

SO WHAT? THE BNP PARIBAS ANGLE

INDUSTRY OUTLOOK: ↓

- Our FY09 net income is 5% higher than Street; we are lower on FY10/11E to capture increased risk of macro slowdown.
- Fully diluted earnings to account for foreign currency convertible bonds.

Net Profit FY09..... INR3.3b  
..... (Unchanged)

Diff from Consensus.... 4.8%  
Consensus (mean) ..... INR3.2b  
Consensus (momentum) ..... ↓

Target Price..... INR220.00  
..... (Unchanged)

Diff from Consensus(27.6%)  
Consensus (median)....INR303.88  
Consensus (momentum)..... ↓

Current Price.... INR126.90  
Upside/(Downside).....73.4%

**BUY**  
(Unchanged)

Recs in the Market

Positive ..... **8**  
Neutral ..... **1**  
Negative ..... **4**  
Consensus (momentum)..... ↓

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

- **Management meeting: high confidence in FY09 38-40% revenue growth guidance; no cancellations despite downturn.**
- **Leader in niche markets; 64% revenue from sectors less sensitive to slowdown; >75% revenue visibility for 2Q-4Q09E.**
- **TP of INR 220, based on DCF, translates to FY10E fully diluted P/E of 9.9x, more than one SD below historical mean.**

## Best candidate to buck the trend

Guidance intact, no cancellations despite downturn  
We recently spoke to Rolta's CFO, Hiranya Ashar, to judge how the company is coping with the slowdown. The key takeaway was that the company remains confident of achieving its 38-40% FY09 (June '09) revenue growth guidance based on its order book strength. We are currently modelling 41.6% y-y growth. The company also noted it had seen no project cancellations this quarter, but pointed to some delays in its longer-term sales pipeline converting to orders. For FY10, management hinted at 20-25% revenue growth as a likely target. We currently project 26.7%, ahead of the rest of our coverage companies.

Differentiated business allows Rolta to buck the trend  
Rolta stands out among its IT services peers with its niche-market leadership, differentiated growth drivers and exposure to end markets less sensitive to the slowdown. These have led to a strong order book and a more credible earnings profile than its generic IT services peers. While several other IT services mid-caps are trading at seemingly attractive valuations, our confidence in consensus estimates for those companies remains low given the uncertain demand environment.

**Niche market leadership:** Rolta dominates the geographical information systems (GIS) and the engineering design automation (EDA) markets with 70% and 85% shares (domestic and export), respectively.

**High defensive end market exposure:** 64% of Rolta's revenue comes from less slowdown-sensitive sectors such as defence, government, energy and utilities. Also 55% of the revenue is from domestic clients.

**Strong order book = high revenue visibility:** An order book of 1.5x FY08 revenue and a further pipeline of 2.5x order book provide more than 75% revenue visibility for 2Q-4QFY09E.

Keep BUY for earnings visibility in tough environment  
We reiterate our BUY rating on Rolta and our DCF-based TP of INR220, which implies a 9.9x FY10E P/E (more than one SD below historical mean) on an FY08-11E EPS CAGR of 21.9%. The key risks to our call are an adverse impact on orders beyond our expectation and investor aversion to mid-cap stocks due to the difficult macro environment.

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Abhiram Eleswarapu (91 22) 6628 2406  
BNP Paribas Securities India Pvt Ltd  
abhiram.eleswarapu@asia.bnpparibas.com

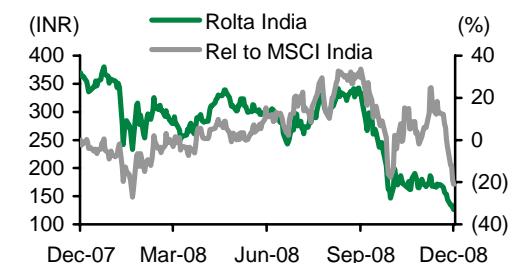
Avinash Singh (91 22) 6628 2407  
BNP Paribas Securities India Pvt Ltd  
avinash.singh@asia.bnpparibas.com

### Earnings Estimates And Valuation Ratios

YE Jun (INR m)	2008	2009E	2010E	2011E
Revenue	10,722	15,180	19,236	23,217
Reported net profit	2,306	2,237	4,216	5,034
Recurring net profit	2,622	3,309	4,029	4,846
Previous rec net profit	2,622	3,309	4,029	4,846
Chg from previous (%)	—	—	—	—
Recurring EPS (INR)	14.65	18.40	22.20	26.52
Prev rec EPS (INR)	14.65	18.40	22.20	26.52
Rec EPS growth (%)	36.3	25.6	20.6	19.5
Recurring P/E (x)	8.7	6.9	5.7	4.8
Dividend yield (%)	2.4	2.8	3.7	4.7
EV/EBITDA (x)	3.6	3.3	2.7	2.3
Price/book (x)	1.1	1.0	0.8	0.7
ROE (%)	14.8	16.5	17.5	18.4
Net debt/equity (%)	(13.8)	(8.8)	(4.8)	(4.9)

Sources: Rolta India; BNP Paribas estimates

### Share Price Daily vs MSCI



Next results/event	January 2009
Market cap (USD m)	424
12m avg daily turnover (USD m)	7.1
Free float (%)	39
Major shareholder	Rolta Ltd (35%)
12m high/low (INR)	380.50/126.90
GDR (USD)	3.60
Avg daily turnover (USD m)	0.3
Discount/premium (%)	35.1
Disc/premium vs 52-wk avg (%)	4.3

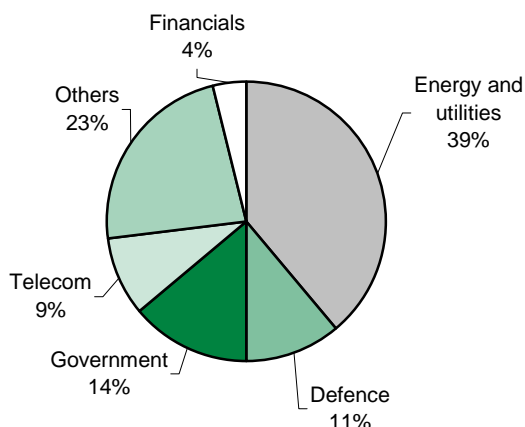
Source: Datastream

**Exhibit 1: India IT Large And Mid Caps – Comparison On Key Growth And Valuation Metrics**

Company	BBG code	Rating	Share price# (INR)	Mkt cap (USD m)	— FY08-11E – FY09E		EBIT (%)	EV/EBIT			P/E			PEG*	
					CAGR Rev. (%)	CAGR EPS margin (%)		FY09E (x)	FY10E (x)	FY11E (x)	FY09E (x)	FY10E (x)	FY11E (x)		
Infosys Technologies	INFO IN	REDUCE	1135	13,111	15.9	11.8	29.0	8.9	8.5	7.8	11.2	10.7	10.3	1.0	
Tata Consultancy Services	TCS IN	REDUCE	508	9,770	14.9	4.6	23.1	6.6	6.6	6.2	9.4	9.1	8.6	2.0	
Wipro Limited	WPRO IN	REDUCE	250	7,225	17.2	8.4	16.1	8.1	7.3	6.9	9.5	9.0	8.8	1.1	
Satyam Computer Services	SCS IN	HOLD	224	3,056	19.4	12.5	20.7	4.1	4.1	3.8	6.6	6.4	6.4	0.5	
HCL Technologies	HCLT IN	Not rated	116	1,490	15.9	7.7	17.5	2.7	2.6	2.4	5.2	5.0	4.9	0.7	
<b>Select mid-caps</b>															
Educomp Solutions	EDSL IN	Not rated	2224	748	73.5	80.6	40.4	16.1	8.3	5.4	29.5	16.2	10.3	0.4	
Mphasis	MPHL IN	Not rated	155	668	23.2	21.3	13.5	7.0	5.9	5.4	7.7	7.1	6.8	0.4	
Tech Mahindra	TECHM IN	Not rated	254	654	19.0	10.4	22.2	2.8	2.7	2.3	3.3	3.1	3.2	0.3	
<b>Rolta India</b>	<b>RLTA IN</b>	<b>BUY</b>	<b>127</b>	<b>424</b>	<b>29.4</b>	<b>21.9</b>	<b>22.5</b>	<b>6.3</b>	<b>4.9</b>	<b>3.9</b>	<b>6.9</b>	<b>5.7</b>	<b>4.8</b>	<b>0.3</b>	
Mindtree	MTCL IN	Not rated	246	191	26.3	24.8	14.4	5.8	4.7	3.7	8.2	6.2	5.1	0.3	
Infotech Enterprises	INFTEC IN	Not rated	105	116	23.4	18.1	13.6	2.3	2.0	1.7	4.8	4.2	3.8	0.3	
Mastek	MAST IN	Not rated	163	92	17.2	16.1	14.5	2.6	2.2	1.9	3.1	2.9	2.5	0.2	
Geometric	GEO IN	Not rated	24	31	NA	10.7	8.1	3.6	2.8	NM	5.1	3.7	2.9	0.5	
<b>Median</b>						<b>19.2</b>	<b>12.5</b>	<b>17.5</b>	<b>5.8</b>	<b>4.7</b>	<b>3.8</b>	<b>6.9</b>	<b>6.2</b>	<b>5.1</b>	<b>0.4</b>
<b>Mean</b>						<b>24.6</b>	<b>19.2</b>	<b>19.7</b>	<b>5.9</b>	<b>4.8</b>	<b>4.3</b>	<b>8.5</b>	<b>6.9</b>	<b>6.0</b>	<b>0.6</b>

# Prices as of 11 December 2008, \* calculated on FY08-11E EPS CAGR; Bloomberg consensus for not rated stocks; Rolta, HCL Technologies and Mastek have June ending fiscal years, March ending for all others  
Sources: Company data; Bloomberg; BNP Paribas estimates

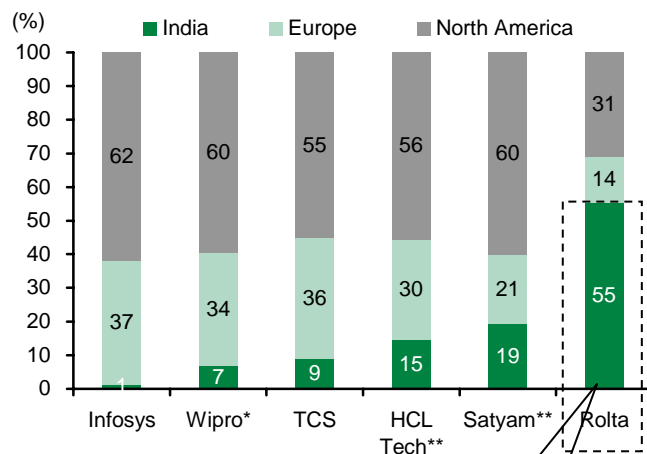
**Exhibit 2: Rolta's Revenue Breakdown By End Market (1QFY09)**



Sources: Rolta India; BNP Paribas estimates

64% of Rolta's revenue comes from less slowdown-sensitive sectors such as energy and utilities (39%), defence (11%) and government (14%)

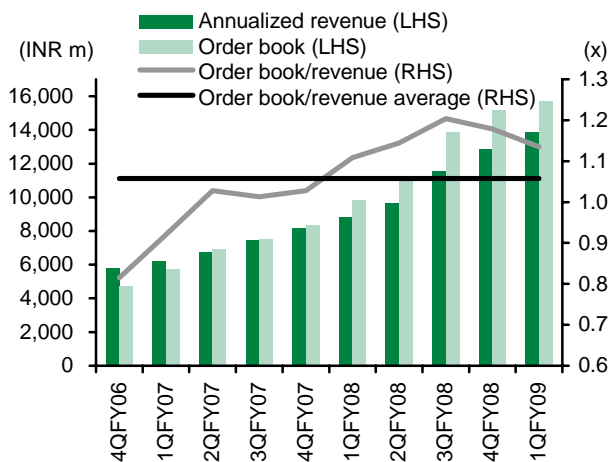
**Exhibit 3: Revenue Breakdown By Geography (FY08)**



\* Revenue from India includes that from the Middle East, \*\* HCL reports revenue from the Rest of the world which includes India. Satyam reports revenue from Asia-Pac which includes India  
Sources: Rolta India; company reports; BNP Paribas

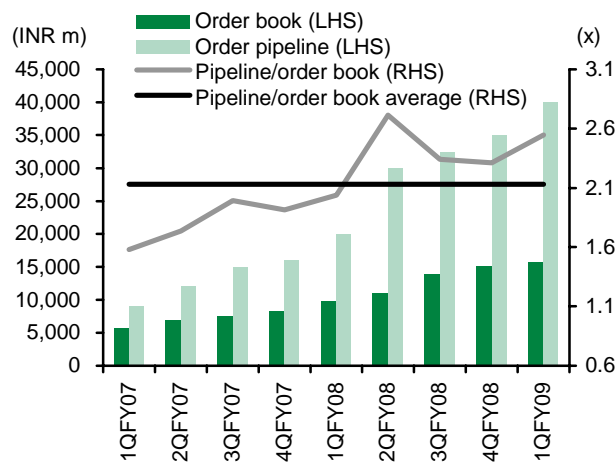
Rolta earns 55% of its revenue from domestic clients as compared to its IT services peers for whom it is less than 15%

**Exhibit 4: Order book And Order Book/Revenue**



Sources: Rolta India; BNP Paribas

**Exhibit 5 Order Pipeline And Pipeline/Order book**



Sources: Rolta India; BNP Paribas

**Exhibit 6: Rolta's Key Clients And Partners Acknowledge Uncertain Times, But Continue To Report Order Wins And Opportunities**

Key clients	Management comments
The Shaw Group	"While there may be delays ....we see the opposite, we see companies rushing to get in line, especially on nuclear power because of the length it takes to build a plant"..... <b>"India is going to build four sets of nuclear plants....</b> in the UK we believe that that's going to progress as scheduled....Brazil is looking at a new plant..."
Thales	"You also know, you mentioned <b>India</b> , Libya, Saudi, all the countries where we have big stakes and our teams are working. .... <b>I don't think that they can be booked in 2008....we are more talking about 2009 there.</b> "
Technip	"...our 2009 revenue will depend upon the award of a few large projects. That could happen at the end of 2008. Some of these projects have been postponed". <b>BNPP note: Technip was recently awarded a €140 m development contract for the MA D6 oil field in the KG D6 block operated by Reliance Industries – Dec 8, 2008</b>
Fluor	"...it would be <b>naïve to suggest that our clients, our projects and our prospects are totally insulated</b> from the issues of the credit market of a slowing global economy....I would note that we have had <b>no material cancellations to date</b> , and I know of just two projects that have been slowed somewhat, but only temporarily....". <b>BNPP note: Fluor was recently awarded a construction and construction management contract for a refinery expansion project by a JV between ConocoPhillips and EnCana on which about 500 professionals from Fluor's Calgary, Houston and New Delhi offices will work – Dec 3, 2008</b>

Sources: Company data; BNP Paribas

## FINANCIAL STATEMENTS

## Rolta India

<b>Profit and Loss (INR m)</b>					
<b>Year Ending June</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Revenue	7,114	10,722	15,180	19,236	23,217
Cost of sales ex depreciation	(3,618)	(5,761)	(8,363)	(10,564)	(12,654)
<b>Gross profit ex depreciation</b>	<b>3,496</b>	<b>4,961</b>	<b>6,817</b>	<b>8,672</b>	<b>10,563</b>
Other operating income	-	-	-	-	-
Operating costs	(630)	(1,064)	(1,656)	(2,039)	(2,391)
<b>Operating EBITDA</b>	<b>2,866</b>	<b>3,897</b>	<b>5,161</b>	<b>6,633</b>	<b>8,172</b>
Depreciation	(1,018)	(1,383)	(1,742)	(2,178)	(2,614)
Goodwill amortisation	-	-	-	-	-
<b>Operating EBIT</b>	<b>1,848</b>	<b>2,515</b>	<b>3,419</b>	<b>4,455</b>	<b>5,557</b>
Net financing costs	(7)	-	-	-	-
Associates	-	-	-	-	-
Recurring non operating income	103	486	436	353	450
Non recurring items	-	(316)	(1,072)	188	188
<b>Profit before tax</b>	<b>1,943</b>	<b>2,685</b>	<b>2,783</b>	<b>4,995</b>	<b>6,195</b>
Tax	(217)	(388)	(548)	(769)	(1,141)
<b>Profit after tax</b>	<b>1,726</b>	<b>2,297</b>	<b>2,235</b>	<b>4,226</b>	<b>5,054</b>
Minority interests	-	9	2	(10)	(20)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
<b>Reported net profit</b>	<b>1,726</b>	<b>2,306</b>	<b>2,237</b>	<b>4,216</b>	<b>5,034</b>
Non recurring items & goodwill (net)	-	316	1,072	(188)	(188)
<b>Recurring net profit</b>	<b>1,726</b>	<b>2,622</b>	<b>3,309</b>	<b>4,029</b>	<b>4,846</b>
<b>Per share (INR)</b>					
Recurring EPS *	10.75	14.65	18.40	22.20	26.52
Reported EPS	10.79	14.38	13.86	25.86	30.65
DPS	2.50	3.10	3.50	4.75	6.00
<b>Growth</b>					
Revenue (%)	33.0	50.7	41.6	26.7	20.7
Operating EBITDA (%)	28.6	36.0	32.4	28.5	23.2
Operating EBIT (%)	24.7	36.1	35.9	30.3	24.7
Recurring EPS (%)	14.4	36.3	25.6	20.6	19.5
Reported EPS (%)	14.3	33.2	(3.6)	86.6	18.5
<b>Operating performance</b>					
Gross margin inc depreciation (%)	34.8	33.4	33.4	33.8	34.2
Operating EBITDA margin (%)	40.3	36.3	34.0	34.5	35.2
Operating EBIT margin (%)	26.0	23.5	22.5	23.2	23.9
Net margin (%)	24.3	24.5	21.8	20.9	20.9
Effective tax rate (%)	11.1	14.4	19.7	15.4	18.4
Dividend payout on recurring profit (%)	23.3	21.2	19.0	21.4	22.6
Interest cover (x)	264.8	na	na	na	na
Inventory days	22.2	13.3	9.2	7.5	7.1
Debtor days	180.4	149.6	131.0	115.7	104.7
Creditor days	65.4	87.3	72.5	45.7	38.6
Operating ROIC (%)	14.1	15.6	16.8	18.3	20.4
Operating ROIC - WACC (%)	(3.1)	(1.7)	(0.5)	1.1	3.2
ROIC (%)	13.2	14.5	13.9	14.5	15.5
ROIC - WACC (%)	(4.0)	(2.7)	(3.4)	(2.8)	(1.8)
ROE (%)	13.3	14.8	16.5	17.5	18.4
ROA (%)	11.8	12.9	14.2	15.5	16.5

\* Pre exceptional, pre-goodwill and fully diluted

<b>Key Assumptions (INR m)</b>					
	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Employees	4,029	5,269	7,177	8,457	9,877
<b>Revenue By Division (INR m)</b>					
GIS	4,043	5,306	6,315	7,587	8,879
EDA	2,205	3,477	4,691	6,478	7,604
EICT	865	1,940	3,858	3,952	4,121
Thales JV	-	-	315	1,219	2,613

Sources: Rolta India; BNP Paribas estimates

FY09 revenue just above the guidance of INR14800-15,000m and is based on a total employee headcount of 7177 by the year and flat pricing

Recurring EPS diluted for FCCBs

Projecting revenue growth to taper off in FY10 to factoring in weakness in international markets

EBIT margins to dip 100bp in FY09 due to the first full year's impact of the acquisitions

<b>Cash Flow (INR m)</b>					
<b>Year Ending June</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Recurring net profit	1,726	2,622	3,309	4,029	4,846
Depreciation	1,018	1,383	1,742	2,178	2,614
Associates & minorities	-	(9)	(2)	10	20
Other non-cash items	-	(316)	(1,072)	188	188
<b>Recurring cash flow</b>	<b>2,745</b>	<b>3,679</b>	<b>3,977</b>	<b>6,404</b>	<b>7,668</b>
Change in working capital	(319)	187	(337)	(281)	(320)
Capex - maintenance	-	-	-	-	-
Capex - new investment	(2,655)	(3,453)	(3,573)	(3,500)	(3,800)
<b>Free cash flow to equity</b>	<b>(229)</b>	<b>414</b>	<b>67</b>	<b>2,623</b>	<b>3,548</b>
Net acquisitions & disposals	-	(1,833)	-	-	-
Dividends paid	(364)	(473)	(665)	(909)	(1,156)
Non recurring cash flows	126	(1,880)	(112)	(2,416)	(2,191)
<b>Net cash flow</b>	<b>(467)</b>	<b>(3,772)</b>	<b>(709)</b>	<b>(702)</b>	<b>200</b>
Equity finance	(110)	49	-	-	-
Debt finance	6,079	(67)	-	-	-
<b>Movement in cash</b>	<b>5,502</b>	<b>(3,791)</b>	<b>(709)</b>	<b>(702)</b>	<b>200</b>

**Per share (INR)**

Recurring cash flow per share	17.15	22.94	24.64	39.28	46.69
FCF to equity per share	(1.43)	2.58	0.41	16.09	21.60

**Balance Sheet (INR m)**

<b>Year Ending June</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Working capital assets	4,862	6,393	7,536	8,168	9,116
Working capital liabilities	(1,426)	(2,840)	(2,461)	(2,584)	(2,708)
<b>Net working capital</b>	<b>3,436</b>	<b>3,553</b>	<b>5,074</b>	<b>5,584</b>	<b>6,408</b>
Tangible fixed assets	6,127	8,222	10,053	11,375	12,561
<b>Operating invested capital</b>	<b>9,563</b>	<b>11,775</b>	<b>15,127</b>	<b>16,960</b>	<b>18,969</b>
Goodwill	60	2,000	2,000	2,000	2,000
Other intangible assets	0	63	63	63	63
Investments	976	2,816	2,816	4,816	6,316
Other assets	-	-	-	-	-
<b>Invested capital</b>	<b>10,599</b>	<b>16,655</b>	<b>20,007</b>	<b>23,839</b>	<b>27,349</b>
Cash & equivalents	(6,390)	(2,598)	(1,889)	(1,187)	(1,387)
Short term debt	66	-	-	-	-
Long term debt *	-	-	-	-	-
<b>Net debt</b>	<b>(6,324)</b>	<b>(2,598)</b>	<b>(1,889)</b>	<b>(1,187)</b>	<b>(1,387)</b>
Deferred tax	346	459	459	459	459
Other liabilities	-	-	-	-	-
Total equity	16,577	18,779	21,424	24,544	28,234
Minority interests	-	15	14	24	44
<b>Invested capital</b>	<b>10,599</b>	<b>16,655</b>	<b>20,007</b>	<b>23,839</b>	<b>27,349</b>

\* Includes convertibles and preferred stock which is being treated as debt

**Per share (INR)**

Book value per share	103.45	117.07	132.39	150.55	171.92
Tangible book value per share	103.08	104.21	119.64	137.89	159.35

**Financial strength**

Net debt/equity (%)	(38.1)	(13.8)	(8.8)	(4.8)	(4.9)
Net debt/total assets (%)	(34.3)	(11.8)	(7.8)	(4.3)	(4.4)
Current ratio (x)	7.5	3.2	3.8	3.6	3.9
CF interest cover (x)	330.3	na	na	na	na

<b>Valuation</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Recurring P/E (x) *	11.8	8.7	6.9	5.7	4.8
Recurring P/E @ target price (x) *	20.5	15.0	12.0	9.9	8.3
Reported P/E (x)	11.8	8.8	9.2	4.9	4.1
Dividend yield (%)	2.0	2.4	2.8	3.7	4.7
P/CF (x)	7.4	5.5	5.1	3.2	2.7
P/FCF (x)	neg	49.2	306.6	7.9	5.9
Price/book (x)	1.2	1.1	1.0	0.8	0.7
Price/tangible book (x)	1.2	1.2	1.1	0.9	0.8
EV/EBITDA (x) **	5.6	3.6	3.3	2.7	2.3
EV/EBITDA @ target price (x) **	10.7	7.0	5.9	4.9	4.0
EV/invested capital (x)	1.3	1.1	0.9	0.8	0.7

\* Pre exceptional, pre-goodwill and fully diluted

\*\* EBITDA includes associate income and recurring non-operating income

Target multiple more than one standard deviation below one-year forward historical mean of 15.4x

Sources: Rolta India; BNP Paribas estimates

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### Recommendation structure

All share prices are as at market close on 11 December 2008 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as  $(\text{target price}^* - \text{current price}) / \text{current price}$ . If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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