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January 2, 2008

India Strategy

QE 12/07 Earnings Preview: A Slight Growth Slowdown

Conclusion: The aggregation of our analysts' earnings estimates for the QE Dec-07 reveals an 18% YoY growth expectation in net earnings for 103 out of the 107 companies in Morgan Stanley's coverage universe. This is a deceleration in growth from 49% and 22% in the June and September quarters, respectively. The growth for QE Dec-07 is expected to be more or less the same even excluding the volatile energy sector. By our analysts' estimates, the BSE Sensex constituents will increase earnings by 16% YoY compared with growth of 32% and 24% in the September and June quarters, respectively.

What's new: The net profit growth estimate is driven largely by EBTIDA margin expansion and some contribution from net financial earnings. Our analysts expect revenue growth to be modest at 13% albeit faster than the 8% in the previous quarter. EBITDA margins are expected to rise (by 50 bps), despite a sharp drop in margins for materials and technology. The margin compression in these sectors should be offset by margin expansion in telecoms and healthcare. Consumer staples is the only sector that is witnessing a material acceleration in profit growth QoQ, and it is likely to increase earnings faster than the aggregate. Consumer discretionary, utilities, and telecoms appear poised for a significant slowdown in growth from the previous quarter (please see Exhibit 1 for details).

Implications: While earnings expectations for the QE Dec-07 represent a deceleration in momentum, overall earnings still appear to be strong except for scattered weakness in utilities and consumer discretionary. We would pay attention to revenue growth, earnings guidance, if any, for the ensuing period, and changes in earnings quality when the reporting season begins over the next few days.

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India Strategy

Exhibit 1

Snapshot of Earnings Expectations for the Quarter Ended December 2007 by Sector

YoY Change for QE Dec-07E	Revenues	EBITDA	Net Profit	EBITDA Margins (bps)	Share of Net Profit QE Dec-06	Share of Net Profit QE Dec-07E	Growth in Net Profit QE Sep-07	Growth in Net Profit QE Jun-07
Consumer Staples	13%	14%	21%	14	4%	4%	14%	20%
Consumer Discretionary	10%	8%	6%	-34	6%	5%	20%	8%
Energy	8%	10%	15%	16	26%	26%	15%	124%
Financials	25%	27%	30%	91	14%	16%	33%	47%
Healthcare	9%	16%	14%	141	3%	3%	14%	25%
Industrials	26%	26%	22%	4	8%	9%	30%	40%
Materials	8%	3%	11%	-146	15%	14%	10%	33%
Technology	25%	16%	19%	-190	10%	10%	19%	30%
Telecom	31%	40%	37%	267	7%	8%	67%	106%
Utilities	14%	15%	8%	13	6%	6%	45%	18%
Total	13%	16%	18%	50			22%	49%
Total ex-Energy	18%	18%	19%	18			26%	36%
Total ex-Financials	12%	14%	16%	23			20%	50%
Total ex-Financials & Energy	16%	16%	17%	-18			24%	33%
Total ex-Financials, Energy & Materials	19%	21%	19%	39			30%	34%
BSE Sensex	18%	14%	16%	-110			32%	24%

Note: Sample size of 103 companies. For the Financial sector, revenues, EBITDA and EBITDA margins are equivalent to total income, operating profit and operating profit margins respectively.
Source: Morgan Stanley Research Estimates

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Exhibit 2

Snapshot of Earnings Expectations for the Quarter Ended December 2007 by Company

Name of company	Sector	QE Dec-07E			QE Dec-06			QE Sept-07			YoY Change				
		Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	Revenues	EBITDA	Profit	EBITDA Margins (bps)	Net Margins (bps)
Ambuja Cements Ltd.	Industrials	15,079	5,067	3,841	13,291	4,791	3,823	12,999	4,332	3,133	13%	6%	0%	-244	-329
Amtek Auto Ltd.	Consumer Discretionary	12,405	2,456	1,332	9,845	1,955	1,074	11,366	2,263	1,163	26%	26%	24%	-6	-17
Arvind Mills	Consumer Discretionary	5,151	682	21	4,479	710	-20	5,637	783	105	15%	-4%	NM	-260	86
Ashok Leyland Ltd.	Consumer Discretionary	16,088	1,538	719	17,776	1,813	1,053	17,459	1,639	803	-9%	-15%	-32%	-64	-145
ACC Ltd.	Industrials	18,462	5,305	3,567	16,004	4,851	3,482	16,369	4,486	2,885	15%	9%	2%	-158	-244
Aventis (India)	Healthcare	2,165	433	389	2,176	427	347	2,264	446	368	-1%	1%	12%	38	203
Bajaj Auto Ltd.	Consumer Discretionary	25,684	3,921	3,554	25,786	3,740	3,572	23,623	3,785	3,364	0%	5%	-1%	76	-2
Bank of Baroda	Financials	15,673	7,683	3,922	12,944	6,569	3,291	14,355	6,372	3,272	21%	17%	19%	-173	-40
Bank of India	Financials	14,241	7,577	3,158	12,278	5,998	2,549	15,142	8,398	4,251	16%	26%	24%	435	142
BHEL	Industrials	56,748	12,484	9,330	43,397	9,292	6,676	43,452	6,953	5,571	31%	34%	40%	59	106
Bharat Forge	Consumer Discretionary	10,988	1,857	801	10,174	1,670	770	10,452	1,776	719	8%	11%	4%	48	-28
Bharat Petroleum Corp.	Energy	256,738	7,671	4,224	243,533	6,892	3,035	251,704	15,649	10,382	5%	11%	39%	16	40
Bharti Airtel Limited	Telecom	68,981	29,678	16,271	49,129	20,053	12,148	63,374	27,097	16,139	40%	48%	34%	221	-114
Biocon Ltd	Healthcare	2,900	870	673	2,470	780	553	2,790	810	540	17%	12%	22%	-158	83
Reliance Energy	Utilities	19,021	1,816	2,618	15,337	827	2,024	15,417	1,813	2,501	24%	120%	29%	416	57
Canara Bank	Financials	14,114	7,109	4,164	13,380	7,011	3,630	13,590	6,503	4,016	5%	1%	15%	-204	237
Cipla Ltd.	Healthcare	11,300	2,260	1,789	9,045	2,193	1,844	11,175	2,240	1,906	25%	3%	-3%	-424	-455
Colgate-Palmolive India	Consumer Staples	3,642	709	629	3,223	544	503	3,639	564	547	13%	30%	25%	257	165
Corporation Bank	Financials	5,635	3,301	1,684	4,546	2,551	1,464	5,377	2,945	1,614	24%	29%	15%	246	-232
Dr. Reddy's Lab	Healthcare	12,900	2,458	1,895	15,434	2,436	1,879	12,670	1,718	2,672	-16%	1%	1%	327	251
Dabur India	Consumer Staples	7,226	1,228	974	6,176	1,004	776	6,258	1,160	966	17%	22%	26%	75	92
EIH Limited	Consumer Discretionary	3,150	1,417	848	2,625	1,139	620	2,159	580	318	20%	24%	37%	159	328
Entertainment Network (India) Limited	Consumer Discretionary	584	103	23	467	160	124	532	82	7	25%	-36%	-81%	-1657	-2252
GAIL (India)	Energy	46,798	9,748	6,021	51,062	8,641	6,655	45,289	8,783	5,725	-8%	13%	-10%	391	-17
Gammon India	Industrials	5,281	510	237	4,401	515	316	4,603	412	171	20%	-1%	-25%	-205	-270
Gitanjali Gems Ltd	Materials	11,890	701	439	7,985	504	313	11,324	653	407	49%	39%	40%	-42	-23
GlaxoSmithKline Pharma	Healthcare	3,768	829	750	3,489	814	682	4,571	1,366	1,091	8%	2%	10%	-133	38
GMR Infrastructure Ltd.	Industrials	6,073	2,056	761	3,554	1,526	533	3,953	1,557	496	71%	35%	43%	-906	-245
Godrej Consumer Products Limited	Consumer Staples	2,809	604	480	2,380	515	396	2,740	501	371	18%	17%	21%	-15	48
Grasim Industries	Industrials	28,948	8,748	5,213	22,794	6,661	4,135	25,192	8,050	4,998	27%	31%	26%	100	-13
Great Eastern Shipping	Industrials	6,134	3,449	2,441	4,908	2,239	1,600	7,171	3,936	3,428	25%	54%	53%	1062	720
HCL Technologies	Technology	18,296	3,704	3,120	14,651	3,066	2,688	17,092	3,453	2,897	25%	21%	16%	-68	-129

Source: Company data, Morgan Stanley Research; E = Morgan Stanley Research Estimates

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Exhibit 2 - continued

Name of company	Sector	QE Dec-07E			QE Dec-06			QE Sept-07			YoY Change			EBITDA Margins (bps)	Net Margins (bps)
		Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit		
HDFC	Financials	8,229	7,534	5,550	5,109	4,488	3,555	9,820	9,077	6,464	61%	68%	56%	370	-213
HDFC Bank	Financials	17,551	9,102	4,188	12,415	6,365	2,956	16,451	8,267	3,685	41%	43%	42%	59	5
Hero Honda Motor Ltd	Consumer Discretionary	27,701	3,047	2,183	26,661	3,020	2,092	23,521	2,915	2,043	4%	1%	4%	-33	4
Hexaware Technologies Limited	Technology	2,550	310	275	2,402	357	338	2,546	304	269	6%	-13%	-19%	-271	-329
Hindalco Industries	Materials	45,384	7,834	5,141	46,562	10,453	6,439	49,597	9,217	6,428	-3%	-25%	-20%	-519	-250
Hindustan Unilever	Consumer Staples	35,496	5,629	5,880	31,561	5,000	4,835	33,646	4,476	4,093	12%	13%	22%	1	125
Hindustan Petroleum	Energy	249,614	7,640	3,751	221,502	1,940	1,044	242,344	13,175	8,530	13%	294%	259%	219	103
Hotel Leelaventure Limited	Consumer Discretionary	1,287	721	496	990	504	357	1,001	473	401	30%	43%	39%	516	246
ICICI Bank	Financials	45,304	22,861	12,584	34,654	17,521	9,101	38,579	18,871	10,026	31%	30%	38%	-10	151
IDBI	Financials	4,103	2,120	1,631	2,322	432	1,268	6,073	3,783	1,555	77%	391%	29%	3307	-1485
Idea Cellular Ltd.	Telecom	17,597	5,884	2,679	11,482	3,704	1,094	15,622	5,107	2,204	53%	59%	145%	117	570
IDFC	Financials	2,925	2,433	1,705	1,710	1,520	1,250	3,240	2,762	1,945	71%	60%	36%	-573	-1482
Indian Hotels Company Ltd	Consumer Discretionary	5,122	2,063	1,147	4,098	1,533	880	3,414	989	532	25%	35%	30%	287	93
Indian Oil Corp	Energy	578,332	28,832	16,831	544,378	17,912	10,590	561,488	51,214	38,094	6%	61%	59%	169	96
Infosys Technologies	Technology	43,049	13,850	11,567	36,550	11,960	9,840	41,060	12,840	11,000	18%	16%	18%	-55	-5
ITC Ltd.	Consumer Staples	35,454	12,336	8,167	31,656	10,828	7,174	32,734	10,320	7,709	12%	14%	14%	59	37
IVRCL Infrastructures & Projects LTD	Industrials	7,619	789	448	5,223	556	321	6,885	553	353	46%	42%	39%	-30	-27
Jaiprakash Associates Limited	Industrials	9,948	2,550	1,185	8,910	2,310	1,020	8,620	2,210	1,040	12%	10%	16%	-29	46
Jindal Steel & Power	Materials	13,385	5,919	3,039	10,101	3,773	1,899	12,690	5,407	2,775	33%	57%	60%	687	391
JSW Steel Ltd.	Materials	26,172	9,177	5,549	23,015	7,967	3,622	24,940	8,359	5,113	14%	15%	53%	44	547
Kotak Mahindra Bank	Financials	14,853	3,787	2,217	9,238	2,914	1,696	13,709	3,970	2,415	61%	30%	31%	-605	-343
LANCO Infratech Ltd	Utilities	6,869	1,234	905	4,293	947	686	6,467	1,209	848	60%	30%	32%	-408	-280
Larsen & Toubro	Industrials	54,825	6,368	4,270	41,222	4,293	3,439	55,009	5,873	3,480	33%	48%	24%	120	-55
Lupin Ltd.	Healthcare	5,930	1,067	1,491	4,967	793	560	6,590	1,126	757	19%	35%	166%	203	1386
Mahanagar Telephone Nigam	Telecom	12,465	2,333	1,393	12,320	2,034	1,508	11,985	1,775	948	1%	15%	-8%	221	-106
Mahindra & Mahindra	Consumer Discretionary	28,625	3,352	2,614	25,761	3,097	2,424	27,095	2,925	2,860	11%	8%	8%	-31	-28
Marico Limited	Consumer Staples	4,910	689	454	4,092	551	385	4,638	648	423	20%	25%	18%	57	-16
Maruti Suzuki India Limited	Consumer Discretionary	47,383	7,035	4,580	37,565	5,842	3,764	46,578	7,083	4,665	26%	20%	22%	-71	-35
MindTree Consulting Limited	Technology	1,947	330	280	1,468	238	188	1,819	295	271	33%	39%	49%	74	157
Mphasis Limited	Technology	6,734	1,286	822	4,547	851	480	6,017	1,079	663	48%	51%	71%	38	165
National Aluminium	Materials	12,506	5,146	4,025	14,486	8,449	5,726	13,081	5,684	4,396	-14%	-39%	-30%	-1718	-734
New Delhi Television Limited (NDTV)	Consumer Discretionary	867	32	7	791	191	117	717	-166	-252	10%	-84%	-94%	-2056	-1398

Source: Company data, Morgan Stanley Research; E = Morgan Stanley Research Estimates

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Exhibit 2 - continued

Name of company	Sector	QE Dec-07E			QE Dec-06			QE Sept-07			YoY Change				
		Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	EBITDA Margins (bps)	Net Margins (bps)
NTPC	Utilities	88,138	23,377	20,024	80,125	21,252	19,191	70,614	19,186	16,047	10%	10%	4%	0	-123
Nestle India	Consumer Staples	8,863	1,490	992	7,363	1,203	795	9,067	1,916	1,190	20%	24%	25%	48	41
Oil & Natural Gas Corp.	Energy	177,260	84,123	48,112	155,645	89,092	46,682	154,139	84,153	50,167	14%	-6%	3%	-978	-285
Oriental Bank of Commerce	Financials	5,780	3,179	2,501	5,543	3,067	2,437	5,420	2,722	2,362	4%	4%	3%	-31	-69
Pantaloon Retail	Consumer Discretionary	12,796	984	317	7,527	570	191	10,864	956	297	70%	73%	66%	12	-6
Parsvnath Developers Limited	Financials	4,389	1,900	1,306	2,982	856	539	3,972	1,529	1,007	47%	122%	142%	1460	1168
Patni Computer Systems	Technology	6,882	1,160	1,085	6,804	1,496	1,135	6,736	1,154	1,098	1%	-22%	-4%	-513	-91
Punjab National Bank	Financials	20,269	9,460	4,627	17,689	7,952	4,299	17,593	8,550	5,385	15%	19%	8%	172	-147
Rajesh Exports Ltd	Materials	20,597	1,065	598	18,725	405	281	20,442	962	542	10%	163%	113%	301	140
Ranbaxy Laboratories	Healthcare	18,040	2,720	1,519	17,769	2,665	1,833	17,730	2,831	2,074	2%	2%	-17%	8	-189
Reliance Capital	Financials	7,126	1,559	1,274	4,361	1,069	922	9,527	2,411	2,001	63%	46%	38%	-263	-326
Reliance Communications Ltd.	Telecom	48,949	21,228	13,440	37,553	15,272	9,274	45,785	19,618	13,291	30%	39%	45%	270	276
Reliance Industries	Energy	325,742	57,571	36,266	295,280	53,900	32,200	320,430	57,810	38,370	10%	7%	13%	-58	23
Sesa Goa	Materials	8,940	4,606	3,217	5,879	2,783	1,949	3,311	1,033	786	52%	65%	65%	418	283
Steel Authority Of India	Materials	102,999	34,377	21,995	85,371	24,316	14,712	91,635	26,291	17,002	21%	41%	50%	489	412
Satyam Computer Services	Technology	21,403	4,520	4,353	16,611	4,100	3,373	20,317	4,027	4,091	29%	10%	29%	-356	3
Shipping Corporation of India	Industrials	9,306	2,328	1,784	10,340	2,495	2,019	8,689	2,272	1,823	-10%	-7%	-12%	89	-36
Shoppers' Stop	Consumer Discretionary	3,599	178	66	2,571	248	142	2,927	134	1	40%	-28%	-53%	-469	-367
Sobha Developers Ltd.	Financials	3,385	1,014	651	2,976	674	457	3,254	825	562	14%	50%	42%	731	388
State Bank of India	Financials	64,269	32,656	13,383	57,624	28,550	10,651	58,049	27,132	16,114	12%	14%	26%	127	234
Sterlite Industries (India) Limited	Materials	57,622	16,210	8,158	68,143	27,628	12,930	65,671	19,658	15,737	-15%	-41%	-37%	-1241	-482
Sun Pharmaceutical Industries	Healthcare	7,400	2,812	2,544	5,400	1,733	1,989	6,679	2,409	2,186	37%	62%	28%	590	-244
Suzlon Energy	Industrials	27,489	4,236	2,519	19,139	2,546	1,744	36,413	5,870	3,947	44%	66%	44%	211	5
Tata Steel	Materials	51,984	21,905	12,840	44,700	17,344	10,638	47,850	19,691	11,293	16%	26%	21%	334	90
Tata Motors	Consumer Discretionary	70,118	7,399	3,501	68,252	8,206	4,181	64,733	5,953	5,269	3%	-10%	-16%	-147	-113
Tata Power Co	Utilities	13,446	2,411	1,399	12,005	2,108	1,205	13,506	2,614	1,615	12%	14%	16%	37	37
Tata Tea	Consumer Staples	12,238	2,023	951	11,126	2,005	418	10,965	2,063	1,126	10%	1%	128%	-149	402
Tata Consultancy Services	Technology	59,934	16,154	13,406	48,605	13,752	11,046	56,398	14,820	12,469	23%	17%	21%	-134	-36
Titan Industries Ltd	Consumer Discretionary	7,020	763	439	5,291	581	294	7,114	797	463	33%	31%	49%	-10	69
Tech Mahindra Limited	Technology	9,838	2,233	1,897	7,698	2,072	1,667	8,976	1,972	1,817	28%	8%	14%	-422	-237
TVS Motors	Consumer Discretionary	8,159	245	101	9,354	296	115	8,234	199	119	-13%	-17%	-12%	-17	2
UltraTech Cemco	Industrials	13,220	3,806	2,193	12,605	3,803	2,125	11,734	3,296	1,859	5%	0%	3%	-138	-27

Source: Company data, Morgan Stanley Research; E = Morgan Stanley Research Estimates

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India Strategy

Exhibit 2 - continued

Name of company	Sector	QE Dec-07E			QE Dec-06			QE Sept-07			YoY Change			EBITDA Margins (bps)	Net Margins (bps)
		Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit		
Union Bank of India	Financials	10,340	6,171	3,183	8,911	5,051	2,558	9,436	5,283	2,758	16%	22%	24%	300	207
AXIS Bank	Financials	10,327	5,216	2,899	6,956	3,586	1,846	9,716	4,629	2,278	48%	45%	57%	-105	153
Videsh Sanchar Nigam	Telecom	10,425	2,129	1,043	10,660	2,540	1,380	9,477	1,522	731	-2%	-16%	-24%	-341	-294
Voltas Limited	Industrials	7,716	647	461	5,689	275	181	7,127	636	430	36%	135%	154%	355	279
Wipro Ltd.	Technology	53,653	10,850	8,950	39,790	8,957	7,654	47,847	9,773	8,237	35%	21%	17%	-229	-255
Wockhardt Limited	Healthcare	7,300	1,752	992	5,264	1,221	871	7,381	1,809	1,083	39%	43%	14%	80	-296
Zee Entertainment Enterprise Limited	Consumer Discretionary	4,627	1,610	1,233	4,177	1,357	958	3,985	1,320	970	11%	19%	29%	231	372

Source: Company data, Morgan Stanley Research; E = Morgan Stanley Research Estimates

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Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. For example, Morgan Stanley uses a relative rating system including terms such as Overweight, Equal-weight or Underweight (see definitions below). A rating system using terms such as buy, hold and sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Global Stock Ratings Distribution

(as of December 31, 2007)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Underweight to hold and sell recommendations, respectively.

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count% of	Total	Count	% of IBC	Total % of Rating Category
Overweight/Buy	997	43%	324	44%	32%
Equal-weight/Hold	996	42%	309	42%	31%
Underweight/Sell	352	15%	96	13%	27%
Total	2,345		729		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.

More volatile (V) - We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

January 2, 2008
India Strategy

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

Stock price charts and rating histories for companies discussed in Morgan Stanley Research are available at www.morganstanley.com/companycharts or from your local investment representative. You may also request this information by writing to Morgan Stanley at 1585 Broadway, (Attention: Equity Research Management), New York, NY, 10036 USA.

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