

Company Flash

19 November 2007 | 9 pages

Nicholas Piramal India (NICH.BO)

Buy: Merck R&D Deal – Another Validation of R&D

- Merck R&D deal: further validation** — We believe the R&D collaboration deal with Merck further validates NPIL's NCE R&D ability, although cash flow would come in only over the longer term. We expect this deal, along with the one with Eli Lilly, to buoy the valuation of NPIL's NCE R&D business. With the innovator CRAMS business gaining significant traction and imminent value unlocking on the NCE R&D front, we rate NPIL as our top pick in Indian pharma.
- Potentially significant collaboration** — The deal entails developing new drugs for 2 disease targets selected by Merck and could entail significant cash flows in future. NPIL would undertake an integrated drug discovery program from hits to leads through pre-clinical and clinical trials up to the proof of concept (i.e., phase IIa) stage. Merck will have an option to advance the most promising candidates into late stage trials and ultimately commercialize them.
- Milestones plus royalties** — NPIL will receive milestone payments during the development process, which could add up to a maximum of US\$175m per target as well as royalties on sales if any of the products is ultimately launched. With NPIL taking on the development risk up to proof of concept stage, we expect the potential upside to be much higher than a typical out-licensing arrangement, if any molecule is successfully developed into a drug.
- Cash flows over long term** — The first milestone would be triggered only once a candidate completes phase IIa trials. Given that leads are yet to be identified, this could take a few years. In the interim, NPIL would incur all expenses on taking the selected candidates through to phase IIa stage.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2006A	1,210	5.79	-31.6	53.5	6.7	16.6	1.0
2007A	2,256	10.80	86.5	28.7	6.2	22.5	1.1
2008E	3,638	17.40	61.2	17.8	5.7	33.4	1.3
2009E	4,675	22.37	28.5	13.8	4.3	35.6	1.5
2010E	5,749	27.50	23.0	11.3	3.3	33.4	1.6

Source: Powered by dataCentral

See Appendix A-1 for Analyst Certification and important disclosures.

Buy/Medium Risk	1M
Price (19 Nov 07)	Rs309.80
Target price	Rs455.00
Expected share price return	46.9%
Expected dividend yield	1.3%
Expected total return	48.2%
Market Cap	Rs64,752M
	US\$1,657M

Price Performance (RIC: NICH.BO, BB: NP IN)



Prashant Nair, CFA¹

 +91-22-6631-9855
 prashant.nair@citi.com

Chirag Dagli¹

 +91-22-6631-9874
 chirag.dagli@citi.com

Akshay Rai¹

akshay.rai@citi.com

Citi Investment Research is a division of Citigroup Global Markets Inc. (the "Firm"), which 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. Non-US research analysts who have prepared this report are not registered/qualified as research analysts with the NYSE and/or NASD. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

¹Citigroup Global Markets India Private Limited

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	53.5	28.7	17.8	13.8	11.3
EV/EBITDA adjusted (x)	32.9	19.0	12.9	10.6	8.7
P/BV (x)	6.7	6.2	5.7	4.3	3.3
Dividend yield (%)	1.0	1.1	1.3	1.5	1.6
Per Share Data (Rs)					
EPS adjusted	5.79	10.80	17.40	22.37	27.50
EPS reported	5.79	10.80	17.40	22.37	27.50
BVPS	45.98	50.14	54.14	71.38	93.18
DPS	3.00	3.50	4.00	4.50	5.00
Profit & Loss (RsM)					
Net sales	15,944	24,541	29,709	33,961	37,080
Operating expenses	-14,537	-21,703	-25,116	-28,277	-30,379
EBIT	1,408	2,839	4,592	5,684	6,701
Net interest expense	-173	-305	-425	-351	-160
Non-operating/exceptionals	97	-39	14	12	31
Pre-tax profit	1,331	2,494	4,181	5,344	6,571
Tax	-238	-389	-523	-668	-821
Extraord./Min.Int./Pref.div.	116	151	-21	-1	-1
Reported net income	1,210	2,256	3,638	4,675	5,749
Adjusted earnings	1,210	2,256	3,638	4,675	5,749
Adjusted EBITDA	2,096	3,657	5,541	6,635	7,704
Growth Rates (%)					
Sales	19.5	53.9	21.1	14.3	9.2
EBIT adjusted	-1.5	101.7	61.8	23.8	17.9
EBITDA adjusted	7.3	74.5	51.5	19.7	16.1
EPS adjusted	-31.6	86.5	61.2	28.5	23.0
Cash Flow (RsM)					
Operating cash flow	1,579	2,395	4,165	5,228	6,526
Depreciation/amortization	688	818	949	951	1,004
Net working capital	-367	-740	-1,063	-1,006	-685
Investing cash flow	-2,510	-4,012	-1,969	-1,110	-957
Capital expenditure	-2,248	-217	-1,528	-1,122	-988
Acquisitions/disposals	-60	-2,000	0	0	0
Financing cash flow	1,734	1,164	-1,324	-4,174	-4,552
Borrowings	-863	2,778	33	-3,101	-3,360
Dividends paid	-685	-1,491	-973	-1,072	-1,192
Change in cash	802	-453	-78	-56	1,016
Balance Sheet (RsM)					
Total assets	18,464	23,018	25,831	27,861	30,202
Cash & cash equivalent	953	506	427	371	1,388
Accounts receivable	2,429	3,673	4,847	5,633	6,148
Net fixed assets	10,418	12,238	11,918	12,090	12,075
Total liabilities	8,290	12,151	14,510	12,937	10,720
Accounts payable	3,277	4,551	5,308	6,067	6,622
Total Debt	3,114	6,392	6,850	4,100	900
Shareholders' funds	10,174	10,867	11,321	14,925	19,483
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	13.1	14.9	18.7	19.5	20.8
ROE adjusted	16.6	22.5	33.4	35.6	33.4
ROIC adjusted	9.6	15.5	22.0	25.1	27.9
Net debt to equity	21.2	54.2	56.7	25.0	-2.5
Total debt to capital	23.4	37.0	37.7	21.6	4.4

For further data queries on Citigroup's full coverage universe please contact CIR Data Services Asia Pacific at CitiResearchDataServices@citigroup.com or +852-2501-2791



Merck R&D Deal – Another Validation

We see NPIL's R&D collaboration arrangement with Merck as yet another validation of the company's capabilities in drug discovery research, although the potential cash flow upside would only come through over the longer term. We expect this co-development deal, along with the earlier one with Eli Lilly, to add to the valuation of NPIL's NCE R&D business, which would be demerged shortly into a separately listed company. With the innovator CRAMS business gaining significant traction and imminent value unlocking on the NCE R&D front, we rate NPIL as our top pick in Indian pharma with c48% potential upside over the next 9-12 months.

A potentially significant, albeit long-term, collaboration

NPIL has entered into a R&D collaboration agreement with Merck to develop new drugs for two disease targets selected by Merck, which could entail significant cash flows in future, if successful. This deal would be a part of NPIL's demerged R&D company (NPRC).

Structure of the arrangement

Under the agreement, Merck will provide NPIL with two disease targets. NPIL, in turn, will carry out an integrated drug discovery program from hits to leads through pre-clinical candidate selection, as well as IND enabling non-clinical studies and human clinical trials to demonstrate proof-of-concept (i.e., up to phase IIa trials), primarily for Oncology. Merck will have an option to advance the most promising drug candidates into late-stage clinical trials and ultimately commercialize them.

Potential cash flows over the longer term

NPIL will receive milestone payments during the development process, which could add up to a maximum of US\$175m per target as well as royalties on sales if any of the products is ultimately launched.

We highlight that the potential cash flow upside from the deal would only come through over the longer term. The first milestone would be triggered only once any molecule has completed proof of concept (i.e., phase IIa) trials. Given that the partners are still at a very early stage (leads have yet to be identified), this could take a few years to materialize. In the interim, NPIL (through its about to be demerged R&D company) would incur all expenses on taking the selected candidates through to phase IIa stage.

However, with NPIL taking on the development risk up to proof of concept stage, we expect the potential upside to be much higher than a typical out-licensing arrangement, if any molecule is successfully developed into a drug.

Validation of drug discovery R&D

We believe the deal, along with a similar deal announced earlier with Eli Lilly, further validates NPIL's drug discovery research & development capabilities. This would, therefore, further buoy the valuation of its NCE R&D business once it is demerged, in our view.

Drug Discovery Pipeline

NCE R&D has for long been an ignored aspect of the NPIL's business. While the recent demerger of the R&D business has forced investors to ascribe some value to the business, the collaborative R&D deals with Eli Lilly, and now Merck, provide further validation of the inherent value of NPIL's NCE pipeline. The lead candidate (P-276) is already in clinical trials – in India as well as abroad. It recently got US FDA approval for its IND filing and clinical trials are expected to commence in the US shortly. Overall, NPIL expects to have eight molecules in the clinic by the end of FY08. We provide the company's complete drug discovery pipeline below, along updates on certain key candidates from the company's post earnings conference call last month.

Figure 1. NPIL – NCE R&D Pipeline

Therapeutic	Target	Compound	Stage	Latest Update
Oncology	CDK-4	P-276	Phase II	Extended Phase I/II study; Phase II to be initiated by end of CY07 or early CY08
Inflammation	TNF-a	NPS31807	Phase II	
Anti-Infective	Dermato-phytes	NPH30907	Phase II	Data on the studies (for rheumatoid arthritis & psoriasis) to be available by March 2008
Oncology	Bcr-Abl	NPB-001-05	Phase I	
Oncology	CDK-4	P-1446	Pre Clinical	To begin three clinical studies by end of CY07
Oncology	HIF-a	NA	Pre Clinical	
Oncology	General	Microbial Leads	Pre Clinical	
Inflammation	TNF-a	P-979	Pre Clinical	
Inflammation		Back-ups	Pre Clinical	
Inflammation	NSAID	P-1539	Pre Clinical	
Diabetes	NA	NA	Pre Clinical	In collaboration with Eli Lilly; Dossier to be submitted by end of CY07; First milestone payment to be triggered at the end of Phase I study (late CY08 as indicated by the management)
Diabetes	Non PPAR	P-1736	Pre Clinical	
Anti-Infective	MRSA/VRE	PM-181104	Pre Clinical	Early toxicology studies completed; Dossier to be submitted by end of CY07 or early CY08

Source: Company Reports and Citi Investment Research

Drug discovery deal with Eli Lilly

NPIL has an ongoing new drug discovery agreement with Eli Lilly to develop a select group of the latter's pre-clinical drug candidates in multiple therapeutic areas. To start with, Eli Lilly has licensed one molecule to NPIL in the metabolic disorder space, which would act as a prototype for the following molecules. NPIL could receive milestone payments up to US\$100m on successful completion of phase I and II trials by NPIL and on registration and launch by Eli Lilly. It would also be entitled to royalties on sales and commercial rights for certain markets. The management expects to file the dossier for the first molecule, which is for type II diabetes, by end of CY08. The first milestone payment would be triggered on successful completion of Phase I study, which would be in late CY08 as guided by the management.

Nicholas Piramal India

Company description

Nicholas Piramal (NPIL), the fourth-largest company in the Indian formulations market, is targeting the regulated pharmaceutical markets through custom manufacturing (CMG). The company has scaled up in the domestic market through both organic and inorganic initiatives, and is looking at doing the same

in the overseas markets. Some initial CMG successes have been achieved in the form of six diverse contracts with innovator companies and two acquisitions in overseas markets.

Investment strategy

We rate NPIL Buy/Medium Risk (1M) with a target price of Rs455/share. We believe NPIL is one of the best plays on custom manufacturing and the branded formulations market in India. Among the Indian mid-tier companies, NPIL has a unique approach to the domestic and export markets. Leveraging its manufacturing capabilities and relationships with global majors, the company has positioned itself as a 'partner of choice' for innovator companies across the product life cycle and value chain. On the domestic front, it has focused on building brands and strengthening its marketing and distribution network, making it less dependent than its peers on new product launches for growth. The move to demerge its NCE R&D unit would also add significant value for shareholders over the next 6-9 months, in our view. We are comfortable with valuations at current levels and expect significant upside potential as earnings momentum should continue in FY08 and beyond.

Valuation

We value NPIL on a sum of parts basis - valuing its core business on a P/E basis and the holding in the demerged NCE R&D entity, based on book value.

Our fair value of Rs448/share is based on 20x March '09E earnings. This is at a premium to our target multiple for mid-sized pharma companies and in-line with our target multiple for sector leaders. We believe NPIL deserves a higher multiple given the nature of its CMG business and possible upside from inorganic initiatives. Revenue visibility and sustainability are high in the CMG business: these are long-term exclusive contracts with innovators with no risk of litigation-related delays and competitive pressures. However, given the 18-24 month time lag between doing a deal and commencement of revenues, the full upside is not captured in one-year forward earnings. As such, we believe it deserves a higher valuation multiple.

We assign a value to the holding in NPRC on the basis of NPRC's current book value. NPRC has a book value of Rs74.3 and each NPIL shareholder will get 1 share in NPRC for every 10 shares held in NPIL. As such, we assign a value of Rs7/share (1/10th of the book value) for the R&D company in our target price for NPIL. We believe this is conservative, but refrain from assigning a higher value for the R&D business at the moment as we await some third party validation of NPIL's R&D effort (in the form of a licensing deal / investment by a strategic partner).

Risks

We rate Nicholas Medium risk in contrast with our quantitative risk-rating system's Low risk to account for the integration-related issues of the Avecia and Morpeth acquisitions. The main downside risks to our target price are: 1) While custom manufacturing should drive NPIL's revenues and profitability, any slip-up in executing the contracts would be a big negative. 2) A break-up of any major association could have a short-term impact on revenues and earnings. 3) Any unfavorable trend in growth or pricing could have an adverse impact on the company's financials. The main upside risks to our target price are: 1) If NPIL bags new contracts that have a shorter lead time, it could have a

positive impact on our estimates and target price; and 2) NPIL continues to scout for acquisitions, which could add further to its strengths in target businesses and our estimates.

Appendix A-1

Analyst Certification

Each research analyst(s), strategist(s) or research associate(s) responsible for the preparation and content of this research report hereby certifies that, with respect to each issuer or security that the research analyst, strategist or research associate covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s) strategist(s) or research associate(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst, strategist or research associate in this research report.

IMPORTANT DISCLOSURES

Nicholas Piramal India (NICH.BO) Ratings and Target Price History - Fundamental Research

Analyst: Prashant Nair, CFA (covered since October 11 2005)



Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Nicholas Piramal India in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, securities-related: Nicholas Piramal India.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, non-securities-related: Nicholas Piramal India.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability, which includes revenues from, among other business units, the Private Client Division, Institutional Sales and Trading, and Investment Banking.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Investment Research product ("the Product"), please contact Citi Investment Research, 388 Greenwich Street, 29th Floor, New York, NY, 10013. Attention: Legal/Compliance. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Private Client Division clients should refer to www.smithbarney.com/research. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Investment Research Ratings Distribution

Data current as of 30 September 2007

	Buy	Hold	Sell
Citi Investment Research Global Fundamental Coverage (3358)	50%	38%	12%
% of companies in each rating category that are investment banking clients	53%	55%	42%

Guide to Fundamental Research Investment Ratings:

Citi Investment Research's stock recommendations include a risk rating and an investment rating.

Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

Investment ratings are a function of Citi Investment Research's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings are: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target

price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

Guide to Corporate Bond Research Credit Opinions and Investment Ratings:

Citi Investment Research's corporate bond research issuer publications include a fundamental credit opinion of Improving, Stable or Deteriorating and a complementary risk rating of Low (L), Medium (M), High (H) or Speculative (S) regarding the credit risk of the company featured in the report. The fundamental credit opinion reflects the CIR analyst's opinion of the direction of credit fundamentals of the issuer without respect to securities market vagaries. The fundamental credit opinion is not geared to, but should be viewed in the context of debt ratings issued by major public debt ratings companies such as Moody's Investors Service, Standard and Poor's, and Fitch Ratings. CBR risk ratings are approximately equivalent to the following matrix: Low Risk Triple A to Low Double A; Low to Medium Risk High Single A through High Triple B; Medium to High Risk Mid Triple B through High Double B; High to Speculative Risk Mid Double B and Below. The risk rating element illustrates the analyst's opinion of the relative likelihood of loss of principal when a fixed income security issued by a company is held to maturity, based upon both fundamental and market risk factors. Certain reports published by Citi Investment Research will also include investment ratings on specific issues of companies under coverage which have been assigned fundamental credit opinions and risk ratings. Investment ratings are a function of Citi Investment Research's expectations for total return, relative return (to publicly available Citigroup bond indices performance), and risk rating. These investment ratings are: Buy/Overweight the bond is expected to outperform the relevant Citigroup bond market sector index (Broad Investment Grade, High Yield Market or Emerging Market), performances of which are updated monthly and can be viewed at <http://sd.ny.ssb.com/> using the "Indexes" tab; Hold/Neutral Weight the bond is expected to perform in line with the relevant Citigroup bond market sector index; or Sell/Underweight the bond is expected to underperform the relevant sector of the Citigroup indexes.

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 19 November 2007 10:24 AM on the issuer's primary market.

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the subject company(ies) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Investment Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi Investment Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia to wholesale clients through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992) and to retail clients through Citi Smith Barney Pty Ltd. (ABN 19 009 145 555 and AFSL No. 240813), Participants of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in Brazil by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. The Product may not be distributed to private clients in Germany. The Product is distributed in Germany by Citigroup Global Markets Deutschland AG & Co. KGaA, which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). Frankfurt am Main, Reuterweg 16, 60323 Frankfurt am Main. If the Product is made available in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Ltd., it is attributable to Citigroup Global Markets Asia Ltd., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Product is made available in Hong Kong by The Citigroup Private

Bank to its clients, it is attributable to Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. The Citigroup Private Bank and Citibank N.A. is regulated by the Hong Kong Monetary Authority. The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in Indonesia through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. If the Product was prepared by Citi Investment Research and distributed in Japan by Nikko Citigroup Limited ("NCL"), it is being so distributed under license. If the Product was prepared by NCL and distributed by Nikko Cordial Securities Inc. or Citigroup Global Markets Inc. it is being so distributed under license. NCL is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. In the event that an error is found in an NCL research report, a revised version will be posted on Citi Investment Research's Global Equities Online (GEO) website. If you have questions regarding GEO, please call (81 3) 6270-3019 for help. The Product is made available in Korea by Citigroup Global Markets Korea Securities Ltd., which is regulated by Financial Supervisory Commission and the Financial Supervisory Service. Hungkuk Life Insurance Building, 226 Shinmunno 1-GA, Jongno-Gu, Seoul, 110-061. The Product is made available in Malaysia by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450. The Product is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, which is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In New Zealand the Product is made available through Citigroup Global Markets New Zealand Ltd., a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 19, Mobile on the Park, 157 Lambton Quay, Wellington. The Product is made available in Poland by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Papierów Wartosciowych i Gield. Bank Handlowy w Warszawie S.A. ul. Senatorska 16, 00-923 Warszawa. The Product is made available in the Russian Federation through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in Singapore through Citigroup Global Markets Singapore Pte. Ltd., a Capital Markets Services Licence holder, and regulated by Monetary Authority of Singapore. 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192. The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Citigroup Global Markets (Pty) Ltd. is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in Taiwan through Citigroup Global Markets Inc. (Taipei Branch), which is regulated by Securities & Futures Bureau. No portion of the report may be reproduced or quoted in Taiwan by the press or any other person. No. 8 Manhattan Building, Hsin Yi Road, Section 5, Taipei 100, Taiwan. The Product is made available in Thailand through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in United Kingdom by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in United States by Citigroup Global Markets Inc, which is regulated by NASD, NYSE and the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority. Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Investment Research's Products can be found at www.citigroupgeo.com. Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations. The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted. Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.

This Product is not intended for distribution in Poland. Any receipt or review of the Product in Poland is not authorized by the Firm.

© 2007 Citigroup Global Markets Inc. (© Nikko Citigroup Limited, if this Product was prepared by it). Citi Investment Research is a division and service mark of Citigroup Global Markets Inc. and its affiliates and is used and registered throughout the world. Citigroup and the Umbrella Device are trademarks and service marks of Citigroup or its affiliates and are used and registered throughout the world. Nikko is a registered trademark of Nikko Cordial Corporation. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure is prohibited by law and will result in prosecution. The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST