

**Lupin Limited (LUPN.NS - INR 1420.45) Buy**

Operating Results

**Delivers, potential remains**

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**Investment Conclusion**

□ LPC Q3FY10 results were in line with our expectations. Post the 9mFY10 performance we have marginally reduced our EPS ests. We believe LPC business is structurally strong and can sustain revenue growth of 25-30% as guided by management. Generic product approvals and pick-up in brand sales in the US are key to growth going forward and can present significant surprise to the current estimates. We reset our target price to INR 1707/sh as we value the base business ex one-offs at 17x FY12 and add INR 50/sh for product-specific opportunities. Maintain BUY.

FY Mar	2009A	2010E	2011E	2012E			
Currency INR	Actual	Old	New	Old	New	Old	New
Revenue (bn)	38.3	47.2	47.0	52.5	53.7	60.9	62.2
Op. Profit (bn)	7.3	9.9	9.3	11.1	11.3	13.2	13.1
Rec. Prof. (bn)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Income (bn)	5.0	6.6	6.1	7.2	7.3	8.9	8.7
EPS	56.5	74.6	68.7	81.6	81.9	100.4	97.5
EV/EBITDA	18.3	N/A	14.4	N/A	11.8	N/A	9.9
P/E	25.1	19.0	20.7	17.4	17.3	14.1	14.6

**Summary**

□ Q3 FY10 highlights: a) Net sales at INR12.5bn, 31% increase YoY (our est INR12.2bn); b) EBITDA at INR2.6bn, 49% increase YoY (our est. INR2.37bn); c) Net profit at INR1.6bn, 38% increase YoY in line with our est.

**Market Data**

Market Cap	126308
Market cap (US\$ mn)	2725
Shares Outstanding (mn)	88.9
6-mo daily T/O (US\$ mn)	1
Free Float (%)	49.56
Foreign Shareholding (%)	13.76

**Financial Summary**

Proj 5-Yr EPS Grth (%)	19.0
RoE (%)	37.1
Net Debt to Equity (%)	56.8

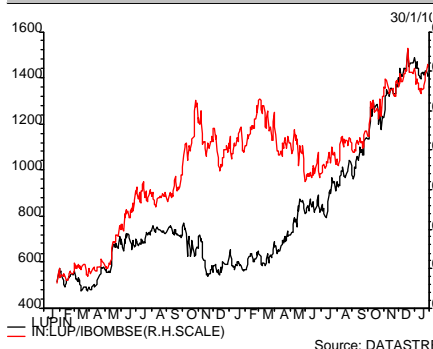
**Stock Rating**

**Target Price**

New: Buy	New: INR 1707.00
Old: Buy	Old: INR 1506.00

**Sector View:** Bullish

**Stock Overview**



Reuters	LUPN.NS
Bloomberg	LPC IN
ADR	
<b>Performance</b>	<b>1M</b> <b>3M</b> <b>12M</b>
Absolute %	-2.9 15.2 153.1
Rel. Market %	2.6 11.1 36.5
Rel. Sector %	N/A N/A N/A
52 Week Range	1524.00 - 565.10

LPC Q3FY10 results were in line with our expectations. LPC recorded sales of INR12.5bn, 31% growth YoY higher than our estimate of INR12.2bn with positive surprise in the API business. EBITDA margin improved 260bps YoY to 20.9% ahead of our expectation of 19.4%. However, the higher than expected tax rate resulted in net profit of INR1.6bn, in line with our expectation.

Post the 9mFY10 performance we have made marginal changes in our model. As a result, our earnings estimates for FY11-12 are reduced by 0-3%. FY10 earnings cut by 8% on back of lower EBITDA margin estimate.

LPC has re-rated significantly from 8x a year back to 17.5x currently. Post the FDA clearance for the Mandideep facility we expect LPC to trade between 16x and 18x one yr fwd EPS, which we believe is a fair valuation range for front-line generic companies. From here on we expect the stock appreciation to be linked primarily to earnings growth with limited scope for further re-rating.

We believe LPC business is structurally strong and can sustain revenue growth of 25-30% as guided by management. The guidance is higher than our expectation of 14-16%. Outperformance to the current expectation will largely be driven by the US market. Generic product approvals and a pick-up in brand sales in the US hold the potential to present positive surprise. Given limited clarity on approval timing and early days for the branded business (ex Suprax), we haven't built the potential upside into our estimates. The quarterly profit for LPC has now settled at INR1.6bn and any further increase in the profit run rate is contingent upon product approvals in the US, in our view.

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PLEASE SEE ANALYST(S) CERTIFICATION(S) ON PAGE 6 AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 7**

Therefore, we believe the stock will await some clarity on growth to emerge before it makes the next move up. In the near term the key catalyst will be approval of Lotrel, in our view. Over the next 3-4 quarters execution of the branded business in the US will be the key driver for the stock in our view. Pick up in brand sales for Antara and Allernaze (expected to be launched in Q1FY11) and strategy to further scale up the business to counter eventual genericisation of Suprax and Antara will be key, in our view.

We reset our target price to INR1707/sh as we value the base business ex one offs at 17x FY12 and add INR50/sh for product-specific opportunities (unchanged). Our valuation of the base business is in line with other front line generic companies. The key risks to our call are a) delay in product approvals in the US; b) execution slippage in the branded business and c) slowdown in Indian domestic formulation growth.

Figure 1: Qtrly P&amp;L

(in INRmn)	3QFY09	2QFY10	3QFY10	YoY (%)	3QFY10E
Gross Sales	9,719	11,216	12,627	30%	12,303
Excise Duty	100	69	72	-28%	69
<b>Net Sales</b>	<b>9,618</b>	<b>11,147</b>	<b>12,554</b>	<b>31%</b>	<b>12,234</b>
Other Operating income	218	511	154	-30%	200
Total operating income	9,837	11,658	12,708	29%	12,434
Material costs	3,858	5,014	5,122	33%	5,220
Staff costs	1,205	1,405	1,528	27%	1,405
Other expenditure	3,016	3,088	3,441	14%	3,436
Total Expenditure	8,079	9,507	10,090	25%	10,061
<b>EBITDA</b>	<b>1,758</b>	<b>2,150</b>	<b>2,618</b>	<b>49%</b>	<b>2,374</b>
<b>EBITDA margins (% of net sales)</b>	<b>18.3%</b>	<b>19.3%</b>	<b>20.9%</b>	<b>14%</b>	<b>19.4%</b>
Other income	3	30	2	-47%	50
Interest	146	91	109	-25%	125
Depreciation	219	242	358	63%	336
PBT	1,396	1,847	2,152	54%	1,963
Tax	219	200	504	131%	314
Tax rate	15.6%	10.8%	23.4%		16.0%
MI + Share of associates	13	43	42		43
<b>PAT</b>	<b>1,165</b>	<b>1,603</b>	<b>1,606</b>	<b>38%</b>	<b>1,606</b>
(% of net sales)					
<b>Material costs</b>	<b>40.1%</b>	<b>45.0%</b>	<b>40.8%</b>	<b>69 bps</b>	<b>42.7%</b>
<b>Staff costs</b>	<b>12.5%</b>	<b>12.6%</b>	<b>12.2%</b>	<b>-36 bps</b>	<b>11.5%</b>
<b>Other Expenditure</b>	<b>31.4%</b>	<b>27.7%</b>	<b>27.4%</b>	<b>-394 bps</b>	<b>28.1%</b>
<b>EBITDA Margin</b>	<b>18.3%</b>	<b>19.3%</b>	<b>20.9%</b>	<b>257 bps</b>	<b>19.4%</b>

Source: Company data, Nomura estimates

## Key Highlights

Figure 2: Net sales breakdown

INRmn	3QFY09	2QFY10	3QFY10	% Chg YoY
<b>Advanced market formulations</b>	<b>4,754</b>	<b>4,814</b>	<b>6,426</b>	<b>35%</b>
US	3,141	3,348	4,299	37%
Europe	295	183	638	116%
Japan	1,319	1,283	1,489	13%
<b>India formulations</b>	<b>2,838</b>	<b>3,467</b>	<b>3,446</b>	<b>21%</b>
<b>Other formulations</b>	<b>161</b>	<b>922</b>	<b>768</b>	<b>376%</b>
<b>API</b>	<b>1,866</b>	<b>1,944</b>	<b>1,914</b>	<b>3%</b>
<b>Net sales</b>	<b>9,619</b>	<b>11,147</b>	<b>12,554</b>	<b>31%</b>

Source: Company data, Nomura estimates

**US**

US revenues at INR4.3bn, 37% growth YoY was largely in line with our expectation. The branded business increased to INR1.8bn from INR1.07bn in the previous quarter on back of incorporation of Antara sales and seasonal increase in Suprax sales. As per management, the decline in Antara prescriptions has been arrested and the current run rate suggest annual turnover of US\$60-70m from Antara. Based on the citizen petition filed by Lupin for Suprax and competitive intelligence gathered, the company doesn't expect any generic competition in Suprax in the near term. We believe over time in FY11 there can be generic competition at least in the single strength Suprax. With launch of Antara, the brand business in the US accounts for 43% of the US formulation revenues.

Lupin has filed for 15 ANDAs so far in FY10 and expects 25-30 filings in FY10. The filings will be bunched up in Q4 as was the case last year. The pipeline of outstanding ANDAs (for approval) has increased from 44 a year ago to 70 currently. LPC expects to launch 10 new products in FY11 with 2-3 niche low competition launches. The company expects approval and launch of Lotrel in the near term and two additional products with brand sales of US\$500m in FY11. Given the pipeline the product launches are expected to accelerate in FY12.

**Japan**

Japan recorded revenue of INR1.5bn, 13% increase YoY. In local currency term the growth is 9%. The growth is likely to be muted in the near term primarily on account of lack of big launches and some pricing pressure. Though the top line growth is expected to be moderate, management expects margins to expand. Lupin is well seeded in Japan to address the opportunity as and when the generic market expands.

**India**

India continues to demonstrate strong growth. In Q3FY10, LPC recorded growth of 21% in net sales. For 9mFY10, sales growth is at 20%. The growth in the Indian market is driven primarily by new product introductions. LPC has been relatively successful with new introductions and products launched over the last 2 years contribute 9% of the domestic sales. As per ORG IMS data, product launches in 2008 and 2009 contributed almost 65% of the growth. Management expects to sustain growth rate of 20% in the near future.

**EBITDA margin expands**

LPC reported EBITDA margin of 19.5% (adjusted for other income), highest in the last 11 quarters. Improving product mix with increasing revenues from the branded business has resulted in the increase. Management expects to deliver at least 50bps improvement in EBITDA margin YoY. Management has indicated an outstanding hedging position of US\$491m - this would help mitigate margin risk in the eventuality of INR appreciation.

**Outlook- Growth would largely depend on the US over the next 12 months**

Management expects revenue growth of 25-30% in FY11. With India growth at 20% and Japan in low teens, we believe achieving the growth will be largely contingent upon product approvals and launches in the US and ramp up in brand sales in the US. Products with low competition like Lotrel will be key to achieve the growth target in our view. At this stage we aren't building in potential upside from such launches and hence project growth of 14-16% over the next two years.

**Changing our estimates marginally**

We make changes in our earnings model to incorporate the performance so far in 9mFY09. Our sales estimates are revised upwards by 1-3% as we build in higher US brand and API sales. Core EBITDA margin is revised 0-2% for FY11-12 as we build in marginal cut in margin estimates. EBITDA estimates for FY10 are reduced by 8% on lower margin assumption. FY11-12 earning estimate stand reduced by 0-3% on back of higher depreciation relating to Antara.

**Figure 3: Change in estimates**

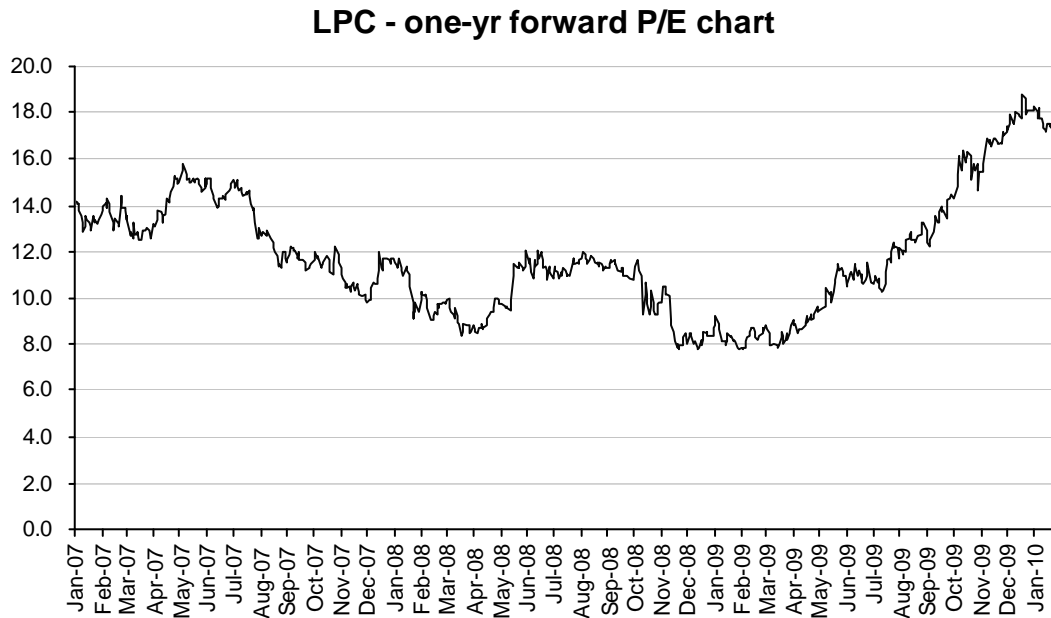
INRmn	Current estimates			Previous estimates			% Chg		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E			
Total gross sales	47,036	53,717	62,229	46,749	52,234	60,539	1	3	3
Y-Y growth rate	23.0%	14.2%	15.8%	22.3%	11.7%	15.9%			
Core EBITDA	9,270	11,257	13,121	9,866	11,053	13,178	(6)	2	(0)
Margins	19.7%	21.0%	21.1%	21.1%	21.2%	21.8%			
Net profit	6,094	7,265	8,650	6,624	7,244	8,911	(8)	0	(3)
Y-Y growth rate	21.5%	19.2%	19.1%	32.1%	9.4%	23.0%			
EPS	68.7	81.9	97.5	74.6	81.6	100.4			

Source: Nomura estimates

**Structurally strong- Maintain Buy**

LPC has re-rated significantly from 8x a year back to 17.5x currently. Post the FDA clearance for the Mandideep facility we expect LPC to trade between 16x and 18x one yr fwd EPS which we believe is a fair valuation range for front-line generic companies. From here on we expect the stock appreciation to be linked primarily to earnings growth with limited scope for further re-rating. We believe LPC is well seeded in India, US and Japan to address the growth opportunities in these markets. India and US will be the near term growth drivers, in our view. From medium to long term perspective growth may accelerate in Japan as the generic market opens up and LPC being the largest Indian player operating in the market will address the opportunity as and when it arises, in our view.

Figure 4: Significant re-rating over the last one year



Source: Bloomberg, Nomura estimates

Management has guided for 25-30% growth in the near term, which compares to our estimate of 14-15%. The US market holds the key for upsides to our growth estimates. We believe management guidance is achievable on back of US approvals and strong execution in the brand business. Given limited clarity on approval timing and early days for the branded business (ex Suprax), we haven't built the potential upside in our estimates, but it remains a possibility.

Therefore, we believe the stock will await some clarity on growth to emerge before it makes the next move up. In the near term the key catalyst will be approval of Lotrel in our view. Over the next 3-4 quarters execution of the branded business in the US will be the key driver for the stock in our view. Pick up in brand sales of Antara and Allernaze (expected to be launched in Q1FY11) and strategy to further scale up the business to counter eventual genericisation of Suprax and Antara will be key, in our view.

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Figure 5: Change in 12m target price

INR/share	Current	Previous
Base business valuation	1,657	1,456
Product specific potential upside	50	50
Target price	1,707	1,506

Source: Nomura estimates

**Figure 6: Income Statement**

Year ended 31 Mar (INRmn)	FY08	FY09	FY10E	FY11E	FY12E
Gross sales	27,730	38,238	47,036	53,717	62,229
Other operating income	1,645	537	986	850	1,002
Excise duty	666	479	316	374	431
<b>Net Sales</b>	<b>28,709</b>	<b>38,296</b>	<b>47,706</b>	<b>54,193</b>	<b>62,799</b>
Operating expenses	22,417	31,016	38,436	42,936	49,678
Material costs	11,638	16,043	19,713	21,603	24,997
Other expenditure	9,233	12,655	15,246	17,334	20,083
R&D costs	1,546	2,318	3,477	3,999	4,599
<b>Core EBITDA</b>	<b>6,291</b>	<b>7,279</b>	<b>9,270</b>	<b>11,257</b>	<b>13,121</b>
Other income	132	160	100	130	200
Interest	374	499	467	534	534
Depreciation	647	880	1,258	1,746	1,970
PBT	5,402	6,060	7,645	9,107	10,817
Tax	1,318	983	1,376	1,639	1,947
<b>PAT</b>	<b>4,084</b>	<b>5,077</b>	<b>6,269</b>	<b>7,468</b>	<b>8,870</b>
Minority interest & prior period items	2	62	175	203	219
<b>Net profits</b>	<b>4,083</b>	<b>5,015</b>	<b>6,094</b>	<b>7,265</b>	<b>8,650</b>

Source: Company data, Nomura estimates

**Figure 7: Balance Sheet**

Year ended 31 Mar (INRmn)	FY08	FY09	FY10E	FY11E	FY12E
Current assets	20,441	23,478	26,682	30,369	37,670
Investments	58	216	216	216	216
Net fixed assets	11,125	14,252	20,824	24,359	25,740
Other non-current assets	1,872	3,174	3,174	3,174	3,174
<b>Total assets</b>	<b>33,497</b>	<b>41,119</b>	<b>50,895</b>	<b>58,117</b>	<b>66,799</b>
Current liabilities	6,019	11,504	13,116	14,340	15,900
Total Debt	12,029	12,233	11,870	11,870	11,870
Other liabilities	2,558	2,992	3,448	3,942	4,527
Total liabilities	20,606	26,728	28,434	30,152	32,296
Share capital	821	828	888	888	888
Reserves & surplus	11,976	13,420	21,318	26,794	33,315
Shareholders' funds	12,797	14,248	22,205	27,682	34,203
Minorities	95	143	256	283	300
<b>Total equity &amp; liabilities</b>	<b>33,497</b>	<b>41,119</b>	<b>50,895</b>	<b>58,117</b>	<b>66,799</b>

Source: Company data, Nomura estimates

**Figure 8: Cash Flow Statement**

Cash Flow Statement	FY08	FY09	FY10E	FY11E	FY12E
Year ended 31 Mar (INRmn)					
Pre-tax profit	5,402	6,060	7,645	9,107	10,817
Depreciation	647	880	1,258	1,746	1,970
Tax paid	-1,090	-1,068	-1,185	-1,434	-1,703
Chg in working capital	-2,589	-1,739	270	-1,796	-2,288
Others	214	562	734	404	334
<b>Cash flow from operations (a)</b>	<b>2,585</b>	<b>4,695</b>	<b>8,722</b>	<b>8,027</b>	<b>9,129</b>
Capital expenditure	-5,065	-4,953	-7,784	-5,000	-3,000
Chg in investments and others	147	-143	100	130	200
<b>Cash flow from investing (b)</b>	<b>-4,918</b>	<b>-5,096</b>	<b>-7,684</b>	<b>-4,870</b>	<b>-2,800</b>
Free cash flow (a+b)	-2,333	-401	1,038	3,157	6,329
Equity raised/(repaid)	26	54	3,363	0	0
Debt raised/(repaid)	1,626	-246	-363	0	0
Dividend (incl. tax)	-477	-983	-1,235	-1,500	-1,788
Others	55	-388	-529	-709	-737
<b>Cash flow from financing (c)</b>	<b>1,230</b>	<b>-1,563</b>	<b>1,237</b>	<b>-2,209</b>	<b>-2,525</b>
<b>Net chg in cash (a+b+c)</b>	<b>-1,103</b>	<b>-1,964</b>	<b>2,275</b>	<b>948</b>	<b>3,804</b>

Source: Company data, Nomura estimates

**Analyst Certification:**

We, Saion Mukherjee and Avinash Ghalke, hereby certify (1) that the views expressed in this Company Note accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Company Note, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Company Note and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

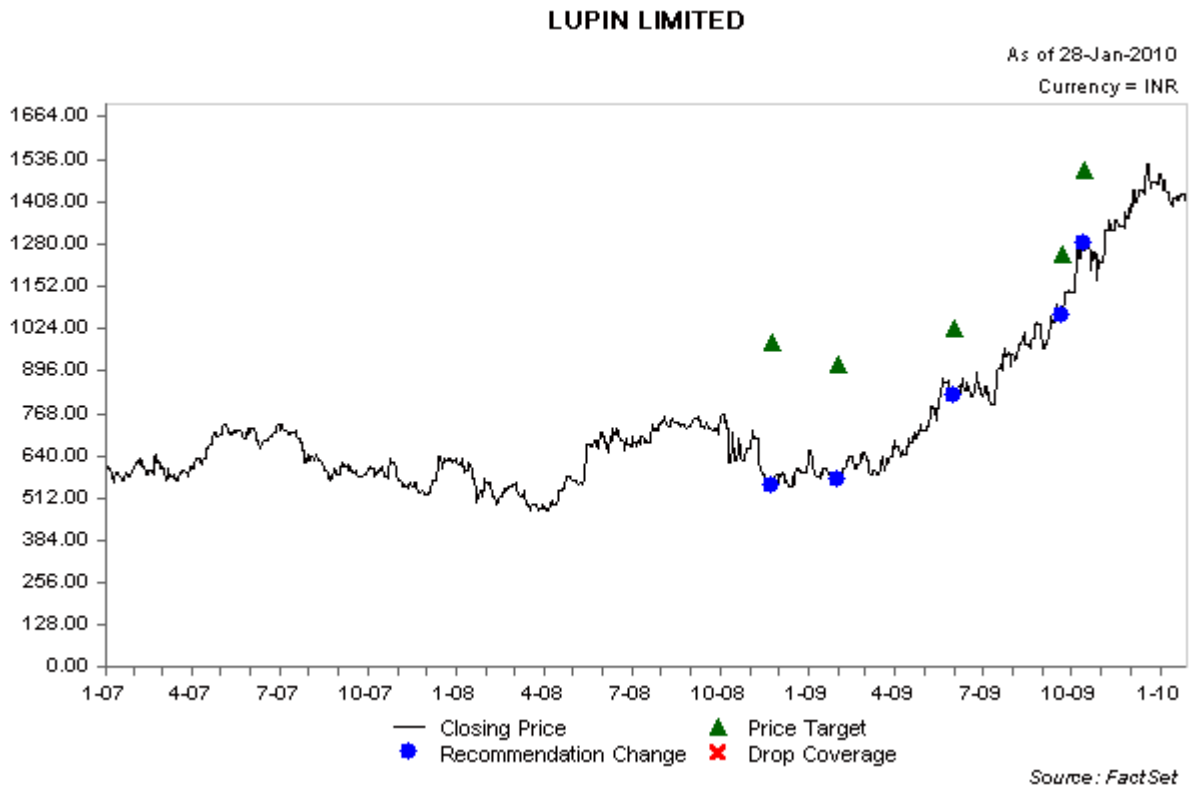
**Company Description:**

Lupin is the fifth-largest Indian generic pharmaceuticals company in terms of revenue. Key markets for Lupin include India, the US and Japan.

Important Disclosures:

**Lupin Limited (LUPN.NS)****INR 1420.45 (29-Jan-2010)****Buy / Bullish**

Rating and Price Target Chart:



Currency=INR

Date	Closing Price	Rating	Price Target
16-Oct-09	1279.60		1506.00
16-Oct-09	1279.60	Buy	
23-Sep-09	1064.55		1251.00
23-Sep-09	1064.55	Buy	
02-Jun-09	817.20		1028.00

Date	Closing Price	Rating	Price Target
02-Jun-09	817.20	Buy	
02-Feb-09	565.15		919.00
02-Feb-09	565.15	Buy	
25-Nov-08	547.50		982.00
25-Nov-08	547.50	Buy	

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

**Valuation Methodology:** Our 12-month price target of INR1,707/share is based on SOTP: a) base business valued at INR1,657, 17x FY12 and b) P4 pipeline valued at INR50/share.

**Risks Which May Impede the Achievement of the Price Target:** 1) Delay in product approvals in the US; 2) The entry of generic competition in Suprax and simultaneous failure of scale up the brand business with new launches; 3) Slowdown in domestic formulation business

**Important Disclosures Continued:**

Company Name	Ticker	Price	Price Date	Stock / Sector Rating
Lupin Limited	LUPN.NS	INR 1420.45	29-Jan-2010	Buy / Bullish

All share prices mentioned are closing prices unless otherwise stated.

**ISSUER SPECIFIC REGULATORY DISCLOSURES****Online availability of research and additional conflict-of-interest disclosures:**

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The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by Investment Banking activities.

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Nomura Global Equity Research has 1724 companies under coverage.

41% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 42% of companies with this rating are investment banking clients of the Nomura Group\*.

40% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 50% of companies with this rating are investment banking clients of the Nomura Group\*.

19% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 8% of companies with this rating are investment banking clients of the Nomura Group\*.

As at 30 September 2009.

\*The Nomura Group as defined in the Disclaimer section at the end of this report.

**Explanation of Nomura's equity research rating system in Europe, Middle East and Africa, US and Latin America for ratings published from 27 October 2008:**

The rating system is a relative system indicating expected performance against a specific benchmark identified for each individual stock. Analysts may also indicate absolute upside to price target defined as (fair value - current price)/current price, subject to limited management discretion. In most cases, the fair value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as discounted cash flow or multiple analysis, etc.

**Stocks:**

- A rating of "1", or "**Buy**", indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months.
- A rating of "2", or "**Neutral**", indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months.
- A rating of "3", or "**Reduce**", indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months.
- A rating of "**RS-Rating Suspended**" indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.

Benchmarks are as follows: **United States/Europe:** Please see valuation methodologies for explanations of relevant benchmarks for stocks (accessible through the left hand side of the Nomura Disclosure web page: <http://www.nomura.com/research>); **Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology.

**Sectors:**

A "**Bullish**" stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months.

A "**Neutral**" stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months.

A "**Bearish**" stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months.

Benchmarks are as follows: **United States:** S&P 500; **Europe:** Dow Jones STOXX® 600; **Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia.

**Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009:****Stocks:**

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Price Target – Current Price) / Current Price, subject to limited management discretion. In most cases, the Price Target will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc.

- A rating of "1", or "**Buy**" recommendation indicates that potential upside is 15% or more.
- A rating of "2", or "**Neutral**" recommendation indicates that potential upside is less than 15% or downside is less than 5%.
- A rating of "3", or "**Reduce**" recommendation indicates that potential downside is 5% or more.
- A rating of "**RS**" or "**Rating Suspended**" indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company.
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**Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008):**

*Stocks:*

- A rating of "1", or "**Strong buy**", indicates that the analyst expects the stock to outperform the Benchmark by 15% or more over the next six months.
- A rating of "2", or "**Buy**", indicates that the analyst expects the stock to outperform the Benchmark by 5% or more but less than 15% over the next six months.
- A rating of "3", or "**Neutral**", indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months.
- A rating of "4", or "**Reduce**", indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.
- A rating of "5", or "**Sell**", indicates that the analyst expects the stock to underperform the Benchmark by 15% or more over the next six months.
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A "**Neutral**" stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next six months.

A "**Bearish**" stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.

Benchmarks are as follows: **Japan:** TOPIX; **United States:** S&P 500, MSCI World Technology Hardware & Equipment; **Europe**, by sector — *Hardware/Semiconductors:* FTSE W Europe IT Hardware; *Telecoms:* FTSE W Europe Business Services; *Business Services:* FTSE W Europe; *Auto & Components:* FTSE W Europe Auto & Parts; *Communications equipment:* FTSE W Europe IT Hardware; **Ecology Focus:** Bloomberg World Energy Alternate Sources; **Global Emerging Markets:** MSCI Emerging Markets ex-Asia.

**Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008:**

*Stocks:*

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- A rating of "1", or "**Strong buy**" recommendation indicates that upside is more than 20%.
- A rating of "2", or "**Buy**" recommendation indicates that upside is between 10% and 20%.
- A rating of "3", or "**Neutral**" recommendation indicates that upside or downside is less than 10%.
- A rating of "4", or "**Reduce**" recommendation indicates that downside is between 10% and 20%.
- A rating of "5", or "**Sell**" recommendation indicates that downside is more than 20%.

*Sectors:*

A "**Bullish**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.

A "**Neutral**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.

A "**Bearish**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

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