

INDIA

Reliance Industries

19 March 2007

RIL IN Outperform

Stock price as of 16 Mar 07	Rs	1,299.80
12-month target	Rs	1,590.00
Upside/downside	%	+22.3
Valuation	Rs	1,767.00
- Sum of Parts		

GICS sector		energy
Market cap	Rs bn	1,811
30-day avg turnover	Rs m	1,542.0
Market cap	US\$m	41,063
Number shares on issue	m	1,394

Investment fundamentals

Year end 31 Mar		2006A	2007E	2008E	2009E
Total revenue	bn	830.2	1,081.7	1,315.9	1,484.2
EBIT	bn	108.5	140.9	168.1	211.4
EBIT Growth	%	19.7	29.8	19.3	25.8
Reported profit	bn	93.9	110.4	130.8	166.8
Adjusted profit	bn	94.9	110.4	130.8	166.8
EPS adj	Rs	68.15	79.24	93.90	119.70
EPS adj growth	%	25.1	16.3	18.5	27.5
PE adj	x	19.1	16.4	13.8	10.9
Total DPS	Rs	11.42	14.49	16.92	18.84
Total div yield	%	0.9	1.1	1.3	1.4
ROA	%	12.7	13.2	13.4	15.8
ROE	%	22.5	20.6	20.6	22.8
EV/EBITDA	x	13.7	10.6	9.1	7.1
Net debt/equity	%	44.6	33.9	30.8	15.4
Price/book	x	3.9	3.0	2.7	2.3

RIL IN rel SENSEX performance, & rec history



Source: Datastream, Macquarie Research, March 2007 (all figures in INR unless noted)

Analysts

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To buy or not to buy Dow

Event

- Media reports on Friday suggested that Reliance Industries was close to signing a joint venture agreement with Dow Chemicals (DOW US, US\$45, NR), amid prior press reports of a potential takeover bid for Dow. We endeavour to answer key investor questions.

Impact

- Why would RIL want to buy Dow?** First, RIL would gain Dow's global marketing network, while reducing costs by shutting down Dow's high-cost commodity chemicals and plastics facilities in the west and outsourcing to its highly competitive Indian facilities. Second, RIL would gain access to Dow's high-end technology to produce high-end products.
- Would RIL acquire the entire company?** It is possible, but not probable, in our view. We think that only if RIL could not acquire Dow's high-end technology along with its commodity businesses would it choose to buy the entire company.
- Would Dow sell?** We believe so. Dow's management has been propagating moving to an asset-light strategy focussing on high-end speciality chemicals, as its commodity chemicals and plastics margins are under pressure. Secondly, Dow's declining stock performance could be reversed as having a high proportion of commodity businesses has hurt valuations.
- Wooring in classic textbook style.** According to press reports, RIL has been courting and negotiating with Dow for the past year, involving numerous discussions at many levels. We believe this could increase the probability that Dow would sell exclusively to RIL.
- What is RIL likely to pay?** It would cost RIL US\$13bn for the commodity segments, assuming it pays a 10–20% premium to Dow's current EV/EBITDA of 7.0x for a 51% stake, given synergies and Dow's global status as the second largest chemical company. Dow's total EV is US\$51bn.
- Does RIL have the financial muscle?** We think so. Reliance has built a war chest for a large acquisition, with enhanced borrowing capacities (~US\$6.5bn assuming 1:1 D/E) and a US\$3.7bn issue pending to the promoters. Reliance also holds 14% of its shares as treasury stocks which we value at US\$6bn. Besides, if RIL leverages Dow's chemical & plastics' EBITDA by 4x, it can further garner US\$6.0bn (similar to Tata's acquisition of Corus).

Price catalyst

- 12-month price target: Rs1,590.00 based on a Sum of Parts methodology.
- Catalyst: 1) New oil & gas finds; 2) Enhanced clarity on organised retail.

Action and recommendation

- More value-accretive acquisitions & spin-offs?** We believe IPCL's recent merger with RIL was earnings accretive. We feel that RIL may spin-off the KGD6 oil and organised retail business at a value higher than the market is currently attributing. Moreover, management's recent option to increase its stake by ~4%, through India's largest issue (US\$ 3.7bn) to promoters, reaffirms the strong potential.

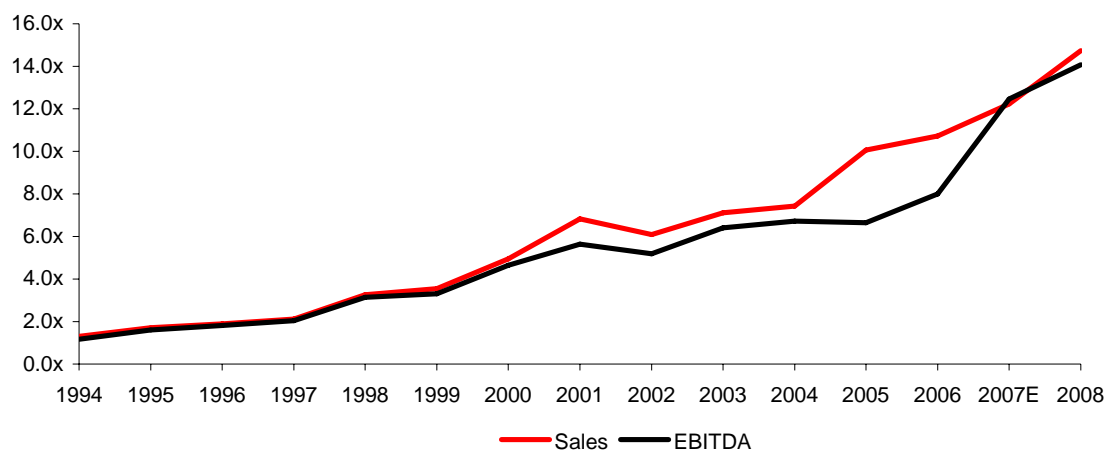
Please refer to the important disclosures on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

Why would RIL want to buy Dow?

We believe there are two potential reasons:

1. RIL would draw significant synergies and benefits from acquiring and restructuring Dow's commodity chemicals and polymer businesses (~35% of Dow's sales and 44% of EBIT). RIL would gain Dow's global marketing network, while reducing costs by shutting down Dow's high-cost facilities in the west and outsourcing to its highly competitive Indian facilities. RIL's management believes that its proposed US\$ 3bn, 3mtpa cracker planned for 2011 in Jamnagar will be as competitive as the Middle East facilities. It will use waste gases as feedstock from its world's largest 60mtpa single-location twin refineries once fully completed in 2H CY08 (Figure 1).
2. RIL would gain access to Dow's high-end technology to produce high-end products and service large global customers in high-margin geographies. It acquired German technology-rich polyester company, Trevira in 2004.

Fig 1 Reliance's Petrochemical's sales and EBITDA have increased many fold



Source: Macquarie Research, March 2007

Would RIL acquire the entire company?

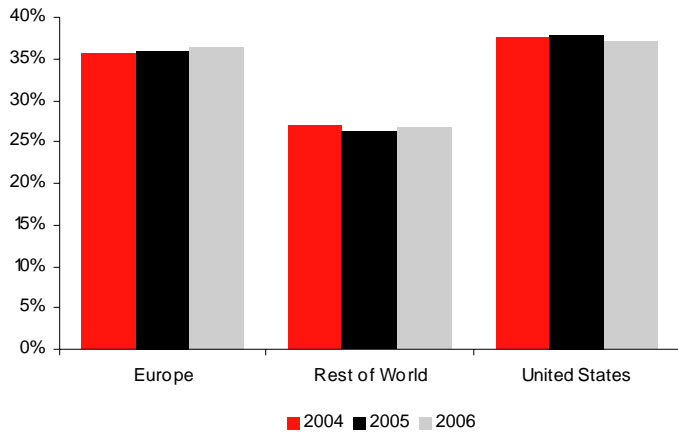
It is possible, but not probable, in our view. We think that only if RIL could not acquire Dow's high-end technology along with its commodity businesses would it choose to buy the entire company. Earlier, Dow had an MoU for R&D in India with IPCL, a company acquired by RIL in 2002. It is also possible that RIL may spin-off its own petrochemical business along with Dow to form a JV.

Would Dow sell?

We believe it would, for two potential reasons:

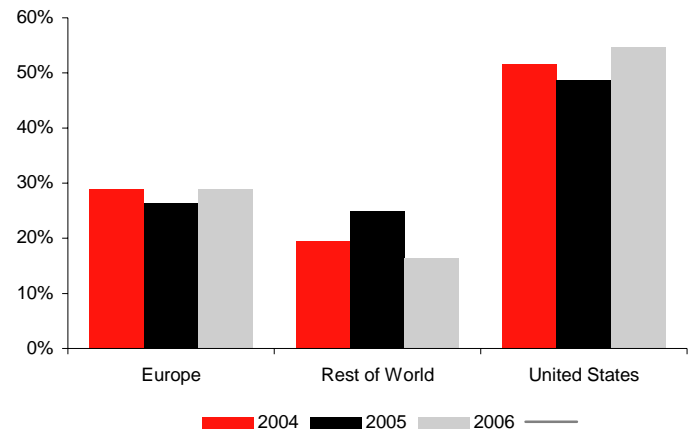
1. Dow's management has been propagating moving to an asset-light strategy focussing on high-end speciality chemicals. Its commodity chemicals and polymer business margins are under pressure as new capacities in the Middle East, India and China are more competitive. About 84% of its facilities (assets) are in the high-cost US and EU countries while only 70% of its turnover comes from this region.

Fig 2 Dow has high proportion of sales in US...



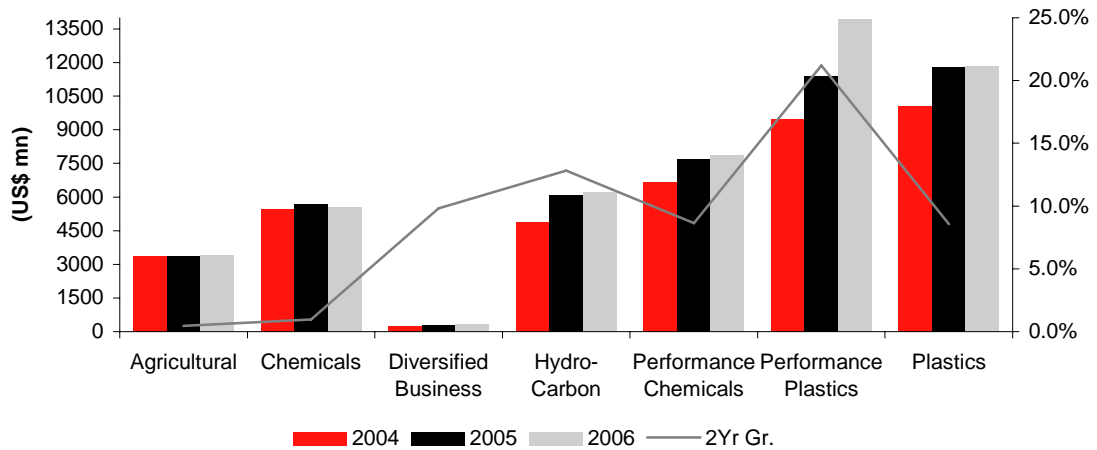
Source: Macquarie Research, March 2007

Fig 3 ...and even higher proportion of assets in US



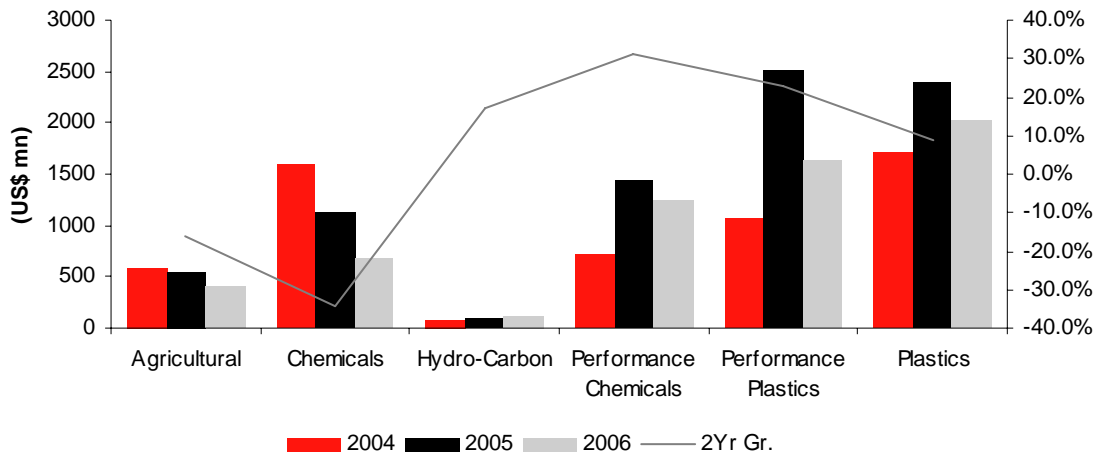
Source: Macquarie Research, March 2007

Fig 4 Dow's chemicals & plastic segment sales are not growing...



Source: Macquarie Research, March 2007

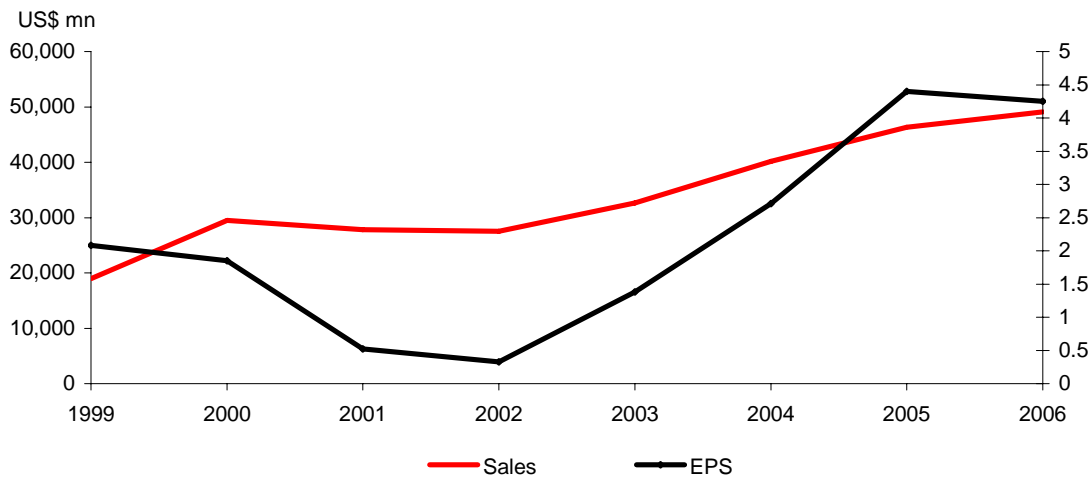
Fig 5 ...and operating profit of these divisions are declining



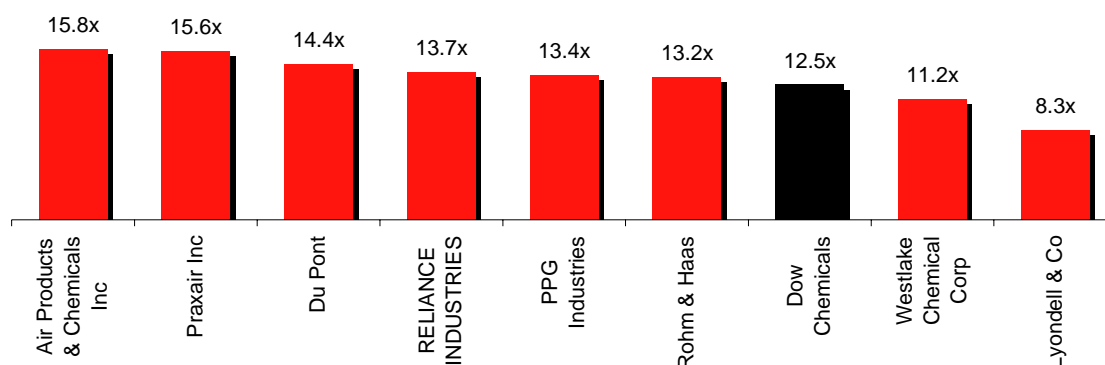
Source: Macquarie Research, March 2007

- Dow's declining stock performance may be reversed.** Dow's earnings have grown multi fold over the past few years (Figure 6). Nevertheless, Dow's declining competitiveness and having a high proportion of commodity chemicals/plastics business has not only resulted in Dow's stock being one of the worst performers globally, but has also hurt its valuations – it has one of the lowest peer group valuations (Figure 7). In sharp contrast, RIL's stock price has risen 200% during the same period, given its rising competitiveness and earnings (Figure 8).

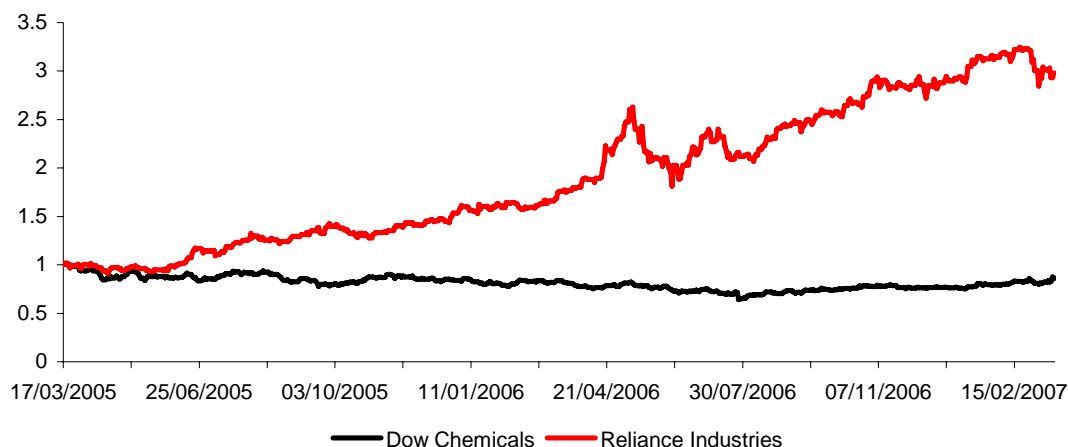
Fig 6 Dow Chemicals: revenue and EPS are at highs



Source: Macquarie Research, March 2007

Fig 7 Dow has one of the lowest peer group valuations (PER)

Source: Macquarie Research, March 2007

Fig 8 Reliance's stock price has outperformed Dow's stock by 2.5x in last two years

Source: Macquarie Research, March 2007

Wooing in classic textbook style

1. According to press reports, RIL has been courting and negotiating with Dow for the past year, involving numerous discussions at many levels. We believe this could increase the probability that Dow would sell exclusively to RIL.
2. We think RIL may have cultivated Dow without an investment banker (at least not initially) to minimise full price discovery from taking place.

Press reports suggest that private equity investors may be garnering financial muscle to make a counter bid for Dow Chemicals. We believe that RIL's synergies, and also its careful wooing of Dow's management, may tip the scales in RIL's favour.

What is RIL likely to pay?

It would cost RIL US\$13bn for the commodity segments, assuming it pays a 10–20% premium to Dow's current EV/EBITDA of 7.0x for a 51% stake, given synergies and Dow's global status as the second largest chemical company. Dow's total EV is US\$51bn.

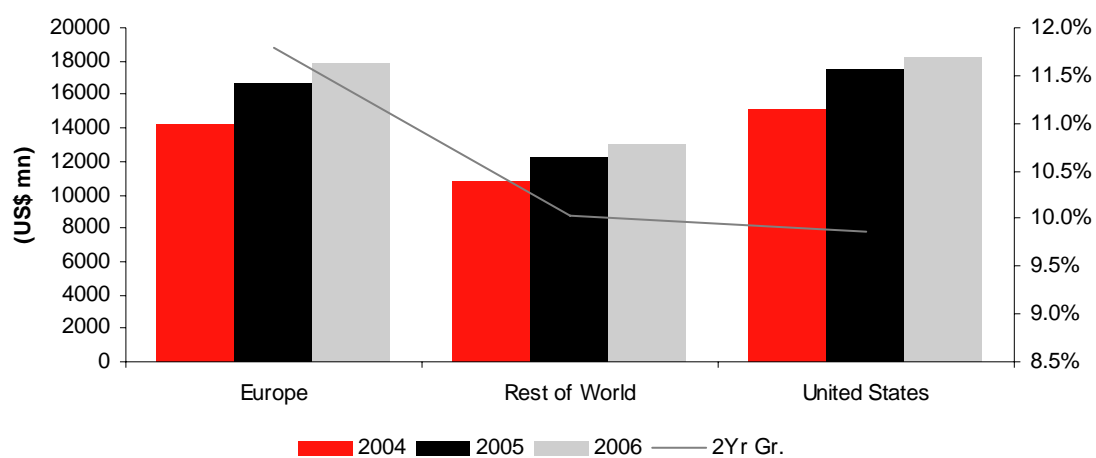
Fig 9 Reliance can take majority stake in the commodity business for US\$13bn

Dow Chemicals Current EV	\$51 bn
FY08E EBITDA (Bberg consensus)	\$7 bn
Dow's Current EV/EBITDA Multiple	7.8x
Premium to be paid by Reliance	10%
FY08E EBITDA for Commodity Business	\$3 bn
Valuation of total commodity business	\$26 bn
Value of RIL's 51% stake	\$13 bn

Source: Macquarie Research, March 2007

Snapshot of Dow Chemicals

Fig 10 Dow Chemicals: High Percentage of Sales come from US & Europe



Source: Macquarie Research, March 2007

Fig 11 Dow Chemicals: Snapshot of historical P&L

(US\$ mn)	2003	2004	2005	2006
Net Sales	32,632	40,161	46,307	49,124
Cost of Good Sold	28,177	34,625	38,331	41,576
S,G & A exp	2,436	2,458	2,618	2,827
Operating Income	2,019	3,378	5,358	4,721
Other Income	547	1,154	1,743	867
Interest Expense	828	747	702	616
Income tax expense	-82	877	1,782	1,155
Minority Interest	94	122	82	93
Net Income	1,730	2,797	4,515	3,724

Source: Macquarie Research, March 2007

Fig 12 Dow Chemicals: snapshot of historical balance sheet

(US\$ mn)	2005	2006
Cash and near cash	3,806	2,757
Marketable Securities	32	153
Acct & notes receivables	5,124	4,988
Inventories	5,319	6,058
Other Current Assets	3,123	3,253
Current Assets	17,404	17,209
LT inv't & LT receivables	2,156	2,143
Depr Fixed Assets	40,269	42,593
Non-depr Fixed Assets	1,665	1,788
Accum Depreciations	28,397	30,659
Net Fixed Assets	13,537	13,722
Other Assets	12,837	12,507
Total Assets	45,934	45,581
Accounts Payable	3,931	3,825
ST borrowings	1,520	1,510
Other ST Liabilities	5,212	5,266
Current Liabilities	10,663	10,601
LT borrowings	9,186	8,036
Other LT Liabilities	9,426	8,514
Non Current Liabilities	18,611	16,550
Total Liabilities	29,274	27,151
Preferred Equity	1,000	1,000
Minority Interest	336	365
Share Cap & APIC	3,114	3,283
Retained Earnings	12,210	13,782
Shareholder's Equity	16,660	18,430
Total Liabilities and Equity	45,934	45,581

Source: Macquarie Research, March 2007

Fig 13 Global oil & gas industry peer group valuation matrix

Company	Country	Market Cap Perf. (1 yr %)	Price (1 yr %)	2 yr fwd EPS CAGR (%)	EBIDTA Margin (%)	Current EV/EBIDTA (x)	Current PER (x)	1 yr fwd PER (x)	2 yr fwd PER (x)	P/BV (x)	RoCE (%)	RoE (%)
Integrated										1 year historic		
Hess Corp	USA	15,987	4.7	(2.2)	13.7	4.0	8.9	9.7	9.3	2.0	18.3	26.0
BG group plc	UK	12,039	(0.3)	0.4	53.0	6.3	12.7	13.0	12.6	3.6	25.1	29.7
BP Plc	UK	50,722	(22.4)	(5.2)	13.5	6.0	9.1	10.5	10.1	2.3	21.7	26.7
ChevronTexaco	USA	146,621	17.7	(3.7)	15.0	4.2	8.6	9.7	9.2	2.1	22.6	26.0
China Petroleum	China	90,560	69.4	20.7	12.7	9.0	18.3	15.0	12.6	3.3	12.4	19.6
Exxon Mobil	USA	396,773	13.1	(4.8)	15.1	N.A.	10.6	11.3	11.7	N.A.	N.A.	N.A.
Petrobras	Brazil	90,510	(6.9)	6.2	N.A.	4.2	6.9	6.4	6.2	1.8	19.9	29.4
Petrochina *	China	198,468	13.2	2.1	44.3	5.0	9.2	8.9	8.8	2.5	25.9	29.8
Reliance Industries*	India	41,055	67.8	17.4	17.3	13.9	19.1	16.4	13.8	3.9	14.2	22.5
Royal Dutch Shell	Holland	78,449	-8.3	(7.3)	15.8	4.4	8.0	8.7	9.3	1.9	22.3	25.9
Total SA	France	88,096	(6.5)	2.7	22.0	4.7	9.6	9.0	9.1	2.8	21.5	29.1
Average		109935	12.9	2.4	22.2	6.2	11.0	10.8	10.3	2.6	20.4	26.5
Exploration & Production												
Anadarko Petroleum	USA	18,288	(21.4)	(11.1)	71.2	5.6	7.1	10.4	9.0	1.2	20.1	37.6
Apache Corp	USA	22,270	1.3	(0.1)	71.3	8.3	8.9	9.3	8.9	1.7	17.8	21.6
CNOOC *	China	34,889	1.5	(1.0)	54.3	5.3	9.3	10.9	9.5	2.6	26.3	32.9
Gazprom	Russia	8,864	22.7	5.4	41.8	11.8	11.0	11.0	9.9	1.9	10.6	13.3
ONGC*	India	36,951	(6.3)	10.6	45.1	4.9	10.6	8.3	8.7	3.0	23.9	29.9
Average		24,252	-0.5	0.8	56.7	7.2	9.4	10.0	9.2	2.1	19.8	27.1
Refining & Marketing												
Bharat Petroleum*	India	2,461	(27.1)	69.8	2.2	10.0	17.4	7.4	6.0	0.9	5.0	5.9
Formosa	Taiwan	19,466	25.1	15.5	14.2	10.4	13.8	11.0	10.3	3.0	13.3	22.0
Petrochemical*												
Hindustan Petroleum*	India	1,967	(19.9)	93.8	1.4	14.0	19.2	7.4	5.1	1.0	4.1	5.3
Indian Oil Corp	India	10,570	(27.0)	7.3	5.6	7.7	9.5	9.5	8.2	1.5	10.7	17.0
SK Corp*	S Korea	11,510	37.4	0.8	7.6	9.1	8.6	8.7	8.5	1.3	11.0	14.9
S-Oil Corp*	S Korea	7,817	(7.9)	(12.2)	9.3	6.0	10.3	11.9	13.3	2.6	19.9	25.4
Sunoco Inc	USA	7,985	(19.1)	(5.2)	5.7	5.0	8.7	9.1	9.7	3.9	23.5	47.5
Tesororo Petroleum	USA	6,583	47.3	(10.3)	5.7	4.1	8.1	9.9	10.1	N.A.	26.2	36.5
Valero Energy	USA	36,096	2.1	(8.7)	4.6	4.3	7.2	8.2	8.6	1.9	25.4	32.5
Average		11,606	1.2	16.8	6.3	7.9	11.4	9.2	8.9	2.0	15.5	23.0
Petrochemicals												
Formosa Chemical & Fibre*	Taiwan	10,627	27.9	17.7	12.2	17.3	11.3	9.9	8.1	1.8	12.1	17.8
Formosa Plastics *	Taiwan	10,503	21.8	2.9	11.9	21.5	12.9	14.2	12.2	1.9	11.3	16.4
Honam	S Korea	2,661	34.2	(10.4)	14.3	6.8	8.4	9.4	10.4	1.1	13.0	13.5
Petrochemical *												
IPCL	India	1,768	5.4	0.2	18.6	4.1	6.4	6.5	6.4	1.3	22.3	29.3
LG Chemicals*	S Korea	3,294	6.5	11.1	9.4	55.0	11.2	9.8	9.1	1.3	9.4	12.4
LG Petrochemical *	S Korea	1,407	34.6	(10.1)	13.3	4.0	7.9	8.6	9.8	1.5	18.7	19.7
Sinopec Shanghai Petrochem	China	6,233	35.6	421.4	9.1	13.1	506.9	180.2	18.6	3.2	8.5	9.9
Average		4,908	30.4	61.8	11.0	17.4	80.7	34.1	10.7	2.0	10.6	13.5
Gas Distribution												
GAIL*	India	4,975	(7.1)	(2.6)	25.6	5.1	8.8	9.3	9.3	2.1	21.3	26.2
Gujarat Gas	India	387	3.5	8.3	19.9	10.4	17.4	17.4	14.9	4.5	27.7	29.2
Hong kong & China Gas*	HK	11,692	(11.3)	(21.7)	121.8	11.2	13.5	23.7	22.0	3.7	28.0	30.1
Indraprastha Gas	India	315	(26.2)	20.5	41.1	6.2	13.1	10.7	9.0	3.7	29.2	30.7
Korea Gas *	S Korea	2,871	11.4	4.7	7.8	11.4	12.9	12.6	11.7	0.8	5.0	6.2
Panva Gas	HK	822	(5.9)	38.3	22.8	15.5	22.6	17.4	11.8	NA	8.8	9.8
Petronas Gas	Myanmar	4,958	(1.7)	(1.7)	59.9	10.1	15.6	16.0	16.1	2.4	12.8	14.1
Tokyo Gas	Japan	15,973	29.6	16.5	NA	NA	25.8	19.4	19.0	2.8	5.8	9.1
Transcanada Corp	Canada	17,506	9.8	6.4	45.2	10.0	19.8	18.9	17.5	2.5	8.5	14.5
Xiniao Gas	China	949	7.9	20.6	30.1	16.5	20.8	18.2	15.2	2.6	8.9	14.3
Average		6,045	1.0	8.9	41.6	10.7	17.0	16.4	14.7	2.8	15.6	18.4
Cumulative average		35,691	9.4	16.7	25.0	9.7	24.0	15.6	11.0	2.3	16.3	21.4

* Macquarie estimates

Source: Macquarie Research, March 2007

Reliance Industries Ltd (RIL IN, Outperform, Target price: Rs1,590.00)

Profit & Loss					Profit & Loss						
		2002A	2003A	2004A	2005A		2006A	2007E	2008E	2009E	
Revenue	m	420,958	459,101	520,253	665,977	Revenue	m	830,248	1,081,726	1,315,940	1,484,192
Gross Profit	m	107,255	118,974	144,218	168,638	Gross Profit	m	221,503	229,775	266,349	328,888
Cost of Goods Sold	m	313,703	340,127	376,035	497,339	Cost of Goods Sold	m	608,745	851,951	1,049,591	1,155,304
EBITDA	m	78,656	83,831	98,438	127,966	EBITDA	m	143,487	188,453	219,963	280,922
Depreciation	m	28,162	28,375	32,508	37,274	Depreciation	m	34,949	47,587	51,885	69,553
Amortisation of Goodwill	m	-	-	-	-	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	-	-	-	-	Other Amortisation	m	0	0	0	0
EBIT	m	50,494	55,456	65,929	90,692	EBIT	m	108,537	140,866	168,078	211,370
Net Interest Income	m	-13,098	-10,386	-9,197	-11,048	Net Interest Income	m	-4,426	-15,388	-17,269	-24,042
Associates	m	-	798	581	-	Associates	m	4,747	3,157	3,114	3,425
Exceptionals	m	4,117	-	-	306	Exceptionals	m	-995	0	0	0
Other Pre-Tax Income	m	3,136	2,865	5,788	11,305	Forex Gains / Losses	m	0	0	0	0
Pre-Tax Profit	m	44,649	48,734	63,101	91,255	Other Pre-Tax Income	m	2,380	2,511	2,762	2,900
Tax Expense	m	-11,860	-8,701	-11,411	-14,972	Pre-Tax Profit	m	110,243	131,146	156,684	193,654
Net Profit	m	32,789	40,033	51,690	76,282	Tax Expense	m	-16,295	-20,746	-25,980	-30,171
Minority Interests	m	-	-	-	-	Net Profit	m	93,948	110,400	130,704	163,483
						Minority Interests	m	0	0	120	3,278
Reported Earnings	m	32,789	40,033	51,690	76,282	Reported Earnings	m	93,948	110,400	130,825	166,761
Adjusted Earnings	m	28,672	40,033	51,690	75,976	Adjusted Earnings	m	94,943	110,400	130,825	166,761
EPS (rep)		25.87	28.68	37.03	54.72	EPS (rep)		67.44	79.24	93.90	119.70
EPS (adj)		22.75	28.68	37.03	54.5	EPS (adj)		68.15	79.24	93.90	119.70
EPS Growth (adj)	%	17.64	26.06	29.12	47.17	EPS Growth (adj)	%	25.1	16.3	18.5	27.5
						PE (rep)	x	19.3	16.4	13.8	10.9
						PE (adj)	x	19.1	16.4	13.8	10.9
Total DPS		5.26	5.00	5.00	8.59	Total DPS		11.42	14.49	16.92	18.84
Weighted Average Shares	m	1,267	1,396	1,396	1,394	Total Div Yield	%	0.9	1.1	1.3	1.4
Period End Shares	m	1,396	1,396	1,396	1,393	Weighted Average Shares	m	1,393	1,393	1,393	1,393
						Period End Shares	m	1,393	1,393	1,393	1,393

Profit and Loss Ratios					Cashflow Analysis						
		2006A	2007E	2008E	2009E		2006A	2007E	2008E	2009E	
Revenue Growth	%	24.7	30.3	21.7	12.8	EBITDA	m	143,487	188,453	219,963	280,922
EBITDA Growth	%	12.1	31.3	16.7	27.7	Tax Paid	m	-16,295	-20,746	-25,980	-30,171
EBIT Growth	%	19.7	29.8	19.3	25.8	Chgs in Working Cap	m	-29,650	-53,323	-25,125	-5,434
Gross Profit Margin	%	26.7	21.2	20.2	22.2	Net Interest Paid	m	-4,426	-15,388	-17,269	-24,042
EBITDA Margin	%	17.3	17.4	16.7	18.9	Other	m	43,605	-8,775	11,913	1,801
EBIT Margin	%	13.1	13.0	12.8	14.2	Operating Cashflow	m	136,720	90,221	163,501	223,078
Net Profit Margin	%	11.3	10.2	9.9	11.0	Acquisitions	m	106,558	0	0	0
Payout Ratio	%	16.8	18.3	18.0	15.7	Capex	m	-367,389	-166,058	-47,462	-76,943
EV/EBITDA	x	13.7	10.6	9.1	7.1	Asset Sales	m	0	0	0	0
EV/EBIT	x	17.9	14.1	11.8	9.4	Other	m	2,380	2,511	2,762	2,900
Balance Sheet Ratios						Investing Cashflow	m	-258,451	-163,547	-44,700	-74,042
ROE	%	22.5	20.6	20.6	22.8	Dividend (Ordinary)	m	-15,907	-20,183	-23,567	-26,248
ROA	%	12.7	13.2	13.4	15.8	Equity Raised	m	1	0	0	0
ROIC	%	17.3	17.6	16.5	19.9	Debt Movements	m	45,257	115,451	-11,387	-42,102
Net Debt/Equity	%	44.6	33.9	30.8	15.4	Other	m	0	0	0	0
Interest Cover	x	24.5	9.2	9.7	8.8	Financing Cashflow	m	29,351	95,268	-34,955	-68,349
Price/Book	x	3.9	3.0	2.7	2.3	Net Chg in Cash/Debt	m	-92,380	21,941	83,846	80,686
Book Value per Share		330.5	438.0	474.6	575.5						

Balance Sheet					
		2006A	2007E	2008E	2009E
Cash	m	26,164	133,358	125,833	168,241
Receivables	m	43,517	58,665	67,016	69,384
Inventories	m	103,453	135,433	149,283	139,976
Investments	m	66,668	58,462	93,462	128,462
Fixed Assets	m	602,093	744,727	743,311	769,045
Intangibles	m	0	0	0	0
Other Assets	m	76,988	92,804	109,170	111,362
Total Assets	m	918,883	1,223,449	1,288,074	1,386,470
Payables	m	124,541	134,817	147,635	137,909
Short Term Debt	m	66,659	43,499	43,499	20,000
Long Term Debt	m	166,769	305,380	293,993	275,390
Provisions	m	42,017	38,910	38,910	38,910
Other Liabilities	m	53,876	65,286	77,593	90,581
Total Liabilities	m	453,862	587,891	601,629	562,790
Shareholders' Funds	m	510,280	656,747	707,755	848,268
Minority Interests	m	4,573	25,313	25,192	21,914
Other	m	-49,832	-46,502	-46,502	-46,502
Total S/H Equity	m	465,021	635,558	686,445	823,680
Total Liab & S/H Funds	m	918,883	1,223,449	1,288,074	1,386,470

All figures in INR unless noted.

Source: Macquarie Research, March 2007

Important disclosures:

Recommendation definitions

Macquarie Australia/New Zealand

Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
 Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)
 Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

Macquarie Asia

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South Securities (South Africa)

Outperform – expected return >+5%
 Neutral – expected return from -5% to +5%
 Underperform – expected return <-5%

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Recommendation proportions

	AU/NZ	Asia	RSA
Outperform	43.12%	58.91%	42.20%
Neutral	48.98%	22.92%	46.80%
Underperform	11.90%	18.17%	11.00%

For quarter ending 31 December 2006

Volatility index definition*

This is calculated from the volatility of historic price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
 Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

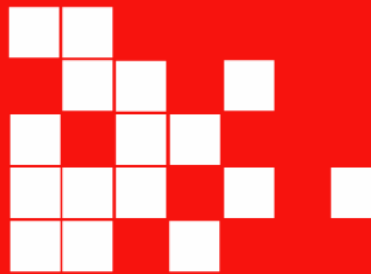
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