

US Credit Outlook

14 for '14 (part 3), fourteen *supply trends* for 2014

- We forecast \$940bn of investment grade issuance in 2014, a 1% increase from the \$932bn issued in 2013 year-to-date.
- Net supply, on the other hand, will likely decrease 12% year-over-year to \$422bn, as maturities accelerate to \$518bn.
- US nonfinancials contribute to nearly 60% of our net supply estimate at \$244bn. If consensus EBITDA estimates materialize, leveraging to fund capex, share buybacks, dividends, and M&A could drive net leverage 0.08-turns higher to 1.90x. On the other hand, we expect US financial supply to decline by 44% to \$57bn.
- Yankee issuance will likely drop as funding in dollars becomes increasingly more expensive as rates rise in the US and the cross-currency basis swap normalizes; we are forecasting \$121bn, down ~30% from 2013. The drop in supply comes predominantly from developed economies, particularly European credits. Yankee issuance has comprised roughly 50% of net supply in the post-crisis era — we expect this to come down to ~30% in 2014.

Sonam T Pokwal

+1-212-723-3807

sonam.t.pokwal@citi.com

Jason Shoup

+1-212-723-6147

jason.b.shoup@citi.com

Lina Lavitsky

+1-212-723-1104

lina.lavitsky@citi.com

Citi 2014 investment grade supply outlook, in \$bn

	2013			2014 Forecast		
	Gross Supply	Maturities	Net Supply	Gross Supply	Maturities	Net Supply
High Grade	932	-450	482	940	-518	422
Financials	394	-219	175	389	-280	110
Domestic	251	-149	102	227	-170	57
Yankee	144	-70	74	163	-110	53
Nonfinancials	538	-231	307	550	-238	313
Domestic	382	-172	209	411	-167	244
Yankee	156	-59	97	139	-71	69
Domestic	633	-321	312	637	-336	301
Yankee	300	-129	172	302	-181	121

Source: Citi Research, Dealogic

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

Citi Research is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

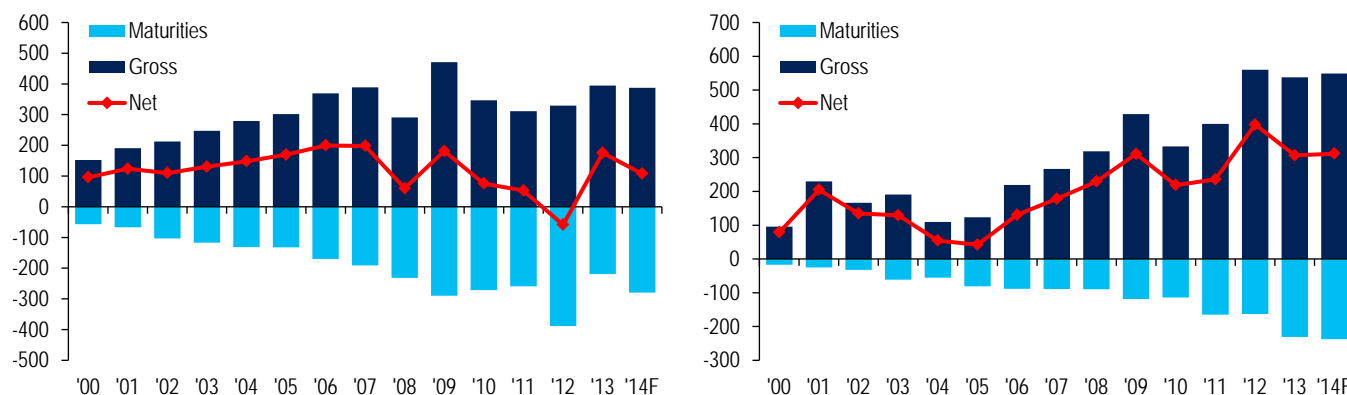
14 supply trends for '14

Our baseline target for investment grade corporate bond supply in 2014 is \$940bn (\$422bn in net terms). While rising rates haven't deterred corporates from adding leverage yet, we expect the pace of releveraging to slow down to 0.08 turns-per-year. Increased capex spending should add to net issuance needs that have previously been motivated by share buybacks and dividend plans. And while this year's \$49bn Verizon deal can be viewed as a one-off situation, we think it may have opened the door for more M&A activity next year. On the other hand, bank issuance will likely be anemic and rely less on fixed-coupon senior debt. Likewise, Yankee supply will likely drop significantly as it becomes relatively more expensive to fund in dollars.

Note on our issuance universe: in this piece, we look at supply trends of \$-denominated investment grade corporate bonds that are marketed in the United States. We include MTNs but exclude preferred shares and public sector financials. We restrict gross supply to bonds that are rated BBB/Baa or above by any one of the three primary rating agencies (Moody's, Fitch, or S&P).

Note that while we used explicit rating restrictions to construct supply figures this year, we used Dealogic's definition of investment grade in last year's supply estimates. For this reason, comparing the two would not be an apples-to-apples comparison.

Figure 1. Financial (left) and nonfinancial (right) supply, in \$bn



Source: Citi Research, Dealogic

Domestic nonfinancial supply

I. US nonfinancial net supply should increase as releveraging continues

We expect net issuance from US-domiciled nonfinancials to clock in at \$244bn in 2014 (+17% vs 2013), which will continue a three-year releveraging trend in the US. Maturities of \$167bn coming due next year will drive gross supply for this cross section of the market to what would be a record-breaking \$411bn.

To arrive at these forecasts, we start by asking the question: how much more debt will corporates need to issue to bridge the gap between expected operating cashflows and their spending needs?

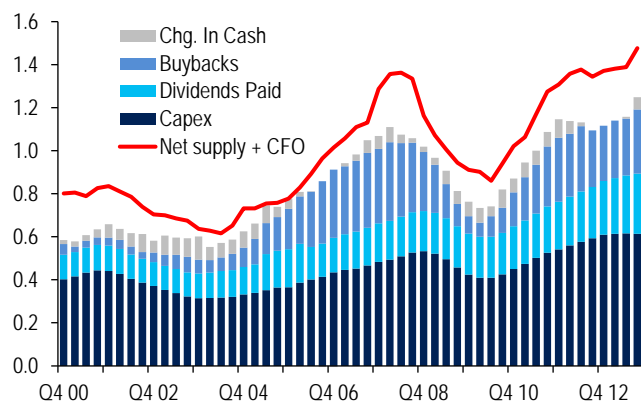
To our minds, corporates can either earn cash through their operations, or use new debt (or equity for that matter) to fund their activities. Figure 2 shows that share buybacks, dividends, and capex account for a majority of observed corporate spending. But more importantly for forecasting purposes, we note that the sum of net supply and CFO is highly correlated to those three potential uses of funds. As

such, if we can forecast how much companies will spend on these activities in 2014 and how much cash from operations they'll generate, it's trivial to back out how much new debt they'll need to issue.

II. Capital expenditure should pick up next year and contribute to net supply

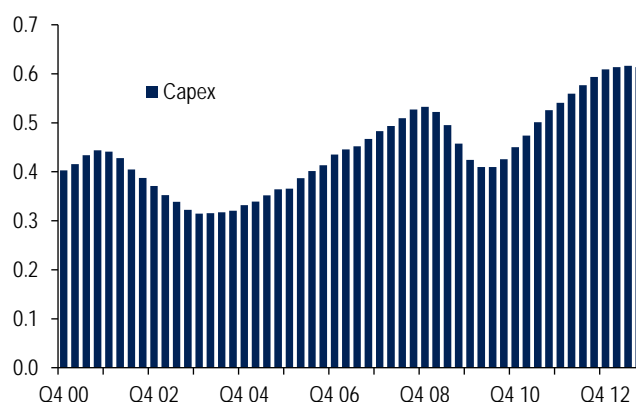
Of all ways corporates can spend cash to add to shareholder value, capex is arguably the most favorable — not only can it have a multiplier effect, but it also shows management teams' confidence in the economy, their business, and their firm. Yet a prerequisite for increasing capex is good growth prospects. Figure 4 depicts the procyclical nature of capex. And while capex growth has stagnated for the past several quarters, we think there is scope for it to start on an upward trajectory next year. Indeed, [Citi economists](#) expect real GDP and business spending to rise to 2.7% and 4.3% in 2014, respectively. Moreover, the consensus is that capex will rise 1.5%–2% next year, which means corporates will invest approximately \$632bn.

Figure 2. S&P 500 nonfinancials cash generation vs cash uses, in \$tn



Source: Citi Research, Bloomberg

Figure 3. S&P 500 nonfinancials capital expenditure, in \$tn



Source: Citi Research, Bloomberg

While rising capex could cannibalize other uses of cash, we still expect buybacks and dividends to remain on an upward trajectory next year.

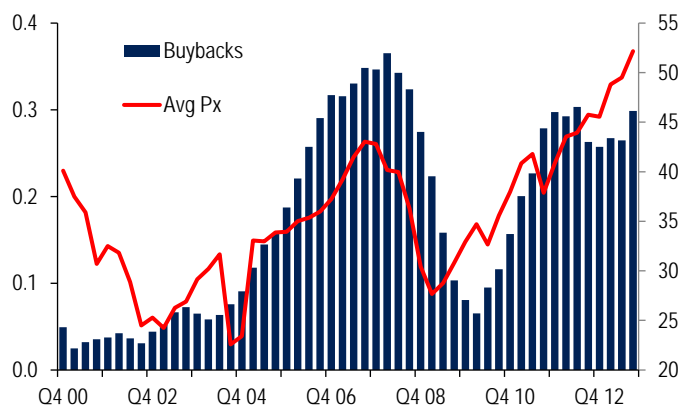
III. Share buybacks should continue to drive net supply higher, even with increasing capex

Although share buyback programs, like capex, drive stock prices higher, that is about the only thing these uses of cash have in common. Intuitively, one would think that returning cash in the form of buybacks suggests that management teams are *not* confident about the economy or their business. After all, why would you buy the stock if there were better uses of your capital? But somewhat surprisingly, and as we have shown several times before, buybacks are actually *procyclical* just like capex. For a variety of well-documented reasons, companies just don't apply the same level of rigorous cost-benefit analysis to investment in their own stock. As such, we expect buybacks to grow 10%, to \$328bn, in 2014.

IV. Dividends paid should increase and contribute to positive net supply

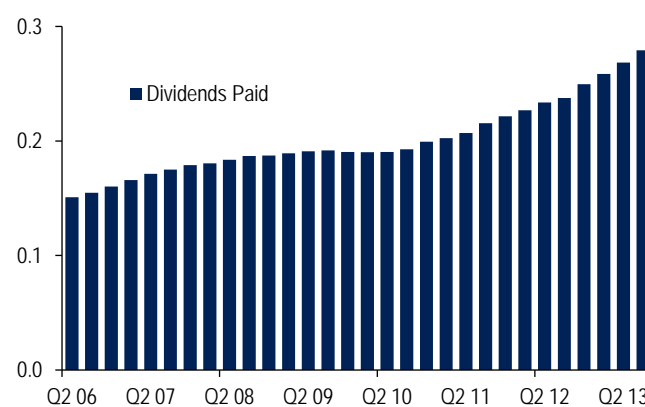
Like buybacks, dividends are another way to return cash to shareholders directly. But unlike buybacks, dividends typically represent a commitment to *consistently* return cash to shareholders for a longer period of time. The exception to this rule is special dividends, which we've seen more in 2013 thanks to demands by activist investors. Even Apple, once thought of as a cash hoarder, increased its dividends to placate activist investors during the last year. Figure 5 shows dividends growing steadily at an average rate of 10% over the past 4 years. It's a trend that we do not expect to change, especially as equity returns in 2014 are unlikely to match this year.

Figure 4. S&P 500 nonfinancials share buybacks vs average equity price, buybacks in \$tn (left), price in \$ (right)



Source: Citi Research, Bloomberg

Figure 5. Dividends paid by S&P 500 nonfinancials, in \$tn



Source: Citi Research, Bloomberg

V. Verizon's \$40bn deal may have opened the door to more chunky deals next year

As is the case for every year, M&A is a wildcard when it comes to nonfinancial cash needs. Take this year for instance — while we expected activity to increase this year, we didn't see Verizon's \$49bn deal coming when we wrote our 2013 supply outlook. And while we are sympathetic to the view that this is an outlier unlikely to be repeated in 2014, we think Verizon's deal may have opened up the door to deals of a similarly chunky size next year, particularly in the TMT space. Indeed, it's difficult to imagine that something won't come from the Charter/Time Warner Cable/AT&T/Cox headlines of the past three months.

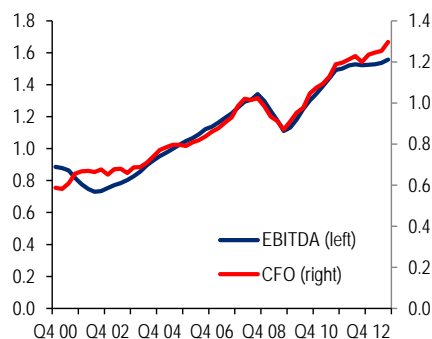
VI. Corporate cash spending should accelerate next year, all in all

For the uses of cash we've listed above — capex, dividends, share buybacks, and M&A—corporate management can choose to fund themselves by drawing down cash balances, putting cashflows from operations to work, or raising debt (or equity, for that matter).

VII. Corporates are unlikely to be comfortable depleting cash-hoards just yet

We expect that on aggregate, companies will be unwilling to deplete cash reserves. While we have seen the likes of Apple put cash reserves to use in the form of dividends, we don't expect nonfinancials to be comfortable reducing their cash cushion just yet. To be sure, a large portion of cash is held by multinational corporations outside the US, particularly in the tech sector. And while there is some possibility of a tax deal that encourages corporates to repatriate cash, political gridlock likely means that most issuers will likely continue to tap the debt markets in 2014.

Figure 6. S&P Nonfin EBITDA vs Operating Cashflow (CFO), in \$tn



Source: Citi Research

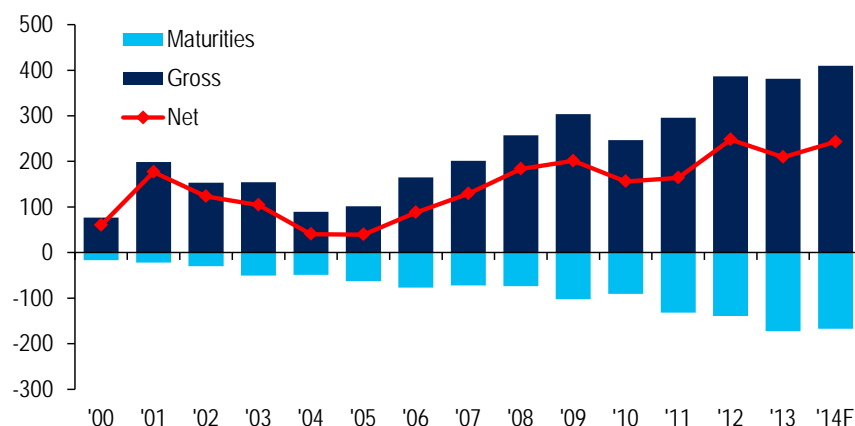
As is typical, cashflows from operations will likely be the preferred method of financing, but we don't expect it to be nearly enough to cover corporate spending needs. Looking at the nonfinancial cross section of the S&P 500 index, we see that EBITDA and cashflow from operations are highly correlated (Figure 6), as expected. A basic regression indicates that CFO is roughly 60% of EBITDA. So if nonfinancial EBITDA grows at 8% in 2014, as the analyst community expects, then CFO should grow at 4.8%. Of course, more often than not, analysts tend to be far too optimistic, so for the sake of this forecast we've trimmed CFO growth to 3.8% for 2014.

Cumulatively, this growth in spending exceeds that of consensus operating cashflow estimates, meaning that corporates will have to bridge the gap with new debt. This puts our net issuance for US nonfinancials at \$244bn. And assuming all of the \$167bn of maturities are refinanced, our gross issuance target is \$411bn (Figure 7).

VIII. The rise in leverage should slow in 2013 as improving EBITDA offsets the impact of growing debt

All things held equal, this growth in net supply should drive our leverage target higher, granted the impact of rising EBITDA doesn't dominate deleveraging. While we expect deleveraging to continue full force, the pickup in EBITDA should diminish the impact on Debt-to-EBITDA measures. We expect net leverage to increase by 0.08-turns for US nonfinancials, which reflects a slowdown from this year.

Figure 7. US nonfinancial supply, in \$bn



Source: Citi Research, Dealogic

Domestic financials supply

IX. Bank deleveraging should continue to drive US financial net supply lower

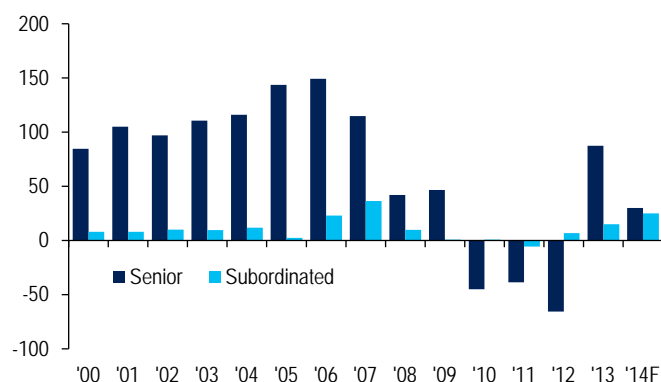
The trends in financials continue to go in the opposite direction of nonfinancials. As was the case this year, we expect banks to remain in deleveraging mode and issuance from the rest of the financials to stay subdued. Indeed, if guidance from Bank of America and GE is anything to go by, financial supply expectations may need to be trimmed further.

In the bank space, in particular, we expect another year of flattish net supply. In our forecasts, bank net and gross supply comes in at \$30bn and \$127bn, respectively.

X. Floaters and subordinate debt could cannibalize senior fixed-rate bank supply

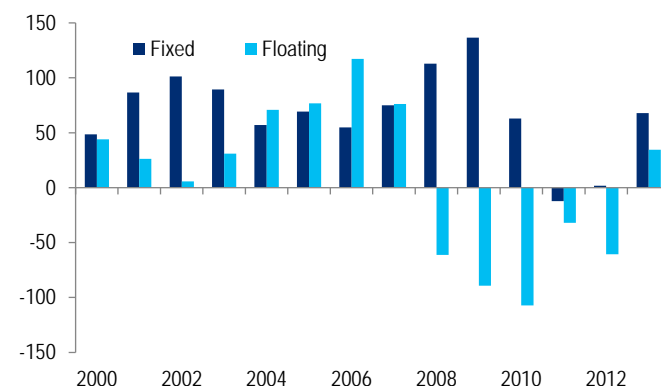
If we focus on fixed rate senior debt, the likelihood of negative net issuance next year is even higher. Figure 8 shows that bank issuers continue to take advantage of demand for floaters and subordinate debt in lieu of senior debt. Indeed, issuance of subdebt should continue as banks respond to changing regulatory requirements and a compressed senior-sub relationship.

Figure 8. US financial senior vs subordinate net supply, in \$bn



Source: Citi Research, Dealogic

Figure 9. US financial fixed vs floating net supply, in \$bn

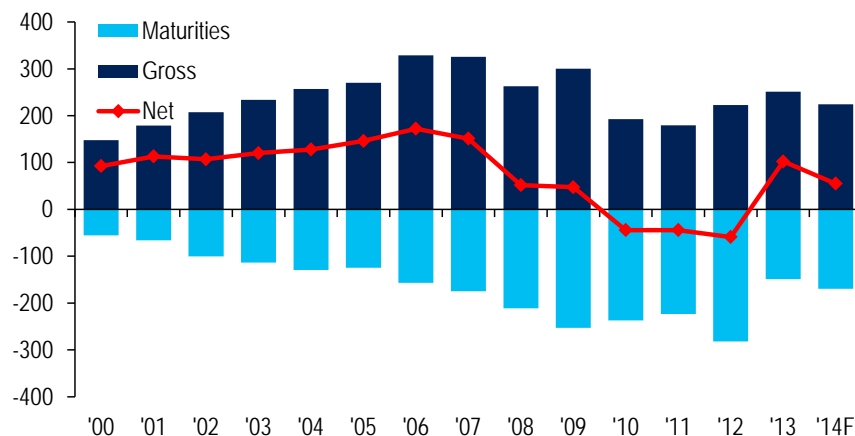


Source: Citi Research, Dealogic

Aside from banks, financials are predominantly comprised of insurers, REITs, and financial arms of corporates. We don't see any dominant drivers to call for any material change in net supply for any of these sectors. We expect \$25bn in net supply from nonbank US financial issuers.

Put it all together and we see financial net supply and gross supply at \$57bn and \$227bn, respectively (Figure 10).

Figure 10. US financial supply, in \$bn



Source: Citi Research, Dealogic

Other supply considerations

XI. Prefunding impact on net supply tends to be exaggerated

It's worth mentioning that prefunding could be a significant factor that could cause issuance to deviate from our forecast. However, for the most part, we expect that much of the issuance pulled forward into 2013 will be offset by prefunding of 2015 debt at the tail-end of 2014. If inflation actually begins picking up and we start observing rate hikes being meaningfully priced into Treasury yields in 2015, we may actually see prefunding as a net positive to supply.

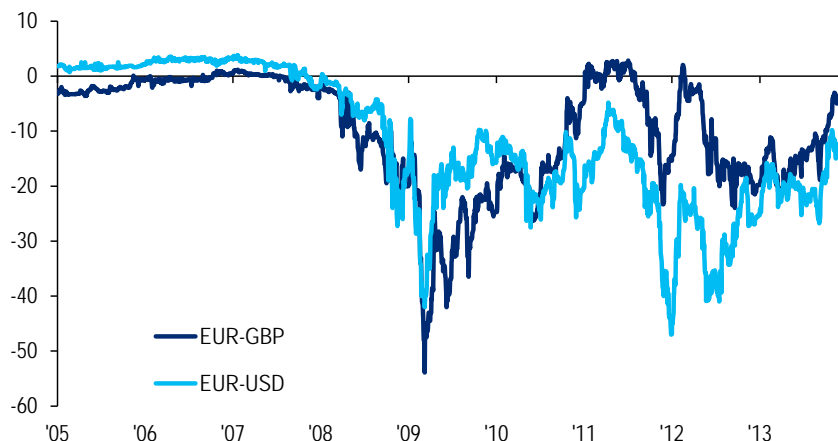
XII. Domestic supply is unlikely to be meaningfully impacted by the cross-currency basis

Another primary risk to our supply estimate is the increased cost of funding in dollars versus other currencies. Figure 11 depicts that compared to EUR and GBP, the two other deep debt capital markets, financing in USD has become less and less attractive. If we apply our economist rates expectations, this will only get worse.

Yet with that said, it's difficult to imagine that US-domiciled corporates meaningfully try to tap foreign markets in 2014. Incremental issuance in euros — of the sort we've observed during the last three months — is likely, but the quantity issued abroad is unlikely to result in noticeably lower US issuance, in our opinion.

Yankee supply

Figure 11. Cross-currency basis swap spreads, in bp

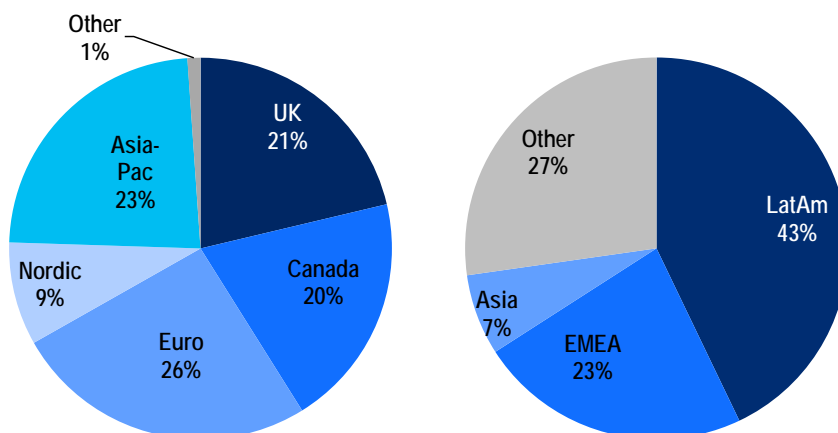


Source: Citi Research

XIII. A less favorable cross-currency basis swap will likely constrain DM Yankee supply

A less favorable cross-currency basis swap *will* likely constrain Yankee issuance by financials and nonfinancials even if it doesn't encourage US companies to issue abroad (Figure 11). We expect that USD supply from other DM economies will take a hit in 2014, coming in at only \$90bn in net terms (split evenly between financials and nonfinancials, Figure 13). To see why, take a look at Figure 12, depicting how much dollar debt was issued in the US by foreign non-EM credits in the past three years. European regions make up over half of the debt issued in dollars. And considering the fact that companies in these regions predominantly hold assets in EUR and GBP, there's little reason to take on more USD-debt, particularly if it's cheaper to fund in the local currency.

Figure 12. Breakdown of foreign-issuer, US-marketed, \$-denominated debt by country, developed markets (left) and emerging markets (right)



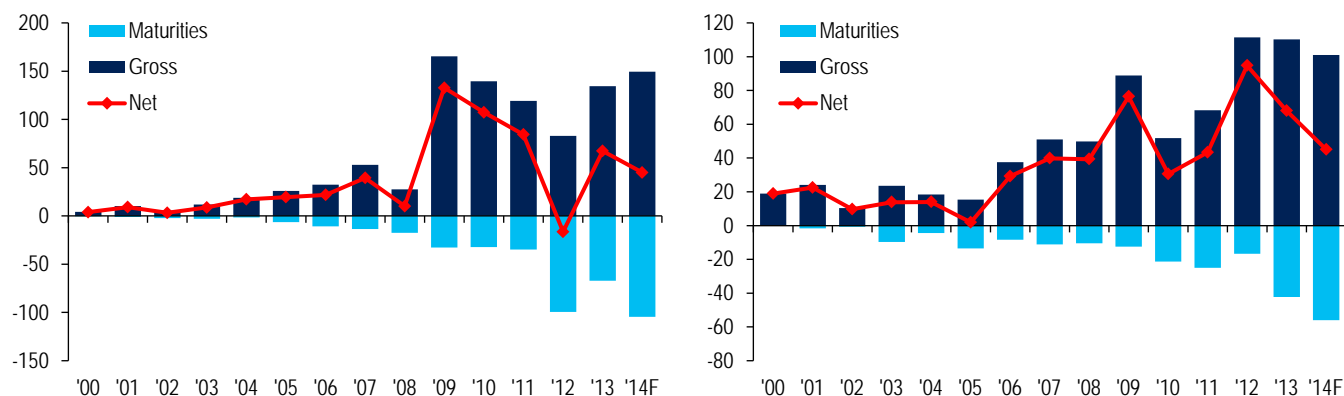
Source: Citi Research

Note: Gross issuance over the last three years.

XIV. ... but less so for EM Yankee issuers than DM Yankee issuers

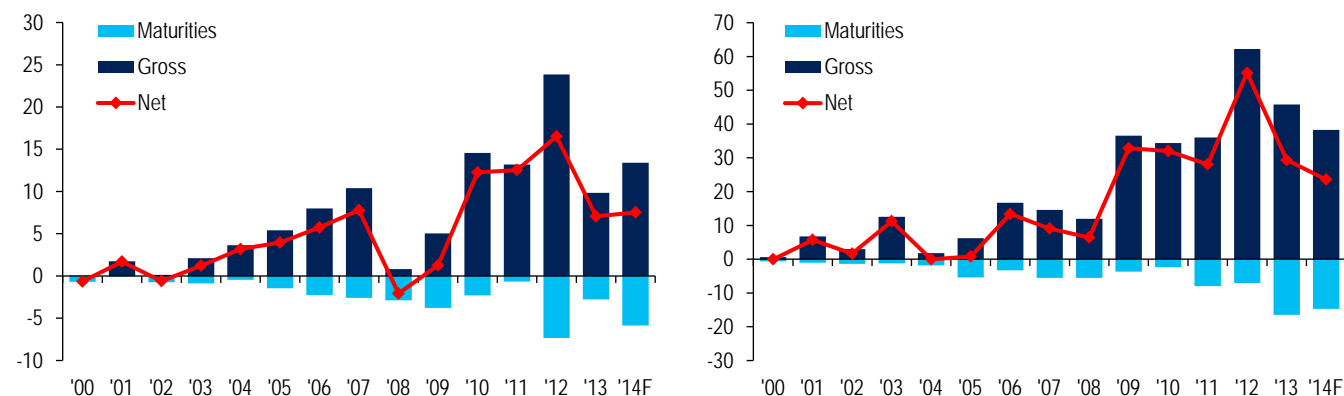
While one could argue that EM supply of USD debt should also be diminished by the unfavorable EUR-USD and GDP-USD cross currency swaps (as they tend to issue predominantly hard currencies), we'd argue the impact is much smaller than for developed economies. Figure 12 shows that EM Yankee supply is overwhelmingly driven by Latin America. Because of the region's high business exposure to the US, it tends to prefer to issue in dollars and historically exhibits little sensitivity to cross currency trends. We expect EM net and gross supply to come in at 8bn and 24bn in 2014, respectively (Figure 14).

Figure 13. Developed market financial (left) and nonfinancial (right) supply, in \$bn



Source: Citi Research, Dealogic

Figure 14. Emerging market financial (left) and nonfinancial (right) supply, in \$bn



Source: Citi Research, Dealogic

Conclusion

While we expect 2014 supply to be similar to this year in many ways, there are a number of key differences. For one, we anticipate the releveraging trend in nonfinancials to continue with not only more buybacks and dividends, but capex as well. Moreover, we expect deleveraging in US financials and reduced Yankee issuance to offset any releveraging we could see among US nonfinancials. That said, we do see scope for a *surprise* increase in net supply if M&A activity picks up.

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

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 Research product ("the Product"), please contact Citi Research, 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 https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. 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.

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:

Citigroup Global Markets Inc

Sonam T Pokwal; Jason Shoup; Lina Lavitsky

OTHER DISCLOSURES

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 Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

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

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia through Citi 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. Via dei Mercanti, 12, 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 Citi Velocity website. If you have questions regarding Citi Velocity, 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 100-180, 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 Korea by Citibank Korea Inc., which is regulated by the Financial Services Commission and the Financial Supervisory Service. Address is Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. 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 the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. 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 8 Marina View, 21st Floor Asia Square Tower 1, Singapore 018960, 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 Citigroup/Citigroup Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigroup/Citigroup 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 Gasset, 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 Büyükdere 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 Citi Research 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 Citi Research's Products can be found at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.

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 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. Citi Research generally disseminates its research to the Firm's global institutional and retail clients via both proprietary (e.g., Citi Velocity and Citi Personal Wealth Management) and non-proprietary electronic distribution platforms. Certain research may be disseminated only via Citi's proprietary distribution platforms; however such research will not contain changes to earnings forecasts, target price, investment or risk rating or investment thesis or be otherwise inconsistent with the author's previously published research. Certain research is made available only to institutional investors to satisfy regulatory requirements. Individual Citi Research analysts may also opt to circulate published research to one or more clients by email; such email distribution is discretionary and is done only after the research has been disseminated.

The level and types of services provided by Citi Research 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. Citi Research product may source data from dataCentral. dataCentral is a Citi Research proprietary database, which includes Citi estimates, data from company reports and feeds from Thomson Reuters.

© 2013 Citigroup Global Markets Inc. Citi Research 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, disseminated 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
