financial Services-Pre Tax	\$2,262	\$2,343	\$1,991	\$2,310	\$2,564	\$518	\$613	\$574	\$638	\$444	\$512
Other-Pre Tax	(\$3,599.2)	(\$2,545.0)	(\$3,031.0)	(\$2,940.0)	(\$2,940.0)	(\$685.0)	(\$569.0)	(\$455.0)	(\$836.0)	(\$771.0)	(\$790.0)
Asset Management	\$2,144.0	\$2,398.0	\$2,990.0	\$2,540.0	\$2,768.6	\$444.0	\$880.0	\$341.0	\$733.0	\$1,014.0	\$776.0
% Change	14.6%	11.8%	24.7%	(15.1)%	9.0%	(15.9)%	84.5%	(40.0)%	28.4%	128.4%	(11.8)%
<b>Operating Income-Pre Tax</b>	<b>\$11,866</b>	<b>\$22,510</b>	<b>\$24,503</b>	<b>\$25,159</b>	<b>\$26,967</b>	<b>\$4,954</b>	<b>\$6,432</b>	<b>\$5,681</b>	<b>\$5,443</b>	<b>\$6,199</b>	<b>\$6,436</b>
% Change	-13.4%	89.7%	8.9%	2.7%	7.2%	8.0%	37.3%	--	--	25.1%	0.1%
<b>Operating Income Per Share</b>	<b>\$3.16</b>	<b>\$5.86</b>	<b>\$6.75</b>	<b>\$6.95</b>	<b>\$7.56</b>	<b>\$1.29</b>	<b>\$1.60</b>	<b>\$1.53</b>	<b>\$1.47</b>	<b>\$1.68</b>	<b>\$1.77</b>
% Change	-13.2%	85.3%	15.2%	2.9%	8.7%	3.4%	28.1%	--	--	29.6%	10.4%
Weighted Avg. Shares	2,624	2,624	2,597	2,534	2,498	2,624	2,625	2,626	2,622	2,621	2,613
Reserves	\$57,476	\$62,630	\$67,985	\$73,257	\$77,778	\$58,892	\$60,214	\$61,513	\$62,630	\$64,034	\$65,197
% Change - Sequential	21.6%	9.0%	8.6%	7.8%	6.2%	2.5%	2.2%	2.2%	1.8%	2.2%	1.8%
Stockholders Equity	86,317	101,677	107,195	119,733	133,873	88,390	87,709	96,154	101,677	103,055	104,330
<b>Reported Book Value</b>	<b>\$33.24</b>	<b>\$39.09</b>	<b>\$42.33</b>	<b>\$48.04</b>	<b>\$54.41</b>	<b>\$34.03</b>	<b>\$33.76</b>	<b>\$36.99</b>	<b>\$39.09</b>	<b>\$39.64</b>	<b>\$40.44</b>
% Change - Sequential	8.3%	17.6%	8.3%	13.5%	13.3%	2.4%	-0.8%	9.6%	5.7%	1.4%	2.0%
<b>Operating ROE</b>	<b>10.2%</b>	<b>16.6%</b>	<b>16.7%</b>	<b>15.5%</b>	<b>14.9%</b>	<b>16.1%</b>	<b>18.4%</b>	<b>17.3%</b>	<b>16.2%</b>	<b>17.0%</b>	<b>17.8%</b>

Source: Company documents and Merrill Lynch

## Price objective basis & risk

### American International Group (AIG)

Our price target is based on a price-to-forward book value multiple of 1.82x book value, a multiple that is supported by solid and more sustainable ROE relative to other property/casualty companies. We have not changed this target multiple despite the higher earnings and ROE although the price target does assume some expansion of the multiple from current levels. The target is 11.8x our 2008 estimate, a very reasonable multiple, in our view, given the company's long-term growth opportunities. Assuming a floor multiple on the year-ahead book value of 1.5x book value, the stock is trading just below the year-ahead support level, based on our estimates.

Risks to AIG achieving our price objective are further negative developments from regulatory investigations, private litigation and internal audit reviews, additional management changes, regulatory investigations outside of the U.S., loss reserve shortfalls, price competition increasing faster than we expect, a return of SARS or an outbreak of the avian bird flu, a terrorist event, or other similar catastrophic event, a dramatic downturn in the airline business, a downturn in equity markets, prolonged and severe weakness in the housing sector and an inverted yield curve that would pressure fixed annuity sales.

## Analyst Certification

I, Jay A. Cohen, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

***iQmethod*<sup>SM</sup> Measures Definitions**

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

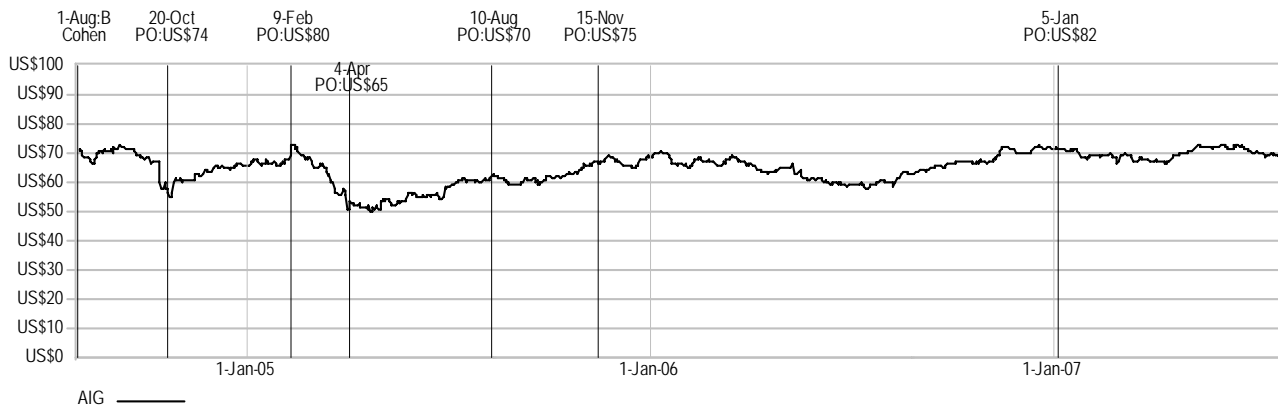
*iQmethod*<sup>SM</sup> is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

*iQdatabase*<sup>®</sup> is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Merrill Lynch.

*iQprofile*<sup>SM</sup>, *iQmethod*<sup>SM</sup> are service marks of Merrill Lynch & Co., Inc. *iQdatabase*<sup>®</sup> is a registered service mark of Merrill Lynch & Co., Inc.

## Important Disclosures

### AIG Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of July 31, 2007 or such later date as indicated.

### Investment Rating Distribution: Financial Services Group (as of 01 Jul 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	95	39.42%	Buy	47	52.81%
Neutral	138	57.26%	Neutral	66	50.38%
Sell	8	3.32%	Sell	0	0.00%

### Investment Rating Distribution: Global Group (as of 01 Jul 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1675	47.16%	Buy	435	29.21%
Neutral	1633	45.97%	Neutral	438	29.67%
Sell	244	6.87%	Sell	47	21.66%

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

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

MLPF&S or one of its affiliates acts as a market maker for the securities recommended in the report: Amer Intl Group.  
 MLPF&S or an affiliate was a manager of a public offering of securities of this company within the last 12 months: Amer Intl Group.  
 The company is or was, within the last 12 months, an investment banking client of MLPF&S and/or one or more of its affiliates: Amer Intl Group.  
 MLPF&S or an affiliate has received compensation from the company for non-investment banking services or products within the past 12 months: Amer Intl Group.  
 The company is or was, within the last 12 months, a non-securities business client of MLPF&S and/or one or more of its affiliates: Amer Intl Group.  
 MLPF&S or an affiliate has received compensation for investment banking services from this company within the past 12 months: Amer Intl Group.  
 MLPF&S or an affiliate expects to receive or intends to seek compensation for investment banking services from this company within the next three months: Amer Intl Group.  
 MLPF&S or one of its affiliates is willing to sell to, or buy from, clients the common equity of the company on a principal basis: Amer Intl Group.  
 The company is or was, within the last 12 months, a securities business client (non-investment banking) of MLPF&S and/or one or more of its affiliates: Amer Intl Group.  
 The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

## Other Important Disclosures

UK readers: MLPF&S or an affiliate is a liquidity provider for the securities discussed in this report.

MLPF&S or one of its affiliates has a significant financial interest in the fixed income instruments of the issuer. If this report was issued on or after the 10th day of a month, it reflects a significant financial interest on the last day of the previous month. Reports issued before the 10th day of a month reflect a significant financial interest at the end of the second month preceding the date of the report: Amer Intl Group.

---

### Information relating to Non-U.S. affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S):

MLPF&S distributes research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Global (Taiwan) Limited; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (KL) Sdn. Bhd.: Merrill Lynch (Malaysia); Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-U.S. affiliates. MLPF&S is the distributor of this research report in the U.S. and accepts full responsibility for research reports of its non-U.S. affiliates distributed in the U.S. Any U.S. person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited, which is authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd, a registered securities dealer under the Securities and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC; is issued and distributed in Taiwan by Merrill Lynch Global (Taiwan) Ltd or Merrill Lynch, Pierce, Fenner & Smith Limited (Taiwan Branch); is issued and distributed in Malaysia by Merrill Lynch (KL) Sdn. Bhd., a licensed investment adviser regulated by the Malaysian Securities Commission; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited, (ABN 65 006 276 795), AFS License 235132, provides this report in Australia. No approval is required for publication or distribution of this report in Brazil.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

### Copyright, User Agreement and other general information related to this report:

Copyright 2007 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. This research report is prepared for the use of Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Merrill Lynch. Merrill Lynch research reports are distributed simultaneously to internal and client websites eligible to receive such research prior to any public dissemination by Merrill Lynch of the research report or information or opinion contained therein. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) prior to Merrill Lynch's public disclosure of such information. The information herein (other than disclosure information relating to Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. Merrill Lynch makes no representations or warranties whatsoever as to the data and information provided in any third party referenced website and shall have no liability or responsibility arising out of or in connection with any such referenced website.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch Research policies relating to conflicts of interest are described at <http://www.ml.com/media/43347.pdf>.

Fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.

iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Merrill Lynch & Co., Inc. iQanalytics®, iQcustom®, iQdatabase® are registered service marks of Merrill Lynch & Co., Inc.