

Approaching fair value; Down to Neutral

We see limited upside potential

We are downgrading Tata Power (TPC) to Neutral, as a) regulatory challenges should curb growth in core earnings & book value, and b) weak core profitability & capex are seen eroding RoE. While TPC's non-core investment portfolio remains the key stock driver, given the stock is up 38% YTD, we believe the concerns above will limit stock upside (our SOTP value is Rs629, or 4% upside).

Regulatory challenges impact core-Mumbai license

The FY07 regulatory order for TPC's Mumbai area has not only reduced its book value by 3% but also disallowed some expenses, which would have hurt FY07E EPS but for wind capex-driven tax breaks. Moreover, in FY06, TPC was not allowed to recover all its fuel costs, leading to 50% YoY rise in debtors.

Capex & weak core business to maintain pressure on RoE

TPC lacks growth in core earnings as its capex plans announced in the past three years are either running late or uncertain. Consequently, as TPC executes its delayed capex over FY07-10E, RoE would be under pressure. Further, as a quick fix, TPC is setting up diesel generator (DG) sets, which may expose it to the vagaries of oil prices, as the regulator allows only limited fuel cost pass-through. Its capex on wind power (much more v/s RPS obligation @ 5%) also seems to be driven more by tax shelters.

Stock lacks triggers

While TPC's non-core investments and success with the Delhi JV (North Delhi Power) provide some downside protection, the stock lacks triggers in its core business. We see some excitement around the bidding for ultra mega power projects, but that has an event risk. With PE touching an all-time high and RoE falling, the stock is unlikely to yield much return, in our view. Hence, we move to a Neutral stance.

Estimates (Mar)

| (Rs) | 2005A | 2006A | 2007E | 2008E | 2009E |
|----------------------------|-------|-------|---------|-------|--------|
| Net Income (Adjusted - mn) | 5,513 | 6,105 | 6,265 | 6,596 | 6,791 |
| EPS | 27.86 | 30.85 | 31.66 | 33.33 | 34.32 |
| EPS Change (YoY) | 4.6% | 10.7% | 2.6% | 5.3% | 3.0% |
| Dividend / Share | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 |
| Free Cash Flow / Share | 26.05 | 15.30 | (14.14) | 3.14 | (2.36) |

Valuation (Mar)

| | 2005A | 2006A | 2007E | 2008E | 2009E |
|-----------------------|--------|--------|--------|--------|---------|
| P/E | 21.46x | 19.38x | 18.88x | 17.94x | 17.42x |
| Dividend Yield | 1.17% | 1.17% | 1.17% | 1.17% | 1.17% |
| EV / EBITDA* | 13.86x | 15.91x | 15.30x | 13.84x | 12.21x |
| Free Cash Flow Yield* | 4.36% | 2.56% | -2.37% | 0.525% | -0.395% |
| P/BV | 2.33 | 2.15 | 1.99 | 1.79 | 1.62 |

* For full definitions of iQmethodSM measures, see page 16.



Bharat Parekh >> +91 22 6632 8656

Research Analyst
DSP Merrill Lynch (India)
bharat_parekh@ml.com

Joseph Jacobelli >> +852 2161 7381

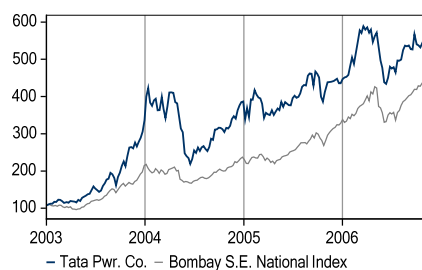
Research Analyst
Merrill Lynch (Hong Kong)
joseph_jacobelli@ml.com

Amish Shah >> +91 22 6632 8672

Research Analyst
DSP Merrill Lynch (India)
shah_amish@ml.com

Stock Data

| | |
|-----------------------------|-------------------|
| Price | Rs597.75 |
| Investment Opinion | NA to C-2-7 |
| Volatility Risk | HIGH |
| 52-Week Range | Rs390.00-Rs612.95 |
| Mrkt Val / Shares Out (mn) | US\$2,644 / 197.9 |
| Average Daily Volume | 105,031 |
| ML Symbol / Exchange | TPWFF / BSE |
| Bloomberg / Reuters | TPWR IN / TTPW.BO |
| ROE (2007E) | 10.9% |
| Net Dbt to Eqty (Mar-2006A) | 31.8% |
| Est. 5-Yr EPS / DPS Growth | 10.0% / 10.0% |
| Free Float | 67.7% |



>> Employed by a non-US affiliate of MLPF&S and is not registered/qualified as a research analyst under the NYSE/NASD rules.

Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Refer to important disclosures on page 17 to 18. Analyst Certification on page 15.

iQprofileSM Tata Power

| Key Income Statement Data (Mar) | 2005A | 2006A | 2007E | 2008E | 2009E |
|--|---------|---------|---------|---------|---------|
| (Rs Millions) | | | | | |
| Sales | 38,699 | 45,247 | 47,918 | 51,946 | 55,581 |
| Gross Profit | 15,901 | 15,450 | 16,814 | 18,451 | 20,565 |
| Sell General & Admin Expense | (6,441) | (7,208) | (8,243) | (8,980) | (9,826) |
| Operating Profit | 6,311 | 5,458 | 5,208 | 5,692 | 6,606 |
| Net Interest & Other Income | (743) | (135) | 413 | 299 | 252 |
| Associates | NA | NA | NA | NA | NA |
| Pretax Income | 5,568 | 5,323 | 5,620 | 5,990 | 6,858 |
| Tax (expense) / Benefit | (1,697) | (1,303) | (355) | (395) | (1,166) |
| Net Income (Adjusted) | 5,513 | 6,105 | 6,265 | 6,596 | 6,791 |
| Average Fully Diluted Shares Outstanding | 198 | 198 | 198 | 198 | 198 |

Key Cash Flow Statement Data

| | | | | | |
|---|---------|---------|---------|---------|----------|
| Net Income (Reported) | 3,871 | 4,020 | 5,265 | 5,596 | 5,691 |
| Depreciation & Amortization | 3,150 | 2,783 | 3,364 | 3,779 | 4,133 |
| Change in Working Capital | 1,743 | (4,096) | 4,823 | (433) | 7 |
| Deferred Taxation Charge | NA | NA | NA | NA | NA |
| Other Adjustments, Net | (2,985) | 2,651 | (6,684) | (1,637) | (2,339) |
| Cash Flow from Operations | 5,779 | 5,358 | 6,768 | 7,305 | 7,493 |
| Capital Expenditure | (624) | (2,331) | (9,567) | (6,685) | (7,960) |
| (Acquisition) / Disposal of Investments | NA | NA | NA | NA | NA |
| Other Cash Inflow / (Outflow) | (4,195) | 4,698 | 4,512 | 900 | (2,943) |
| Cash Flow from Investing | (4,819) | 2,367 | (5,055) | (5,785) | (10,903) |
| Shares Issue / (Repurchase) | (2,953) | 6 | 0 | 0 | 0 |
| Cost of Dividends Paid | (1,699) | (1,920) | (1,925) | (1,925) | (1,925) |
| Cash Flow from Financing | 6,575 | (3,520) | (105) | 2,517 | 2,197 |
| Free Cash Flow | 5,155 | 3,028 | (2,799) | 621 | (467) |
| Net Debt | 18,798 | 17,496 | 12,830 | 11,934 | 15,556 |
| Change in Net Debt | 3,427 | (5,398) | 158 | (1,329) | 3,630 |

Key Balance Sheet Data

| | | | | | |
|-------------------------------|--------|--------|---------|---------|---------|
| Property, Plant & Equipment | 32,461 | 32,148 | 38,352 | 41,257 | 45,084 |
| Other Non-Current Assets | 34,297 | 33,363 | 31,892 | 34,253 | 40,848 |
| Trade Receivables | 7,274 | 10,935 | 8,927 | 9,820 | 10,507 |
| Cash & Equivalents | 9,796 | 9,906 | 16,337 | 19,943 | 18,737 |
| Other Current Assets | 8,474 | 9,243 | 9,352 | 9,892 | 10,100 |
| Total Assets | 92,302 | 95,595 | 104,860 | 115,165 | 125,275 |
| Long-Term Debt | 28,053 | 27,178 | 28,945 | 31,654 | 34,070 |
| Other Non-Current Liabilities | NA | NA | NA | NA | NA |
| Short-Term Debt | 541 | 223 | 223 | 223 | 223 |
| Other Current Liabilities | 12,989 | 13,210 | 16,135 | 17,135 | 18,037 |
| Total Liabilities | 41,583 | 40,612 | 45,302 | 49,012 | 52,330 |
| Total Equity | 50,720 | 54,984 | 59,558 | 66,154 | 72,945 |
| Total Equity & Liabilities | 92,302 | 95,595 | 104,860 | 115,165 | 125,275 |

iQmethodSM - Bus Performance*

| | | | | | |
|----------------------------|-------|-------|-------|-------|-------|
| Return On Capital Employed | 7.1% | 6.5% | 7.4% | 7.5% | 7.2% |
| Return On Equity | 11.0% | 11.6% | 10.9% | 10.5% | 9.8% |
| Operating Margin | 17.5% | 12.8% | 11.7% | 12.0% | 13.1% |
| EBITDA Margin | 24.4% | 18.2% | 17.9% | 18.2% | 19.3% |

iQmethodSM - Quality of Earnings*

| | | | | | |
|--------------------------|-------|-------|-------|-------|-------|
| Cash Realization Ratio | 1.0x | 0.9x | 1.1x | 1.1x | 1.1x |
| Asset Replacement Ratio | 0.2x | 0.8x | 2.8x | 1.8x | 1.9x |
| Tax Rate (Reported) | 30.5% | 24.5% | 6.3% | 6.6% | 17.0% |
| Net Debt-to-Equity Ratio | 37.1% | 31.8% | 21.5% | 18.0% | 21.3% |
| Interest Cover | 3.3x | 3.3x | 3.6x | 3.2x | 3.2x |

Key Metrics

* For full definitions of iQmethodSM measures, see page 16.

Company Description

Tata Power Co., was one of the three cos. in Tata Electric Co., the other two were merged into TPC in April 2000. It is the largest private IPP & sells power to distribution companies (eg, Reliance Energy, BEST, MSEB) & industrial consumers in Mumbai. TPC owns two captive power plants, one IPP, & a wind farm & runs an EPC business in the T&D space & a defense electronics outfit. It also owns 49% in the distribution circle in New Delhi.

Stock Data

Price to Book Value 2.0x

Limited upside seen: Downgrading to Neutral

- We are downgrading TPC to Neutral (stock is up 38% YTD), since we believe that the markets are yet to factor in the slowdown in its core earnings & growth in book value due to regulatory challenges.
- While TPC's non-core investment portfolio remains the key driver of the stock, we think it is time to focus on slowing growth in core business and deteriorating RoE.
- In this environment, we see limited potential stock upside based on our SOTP valuation at Rs629 (4% upside). Hence, we downgrade the stock to Neutral.

Regulatory challenges

Recent regulatory orders for TPC's Mumbai license area would have multiple negative impacts on its financials.

- Truing-up (reconciliation) of past years (FY05-06) has reduced its book value by about Rs8/share (3% of FY06).
- The regulator has also denied some expenditures, especially O&M costs (Rs591mn), which should lower core power earnings from the Mumbai circle during FY07E.

We expect TPC to contest these moves by the regulator, MERC, since it has not made the relevant provisions in its (delayed) 2Q FY07 results. But we fear that it will have to make the provisions in FY07 final accounts, should the regulator not reverse its order.

In FY06, TPC has had to face two additional challenges:

- Its RoE is down to 14% (from 16% earlier).
- It was not allowed to recover all its fuel cost increases (due to a change in fuel mix towards oil), which led to a 50.3% YoY increase in debtors to Rs10.9bn and stretched working capital.

Table 1: Tata Power's petition vs approved ARR - FY07

| (Rs mn) | Generation | | Transmission | | Distribution | | Total | |
|--|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|
| | Petition | Approved | Petition | Approved | Petition | Approved | Petition | Approved |
| Power Purchase expenses | N.A. | N.A. | N.A. | N.A. | 9215 | 9590 | 9,215 | 9,590 |
| Operation & Maintenance | 2,998 | 2,549 | 898 | 776 | 241 | 220 | 4,137 | 3,546 |
| Depreciation (incl. advance) | 604 | 601 | 302 | 300 | 148 | 117 | 1,054 | 1,018 |
| Interest on long term loan | 306 | 216 | 71 | 20 | 112 | 21 | 489 | 257 |
| Interest on Working Capital | 849 | 747 | 47 | 19 | 96 | 63 | 993 | 829 |
| Other Expenses | - | - | - | - | 43 | 34 | 43 | 34 |
| Income Tax | 946 | 715 | 260 | 269 | 125 | 91 | 1,331 | 1,075 |
| Total Fixed/ Revenue Expenditure | 5,702 | 4,828 | 1,579 | 1,384 | 9,981 | 10,137 | 17,262 | 16,349 |
| Return on Equity Capital | 1,575 | 1,503 | 597 | 565 | 248 | 192 | 2,419 | 2,260 |
| Less: Non-Tariff/ Other business Income | 291 | 400 | 333 | 263 | 23 | 32 | 647 | 696 |
| Less: Distributable surplus (previous years) | - | - | - | - | - | 616 | - | 616 |
| Total Fixed cost | 6,986 | 5,931 | 1,842 | 1,686 | 10,206 | 9,681 | 19,034 | 17,297 |
| Regulatory Equity (beg. of year) | 10,730 | 10,733 | 4,077 | 3,991 | 1,410 | 1,176 | 16,217 | 15,901 |
| Return on Regulatory Equity (beg. of year) | 1,502 | 1,503 | 571 | 559 | 226 | 188 | 2,299 | 2,250 |
| Capex | 1,728 | 894 | 616 | 307 | 926 | 138 | 3,270 | 1,339 |
| Equity portion of Capital Expenditure | 519 | 268 | 185 | 92 | 278 | 41 | 981 | 402 |
| Return on Equity portion of capex | 73 | - | 26 | 7 | 22 | 3 | 121 | 10 |
| Regulatory Equity (end of year) | 11,249 | 11,001 | 4,262 | 4,084 | 1,688 | 1,218 | 17,198 | 16,303 |
| Total return on regulatory equity | 1,575 | 1,503 | 597 | 565 | 248 | 192 | 2,419 | 2,260 |

Table 1: Tata Power's petition vs approved ARR - FY07

Source: MERC

Capex running late, starting to dent RoE

Most of TPC's capex plans announced in the past three years are either running late or are uncertain (see Table 3). As it executes its delayed capex over FY07-10E, the lack of growth in core earnings should hurt RoE (see Chart 4).

Further, as a quick-fix solution, TPC is setting up a 100MW DG set-based power project for the Mumbai area, which may expose it to the vagaries of oil prices, as the regulator allows only limited fuel cost pass-through in the tariff.

Last but not least, TPC's capex to set up a 100MW wind farm seems driven more by its zeal to top up quickly on MW (in six months) and by tax shelters (80% accelerated depreciation in the first year), which could likely help it report growth in reported profits for FY07E. It is much ahead of its renewable portfolio standard (RPS) obligation of 4% or 105.5mu v/s likely wind generation in FY08E of 184.68mu or even 6% (167.9mu) obligation until FY10E (see Table 2).

Table 2: RPO settlement

| | FY06 | FY07E | FY08E | FY09E | FY10E |
|---|-------|-------|---------|---------|---------|
| Percentage of Gross Energy Input | 2.0% | 3.0% | 4.0% | 5.0% | 6.0% |
| Energy Input (MU) | 2581 | 2561 | 2638 | 2717 | 2798 |
| RPO Obligation (MU) | 51.61 | 76.83 | 105.51 | 135.85 | 167.91 |
| RE produced from its wind projects (MU) | 26.18 | 28.48 | 184.68 | 184.68 | 184.68 |
| RE to be purchased (MU) | 25.43 | 48.35 | Surplus | Surplus | Surplus |
| Weighted average cost for RE (Rs/kWh) | 3.23 | 3.50 | 3.61 | 3.61 | 3.61 |
| TPC to pay to RPO pool for settlement (Rs mn) | 82.1 | 169.2 | N.A. | N.A. | N.A. |

Source: MERC, Merrill Lynch Research

Table 3: Tata Power's planned generation projects

| Project | State | Capacity (MW) | Fuel | Scheduled Commissioning | Comments | Status |
|--|--------------|---------------|---|--|--|---|
| Projects under implementation in Mumbai License area | | | | | | |
| Wind Energy Project | Maharashtra | 100 | Wind | 2HFY07 | Help reduce tax liability, quick capacity add and meet RPS obligation | Ordered on Suzlon/Enercon. On track for commissioning by March 2007 |
| Diesel Generating Sets | Maharashtra | 100 | Diesel | FY08 | Has a short commissioning time of 10-12 months | Necessary regulatory and environmental approvals awaited |
| Trombay (Extension) | Maharashtra | 250 | Imported Coal | 2HFY09 | To use the existing infrastructure at Trombay | Order placed for equipment on BHEL, on-track. |
| Total | | 450 | | | | |
| Captive projects for Tata Steel | | | | | | |
| | | | Waste Gases from Tata Steel's steel plant | | | |
| Waste Gas Project | Jharkhand | 120 | | 1HFY09 | Estimated project cost of Rs4.9bn | |
| Chhattisgarh Project | Chhattisgarh | 744 | Coal | Uncertain | Tata Power & Tata Steel in 74:26 JV | |
| Orissa Project | Orissa | 1000 | Coal | Uncertain | Tata Power & Tata Steel in 74:26 JV | |
| Jharkhand Project | Jharkhand | 1000 | Coal | Uncertain | Tata Power & Tata Steel in 74:26 JV | |
| Total | | 2864 | | | | |
| Projects under implementation outside Mumbai License area | | | | | | |
| Shrinagar | Uttaranchal | 330 | Hydro | Sold to GVK | Plant sold to GVK | 74:26 JV with Damodar Valley Corp. |
| Maithon JV | Jharkhand | 1000 | Domestic Coal - Mine mouth based | Uncertain | Power to be sold to NDPL & other licensees | |
| Vile | Maharashtra | 1000 | Imported Coal - Near Load center | Uncertain | Likely taken up to meet expansion in Maharashtra distribution business | |
| Jharkhand Project | Jharkhand | 1000 | Domestic Coal - Mine mouth based | Uncertain | Likely taken up if bid for UMPP fails | |
| Haldia Met Coke & Power Co. | West Bengal | 120 | N.A. | First phase of 90MW expected in 2HFY08 | | |
| Total | | 3450 | | | | |

Table 3: Tata Power's planned generation projects

Source: Company, Media sources

FY07E recurring earnings cut 13.8%

We have cut our FY07E EBITDA by 31% based on the recent regulatory orders for TPC's Mumbai license area, which would have the following negative impacts on financials:

- Fall in core power earnings from Mumbai circle in FY07E, with the regulator denying some expenditures, especially O&M costs (Rs591mn).
- Reduction in TPC's book value by about Rs8/share (3% of FY06) on account of truing-up of past years (FY05-06).

However, lower tax expense of Rs355mn (due to reduced EBITDA) and Rs646mn in tax shelters (accelerated depreciation on 100MW wind farm) should cushion the fall in recurring net profits. All said, we cut our estimate of recurring profits by 13.8%, to Rs5.3bn.

Table 4: Tata Power estimates

| | Old | New | % change |
|------------------------------|--------|--------|----------|
| Sales (Rs mn) | | | |
| FY07E | 45,182 | 47,918 | 6.1% |
| FY08E | N.A. | 51,946 | N.A. |
| EBITDA (Rs mn) | | | |
| FY07E | 12,427 | 8,571 | -31.0% |
| FY08E | N.A. | 9,471 | N.A. |
| Recurring PAT (Rs mn) | | | |
| FY07E | 6,108 | 5,265 | -13.8% |
| FY08E | N.A. | 5,596 | N.A. |
| Reported PAT (Rs mn) | | | |
| FY07E | 6,108 | 6,265 | 2.6% |
| FY08E | N.A. | 6,596 | N.A. |
| Recurring EPS (Rs) | | | |
| FY07E | 30.9 | 31.7 | 2.6% |
| FY08E | N.A. | 33.3 | N.A. |

Source: Merrill Lynch Research

NDPL: The one bright spot

TPC's 49% power distribution JV, North Delhi Power Ltd (NDPL) is performing exceptionally well. In FY06, it achieved revenue growth of 16% YoY to Rs18.4bn and net profit growth of 98.2% YoY to Rs1.1bn. This was driven by NDPL cutting its Aggregated Technical and Commercial Losses (AT&C) to 28.4% in FY06 vs. the regulatory target of 35.35%, which resulted in additional revenue and operating profits of Rs1.7bn and Rs550mn, respectively.

Table 5: NDPL AT&C loss target & achievement

| AT&C Loss (%) | Opening | FY03 | FY04 | FY05 | FY06 | FY07 |
|------------------|---------|-------|-------|-------|-------|-------|
| NDPL | | | | | | |
| AT&C Loss Target | 48.10 | 47.60 | 45.35 | 40.85 | 35.35 | 31.10 |
| Reduction (%) | | 0.50 | 2.25 | 4.50 | 5.50 | 4.25 |
| NDPL Achievement | | 47.79 | 44.87 | 34.00 | 28.40 | |
| Reduction | | | 2.9 | 10.9 | 5.60 | |

Source: DERC

Valuation & Ratings

Given the multiple value drivers, we have valued TPC on SOTP method.

Table 6: Tata Power – Sum-of-the-parts valuation

| | Rationale | Total Value (Rs mn) | Value (Rs/ share) |
|---|---|---------------------|-------------------|
| Core business | | | 341 |
| Parent business | DCF - WACC 11.2%; Terminal growth 4% | 57,752 | 341 |
| Telecom Investments | | | 161 |
| VSNL | At 15% strategic premium to market value for VSNL's direct & indirect stake | 12,056 | 61 |
| Tata Teleservices | At 2.35x Book Value; in-line with Pvt. Equity placement | 17,061 | 86 |
| Tata Teleservices (Maharashtra) | At TTML's current market price for Tata Power's 10.6% stake | 2,838 | 14 |
| Power business related investments | | | 49 |
| NDPL | Valued at 2x P/BV = ~11.5x PER FY06A | 6,311 | 32 |
| Powerlinks Transmission | Valued at 1.2x Book value | 2,570 | 13 |
| Power Trading Corp | Valued at Current market price | 789 | 4 |
| Other Investments | | | 24 |
| Nelco | Valued at Current market price | 1,019 | 5 |
| Other Investments | At Book Value | 3,800 | 19 |
| Total (ex Tata Sons/ TCS) | | 104,196 | 576 |
| Tata Sons / TCS | Based on ML's PO of Rs1360 at 20% discount for group holding | 10,511 | 53 |
| Total (including Tata Sons/ TCS) | | 114,707 | 629 |

Source: Merrill Lynch Research

Stock lacks triggers

While TPC's non-core (telecom) investments do provide downside protection, we think the stock lacks trigger in its core power business until material expansion in capacity kicks in by FY09E.

While we expect some excitement around the TPC stock on bidding for ultra mega power projects (UMPP), there are event risk considerations. TPC has tied up with Siemens and Doosan to bid for 2x4000MW projects. Bids are due on 7 December 2006. According to industry sources, NTPC & Adani are front-runners to bag the two projects. We understand that TPC has a good contingency plan in place – if it does not win the UMPP, it would still double capacity over the next five years.

Among the Indian IPP stocks, TPC looks expensive even after excluding the value of its telecom investments. Hence, we are downgrading it to Neutral.

Why we do not have a Sell on TPC

- The stock being close to a material trigger (bidding for UMPP): If the consortium led by TPC wins, it could create value of about Rs61/share (about 11% upside), assuming a 50% stake for TPC and 1.5x P/BV.
- Structural trending nature of its telecom investments (27% of current price), value of which has been on the up.
- Stock still trades at discount to SOTP & market.
- Pedigree of Tata group, which lends the group strengths in case of a) a material opportunity such as UMPP, recent JV with TISCO and b) any threats.

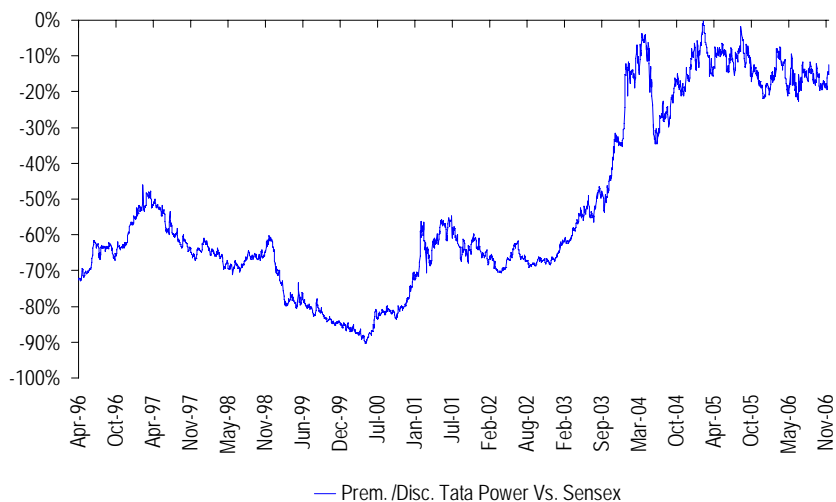
Table 7: Indian IPP Comps

| Company Name | ML Rating | Price (Rs) | Shares o/s (mn) | Market Cap (Rs mn) | P/E (x) | | | RoE (%) | | | P/BV (x) | | | EPS CAGR (%) PEG (x) | |
|-------------------------------------|-----------|------------|-----------------|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|------------|------------|----------------------|------------|
| | | | | | FY07E | FY08E | FY09E | FY07E | FY08E | FY09E | FY07E | FY08E | FY09E | FY06-09E | |
| Tata Power | C-1-7 | 605 | 198 | 119,669 | 19.1 | 18.1 | 17.6 | 10.9 | 10.5 | 9.8 | 2.0 | 1.8 | 1.6 | 3.6 | 5.1 |
| Tata Power (ex-telecom investments) | C-1-7 | 443 | 198 | 87,718 | 14.0 | 13.3 | 12.9 | 14.9 | 13.9 | 12.5 | 2.0 | 1.7 | 1.5 | 3.6 | 3.7 |
| Tata Power (core business) | C-1-7 | 317 | 198 | 62,720 | 16.8 | 16.1 | 16.6 | 15.0 | 12.9 | 10.3 | 2.3 | 1.9 | 1.6 | 9.4 | 1.7 |
| NTPC Ltd | C-1-7 | 147 | 8,245 | 1,213,320 | 18.0 | 15.7 | 14.7 | 14.4 | 15.2 | 15.0 | 2.5 | 2.3 | 2.1 | 13.2 | 1.2 |
| Neyveli Lignite | C-2-7 | 63 | 1,678 | 104,941 | 8.7 | 8.3 | 7.1 | 12.7 | 12.5 | 11.9 | 1.1 | 1.0 | 0.9 | 9.9 | 0.8 |
| Jaiprakash Hydro-Power | C-3-7 | 32 | 491 | 15,565 | 15.4 | 15.2 | 15.1 | 13.2 | 14.5 | 14.4 | 2.2 | 2.2 | 2.2 | 4.3 | 3.5 |
| Gujarat Industries Power | C-2-7 | 55 | 151 | 8,304 | 5.3 | 5.3 | 5.6 | 15.8 | 14.7 | 13.5 | 0.9 | 0.8 | 0.8 | -0.2 | N.A. |
| Average | | | | | 11.9 | 11.1 | 10.6 | 14.0 | 14.2 | 13.7 | 1.7 | 1.6 | 1.5 | 9.1 | 1.8 |

Source: ML Research

TPC has been re-rated due to value creation in telecom investments... but lack of growth in core business over FY07-09E should restrict further reduction in discount to market, in our view

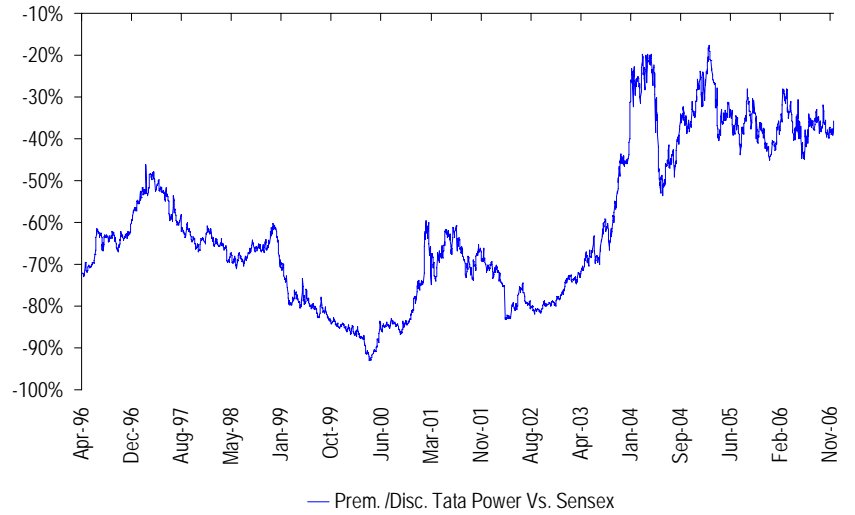
Chart 1: Tata Power's stock performance relative to Sensex



Source: Bloomberg, Merrill Lynch Research

After a re-rating due to telecom investments, TPC has moved sideways since June 2004

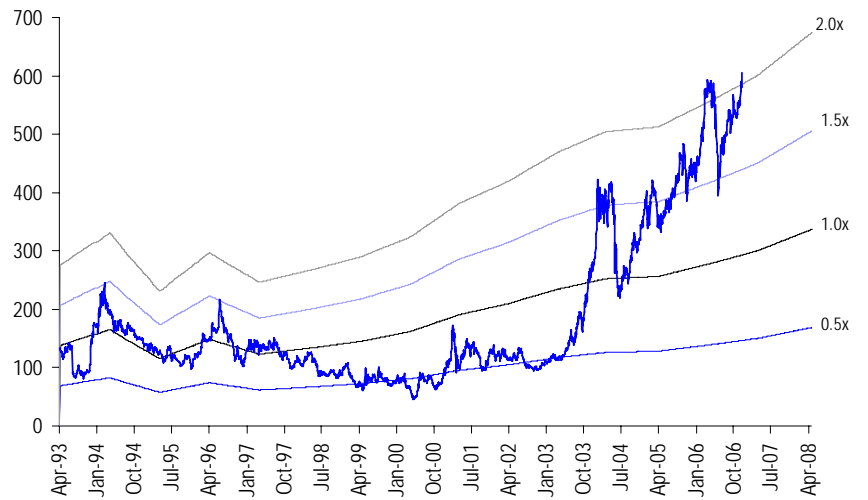
Chart 2: Tata Power's stock performance relative to Sensex (ex-telecom investments)



Source: Bloomberg, Merrill Lynch Research

TPC is also approaching its P/BV peak. With growth in book value slowing, the stock has limited upside, in our view

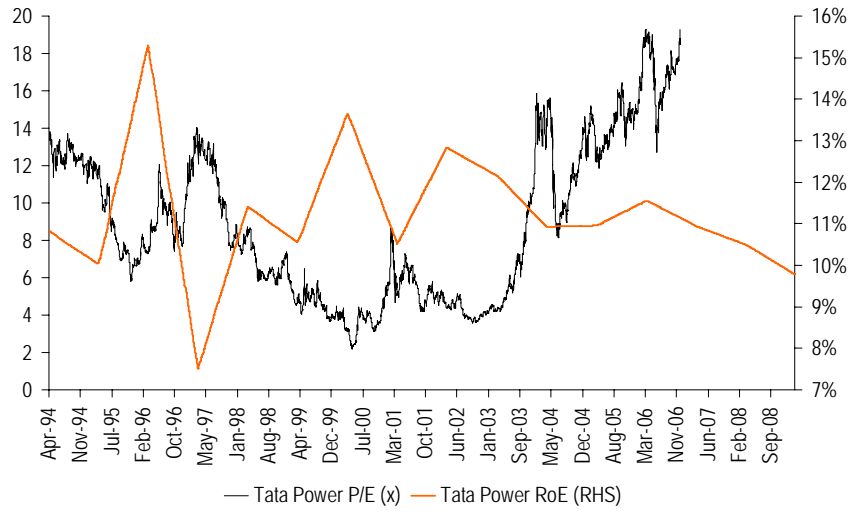
Chart 3: Tata Power – P/BV band



Source: Bloomberg, Merrill Lynch Research

With PE touching an all-time high and RoE approaching new lows, the stock looks unlikely to give attractive returns

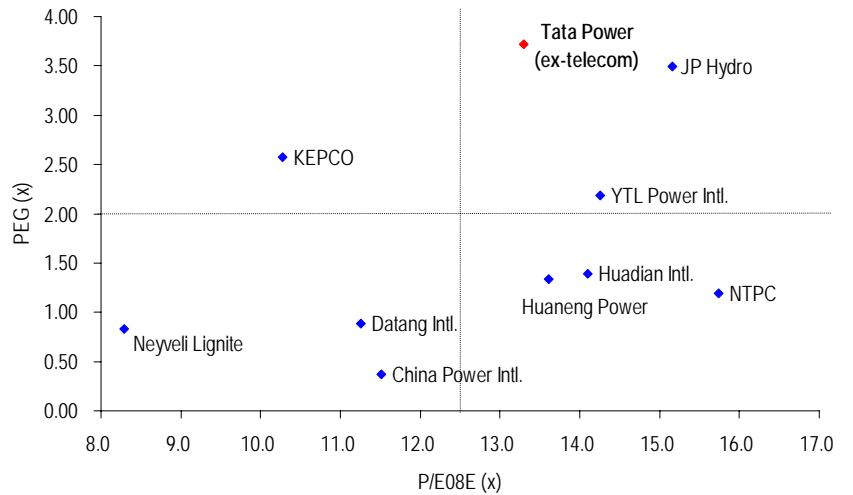
Chart 4: Tata Power PER vs RoE



Source: Bloomberg, Merrill Lynch Research

TPC looks expensive on earnings growth parameters given lack of growth in its core business

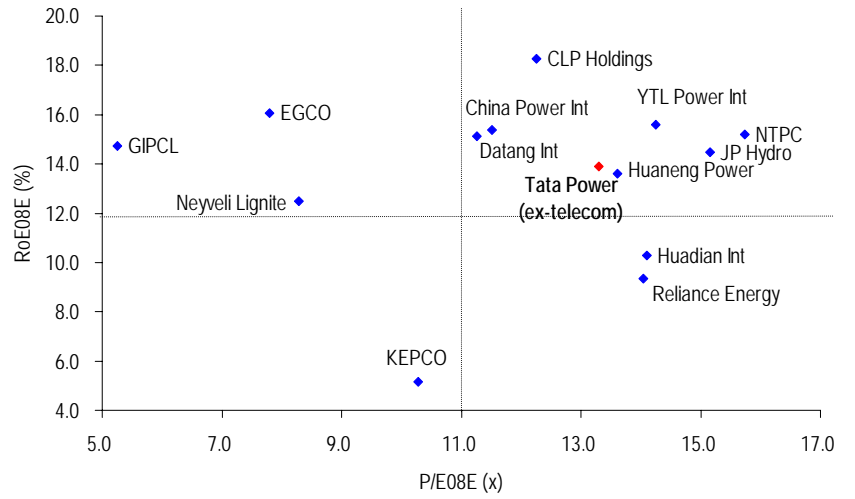
Chart 5: Tata Power vs the regional IPPs on PER vs PEG



Source: Bloomberg, Merrill Lynch Research

TPC appears expensive vs regional comps as well

Chart 6: Tata Power – Rich on valuations, low on returns



Source: Bloomberg, Merrill Lynch Research

Company background

Tata Power Company (TPC), set up in 1910, was one of the three companies in 'Tata Electric Companies'. From April 2000, the remaining two companies merged into TPC to form a large unified entity, which focuses on power generation, transmission & distribution to bulk customers such as distribution companies namely, Reliance Energy, BEST, MSEB and Industrial consumers.

TPC's Mumbai license area operations are governed by 14% return on capital base. TPC also owns 2 captive power plants (CPP), one IPP and a wind farm. The company also runs an EPC business in the T&D space, has a niche defense electronics business and has presence in the broadband business. Mumbai license area business contributed 70% of FY06 sales, while IPPs contributed 15% of FY06 sales.

TPC also had a management change recently, with Mr. Menon & Mr. Mirza assuming charge at the company. Their brief profile is as below.

Mr. Prasad R Menon, 60 years, was appointed as the Managing Director of the company with effect from October 16, 2006. Prior to this assignment, Mr Menon was the Managing Director of Tata Chemicals Ltd. Part of the Tata Group for over 6 years, Mr Menon has played an integral role in Tata Chemicals' growth and development. A chemical engineer from the Indian Institute of Technology Kharagpur, Mr Menon has previously worked with the Nagarjuna Group and ICI.

Mr Nawshir Mirza, 56 years, was appointed as a non- executive independent Director on the Board in Sept '06. Mr Mirza is the India Advisor for the Jardine Matheson Group and was previously the partner of Ernst & Young.

Besides, the State Government has recently nominated Mr. Jayant S. Kawale as the State Government's Director (Nominee Director) on the Board of TPC.

Table 8: Tata Power generation capacity (MW)

| Generation Plants | Location | FY05 | FY06 | FY07E | FY08E | FY09E |
|---------------------------------------|------------------|--------------|--------------|--------------|--------------|--------------|
| Maharashtra units | | | | | | |
| Trombay units | Maharashtra | 1,330 | 1,330 | 1,330 | 1,330 | 1,330 |
| Diesel Generator Sets | Maharashtra | | | | 100 | 100 |
| Trombay Expansion | Maharashtra | | | | | 250 |
| Total Maharashtra units | | 1,330 | 1,330 | 1,330 | 1,430 | 1,680 |
| Captive units | | | | | | |
| Jojobera (Units I, II & III) | Jharkhand, Bihar | 308 | 308 | 308 | 308 | 308 |
| Jojobera (Unit IV) | Jharkhand, Bihar | | 120 | 120 | 120 | 120 |
| Total captive units | | 308 | 428 | 428 | 428 | 428 |
| IPP unit | | | | | | |
| Belgaum | Karnataka | 81 | 81 | 81 | 81 | 81 |
| Total IPP unit | | 81 | 81 | 81 | 81 | 81 |
| Hydel units | | | | | | |
| Unit 1-6, Bhira | Maharashtra | 150 | 150 | 150 | 150 | 150 |
| Unit 7, Bhira PSU | Maharashtra | 150 | 150 | 150 | 150 | 150 |
| Unit 7-11 Bhivpuri | Maharashtra | 75 | 75 | 75 | 75 | 75 |
| Unit 1-6, Khopoli | Maharashtra | 72 | 72 | 72 | 72 | 72 |
| Total Hydel units | | 447 | 447 | 447 | 447 | 447 |
| Wind Power | | | | | | |
| Supa Wind Power Project | Maharashtra | 17 | 17 | 17 | 17 | 17 |
| Wind Power Project (planned) | Maharashtra | | | 100 | 100 | 100 |
| Total Wind Power | | 17 | 17 | 117 | 117 | 117 |
| Total Generating Capacity (MW) | | 2,183 | 2,303 | 2,403 | 2,503 | 2,753 |
| % change YoY | | -3.3% | 5.5% | 4.3% | 4.2% | 10.0% |

Source: Company, Merrill Lynch Research

Earnings models

Table 9: Tata Power - Profit & Loss statement

| (Rs mn) | FY05 | FY06 | FY07E | FY08E | FY09E |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Sales | 38,699 | 45,247 | 47,918 | 51,946 | 55,581 |
| % chg yoy | -6% | 17% | 6% | 8% | 7% |
| Staff Cost | 1,554 | 1,737 | 1,945 | 2,140 | 2,439 |
| % of sales | 4.0% | 3.8% | 4.1% | 4.1% | 4.4% |
| Cost of Power Purchased | 4,157 | 5,832 | 6,742 | 7,079 | 6,658 |
| % of sales | 10.7% | 12.9% | 14.1% | 13.6% | 12.0% |
| Cost of Fuel | 18,640 | 23,965 | 24,362 | 26,416 | 28,358 |
| % of sales | 48% | 53% | 51% | 51% | 51% |
| Other Expenditure | 4,887 | 5,472 | 6,298 | 6,841 | 7,387 |
| % of sales | 12.6% | 12.1% | 13.1% | 13.2% | 13.3% |
| EBITDA | 9,461 | 8,242 | 8,571 | 9,471 | 10,739 |
| EBITDA Margin | 24.4% | 18.2% | 17.9% | 18.2% | 19.3% |
| % chg yoy | -25% | -13% | 4% | 10% | 13% |
| Interest | (1,914) | (1,653) | (1,448) | (1,771) | (2,080) |
| Depreciation | (3,150) | (2,783) | (3,364) | (3,779) | (4,133) |
| Other Income | 1,172 | 1,518 | 1,861 | 2,069 | 2,332 |
| Extraordinary Inc/(Expenses) | 1,642 | 2,085 | 1,000 | 1,000 | 1,100 |
| Profit before Tax | 7,210 | 7,408 | 6,620 | 6,990 | 7,958 |
| % chg yoy | -2% | 3% | -11% | 6% | 14% |
| Provision for Taxation | (1,697) | (1,303) | (355) | (395) | (1,166) |
| Tax Rate | 30.5% | 17.6% | 5.4% | 5.6% | 14.7% |
| Profit After Tax | 5,513 | 6,105 | 6,265 | 6,596 | 6,791 |
| % chg yoy | 5% | 11% | 3% | 5% | 3% |
| Statutory & Special Appropriations | 522 | 591 | 608 | 643 | 688 |
| Distributable Profits | 4,992 | 5,514 | 5,658 | 5,952 | 6,103 |
| No. of Shares O/S | 197.9 | 197.9 | 197.9 | 197.9 | 197.9 |
| Reported EPS | 27.9 | 30.9 | 31.7 | 33.3 | 34.3 |
| EPS %chg | 5% | 11% | 3% | 5% | 3% |
| Pre-exceptional PAT | 3,871 | 4,020 | 5,265 | 5,596 | 5,691 |
| % chg yoy | -25% | 4% | 31% | 6% | 2% |
| Pre-exceptional EPS | 19.6 | 20.3 | 26.6 | 28.3 | 28.8 |

Source: Company, Merrill Lynch Research

Table 10: Tata Power – Balance Sheet

| (Rsmn) | FY05 | FY06 | FY07E | FY08E | FY09E |
|--|---------------|---------------|----------------|----------------|----------------|
| Net Fixed Assets | 32,461 | 32,148 | 38,352 | 41,257 | 45,084 |
| Total Investments | 34,297 | 33,202 | 31,551 | 33,721 | 40,095 |
| Total Current Assets | 25,544 | 30,084 | 34,617 | 39,655 | 39,344 |
| Inventory | 2,970 | 4,423 | 4,740 | 5,193 | 5,309 |
| Receivables | 7,274 | 10,935 | 8,927 | 9,820 | 10,507 |
| Cash | 9,796 | 9,906 | 16,337 | 19,943 | 18,737 |
| Other Assets | 5,504 | 4,820 | 4,611 | 4,699 | 4,791 |
| Total Assets | 92,302 | 95,434 | 104,519 | 114,632 | 124,523 |
| Long-term Debt | 28,053 | 27,178 | 28,945 | 31,654 | 34,070 |
| Short Term Debt | 541 | 223 | 223 | 223 | 223 |
| Total Debt | 28,594 | 27,401 | 29,168 | 31,877 | 34,293 |
| Total Current Liabilities | 12,876 | 13,210 | 16,135 | 17,135 | 18,037 |
| Deferred Tax Liability | 113 | (162) | (341) | (533) | (752) |
| Tangible Net Worth | 50,720 | 54,984 | 59,558 | 66,154 | 72,945 |
| Equity Share Capital | 1,979 | 1,979 | 1,979 | 1,979 | 1,979 |
| Net reserves | 48,740 | 53,005 | 57,579 | 64,174 | 70,966 |
| Total Liabilities & Owners Equity | 92,302 | 95,434 | 104,519 | 114,632 | 124,523 |

Source: Company, Merrill Lynch Research

Table 11: Tata Power – Cash Flow

| (Rs mn) | FY05 | FY06 | FY07E | FY08E | FY09E |
|--------------------------------------|---------------|---------------|---------------|---------------|----------------|
| PBT | 7210 | 7408 | 6620 | 6990 | 7958 |
| Exceptionals | 0 | 0 | 0 | 0 | 0 |
| Net other income | (2814) | (3603) | (2861) | (3069) | (3432) |
| Add: Depreciation | 3150 | 2783 | 3364 | 3779 | 4133 |
| Less: Taxation | (1697) | (1303) | (355) | (395) | (1166) |
| Less: Misc. Exp | (71) | 73 | 0 | 0 | 0 |
| Cash Flow from Operations | 5779 | 5358 | 6768 | 7305 | 7493 |
| Working capital changes | | | | | |
| Change in inventory | 162 | (1452) | (318) | (453) | (116) |
| Change in debtors | (92) | (3662) | 2008 | (893) | (687) |
| Change in other current assets | 2852 | 684 | 209 | (87) | (92) |
| Change in payables | (1677) | 147 | 921 | 500 | 338 |
| Change in other current liabilities | 497 | 187 | 2004 | 501 | 564 |
| Net change in working capital | 1743 | (4096) | 4823 | (433) | 7 |
| Net funds from operations | 7521 | 1263 | 11591 | 6873 | 7500 |
| Issue of equity | (2953) | 6 | 0 | 0 | 0 |
| Inc/(Dec) in debt | 10961 | (1192) | 1766 | 2709 | 2417 |
| Dividend paid | (1699) | (1920) | (1925) | (1925) | (1925) |
| Others | 266 | (414) | 54 | 1733 | 1705 |
| Net cash from financing | 6575 | (3520) | (105) | 2517 | 2197 |
| Addition to fixed assets | (624) | (2331) | (9567) | (6685) | (7960) |
| Net Other Income | 2814 | 3603 | 2861 | 3069 | 3432 |
| (Inc)/Dec in investments | (7009) | 1095 | 1651 | (2170) | (6375) |
| Net cash from investing | (4819) | 2367 | (5055) | (5785) | (10903) |
| Merger related adjustments | 0 | 0 | 0 | 0 | 0 |
| Total inc/Dec in cash/cash eq. | 9277 | 110 | 6432 | 3605 | (1206) |
| Increase in cash | 9277 | 110 | 6432 | 3605 | (1206) |
| Cash balance in beginning | 519 | 9796 | 9906 | 16337 | 19943 |
| Cash balance at year end | 9796 | 9906 | 16337 | 19943 | 18737 |

Source: Company, Merrill Lynch Research

Table 12: Tata Power – Key ratios & valuation

| | FY05 | FY06 | FY07E | FY08E | FY09E |
|-----------------------------------|--------|--------|--------|--------|--------|
| PER (x) | 21.7 | 19.6 | 19.1 | 18.1 | 17.6 |
| PER (x) - ex- telecom investments | 15.9 | 14.4 | 14.0 | 13.3 | 12.9 |
| Reported EPS (Rs) | 27.86 | 30.85 | 31.66 | 33.33 | 34.32 |
| Reported EPS Change (%) | 4.6% | 10.7% | 2.6% | 5.3% | 3.0% |
| CEPS (Rs) | 43.8 | 44.9 | 48.7 | 52.4 | 55.2 |
| P/CEPS (x) | 13.8 | 13.5 | 12.4 | 11.5 | 11.0 |
| EV/EBITDA (x) | 14.6 | 16.6 | 15.5 | 13.9 | 12.6 |
| DPS (Rs) | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 |
| Dividend Yield (%) | 1.2% | 1.2% | 1.2% | 1.2% | 1.2% |
| BV (Rs) | 256.3 | 277.8 | 301.0 | 334.3 | 368.6 |
| P/BV (x) | 2.4 | 2.2 | 2.0 | 1.8 | 1.6 |
| RoCE (%) | 8.6% | 6.8% | 6.1% | 6.1% | 6.5% |
| Dupont Analysis | | | | | |
| RoE (%) | 11.0% | 11.6% | 10.9% | 10.5% | 9.8% |
| Comprising of | | | | | |
| PAT/EBT(%) | 76% | 82% | 95% | 94% | 85% |
| EBT/EBIT(%) | 114% | 136% | 127% | 123% | 120% |
| EBIT/Sales(%) | 16% | 12% | 11% | 11% | 12% |
| Sales/Assets (%) | 53% | 56% | 56% | 56% | 54% |
| Assets/Net worth (%) | 146% | 153% | 149% | 148% | 147% |
| Net Debt (Rs mn) | 18,798 | 17,496 | 12,830 | 11,934 | 15,556 |
| Net Debt/Equity (x) | 0.4 | 0.3 | 0.2 | 0.2 | 0.2 |

Source: Company, Merrill Lynch Research

Analyst Certification

I, Bharat Parekh, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Special Disclosures

In accordance with the SEBI (Foreign Institutional Investors) Regulations and with guidelines issued by the Securities and Exchange Board of India (SEBI), foreign investors (individuals as well as institutional) that wish to transact the common stock of Indian companies must have applied to, and have been approved by SEBI and the Reserve Bank of India (RBI). Each investor who transacts common stock of Indian companies will be required to certify approval as a foreign institutional investor or as a sub-account of a foreign institutional investor by SEBI and RBI. Certain other entities are also entitled to transact common stock of Indian companies under the Indian laws relating to investment by foreigners. Merrill Lynch reserves the right to refuse copy of research on common stock of Indian companies to a person not resident in India. American Depositary Receipts (ADR) representing such common stock are not subject to these Indian law restrictions and may be transacted by investors in accordance with the applicable laws of the relevant jurisdiction. Global Depositary Receipts (GDR) and the Global Depositary Shares of Indian companies, Indian limited liability corporations, have not been registered under the U.S. Securities Act of 1933, as amended, and may only be transacted by persons in the United States who are Qualified Institutional Buyers (QIBs) within the meaning of Rule 144A under the Securities Act. Accordingly, no copy of any research report on Indian companies' GDRs will be made available to persons who are not QIBs.

***iQmethod*SM Measures Definitions**

| Business Performance | Numerator | Denominator |
|-----------------------------|--|---|
| Return On Capital Employed | $\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$ | Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill |
| Return On Equity | Net Income | Shareholders' Equity |
| Operating Margin | Operating Profit | Sales |
| Earnings Growth | Expected 5-Year CAGR From Latest Actual | N/A |
| Free Cash Flow | Cash Flow From Operations – Total Capex | N/A |
| Quality of Earnings | | |
| Cash Realization Ratio | Cash Flow From Operations | Net Income |
| Asset Replacement Ratio | Capex | Depreciation |
| Tax Rate | Tax Charge | Pre-Tax Income |
| Net Debt-To-Equity Ratio | Net Debt = Total Debt, Less Cash & Equivalents | Total Equity |
| Interest Cover | EBIT | Interest Expense |
| Valuation Toolkit | | |
| Price / Earnings Ratio | Current Share Price | Diluted Earnings Per Share (Basis As Specified) |
| Price / Book Value | Current Share Price | Shareholders' Equity / Current Basic Shares |
| Dividend Yield | Annualised Declared Cash Dividend | Current Share Price |
| Free Cash Flow Yield | Cash Flow From Operations – Total Capex | Market Cap. = Current Share Price * Current Basic Shares |
| Enterprise Value / Sales | $\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$ | |
| EV / EBITDA | Enterprise Value | Basic EBIT + Depreciation + Amortization |

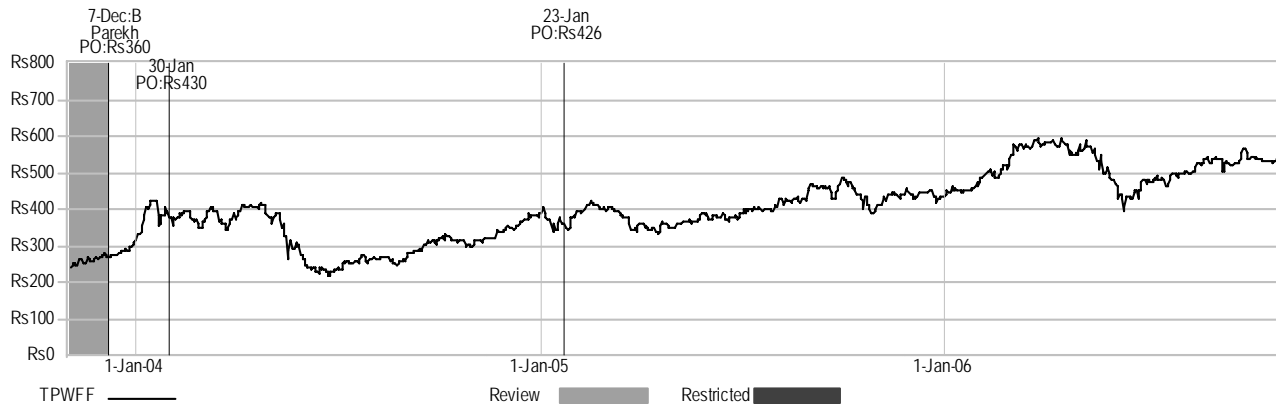
*iQmethod*SM is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Merrill Lynch.

*iQprofile*SM, *iQmethod*SM are service marks of Merrill Lynch & Co., Inc. *iQdatabase*[®] is a registered service mark of Merrill Lynch & Co., Inc.

Important Disclosures

TPWFF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of October 31, 2006 or such later date as indicated.

Investment Rating Distribution: Utilities Group (as of 30 Sep 2006)

| Coverage Universe | Count | Percent | Inv. Banking Relationships* | Count | Percent |
|-------------------|-------|---------|-----------------------------|-------|---------|
| Buy | 53 | 43.80% | Buy | 27 | 50.94% |
| Neutral | 56 | 46.28% | Neutral | 27 | 48.21% |
| Sell | 12 | 9.92% | Sell | 5 | 41.67% |

Investment Rating Distribution: Global Group (as of 30 Sep 2006)

| Coverage Universe | Count | Percent | Inv. Banking Relationships* | Count | Percent |
|-------------------|-------|---------|-----------------------------|-------|---------|
| Buy | 1325 | 44.76% | Buy | 434 | 32.75% |
| Neutral | 1420 | 47.97% | Neutral | 412 | 29.01% |
| Sell | 215 | 7.26% | Sell | 48 | 22.33% |

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium, and C - High. **INVESTMENT RATINGS**, indicators of expected total return (price appreciation plus yield) within the 12-month period from the date of the initial rating, are: 1 - Buy (10% or more for Low and Medium Volatility Risk Securities - 20% or more for High Volatility Risk securities); 2 - Neutral (0-10% for Low and Medium Volatility Risk securities - 0-20% for High Volatility Risk securities); 3 - Sell (negative return); and 6 - No Rating. **INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure); 8 - same/lower (dividend not considered to be secure); and 9 - pays no cash dividend.

The company is or was, within the last 12 months, an investment banking client of MLPF&S and/or one or more of its affiliates: Tata Pwr. Co..
MLPF&S or an affiliate has received compensation from the company for non-investment banking services or products within the past 12 months: Tata Pwr. Co..
In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale: Tata Pwr. Co..

MLPF&S or an affiliate has received compensation for investment banking services from this company within the past 12 months: Tata Pwr. Co..
MLPF&S or an affiliate expects to receive or intends to seek compensation for investment banking services from this company within the next three months: Tata Pwr. Co..

The country in which this company is organized has certain laws or regulations that limit or restrict ownership of the company's shares by nationals of other countries: Tata Pwr. Co..

The company is or was, within the last 12 months, a securities business client (non-investment banking) of MLPF&S and/or one or more of its affiliates: Tata Pwr. Co..

The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

Other Important Disclosures

UK readers: MLPF&S or an affiliate is a liquidity provider for the securities discussed in this report.

Information relating to Non-U.S. affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S):

MLPF&S distributes research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Global (Taiwan) Limited; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (KL) Sdn. Bhd.; Merrill Lynch (Malaysia); Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-U.S. affiliates. MLPF&S is the distributor of this research report in the U.S. and accepts full responsibility for research reports of its non-U.S. affiliates distributed in the U.S. Any U.S. person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited, which is authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd, a registered securities dealer under the Securities and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC; is issued and distributed in Taiwan by Merrill Lynch Global (Taiwan) Ltd or Merrill Lynch, Pierce, Fenner & Smith Limited (Taiwan Branch); is issued and distributed in Malaysia by Merrill Lynch (KL) Sdn. Bhd., a licensed investment adviser regulated by the Malaysian Securities Commission; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited, (ABN 65 006 276 795), AFS License 235132, provides this report in Australia. No approval is required for publication or distribution of this report in Brazil.

Merrill Lynch (Frankfurt) is regulated by BaFin.

Copyright, User Agreement and other general information related to this report:

Copyright 2006 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. This research report is prepared for the use of Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Merrill Lynch. Merrill Lynch research reports are distributed simultaneously to internal and client websites eligible to receive such research prior to any public dissemination by Merrill Lynch of the research report or information or opinion contained therein. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) prior to Merrill Lynch's public disclosure of such information. The information herein (other than disclosure information relating to Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. Merrill Lynch makes no representations or warranties whatsoever as to the data and information provided in any third party referenced website and shall have no liability or responsibility arising out of or in connection with any such referenced website.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch Research policies relating to conflicts of interest are described at <http://www.ml.com/media/43347.pdf>.

iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Merrill Lynch & Co., Inc. iQanalytics®, iQcustom®, iQdatabase® are registered service marks of Merrill Lynch & Co., Inc.

Fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.