

**Wipro (WIPR.NS - INR 694.05) Neutral**

Change of Price Target

**Growth momentum to continue**

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**Investment Conclusion**

- We increase our price target to INR740 and maintain NEUTRAL rating on the stock.

**Summary**

- Wipro has a strong presence in the domestic system integration space and multiple large deals won recently should continue to ramp up.
- In the infrastructure services space, Wipro recently won a few deals, and the company aims to capitalise on the Infocrossing acquisition.
- We expect 3Q US dollar revenue growth to be 3.9%, which is on the higher side of guidance.
- For FY11F, we have slightly increased US dollar revenue growth estimate, while marginally lowering the margin forecast, resulting in a 1.7% increase in our EPS estimates.
- Our new TP of INR740 translates into 19.5x one-year forward P/E and is the same as our implied target one-year forward multiple for Infosys.
- The stock has outperformed both the Sensex and Infosys on YTD basis, and trades at 20.6x one-year forward earnings.
- We believe further upside in the stock is limited, and maintain our NEUTRAL rating.

| FY Mar        | 2009A  | 2010E | 2011E | 2012E |      |     |      |
|---------------|--------|-------|-------|-------|------|-----|------|
| Currency INR  | Actual | Old   | New   | Old   | New  | Old | New  |
| Sales         | 255    | 268   | 268   | 303   | 308  | N/A | 365  |
| OP (bn)       | 51     | 59    | 59    | 66    | 66   | N/A | 76   |
| NP (bn)       | 34     | 45    | 45    | 50    | 51   | N/A | 57   |
| EPS           | 25.6   | 30.8  | 30.8  | 34.3  | 34.9 | N/A | 39.2 |
| PER (x)       | 27.1   | 22.5  | 22.5  | 20.2  | 19.9 | N/A | 17.7 |
| EV/Sales (x)  | 3.1    | N/A   | 3.7   | N/A   | 3.2  | N/A | 2.7  |
| EV/EBITDA (x) | 15.3   | N/A   | 16.8  | N/A   | 14.9 | N/A | 13.0 |

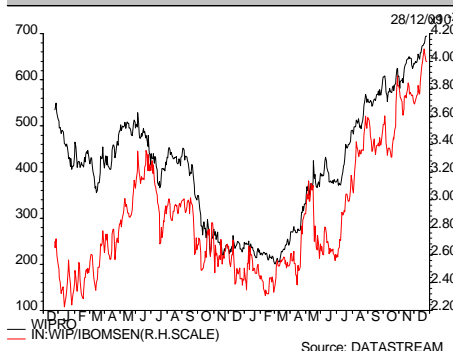
**Market Data**

|                          |        |
|--------------------------|--------|
| Market Cap (mn)          | 966756 |
| Market Cap (US\$ mn)     | 21772  |
| Shares Outstanding (mn)  | 1465.0 |
| 6mth Daily T/O (US\$ mn) | 2.44   |
| Free float (%)           | 25.90  |
| Share per ADR            | 1      |

**Financial Summary**

|                          |      |
|--------------------------|------|
| Proj 5-Yr EPS Grth(%)    | 1.7  |
| ROE FY09 (%)             | 28.7 |
| Shareholders' Equity (%) | 70.4 |
| Dividend Yield (%)       | 0.61 |

**Stock Overview**



|                    |                                |
|--------------------|--------------------------------|
| Reuters            | WIPR.NS                        |
| Bloomberg          | WPRO IN                        |
| ADR                |                                |
| <b>Performance</b> | <b>1M</b> <b>3M</b> <b>12M</b> |
| Absolute %         | 4.2 17.9 180.7                 |
| Rel. Market %      | 3.4 13.6 57.5                  |
| Rel. Sector %      | N/A N/A N/A                    |
| 52 Week Range      | 659.00 - 200.50                |

**Stock Rating**

**Target Price**

|              |                 |
|--------------|-----------------|
| New: Neutral | New: INR 740.00 |
| Old: Neutral | Old: INR 677.00 |

**Sector View:** Neutral

Our recent interactions with Wipro management indicate continued volume growth momentum in services such as system integration (SI), infrastructure management and BPO. This should result in revenue growth of 3.9% during the quarter (which is towards the higher end of its guidance of 2.5% to 4.5% for the quarter). Also, we expect the company to guide for revenue growth of 3% for the next quarter owing to the large number of billable open positions that are unfilled now. Wipro has won several large SI and infrastructure services deals in the past few quarters, and has a good brand name in both these services.

We raise our TP to INR740 from INR677, mainly owing to the increase in our revenue growth forecast for FY11 to 18.2% from 15.5%.

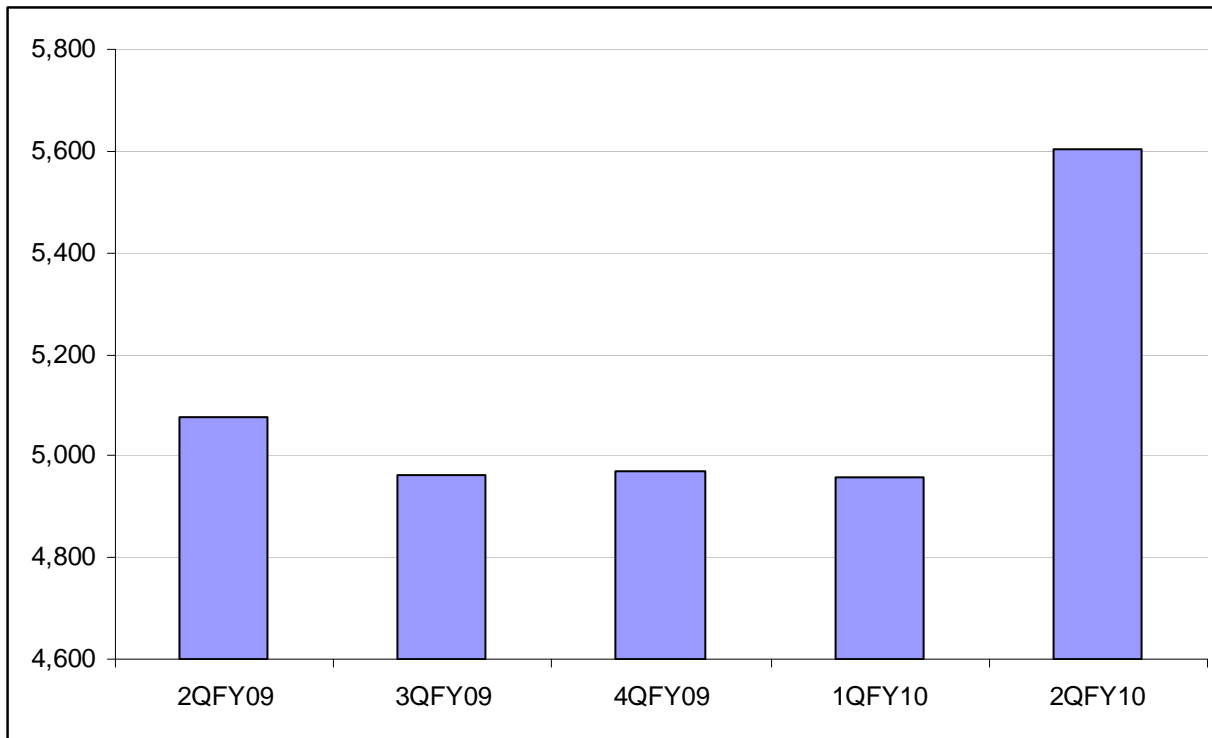
Wipro has outperformed the Sensex on a YTD basis, with 179% gain as against 74% for the Sensex, and trades at a one-year forward P/E of 20.6x. This is towards the higher end of its one-year forward P/E in the past two years. In our view, given the significant outperformance YTD and appreciating rupee environment, the stock is unlikely to outperform from current levels, and we maintain our NEUTRAL recommendation on the stock.

**Good track record in system integration**

Wipro's domestic business (in India) is mainly SI kind of work, in which the company takes responsibility for end-to-end delivery and maintenance of applications and infrastructure. In our view, SI capabilities develop over a period of time and depend critically on developing the partner ecosystem and having experience in implementing its solutions. Wipro has won and successfully implemented large SI projects in India; recent wins include Aircel, Unitech and ESIC.

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Exhibit 1: India and Middle East business revenues (in INRmn) trend

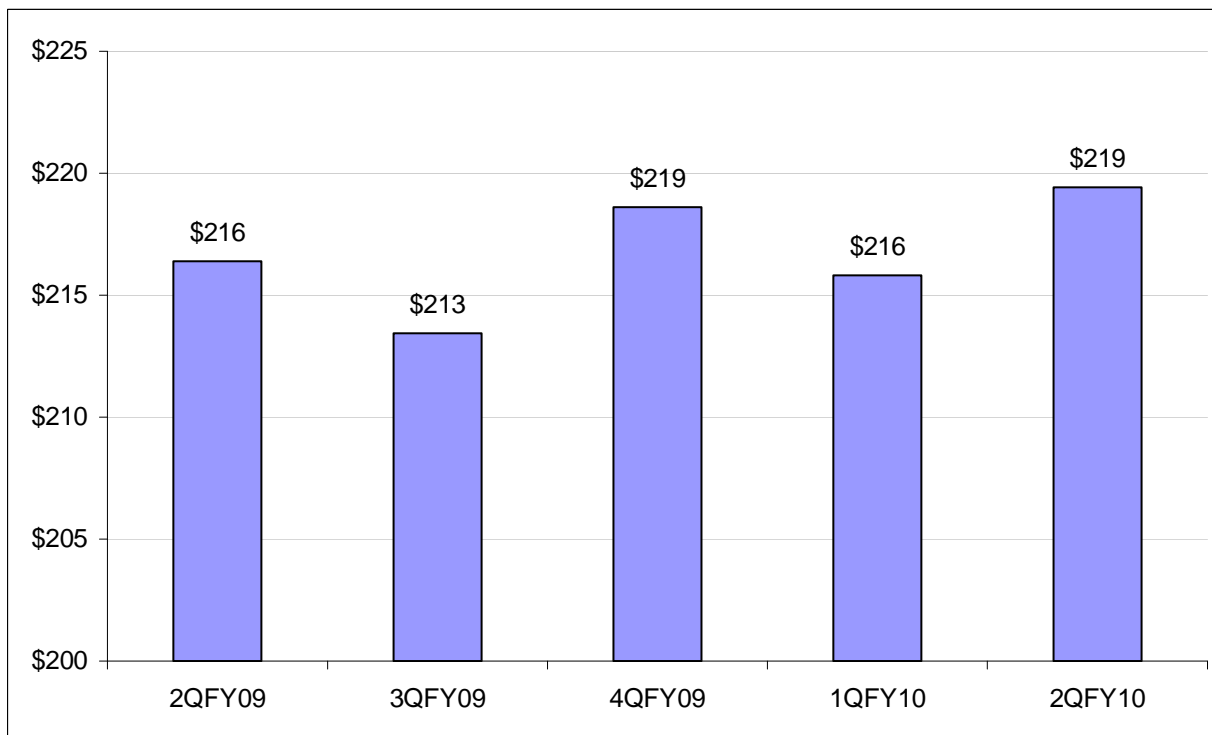


Source: Company data, Nomura research

### Infrastructure business is doing well

Wipro's infrastructure services business has been doing well, and is expected to take advantage of the Infocrossing acquisition, as per management. The company has won six large deals in this service line in the past few quarters including a five-year deal with US mining company Cliffs Natural Resources.

Exhibit 2: Infrastructure services revenue (in US\$mn) trend



Source: Company data, Nomura research

## Turnaround in technology business

We have seen clear signs of a turnaround in Wipro's other businesses, and commentary from most business heads has been quite positive of late. The technology business, which has been a laggard for a long time, has seen signs of revival according to management. This is attributable to technology companies coming back with R&D and product development plans after a prolonged period in which they have undertaken product rationalisation and R&D spend cuts.

### Exhibit 3: Revenue and share of overall revenues for technology and telecom verticals

| Share of revenue (%) | 2Q FY09 | 3Q FY09 | 4Q FY09 | 1Q FY10 | 2Q FY10 |
|----------------------|---------|---------|---------|---------|---------|
| Technology           | 11.2%   | 10.9%   | 9.9%    | 9.4%    | 8.7%    |
| Telecom              | 9.5%    | 9.6%    | 8.8%    | 8.4%    | 8.1%    |

| Revenue (in US\$m) | 2Q FY09 | 3Q FY09 | 4Q FY09 | 1Q FY10 | 2Q FY10 |
|--------------------|---------|---------|---------|---------|---------|
| Technology         | 124     | 120     | 104     | 97      | 93      |
| Telecom            | 105     | 106     | 92      | 87      | 86      |

Source: Company data, Nomura research

## Change of estimates

We slightly increase our revenue growth rate estimates for the IT services division for the next few quarters to around 4% q-q. This results in the FY11F IT services revenue growth rate rising to 18.2% from the 15.5% assumed earlier. Although our EPS estimate for FY10 has not changed, our EPS estimate for FY11 increases by 1.7% owing to higher volume growth.

We maintain the same estimates as earlier for Wipro's other divisions — consumer care and lighting, IT products and others (refer to Exhibit 5).

### Exhibit 4: Change of estimates

|                   | New     |         | Old     |         | Change (%) |       |
|-------------------|---------|---------|---------|---------|------------|-------|
|                   | FY10E   | FY11E   | FY10E   | FY11E   | FY10E      | FY11E |
| Revenue (US\$ mn) | \$4,345 | \$5,136 | \$4,337 | \$5,008 | 0.2        | 2.5   |
| Revenue (INR bn)  | 268.0   | 308.5   | 267.7   | 302.7   | 0.1        | 1.9   |
| US\$/INR          | 46.0    | 45.0    | 46.0    | 45.0    | 0.0        | 0.0   |
| EBITDA margin (%) | 21.9    | 21.5    | 22.0    | 21.7    | -0.2       | -1.1  |
| Tax Rate (%)      | 15.7    | 17.5    | 15.7    | 17.5    | 0.0        | 0.0   |
| EPS (INR)         | 30.8    | 34.9    | 30.8    | 34.3    | 0.0        | 1.7   |

Source: Nomura estimates

### Exhibit 5: Estimates across divisions

|                                     | FY09    | FY10F   | FY11F   |
|-------------------------------------|---------|---------|---------|
| <b>IT Services</b>                  |         |         |         |
| Revenues (INRmn)                    | 191,660 | 199,869 | 231,103 |
| EBIT Margin (%)                     | 21.0    | 23.3    | 22.4    |
| <b>IT Products</b>                  |         |         |         |
| Revenues (INRmn)                    | 34,553  | 39,482  | 45,404  |
| EBIT Margin (%)                     | 4.3     | 4.9     | 4.5     |
| <b>Consumer Care &amp; Lighting</b> |         |         |         |
| Revenues (INRmn)                    | 20,830  | 22,598  | 24,857  |
| EBIT Margin (%)                     | 12      | 13      | 12      |
| <b>Other/Eliminations</b>           |         |         |         |
| Revenues (INRmn)                    | 8,398   | 6,062   | 7,133   |
| EBIT Margin (%)                     | -4.1    | -8.7    | 3.0     |

Source: Company data, Nomura estimates

## Maintain NEUTRAL

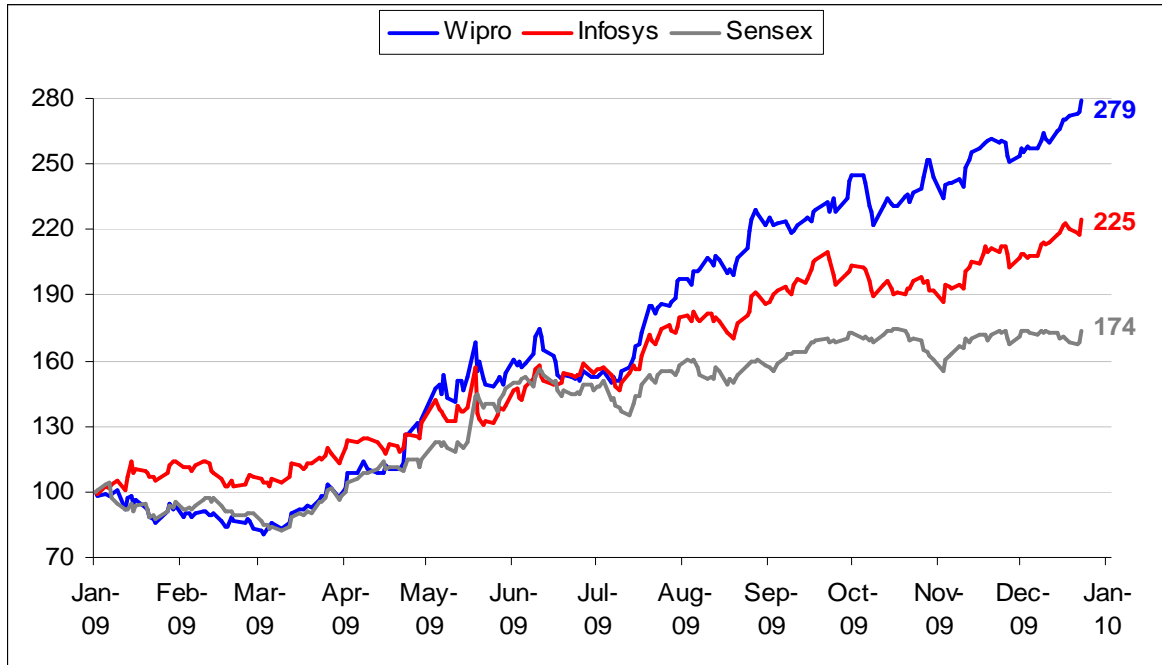
Wipro has outperformed the Sensex on a YTD basis with a 179% gain as against 74% for the Sensex, and trades at a one-year forward P/E of 20.6x. This is towards the higher end of its one-year forward P/E over the past two years. In our view, given the significant

outperformance YTD and appreciating rupee environment, the stock is unlikely to outperform from current levels and we maintain our NEUTRAL recommendation on the stock.

Our price target, based on sum-of-the-parts valuation has increased to INR740 (from INR677), primarily on account of the higher near-term estimates. The price target implies 19.5x one-year fwd P/E.

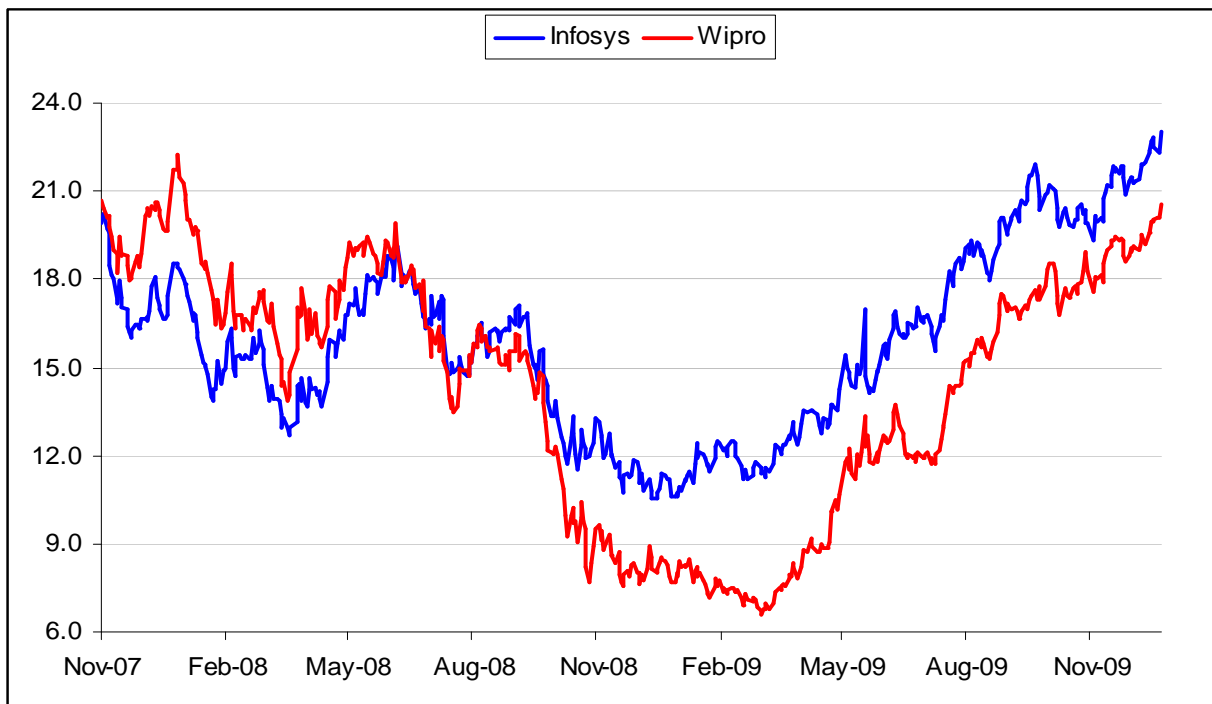
We now value the IT services business at INR700 (INR637 earlier), IT products at INR10 (unchanged), consumer care and lighting at INR29 (unchanged) and other businesses at INR1 (unchanged).

Exhibit 6: YTD performance for Wipro, Infosys and Sensex



Source: Bloomberg, Nomura research

Exhibit 7: One-year forward P/E for Infosys and Wipro in the past two years



Source: Bloomberg, Nomura research

## Exhibit 8: Income statement

| Year ended 31 Mar (INRmn)          | FY08     | FY09     | FY10F    | FY11F    | FY12F    |
|------------------------------------|----------|----------|----------|----------|----------|
| Net sales                          | 187,180  | 255,441  | 268,010  | 308,498  | 365,027  |
| growth (%)                         | 32.0     | 36.5     | 4.9      | 15.1     | 18.3     |
| Operating expenses                 | -148,186 | -204,572 | -209,182 | -242,291 | -288,971 |
| Raw material                       | -123,539 | -171,622 | -174,206 | -200,524 | -237,268 |
| Power                              | 0        | 0        | 0        | 0        | 0        |
| Employee expenses                  | 0        | 0        | 0        | 0        | 0        |
| SG&A expenses                      | -24,647  | -32,950  | -34,975  | -41,767  | -51,704  |
| R&D expenses                       | 0        | 0        | 0        | 0        | 0        |
| Other operating expenses           | 0        | 0        | 0        | 0        | 0        |
| Core EBITDA                        | 38,994   | 50,869   | 58,828   | 66,207   | 76,056   |
| Other income                       | 3,574    | 2,032    | 2,323    | 4,528    | 6,316    |
| EBITDA                             | 42,568   | 52,901   | 61,151   | 70,735   | 82,371   |
| Depreciation                       | -5,358   | -6,864   | -7,992   | -9,149   | -10,941  |
| Expenses capitalised               | 0        | 0        | 0        | 0        | 0        |
| EBIT                               | 37,210   | 46,037   | 53,159   | 61,586   | 71,431   |
| Interest paid                      | -1,690   | -2,539   | 0        | 0        | 0        |
| Associates                         | 333      | 362      | 366      | 340      | 320      |
| Non-recurring items (net of taxes) | 0        | -2,878   | 0        | 0        | 0        |
| Pre-tax profit                     | 35,853   | 40,982   | 53,525   | 61,926   | 71,751   |
| Tax provided                       | -4,550   | -6,457   | -8,355   | -10,777  | -14,286  |
| Deferred tax                       | 0        | 0        | 0        | 0        | 0        |
| Profit after tax                   | 31,303   | 34,525   | 45,170   | 51,148   | 57,465   |
| Minority interests                 | -23      | -100     | -137     | -60      | -60      |
| Preference dividend                | 0        | 0        | 0        | 0        | 0        |
| Net profit                         | 31,280   | 34,425   | 45,033   | 51,088   | 57,405   |
| Adjusted net profit                | 31,280   | 37,303   | 45,033   | 51,088   | 57,405   |
| growth (%)                         | 6.3      | 19.3     | 20.7     | 13.4     | 12.4     |
| Wtd avg shares (m)                 | 1430.0   | 1455.0   | 1462.0   | 1465.0   | 1465.0   |
| Fully diluted shares               | 1430     | 1459.35  | 1461.98  | 1465     | 1465     |
| Dividend paid                      | -8,765   | -5,820   | -5,866   | -8,799   | -8,799   |

Source: Company data, Nomura estimates

## Exhibit 9: Balance sheet

| Year ended 31 Mar (INRmn)  | FY08    | FY09    | FY10F   | FY11F   | FY12F   |
|----------------------------|---------|---------|---------|---------|---------|
| Current assets             | 115,997 | 167,318 | 192,025 | 239,512 | 289,839 |
| Investments                | 16,022  | 2,013   | 2,435   | 2,435   | 2,435   |
| Associates                 | 0       | 0       | 0       | 0       | 0       |
| Net fixed assets           | 83,792  | 52,563  | 55,958  | 68,794  | 82,355  |
| Other non-current assets   | 529     | 57,205  | 55,246  | 55,366  | 55,504  |
| Total assets               | 216,340 | 279,099 | 305,665 | 366,107 | 430,133 |
| Current liabilities        | 39,890  | 18,017  | 18,826  | 22,351  | 26,441  |
| Total Debt                 | 3,827   | 56,892  | 43,456  | 43,456  | 43,456  |
| Other liabilities          | 14,530  | 67,654  | 60,333  | 70,344  | 81,961  |
| Total liabilities          | 58,247  | 142,563 | 122,615 | 136,151 | 151,858 |
| Share capital              | 2,923   | 2,928   | 2,933   | 2,933   | 2,933   |
| Reserves & surplus         | 114,031 | 133,371 | 179,743 | 226,650 | 274,970 |
| Shareholders' funds        | 116,954 | 136,299 | 182,676 | 229,583 | 277,903 |
| Minorities                 | 29      | 237     | 373     | 373     | 373     |
| Total equity & liabilities | 175,230 | 279,099 | 305,665 | 366,107 | 430,133 |

Source: Company data, Nomura estimates

## Exhibit 10: Cash flow statement

| Year ended 31 Mar (INRmn)     | FY08    | FY09    | FY10F   | FY11F   | FY12F   |
|-------------------------------|---------|---------|---------|---------|---------|
| Pre-tax profit                | 35,853  | 40,982  | 53,525  | 61,926  | 71,751  |
| Depreciation                  | 5,358   | 6,864   | 7,992   | 9,149   | 10,941  |
| Tax paid                      | -4,550  | -6,457  | -8,355  | -10,777 | -14,286 |
| Chg in working capital        | -14,079 | 537     | -5,360  | -6,170  | -7,301  |
| Other operating activities    | 0       | 4,474   | -137    | -60     | -60     |
| Cash flow from operations (a) | 22,582  | 46,400  | 47,665  | 54,068  | 61,045  |
| Capital expenditure           | -54,904 | -22,954 | -11,200 | -16,800 | -22,400 |
| Chg in investments            | 17,227  | -2,074  | -26,505 | 0       | 0       |
| Chg in associates             | 0       | 0       | 0       | 0       | 0       |
| Other investing activities    | 0       | 0       | 0       | 0       | 0       |
| Cash flow from investing (b)  | -37,677 | 20,880  | -37,705 | -16,800 | -22,400 |
| Free cash flow (a+b)          | -15,095 | 11,608  | 9,960   | 37,268  | 38,645  |
| Equity raised/(repaid)        | 853     | 1,331   | 0       | 0       | 0       |
| Chg in minorities             | -23     | 108     | 0       | 0       | 0       |
| Debt raised/(repaid)          | 0       | 53,065  | -13,436 | 0       | 0       |
| Dividend (incl. tax)          | -10,254 | -6,693  | -6,856  | -10,295 | -10,295 |
| Other financing activities    | 0       | 0       | 0       | 0       | 0       |
| Cash flow from financing (c)  | -9,424  | 47,811  | -6,856  | -10,295 | -10,295 |
| Net chg in cash (a+b+c)       | -24,519 | 59,419  | 3,104   | 26,973  | 28,350  |

Source: Company data, Nomura estimates

## Exhibit 11: Key ratios

| Year ended 31 Mar       | FY08  | FY09 | FY10F | FY11F | FY12F |
|-------------------------|-------|------|-------|-------|-------|
| Adjusted EPS (INR)      | 21.9  | 25.6 | 30.8  | 34.9  | 39.2  |
| Adjusted EPS growth (%) | 6.1   | 17.2 | 20.1  | 13.2  | 12.4  |
| Core EBITDA growth (%)  | 13.4  | 30.5 | 15.6  | 12.5  | 14.9  |
| Core EBITDA margin (%)  | 20.8  | 19.9 | 21.9  | 21.5  | 20.8  |
| Pre-tax margin (%)      | 19.2  | 16.0 | 20.0  | 20.1  | 19.7  |
| ROE (%)                 | 29.4  | 29.4 | 28.2  | 24.7  | 22.6  |
| ROCE (%)                | 30.6  | 23.2 | 19.4  | 19.5  | 19.1  |
| Net debt/Equity (%)     | -30.3 | -6.1 | -26.8 | -33.0 | -37.5 |

Source: Company data, Nomura estimates

## Exhibit 12: Valuations

| Year ended 31 Mar | FY08 | FY09 | FY10F | FY11F | FY12F |
|-------------------|------|------|-------|-------|-------|
| PER (x)           | 30.9 | 26.4 | 22.5  | 19.9  | 17.7  |
| PCE (x)           | 26.4 | 22.3 | 18.7  | 16.5  | 14.5  |
| Price/Book (x)    | 8.3  | 7.2  | 5.4   | 4.3   | 3.6   |
| Yield (%)         | 0.9  | 0.6  | 0.6   | 0.9   | 0.9   |
| EV/Net sales (x)  | 5.1  | 3.8  | 3.7   | 3.2   | 2.7   |
| EV/EBITDA (x)     | 22.3 | 18.5 | 16.8  | 14.9  | 13.0  |

Source: Company data, Nomura estimates

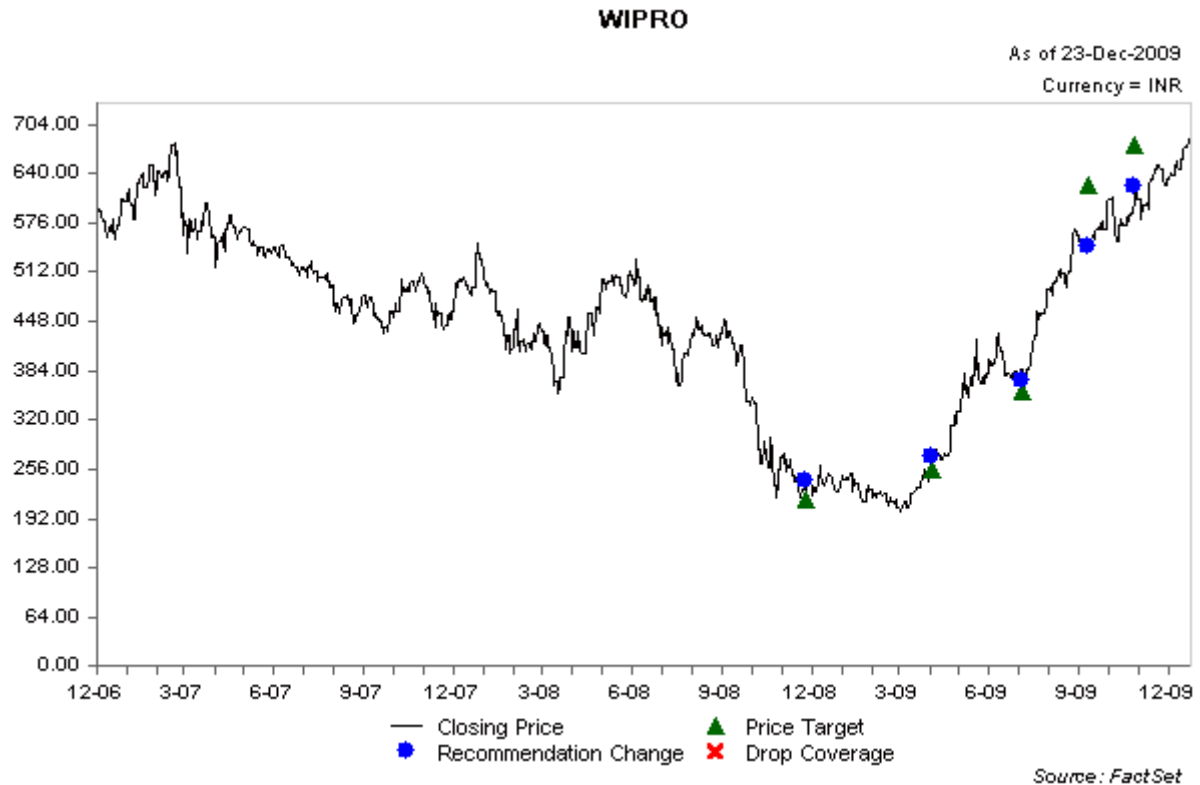
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Important Disclosures:

**Wipro (WIPR.NS)****INR 694.05 (24-Dec-2009)****Neutral / Neutral**

Rating and Price Target Chart:



Currency=INR

| Date      | Closing Price | Rating  | Price Target |
|-----------|---------------|---------|--------------|
| 28-Oct-09 | 623.45        |         | 677.00       |
| 28-Oct-09 | 623.45        | Neutral |              |
| 10-Sep-09 | 544.15        |         | 625.00       |
| 10-Sep-09 | 544.15        | Neutral |              |
| 06-Jul-09 | 371.10        |         | 357.00       |

| Date      | Closing Price | Rating | Price Target |
|-----------|---------------|--------|--------------|
| 06-Jul-09 | 371.10        | Reduce |              |
| 03-Apr-09 | 270.25        |        | 257.00       |
| 03-Apr-09 | 270.25        | Reduce |              |
| 26-Nov-08 | 241.00        |        | 217.00       |
| 26-Nov-08 | 241.00        | Reduce |              |

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 INR 740 is derived using a sum-of-the-parts valuation for its various businesses. This includes INR 700 for the global IT services segment, and the rest from its other businesses (INR 10 for IT product, INR 29 for consumer care and lighting and INR 1 for others). We assume a cost of equity of 11% and a terminal growth rate of 5% after FY20F.

**Risks Which May Impede the Achievement of the Price Target:** There are two risks to our target price: 1) greater appreciation of the rupee against the US dollar than we expect and 2) a double dip recession in the global economy.



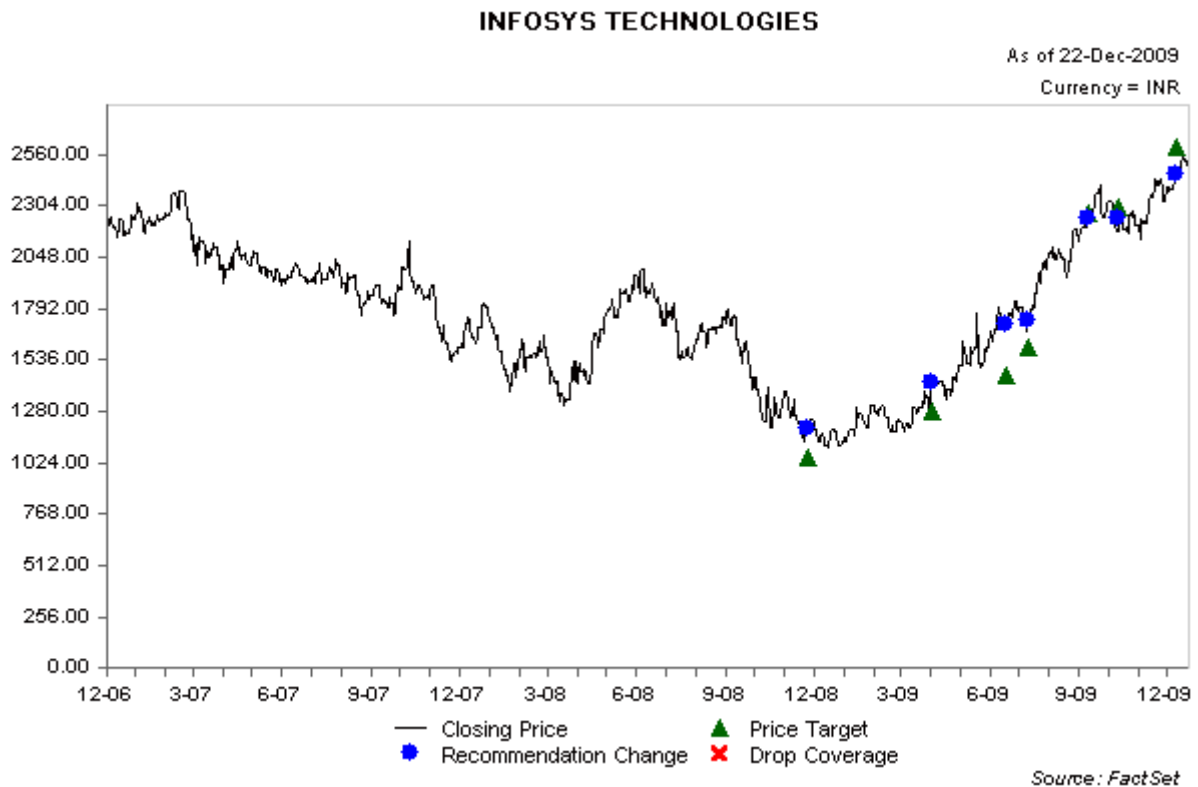
Important Disclosures Continued:

Infosys Technologies (INFY.NS)

INR 2590.30 (24-Dec-2009)

Neutral / Neutral

Rating and Price Target Chart:



Currency=INR

| Date      | Closing Price | Rating  | Price Target |
|-----------|---------------|---------|--------------|
| 11-Dec-09 | 2454.75       |         | 2600.00      |
| 11-Dec-09 | 2454.75       | Neutral |              |
| 12-Oct-09 | 2239.75       |         | 2300.00      |
| 12-Oct-09 | 2239.75       | Neutral |              |
| 10-Sep-09 | 2235.10       |         | 2271.00      |
| 10-Sep-09 | 2235.10       | Neutral |              |
| 10-Jul-09 | 1726.50       |         | 1598.00      |

| Date      | Closing Price | Rating | Price Target |
|-----------|---------------|--------|--------------|
| 10-Jul-09 | 1726.50       | Reduce |              |
| 17-Jun-09 | 1710.50       |        | 1458.00      |
| 17-Jun-09 | 1710.50       | Reduce |              |
| 03-Apr-09 | 1420.40       |        | 1283.00      |
| 03-Apr-09 | 1420.40       | Reduce |              |
| 26-Nov-08 | 1187.25       |        | 1049.00      |
| 26-Nov-08 | 1187.25       | Reduce |              |

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 INR2,600 is based on a DCF calculation, assuming a terminal growth rate of 5% and a 11% cost of equity in rupee terms for Indian software companies.

**Risks Which May Impede the Achievement of the Price Target:** There are two risks to our price target: 1) the appreciation of the rupee against the dollar more than what we expect; and 2) a double dip recession in the global economy.

**Important Disclosures Continued:**

| Company Name         | Ticker  | Price       | Price Date  | Stock / Sector Rating |
|----------------------|---------|-------------|-------------|-----------------------|
| Wipro                | WIPR.NS | INR 694.05  | 24-Dec-2009 | Neutral / Neutral     |
| Mentioned Company    | Ticker  | Price       | Price Date  | Stock / Sector Rating |
| Infosys Technologies | INFY.NS | INR 2590.30 | 24 Dec 2009 | Neutral / Neutral     |

All share prices mentioned are closing prices unless otherwise stated.

**Infosys Technologies:** Our 12-month price target of INR2,600 is based on a DCF calculation, assuming a terminal growth rate of 5% and a 11% cost of equity in rupee terms for Indian software companies.

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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  $(\text{Price Target} - \text{Current Price}) / \text{Current Price}$ , 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.
- Stocks labeled as "**Not rated**" or shown as "**No rating**" are not in Nomura's regular research coverage.

### 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.

## 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:

Stock recommendations are based on absolute valuation upside (downside), which is defined as  $(\text{Fair Value} - \text{Current Price}) / \text{Current Price}$ , 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. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

- 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.

**Price targets**

Price targets, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

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