Macquarie Equities Research



The Global Metals & Mining Specialist

INDIA

JSTL IN	Out	perform		
Price 20 Dec 10	Rs1	,185.55		
12-month target	Rs	1,492.00		
Upside/Downside	%	25.8		
Valuation - Sum of Parts	Rs	1,492.00		
GICS sector		Materials		
Market cap	Rsm	259,699		
30-day avg turnover	US\$m	41		
Market cap	US\$m	5,711		
Number shares on issue m 219.1				

Investment fundamentals

Year end 31 Mar		2010A	2011E	2012E	2013E
Revenue	bn	189.0	255.5	339.3	350.3
EBITDA	bn	40.1	51.8	70.6	85.8
EBITDA growth	%	36.8	29.1	36.2	21.4
Reported profit	bn	14.8	21.7	33.9	40.6
EPS rep	Rs	79.22	91.27	132.82	158.90
EPS rep growth	%	496.2	15.2	45.5	19.6
EPS adj	Rs	79.22	91.27	132.82	158.90
EPS adj growth	%	84.1	15.2	45.5	19.6
Total DPS	Rs	9.50	9.70	9.90	10.10
Total div yield	%	0.8	0.8	0.8	0.9
ROA	%	7.8	9.0	10.3	11.5
ROE	%	17.4	14.8	15.7	16.2
EV/EBITDA	х	7.8	7.6	5.6	4.6
Net debt/equity	%	165.2	45.0	13.8	-8.9
P/BV	х	2.4	1.5	1.3	1.1

JSTL IN rel BSE Sensex performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period. Source: FactSet, Macquarie Research, December 2010 (all figures in INR unless noted)

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21 December 2010
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JSW Steel

Attractive deal, maybe a bit too early

Event

JSW to acquire 45.5% Ispat Industries: JSW Steel announced today that it will be acquiring a 45.5% stake in Ispat Industries for a consideration of US\$480m. This deal values Ispat Industries at close to US\$2.5bn, or US\$712/t, which is a 30% discount to the replacement cost. While we have doubts about the timing of the deal, given that JSW recently reduced its leverage and needed to consolidate, we find the deal valuations are attractive.

Impact

- The assets near the consumer and high on potential: Ispat Industries owns a 3.3mtpa steel plant near Mumbai, close to consumers (autos and re-roller). It includes a 1.6mt gas-based DRI, a 2mt blast furnace and a 3.3mt hot strip mill. It also owns a 12mtpa captive port. With additional investment of US\$500m in CPP, coke oven and pellets, we estimate the EBITDA margins can be improved from the current US\$70–80/t to US\$110–120/t.
- Deal attractively valued and can be easily funded: On a replacement cost basis, the deal does look attractive to us at just US\$712/t of steel capacity. JSW is sitting on cash of US\$680m and won't need to raise further debt to fund this purchase. However, the debt on Ispat Industries will have to be refinanced and would increase JSW's debt/equity to 1.37x from 0.8x, by our estimates.
- EPS dilutive at first glance: Based on our assumptions (EBITDA for Ispat at US\$80/t), the deal would lead to 10% EPS dilution in FY12E. It needs US\$150/t of EBITDA for an EPS breakeven, which looks difficult to us as JSW itself is doing close to a US\$125/t EBITDA margin currently.
- Open offer for a further 20% stake: As per the SEBI's guidelines, JSW will have to make an open offer for an additional 20% stake on expanded equity at Rs20.7/sh. The acceptance ratio will need to be 78% of the free float, assuming existing promoters do not subscribe. However, given the current stock price is higher than the open offer price, and considering that Ispat Industries actually will be in much better shape, many investors may not subscribe to this offer. Hence, we consider JSW might limit its holding to 51%.

Earnings and target price revision

No changes.

Price catalyst

- 12-month price target: Rs1,492.00 based on a sum-of-the-parts methodology.
- Catalyst: Increasing steel prices in India and synergies from this deal.

Action and recommendation

 Maintain Outperform; accumulate on dips: JSW's growth profile remains robust but we think the oversupply in the global steel market and pressure from raw material prices will keep margins muted. Also, the increased risk profile could lead to a PER de-rating in the near term. Hence, we would advise waiting for an earnings downgrade to enter this stock.

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

Ispat Industries' assets

Fia 1	Ispat	Industries	capacity	(June 2010)
	ioput	maaotiioo	oupdony	(04110 2010)

Product	tons
Direct Reduced Iron	1,600,000
Pig Iron/Hot Metal	2,000,000
Hot Rolled Coils	3,300,000
Cold Rolled Steel Coils/Sheets	330,000
Galvanised Coils/Sheets	225,000
Galvalume Colis/Sheets	100000
PVC Coated Sheets	60,000
Tubes & Pipes	56,000
Source: Company data, Macquarie Research, December 2010	

Margins under pressure due to lack of raw material integration

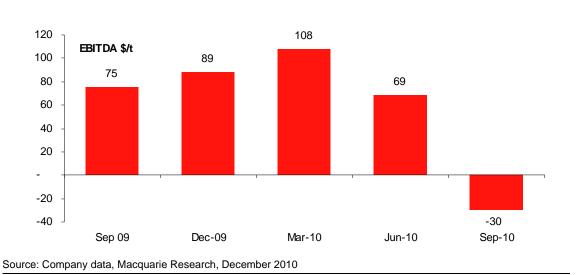


Fig 2 EBITDA/t – unable to gain from price increases

Ispat – can benefit through cost-saving projects

Fig 3 Cost saving strategies for Ispat Industries

Facility	Capacity	Savings assumptions	Investment	Timeline
Increasing capacity				
Captive power plant	110mw	\$69m	\$109m	18 months
Coke oven battery	1mtpa	\$40m	\$250m	24 months
Pellet Plant	2mtpa	\$38m	\$133m	21 months
Raw material integration strategy Granted PL for Iron ore mine at Dar		f 101mt and production	on of 2mtpa	24 months
Source: Company data, Macquarie	Research, December 2010			

Fig 4 Deal details – at replacement cost

Implied market cap at Rs19.85	Rs m	55,472	
Debt	Rs m	50,289	
EV	Rs m	105,761	
Capacity at 3.3mtpa	\$/t	712	
Capacity at 4.2mtpa	\$/t	560	
Source: Macquarie Research, December 2010			

JSW's debt to equity will expand on consolidated basis at 51% stake

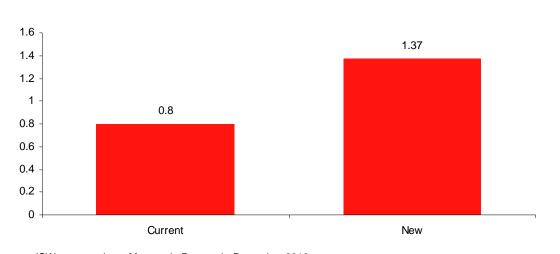


Fig 5 D/E – using cash to finance the deal

Source: JSW presentations, Macquarie Research, December 2010

We expect Ispat to be profitable only in FY13

		FY12	FY13	FY14	FY15	FY16
Capacity	mt	3.3	3.3	4.2	4.2	4.2
Utilisation	%	85%	85%	80%	85%	85%
Production	mt	2.8	2.8	3.4	3.6	3.6
EBITDA/t	\$/t	80	95	107	117	121
Synergies						
Power plant	\$m		69	69	69	69
Pellet plant	\$m			38	38	38
Coke Oven	\$m				40	40
EBITDA	\$m	224	266	360	416	432
USD/INR		45	45	45	45	45
EBITDA	Rs m	10098	11961	16214	18725	19445
Depreciation	Rs m	6200	6200	6200	6200	6200
Interest	Rs m	5186	5186	5186	5186	5186
PBT	Rs m	-1304	559	4812	7323	8043
PAT	Rs m	-913	391	3368	5126	5630
Minority interest	Rs m	-447	192	1650	2512	2759
Source: Macquarie Resea	arch, December 2010					

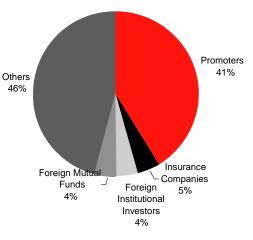
Fig 6 ISPAT P&L – assumptions

Deal looks EPS dilutive for JSW at first glance

Fig 7	We expect a 10% dilution in FY12 at 51% stake

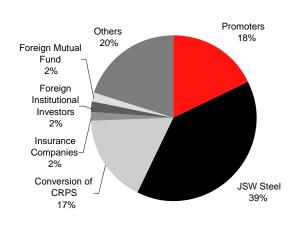
		FY12	FY13	FY14	FY15
JSW current PAT estimate	Rs m	33,935	40,597	38,301	26,175
Interest expense on new debt	Rs m	2829	2829	2829	2829
Earnings from Ispat	Rs m	-465	200	1718	2614
JSW PAT consol	Rs m	30,641	37,967	37,189	25,960
Dilution	%	-10%	-6%	-3%	-1%
Source: Macquarie Research, Dec	ember 2010				

Fig 8 Shareholding for Ispat industries (Sept 2010)



Source: BSE, Macquarie Research, December 2010

Fig 9 New shareholding after the deal



Source: BSE, Macquarie Research, December 2010

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Revenue m 61.860 61.860 61.861 61.861 61.861 62.861 92.861	JSW Steel (JSTL IN, C	Julpen							204.0.4	20445	204.25	20425
Gross Profit m 13.777 13.774 13.774 13.774 13.774 13.774 13.774 13.777 13.778 13.777 13.778 13.777 13.778 13.777 13.778 13.777 13.778 13.777 13.778	Quarterly Results		2Q/11A	3Q/11E	4Q/11E	1Q/12E	Profit & Loss		2010A	2011E	2012E	2013E
Gross Profit m 13.777 13.774 13.774 13.774 13.774 13.774 13.774 13.774 13.774 13.777	Revenue	m	63,863	63,863	63,863	84,819	Revenue	m	188,969	255,451	339,277	350,293
EBITDA m 12,869 12,869 17,657 EBITDA m 61,440 51,840 70,629 85,23 Depredation m 0,342 3,428 5,436 5,451 5,412 6,77,77 3,528 5,446 6,47 1,330 5,464 6,46 4,44 5,446 4,44 5,446 4,44 5,446 4,44 5,446 4,44 5,446 4,44 5,446 4,44 1,434 1,712,86 5,436 4,444 5,446 4,44 1,434 1,712,86 5,33 4,44 4,44 5,446 4,44 1,712,86 5,33 4,44 4,44 5,34 5,445 4,44 4,44 5,34 5,445 4,44 4,44 5,34 5,34	Gross Profit	m	13,777	13,777	13,777	18,474	Gross Profit	m		55,107		89,026
Depresiation m 3/248 3.428 4.125 Depresiation Clocovint m 0.287 13/14 16.501 16.1 Anotatalon of Clocovint m 0.287 13/14 16.501 16.1 EBT Anotatalon Clocovint m 0.287 13/14 16.501 16.1 EBT Anotatalon Clocovint m 0.287 13/14 16.501 16.1 EBT Anotatalon Clocovint m 0.288 13/28 15.446 14.1 EBT Anotatalon Clocovint m 0.281 13/14 16.21 17.28 13/14 16.21 12.12 13/14 16.21 12.12 13/14 16.21 12.12 13/14 16.21 12.12 13/14 16.21 12.12 13/14 16.21 12.12 13/14 16.21 12.12 13/14 16.21 12.12 13/14 16.21 12.12 13/14 16.21 12.12 13/14 16.21 12.12 13/14 16.21 12.12 13/14 16.21 12.12 13/14 16.21 12.12 13/14 16.21 12.12 13/14 16.21 12.12 13/14 17.22 13.3335 14.0 EBT Secovint you (ati) % 15.2 15.2 15.2 15.2 15.2 15.2 15.2 15.2	Cost of Goods Sold	m	50,086	50,086	50,086	66,345	Cost of Goods Sold	m	145,821	200,345	265,381	261,267
Ancentration of Goodwill m 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	EBITDA	m	12,960	12,960	12,960	17,657	EBITDA	m	40,149	51,840	70,629	85,759
Other Anotisation m 0	Depreciation	m	3,428	3,428	3,428	4,125	Depreciation	m	12,987	13,714	16,501	18,682
EBT mean method set of the set of	Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Net Interest Income m v2.220 v2.22 v2.220 v1.794 Net Interest Income m v10.89 v8.88 v7.776 v6.4 v1. V2.84 v1.99 v1	Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
Net interest locance m 2-2.20 - 2.20 - 1.774 Net futerest flocance m 10.00 - 0.881 - 7.176 - 6.4 Advance of the second of the se	EBIT	m	9,531	9,531	9,531	13,532	EBIT	m	27,162	38,126	54,128	67,077
Exceptionals m 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	Net Interest Income	m	-2,220	-2,220	-2,220	-1,794	Net Interest Income	m	-11,080	-8,881	-7,176	-6,849
Freex Gams / Losses m 0		m						m				0
Frank Subses m 0 <	Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Other Pre-Tax Profit m 5.23 4.044 4.44 4.4 Nach Profit m 5.23 2.24 1.2471 Trace Profit m 5.233 4.044 4.4 4.4 Nach Profit m 5.242 2.242 4.247 Trace Profit m 7.201 33.288 1.43 1.919 Microly Interests m 1.03 1.3 1.919 Microly Interests m 1.484 2.1722 33.335 4.04 Adjusted Exemings m 1.431 5.431 5.441 8.464 Reported Exmings m 1.4814 2.1722 33.235 4.04 EPS (engl) 2.282 2.282 2.282 3.21 EPS (engl) 7.02.2 91.27 1.32.82 1.58 1.50 1.30 8.9 1.22 1.32.82 1.56 1.50 1.50 1.50 1.30 8.9 1.22 1.32.82 1.56 1.50 1.30 8.9 1.22 1.32.82 1.56 1.50 1.3											0	0
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Tax Expense m -2.835 -2.835 -2.835 -2.835 -2.837 Minority Intreests m 5.447 5.447 5.447 5.447 5.447 5.437 5.431		m	8,322				Pre-Tax Profit	m				64,772
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Minority Interestis m 1.3 3.33 4.40 EPS (rep) 2.2.82 2.2.82 2.2.82 2.2.8 3.2.1 EPS (rep) 70.2.2 01.27 132.82 188 EPS (rep) 70.2.2 01.27 132.82 188 7.7 1.5.2 4.5.5 1.5.2 4.5.5 1.5.0 1.3.0 8.5.9 1.0.0		m	5.487					m				40,790
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EFS (adj) 22.82 22.82 22.82 23.21 IS.2 45.5 IS.2 45.5 IS.2 45.5 IS.2 45.5 IS.2 45.5 IS.2 45.5 IS.2 15.2 45.5 IS.2 15.2 45.5 IS.2 15.0 IS.2 8.5.0 9.7.0 9.9.0 IS.2 8.5.0 9.7.0 9.9.0 IS.2 15.2 45.5 IS.2 15.2 45.5 IS.2 15.0 IS.2 8.2.0 25.0 25.0 PE (adj) x IS.0 8.0 0.8 0.8 0.8 0.8 0.8 0.8 0.8 0.8 0.8 0.8 0.8 0.8 0.8 25.5 5.5												40,597 40,597
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EBIT Margin % 14.9 14.9 14.9 14.9 14.9 14.9 14.9 14.9 14.0 Total Div Vield % 0.8							PE (adj)	х	15.0	13.0	8.9	7.5
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Revenue Growth % 25.7 35.2 32.8 3.2 EBITDA m 40,149 51,840 70,629 85,7 EBIT Growth % 36.8 221.4 136.2 21.4 Tax Paid m 0										200	200	200
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Balance Sheet Ratios Dividend (Ordinary) m -570 -3.034 -3.297 -3.7 ROA % 7.8 9.0 10.3 11.5 Debt/Equity Raised m -99 89.875 0	EV/EDIT	x	11.5	10.5	7.5	5.9						
ROE % 17.4 11.4.8 15.7 16.2 Equity Raised m -99 89.875 0 ROA % 7.8 9.0 10.3 11.5 Debt Movements m 6.392 -10,000 0 <td></td> <td>-5,000</td>												-5,000
ROA % 7.8 9.0 10.3 11.5 Debt Movements m 6.392 -10.000 0 Not Debt/Equity % 165.2 45.0 13.8 -8.9 Other m 0 0 0 0 Interest Cover x 2.5 4.3 7.5 9.8 Financing Cashflow m 5,723 76,841 -3,297 -3,3 Price/Book x 2.4 1.5 1.3 1.1 Net Chg in Cash/Debt m -1,472 55,221 58,953 56,67 Book Value per Share 495.0 786.5 910.2 1,054.0 Free Cashflow m -5,409 -21,620 62,249 59,5 Cash m 5,168 60,389 119,342 175,5 Receivables m 6,667 40,053 53,181 54,4 Investments m 0												-3,357
ROIC % 8.0 10.0 12.2 15.8 Other m 0 0 0 0 Net Debt/Equity % 165.2 45.0 13.8 -8.9 Financing Cashflow m 5,723 76,841 -3,297 -3,3 Price/Book x 2.5 4.3 7.5 9.8 Net Chg in Cash/Debt m -1,472 55,221 58,953 56,0 Price/Book x 2.4 1.5 1.3 1.1 Net Chg in Cash/Debt m -1,472 55,221 58,953 56,0 Price/Book x 2.4 1.5 1.3 1.1 Net Chg in Cash/Debt m -1,472 55,221 58,953 56,0 View y 1,054.0 m -5,099 -21,620 62,249 59,0 View y y y y y y y y y y y y y y y y y y </td <td></td> <td>0</td>												0
Net Debt/Equity Interest Cover % 165.2 45.0 13.8 -8.9 Financing Cashflow m 5,723 76,841 -3,297 -3,3 Interest Cover x 2.4 1.5 1.3 1.1 n -1,472 55,221 58,953 56,0 Book Value per Share 495.0 786.5 910.2 1,054.0 m -1,472 55,221 58,953 56,0 Free Cashflow m -1,472 55,221 58,953 56,0 Gash m -5,409 -21,620 62,249 59,9 Cash m 5,168 60,389 119,342 175,5 Receivables m 6,964 9,730 12,919 13,3 Inventories m 26,667 40,053 53,18 54,4 Inventories m 22,967 316,5 11,914 11,914 13,3 Inventories m 22,934 29,354 36,698 37,0 Inventories m 22,934 29,354 36,698 37,0 Total Assets <td< td=""><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>0</td></td<>												0
Interest Cover x 2.5 4.3 7.5 9.8 Price/Book x 2.4 1.5 1.3 1.1 Book Value per Share 495.0 786.5 910.2 1,054.0 Free Cashflow m -1,472 55,221 58,953 56,6 Gash m 5,168 60,389 119,342 175,5 Receivables m 28,667 40,053 53,181 54,8 Investments m 0								m	0			0
Price/Book Book Value per Share x 2.4 1.5 1.3 1.1 Book Value per Share 495.0 786.5 910.2 1,054.0 Free Cashflow m -1,472 55,221 58,953 56,6 Construction m -5,409 -21,620 62,249 59,52 Balance Sheet 2010A 2011E 2012E 2012 13,3 1,1 Cash m 5,168 60,389 119,342 175,6 Receivables m 6,964 9,730 12,919 13,3 1,16 Investments m 0							Financing Cashflow	m	5,723	76,841	-3,297	-3,357
Free Cashflow m -5,409 -21,620 62,249 59,5 Balance Sheet 2010A 2011E 2012E 2014 Cash m 5,168 60,389 119,342 175,5 Receivables m 6,964 9,730 12,919 133,1 Inventories m 28,667 40,053 53,181 54,8 Investments m 0 0 0 0 0 Fixed Assets m 8,992 8,922 8,922 8,92							Net Chg in Cash/Debt	m	-1,472	55,221	58,953	56,634
Balance Sheet 2010A 2011E 2012E 2014 Cash m 5,168 60,389 119,342 175,6 Receivables m 6,964 9,730 12,919 13,3 Inventories m 28,667 40,053 53,181 54,6 Investments m 0 0 0 0 Fixed Assets m 28,909 341,376 329,875 316,7 Intangibles m 8,992 8,992 8,94 561,006 606,6 606,6 606,6 606,6 606,6 606,5 607,00 10 0	Book Value per Share		495.0	786.5	910.2	1,054.0	Free Cashflow	m	-5,409	-21,620	62,249	59,991
Cash m 5,168 60,389 119,342 175,5 Receivables m 6,964 9,730 12,919 13,5 Inventories m 28,667 40,053 53,181 54,6 Investments m 0 0 0 0 Fixed Assets m 28,090 341,376 329,875 316,7 Intangibles m 29,928 8,992 8,994 61,006 606,6 </td <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>Palanca Shoot</td> <td></td> <td></td> <td></td> <td></td> <td></td>							Palanca Shoot					
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Inventories m 28,667 40,053 53,181 54,6 Investments m 0 0 0 0 Fixed Assets m 284,090 341,376 329,875 316,7 Intangibles m 8,992 8,992 8,992 8,992 8,992 Other Assets m 22,984 29,354 36,698 37,6 Total Assets m 356,865 489,894 561,006 606,8 Payables m 0 0 0 0 Short Term Debt m 0 0 0 0 Long Term Debt m 161,730 151,730 151,730 151,730 151,730 Provisions m 2,649 3,701 4,914 50,06 Other Liabilities m 92,772 134,421 169,884 178,6 Total Liabilities m 262,107 286,852 326,528 335,6 Shareholders' Funds m 92,571 200,936 232,543 269,2 Minority Interests m								m				175,975
Inventories m 28,667 40,053 53,181 54,6 Investments m 0 0 0 0 Fixed Assets m 284,090 341,376 329,875 316,7 Intangibles m 8,992 8,992 8,992 8,992 8,992 Other Assets m 22,984 29,354 36,698 37,6 Total Assets m 356,865 489,894 561,006 606,8 Payables m 0 0 0 0 Short Term Debt m 0 0 0 0 Long Term Debt m 161,730 151,730 151,730 151,730 151,730 Provisions m 2,649 3,701 4,914 50,06 Other Liabilities m 92,772 169,884 178,8 Total Liabilities m 262,107 286,852 326,528 335,6 Shareholders' Funds m 92,571 200,936 232,543 269,2 Minority Interests m 2,187							Receivables	m	6,964	9,730	12,919	13,314
Investments m 0 0 0 Fixed Assets m 284,090 341,376 329,875 316,71 Intangibles m 8,992 8,992 8,992 8,992 8,992 Other Assets m 22,984 29,354 36,698 37,0 Total Assets m 356,865 489,894 561,006 606,6 Payables m 0 0 0 0 Short Term Debt m 161,730 151,730 151,730 151,730 Provisions m 22,649 3,701 4,914 50,000 Other Liabilities m 97,728 131,421 169,884 178,0 Total Liabilities m 92,571 200,936 232,543 269,2 Shareholders' Funds m 92,571 200,936 232,543 269,2 Minority Interests m 2,187 2,187 2,187 2,187 2,187 Other m 0 0 0 0 0 0 0 Total S/H Eq							Inventories	m	28,667	40,053	53,181	54,810
Intangibles m 8,992 8,993 9,90 9,91 9,91 50,10 151,730 151,730 151,730 151,730 151,730 151,730 151,730 151,730 151,730 151,730 151,730 151,730 151,730 151,730 151,730 151,730								m	0	0	0	0
Intangibles m 8,992 8,992 8,992 8,992 Other Assets m 22,984 29,354 36,698 37,6 Total Assets m 356,865 489,894 561,006 606,6 Payables m 0 0 0 0 Short Term Debt m 161,730 151,730 151,730 151,730 Provisions m 2,649 3,701 4,914 50,006 Other Liabilities m 97,728 131,421 169,884 178,8 Total Liabilities m 92,571 200,936 232,543 269,2 Minority Interests m 2,187 2,187 2,187 2,187 Other m 0 0 0 0 0 0 Total S/H Equity m 94,758 203,122 234,729 271,4							Fixed Assets	m	284,090	341,376	329,875	316,193
Other Assets m 22,984 29,354 36,698 37,1 Total Assets m 356,865 489,894 561,006 606,8 Payables m 0 0 0 0 Short Term Debt m 161,730 151,730 151,730 151,730 151,730 Provisions m 2,649 3,701 4,914 56,000 Other Labilities m 97,728 131,421 169,884 178,6 Shareholders' Funds m 92,571 200,936 232,543 269,2 Minority Interests m 2,187 2,187 2,7 2,7 Other m 0 0 0 0 0 0 Total S/H Equity m 94,758 203,122 234,729 271,4							Intangibles	m				8,992
Total Assets m 356,865 489,894 561,006 606,6 Payables m 0 0 0 Short Term Debt m 161,730 151,730 151,730 Long Term Debt m 2,649 3,701 4,914 5,0 Other Liabilities m 26,249 3,701 4,914 5,0 Other Liabilities m 97,728 131,421 169,884 1786, Shareholders' Funds m 92,571 200,936 232,543 269,2 Minority Interests m 2,187 2,187 2,74 Other m 0 0 0 Total S/H Equity m 94,758 203,122 234,729 271,4								m				37,609
Payables m 0 0 0 Short Term Debt m 0 0 0 Long Term Debt m 161,730 151,730 151,730 151,730 Provisions m 2,649 3,701 4,914 5,0 Other Liabilities m 97,728 131,421 169,884 178,8 Total Liabilities m 262,107 286,852 326,528 335,6 Shareholders' Funds m 92,571 200,936 232,543 269,2 Minority Interests m 2,187 2,187 2,7 Other m 0 0 0 Total S/H Equity m 94,758 203,122 234,729 271,4												606,893
Short Term Debt m 0 0 0 Long Term Debt m 161,730 151,730 151,730 151,730 Provisions m 2,649 3,701 4,914 50,000 Other Liabilities m 97,728 131,421 169,884 178,8 Total Liabilities m 262,107 286,852 326,528 335,000 Shareholders' Funds m 92,571 200,936 232,543 269,200 Minority Interests m 2,187 2,187 2,187 2,187 Other m 0 0 0 0 Total S/H Equity m 94,758 203,122 234,729 271,4												0
Long Term Debt m 161,730 151,730										0		0
Provisions m 2,649 3,701 4,914 5,0 Other Liabilities m 97,728 131,421 169,884 178,8 Total Liabilities m 262,107 286,852 326,528 335,6 Shareholders' Funds m 92,571 200,936 232,543 269,2 Minority Interests m 2,187 2,187 2,187 2,187 2,7 Other m 0 0 0 0 0 0 Total S/H Equity m 94,758 203,122 234,729 271,4									161,730	151,730	151,730	151,730
Other Liabilities m 97,728 131,421 169,884 178,6 Total Liabilities m 262,107 286,852 326,528 335,6 Shareholders' Funds m 92,571 200,936 232,543 269,2 Minority Interests m 2,187 2,187 2,187 2,7 Other m 0 0 0 Total S/H Equity m 94,758 203,122 234,729 271,4												5,064
Total Liabilities m 262,107 286,852 326,528 335, Shareholders' Funds m 92,571 200,936 232,543 269,2 Minority Interests m 2,187 2,187 2,187 2,7 Other m 0 0 0 0 Total S/H Equity m 94,758 203,122 234,729 271,4												178,868
Shareholders' Funds m 92,571 200,936 232,543 269,2 Minority Interests m 2,187 <t< td=""><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>335,663</td></t<>												335,663
Minority Interests m 2,187 2,187 2,27 Other m 0 0 0 Total S/H Equity m 94,758 203,122 234,729 271,67												269,295
Other m 0 0 0 Total S/H Equity m 94,758 203,122 234,729 271,6												2,187
Total S/H Equity m 94,758 203,122 234,729 271,												2,107
Total Liab & S/H Funds m 356,864 489,974 561,257 607,1							Total S/H Equity	m	94,758	203,122	234,729	271,481
							Total Liab & S/H Funds	m	356,864	489,974	561,257	607,144

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Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand Outperform – return >3% in excess of benchmark return Neutral – return within 3% of benchmark return Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie - Asia/Europe

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

Macquarie First South - South Africa

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

Macquarie - Canada

Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return Neutral (Hold) – return within 5% of Russell 3000 index return

Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

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

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

 $\ensuremath{\text{Medium}}$ – stock should be expected to move up or down at least 30–40% in a year.

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

Low – stock should be expected to move up or down at least 15–25% in a year. * Applicable to Australian/NZ/Canada stocks only

Recommendations – 12 months Note: Quant recommendations may differ from

Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets ROA Banks/Insurance = adjusted net profit /average total assets ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares

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

Recommendation proportions – For quarter ending 30 September 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.06%	64.41%	55.07%	46.58%	66.99%	50.00%	(for US coverage by MCUSA, 13.73% of stocks covered are investment banking clients)
Neutral	34.15%	17.31%	36.23%	48.40%	28.71%	36.81%	(for US coverage by MCUSA, 11.76% of stocks covered are investment banking clients)
Underperform	14.79%	18.28%	8.70%	5.02%	4.31%	13.19%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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Peter Slater (Boston)	(1 617) 598 2502
Jeffrey Shiu (China & Hong Kong)	(852) 3922 2061
Thomas Renz (Geneva)	(41) 22 818 7712
Andrew Mouat (India)	(9122) 6653 3200
Kenneth Yap (Indonesia)	(6221) 515 1555
JJ Kim (Korea)	(822) 3705 8799
Jason Lee (Malaysia)	(603) 2059 8888
Chris Gould (Malaysia)	(603) 2059 8888
Gino C Rojas (Philippines)	(632) 857 0761
Greg Norton-Kidd (New York)	(1 212) 231 2527
Luke Sullivan (New York)	(1 212) 231 2507
Eric Roles (New York)	(1 212) 231 2559
Sheila Schroeder (San Francisco)	(1 415) 762 5001

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Angus Kent (Thailand)	(662) 694 7601
Michael Newman (Tokyo)	(813) 3512 7920
Angus Innes (UK/Europe)	(44) 20 3037 4841
Rob Fabbro (UK/Europe)	(44) 20 3037 4865
Sean Alexander (Generalist)	(852) 3922 2101

Regional Head of Distribution

Justin Crawford (Asia)

Sales Trading

Adam Zaki (Asia) Yat Quan Tan (Hong Kong) Phil Sellaroli (Japan) Matthew Ryan (Singapore) Mike Keen (Europe)

(852) 3922 2065

Sales Trading cont'd

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Chris Reale (New York)	(1 212) 231 2616
Stanley Dunda (Indonesia)	(6221) 515 1555
James Aitchison (Korea)	(822) 3705 9990
Kenneth Cheung (Malaysia)	(603) 2059 8888
Michael Santos (Philippines)	(632) 857 0813
Isaac Huang (Taiwan)	(8862) 2734 7582
Dominic Shore (Thailand)	(662) 694 7707
Alternative Strategies	
Alternative Strategies Convertibles - Roland Sharman	(852) 3922 2095
	(852) 3922 2095 (65) 6231 1150
Convertibles - Roland Sharman	()
Convertibles - Roland Sharman Depository Receipts – Seung-Jin Lee	(65) 6231 1150
Convertibles - Roland Sharman Depository Receipts – Seung-Jin Lee Derivatives – Mark Holland	(65) 6231 1150 (852) 3922 2081