

Equities

3 November 2011 | 20 pages

REN (RENE.LS)

Value creation is under question

- **Recommendation and TP reiterated (Sell TP €1.9/sh)** — New regulatory framework applying to electricity assets in line with our previous estimates.
- **Challenging privatisation to be undertaken in 2 steps, in our view** — We expect a Block placing and Market placing.
- **Block placing: No significant premium expected** — We would consider this the same as acquiring a financial stake as the govt will likely not allow a company to take control of REN, therefore high premiums would not be justified, in our view.
- **Market placing: Likely discount** — Given REN's low liquidity (20% free float), a market placing could almost be seen as an IPO so we expect the Government would offer a discount. We highlight that, while REN's first privatisation (9th July 2007) took place at 25% discount to EV/EBITDA 2008 (vs. Iberian peers) and 30% discount P/E 2008, the company currently trades at 11% discount EV/EBITDA 12E, 16.9% discount P/E 12E.
- **Unattractive regulatory framework** — We find the new regulatory framework unattractive given the current market circumstances (high cost of equity and increasing cost of debt). We think that the new regulatory framework does not ensure returns (IRR) above company WACC, therefore value creation is under question. We estimate that the company should trade at 12% discount to 2011 RAB (currently at 9% discount)
- **Multiples 6.8x EV/EBITDA 12E, 7.3x Adj. P/E 12E** — According to our estimates, REN is trading at a discount vs. its Iberian peers group; however, we think it deserves a higher discount given: i) Lower returns ii) Higher WACC iii) Higher overhang risk and iv) Higher uncertainty on returns (Returns on RAB are defined every year and apply to 100% of REN's asset base).
- **9M11E results - 7th November after market close** — Please see [Business as usual](#).

- Company Update
- Estimate Change

Sell	3
Price (02 Nov 11)	€2.09
Target price	€1.90
Expected share price return	-9.0%
Expected dividend yield	8.1%
Expected total return	-1.0%
Market Cap	€1,121M
	US\$1,535M

Price Performance (RIC: RENE.LS, BB: RENE PL)

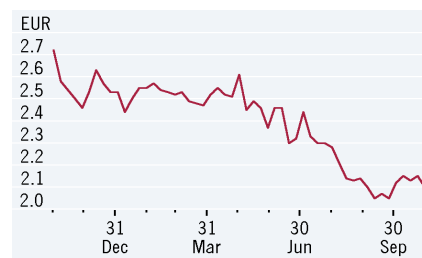


Figure 1. REN - Estimates

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€mn)	551.5	758.8	843.4	923.7	980.7
Adj. Net Income (€mn)	108.5	110.3	133.9	154.0	172.4
Adj. EPS (€)	0.20	0.21	0.25	0.29	0.32
Adj. EPS (Old) (€)	0.21	0.26	0.29	0.32	0.32
Adj. PE (x)	10.4	10.2	8.4	7.3	6.5
EV/EBITDA (x)	8.1	7.6	7.5	6.8	6.6
DPS (€)	0.17	0.17	0.17	0.17	0.17
Net Div Yield (%)	7.9	8.0	8.0	8.1	8.2

Source: Company reports and CIRA estimates

Manuel Losa

+34-91-538-4352
manuel.loso@citi.com

Manuel Palomo

+34-91-538-4356
manuel.palomo@citi.com

Peter Atherton

+44-20-7986-3912
peter.atherton@citi.com

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Citi Investment Research & Analysis 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.

Fiscal year end 31-Dec	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	10.3	10.1	8.3	7.2	6.5
EV/EBITDA adjusted (x)	7.4	7.4	7.1	6.7	6.4
P/BV (x)	1.1	1.1	1.1	1.0	0.9
Dividend yield (%)	7.9	8.0	8.1	8.2	8.3
Per Share Data (€)					
EPS adjusted	0.20	0.21	0.25	0.29	0.32
EPS reported	0.25	0.21	0.25	0.29	0.32
BVPS	1.87	1.90	1.99	2.10	2.26
DPS	0.17	0.17	0.17	0.17	0.17
Profit & Loss (€M)					
Net sales	551	759	843	924	981
Operating expenses	-302	-508	-545	-572	-598
EBIT	249	251	299	352	383
Net interest expense	-68	-88	-106	-135	-139
Non-operating/exceptionals	3	4	4	4	4
Pre-tax profit	185	167	197	221	248
Tax	-51	-56	-63	-67	-75
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	134	110	134	154	172
Adjusted earnings	109	110	134	154	172
Adjusted EBITDA	410	436	482	540	577
Growth Rates (%)					
Sales	11.5	37.6	11.1	9.5	6.2
EBIT adjusted	5.3	0.4	19.3	17.8	8.7
EBITDA adjusted	3.4	6.3	10.5	12.0	6.8
EPS adjusted	43.6	1.6	21.4	15.0	12.0
Cash Flow (€M)					
Operating cash flow	118	556	201	368	368
Depreciation/amortization	161	186	183	188	194
Net working capital	-55	184	-134	27	3
Investing cash flow	-342	-336	-419	-339	-379
Capital expenditure	-387	-443	-419	-339	-379
Acquisitions/disposals	45	0	0	0	0
Financing cash flow	197	-148	-89	-90	-91
Borrowings	289	-59	0	0	0
Dividends paid	-88	-89	-89	-90	-91
Change in cash	-27	72	-307	-60	-102
Balance Sheet (€M)					
Total assets	4,294	4,461	4,909	5,083	5,302
Cash & cash equivalent	70	139	139	139	139
Accounts receivable	427	276	485	506	537
Net fixed assets	3,452	3,722	3,958	4,108	4,293
Total liabilities	3,298	3,439	3,842	3,953	4,091
Accounts payable	420	433	508	557	591
Total Debt	2,210	2,275	2,582	2,642	2,744
Shareholders' funds	997	1,022	1,066	1,130	1,211
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	74.4	57.5	57.1	58.4	58.8
ROE adjusted	10.8	11.0	12.9	14.1	14.8
ROIC adjusted	5.8	5.3	6.1	6.9	7.2
Net debt to equity	214.7	209.0	229.1	221.6	215.1
Total debt to capital	68.9	69.0	70.8	70.0	69.4

For further data queries on Citi's full coverage universe please contact CIRA Data Services Europe at CIRADataServicesEMEA@citi.com or +44-207-986-4050

Summary

We remain sellers of REN and we stick to our TP €1.9/sh. In our view, the company's WACC is well above the average IRR of existing assets (6.3%) and new investments (7.3%); therefore, we think value creation is under question. Additionally, REN is facing a challenging privatisation which is likely to put pressure on the share price.

1. **Privatisation – Overhang risk to put pressure on the share price:** We expect the privatisation to be undertaken in 2 steps:

- Block placing: We expect investors, who have made non-binding offers, to acquire stakes above 5%. However, we do not think that they will bid for the total 51% stake of REN hence...

- Market placing: We expect the Government to place part of the stake in the market.

On one hand, we do not expect any potential block placing to be undertaken at significant premium. We would consider this as acquiring a financial stake (rather than M&A) as no company would be allowed to take control of REN, therefore significant premiums are not justified in our view.

On the other hand, we expect REN low liquidity and overhang risk to put pressure on the share price ahead of the privatisation. We expect a market placing would be done at a discount. Bear in mind that the first privatisation (July 2007) took place at 25% discount EV/EBITDA 2008 (vs. Iberian peers) and 30% discount P/E 2008; the company is currently trading at 11% discount EV/EBITDA 12E 16.9% discount P/E 12E.

2. **Regulation — Tight returns:** As we stated in our Alert (Please see [ERSE Regulatory Proposal 2012-14 - Clearer But Not Brighter Picture](#)), and given current market circumstances (High cost of Equity, Cost of Debt increasing) we do not find the new regulatory framework attractive enough. According to our estimates, the company's WACC is well above the average IRR of existing assets and new investments. Given the challenging value creation, we estimate the company should trade at 12% discount to RAB:
3. **Capex — Downside risk rather than upside potential:** Despite Citi estimates being below company guidance, we still see downside risk rather than upside potential in the Capex of the company. We would not rule out the company lowering its guidance during the next Investor Day (expected by spring 2012).

Valuation

We reiterate our Sell rating (3) and maintain our TP at €1.9/sh as the new electricity regulation has been fully in line with our estimates

Figure 2. REN - SOTP Valuation

	EV (€mn)	€/share	2011E RAB	IRR	2011/2014E growth	%premium 2011E RAB
Electricity Assets	1,982	3.7	2,190	6.3%	7%	-10%
Assets at incurred costs	1,067	2.0	1,135	6.8%	-7%	-6.0%
Assets at standard costs	665	1.2	702	6.6%	28%	-5%
Land assets	211	0.4	313	3.6%	-4%	-32.5%
Management assets	38	0.1	41	6.8%	-7%	-6.0%
Gas Assets	900	1.7	1,085	6.4%	2%	-17.0%
RAB Assets	2,882	5.4	3,276	6.3%	5%	-12%
Other Assets	335	0.6				
Total	3,217	6.0				
Net Debt	-2,427	-4.5				
WIP	309	0.6				
Other assets/Liabilities	-60	-0.1				
Pending Tariff Deficit	-5	0.0				
Minorities	-1	0.0				
Market Cap	1,034	1.9				

Source: Citi Investment Research and Analysis

We believe that REN should trade at 12% discount vs. its 2011 RAB given: i) Low IRR of existing assets (Blended IRR 6.3%) and ii) Low IRR of new investments (Blended IRR 7.3%). According to our estimates, REN is trading at discount vs its Iberian peers but we firmly believe it should trade at higher discount due to: i) Lower returns, ii) Higher WACC iii) Higher overhang risk and iv) Higher uncertainty in returns (Returns on RAB are defined every year and apply to 100% of REN's asset base)

Figure 3. REN relative valuation

EV/EBITDA	2011E	2012E	2013E	2014E	CAGR 10-14E
@ current price € 2.1	7.5	6.8	6.6	6.4	8.8%
@ target price € 1.9	7.3	6.7	6.4	6.2	
Sector average	8.0	7.4	7.0	6.7	9.5%
Adj. P/E	2011E	2012E	2013E	2014E	
@ current price € 2.1	8.4	7.3	6.5	6.1	13.6%
@ target price € 1.9	7.7	6.7	6.0	5.6	
Sector average	9.3	8.3	7.5	6.9	11.1%
Dividend Yield	2011E	2012E	2013E	2014E	
@ current price € 2.1	8.0%	8.1%	8.2%	8.3%	1.0%
@ target price € 1.9	8.7%	8.8%	8.9%	9.0%	
Sector average	7.2%	7.8%	8.4%	8.9%	8.3%

Prices as of 01/11/2011 closing price

We take REE, ENG and REN to calculate the Sector Average

Source: Citi Investment Research and Analysis

Key assumptions

■ Regulation

- We assume the current electricity regulatory framework remains
- We assume an improvement of the gas regulatory framework with a 9% RoR (vs. 8% currently)

■ Our Capex scenario remains unchanged and below company guidance. We expect REN to revise downward its Capex during the next Investor Day (expected by spring 2012)

■ We look at investments in 2011-2022

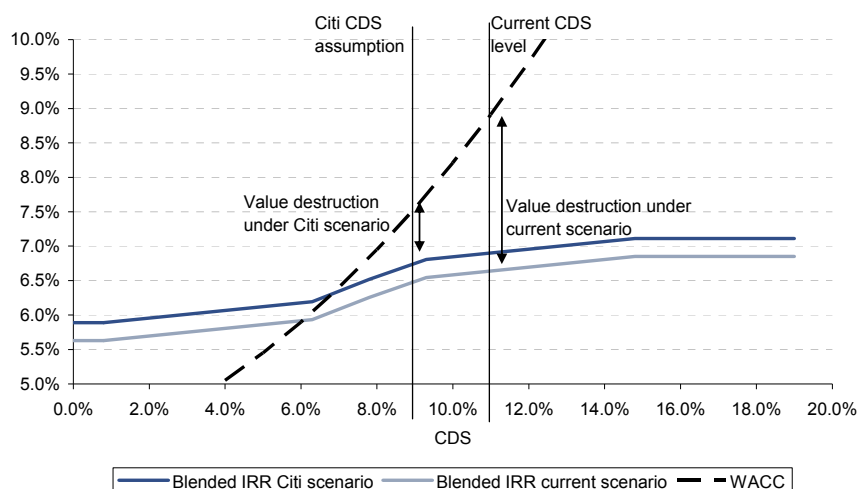
■ We have a rolling WACC (average 2012-2022 7.56%)

■ Macro assumptions

- 5Y Portuguese CDS in line with Portugal risk free rate 9%
- Tax rate 30%
- Portuguese CPI 1.5%

While we remain negative on the stock, our assumptions do not look bearish (please see below figure) as we assume: i) an improvement of the gas asset remuneration ii) 9% risk free rate and CDS (vs. 11% currently) and iii) 30% tax rate (according to Portuguese Prime Minister, REN's Corporate tax could increase by at least 0.5%).

Figure 4. Citi scenario vs. current scenario



Source: Citi Investment Research and Analysis

Privatisation – Overhang Risk

We expect downside pressure on the share price ahead of the privatisation given the overhang risk in the company

Facts

- As stated in the MoU (Memorandum of Understanding agreed by Portugal and the IMF), Portugal aims to fully privatise REN at some point in 2011 (Parpublica holds 51% stake in the company).
- The Portuguese Government has already sent potential investors an invitation to make non-binding offers for a stake between 5% and 30%. The deadline for the non-binding offers was set on the 24th October 2011.
- According to the Portuguese press (Jornal de Negocios), 4 groups have expressed their interest in the privatisation: National Grid, State Grid (Chinese company) and 2 Institutional investors. Neither of these companies has commented on this speculation.

Which are the next steps in the privatisation?

- Given that investors have been invited to bid for a stake between 5% and 30%, the Portuguese Government could consider changing Portuguese law and REN's bylaws ahead of the privatisation. Bear in mind that no investor is allowed to hold a stake above 10% in REN (5% if the investor is an energy related company). We expect the Government to lift this cap and to include a clause to remove any M&A angle in REN as this company is considered as strategic for the country
- Mr. Silva (President of the Portuguese Republic) will have to approve the RD to regulate the process.

What do we expect?

We do not think that the 4 groups the press claim to be interested in REN would have bid for the total 51% stake so we expect the privatisation to be opened to other investors.

Block placing — Unlikely to see a significant premium

We struggle to see a reason to offer a significant premium for a non-controlling stake in a company for which: i) we think any future M&A should be ruled out and ii) fundamental upside as regards to regulation and Capex are unlikely in our view.

Nonetheless, it might not be the best timing for privatisation due to market circumstances; we expect any potential blocks to be placed before year end as it was agreed in the MoU.

Below we comment on potential bidders:

- National Grid: It owns the majority of UK's electricity transmission assets and has transmission assets in the north east of the USA. NG sees itself as one of the world's leading transmission companies and, as such, we would expect it might consider investing in opportunities in Continental Europe when they become available. However, as yet, NG has not been able to make the economics work and has therefore done no deals in Europe.

That NG has apparently explored taking an interest in REN would come as no surprise. However, we struggle to see NG as a serious bidder. NG has been divesting non core assets recently to help fund very substantial capex requirements in the UK. Also, NG has not previously taken minority stakes in other companies so buying between 5% to 30% in REN would not fit with NG's known strategy.

- REE: REE already owns a 5% stake in REN. REE acquired this stake at €3.7 per share in 1Q 2007, representing a ~€100mn financial investment (current trading price is €2.12 per share, ~€57mn). Since 1Q07, REE has provisioned €42.5mn due to a MTM valuation. We acknowledge that REE could have some M&A appetite; but we see no reason for REE to take an additional financial stake in REN because:
 - Voting right limits for energy related companies remain, at the time being, at 5% in REN
 - We believe that the Portuguese Government will not allow any foreign utility company to control (at any point in time) strategic assets in the country (gas/electricity transmission assets are considered strategic ones)
 - REE's Balance Sheet is does not appear very healthy. REE purchased >€1.4bn in assets in Spain in July 2010. The de-leverage process is in evidence, but we expect 2011 REE Net debt/EBITDA still to be 4.2x, meaning we see very limited room for un-needed acquisitions
- State Grid (Chinese company): Buying a stake in REN for a low gearing (~2x 2010 Net Debt/EBITDA) company which reported €25bn 2011 EBITDA does not seem a big challenge. Additionally, REN's experience in managing renewable power plants might be useful for given the growth of renewable output in China.
- Institutional investor: We believe that paying a premium is very unlikely if there is no industrial plan supporting the acquisition, hence we do not expect any institutional investor to aggressively bid for a stake in REN.

Market placing — Likely to see a discount.

As we were saying in our last report (Please see [Low Returns for High Cost of Capital](#)) we think that a placement could almost be seen as an IPO due to REN's low liquidity (20%); therefore we expect the Government would offer a discount for any placement.

In Figure 5, we compare the multiples of REN, REE and ENG at the time REN was privatised (9th July 007) and the multiples these companies are trading at the moment. Although the remuneration applying to REN's electricity assets has been revised upwards, the current market situation is clearly not the same as during the IPO.

Figure 5. IPO multiples vs. Current multiples

	REN's IPO 9 th July 2007		Current trading multiples	
	EV/EBITDA 2007	EV/EBITDA 2008	EV/EBITDA 2011	EV/EBITDA 2012
REN	7.9	7.5	7.5	6.8
REE	10.1	9.8	8.8	8.2
ENG	10.4	10.6	7.7	7.2
Average REE ENG	10.2	10.2	8.2	7.7
Premium/(-)Discount	-23.2%	-25.9%	-8.8%	-11.3%
	P/E 2007	P/E 2008	P/E 2011	P/E 2012
REN	8.6	11.5	8.4	7.3
REE	19.1	16.2	10.1	8.9
ENG	18.0	16.6	9.3	8.7
Average REE ENG	18.5	16.4	9.7	8.8
Premium/(-)Discount	-53.8%	-29.6%	-13.5%	-16.9%
	Dvd Yield 2007	Dvd Yield 2008	Dvd Yield 2011	Dvd Yield 2012
REN	6.6%	5.9%	8.0%	8.1%
REE	3.2%	3.7%	6.5%	7.3%
ENG	4.2%	4.6%	7.0%	8.1%
Average REE ENG	3.7%	4.1%	6.7%	7.7%
Premium/(-)Discount	78.6%	44.1%	19.8%	5.6%

Source: Citi Investment Research and Analysis

As regards to the timing, we would expect Parpublica (Portuguese Government) to turn to the market after any block placing. Depending on market circumstances, we would not rule out a market placing being delayed to early 2012.

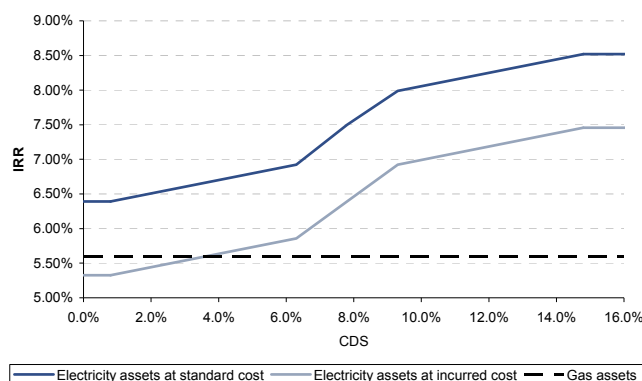
New regulation for electricity assets

ERSE (Portuguese regulator) defined on 17 October a draft of the new regulatory framework applying to Transmission assets for the period 2012-2014. We expect this regulation to be finally approved on 15 December.

As with the previous regulatory framework, the new regulation is based on a RAB system and is defined by the Pre-tax Return, RoR (Return on RAB) which is updated every year and applies to 100% of the electricity asset base. The new RoR is calculated as risk free rate + spread.

- The risk free rate has been set at 3.41% (average of yields of the eurozone with AAA ratings over the last 3 years) for the period 2012-2014.
- The spread is set annually and is indexed to the average daily quotation of the 5Y CDS of the Portuguese Republic from 1 October (t-1) until 31 September (t) (hence 2012 RoR will not be known before October 2012). Assuming a 5Y CDS of 7.8% (starting point), ERSE sets the spread at 5.59% for assets at incurred cost and 7.09% for assets at standard costs. If the 5Y Portuguese CDS changes (vs. 7.8%) by $\pm 3\%$, the spread will change by $\pm 0.75\%$. If the 5Y Portuguese CDS changes (vs. 7.8%) between $\pm 3\%$ and $\pm 7\%$, the spread will change between $\pm 0.75\%$ and $\pm 3\%$. Please see Figure 6 to see assets' IRR as a function of the 5Y CDS of the Portuguese Republic.

Figure 6. Theroretical IRR for REN's assets



Source: ERSE (Portuguese Regulator) and CIRA

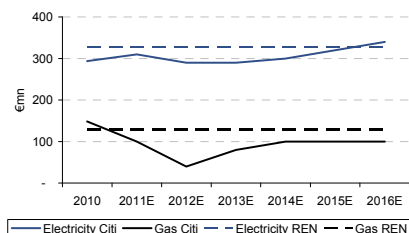
Figure 7. New vs. Old Index



Source: Datastream

Capex plan – Downside risk rather than upside potential

Figure 8. . Capex — REN vs. Citi estimates



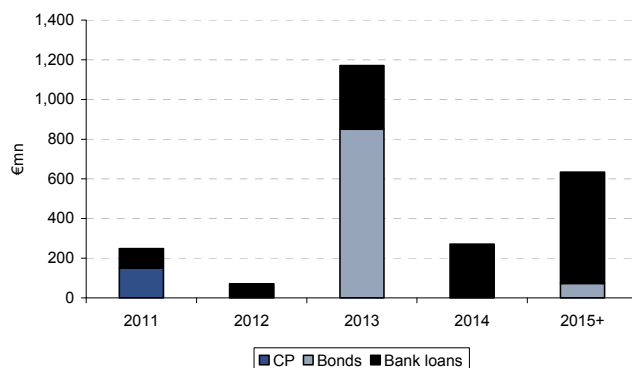
Source: Company reports and CIRA estimates

During the last Investor Day, (November 11th 2010), REN presented its 2010-16 Capex plan which amounted to € 3.2bn. However, the financial and regulatory environment has significantly changed since then.

We believe that REN will lower its Capex Guidance during the next Investor Day (expected by spring 2012) due to:

- **Gas investments:** REN has stated that, if there is not any improvement of the gas remuneration assets, it will freeze investments in gas. We do not expect any regulatory change ahead of the next regulatory period (Dec. 2012); therefore we expect 2012-13 gas investments to be below previous expectations.
- **Potential impact of austerity measures:** Portugal agreed with the IMF a set of austerity measures to reduce the Government deficit. We expect REN's capex plan to be negatively impacted by some measures such as: i) the delay of the high speed train to Lisbon ii) lower renewable installations than previously forecast due to downward revision of the renewable feed in tariffs.
- **Higher financial costs than previously estimated:** REN's potential decision of lowering its Capex might be also supported by its high gearing together with increasing pressure from its financial costs (increasing by 50bps in last 12 months).

Figure 9. REN – Debt maturity schedule (as of June 2011)



Source: Company reports

Figure 10. REN - Debt situation

Leverage level		2011E	2012E	2013E
Net Debt		2,427	2,487	2,589
Net Debt/EBITDA		5.0	4.6	4.5
Cost of Debt		4.5%	5.3%	5.3%
Debt Structure		%Variable	%Hedged	%Fixed
		35.0%		65.0%
Liquidity situation		FY10E		Comments
		n.a.		Covering 12 months
Rating		Long Term		Outlook
Standard&Poors		BBB-		Negative
Moody's		Baa3		Creditwatch negative
Fitch		n.a.		n.a.

Source: Company website, Bloomberg and CIRA estimates

Financials

We slightly adjust our estimates to reflect the new electricity regulatory framework and higher cost of debt.

Figure 11. REN – P&L estimates

(€mn)	2010	2011E	2012E	2013E	2014E	CAGR 10-14E
Revenues	759	843	924	981	1,036	8%
%change	38%	11%	10%	6%	6%	
COGS	-1	-1	-1	-1	-1	0%
Gross margin	758	843	923	980	1,036	8%
Other income	38	38	38	38	38	0%
Personal costs	-51	-51	-51	-51	-51	0%
Other indirect costs	-308	-347	-370	-390	-411	7%
EBITDA	436	482	540	577	611	9%
%change	6%	10%	12%	7%	6%	
%margin	57%	57%	58%	59%	59%	
Electricity	290	339	402	426	452	12%
Gas	152	160	153	163	169	3%
Telecom	4	4	6	8	12	28%
Electricity market operator	-1	-1	-1	-1	-1	8%
Corporate	-9	-20	-20	-20	-20	21%
Depreciation	-186	-183	-188	-194	-200	2%
EBIT	251	299	352	383	410	13%
%change	0%	19%	18%	9%	7%	
%margin	33%	35%	38%	39%	40%	5%
Net financials	-88	-106	-135	-139	-150	14%
Finance expenses	-90	-109	-138	-142	-153	14%
Finance income	2	3	3	3	3	6%
Other financials	-	-	-	-	-	
Associates	4	4	4	4	4	0%
PBT	167	197	221	248	264	12%
Taxes	-56	-63	-67	-75	-80	9%
Tax rate	34%	32%	30%	30%	30%	
Minorities	0	0	0	0	0	
Net income	110	134	154	172	184	14%
%change	-18%	21%	15%	12%	6%	
Adj. Net income	110	134	154	172	184	14%
%change	2%	21%	15%	12%	6%	

Source: Company reports and CIRA estimates

Figure 12. REN – Balance Sheet

(€mn)	2010	2011E	2012E	2013E	2014E
Net Fixed Assets	3,722	3,958	4,108	4,293	4,501
Net Financial Investments	84	87	90	92	95
Goodwill & other	159	159	159	159	159
Total non-current assets	3,965	4,203	4,357	4,544	4,755
Operating working capital	-153	-18	-46	-48	-51
Other current assets	77	77	77	77	77
Total Assets = Total liabilities	3,889	4,262	4,388	4,573	4,781
Shareholder's Equity	1,016	1,060	1,124	1,205	1,296
Minority interests	6	6	6	6	6
Other liabilities	748	769	771	773	774
Net debt	2,119	2,427	2,487	2,589	2,704

Source: Company reports and CIRA estimates

Figure 13. REN – Cash Flow estimates

(€mn)	2010	2011E	2012E	2013E	2014E
Reported Net Income	110	134	154	172	184
Preferred dividends	-	-	-	-	-
Minority Interest	6	-0	-0	-0	-0
Depreciation & amortisation	173	183	188	194	200
Provisions / (provisions implemented)	16	21	2	2	2
Associates	6	-3	-3	-3	-3
Cash tax adjustment	-	-	-	-	-
Other operating cash flow	54	-	-	-	-
Net change in working capital	184	-134	27	3	3
Cash from operations	549	201	368	368	386
Capex	-443	-419	-339	-379	-409
Growth	-438	-414	-334	-374	-404
Maintenance	-5	-5	-5	-5	-5
Net disposals / (acquisitions)	-	-	-	-	-
Other investing cash flows	107	-	-	-	-
Cash from investing	-336	-419	-339	-379	-409
Change in borrowing	-59	-	-	-	-
Equity raised / (share buy backs)	0	-	-	-	-
Dividends	-89	-89	-90	-91	-92
Cash from financing	-148	-89	-90	-91	-92
Forex adjustment	-	-	-	-	-
Discontinued operations	-	-	-	-	-
Adjustments	-45	-	-	-	-
Increase (+) /Decrease (-) in Cash	20	-307	-60	-102	-115

Source: Company reports and CIRA estimates

Figure 14. REN – Estimates revision

€mn	2010	2011E	2012E	2013E	2014E
EBITDA - New	436	482	540	577	611
EBITDA- Old	436	477	522	559	594
Change %	0.0%	1.0%	3.5%	3.2%	2.9%
Net Income - New	110	134	154	172	184
Net Income - Old	110	140	155	170	173
Change %	0.0%	-4.2%	-0.9%	1.1%	6.4%
Adj. net income - New	110	134	154	172	184
Adj. net income - Old	110	140	155	170	173
Change %	0.0%	-4.2%	-0.9%	1.1%	6.4%
EPS - New € / share	0.21	0.25	0.29	0.32	0.34
EPS - Old € / share	0.21	0.26	0.29	0.32	0.32
Change %	0.0%	-4.2%	-0.9%	1.1%	6.4%
Adj. EPS - New € / share	0.21	0.25	0.29	0.32	0.34
Adj. EPS - Old € / share	0.21	0.26	0.29	0.32	0.32
Change %	0.0%	-4.2%	-0.9%	1.1%	6.4%
DPS - New € / share	0.17	0.17	0.17	0.17	0.17
DPS - Old € / share	0.17	0.17	0.17	0.17	0.17
Change %	1.0%	1.0%	1.0%	1.0%	1.0%

Source: Company reports and CIRA estimates

REN

Company description

REN is the Portuguese TSO and owner of the gas and electricity transmission grids in mainland Portugal. REN also manages two PPAs, a telecom business and a trading business. REN's RAB amounted to €3,039mn in December 2010.

Investment strategy

We rate REN Sell (3). We think REN deserves a discount vs. other peers due to lower returns, higher WACC, higher uncertainty in returns and higher overhang risk than peers. We foresee limited potential upside from REN Capex plans, given i) Company's leveraged position ii) Company's decision to freeze investments in gas and iii) Set of austerity measures in Portugal likely to impact REN's investments. Additionally, we see the full privatisation of REN as challenging under current market circumstances (Portuguese Government is expected to sell its 51% stake in REN at some point in 2011.)

Valuation

Our Target Price is €1.90/sh derived from our Sum Of The Parts (SOTP) valuation. For our SOTP valuation, we mainly use DCFs for each business unit (assuming beta of 0.9, 5Y Portuguese CDS and risk free rate of 9%, market premium of 5.5%). By division, Electricity represents 71% of the total SOTP, Gas 31%, Corporate and others -2%. At our TP, REN would be trading at 6.7x 2012EV/EBITDA and 6.7x 2012E Adj. P/E.

Risks

We see the main risks potentially affecting ENG as the following: i) Regulatory uncertainty. Changes in allowed ROR will positively/negatively impact our TP. ii) Capex plan: Any increase/decrease in REN's Capex plan will impact our TP. iii) Sovereign Risk: Given that REN is an almost 100% regulated company, its performance is strongly correlated to market confidence in Portugal. If the impact of these risk factors is more or less negative than we currently anticipate, then the share price could deviate significantly from our target price.

Red Electrica de Espana SA

(REE.MC; €33.68; 1)

Valuation

Our price target of €43 is derived chiefly from DCF. Our DCF model considers the assets in place at the end of December 12E and the value creation that we expect to derive from Red Electrica's investment plan. We assume new regulations apply to assets commissioned from January 2012 and we fix the IRR of new assets at 7.7%. Nevertheless, we highlight that only 6.7% of our valuation is driven by the company's investment plan. We use a rolling WACC in our DCF to conservatively reflect a scenario of high long-term yields based on a 100% pay-out ratio. At our target price, Red Electrica would trade at 11.42x Adj. P/E 12E and 9.2x EV/EBITDA 12E.

Risks

Some risks that could keep Red Electrica's shares from reaching our target price are the following: (1) Regulatory risk. A new regulatory period is expected to start in January 2012. The company's valuation is sensitive to the remuneration framework since almost 100% of its revenues come from the electricity tariffs; (2) Execution of investment plans. REE plans to invest €4bn in the next five years to develop the network and increase the system's security of supply. Value creation on these investments depends on positive execution in terms of timing and cost. Positive risks include (1) Outperformance in terms of capex and/or opex would imply higher value creation potential vs. our estimates. (2) Low regulatory risk once the government has defined a transparent and stable framework.

Enagas SA

(ENAG.MC; €13.66; 1)

Valuation

Our price target of €16 is chiefly derived from the use of DCF. We analyse the company's DCF valuation through the valuation of the assets in place by the end of December 2012 and the value creation coming from Enagas's investment plan. We assume a new regulation applying to transmission assets commissioned from January 2012 and we fix the IRR of new assets at 7.7%. We use a rolling WACC in our DCF to conservatively reflect a scenario of high long-term yields based on a 95% Pay-out ratio by 2017. At our target price, Enagas would be trading at 7.7x EV/EBITDA12E and 10.1x Adj. P/E12E, multiples in line with peers despite higher growth rates.

Risks

The main risks that could impede ENG from achieving our target price are: (1) Execution of investment plans. We estimate the company will invest €3.4bn in the 2010E-14E period. Value creation on these investments depends on positive execution in terms of timing and cost. (2) Regulatory risk. The company's valuation is very sensitive to the remuneration framework since almost 100% of its revenues come from the gas tariffs. Nevertheless, the new regulation (January 2008) provides the company with sufficient stability and we assume a more conservative scenario from 2012 onwards (IRR for new transmission assets to be fixed at 7.7%). (3) Acquisition risk. After being appointed as TSO for the Spanish gas system, the company is likely to acquire LNG terminals and storage assets, with the transactions price yet to be defined. The price of the operation, as well as potential modification in the regulation for those assets, could affect our valuation.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

REN (RENE.LS)

Ratings and Target Price History Fundamental Research

Analyst: Manuel Losa

Covered since October 22 2010

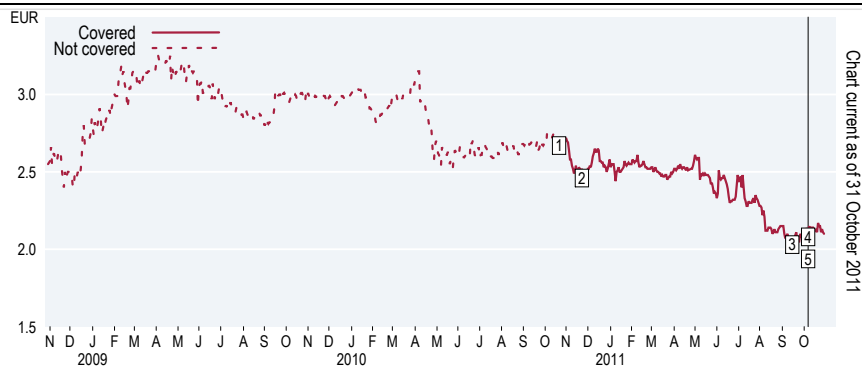


Chart current as of 31 October 2011

	Date	Rating	Target Price	Closing Price
1	21-Oct-10	*3M	*2.40	2.72
2	23-Nov-10	3M	*2.30	2.52

* Indicates change

	Date	Rating	Target Price	Closing Price
3	15-Sep-11	*3H	*1.90	2.06
4	7-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
5	7-Oct-11	*3	1.90	2.12

Rating/target price changes above reflect Eastern Standard Time

REN (RENE.LS)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Manuel Losa

Covered since October 22 2010

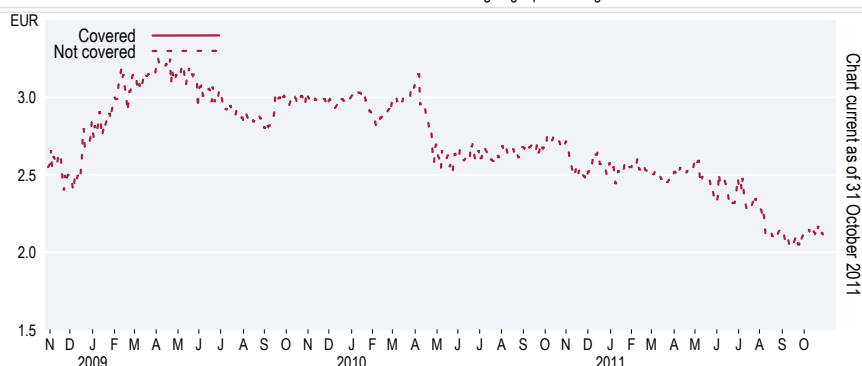


Chart current as of 31 October 2011

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Enagas SA (ENAG.MC)

Ratings and Target Price History Fundamental Research

Analyst: Manuel Palomo



Chart current as of 31 October 2011

	Date	Rating	Target Price	Closing Price
1	21-Jun-09	1M	*20.00	13.05
2	28-Jul-10	1M	*16.50	14.23

* Indicates change

	Date	Rating	Target Price	Closing Price
3	10-Mar-11	*2M	*17.00	15.49
4	15-Sep-11	*1M	*16.00	13.61

	Date	Rating	Target Price	Closing Price
5	7-Oct-11	Stock rating system changed		
6	7-Oct-11	*1	16.00	14.15

Rating/target price changes above reflect Eastern Standard Time

Enagas SA (ENAG.MC)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Manuel Palomo



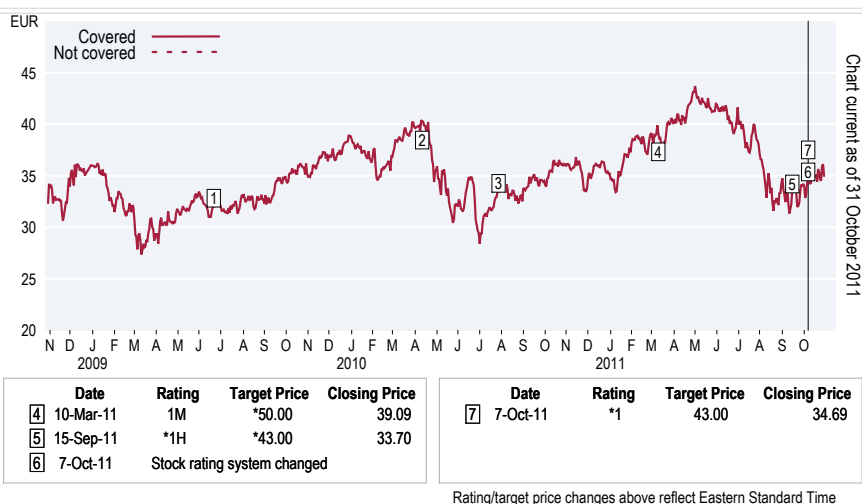
* Indicates change

Red Electrica de Espana SA (REE.MC)

Ratings and Target Price History

Fundamental Research

Analyst: Manuel Palomo



* Indicates change

Date	Rating	Target Price	Closing Price
1 21-Jun-09	1M	*44.70	31.99
2 11-Apr-10	1M	*49.60	40.39
3 28-Jul-10	1M	*43.00	33.57

Date	Rating	Target Price	Closing Price
4 10-Mar-11	1M	*50.00	39.09
5 15-Sep-11	*1H	*43.00	33.70
6 7-Oct-11	Stock rating system changed		

Date	Rating	Target Price	Closing Price
7 7-Oct-11	*1	43.00	34.69

Rating/target price changes above reflect Eastern Standard Time

Red Electrica de Espana SA (REE.MC)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Manuel Palomo



* Indicates change

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Red Electrica de Espana SA.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from REN, Enagas SA, Red Electrica de Espana SA.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from REN, Red Electrica de Espana SA.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from REN, Enagas SA, Red Electrica de Espana SA in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): REN, Enagas SA, Red Electrica de Espana SA.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: REN, Enagas SA, Red Electrica de Espana SA.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, non-securities-related: REN, Enagas SA, Red Electrica de Espana SA.

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 investment banking revenues.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Investment Research & Analysis product ("the Product"), please contact Citi Investment Research & Analysis, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. 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. 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 & Analysis Ratings Distribution

<i>Data current as of 10 Oct 2011</i>	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Investment Research & Analysis Global Fundamental Coverage	59%	34%	7%	10%	79%	10%
% of companies in each rating category that are investment banking clients	45%	42%	37%	50%	43%	46%

Guide to Citi Investment Research & Analysis (CIRA) Fundamental Research Investment Ratings:

CIRA's stock recommendations include an investment rating and an optional risk rating to highlight high risk stocks.

Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.

Investment Ratings: CIRA's investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months. The Investment rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of CIRA management not to assign a target price and, thus, not derive an ETR.

Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

Relative three-month ratings: CIRA may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings**, which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of CIRA's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were: 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.

NON-US RESEARCH ANALYST DISCLOSURES

Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. 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. The legal entities employing the authors of this report are listed below:

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 01 November 2011 04:30 PM on the issuer's primary market.

This Product has been modified by the author following a discussion with one or more of the named issuers/issuers of the named securities.

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 issuer(s) 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 & Analysis (CIRA) does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of CIRA 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.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers: Morgan Stanley & Co. LLC (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Investment Research & Analysis (CIRA) research report. Ask your Financial Advisor or use smithbarney.com to view any available Morgan Stanley research reports in addition to CIRA research reports.

Important disclosure regarding the relationship between the companies that are the subject of this CIRA research report and Morgan Stanley Smith Barney LLC and its affiliates are available at the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures. For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citigroupgeo.com/geopublic/Disclosures/index_a.html.

This CIRA research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of CIRA. This could create a conflict of interest.

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** through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant 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 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. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in **France** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong

Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. 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. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A. Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Foro Buonaparte 16, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which 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. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm'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 the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 110-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. <http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02>. 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, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and 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 to 'wholesale clients' only as defined by s5C(1) of the Financial Advisers Act 2008 ('FAA') through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant 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 **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego 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. ("CGMSPL"), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). 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. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold/Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). 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 **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gassef, 4th Floor, Madrid, 28006, Spain. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. 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 **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the

U.A.E., these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different CIRA ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. 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 a member of FINRA and registered with 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.

Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

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 CIRA'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. With the exception of our product that is made available only to Qualified Institutional Buyers (QIBs), CIRA concurrently disseminates its research via proprietary and non-proprietary electronic distribution platforms. Periodically, individual CIRA analysts may also opt to circulate research posted on such platforms to one or more clients by email. Such email distribution is discretionary and is done only after the research has been disseminated via the aforementioned distribution channels. CIRA simultaneously distributes product that is limited to QIBs only through email distribution.

The level and types of services provided by CIRA analysts to clients may vary depending on various factors such as the client's individual preferences as to the frequency and manner of receiving communications from analysts, the client's risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with Citi and legal and regulatory constraints.

© 2011 Citigroup Global Markets Inc. Citi Investment Research & Analysis is a division of Citigroup Global Markets Inc. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc. and its affiliates and are used and registered throughout the world. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure of this report (the "Product"), including, but not limited to, redistribution of the Product by electronic mail, posting of the Product on a website or page, and/or providing to a third party a link to the Product, 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 to any third party. Where included in this report, MSCI sourced information is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, redisseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates. 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

EU11102E