

## Equities

26 April 2012 | 36 pages

# European Portfolio Strategist

## Europe — Asset-Light Over Capex-Heavy

- **High margins, low leverage, cheap debt** – Corporates are in great financial shape and theory says should respond to high profits and cheap debt by investing more.
- **Investment not responding** – But opex and capex trends are showing no sign of responding to these incentives. Recovering but not booming.
- **Low PE and low capex compared to history** – Capex to sales ratios are closely following the market PE. The lower multiple is leading to lower capex spend.
- **Low PE for high-capex sectors** – However, across the sectors the market is placing higher valuations on low capex spenders and low PEs on big spenders.
- **Buy asset-light** – Asset-light businesses offer higher returns, less taxation risk and more EM exposure. AMEC, Sodexo and Swedish Match screen well.
- **Sell capex-heavy** – While these companies may well be doing right long term, shorter-term we expect underperformance. Total, Rio Tinto and KPN feature.

### Equities

#### Adrian Cattley

+44-20-7986-4454  
adrian.cattley@citi.com

#### Anna Esposito

+44-20-7986-4039  
anna.z.esposito@citi.com

#### Christine Jensen

On maternity leave

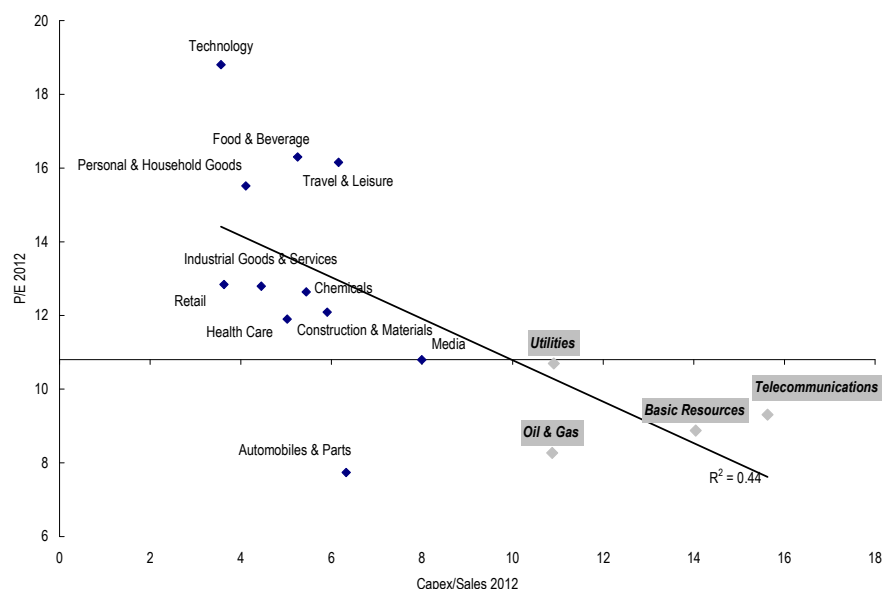
#### Jonathan Stubbs

+44-20-7986-4218  
jonathan.stubbs@citi.com

#### András Vig

+44-020-7986-3940  
andras.vig@citi.com

Figure 1. Capex/Sales vs. PE 2012E



Source: Datastream & CIRA

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.

## Contents

Europe — Asset-Light Over Capex-Heavy	3
<b>Market Outlook &amp; Citi Research</b>	<b>15</b>
The Point — Top Calls	16
Report of the week	17
International Corner	18
Market Outlook	20
<b>Valuation Tables</b>	<b>21</b>
Appendix A-1	31

## Europe — Asset-Light Over Capex-Heavy

High margins. Low leverage. Cheap debt. Uncertain economic outlook. Should companies aim for growth or safety? Invest or reward shareholders? What are they doing and what are the consequences for the equity market and the economies more broadly?

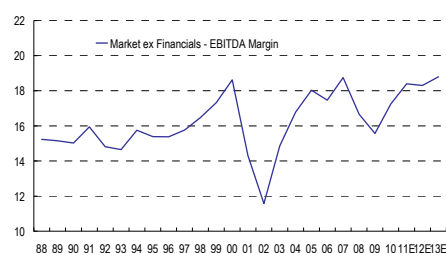
This week look at how companies are responding to the different price stimuli they are receiving from policy-makers and financial markets. The market is placing a higher value on those companies that are not spending and a discount on those spending like it's payday.

### Fighting fit

#### High profits, low leverage

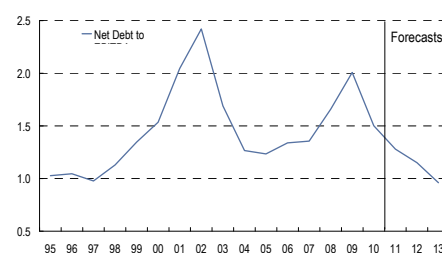
The collapse in economic activity post the financial crisis and subsequent tepid economic recovery has produced an unusual recovery in profits. Margins are very high and earnings have bounced back towards the previous peaks. We are there ex Financials.

Figure 2. EBITDA margins



Source: Datastream & CIRA

Figure 3. Net Debt/EBITDA



Source: Datastream & CIRA

This is highlighted in Figure 2, where EBITDA margins are back to all-time high levels. At the same time the recovery in profitability has seen the balance sheet of the quoted sector materially improved (Figure 3).

Interest rates, either set by central banks or by the financial markets, are at record low levels for those with robust balance sheets. So what are they doing with the cash generated by record profit margins?

### Give back or invest?

#### What to do?

Simply, there are two choices as to what to do with surplus cash flow. Return it to shareholders in some form or invest in the business. Equity-holders can benefit from cash being returned to them in two ways:

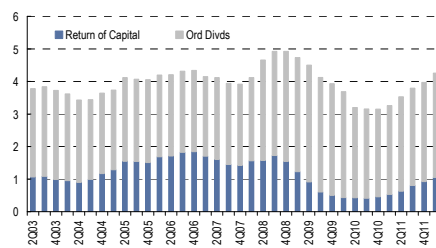
- Pay down debt
- Pay bigger dividends or buy back shares

The former indirectly benefits shareholders by increasing the equity portion of the EV and reducing the risk in the company. The cost is the theoretical increase in the WACC of the company. How much of this has already happened is partly shown in Figure 3. However, absolute debt levels are forecast to be broadly flat in 2012 or down by around 10% to the end of 2013 compared to the 2009 peak. So not much of the cash generated has paid down debt so far.

### Cash back rebounding

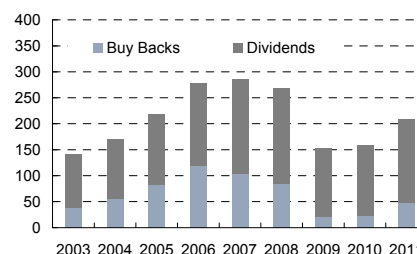
The direct way cash is returned to shareholders is through dividends and buybacks. As a % of market cap the European market has seen cash returns increase from c3% at the lows in 2009 to around 4% today. In total 2011 cash returns to shareholders increased by over 33% from the trough. Looking solely at dividends, the dividend base is down by 15% from the peak but up 9% ex Financials. In aggregate companies have prioritized cash back to shareholders over paying down debt.

Figure 4. Cash Returned as % of Market Cap



Source: Stoxx, Datastream & CIRA

Figure 5. Cash Returned 2003-2011



Source: Stoxx, Datastream & CIRA

Money that is not returned to shareholders is being invested in growth, either organic or inorganic. The latter would represent a turn in the M&A cycle. So far there is limited evidence that companies are pursuing M&A aggressively (a topic for separate research), so the question turns to organic investment. Are companies trying to grow?

## Organic growth

### Invest in growth?

This is what we say we all want. Whether we are governments, companies or investors. One of the hoped for consequences of very low policy rates is that companies take more risk, invest more and drive an economic recovery that is not predicated on higher levels of personal leverage. This will cause job growth to return and the recovery to become self-sustaining.

So what evidence can we see of business investment recovering? We look at the two parts of organic investment: operational expenditure (opex) or capital expenditure (capex).

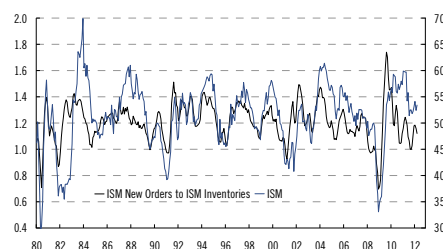
## Opex

Measuring opex at the aggregate level is not as straightforward as capex trends, but simplistically it will show up either in working capital investment or employment numbers. At the individual company level it could also be seen in SG&A spend but this data does not aggregate up well due to different disclosures.

### Working capital

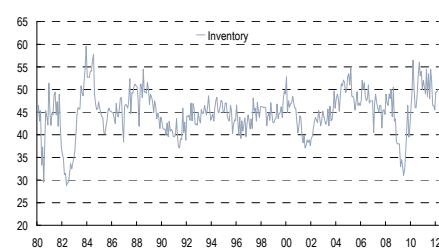
At the economy level we can track investment in working capital through the business surveys, most notably the ISM.

Figure 6. ISM New Orders and Inventory 80-12



Source: Datastream

Figure 7. ISM Inventory 80-12



Source: Datastream

Figure 6 looks at the relationship between working capital and new orders. In a sustainable upswing new orders grow faster than inventory. This means there is less chance of an excessive stock build. Currently this shows that growth is reasonable in the US. Figure 7 shows only the inventory measure. Over the last 30 years this has been around 45 in periods of stability and steady expansion. In the aftermath of the recession and then recovery the inventory measure has unsurprisingly been highly volatile but is back to around these steady expansionary levels.

Overall the macro data points towards companies investing in working capital in line with a normal expansion. What does the European corporate data show?

### Company working capital investment

Here we look at the non-financial companies. The impact of the inventory cycle on 2010 working capital usage is clear, as is the bounce-back in investment in 2011. We examine working capital investment in two ways, first looking at the growth in absolute working capital invested and the second as a % of the change in sales

Figure 8. Working Capital Investment 2010-2013E

YoY Change in Working Capital	2010	2011E	2012E	2013E
Market	-5%	-4%	10%	17%
Ex Commods	-12%	-3%	10%	17%
Ex Commds + Utils	-26%	6%	15%	21%
WC Investment as % of Change in Sales				
Market	-1%	20%	6%	6%
Ex Commods	-8%	13%	7%	7%
Ex Commds + Utils	-10%	14%	7%	9%

Source: Citi Investment Research and Analysis

The latter is our preferred measure due to lower levels of volatility and it shows the expectations bottom up are for a relatively steady level of investment in working capital. Analysts do not expect companies to be materially increasing the investment in opex. So no sign of increasing bullishness from companies here either.

### Employment growth

Another way we can track corporate investment in growth is through employment numbers. Announcements from companies such as SAP have recently talked about increasing staff numbers. A sign of optimism. This should be tempered by ongoing restructurings.

Working capital investment in line with steady growth

Figure 9. STOXX Employment Numbers

	Employment			YoY Change	
	2009	2010	2011	2010	2011
Automobiles & Parts	2,031,141	1,696,212	1,934,256	-16.5	14.0
Basic Resources	1,096,840	1,084,953	1,088,697	-1.1	0.3
Chemicals	579,915	568,222	604,620	-2.0	6.4
Construction & Materials	1,493,124	1,505,354	1,475,861	0.8	-2.0
Food & Beverage	1,324,560	1,364,402	1,426,209	3.0	4.5
Health Care	812,242	852,484	888,827	5.0	4.3
Industrial Goods & Services	5,060,848	5,062,004	5,326,056	0.0	5.2
Media	512,675	540,898	542,142	5.5	0.2
Oil & Gas	684,100	686,916	717,827	0.4	4.5
Personal & Household Goods	905,762	927,696	975,688	2.4	5.2
Retail	2,569,987	2,539,626	2,531,518	-1.2	-0.3
Technology	709,022	760,078	799,383	7.2	5.2
Telecommunications	1,171,152	1,170,201	1,202,566	-0.1	2.8
Travel & Leisure	1,627,144	1,581,087	1,639,241	-2.8	3.7
Utilities	1,193,581	1,152,385	1,118,533	-3.5	-2.9
<b>Total</b>	<b>21,772,093</b>	<b>21,492,518</b>	<b>22,271,424</b>	<b>-1.3</b>	<b>3.6</b>
Total ex Autos	19,740,952	19,796,306	20,337,168	0.3	2.7

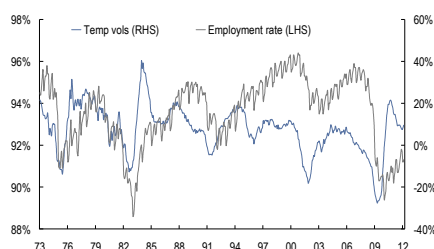
Source: DataStream

Total employment in the Stoxx 600 fell by 1% in 2010 and then bounced back by over 3%. Within those moves the Auto sector has had the biggest swings. Excluding Autos the trends in employment, like working capital, point to a corporate sector not taking on many risks.

#### As is employment growth

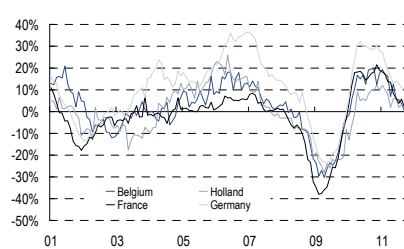
Is the corporate sector using other avenues to express a more positive view of recovery without building up fixed costs? Using temp workers could be a lower-risk way of trying to grow the business.

Figure 10. US Temp Volumes and Employment



Source: DataStream

Figure 11. EU Temp Volumes 2001-12



Source: DataStream

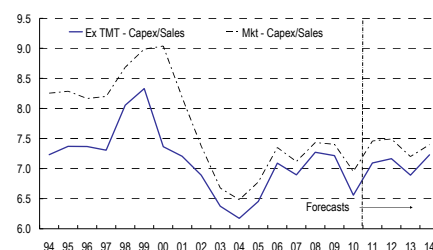
The charts above show the use of temporary workers in the US and Europe. Figure 10 shows that US temp volume growth is outstripping employment growth. This suggests the average company is trying to maintain a relatively flexible cost base. Figure 11 shows the pattern for Europe, and the impact of recession is clear.

The use of temps, like the employment and working capital data, points towards companies investing with the anticipation of some growth but little sign of bullishness. We now turn to capex spending trends.

## Capex

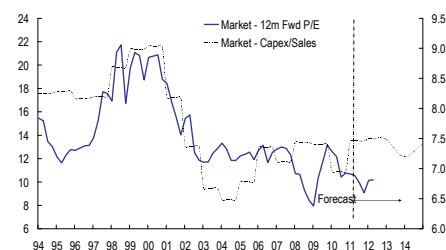
Looking at corporate spend on fixed assets over the last 20 years we can see that the period in the run-up to the peak of the TMT boom saw structurally higher capex to sales ratios. The recession post TMT saw quoted sector capex spend retrench. Even if we strip out TMT the picture is similar. Capex to sales, which was running around 8.5% through the 90s, has been around 7% for most of the last 7 years and is forecast to be around these levels out to 2014E.

Figure 12. Capex Sales + ex TMT 94-14E



Source: Datastream & CIRA

Figure 13. Capex Sales vs PE 94-14E

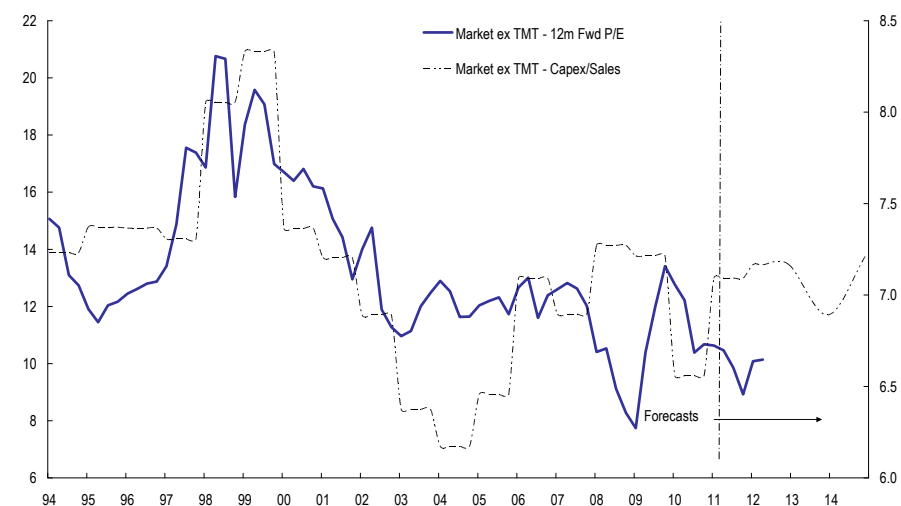


Source: Datastream & CIRA

### Low capex /sales and low PE

As Figure 13 and Figure 14 show there is a close relationship between PE multiples and capex over the last 20 years. Companies invest more when they are confident about the future. They get that confidence from the market's confidence in their growth prospects, as shown by a higher PE. As the PE has fallen, capex/sales has declined. This lower level of investment is likely to have an impact on the ability of companies to grow and also on the growth rates of the economies in which this spend has been reduced. While the geographical destination is beyond the scope of this report, the trend has been away from the developed world towards EM with obvious growth implications.

Figure 14. Capex/Sales vs PE ex TMT 1994-2014



Source: Datastream & CIRA

While capex/sales ratios at the market level have remained relatively stable, the sector make-up of the trends and the absolute spend is what we turn to next.

Figure 15. Capex by Sector 2008-2013E

	Capex					
	2008	2009	2010	2011E	2012E	2013E
Automobiles & Parts	29896	26627	28401	37557	40304	40240
Basic Resources	25163	21973	24829	32202	40585	39953
Chemicals	12581	11721	11730	14019	14593	14966
Construction & Materials	14750	8617	7660	8779	9086	8435
Food & Beverage	13193	11272	13140	15692	17172	17062
Health Care	10905	11234	10358	9863	12605	11177
Industrial Goods & Services	30104	24293	23961	28406	33294	33147
Media	6845	6614	6292	6522	6726	6590
Oil & Gas	93078	90419	90163	100712	112471	115043
Personal & Household Goods	6284	4914	5907	8018	8301	8705
Retail	21026	14760	15929	17238	17398	18192
Technology	4164	2928	3784	4929	4594	4532
Telecommunications	44575	39062	44826	46412	46323	43718
Travel & Leisure	10744	9521	9611	11314	10703	10388
Utilities	75594	74053	77207	73620	72819	72145
<b>Market</b>	<b>398903</b>	<b>358009</b>	<b>373798</b>	<b>415282</b>	<b>446974</b>	<b>444293</b>
<b>Growth Rate</b>						
<b>Market</b>		<b>-10%</b>	<b>4%</b>	<b>11%</b>	<b>8%</b>	<b>-1%</b>
Ex Commodities		-12%	5%	9%	4%	-2%
Ex Commds + Utilities		-16%	6%	15%	6%	-2%

Source: Citi Investment Research and Analysis

Figure 15 aggregates the spending by sector since 2008. At the trough in 2009 capex fell by 10% or 16% ex the commodities and utility sectors. This compares to a 45% fall in dividends + buy backs or an 11% fall in non-financial dividends. 2011E capex is 4% above the previous peak.

#### Forecast capex growth below nominal GDP

The recovery in capex spend has been equally muted, up by 4% and 11% in 2010 and 2011E. Furthermore analysts' forecasts are that the growth slows in 2012 and goes into reverse in 2013. Ex the commodity sectors capex growth is forecast to be only 4% in 2012, below nominal global GDP growth. This suggests that companies are not responding to cheap funding but are responding to the lower PE.

Figure 16. Capex/Sales and Capex/Depreciation 2009-2013E

	Capex/Sales					Capex/Depreciation				
	2009	2010	2011E	2012E	2013E	2009	2010	2011E	2012E	2013E
Automobiles & Parts	5.7	5.7	6.3	6.3	6.0	100%	122%	152%	155%	150%
Basic Resources	12.1	10.4	12.2	14.0	12.8	159%	162%	192%	218%	185%
Chemicals	6.2	5.2	5.5	5.4	5.3	116%	110%	125%	124%	124%
Construction & Materials	6.3	5.4	5.9	5.9	5.3	124%	103%	131%	121%	111%
Food & Beverage	4.2	4.5	5.3	5.3	5.0	122%	138%	160%	159%	148%
Health Care	5.3	4.5	4.1	5.0	4.3	144%	115%	99%	131%	108%
Industrial Goods & Services	4.2	3.6	4.0	4.5	4.2	128%	112%	133%	146%	141%
Media	9.3	8.1	8.3	8.0	7.6	203%	185%	196%	185%	174%
Oil & Gas	13.3	9.9	11.3	10.9	10.6	182%	177%	197%	198%	192%
Personal & Household Goods	3.1	3.3	4.3	4.1	4.1	94%	110%	111%	131%	130%
Retail	3.5	3.5	3.8	3.6	3.6	153%	158%	169%	163%	161%
Technology	2.6	3.0	3.7	3.6	3.4	63%	84%	108%	93%	92%
Telecommunications	13.4	15.3	15.6	15.6	14.8	106%	121%	116%	121%	115%
Travel & Leisure	6.8	6.2	6.9	6.2	5.6	152%	145%	171%	154%	143%
Utilities	12.9	12.1	11.2	10.9	10.6	194%	179%	167%	166%	156%
<b>Market</b>	<b>8.0</b>	<b>7.3</b>	<b>7.7</b>	<b>7.8</b>	<b>7.4</b>	<b>145%</b>	<b>145%</b>	<b>155%</b>	<b>160%</b>	<b>152%</b>
Ex Commds	6.8	6.5	6.7	6.7	6.3	134%	135%	141%	145%	138%
Ex Commds + Utils	5.6	5.4	5.9	5.9	5.5	118%	122%	134%	139%	133%

Source: Citi Investment Research and Analysis



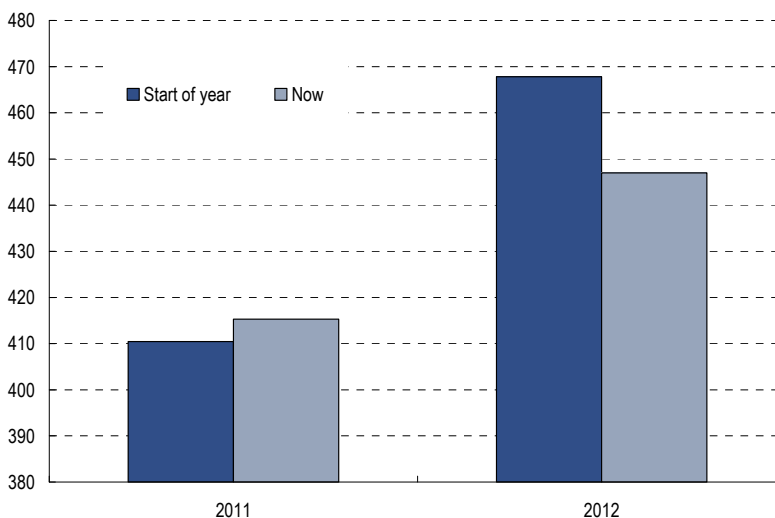
Figure 16 looks at the capex spend by sector again but this time as a proportion of sales and depreciation. This shows that companies are in aggregate investing and forecast to invest broadly in line with the ratios of the recent past. This doesn't show that companies are under-investing but by the same token they are not using the cheap money to boost growth.

### Change in capex

Finally, looking at the change in capex forecasts shows that analysts believe that companies have become slightly more cautious.

---

**Figure 17. Change in Capex Forecasts During Calendar Year**



Source: Datastream & CIRA

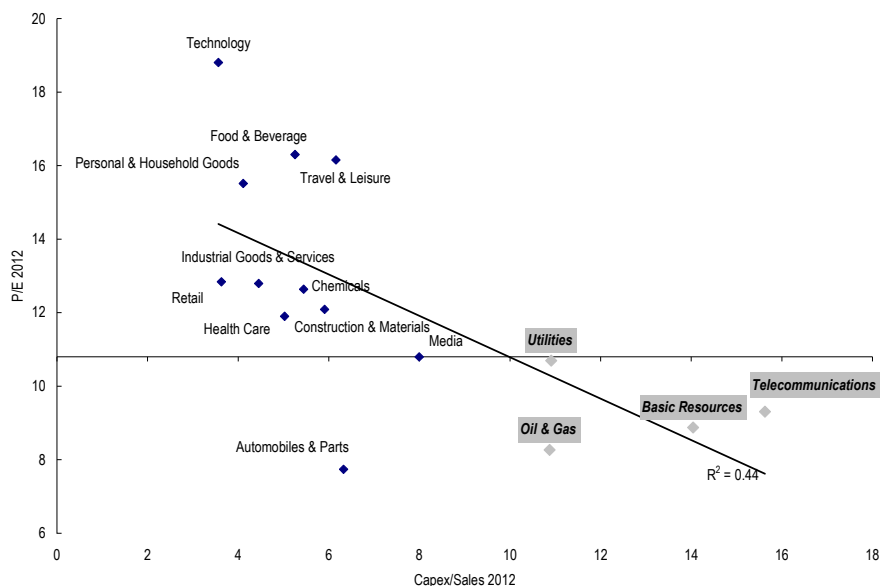
---

Figure 17 shows the capex forecast at the start of the year in question. For 2011 there was c1% increase in capex from Jan 11 to now. For 2012 forecasts since Jan 2012 are down by around 5%. While these data are volatile, again it highlights that in totality the corporate sector is not investing at any great pace. Why?

### Valuing capex

Figure 13 and Figure 14 show that over time the higher the PE the higher the level of capex/sales. That suggests that companies will respond to the PE, or that higher levels of capex mean faster growth and the PE responds to that. So with the PE lower at the market level how is the PE/Capex to sales relationship playing out at the sector level?

Figure 18. Capex/Sales vs. PE 2012E

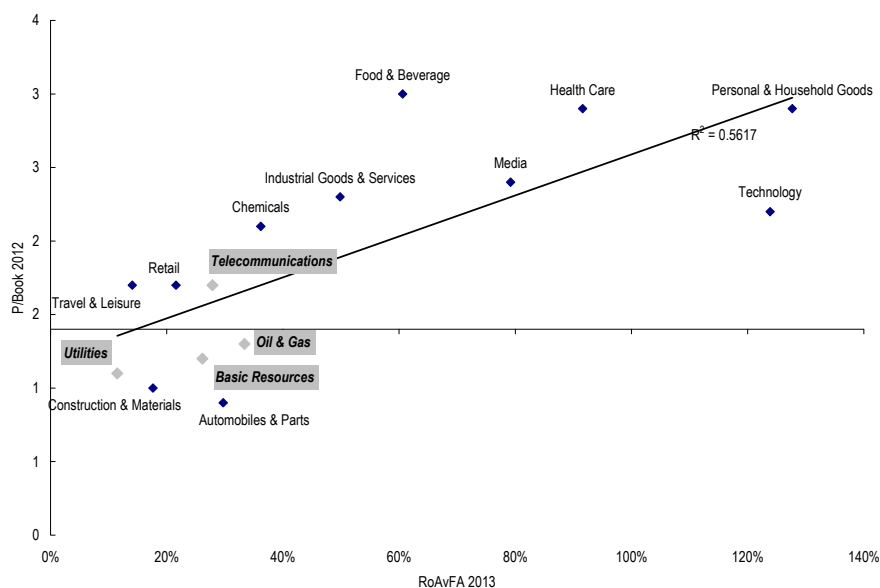


Source: Datastream & CIRA

#### Lower capex, higher PE

Figure 18 shows the relationship between the level of 2012 capex/sales and the PE. Unlike market history those companies that are spending relatively high levels of capex are now on low PEs. Those sectors with lower capex/sales ratios are being rated more highly. The equity market is saying to those companies that invest heavily in capex that it would rather they didn't.

Figure 19. Return on Fixed Assets 2013E vs P/B 2012E



Source: Citi Investment Research and Analysis

### Higher capex, lower returns

Figure 19 shows a potential explanation. We take the pre-tax return on average fixed assets for the sectors in 2013E and compare that to the 2012E price to book multiple. The higher the return on capital the higher the price to book multiple is the unsurprising relationship. But the important link to the PE capex relationship shown above is that the lower-returning sectors are also those that are in general running the higher capex to sales ratios. Notably Oils, Basic Resources, Utilities and Telecoms.

The equity market is clearly skeptical about the value created by high levels of capital spending. So what are the consequences for investors?

## Investment implications

We believe investors have four ways that they can play these trends:

- Own high capex/sales ratio stocks that will reduce capex spend
- Underweight high capex/sales ratio sectors/stocks
- Overweight capital-light sectors/stocks
- Own the beneficiaries of the high capex spends

### Buy those that get the message

Given the relationship between a low rating and high levels of capital spend, the obvious short-term fillip to the share price is to cut capex.

### Most won't, stay underweight

However, most companies, in particular the larger names, tend to focus more on the longer term and therefore stick to investment plans almost whatever the share price is trying to tell the company management. History suggests that most companies with large, long-term capex plans will stick with them and the low PE will continue. This does not bode well for outperformance. This is part of the reason we are underweight sectors such as Telecoms and Utilities. The other heavy spenders are sectors such as Oils, Miners and Food Retail. Their low PEs look to us set to continue.

Figure 20. High and Increasing Capex to Sales Ratios

Stock	RIC	>€3bn	Capex/Sales					-ve
		Market Cap, €m	2010	2011	2012E	2013E	Average	Trailing vs Forecast
United Utilities Group	UU.L	5184	29.6	37.7	40.5	41.7	37	-7
Total	TOTF.PA	79742	25.7	29.3	29.8	28.9	28	-2
National Grid	NG.L	30172	21.8	21.8	26.4	30.4	25	-7
Pennon Group	PNN.L	3283	18.0	22.6	26.1	27.1	23	-6
BHP Billiton	BLT.L	50090	16.8	19.1	22.2	22.6	20	-4
Fortum	FUM1V.HE	7157	17.7	20.6	23.8	17.4	20	-1
EDF	EDF.PA	4326	18.8	17.0	19.0	19.0	18	-1
Swisscom R	SCMN.VX	6324	15.9	17.9	19.4	19.0	18	-2
Rio Tinto	RIO.L	55380	9.1	18.4	21.7	19.7	17	-7
Infineon Technologies	IFXGn.DE	7875	12.5	21.2	20.1	15.1	17	-1
KPN	KPN.AS	9878	15.6	15.8	19.5	15.7	17	-2
ENI	ENI.MI	43221	14.0	14.5	16.6	15.1	15	-2
France Telecom	FTE.PA	19534	13.1	14.4	16.6	14.4	15	-2
Telenor	TEL.OL	9973	14.2	13.5	17.6	11.7	14	-1
OMV	OMVV.VI	3500	11.0	9.6	15.4	13.8	12	-4
Belgacom	BCOM.BR	3483	11.1	11.8	11.9	12.2	12	-1
A P Moller - Maersk B	MAERSKb.CO	7552	8.8	12.3	12.4	12.9	12	-2
Tele2 B	TEL2b.ST	4217	9.0	11.5	12.6	12.5	11	-2
Linde	LING.DE	21134	9.3	9.8	12.2	10.9	11	-2
Synthes	SYST.VX	9730	9.4	9.7	11.4	11.6	11	-2
K+S	SDFGn.DE	6211	4.2	5.3	12.1	19.6	10	-11

Source: Datastream & CIRA

Figure 20 screens for those companies that have high capex to sales ratios averages over the last two years and next two years. We filter by those that are forecast to spend more over the next two years than they did over the last two years. We also apply a €3bn market cap cut-off. The screen shows lots of Utilities, Mining, Oil and Telecom stocks.

#### Own capex and asset light

One of the other risks that comes from being fixed asset heavy is that these companies are more vulnerable to potential windfall taxes. They cannot move the assets to avoid the tax. The recent problems for Repsol in Argentina are the most extreme example of this. Asset-light businesses, however, have ability to move assets and profits round the world. Furthermore, more countries are looking to encourage business by cutting tax rates. The UK has reduced the tax burden on patented profits to the benefit of Pharma companies. There is no such benefit to Utilities as an example. We are overweight sectors such as Pharma, Food & Bev, Tobacco and Luxury Goods that are low capex spenders and asset-light.

Figure 21. Low and Decreasing Capex to Sales Ratios

Stock	RIC	>€3bn Market Cap, €m	Capex/Sales					>=0 Trailing vs Forecast
			2010	2011	2012E	2013E	Average	
AMEC	AMEC.L	4576	0.2	0.4	0.2	0.2	0	0
Bunzl	BNZL.L	4123	0.5	0.4	0.4	0.4	0	0
Adecco R	ADEN.VX	4691	0.6	0.5	0.5	0.5	1	0
Sodexo	EXHO.PA	5908	1.5	1.5	1.5	1.5	2	0
Swedish Match	SWMA.ST	6418	2.3	2.1	2.1	2.1	2	0
Carrefour	CARR.PA	8513	2.4	2.9	2.0	2.0	2	1
WPP	WPP.L	12791	2.3	2.5	2.5	2.3	2	0
Metro	MEOG.DE	3082	2.6	2.5	2.5	2.5	3	0
Dassault Systemes	DAST.PA	4324	2.2	4.0	2.1	2.0	3	1
IMI	IMI.L	3828	2.7	2.8	2.6	2.5	3	0
Cobham	COB.L	3133	3.0	2.7	2.6	2.6	3	0
SAP	SAPG.DE	45561	2.7	3.1	2.7	2.5	3	0
GEA Group	G1AG.DE	4153	2.9	2.8	2.9	2.5	3	0
Ahold Kon.	AHLN.AS	9951	2.9	2.8	2.8	2.7	3	0
Casino Guichard	CASP.PA	3943	3.2	2.9	2.8	2.6	3	0
Informa	INF.L	3102	2.9	4.0	2.5	2.5	3	1
Essilor Intl.	ESSI.PA	14011	3.6	3.0	3.0	3.0	3	0
Next	NXT.L	6145	3.8	3.5	3.1	3.3	3	0
Alstom	ALSO.PA	5477	3.7	3.3	3.3	3.4	3	0
British American Tobacco	BATS.L	78177	3.5	3.7	3.6	3.5	4	0
Cap Gemini	CAPP.PA	4467	4.2	7.3	1.7	1.6	4	4
Tate & Lyle	TATE.L	3867	3.6	4.4	3.7	3.5	4	0
GKN	GKN.L	3938	3.7	4.2	3.9	3.9	4	0
BASF	BASFn.DE	58759	4.0	4.6	3.7	3.5	4	1
Akzo Nobel	AKZO.AS	9453	3.6	4.5	3.9	3.9	4	0
L'Oreal	OREP.PA	21871	3.5	4.5	4.0	4.0	4	0
Yara International	YAR.OL	6427	4.7	3.6	3.9	4.2	4	0
Bayer	BAYGn.DE	43076	4.3	4.4	4.2	4.2	4	0
Danone	DANO.PA	33049	4.9	4.5	4.3	4.1	4	0
Actelion	ATLN.VX	3123	6.6	5.0	3.1	3.5	5	2

Source: Datastream & CIRA

Figure 21 screens the other way, looking for capex-light businesses that are maintaining their capital discipline. There is a broader range of sectors in this list including Oil Services, Media, Leisure and Support Services.

#### Own capex receivers

Finally, if high capex spenders are not going to change, the other way to take advantage is to own those stocks and sectors that receive their capex (and opex) dollars – i.e. own Oil Services over Oil Producers.

## Strategy outlook

High profits and low cost of debt are reasons for capex and opex to be rising more quickly than they are. Compared to history capex is low, following the PE. However, at the sector level this reverses. High capex means a low PE, while low capex means a high PE. The market is effectively encouraging companies to invest less and return more money. Longer term the consequences for economic growth, inflation and earnings growth could be negative. Shorter term we expect the market will continue to reward those companies that can grow but do so with lower capital costs and return cash to shareholders.

**This page is intentionally left blank**

---

## Market Outlook & Citi Research

---

# The Point — Top Calls

## Europe ex-UK

### European Exchanges — Lacking near-term positive catalysts

Nese Guner +44-20-7986-4521

EUROPE | DIVERSIFIED AND SPECIALITY FINANCE

DJ Global Exchanges Index is up 11% ytd, outperforming the European equity markets. In Q112, European cash equities and derivative trading volumes were down yoy. In derivatives, by product, interest rate derivative volumes showed the most negative yoy trends.

### Iberoamerican Big Picture — Banking, Economic and Capital Market Trends: Winter 2012

Ignacio Moreno +44-20-7986-4107

SPAIN, PORTUGAL | BANKS

We lower 2013/14 estimates to account for higher provisions and higher costs. We also raise cost of equity of banking activities in Spain by 50bps given higher macro concerns surrounding Spain. As a result we reduce our target prices of all banks we cover in the region: Santander (to €5.30 from €6.40, Neutral/High Risk), BBVA (€5.90 from €6.80, Neutral/High Risk), CaixaBank (€2.30 from €2.60, Sell/High Risk), Sabadell (€1.70 from €1.81, Sell/High Risk), Popular (€2.20 from €2.58, Sell/High Risk), Bankinter (€2.90 from €3.40, Sell/High Risk).

### European On-Line Ecosystem — European On-Line Champions League

Lambros Papadopoulos  
+44-20-7986-4154

EUROPE | INTERNET

Against the likely low growth economic environment, the EC expects the on-line economy to exhibit strong growth rates of c16% per annum. We believe this is achievable on further convergence of the underpenetrated on-line retailing industry with off-line, increased smartphone penetration, and strong growth in traffic, cloud and transactions processing. We favour the infrastructure companies; Telecity (Buy) and Wirecard (initiate with Buy).

## UK

### Asset Quality - AAA or XXX? — UK Banks Big Picture – April 2012

Andrew Coombs +44-20-7986-4053

UNITED KINGDOM | BANKS

Impairments a key earnings driver. And the source of greatest divergence among analyst forecasts. UK economy troubled. Ireland even worse. Asian growth has slowed, but should rebound with supportive monetary policy. Despite challenging backdrop asset quality has proved robust (ex-Ireland). Where do we go from here? 2012 much like 2011. Risks lie in 2013, but could yet be avoided. We adjust our earnings forecasts for RBS, HSBC and Lloyds. In consequence, our target price for RBS falls to 28p from 30p. We reiterate our Neutral stance on RBS, but move to a High Risk rating to reflect greater asset quality uncertainties.



## Report of the week

### Global Political Insights

Tina M Fordham +44-20-7986-9860

#### French Elections, Round 1:

##### **Strong Far-Right Showing Increases Uncertainty, Reduces Mandate for Next French President**

- French presidential elections have delivered a blow to President Nicolas Sarkozy, who came in second place with 26% of the vote behind Socialist party challenger Francois Hollande with 28%. The result marks the first time an incumbent French president running for re-election has failed to win the most votes in the first round, underscoring widespread dissatisfaction with his presidency. News sources reported a high turnout of 80%.
- A key outcome and one not anticipated by opinion polls was the strong result for the far-right National Front; polls typically underestimate the level of support for the party, making its showing something of a wild card. Now under the leadership of 43- year-old lawyer Marine Le Pen, the party won 20% of the vote on an anti-immigrant, anti-elite and anti-globalization platform, outstripping its previous record of 17% in 2002 when Le Pen's father, Jean-Marie, made it into the second round. Polls had favored the Left Front for the third place, coveted for its "kingmaker" potential in the final round, but the party came in below expectations at 11.5%.
- The race will be decided in a run-off between the two candidates on May 6. While Hollande still enjoys a sizeable lead over Sarkozy, according to projections, the size of the National Front vote increases the uncertainty, boosting Sarkozy's chances slightly and likely prompting a fierce battle between the two front-runners to attract supporters from the remaining parties. Sarkozy has proposed three televised debates in the week ahead.
- Sarkozy, from the center-right UMP, cannot expect to automatically win National Front voters. An IPSOS poll on the day of the polls suggested that 60% of Le Pen voters would go to Sarkozy, 18% to Hollande, with the remainder undecided or refusing to vote. A BVA poll a few days earlier suggested 48% of National Front voters would transfer their support to Sarkozy and 24% for Hollande. With nearly a quarter of French voters undecided until the days before the first round, polls in the week ahead may fail to capture the full extent of shifting public opinion in a race that has polarized France and exposed strong anti-elite and anti-establishment sentiment.

## International Corner

*Each week we use this section to highlight the key news, views, analysis and recommendations from our colleagues around the world.*

Kingsmill Bond, CFA  
+7-495-643-1489

### Russia at the sunset of the Commodity Cycle The Grounds For Hope

It is not in much dispute that for many years the Russian investment case has been a play on rising commodity prices, specifically oil, an argument we have laid out on occasion.

The Russian index has moved in line with oil price appreciation over the last decade. The reasons for this are familiar: 68% of the index and 75% of profits are derived from commodity stocks, which by definition are commodity price dependent. The value of the ruble is oil price dependent. In turn, the ruble earnings of domestic companies are therefore oil price dependent, meaning that even the part of the index that is not made up of commodity stocks has earnings that are commodity price dependent. Directly or indirectly most profits are therefore commodity price dependent in dollar terms, and we estimate that RTS index profits move up and down with the oil price on nearly a one for one basis.

Investor appetite for Russian risk is commodity price dependent, as can be seen by Russia's spread and the oil price. When prices are high, risk spreads are tight and investment appetite is strong; when prices fall, spreads rise as risk appetite diminishes.

The budget is commodity price dependent, and the breakeven price required for the budget to balance is nearly \$120. Commodity price dependency has only increased over the years, as witnessed by the ever-rising oil price breakeven. Even the speed of GDP growth has been lifted by an environment of rapidly rising commodity prices.

Commodity prices have been rising for a decade, covering up problems in Russia and indeed other commodity markets. In Russia, this has helped to entrench the current rentier system, and arguably reduced the appetite for reform and modernisation which would in turn reduce commodity price dependency.

Our metals team recently argued that we were at the sunset of the commodity super cycle, while our oil team has argued that the supply and demand response in the US was likely to cap oil prices and start to drive them down. Meanwhile, US natural gas prices, widely forecast to rise only three years ago, have instead fallen dramatically and trade below Russian gas prices as a result of the supply innovation in shale gas resulting from high prices. The Citi view then is that commodity prices will no longer rise uniformly, and we expect a long slow decline for future years potentially punctuated by disruptions and higher prices.

The argument then follows that, if the commodity cycle is winding down, it will have a series of negative impacts on the Russian market, which would really be the reverse of the positive drivers we have seen over the last decade or so:

**Weaker ruble:** We have already seen how the real value of the ruble is highly oil price dependent. Lower commodity prices would tend to weaken the ruble and thus dollar earnings of domestic companies.

**Lower profits:** Commodity sales by value would fall in light of lower commodity prices, but costs would carry on rising. This would damage margins and profits.

**Higher taxes:** The government currently requires \$120 oil to balance its budget, and higher spending plans have meant that it is already hoping to increase tax sources from the gas and oil product sectors. If revenues were to fall, we doubt that the government would be able to cut expenditure so fast, and would therefore likely seek to increase taxation where it could.

**Weaker macro:** Lower commodity prices imply a higher fiscal deficit and higher borrowing. Over time, this would weaken the macroeconomic framework and make Russia a riskier investment environment.

**Less investor interest:** Lower commodity prices will likely mean less investor interest in the Russian investment case, and hence lower valuations.

**Lower growth:** Flat commodity prices imply that, in the absence of significant structural reforms, growth will be lower, perhaps in the 3-4% range.

However, all is not lost. We see Russia as a play on oil, and oil is different to the rest of the commodity complex owing to the power of the OPEC cartel and the political fragility of the supply side. Unlike most other commodities, oil has many drivers outside Chinese infrastructure investment; as the only major commodity to rise in price in real terms during the 20th century, its investment and price cycle has been quite different to that of the rest.

The impressive performance of Russia over the last decade has had two drivers other than commodity prices – recovery from collapse and the transformation of the economy from communism to capitalism. This latter change is still ongoing, and will continue to drive interesting growth opportunities. Large reserves, limited debt levels, and a flexible ruble mean that the macroeconomic framework appears resistant to all but the most extreme oil price falls.

We believe the Russian equity market is already priced for an oil price of around \$80, and trades at its highest ever discount to the oil price. Russia is only part way through its economic transformation to a capitalist system and, in a range of domestic sectors, penetration is very low; significant growth opportunities still therefore exist. We prefer banks, media, retail, construction, logistics, and services.

The silver lining for the Russian investment case is that lower commodity prices may spark more wide-ranging reform, traditionally the second most important driver of the Russian market.

***Please contact us if you would like more on the above article. You can also access all Citi Investment Research and Analysis from around the world through our Global Equities Online internet site. Please contact us for further details***

## Market Outlook

The Euro Area sovereign debt crisis is back in the spotlight. The soothing effect of the 3-year LTROs did not last long. Political and economic risks have risen with Spain, France and the Netherlands in the lead roles. The recently signed Fiscal Compact is under attack on several fronts. Global financial markets are once again focused on Europe. Elections in France and Greece, political events in the Netherlands and a referendum in Ireland will be setting the agenda for financial markets in the weeks ahead. Already, European markets have reacted strongly to these developments. European equities have sold off, 7-8% lower than YTD highs, with the peripheral markets suffering even worse falls.

### Macro – mind the gap

Our economists have recently edged up their 2012 global growth forecasts, for the third consecutive month. They now expect that global growth will slow from 3% in 2011 to 2.6% in 2012. They also recently upgraded GDP growth forecasts for the Eurozone, though they still expect it to be in recession this year. Moreover, they expect Spain to enter a Troika program this year, most likely focused on recapitalizing and restructuring the banks. And they expect Portugal and Ireland to need a second bailout, while Italy's fiscal and economic outlook remains weak. Plenty of challenges ahead.

### Flat earnings

The pace of earnings downgrades for European corporates has eased, and the latest data suggest that consensus is mildly upgrading year one forecasts. Bottom up, Citi analysts expect earnings to grow by 10% this year. Top down we remain less positive and expect earnings to remain at 2011 levels, given our belief that the economic backdrop will continue to pose challenges for some companies.

### Valuations

European equity valuations look reasonably to very attractive to us. On 12m fwd P/E, the market is now trading back in double-digits, but remains significantly below its long-term average. On a price/book basis and excluding the financials, European equities are trading at post 1980 average levels.

### Themes

We retain our structural preference for growth and quality. We continue to back defensive growth and Europe's World Champions. We think that defensive growth will continue to benefit from reduced leverage-driven growth compared with before 2008-09. Our World Champions themes asks our sector teams for European companies that are 'global leaders' in their industries. This skews exposure towards higher international growth and away from weaker domestic growth. Other key themes include various income strategies and de-equitisation.

### Sector Strategy

Our sector Overweights have an international and strong balance sheet bias. Our sector Underweights have a domestic and more levered tilt.

GDP	2011	2012E	2013E
Euro zone	1.5	-1.0	-0.2
UK	0.6	0.2	1.0
Global	3.0	2.6	3.0
US	1.7	2.1	2.0
Japan	-0.7	2.0	1.6
CPI	2011	2012E	2013E
Euro zone	2.7	2.8	1.9
UK	4.5	2.8	2.0
Global	3.7	3.1	3.0
US	2.5	2.1	1.8
Japan	-0.3	0.1	0.2
Interest Rates	Now	2Q12E	2Q13E
ECB	1.00	1.00	0.75
UK Base	0.50	0.5	0.5
US Fed Funds	0.25	0.25	0.25
Japan Call	0.10	0.1	0.1
10Yr Yield	Now	2Q12E	2Q13E
Euro zone	1.66	1.75	2.00
UK	2.05	2.10	2.40
US	1.99	2.25	2.65
Japan	0.92	0.95	1.40
Ex Rates	Now	2Q12E	2Q13E
US\$/€	1.31	1.30	1.26
US\$/£	1.59	1.57	1.56
€/£	1.22	1.20	1.23
Y/US\$	81	81	81
End Year Targets	Now	End-12E	Return
Stoxx	257	285	11
FTSE 100	5719	6200	8

Source: Reuters and CIRA forecasts

Figure 22. European Sector Strategy

Overweight	Neutral	Underweight
Autos	Banks	Construction
Basic Resources	Financial Services	Media
Chemicals	Industrial G&S	Real Estate
Food & Bev	Oil & Gas	Telecoms
Health Care	Retail	Travel & Leisure
Insurance	Technology	Utilities
Personal & Household Goods		

Source: Citi Investment Research and Analysis

---

## Valuation Tables

---

Figure 23. Pan-European Sector Weightings & Returns

As at Close 24 Apr 12 Sector (No of Stocks)	Mkt Cap (Euros m)	% of Stoxx	Return Relative to Stoxx				Absolute Return			
			1m	3m	12m	Ytd	1m	3m	12m	Ytd
Oil & Gas (32)	507,973	10.0	-2	-4	5	-6	-6	-4	-1	-1
Chemicals (23)	251,576	4.9	2	4	5	7	-2	5	-2	12
Basic Resources (31)	247,861	4.9	3	-8	-17	0	-1	-8	-22	5
Construction & Materials (24)	114,253	2.2	-6	-5	-15	-3	-10	-5	-20	2
Industrial G&S (98)	518,064	10.2	1	3	-1	6	-2	3	-7	11
Automobiles & Parts (15)	124,456	2.4	-3	0	-3	14	-7	0	-10	20
Food & Beverage (29)	455,341	8.9	6	9	25	3	2	9	17	8
Personal & H'hold Goods (30)	319,533	6.3	4	8	24	7	0	9	16	12
Health Care (36)	580,829	11.4	6	4	25	-1	2	4	17	4
Retail (25)	165,528	3.3	-2	1	3	-7	-5	1	-3	-2
Media (28)	116,011	2.3	0	-1	0	-3	-4	0	-6	2
Travel & Leisure (22)	67,066	1.3	3	6	9	6	-1	7	2	11
Telecommunications (19)	280,849	5.5	-1	-3	-1	-10	-5	-3	-7	-5
Utilities (27)	239,169	4.7	0	1	-10	-5	-4	1	-16	-1
Banks (48)	554,916	10.9	-8	-7	-25	-1	-12	-7	-30	4
Insurance (32)	262,951	5.2	-4	-2	-6	5	-8	-2	-12	10
Real Estate (24)	64,342	1.3	3	4	2	5	-1	5	-5	10
Financial Services (30)	68,482	1.3	-3	1	-9	3	-6	1	-15	9
Technology (27)	150,856	3.0	-5	-1	-6	0	-8	-1	-12	5
Stoxx - Pan Europe (600)	5,090,055	100.0	—	—	—	—	-4	0	-6	5
Pan Euro - Large Cap	4,158,089	81.7	0	-1	1	-1	-4	0	-6	4
Pan Euro - Mid Cap	652,814	12.8	1	3	-2	4	-3	3	-8	9
Pan Euro - Small Cap	279,152	5.5	0	2	-3	4	-3	2	-9	9
Stoxx ex UK (422)	3,265,801	64.2	—	—	—	—	-6	-1	-12	4
EuroStoxx - Eurozone (304)	2,176,889	42.8	—	—	—	—	-8	-3	-17	2

Source: Citi Investment Research and Analysis & DataStream

Figure 24. Pan-European Sector Relative Ratings

As at Close 24 Apr 12 Sector	P/E Relative to Stoxx				Yield Relative to Stoxx			
	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E
Oil & Gas	87	83	76	80	91	102	102	98
Chemicals	118	106	115	116	69	74	72	71
Basic Resources	83	75	82	78	67	69	73	74
Construction & Materials	111	100	107	107	105	103	99	99
Industrial G&S	120	114	117	118	80	83	80	80
Automobiles & Parts	88	64	68	65	74	92	99	111
Food & Beverage	163	154	152	156	67	72	76	77
Personal & H'hold Goods	156	151	143	143	67	71	73	76
Health Care	105	105	113	117	89	92	92	92
Retail	112	115	118	122	97	92	93	94
Media	100	94	99	105	112	123	113	111
Travel & Leisure	140	131	149	131	77	77	72	77
Telecommunications	71	77	86	93	200	210	206	193
Utilities	74	93	100	107	190	161	151	142
Banks	84	90	82	72	122	98	104	116
Insurance	73	85	66	70	126	128	131	128
Real Estate	143	142	154	165	125	126	122	116
Financial Services	102	115	109	100	122	121	122	117
Technology	120	122	170	155	70	65	64	52
Stoxx - Pan Europe	100	100	100	100	100	100	100	100
Pan Euro - Large Cap	94	95	96	98	103	104	104	103
Pan Euro - Mid Cap	114	125	120	114	86	83	83	84
Pan Euro - Small Cap	342	140	119	110	89	86	83	86
Stoxx ex UK	98	100	101	99	110	105	102	102
EuroStoxx - Eurozone	90	93	93	92	124	114	110	108

Source: Citi Investment Research and Analysis & DataStream

Figure 25. Pan-European Sector Growth

As at Close 24 Apr 12 Sector	Earnings Growth %			Net Dividend Growth %		
	2011E	2012E	2013E	2011E	2012E	2013E
Oil & Gas	6.6	20.6	7.1	18.3	7.1	5.3
Chemicals	12.7	1.8	12.0	12.3	3.7	8.0
Basic Resources	11.9	0.4	18.4	9.1	13.7	9.6
Construction & Materials	12.5	2.1	13.0	2.6	3.8	8.8
Industrial G&S	7.0	7.6	11.9	9.7	3.9	9.0
Automobiles & Parts	38.7	3.0	18.9	31.8	15.4	22.2
Food & Beverage	7.5	11.0	9.9	12.8	13.7	10.9
Personal & H'hold Goods	4.9	16.5	12.6	11.1	11.2	13.3
Health Care	1.1	2.7	9.1	8.6	8.0	8.9
Retail	-1.7	7.8	8.9	-0.7	8.6	9.7
Media	7.2	4.9	6.2	15.5	-1.2	6.8
Travel & Leisure	8.3	-3.6	28.3	4.2	0.9	15.8
Telecommunications	-6.3	-1.5	4.3	10.5	5.5	1.9
Utilities	-19.5	2.6	5.3	-11.0	1.0	2.5
Banks	-5.2	21.5	26.9	-16.3	14.6	21.6
Insurance	-13.6	41.5	7.0	5.9	10.7	6.1
Real Estate	2.1	1.8	5.1	6.4	3.6	3.6
Financial Services	-10.5	15.8	23.3	3.7	8.4	5.1
Technology	-0.2	-21.2	24.2	-2.7	6.4	-12.2
Sbxx - Pan Europe	1.4	10.1	12.6	4.8	7.8	8.7
Pan Euro - Large Cap	-0.1	8.7	11.3	5.4	8.0	8.3
Pan Euro - Mid Cap	-7.4	14.1	19.4	1.7	7.7	10.4
Pan Euro - Small Cap	148.4	29.3	21.3	1.1	4.3	12.8
Sbxx ex UK	-1.1	9.4	14.7	-0.2	5.3	8.2
EuroSbxx - Eurozone	-2.1	9.3	14.6	-3.7	4.3	7.5

Source: Citi Investment Research and Analysis & DataStream

Figure 26. Pan-European Sector Ratings

As at Close 24 Apr 12 Sector	Price/Earnings				Net Dividend Yield			
	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E
Oil & Gas	10.4	9.8	8.1	7.6	3.42	4.04	4.33	4.56
Chemicals	14.1	12.5	12.2	10.9	2.62	2.94	3.05	3.30
Basic Resources	9.9	8.8	8.8	7.4	2.51	2.74	3.11	3.41
Construction & Materials	13.2	11.7	11.4	10.1	3.97	4.07	4.23	4.60
Industrial G&S	14.3	13.4	12.5	11.1	3.00	3.29	3.42	3.73
Automobiles & Parts	10.4	7.5	7.3	6.1	2.77	3.65	4.22	5.15
Food & Beverage	19.4	18.0	16.2	14.8	2.52	2.84	3.23	3.58
Personal & H'hold Goods	18.6	17.7	15.2	13.5	2.52	2.81	3.12	3.53
Health Care	12.5	12.4	12.0	11.0	3.35	3.64	3.93	4.28
Retail	13.3	13.5	12.6	11.5	3.66	3.63	3.95	4.33
Media	11.9	11.1	10.6	9.9	4.22	4.88	4.82	5.14
Travel & Leisure	16.6	15.3	15.9	12.4	2.91	3.04	3.07	3.55
Telecommunications	8.5	9.1	9.2	8.8	7.53	8.31	8.77	8.94
Utilities	8.8	10.9	10.6	10.1	7.16	6.37	6.43	6.59
Banks	10.0	10.6	8.7	6.9	4.62	3.86	4.43	5.38
Insurance	8.6	10.0	7.1	6.6	4.76	5.04	5.58	5.92
Real Estate	17.0	16.7	16.4	15.6	4.70	5.00	5.18	5.36
Financial Services	12.1	13.5	11.7	9.5	4.60	4.78	5.18	5.44
Technology	14.3	14.3	18.2	14.6	2.63	2.56	2.72	2.39
Sbxx - Pan Europe	11.9	11.7	10.7	9.5	3.77	3.95	4.26	4.63
Pan Euro - Large Cap	11.2	11.2	10.3	9.2	3.88	4.09	4.42	4.79
Pan Euro - Mid Cap	13.6	14.6	12.8	10.7	3.23	3.28	3.54	3.91
Pan Euro - Small Cap	40.7	16.4	12.7	10.4	3.37	3.40	3.55	4.00
Sbxx ex UK	11.7	11.8	10.8	9.4	4.15	4.14	4.36	4.71
EuroSbxx - Eurozone	10.6	10.9	10.0	8.7	4.66	4.49	4.68	5.03

Source: Citi Investment Research and Analysis & DataStream

Figure 27. Pan-European Country Weightings & Returns

	Mkt Cap (Euros m)	% of Stoxx	Relative Return to Stoxx*				Absolute Return*			
			1m	3m	12m	YTD	1m	3m	12m	YTD
Austria (10)	22,060	0.4	-4	-2	-24	1	-8	-2	-29	6
Belgium (16)	78,211	1.5	1	9	7	7	-3	10	0	13
Denmark (16)	94,156	1.8	7	16	7	13	3	17	1	19
Finland (20)	72,221	1.4	-4	-3	-19	-1	-7	-3	-24	5
France (86)	714,148	14.0	-5	-4	-10	-3	-8	-3	-16	2
Germany (63)	652,375	12.8	-2	3	-3	7	-6	3	-9	12
Greece (3)	5,846	0.1	-8	-3	-57	-1	-12	-2	-59	4
Ireland (8)	33,744	0.7	0	3	22	-2	-4	3	14	3
Italy (32)	179,632	3.5	-9	-11	-25	-10	-13	-11	-29	-5
Netherlands (31)	201,738	4.0	-1	-2	-5	-4	-5	-1	-11	1
Norway (15)	81,697	1.6	2	7	9	5	-2	8	2	10
Portugal (5)	14,055	0.3	-3	-5	-21	-12	-7	-5	-26	-7
Spain (30)	202,858	4.0	-11	-18	-24	-21	-15	-17	-29	-16
Sweden (40)	237,897	4.7	0	0	-3	1	-3	0	-9	7
Switzerland (47)	675,162	13.3	4	3	11	2	0	3	4	7
UK (178)	1,824,254	35.8	4	2	13	1	0	2	6	6
Stoxx - Pan Europe	5,090,055	100								

Source: Citi Investment Research and Analysis & DataStream. \*Note: Country returns use MSCI indices.

Figure 28. Pan-European Country Relative Ratings

As at Close 24 Apr 12 Country	Price/Earnings				Net Dividend Yield			
	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E
Austria	86	179	93	80	103	78	80	96
Belgium	119	128	125	125	84	84	93	91
Denmark	173	195	173	150	29	41	47	57
Finland	85	118	183	162	163	133	122	90
France	84	89	94	93	123	109	105	108
Germany	92	96	93	93	95	94	91	91
Greece	49	-	79	67	190	107	112	126
Ireland	-	1262	242	177	49	47	45	44
Italy	74	81	76	74	147	118	119	121
Netherlands	90	94	91	91	84	89	92	90
Norway	115	103	98	99	120	118	104	109
Portugal	71	111	95	85	210	171	170	181
Spain	58	70	84	81	246	230	206	193
Sweden	121	107	116	120	93	97	99	98
Switzerland	117	122	121	118	82	86	87	87
UK	104	99	98	101	82	92	96	97
EuroStoxx - Eurozone	90	93	93	92	124	114	110	108
Stoxx ex UK - Europe ex UK	98	100	101	99	110	105	102	102
Stoxx - Pan Europe	100	100	100	100	100	100	100	100

Source: Citi Investment Research and Analysis & DataStream



**Figure 29. Pan-European Country Growth**

As at Close 24 Apr 12		Earnings Growth %			Dividend Growth %		
Country		2011E	2012E	2013E	2011E	2012E	2013E
Austria		-51.1	112.0	30.5	-21.0	11.2	29.4
Belgium		-6.3	13.2	13.0	4.4	20.3	5.7
Denmark		-9.9	24.0	30.4	46.5	23.7	32.6
Finland		-26.5	-29.2	27.3	-14.8	-0.8	-19.6
France		-4.3	4.6	14.5	-6.8	4.0	11.3
Germany		-3.1	13.9	12.1	3.0	5.0	8.7
Greece		-	-	32.6	-40.9	12.9	22.1
Ireland		-	474.8	53.4	1.2	3.0	5.8
Italy		-7.1	17.9	15.2	-15.4	8.8	10.4
Netherlands		-2.3	13.0	13.1	10.7	12.1	6.2
Norway		13.4	16.1	11.5	3.1	-5.0	14.2
Portugal		-35.4	28.8	24.9	-14.6	7.0	16.1
Spain		-16.1	-7.5	16.8	-2.2	-3.1	1.5
Sweden		14.7	0.8	9.1	9.5	9.5	7.2
Switzerland		-2.8	10.7	15.9	9.8	8.8	9.0
UK		6.0	11.3	9.0	16.7	12.8	9.6
EuroStoxx - Eurozone		-2.1	9.3	14.6	-3.7	4.3	7.5
Stoxx ex UK - Europe ex UK		-1.1	9.4	14.7	-0.2	5.3	8.2
Stoxx - Pan Europe		1.4	10.1	12.6	4.8	7.8	8.7

Source: Citi Investment Research and Analysis & DataStream. \*Note: Country returns use MSCI index

**Figure 30. Pan-European Country Ratings**

As at Close 24 Apr 12		Price/Earnings			Net Dividend Yield		
Country		2010	2011E	2012E	2010	2011E	2012E
Austria		10.3	21.1	9.9	7.6	3.89	3.07
Belgium		14.1	15.1	13.3	11.8	3.17	3.31
Denmark		20.6	22.9	18.5	14.2	1.10	1.62
Finland		10.2	13.8	19.5	15.3	6.16	5.25
France		10.0	10.5	10.0	8.8	4.62	4.31
Germany		10.9	11.2	9.9	8.8	3.59	3.70
Greece		5.8	-	8.4	6.3	7.17	4.24
Ireland		-	148.0	25.7	16.8	1.85	1.87
Italy		8.8	9.5	8.1	7.0	5.53	4.68
Netherlands		10.7	11.0	9.7	8.6	3.17	3.51
Norway		13.7	12.1	10.4	9.3	4.51	4.65
Portugal		8.4	13.0	10.1	8.1	7.92	6.76
Spain		6.9	8.2	8.9	7.6	9.28	9.08
Sweden		14.4	12.5	12.4	11.4	3.52	3.85
Switzerland		13.9	14.3	12.9	11.2	3.10	3.40
UK		12.3	11.6	10.5	9.6	3.11	3.63
EuroStoxx - Eurozone		10.6	10.9	10.0	8.7	4.66	4.49
Stoxx ex UK - Europe ex UK		11.7	11.8	10.8	9.4	4.15	4.14
Stoxx - Pan Europe		11.9	11.7	10.7	9.5	3.77	3.95

Source: Citi Investment Research and Analysis & DataStream

Figure 31. UK Sector Weightings & Relative Returns

As at Close 24 Apr 2012	Mkt	% of	% of	Relative return				
	Cap £m	AllShare	Group	1m	3m	12m	Qtd	Ytd
OIL & GAS (27)	304,169	17.4		-2	-6	-1	-2	-8
Oil & Gas Producers (19)	290,443	16.6	95	-2	-7	-2	-2	-9
Oil Equip, Serv and Distrib (7)	13,719	0.8	5	4	13	6	1	15
Alternative Energy (1)	8	0.0	0	-27	-5	-	-9	-17
BASIC MATERIALS (40)	197,759	11.3		1	-8	-21	1	0
Chemicals (7)	12,086	0.7	6	6	15	23	3	23
Forestry & Paper (1)	2,053	0.1	1	0	13	1	-2	20
Industrial Metals (4)	2,399	0.1	1	-8	-24	-53	-6	-7
Mining (28)	181,221	10.4	92	1	-9	-23	1	-1
INDUSTRIALS (111)	150,866	8.6		1	7	9	1	7
Construction & Materials (11)	12,734	0.7	8	-4	-3	-11	-3	-4
Aerospace (10)	34,506	2.0	23	3	5	14	2	6
General Industrials (6)	12,040	0.7	8	2	10	2	1	15
Electronic & Electrical Equip (12)	7,748	0.4	5	6	15	17	5	23
Industrial Engineering (12)	14,344	0.8	10	4	7	12	3	5
Industrial Transportation (8)	2,065	0.1	1	-3	5	-5	-4	6
Support Services (52)	67,427	3.9	45	1	8	10	0	9
CONSUMER GOODS (36)	241,408	13.8		3	8	23	2	4
Automobiles & Parts (2)	3,198	0.2	1	-2	-4	-3	-1	5
Beverages (4)	71,746	4.1	30	5	9	29	5	8
Food Producers (12)	37,174	2.1	15	3	2	12	1	-5
Household Gds & Home Cons (11)	35,036	2.0	15	2	9	17	2	11
Leisure Goods (2)	156	0.0	0	2	-19	-3	-1	-17
Personal Goods (3)	6,988	0.4	3	-5	4	7	-5	9
Tobacco (2)	87,110	5.0	36	1	9	29	1	1
HEALTH CARE (13)	131,243	7.5		3	0	14	4	-5
Health Care Equip & Services (4)	6,174	0.4	5	0	0	-3	-2	-6
Pharmaceuticals & Biotech (9)	125,069	7.1	95	3	0	15	4	-5
CONSUMER SERVICES (88)	162,518	9.3		-1	3	0	-1	-3
Food & Drug Retailers (6)	41,129	2.3	25	-2	-1	-8	-1	-18
General Retailers (24)	26,614	1.5	16	-3	9	5	-3	10
Media (26)	49,285	2.8	30	-1	3	4	-2	2
Travel & Leisure (32)	45,491	2.6	28	0	4	2	-1	3
TELECOMMUNICATIONS (9)	107,890	6.2		0	-3	11	0	-6
Fixed-Line Telecoms (7)	20,294	1.2	19	-5	2	14	-4	6
Mobile Telecoms (2)	87,596	5.0	81	1	-4	10	1	-8
UTILITIES (8)	72,041	4.1		7	9	16	5	4
Electricity (2)	14,455	0.8	20	5	7	12	2	0
Gas, Water & Multi-Utilities (6)	57,586	3.3	80	7	9	17	5	5
TECHNOLOGY (29)	25,598	1.5		-3	0	6	-5	1
Software & Computer Serv (18)	13,981	0.8	55	-1	1	13	-4	4
Technology Hardware & Equip (11)	11,617	0.7	45	-6	-1	-4	-6	-4
TOTAL NON-FINANCIAL (361)	1,393,492	79.6		1	0	3	-2	-2
FINANCIALS (251)	357,430	20.4		-2	1	-11	7	7
Banks (5)	178,527	10.2	50	-3	0	-17	-2	9
Non-Life Insurance (10)	14,219	0.8	4	2	6	-5	2	6
Life Insurance (9)	51,757	3.0	14	-4	0	-1	-3	7
Real Estate Investment Svs (23)	6,077	0.3	2	2	5	-1	0	3
REITS (17)	23,134	1.3	6	2	3	-6	1	6
Financial Services (27)	31,135	1.8	9	-3	4	-12	-5	7
Equity Inv Instruments (160)	52,582	3.0	15	-1	1	-4	-1	1
FTSE ALL SHARE (612)	1,750,923	100.0		0	0	0	0	0
FTSE 100 (100)	1,479,450	84.5		0	-1	0	-1	-1
Mid 250 (250)	229,822	13.1		0	4	0	7	7
Small Cap (262)	41,650	2.4		1	6	-1	8	8

Source: Citi Investment Research and Analysis & DataStream

Figure 32. UK Relative Ratings

As at Close 24 Apr 2012	P/E Relative				Yield Relative			
	2010	2011	2012E	2013E	2010	2011	2012E	2013E
OIL & GAS	89	85	77	80	86	94	94	92
Oil & Gas Producers	87	83	75	79	88	96	95	93
Oil Equip, Serv and Distrib	172	162	133	123	55	54	62	67
BASIC MATERIALS	83	76	84	80	69	67	69	70
Chemicals	177	151	148	144	61	56	55	54
Forestry & Paper	136	86	111	113	94	107	108	105
Industrial Metals	120	119	151	188	10	8	34	7
Mining	79	73	81	77	70	68	70	72
INDUSTRIALS	127	120	120	119	80	78	77	77
Construction & Materials	137	123	130	123	135	120	110	106
Aerospace	103	103	104	108	96	92	92	90
General Industrials	108	103	103	102	85	89	91	92
Electronic & Electrical Equip	174	137	133	131	44	46	47	47
Industrial Engineering	150	128	121	122	68	64	66	67
Industrial Transportation	89	97	103	100	137	116	110	106
Support Services	139	131	131	127	65	65	66	67
CONSUMER GOODS	149	147	144	141	89	85	85	89
Automobiles & Parts	94	97	89	85	74	103	120	132
Beverages	174	168	162	158	69	64	66	66
Food Producers	135	141	141	142	98	92	88	88
Household Gds & Home Cons	148	140	144	139	78	76	68	82
Personal Goods	233	203	185	172	41	46	51	55
Tobacco	138	137	135	132	109	106	109	111
HEALTH CARE	85	93	102	104	128	127	122	117
Health Care Equip & Services	109	120	126	124	52	48	49	49
Pharmaceuticals & Biotech	84	92	101	104	131	130	125	121
CONSUMER SERVICES	103	103	112	110	100	99	94	94
Food & Drug Retailers	97	97	104	107	125	115	108	107
General Retailers	97	102	106	106	104	96	94	95
Media	108	107	107	106	86	100	92	93
Travel & Leisure	109	104	131	121	91	87	82	83
TELECOMMUNICATIONS	87	94	100	102	152	177	187	180
Fixed-Line Telecoms	84	89	92	91	134	132	130	131
Mobile Telecoms	88	96	102	106	156	188	200	191
UTILITIES	112	124	127	133	147	133	131	126
Electricity	97	108	111	129	170	154	149	138
Gas, Water & Multi-Utilities	116	129	131	134	142	128	126	123
TECHNOLOGY	158	167	166	155	46	46	48	48
Software & Computer Serv	118	126	126	122	64	64	66	66
Technology Hardware & Equip	265	271	265	231	24	24	26	27
TOTAL NON-FINANCIAL	101	100	101	102	97	98	98	97
FINANCIALS	96	101	95	93	116	108	109	114
Banks	95	92	89	89	98	93	95	106
Non-Life Insurance	80	193	88	91	208	176	157	151
Life Insurance	79	86	85	85	141	132	141	137
Real Estate Investment Svs	223	197	190	180	55	50	52	53
REITS	169	180	192	197	123	113	108	103
Financial Services	101	132	116	96	136	121	122	119
FTSE ALL SHARE	100	100	100	100	100	100	100	100
FTSE 100	98	97	98	99	102	103	103	103
Mid 250	118	135	116	110	89	82	77	79
Small Cap	80	92	87	83	91	75	75	78

Source: Citi Investment Research and Analysis & DataStream

Figure 33. UK Earnings Growth

As at Close 24 Apr 2012	Earnings Growth %			Net Dividend Growth %		
	2011	2012E	2013E	2011	2012E	2013E
OIL & GAS	12.2	19.0	3.2	25.9	6.9	6.1
Oil & Gas Producers	12.2	18.8	2.9	26.3	6.5	5.8
Oil Equip, Serv and Distrib	14.4	30.7	17.0	12.7	24.1	16.1
BASIC MATERIALS	17.3	-3.5	14.2	11.7	11.4	10.6
Chemicals	26.1	10.0	11.2	5.1	6.7	5.5
Forestry & Paper	69.9	-16.3	6.2	31.5	8.4	6.2
Industrial Metals	7.8	-15.2	-12.9	-3.7	353.7	-78.1
Mining	16.7	-3.7	14.6	11.8	11.2	11.5
INDUSTRIALS	14.0	7.6	9.0	12.3	7.0	8.2
Construction & Materials	19.9	1.5	14.5	2.8	-1.5	4.1
Aerospace	7.1	6.8	3.7	10.7	6.8	6.3
General Industrials	13.1	7.3	9.7	19.8	10.6	9.4
Electronic & Electrical Equip	36.4	10.9	10.2	18.3	10.2	10.0
Industrial Engineering	26.7	13.5	7.1	9.4	10.6	10.1
Industrial Transportation	-1.0	1.1	12.0	-2.1	2.1	4.3
Support Services	13.9	8.0	11.5	16.6	8.5	10.3
CONSUMER GOODS	9.5	9.1	10.6	10.6	7.5	13.0
Automobiles & Parts	4.9	16.6	13.4	60.0	25.0	20.0
Beverages	11.6	11.4	11.3	6.8	9.8	9.5
Food Producers	2.8	7.3	7.7	8.4	2.8	8.5
Household Gds & Home Cons	13.6	4.7	12.0	11.9	-4.3	32.3
Personal Goods	23.6	17.5	16.9	28.8	18.9	17.0
Tobacco	9.0	9.2	10.4	11.3	10.6	11.0
HEALTH CARE	-1.2	-2.1	5.3	14.0	3.6	4.7
Health Care Equip & Services	-2.1	2.1	10.3	6.3	9.6	8.8
Pharmaceuticals & Biotech	-1.2	-2.2	5.1	14.1	3.5	4.7
CONSUMER SERVICES	8.1	-1.0	9.7	14.2	1.6	8.9
Food & Drug Retailers	7.2	0.8	4.8	5.5	1.4	6.9
General Retailers	2.2	3.4	9.0	6.6	5.6	9.1
Media	8.3	8.0	8.5	33.7	-0.3	9.5
Travel & Leisure	12.6	-14.7	17.5	10.1	1.6	10.5
TELECOMMUNICATIONS	-0.9	1.4	5.7	34.1	13.6	4.4
Fixed-Line Telecoms	1.6	3.7	10.1	13.3	6.5	9.6
Mobile Telecoms	-1.4	0.8	4.5	38.3	14.8	3.6
UTILITIES	-3.0	5.2	3.2	3.7	5.8	4.8
Electricity	-3.9	4.7	-6.6	4.1	4.1	0.7
Gas, Water & Multi-Utilities	-2.7	5.4	6.1	3.6	6.3	6.0
TECHNOLOGY	2.0	7.9	15.7	14.9	11.9	9.8
Software & Computer Serv	0.9	7.2	12.3	14.9	10.9	8.8
Technology Hardware & Equip	5.1	9.8	24.4	15.1	15.3	13.0
TOTAL NON-FINANCIAL	8.9	6.1	7.7	17.1	7.3	7.6
FINANCIALS	1.9	13.9	10.6	7.0	9.1	13.4
Banks	11.5	10.7	9.0	9.5	9.7	21.1
Non-Life Insurance	-55.6	136.0	4.6	-2.9	-3.7	4.2
Life Insurance	-1.2	8.8	9.2	8.4	14.8	5.8
Real Estate Investment Svs	21.6	11.4	14.4	5.6	11.1	12.2
REITS	1.1	0.5	5.9	5.1	3.3	4.1
Financial Services	-17.8	22.2	31.2	2.6	8.4	5.5
FTSE ALL SHARE	7.6	7.5	8.3	15.0	7.7	8.7
FTSE 100	9.3	5.7	7.5	16.2	8.4	8.4
Mid 250	-5.8	25.3	14.7	6.7	0.2	11.7
Small Cap	-6.0	14.0	13.3	-4.5	7.4	13.5

Source: Citi Investment Research and Analysis & DataStream

Figure 34. UK Sector Ratings

As at Close 24 Apr 2012	Price/Earnings				Net Dividend Yield			
	2010	2011	2012E	2013E	2010	2011	2012E	2013E
OIL & GAS	10.6	9.4	7.9	7.7	2.83	3.56	3.80	4.04
Oil & Gas Producers	10.3	9.2	7.8	7.5	2.87	3.63	3.86	4.09
Oil Equip, Serv and Distrib	20.5	17.9	13.7	11.7	1.81	2.04	2.53	2.94
BASIC MATERIALS	9.9	8.4	8.7	7.6	2.25	2.51	2.80	3.09
Chemicals	21.2	16.8	15.2	13.7	2.00	2.10	2.24	2.37
Forestry & Paper	16.3	9.6	11.4	10.8	3.07	4.04	4.38	4.65
Industrial Metals	14.3	13.3	15.6	17.9	0.31	0.30	1.37	0.30
Mining	9.4	8.1	8.4	7.3	2.28	2.55	2.84	3.16
INDUSTRIALS	15.2	13.3	12.4	11.3	2.61	2.93	3.13	3.39
Construction & Materials	16.3	13.6	13.4	11.7	4.41	4.54	4.47	4.65
Aerospace	12.2	11.4	10.7	10.3	3.14	3.48	3.72	3.95
General Industrials	13.0	11.5	10.7	9.7	2.79	3.34	3.69	4.04
Electronic & Electrical Equip	20.8	15.2	13.7	12.5	1.45	1.72	1.90	2.09
Industrial Engineering	17.9	14.2	12.5	11.6	2.22	2.43	2.68	2.95
Industrial Transportation	10.7	10.8	10.6	9.5	4.48	4.39	4.48	4.67
Support Services	16.6	14.6	13.5	12.1	2.12	2.47	2.68	2.95
CONSUMER GOODS	17.8	16.3	14.9	13.5	2.91	3.21	3.46	3.91
Automobiles & Parts	11.2	10.7	9.2	8.1	2.42	3.88	4.85	5.81
Beverages	20.8	18.6	16.7	15.0	2.27	2.43	2.67	2.92
Food Producers	16.1	15.6	14.6	13.5	3.20	3.47	3.56	3.87
Household Gds & Home Cons	17.7	15.6	14.9	13.3	2.56	2.87	2.75	3.63
Personal Goods	27.8	22.5	19.1	16.4	1.36	1.75	2.08	2.43
Tobacco	16.5	15.2	13.9	12.6	3.58	3.99	4.41	4.89
HEALTH CARE	10.1	10.3	10.5	10.0	4.18	4.77	4.94	5.17
Health Care Equip & Services	13.0	13.3	13.0	11.8	1.70	1.80	1.98	2.15
Pharmaceuticals & Biotech	10.0	10.2	10.4	9.9	4.31	4.91	5.09	5.32
CONSUMER SERVICES	12.3	11.4	11.5	10.5	3.28	3.74	3.80	4.14
Food & Drug Retailers	11.6	10.8	10.7	10.2	4.11	4.33	4.39	4.70
General Retailers	11.6	11.3	11.0	10.1	3.39	3.62	3.82	4.17
Media	12.9	11.9	11.0	10.1	2.81	3.76	3.75	4.10
Travel & Leisure	13.0	11.6	13.5	11.5	2.97	3.27	3.33	3.68
TELECOMMUNICATIONS	10.4	10.5	10.3	9.8	4.98	6.67	7.58	7.91
Fixed-Line Telecoms	10.0	9.9	9.5	8.7	4.37	4.95	5.28	5.79
Mobile Telecoms	10.4	10.6	10.5	10.1	5.11	7.07	8.12	8.41
UTILITIES	13.3	13.7	13.1	12.7	4.82	5.00	5.29	5.55
Electricity	11.5	12.0	11.5	12.3	5.56	5.79	6.03	6.07
Gas, Water & Multi-Utilities	13.9	14.3	13.5	12.8	4.64	4.81	5.11	5.42
TECHNOLOGY	18.9	18.5	17.1	14.8	1.51	1.74	1.95	2.14
Software & Computer Serv	14.1	14.0	13.0	11.6	2.11	2.43	2.69	2.93
Technology Hardware & Equip	31.6	30.1	27.4	22.0	0.80	0.92	1.06	1.19
TOTAL NON-FINANCIAL	12.1	11.1	10.4	9.7	3.16	3.70	3.97	4.28
FINANCIALS	11.4	11.2	9.8	8.9	3.79	4.05	4.42	5.01
Banks	11.4	10.2	9.2	8.5	3.21	3.51	3.85	4.66
Non-Life Insurance	9.5	21.4	9.1	8.7	6.82	6.62	6.38	6.65
Life Insurance	9.5	9.6	8.8	8.1	4.60	4.99	5.73	6.06
Real Estate Investment Svs	26.6	21.9	19.7	17.2	1.79	1.89	2.10	2.35
REITS	20.2	19.9	19.9	18.7	4.03	4.24	4.38	4.56
Financial Services	12.0	14.6	12.0	9.1	4.46	4.57	4.96	5.23
FTSE ALL SHARE	11.9	11.1	10.3	9.5	3.28	3.77	4.05	4.41
FTSE 100	11.7	10.7	10.2	9.5	3.33	3.87	4.19	4.55
Mid 250	14.1	15.0	12.0	10.4	2.91	3.10	3.11	3.47
Small Cap	9.6	10.2	9.0	7.9	2.97	2.83	3.04	3.45

Source: Citi Investment Research and Analysis & DataStream

Figure 35. Stocks Mentioned

Stock	RIC Code	Rating	Price	Currency	Stock	RIC Code	Rating	Price	Currency
BASF	BASFn.DE	2	65.19	E	Metro	MEOG.DE	3	24.335	E
Bayer	BAYGn.DE	1	53.21	E	Akzo Nobel	AKZO.AS	2	40.18	E
BBV Argentaria	BBVA.MC	2H	5.264	E	Pennon Group	PNN.L	2	7.365	£
BHP Billiton	BLT.L	1	19.355	£	Casino Guichard	CASP.PA	1	72.93	E
ENI	ENI.MI	1	16.48	E	Informa	INF.L	1	4.173	£
GKN	GKN.L	2	2.033	£	Repsol Ypf	REP.MC	1	14.265	E
HSBC Holdings	HSBA.L	1	5.543	£	British American Tobacco	BATS.L	2	31.49	£
Rio Tinto	RIO.L	1	34.8	£	Bankinter R	BKT.MC	3H	3.328	E
SAP	SAPG.DE	1	50	E	National Grid	NG.L	2	6.665	£
Swisscom R	SCMN.VX	1	343.9	SF	Next	NXT.L	1	29.76	£
Total	TOTF.PA	3	36.225	E	Essilor Intl.	ESSI.PA	3	66.69	E
Infineon Technologies	IFXGn.DE	1	7.403	E	IMI	IMI.L	1	10.09	£
Yara International	YAR.OL	1	271.6	NK	L'Oreal	OREP.PA	2	93.1	E
Adecco R	ADEN.VX	2	44.81	SF	Danone	DANO.PA	1	54.31	E
EDF	EDF.PA	2	16.18	E	United Utilities Group	UU.L	2	6.18	£
A P Moller - Maersk B	MAERSKb.CO	2	41280	DK	KPN	KPN.AS	2	7.06	E
Royal Bank Of Scotland	RBS.L	2H	0.2322	£	Belgacom	BCOM.BR	3	22.38	E
Lloyds Banking Group	LLOY.L	1	0.305	£	Caixabank	CABK.MC	3H	2.588	E
Carrefour	CARR.PA	3	15.42	E	Dassault Systemes	DAST.PA	2	69.1	E
Banco Santander	SAN.MC	2H	4.916	E	OMV	OMVV.VI	3	24.72	E
France Telecom	FTE.PA	3	10.475	E	Actelion	ATLN.VX	2	34.03	SF
Fortum	FUM1V.HE	2	16.57	E	GEA Group	G1AG.DE	1	24.565	E
Synthes	SYST.VX	2	156.6	SF	Swedish Match	SWMA.ST	1	269	SK
Alstom	ALSO.PA	2	27.35	E	Linde	LING.DE	1	128.35	E
Banco Popular Espanol	POP.MC	3H	2.394	E	Bunzl	BNZL.L	2	10.2	£
Banco De Sabadell	SABE.MC	3H	1.787	E	Cap Gemini	CAPP.PA	1	29.68	E
Tele2 B	TEL2b.ST	1	124.4	SK	K + S (Xet)	SDFGn.DE	1	37.605	E
Ahold Kon.	AHLN.AS	1	9.402	E	Sodexo	EXHO.PA	2	60.68	E
Telenor	TEL.OL	1	102.2	NK	Tate & Lyle	TATE.L	2	6.76	£
Cobham	COB.L	1	2.383	£	Telecity Group	TCY.L	1	7.89	£
AMEC	AMEC.L	1	11.25	£	Wirecard (Xet)	WDIG.DE	1	14.125	E
WPP	WPP.L	2	8.465	£					

Note: Prices as at close 25 April 2012. Source: Powered by dataCentral  
dataCentral is CIRA's proprietary database, which includes Citi estimates, data from company reports and feeds from Reuters, Datastream, First Call, IBES and Toyo Keizai.

## 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

---

Citigroup Global Markets Ltd is currently mandated as financial advisor in relation to the announced agreement between Energie Baden-Wuerttemberg and Electricite de France for the acquisition of Energie Baden-Wuerttemberg's shares in Kogeneracja and Elektrownia Rybnik by Electricite de France. Consequently, Citi is restricted from offering any view, opinion, rating or target price on Kogeneracja.

---

Patricia Tassinari, Research Assistant, holds a long position in the securities of Lloyds Banking Group PLC. Citigroup Global Markets Limited is currently mandated as advisor to Lloyds Banking Group Plc in relation to the announced disposal of the Groups UK bank branches.

---

An employee of Citigroup Global Markets or its affiliates is a Sales Consultant of Next Retail Ltd.

---

Patricia Tassinari, Research Assistant, holds a long position in the securities of Royal Bank of Scotland Group PLC.

---

Citigroup Global Markets Limited is currently mandated as joint-financial advisor to Banco Santander, S.A. in relation to the announced merger between Banco Santander's and KBC Group NV's Polish subsidiaries Bank Zachodni WBK S.A. and Kredyt Bank S.A.

---

An employee of Citi serves on the board of WPP Group PLC.

---

Peter Atherton, Analyst, holds a long position in the securities of National Grid PLC.

---

A member of the household of Adrian Cattley, Strategist, holds a long position in the securities of Royal Bank of Scotland Group PLC.

---

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of Banco Bilbao Vizcaya Argentaria SA, BHP Billiton PLC, Capgemini SA, France Telecom, Infineon Technologies, Lloyds Banking Group PLC, Metro AG, Repsol. This position reflects information available as of the prior business day.

---

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 Alstom, BASF SE, British American Tobacco PLC, Banco Bilbao Vizcaya Argentaria SA, Casino Guichard Perachon, Electricite de France, France Telecom, Fortum Oyj, HSBC Holdings PLC, KPN NV, Lloyds Banking Group PLC, National Grid PLC, OMV AG, Banco Popular Espanol, Royal Bank of Scotland Group PLC, Repsol, Rio Tinto PLC, Banco de Sabadell SA, Banco Santander, SAP AG, Total, WPP PLC.

---

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Akzo Nobel NV, Alstom, British American Tobacco PLC, Bayer AG, Banco Bilbao Vizcaya Argentaria SA, Belgacom SA, Bankinter SA, BHP Billiton PLC, CaixaBank SA, Carrefour, Casino Guichard Perachon, Danone, Electricite de France, Eni, Essilor, Sodexo, France Telecom, Fortum Oyj, HSBC Holdings PLC, KPN NV, Linde AG, Lloyds Banking Group PLC, Metro AG, National Grid PLC, OMV AG, Banco Popular Espanol, Royal Bank of Scotland Group PLC, Repsol, Rio Tinto PLC, Banco de Sabadell SA, Banco Santander, SAP AG, Swisscom AG, Tate and Lyle, Telenor ASA, Total, WPP PLC.

---

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 Banco Bilbao Vizcaya Argentaria SA, Danone, Electricite de France, Lloyds Banking Group PLC, OMV AG, Repsol, Banco Santander, Telenor ASA, Total.

---

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Adecco, Ahold, Akzo Nobel NV, Alstom, AMEC, BASF SE, British American Tobacco PLC, Bayer AG, Banco Bilbao Vizcaya Argentaria SA, Belgacom SA, Bankinter SA, BHP Billiton PLC, Bunzl PLC, CaixaBank SA, Capgemini SA, Carrefour, Casino Guichard Perachon, Cobham, Danone, Dassault Systemes SA, Electricite de France, Eni, Essilor, Sodexo, France Telecom, Fortum Oyj, GEA Group, GKN Plc, HSBC Holdings PLC, Infineon Technologies, IMI PLC, Informa PLC, KPN NV, Linde AG, Lloyds Banking Group PLC, AP Moller Maersk A/S, Metro AG, National Grid PLC, Next Group PLC, OMV AG, L'Oréal, Banco Popular Espanol, Royal Bank of Scotland Group PLC, Repsol, Rio Tinto PLC, Banco de Sabadell SA, Banco Santander, SAP AG, Swisscom AG, K+S AG, Synthes Inc, Tate and Lyle, Telenor ASA, Tele2 AB, Total, United Utilities PLC, Wirecard, WPP PLC, Yara International 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): BASF SE, Bayer AG, Linde AG, Banco Bilbao Vizcaya Argentaria SA, Banco Santander, CaixaBank SA, HSBC Holdings PLC, Akzo Nobel NV, Alstom, British American Tobacco PLC, Belgacom SA, Bankinter SA, BHP Billiton PLC, Carrefour, Casino Guichard Perachon, Danone, Electricite de France, Eni, Essilor, Sodexo, France Telecom, Fortum Oyj, KPN NV, Lloyds Banking Group PLC, Metro AG, National Grid PLC, OMV AG, Banco Popular Espanol, Royal Bank of Scotland Group PLC, Repsol, Rio Tinto PLC, Banco de Sabadell SA, SAP AG, Swisscom AG, Tate and Lyle, Telenor ASA, Total, WPP PLC.

---

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: IMI PLC, Adecco, Ahold, Akzo Nobel NV, Alstom, AMEC, BASF SE, British American Tobacco PLC, Bayer AG, Banco Bilbao Vizcaya Argentaria SA, Belgacom SA, Bankinter SA, BHP Billiton PLC, Bunzl PLC, CaixaBank SA, Capgemini SA, Carrefour, Casino Guichard Perachon, Danone, Electricite de France, Eni, Essilor, Sodexo, France Telecom, Fortum Oyj, GEA Group, GKN Plc, HSBC Holdings PLC, Infineon Technologies, KPN NV, Linde AG, Lloyds Banking Group PLC, AP Moller Maersk A/S, Metro AG, National Grid PLC, OMV AG, L'Oréal, Banco Popular Espanol, Royal Bank of Scotland Group PLC, Repsol, Rio Tinto PLC, Banco de Sabadell SA, Banco Santander, SAP AG, Swisscom AG, K+S AG, Synthes Inc, Tate and Lyle, Telenor ASA, Tele2 AB, Total, United Utilities PLC, WPP PLC, Yara International.

---



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: Adecco, Ahold, Akzo Nobel NV, Alstom, AMEC, BASF SE, British American Tobacco PLC, Bayer AG, Banco Bilbao Vizcaya Argentaria SA, Belgacom SA, Bankinter SA, BHP Billiton PLC, Bunzl PLC, CaixaBank SA, Capgemini SA, Carrefour, Casino Guichard Perachon, Cobham, Danone, Dassault Systemes SA, Electricite de France, Eni, Essilor, Sodexo, France Telecom, Fortum Oyj, GEA Group, GKN Plc, HSBC Holdings PLC, Infineon Technologies, IMI PLC, Informa PLC, KPN NV, Linde AG, Lloyds Banking Group PLC, AP Moller Maersk A/S, Metro AG, National Grid PLC, Next Group PLC, OMV AG, L'Oréal, Banco Popular Espanol, Royal Bank of Scotland Group PLC, Repsol, Rio Tinto PLC, Banco de Sabadell SA, Banco Santander, SAP AG, Swisscom AG, K+S AG, Synthes Inc, Tate and Lyle, Telenor ASA, Tele2 AB, Total, United Utilities PLC, Wirecard, WPP PLC, Yara International.

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.

The Firm is a market maker in the publicly traded equity securities of Ahold, Akzo Nobel NV, Bayer AG, Banco Bilbao Vizcaya Argentaria SA, Bunzl PLC, Capgemini SA, Carrefour, Danone, Dassault Systemes SA, Sodexo, GKN Plc, HSBC Holdings PLC, Infineon Technologies, IMI PLC, KPN NV, L'Oréal, Repsol, Banco Santander, Swisscom AG, Tate and Lyle, Telenor ASA, United Utilities PLC, WPP PLC, Yara International.

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 [https://www.citivelocity.com/cvr/eppublic/citi\\_research\\_disclosures](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.

#### Citi Investment Research & Analysis Ratings Distribution

##### Data current as of 31 Mar 2012

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Investment Research & Analysis Global Fundamental Coverage	52%	37%	11%	10%	79%	10%
% of companies in each rating category that are investment banking clients	44%	42%	40%	47%	42%	43%

#### 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:

Citigroup Global Markets Ltd

Adrian Cattley; Anna Esposito; Jonathan Stubbs; András Vig; Ronit Ghose; James Ainley; Laurie Fitzjohn-Sykes, CFA; Ruchi Malaiya, CFA; Andrew S Baum; Adam Spielman; Andrew Coombs; Richard Edwards; Dr. Gunnar Plagge; Ignacio Moreno; Thomas A Singlehurst, CFA; Andrew Benson; Mark Fielding; Alastair A Johnston; Marc Van'T Sant; Alastair R Syme; Robert Dickinson, CA; Georgios Ierodiaconou; Dimitri Y Kallianiotis, CFA; Peter Atherton; Joanne Jerman; Jeremy Bragg; Roger Elliott; Andrew M Simms; Jonathan Beake; Hugo Mills; Natalia Mamaeva; Heath R Jansen; Cora McCallum, CFA; Sofia Savvantidou; Ryan W Kauppila; Erofil Tziveli; Nese Guner; Lambros Papadopoulos; Tina M Fordham

ZAO Citibank

Kingsmill Bond, CFA

---

#### OTHER DISCLOSURES

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to Adecco, Ahold, Akzo Nobel NV, Alstom, BASF SE, British American Tobacco PLC, Bayer AG, Belgacom SA, Bankinter SA, Carrefour, Casino Guichard Perachon, Danone, Electricite de France, Eni, Essilor, Sodexo, France Telecom, Fortum Oyj, HSBC Holdings PLC, KPN NV, Linde AG, Lloyds Banking Group PLC, AP Moller Maersk A/S, Metro AG, National Grid PLC, OMV AG, L'Oréal, Royal Bank of Scotland Group PLC, Repsol, SAP AG, Tate and Lyle, Telenor ASA, Total, Yara International. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at [www.citiVelocity.com](http://www.citiVelocity.com).)

Citigroup Global Markets Inc. or its affiliates beneficially owns 2% or more of any class of common equity securities of Banco Bilbao Vizcaya Argentaria SA, BHP Billiton PLC, Repsol.

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.

Citigroup Global Markets Inc. or its affiliates acts as a corporate broker to BHP Billiton PLC, Bunzl PLC, IMI PLC, Lloyds Banking Group PLC, Tate and Lyle.

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](http://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](http://www.morganstanleysmithbarney.com/researchdisclosures). For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures) and [https://www.citivelocity.com/cvr/eppublic/citi\\_research\\_disclosures](https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures).

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. 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 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 (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 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 [https://www.citivelocity.com/cvr/eppublic/citi\\_research\\_disclosures](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 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.

CIRA product may source data from dataCentral. dataCentral is a CIRA proprietary database, which includes Citi estimates, data from company reports and feeds from Reuters and Datastream.

© 2012 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

---