

August 12, 2011

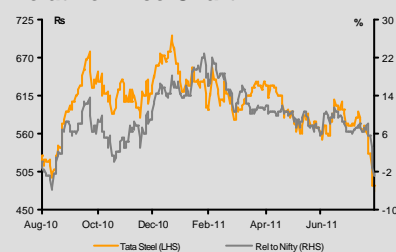
Reco	Previous Reco
Buy	Accumulate
CMP	Target Price
Rs 476	Rs 670
EPS change FY11E/12E (%)	-28/ -23
Target Price change (%)	NA
Nifty	5,073
Sensex	16,840

Price Performance

(%)	1M	3M	6M	12M
Absolute	(17)	(18)	(20)	(8)
Rel. to Nifty	(9)	(12)	(16)	(2)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Metals & Mining
Bloomberg	TATA@IN
Equity Capital (Rs mn)	9592
Face Value(Rs)	10
No of shares o/s (mn)	959
52 Week H/L	714/472
Market Cap (Rs bn/USD mn)	457/10,064
Daily Avg Volume (No of sh)	1448523
Daily Avg Turnover (US\$m)	18.0

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	30.6	30.6	30.6
FII/NRI	19.7	20.0	18.4
Institutions	26.3	26.0	25.6
Private Corp	2.9	3.0	3.9
Public	20.5	20.4	21.6

Source: Capitaline

Goutam Chakraborty

goutam.chakraborty@emkayglobal.com
+91 22 6612 1275

Jagdish Agarwal

jagdish.agarwal@emkayglobal.com
+91 22 6612 1381

Prince Poddar

prince.poddar@emkayglobal.com
+91 22 6612 1238

- Consolidated topline higher than estimates at Rs 330 bn, up by 21% YoY and down 2% QoQ aided mainly by strong realizations in Europe and also in India
- Higher power and fuel costs pressurized EBITDA to remain flat both YoY and QoQ at Rs 44.2 bn. EBITDA/ tonne in Europe rose to US\$78, while in India it improved to Rs 19395
- Standalone APAT stood at Rs 17.1 bn, while consolidated APAT came at Rs 14.27 bn. The company accounted Rs 39.2 bn in other income (conso) as sales of various investments
- Revised FY12 and FY13 EPS to Rs 55 and Rs 79 respectively; Maintaining target price at Rs 670/ share. Upgrade the stock to Buy

Europe surprises positively; higher realizations offsets volume drop

Tata Steel Europe (TSE) performed better than expectations despite sales volume falling to 3.5 mt against our expectations of 3.7 mt and previous quarter figure of 4.13 mt. Realizations rose on a sequential basis by 11% to US\$1212/ tonne in TSE and that more than made up for the slightly lower volume during the quarter. EBITDA/ tonne after adjusting for TCP final settlement credit of US\$153 mn (including prior provisions) climbed up by 45% on QoQ to US\$78/ tonne. This, we believe has been mainly due to price rise that the company had taken during the preceding quarters applicable during this quarter. However, we are yet to see the full impact of higher raw material costs that would be visible during the coming couple of quarters.

Robustness continued in Indian operations

Tata Steel India (TSI) continued its robust performance with adjusted EBITDA/ tonne at US\$434. This was almost at par with the previous quarter. Blended average realizations remained flat on QoQ at Rs 48700/ tonne. Steel realizations remained at Rs 45600/ tonne. We continue to believe that the Indian operations would remain robust, as the fall in semi soft coking coal prices recently should take some pressure off EBITDA margin during next couple of quarters.

Sale of investments helped improving liquidity position

The company has been in the process of disposing off some of its underperforming assets and also has been monetizing its investments. This enables the company to focus on its core assets and manage its cash flows in a better way. As part of that the company sold its 51% stake in Tata Refractories, 26% stake in Riverdale. Together with these, proceeds of TCP final settlement helped the company to realize Rs 39.2 bn during the quarter, which helped in improving its credit rating by S&P.

Valuations: upgrade to buy

At the CMP of Rs 476, the stock is trading at 6x its FY13EPS and 4.7x FY13 EV/ EBITDA. Despite modifying our earnings estimates more reasonable, we feel the stock has potential to give positive surprises going forward. We change our valuation base to FY13 and continue to value the domestic operation at 6.5x EV/ EBITDA and overseas subsidiaries at 4x EV/ EBITDA. Maintain our target price of Rs 670/ share. Upgrade the stock to Buy.

Financials

(Rs bn)

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	1,017.6	80.4	7.9	-20.1	-22.6	NA	-8.5	-21.0	10.3	5.1
FY11	1,171.5	160.0	13.7	89.8	93.7	NA	24.5	4.8	5.5	2.1
FY12E	1,139.1	142.7	12.5	53.4	55.0	-41.3	13.0	8.0	6.0	1.6
FY13E	1,272.3	178.9	14.1	76.3	78.6	43.0	16.0	5.6	4.7	1.2

Key Financials – Quarterly (Consolidated)

(Rs mn)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Revenue	271,948	286,462	290,895	338,227	330,002	21.3	(2.4)	330,002	271,948	21.3
Expenditure	(227,622)	(249,739)	(256,648)	(293,566)	(285,773)	25.5	(2.7)	(285,773)	(227,622)	25.5
as % of sales	83.7	87.2	88.2	86.8	86.6			86.6	83.7	
Consumption of RM	(103,481)	(124,064)	(138,887)	(159,354)	(148,944)	43.9	(6.5)	(148,944)	(103,481)	43.9
as % of sales	38.1	43.3	47.7	47.1	45.1			45.1	38.1	
Employee Cost	(37,771)	(38,275)	(36,087)	(40,751)	(42,316)	12.0	3.8	(42,316)	(37,771)	12.0
as % of sales	13.9	13.4	12.4	12.0	12.8			12.8	13.9	
Other expenditure	(86,370)	(87,400)	(81,675)	(93,461)	(94,514)	9.4	1.1	(94,514)	(86,370)	9.4
as % of sales	31.8	30.5	28.1	27.6	28.6			28.6	31.8	
EBITDA	44,326	36,723	34,246	44,661	44,229	(0.2)	(1.0)	44,229	44,326	(0.2)
Depreciation	(10,439)	(10,781)	(11,264)	(11,664)	(11,508)	10.2	(1.3)	(11,508)	(10,439)	10.2
EBIT	33,887	25,942	22,982	32,997	32,721	(3.4)	(0.8)	32,721	33,887	(3.4)
Other Income	595	8,143	(1,043)	2,116	(369)	(162.0)	(117.4)	(369)	595	(162.0)
Interest	(5,976)	(6,637)	(7,432)	(7,655)	(7,377)	23.4	(3.6)	(7,377)	(5,976)	23.4
PBT	28,505	21,178	14,506	27,458	24,976	(12.4)	(9.0)	24,976	28,505	(12.4)
Total Tax	(10,005)	(7,450)	(6,240)	(8,764)	(11,230)	12.2	28.1	(11,230)	(10,005)	12.2
Adjusted PAT	18,501	13,728	8,266	18,694	13,746	(25.7)	(26.5)	13,746	18,501	(25.7)
(Profit)/loss from JV's/Ass/MI	351	106	541	269	529	50.8	96.8	529	351	50.8
Adj.PAT after MI	18,851	13,834	8,807	18,962	14,274	(24.3)	(24.7)	14,274	18,851	(24.3)
Extra ordinary items	(599)	(316)	1,223	22,794	39,191	(6,644.9)	71.9	39,191	(599)	(6,644.9)
Reported PAT	18,253	19,788	10,030	41,756	53,466	192.9	28.0	(24,917)	19,450	(228.1)
Reported EPS	19.0	20.6	10.5	13.4	55.4	190.9	313.0	55.4	19.0	190.9

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	16.3	12.8	11.8	13.2	13.4	(290)	20	13.4	16.3	(290)
EBIT	12.5	9.1	7.9	9.8	9.9	(255)	16	9.9	12.5	(255)
EBT	10.5	7.4	5.0	8.1	7.6	(291)	(55)	7.6	10.5	(291)
PAT	6.8	4.8	2.8	5.5	4.2	(264)	(136)	4.2	6.8	(264)
Effective Tax rate	35.1	35.2	43.0	31.9	45.0	987	1,304	45.0	35.1	987

Source: Company, Emkay Research

Key Financials – Quarterly (Standalone)

(Rs mn)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Revenue	65,515	71,071	73,974	83,405	78,603	20.0	(5.8)	78,603	65,515	20.0
Expenditure	(36,350)	(44,777)	(45,768)	(52,739)	(47,571)	30.9	(9.8)	(47,571)	(36,350)	30.9
as % of sales	55.5	63.0	61.9	63.2	60.5			60.5	55.5	
Consumption of RM	(9,649)	(15,637)	(17,586)	(19,634)	(15,729)	63.0	(19.9)	(15,729)	(9,649)	63.0
as % of sales	14.7	22.0	23.8	23.5	20.0			20.0	14.7	
Employee Cost	(5,781)	(6,837)	(5,985)	(7,594)	(6,870)	18.8	(9.5)	(6,870)	(5,781)	18.8
as % of sales	8.8	9.6	8.1	9.1	8.7			8.7	8.8	
Other expenditure	(20,920)	(22,303)	(22,198)	(25,511)	(24,972)	19.4	(2.1)	(24,972)	(20,920)	19.4
as % of sales	31.9	31.4	30.0	30.6	31.8			31.8	31.9	
EBITDA	29,165	26,293	28,205	30,666	31,032	6.4	1.2	31,032	29,165	6.4
Depreciation	(2,802)	(2,815)	(2,864)	(2,982)	(2,853)	1.8	(4.3)	(2,853)	(2,802)	1.8
EBIT	26,363	23,479	25,342	27,684	28,179	6.9	1.8	28,179	26,363	6.9
Other Income	484	7,327	113	(17)	411	(15.1)	(2,463.8)	411	484	(15.1)
Interest	(3,277)	(3,425)	(3,354)	(2,949)	(2,273)	(30.6)	(22.9)	(2,273)	(3,277)	(30.6)
PBT	23,570	21,111	22,100	24,718	26,317	11.7	6.5	26,317	23,570	11.7
Total Tax	(7,776)	(6,726)	(6,966)	(7,644)	(9,233)	18.7	20.8	(9,233)	(7,776)	18.7
Adjusted PAT	15,794	14,384	15,135	17,074	17,084	8.2	0.1	17,084	15,794	8.2
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
Adj.PAT after MI	15,794	14,384	15,135	17,074	17,084	8.2	0.1	17,084	15,794	8.2
Extra ordinary items	-	-	-	-	5,110	-	-	5,110	-	-
Reported PAT	15,794	20,654	15,135	17,074	22,194	40.5	30.0	11,974	15,794	(24.2)
Reported EPS	16.5	21.5	15.8	17.8	22.7	38.0	27.7	22.7	16.5	38.0

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	44.5	37.0	38.1	36.8	39.5	(504)	271	39.5	44.5	(504)
EBIT	40.2	33.0	34.3	33.2	35.8	(439)	266	35.8	40.2	(439)
EBT	36.0	29.7	29.9	29.6	33.5	(250)	385	33.5	36.0	(250)
PAT	24.1	20.2	20.5	20.5	21.7	(237)	126	21.7	24.1	(237)
Effective Tax rate	33.0	31.9	31.5	30.9	35.1	209	416	35.1	33.0	209

Source: Company, Emkay Research

Sales volume rose in India and Europe

	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Tata Steel India	1.40	1.66	1.64	1.72	1.60	14.37	-6.8
Tata Steel Europe	3.71	3.53	3.47	4.13	3.5	-5.66	-15.3
Tata Steel South East Asia	0.91	0.79	0.78	0.78	0.8	-12.09	2.6
Total	6.02	5.98	5.89	6.63	6.10	1.33	-8.0

Performance snapshot in different geographies

Particulars (USD mn)	Tata Steel - India	Tata Steel - Europe	Tata Steel South East Asia	Tata Steel - Group
Deliveries (mt)	1.6	3.5	0.8	6.1
Turnover	1759	4594	746	7383
Realization/ tonne (US\$)	1099	1212	933	1210
EBITDA (adjusted)	704	273	20	1870
EBITDA Margin (%)	39.5	5.9	2.6	13.5
EBITDA/ tonne (US\$)	435	78	25	163

Key takeaways from conference call

- 2.9 mt brownfield expansion at Jamshedpur is likely to be commissioned during March 2012 and saleable metal would be ready within Q2FY13
- The management at this point is expecting total sales volume of 9- 9.2 mt in FY13
- Raw material prices are expected to put pressure going forward due to higher coking coal prices. The company has one and a half month of coking coal inventory. Monthly contract has not been done fully
- Raw material costs rose by 6% sequentially for the European operations . Higher raw material costs has also been pushing working capital up
- The company has not encashed any carbon credit during the quarter
- Power and fuel costs rose 19% QoQ on higher coal costs and power sourcing at market rate
- Mozambique coal project to start by end FY12, can expect 0.7 mt despatch in FY13, which gradually should rise to 1.5 mt
- New Millennium iron ore is expected to be operational during 2014 with production over 1 mt in the first year
- Other income includes income from Riversdale sale (Rs 2879 cr), Teeside (Rs 597 cr) and Tata Refractories (Rs 442 cr). Only the income from Tata Refractories was charged with Capital gain tax, while that Riversdale sale was exempt and that from Teeside adjusted against prior losses
- FY12 capex is expected to be US\$1.8 bn in Indian operations and another \$0.6 bn
- Liquidity improving however do not see any debt repayment in the near future as no significant due in FY12. Gross debt rose marginally QoQ to US\$13.64 bn, which the management expects to remain stable. Net debt at US\$9.14 bn might increase by US\$1 bn over next year
- The management acknowledge uncertainty in global economy, expect growth sentiment to remain muted, however believes demand in India to be stable

Revising estimates; Shifting valuation to FY13

Tata Steel Europe (TSE) has reported better than expected performance consistently for past two quarters. The company has been able to raise its product prices during past two quarters also, which helped it mitigate most of the cost related concerns. We however feel that coming two quarters would be tougher as the spot realizations in Europe has been falling since past one and a half month and also full impact of coking coal prices is yet to be seen. This we believe would put significant pressure on the margins. Also, seasonal demand remain weak during July- December period. Having said that expected softness in coking coal and iron ore prices should help the company to do better again in Q4. Coming back to the Indian operations, the company has been doing significantly well in terms of margins. Though, we believe impact of higher coking coal costs would be seen in Indian operations too during the next couple of quarters, it may not be very significant. This is because the TSI has been using a blend of semi soft coking coal, which recently has corrected ~UD\$40- 50/ tonne. The 2.9 mt brownfield expansion at Jamshedpur is likely to be commissioned during March 2012, against earlier guidance of October- November 2011. The saleable metal is expected to be available during Q2FY13 after full stabilization. On European business also overall volume on YoY basis would be lower due to mothballing of long product unit at Scunthorpe.

Factoring the opportunities and concerns we have revised our estimates for both FY12E and FY13E. We modify our adjusted EPS downwards for both FY12E and FY13E by 28% and 23% respectively to Rs 55 and Rs 79. The revision in EPS also takes into account the macro risk that are visible now in terms of demand slow down and spending cuts by the governments across the globe.

Valuation: upgrade to Buy

At the CMP of Rs 476, the stock is trading at 6x its FY13EPS and 4.7x FY13 EV/ EBITDA. Despite modifying our earnings estimates more reasonable, we feel the stock has potential to give positive surprises going forward. We change our valuation base to FY13 and continue to value the domestic operation at 6.5x EV/ EBITDA and overseas subsidiaries at 4x EV/ EBITDA. Maintain our target price of Rs 670/ share. Upgrade the stock to Buy.

Financials (consolidated)

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	1,017,578	1,171,498	1,139,100	1,272,287
Growth (%)	-30.2	15.1	-2.8	11.7
Expenditure	943,505	1,027,575	1,013,415	1,110,436
Raw Materials	310,045	380,441	380,789	411,235
Freight & handling	55,491	63,896	61,131	68,263
Employee Cost	164,630	152,884	143,953	157,295
Other Exp	72338.34	81079.47	80833.13	88487.88
EBITDA	80,427	159,956	142,685	178,850
Growth (%)	-55.6	98.9	-10.8	25.3
EBITDA margin (%)	7.9	13.7	12.5	14.1
Depreciation	44917.3	44148.2	45045.62	46845.62
EBIT	35,509	115,808	97,639	132,005
EBIT margin (%)	3.5	9.9	8.6	10.4
Other Income	11858.5	9809.8	7000	7000
Interest expenses	30220.6	27700.4	29120.5	28061.32
PBT	17,147	97,917	75,519	110,944
Tax	21518.4	32459	23568.06	35870.62
Effective tax rate (%)	125.5	33.1	31.2	32.3
Adjusted PAT	-4,371	65,458	51,951	75,073
(Profit)/loss from JV's/Ass/MI	1116.2	1266.4	1400	1200
Adjusted PAT after MI	-3,255	66,725	53,351	76,273
Growth (%)	N.A	N.A	-20.0	43.0
Net Margin (%)	14.1	14.3	15.1	15.1
E/O items	-16837.2	23102.1	0	0
Reported PAT*	-20,092	89,827	53,351	76,273
Growth (%)	N.A	N.A	-40.6	43.0

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	-11,549	111,210	68,519	103,944
Depreciation	44,917	44,148	45,046	46,846
Interest Provided	30,221	27,700	29,120	28,061
Other Non-Cash items	-41,068	-5,519	0	0
Chg in working cap	104,019	-80,451	28,485	-28,470
Tax paid	-21,518	-32,459	-23,568	-35,871
Operating Cashflow	105,022	64,629	147,601	114,510
Capital expenditure	-17,803	-73,771	-75,000	-70,000
Free Cash Flow	87,219	-9,142	72,601	44,510
Other income	11,859	9,810	7,000	7,000
Investments	-41,060	-93,590	-82,140	-77,000
Investing Cashflow	-29,202	-83,780	-75,140	-70,000
Equity Capital Raised	-53,160	720	120	0
Loans Taken / (Repaid)	-68,001	75,840	-48,867	6,500
Interest Paid	-30,221	-27,700	-29,120	-28,061
Dividend paid (incl tax)	-8,300	-10,500	-10,500	-10,500
Income from investments	0	0	0	0
Financing Cashflow	-51,350	59,930	-89,035	-23,860
Net chg in cash	6,667	40,779	-16,573	20,650
Opening cash position	61,484	68,151	108,930	92,356
Closing cash position	68,151	108,930	92,356	113,006

*Adjusted nos for FY12E and FY13E

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	8867.4	9587.4	9707.4	9707.4
Reserves & surplus	228,387	357,484	400,195	465,968
Net worth	237,254	367,071	409,902	475,675
Minority Interest	8840.7	8889	8840.7	8840.7
Secured Loans	280,593	286,044	272,971	264,471
Unsecured Loans	250,410	320,799	285,005	300,005
Loan Funds	531,004	606,843	557,976	564,476
Net deferred tax liability	16541	20126.2	16541.1	16541.1
Total Liabilities	794,336	1,015,466	1,003,072	1,075,345
Gross Block	972,890	981,014	1,021,014	1,061,014
Less: Depreciation	608,126	615,922	658,262	705,107
Net block	364,764	365,092	362,752	355,907
CWIP	93194	158841.7	193841.7	223841.7
Investment	54,178	78,473	78,473	78,473
Current Assets	370,218	497,740	448,480	507,560
Inventories	186,866	240,552	217,582	245,214
Sundry debtors	115,124	148,163	138,462	149,261
Cash & bank balance	68,151	108,926	92,356	113,006
Loans & advances	68,499	99,947	79,737	89,060
Other current assets	0	0	0	0
Current lia & Prov	299,867	337,610	313,194	332,479
Current liabilities	233,925	266,711	247,253	266,537
Provisions	65,942	70,899	65,942	65,942
Net current assets	138,851	260,077	215,022	264,141
Total Assets	794,336	1,015,466	1,003,072	1,075,345

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	7.9	13.7	12.5	14.1
Net Margin	-2.0	7.7	4.7	6.0
ROCE	5.6	14.1	10.5	13.5
ROE	-8.0	30.2	13.7	17.2
RoIC	5.7	18.9	15.2	20.6
Per Share Data (Rs)				
EPS*	-22.7	93.7	55.0	78.6
CEPS	28.0	139.7	111.5	152.2
BVPS	93.3	227.0	291.1	398.9
DPS	7.4	9.4	9.2	9.2
Valuations (x)				
PER	-21.1	5.1	8.7	6.1
P/CEPS	17.0	3.4	4.3	3.1
P/BV	5.1	2.1	1.6	1.2
EV / Sales	0.8	0.7	0.7	0.7
EV / EBITDA	10.3	5.5	6.0	4.7
Gearing Ratio (x)				
Net Debt/ Equity	2.0	1.3	1.1	0.9
Net Debt/EBITDA	5.8	3.1	3.3	2.5

Recommendation History: Tata Steel – TATA IN

Date	Reports	Reco	CMP	Target
26/05/2011	Tata Steel Q4FY11 Result Update	Accumulate	573	670
06/04/2011	Tata Steel Management Meet Update	Accumulate	634	695
16/02/2011	Tata Steel Q3FY11 Result Update	Accumulate	617	684
19/01/2011	Tata Steel FPO Note			

Recent Research Reports

Date	Reports	Reco	CMP	Target
09/08/2011	Godawari Power Q1FY12 Result Update	Buy	151	210
08/08/2011	Sesa Goa Event Update	Accumulate	241	308
02/08/2011	HEG Q1FY12 Result Update	Accumulate	230	261
27/07/2011	JSW Steel Q1FY12 Result Update	Accumulate	870	1,016

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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