

European Portfolio Strategist

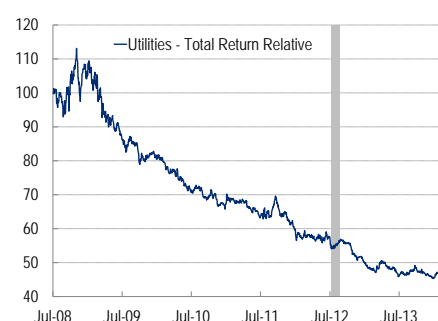
Show Me The...

- **...Money** — For market, as well as for stocks and sectors, we think 2014 is a “Show Me The Money” year. Delivery of earnings/FCF needed to drive performance.
- **#1 — Show me the earnings** — With compressed valuation spread within market, earnings leadership/momentum likely to drive price performance in next 12-18m.
- **Earnings leadership** — Banks, Resources, Autos, Insurance = P/E discount to market & have +ve earnings mo. Italy/Spain = P/B discount & +ve earnings mo.
- **#2 — Show me the FCF** — Buying sectors with above avg. FCFY and selling below avg FCFY has worked in six of last seven years. Worked again in 2013.
- **FCF leadership** — Resources, Personal & H/hold, Health Care = highest 2014E FCFY. Resources, Travel, Utilities = highest FCF delta (2014-16E vs 2011-13E)
- **#3 — Show me both** — Resources, Travel, Utilities, Autos, Construction, Industrials = high FCF delta & +ve earnings delta, eg Daimler, Rio, Siemens, ENEL.
- **Utilities upgrade** — Underweight since mid-08 (ex 4 weeks in mid-12). Improving FCF & +ve earnings delta = we go to Neutral. Analysts like ENEL, REE, IBE, SEV.

UK & European Strategy Team

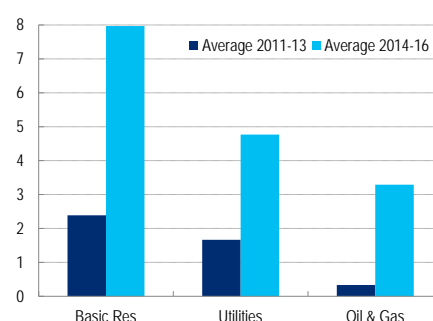
Jonathan Stubbs
+44-20-7986-4218
jonathan.stubbs@citi.com

Figure 1. Rel Rtn since U/weight in July 08



Source: Citi Research. Note: shaded area = Neutral

Figure 2. Average FCF Yield



Source: Citi Research

[20th Feb — The Citi Income Report](#)
[6th Feb — Pull-back = Buying Opportunity](#)
[16th Jan — Re-leveraging Optionality](#)
[5th Dec — 2014 European Market Outlook](#)
[28th Nov — 7Rs: New Regime](#)
[14th Nov — From Value Rally to Earnings](#)
[7th Nov — The Citi Income Report](#)
[31st Oct — Risk On-Move On, What Next?](#)
[24th Oct — Mega-Caps](#)
[3rd Oct — If...*](#)
[19th Sep — Bull Market](#)

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

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Contents

Show Me The...	3
#1 — Show me the earnings	3
#2 — Show me the FCF	7
#3 — Show me both	9
Utilities — upgrading to Neutral	11
Strategy outlook	14
Appendix A-1	27

Show Me The...

...Money. Companies which deliver tend to perform well. Companies which don't tend to perform less well. We can measure delivery by looking at, amongst other things, corporate earnings and free cashflow (FCF).

With the valuation gap between cheap and expensive stocks close to 25-year lows, we have suggested that earnings leadership/momentum will be a key driver of price leadership within European equities in the coming 12-18 months; that is why we like [REV and GARP](#).

With interest rates low and with ongoing investor demand for income, we have also suggested that companies generating high and/or surplus FCF can also perform well in the coming 12-18 months.

For the overall market, as well as for stocks and sectors, 2014 is a "Show Me the Money" year. In this report we look for what looks attractive on earnings momentum, on FCF and on both. Ideally, we want to cheapen exposure to these positive attributes. Additionally, we highlight key change stories.

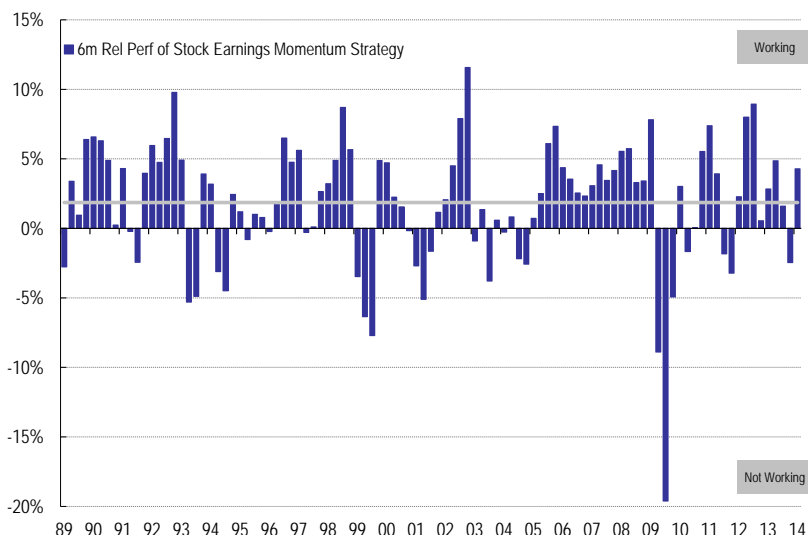
Both Basic Resources (Mining) and Utilities score well on earnings momentum delta and FCF delta. The FCF improvement for both sectors is being driven by significant reductions in capex.

We stay Overweight Basic Resources. We raise Utilities, which we have been Underweight for most of the last 5-6 years, to Neutral. We stay Underweight Oil & Gas. The FCF improvement trend in the sector is weaker and more selective, eg Total/Statoil look attractive on this basis, but less so for many other Oil stocks.

#1 — Show me the earnings

Earnings momentum strategies tend to work reasonably well over the long-term (Figure 3), especially on the long side, ie buying stocks with positive (6-month) relative earnings trends. Such strategies play an important role in many investment processes.

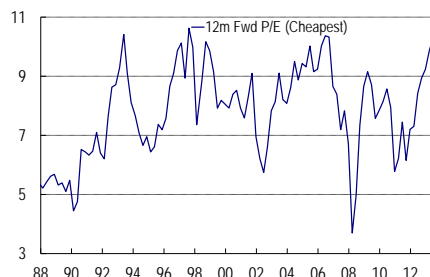
Figure 3. Disciplined Long/Short Earnings Momentum Strategy — Working Again



Source: Citi Research & DataStream

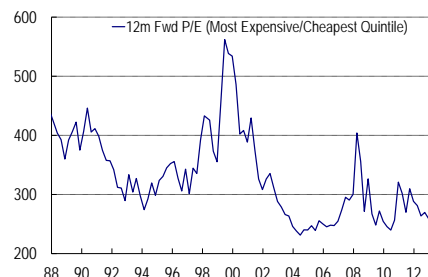
But, earnings momentum does not work at turning points. Most recently, earnings momentum did not work in 2H13 following the 'turn' in the European economic cycle, ie higher PMIs and higher GDP forecasts.

Figure 4. Cheapest Quintile, 12m Fwd P/E



Source: Citi Research & DataStream

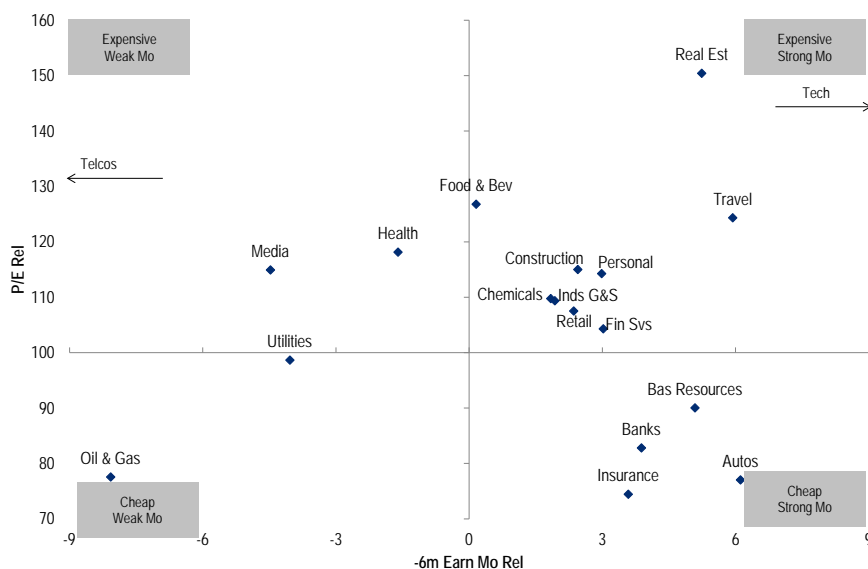
Figure 5. Cheap vs Expensive Quintile, P/E Rel



Source: Citi Research & DataStream

In November 2013, [we suggested that investors return to earnings momentum](#) strategies. The re-rating of cheap stocks in Europe (Figure 4) has helped to compress the valuation spread between cheap and expensive stocks within the market. Figure 5 shows that this spread is now around 25 year lows. From here, therefore, it is likely that earnings leadership/momentum is the key driver of price leadership. So, where is earnings momentum in Europe currently?

Figure 6. 6 Months Earnings Mo & P/E Rel



Source: Citi Research & DataStream

Figure 6 shows European sectors' P/E relative versus 6-month relative earnings momentum. Basic Resources has recently joined Banks, Insurance and Autos in the "cheap and strong mo" quadrant. Both value and earnings momentum investors will be looking at these sectors. We are Overweight all of them and they also form the core of our REV (Risk, Earnings Momentum, Value) theme.

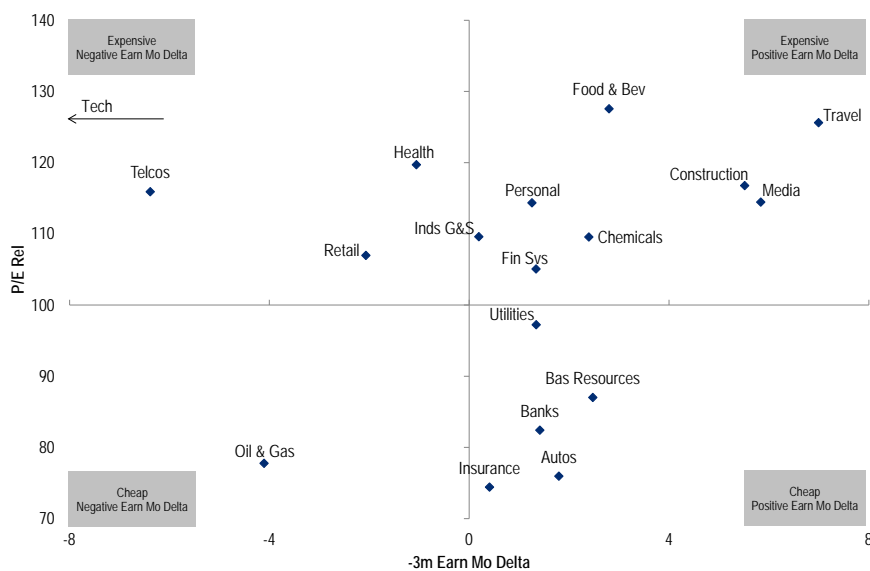
Figure 7. Financials — Positive Earnings Mo and Below Median P/E Screen

Stock	RIC	MktCap € Mn	<15.2 12m Fwd P/E	+ve -6m Rel Earn Mo
Lloyds Banking Group	LLOY.L	47243	11.7	24.6
Societe Generale	SOGN.PA	37964	10.5	13.3
SEB A	SEBa.ST	15893	12.5	12.3
Prudential	PRU.L	42435	14.3	11.9
UBS R	UBSN.VX	54063	14.1	11.1
Legal & General	LGEN.L	17340	14.2	10.9
Danske Bank	DANSKE.CO	13836	11.8	10.9
Aviva	AV.L	16982	10.0	10.7
DNB	DNB.OL	11582	9.0	9.0
Banco Santander	SAN.MC	75027	12.7	7.8
Credit Agricole	CAGR.PA	12399	9.6	7.3
BNP Paribas	BNPP.PA	62960	11.1	5.8
Standard Life	SL.L	11125	15.1	5.2
Swedbank A	SWEDa.ST	18814	12.2	5.2

Source: Citi Research

Financials form a key part of the “cheap and strong mo” quadrant. Figure 7 shows those European Financials which have: 1) positive earnings momentum (>5% relative over past 6-months), 2) sub-market median P/E and 3) market cap > €10bn. Danske Bank, Aviva and BNP are also on our the Citi European Focus List.

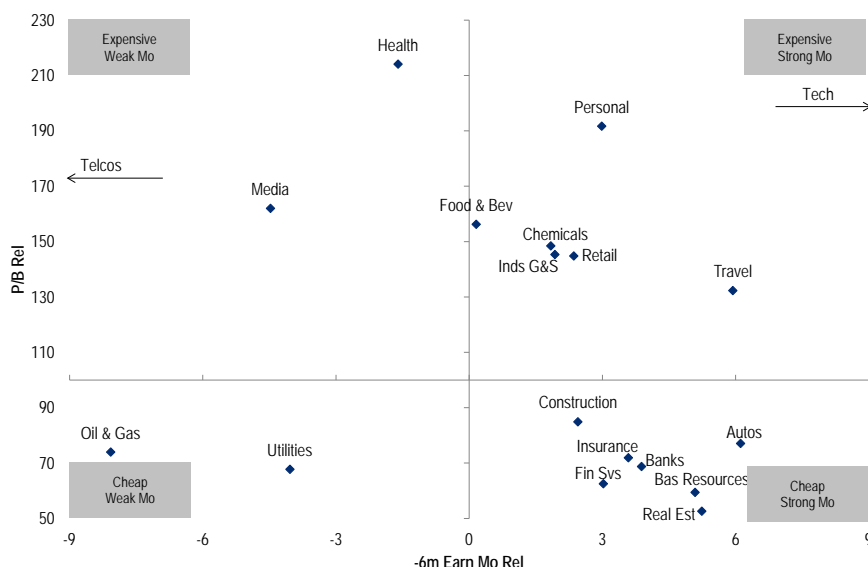
Figure 8. 3 Months Earnings Mo Delta & P/E Rel



Source: Citi Research

Figure 8 shows 3-month earnings momentum delta vs P/E relatives for European sectors. We measure the delta as the difference between the last 3-month earnings momentum and the previous 3-month period. Banks, Insurance, Basic Resources and Autos are joined by Utilities as “cheap with positive earnings delta”. Utilities still has negative earnings momentum trends, but recent trends have become less disappointing. We will return to this in the last section of this report, where we upgrade the sector from Underweight to Neutral.

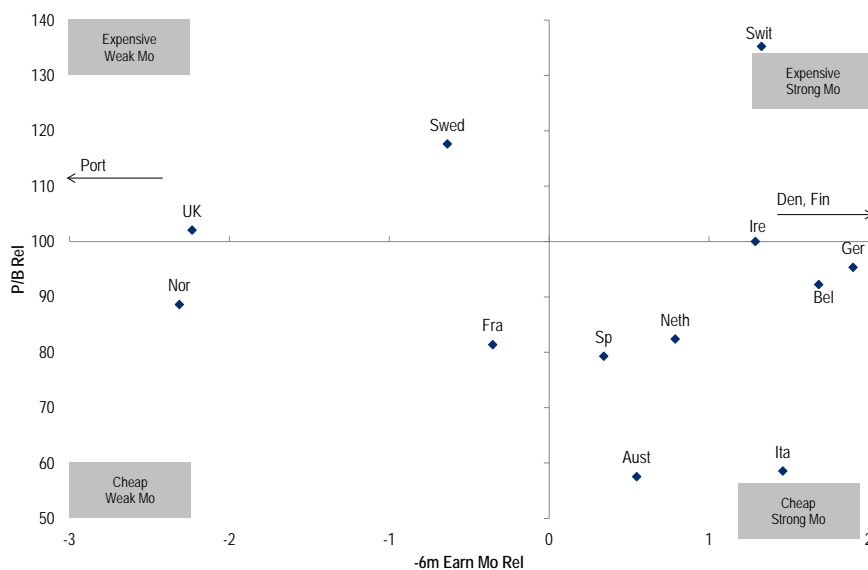
Figure 9. 6 Months Earnings Mo & P/B Rel



Source: Citi Research

Figure 9 compares sectors on a price/book rather than p/e relative basis, again versus 6-month relative earnings trends. Construction, Real Estate and Financial Services join Banks, Insurance, Basic Resources and Autos in the “cheap and strong mo” quadrant. That is a lot of value with positive earnings momentum. This is new. For much of the 2008-12 period, value underperformed in Europe, largely because buying value meant owning multi-year negative earnings momentum.

Figure 10. Country – 6 Months Earnings Mo & P/B Rel



Source: Citi Research

Figure 10 shows the same for European countries. Both Italy and Spain look cheap on a price/book basis and also have positive 6-month relative earnings momentum. Value and momentum investors will continue to look closely at these markets.

Further macro improvements — GDP recovery, falling bond yields, political stability — could help to drive further outperformance for these markets.

Our economists see higher GDP growth in Spain in the next 2-3 years than in Italy, but the bulk of GDP growth upgrades appear to be behind us. Our rate strategists see further spread narrowing between Italian/Spanish and German bond yields, but expect 30-50 bps over the next 12-months compared to 350-450 bps of narrowing that has happened in the last 18 months.

Figure 11. Italian & Spanish Stocks With +ve Earnings Mo & Delta and Cheap Screen

Stock	RIC	Country name	Sector	MktCap € Mn	+ve -6m Rel Earn Mo	+ve 3m Rel Earn Mo Delta	P/E 2014	P/B	Beta
Assicurazioni	GASI.MI	Italy	Insurance	22045	3.9	2.4	10.7	1.5	1.1
Santander	SAN.MC	Spain	Banks	75027	7.8	3.1	11.2	1.0	1.1
Enel	ENEL.MI	Italy	Utilities	23873	0.7	2.5	11.6	1.0	1.2
Enel Green	EGPW.MI	Italy	Utilities	3098	5.0	0.4	20.5	1.4	0.7
Gas Natural	GAS.MC	Spain	Utilities	5921	2.2	2.6	13.4	1.4	0.9
UBI Banca	UBI.MI	Italy	Banks	5510	31.5	0.8	24.2	0.6	1.7
Unicredit	CRDI.MI	Italy	Banks	31913	19.5	3.9	17.7	0.5	1.6

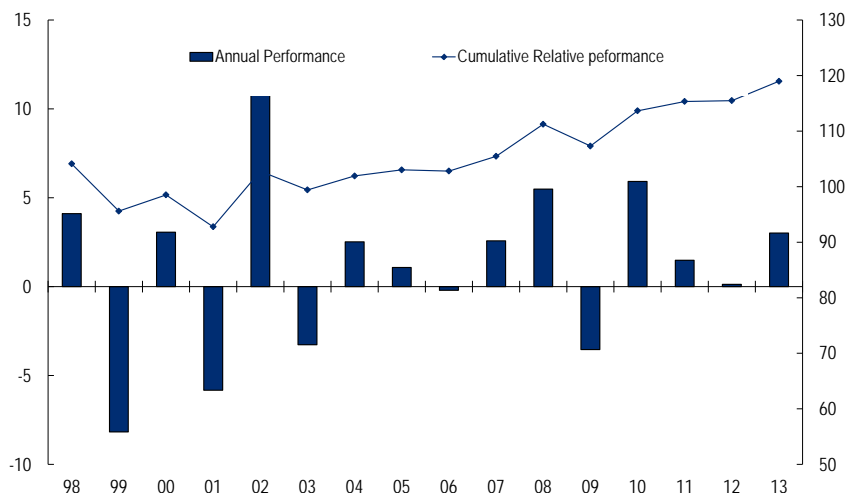
Source: Citi Research

Overall, we see a more stable/supportive macro backdrop in Italy (including recent political developments) and Spain than in recent years but believe that investors should be more bottom-up in their approach. Figure 11 shows those Italian and Spanish stocks which: 1) have positive 6-month earnings momentum, 2) positive 3-month earnings delta, and 3) trade on a price/book below 1.5x.

#2 — Show me the FCF

The second “show me” which we are looking for in 2014 is FCF. While value strategies have struggled over much of the 2008-12 period, Figure 12 shows that [buying higher than average FCF yield sectors and selling below average sectors](#) each year would have worked quite well.

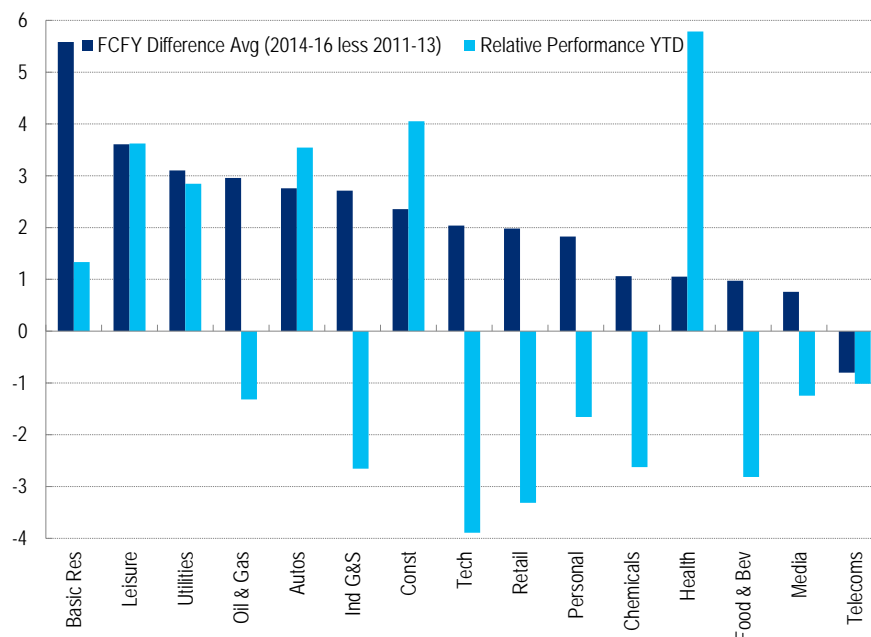
Figure 12. Buying Above Average and Selling Below Average FCF Sectors 1998-2013



Source: Citi Research

This strategy worked well again in 2013 and has now outperformed in six of the last seven years. Now, this approach would be buying Basic Resources, Personal & Household Goods, and Health Care and selling sectors such as Oil & Gas and Chemicals.

Figure 13. Average FCFY Delta & YTD Relative Performance



Source: Citi Research

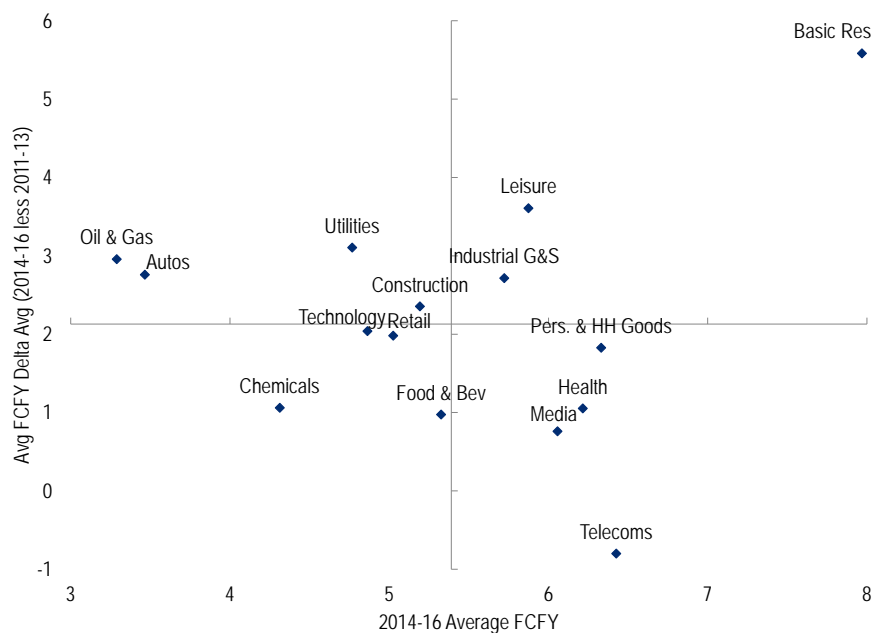
However, there are also some significant FCF dynamics at a sector level in Europe. Figure 13 shows the change in average FCF yields between 2011-13E and 2014-16E. All sectors except Telecoms are expected to see a higher average FCFY in the next three years. Over half of sectors are forecast to see a c2%+ pick-up in FCFYs, which appears broadly supportive for the market. Basic Resources scores best on this FCF delta, followed by Travel & Leisure. Utilities and Oil & Gas also score well.

There also appears to be some correlation between performance YTD and FCF delta. Five of the best six performing sectors so far this year are from the top seven FCF delta sectors. Health Care is the exception and this sector, as we often highlight, has the highest surplus FCF in the market (avg 2013-16E FCFY less DY).

Figure 14 shows average 2014-16E FCFY and FCFY delta for each sector. Here, Basic Resources, Travel & Leisure and Industrials stand out with high FCFYs and high FCF deltas too. We are Overweight Basic Resources and Travel & Leisure.

Oil & Gas has a high FCFY delta, but still is expected to have the lowest average FCFY between 2013-15E. Autos score similarly ie high FCFY delta and low FCFY average. However the sector score is dragged down by a few stocks, else it would appear close to Industrials.

Figure 14. 2014-16 Average FCFY vs. Average FCFY Delta (2014-16 less 2011-13)

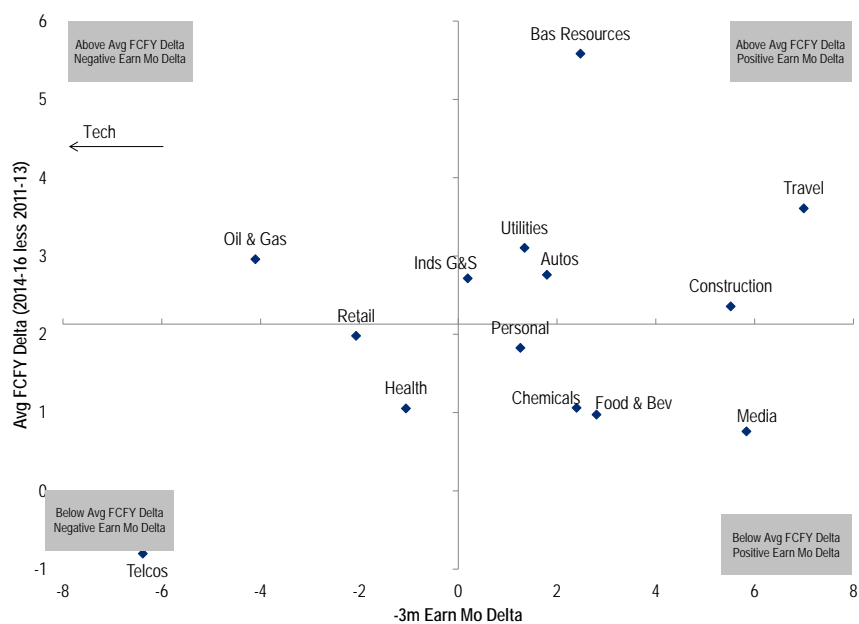


Source: Citi Research

#3 — Show me both

We now combine both approaches to look where investors can get exposure to both earnings and FCF. Figure 15 shows both earnings delta and FCF delta for European sectors.

Figure 15. 3 Months Earnings Mo Delta & 3 Year Average FCFY Delta



Source: Citi Research

Basic Resources, Travel & Leisure, Utilities, Industrials, Autos and Construction have positive earnings momentum delta and above average FCF delta. Excluding Industrials, these sectors have performed well YTD.

Figure 16. Stocks With Positive FCF and Earnings Mo Delta Screen

Stock	RIC	Sector	>5bn MktCap € Mn	2011-13 Avg FCF Yield	>5 2014-16 Avg FCF Yield	>2 3y Avg FCF Delta Delta	+ve 3m Rel Earn Mo Delta
Daimler	DAIGn.DE	Autos	66020	1.71	5.36	3.65	2.41
Michelin	MICP.PA	Autos	16611	3.38	6.27	2.89	0.85
GKN	GKN.L	Autos	8284	2.59	6.00	3.41	1.29
Rio Tinto	RIO.L	Basic Res	52405	1.48	10.23	8.75	9.38
Shire	SHP.L	Health	23193	3.33	5.90	2.57	0.44
Essilor Intl.	ESSI.PA	Health	17051	3.00	5.17	2.17	2.51
Siemens	SIEGn.DE	Industrial G&S	80522	4.78	7.05	2.27	4.11
Volvo B	VOLVb.ST	Industrial G&S	17470	-2.80	8.10	10.90	5.43
A P Moller - Maersk	MAERSKb.CO	Industrial G&S	13339	-0.46	5.10	5.56	4.10
Wolseley	WOS.L	Industrial G&S	10950	3.43	5.70	2.26	3.21
Adecco R	ADEN.VX	Industrial G&S	8182	3.44	6.31	2.87	1.00
Weir Group	WEIR.L	Industrial G&S	6074	5.61	8.64	3.03	4.23
Kuehne+Nagel Intl.	KNIN.VX	Industrial G&S	5749	3.41	10.13	6.72	3.18
Aggreko	AGGK.L	Industrial G&S	5338	1.21	5.95	4.74	7.24
SES Fdr	SESFd.PA	Media	7973	3.60	6.35	2.75	2.15
LVMH	LVMH.PA	Personal	36703	3.70	5.98	2.28	1.28
Imperial Tobacco Gp.	IMT.L	Personal	28573	5.88	8.06	2.18	0.86
Pandora	PNDORA.CO	Personal	5122	3.27	5.54	2.27	5.16
Ericsson B	ERICb.ST	Technology	28349	4.35	7.23	2.88	2.86
Sage Group	SGE.L	Technology	5894	5.01	7.08	2.07	1.42
BT Group	BT.L	Telecoms	41114	3.78	7.97	4.19	0.75
E.On	EONGn.DE	Utilities	28284	0.67	5.76	5.09	4.59
Enel	ENEI.MI	Utilities	23873	0.25	5.31	5.06	2.45
EDP Energias	EDP.LS	Utilities	7347	-1.17	10.12	11.29	6.44
Red Electrica Corp.	REE.MC	Utilities	6038	2.04	6.09	4.05	3.69

Source: Citi Research

Figure 16 shows European stocks which have positive earnings and FCF delta and also have an average 2014-16E FCF yield above 5%, ie above market median. Utilities and Industrials are best represented.

Figure 17. Positive Earnings Mo, Below Median PE and Above Median FCF Yield Screen

Stock	RIC	MktCap € Mn	FCF Yield 2013E	>4.89 FCF Yield 2014E	FCF Yield 2015E	<15.2 12m Fwd P/E	+ve -6m Rel Earn Mo
Easyjet	EZJ.L	4338	5.11	5.76	4.27	15.1	21.8
Berkeley Group	BKGH.L	4494	2.83	5.16	7.73	12.9	21.0
Smith (DS)	SMDS.L	3841	4.93	6.20	7.38	14.0	14.4
Smurfit Kappa Group	SKG.I	4567	5.50	6.45	7.17	11.7	12.8
BT Group	BT.L	41114	5.37	7.00	8.07	14.7	12.4
Continental	CONG.DE	18654	3.18	5.56	6.09	13.9	10.7
Thales	TCFP.PA	4637	4.92	5.94	6.32	13.3	8.9
BSKyB	BSY.L	11094	6.23	6.00	7.17	15.1	8.8
Mondi	MNDI.L	4689	8.22	9.44	9.45	12.5	7.1
Elisa	ELI1V.HE	2882	5.40	6.68	7.09	15.0	7.0
GKN	GKN.L	8284	4.22	5.37	6.31	13.3	6.9
SSE	SSE.L	16695	4.62	5.65	6.19	11.9	6.6
Ahold Kon.	AHLN.AS	12036	5.40	6.97	7.39	13.4	5.5
Rio Tinto	RIO.L	52405	1.87	7.05	11.64	9.6	5.4
AMEC	AMEC.L	4136	7.15	9.09	9.97	11.8	5.2
Marks & Spencer Group	MKS.L	9938	3.04	5.96	7.30	14.6	5.1
Merck KGAA	MRCG.DE	8123	7.16	7.66	7.83	13.6	4.5
Philips Electronics	PHG.AS	23939	-1.06	6.02	6.99	14.6	4.0
Smiths Group	SMIN.L	6601	5.56	6.37	6.79	14.0	3.4
Siemens	SIEGn.DE	80522	5.40	6.53	7.06	13.7	3.2
Trelleborg B	TRELb.ST	3448	9.22	13.42	15.58	14.8	3.1
Voestalpine	VOES.VI	3461	8.62	8.62	9.92	10.6	2.8
Rexam	REX.L	4844	4.15	6.28	6.93	12.6	2.5
Gas Natural Sdg	GAS.MC	5921	12.31	9.04	8.92	13.6	2.2
Red Electrica Corp.	REE.MC	6038	5.06	6.05	6.12	14.4	2.1
Informa	INF.L	3822	6.37	6.60	7.00	12.4	1.7
Cobham	COB.L	3830	4.60	5.83	6.03	14.0	1.6
Imperial Tobacco Gp.	IMT.L	28573	6.54	7.06	8.06	11.2	1.1
Imi	IMI.L	5069	5.16	6.13	6.85	14.8	1.0
Wolters Kluwer	WLSNc.AS	6235	6.26	7.13	7.62	12.8	0.8
BAT	BATS.L	73019	7.13	7.35	8.37	14.1	0.7
William Hill	WMH.L	3966	5.26	7.02	6.89	12.7	0.4
Weir Group	WEIR.L	6074	7.64	8.33	8.80	15.2	0.3
BHP Billiton	BLT.L	50044	2.84	7.19	8.35	12.0	0.1

Source: Citi Research

Figure 17 moves away from deltas and focuses on those stocks which offer investors above a median FCF yield, 2014-16E, below median P/E and positive earnings momentum. This is a sensible place for value investors to find ideas.

Utilities — upgrading to Neutral

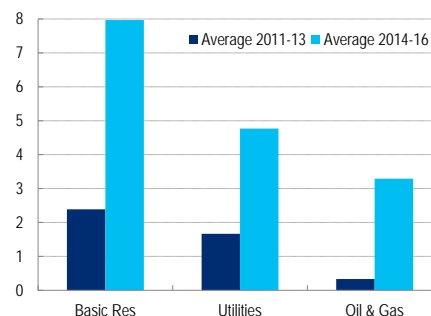
So far, we have looked for earnings and FCF leadership across the market. Sectors such as Basic Resources, Travel & Leisure and Utilities score well on both counts. Here, we dig a little deeper into Utilities and also look at Basic Resources and Oil & Gas.

Figure 18. Rel Rtn since U/weight in July 08



Source: Citi Research. Note: shaded area = Neutral.

Figure 19. Average FCF Yield



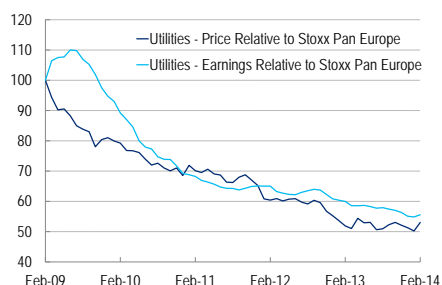
Source: Citi Research

We moved Underweight Utilities in July 2008 and except for a few weeks in July-August 2012 we have stayed Underweight since. That is a long time. We now see reason to re-assess our position, notably the [expected improvement in FCF and a move to having dividends covered by FCF](#), which our analysts Sofia Savvantidou and Antonella Bianchessi believe will happen in 2016E.

Figure 19 shows the 2011-13E and 2014-16E average FCFY for Basic Resources, Utilities and Oil & Gas. All are expected to have positive FCF delta with the biggest jump forecast by our Basic Resources analysts. Utilities and Oil have similar deltas, but the former is coming from a higher base.

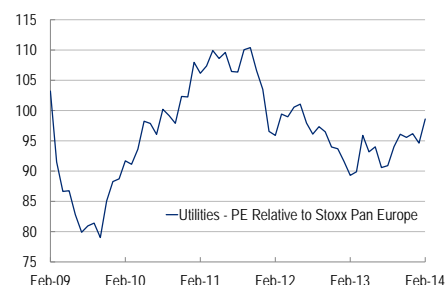
In Utilities, our team see a combination of demand decline and large overcapacity as driving forces behind the sharp reduction in sector capex over the past couple of years. They have revised downwards capex estimates by an average of c14% for 2013-15E during this time. It is these cuts which are supporting the increase in FCFYs.

Figure 20. Price & Earnings Relative



Source: Citi Research & DataStream

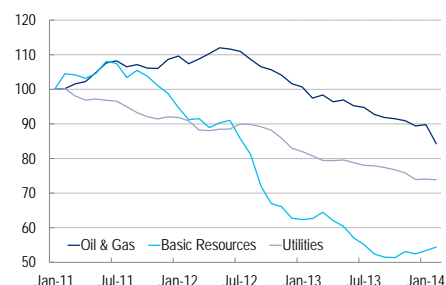
Figure 21. P/E Relative



Source: Citi Research & DataStream

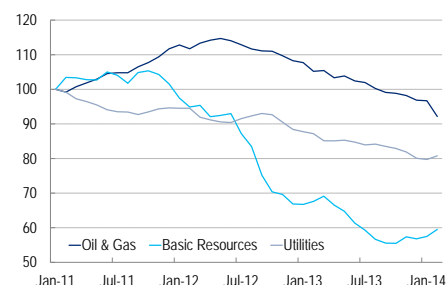
Figure 20 helps to explain why Utilities has been such a poor performer. Relative earnings trends have been declining for 5 years. Relative underperformance has not been accompanied by a relative P/E de-rating so the sector does not look especially cheap relative to the rest of the market.

Figure 22. Earnings Downgrades – Absolute



Source: Citi Research & DataStream

Figure 23. Earnings Downgrades – Relative



Source: Citi Research & DataStream

Figure 22 shows that there may be some hope emerging on earnings to go alongside improving FCF. The sector is still seeing modest negative absolute earnings revisions, but at a reducing pace. Relative earnings trends have actually started to stabilize, although it is early days yet.

By comparison, earnings fell further for Basic Resources in the last few years, but have also started to turn more clearly. It does appear that the earnings down cycle is over. Oil & Gas earnings have not fallen as aggressively as the other two sectors since the start of 2011 but have fallen more in line with Basic Resources since mid-2012. Recent downgrades suggest that it is still too early to call the turn in their earnings cycle, but our sector team expect earnings to stabilize as we go through 2014.

Within Utilities...top picks

We upgrade the Utilities sector from long-held Underweight to Neutral in this report. We have not raised to Overweight because the sector's balance sheet remains weak and it seems unlikely that the sector will offer much of a growth story in the next couple of years. But, Utilities does appear to be on a more encouraging path in terms of FCF, dividends and potentially earnings (ie the worst is behind us). Overall, we would suggest a selective approach to the sector.

Sofia Savvantidou, Antonella Bianchessi and team highlight ENEL, Iberdrola, Red Electrica and Suez Environment as top picks in Utilities. They remain cautious on E.On and RWE.

ENEL (BUY, TP €3.8) — ENEL restructuring process is progressing with cost cutting and capex reduction exceeding expectations and disposals allowing a reduction of the group consolidated debt. The group free cash flow yield should exceed 14% on average over the next 3 years allowing for a solid and growing dividend yield while organically reduce the group gearing. The heavy discount to peers (20% discount on 2015E P/E) is in our view unwarranted given the improving clarity on Spanish regulation, supportive Italian power prices and natural de-gearing.

IBE (BUY, TP €5.0) — We believe Iberdrola's asset mix allows it to benefit from the global energy sector's evolution with limited volume exposure and efficient clean production. With clarity improving in Spain, favorable financial market conditions and the group endless optimization process (costs cutting, capex revision) we believe IBE is one of the few names in our sector that can deliver organic growth (+8.7% p.a. EPS 2014-2017). Cash flow generation is positive and growing and allows the coverage of an average 6% dividend yield, one of the most attractive in our industry.

REE (BUY TP €58) — We believe 2014 will be a milestone year for REE. Regulatory clarity (expected by H1), should trigger a plan aimed at optimize the group returns that should include: (1) optimization of opex, capex and of the cost of debt, (2) a more generous dividend policy and (3) re-gearing. REE is a play on declining Spanish rates and inflation.

SEV (BUY, TP €15) — We view Suez Environnement as unique within its peer group of being able to drive top-line growth through investment, over and above the market growth rate. The management's track record, the attractiveness of the water and waste markets and the group's low cost of financing give us confidence that these investments should be value creative and should boost the group cash flow and EPS. With a free cash flow generation of €1 bn p.a (13% average free cash flow yield over the next 3 years) the group can comfortably fund growth and attractive dividend policy.

EON (SELL, TP €11.5), RWE (SELL, TP €24.8) — Our Sell rating on EON and RWE is based on our cautious outlook on Central European power prices through at least the middle of the decade and the negative implications for earnings and dividends, which in our view are yet to be reflected in consensus estimates. Despite material capex reduction, organic cash flow generation remains poor. This combined with limited growth prospects and aging assets, provide limited support for long term growth and dividends

Strategy outlook

2014 is a "Show Me The Money" year. Stocks need to deliver earnings and/or FCF to drive performance. Banks, Insurance, Resources, Autos, Construction, Spain & Italy have positive earnings momentum and look cheap (on p/b). Resources, Travel/Leisure & Industrials best on high 2014-16E FCF yields/high FCF delta. We upgrade Utilities to Neutral after 5-6 years as Underweight = positive earnings and FCF improvement story. Analysts prefer ENEL, Red Electrica, Suez Env., Iberdrola.

Valuation Tables

Figure 24. Pan-European Sector Weightings & Returns

As at Close 25 Feb 14 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)	545,887	7.9	-1	-3	-8	-2	3	2	11	1
Chemicals (25)	344,192	5.0	0	-1	-5	-3	4	3	15	1
Basic Resources (22)	237,643	3.4	2	2	-17	2	7	7	0	5
Construction & Materials (21)	166,179	2.4	3	5	7	4	7	10	29	7
Industrial G&S (105)	751,450	10.8	-2	-1	-1	-3	2	3	20	1
Automobiles & Parts (14)	218,324	3.1	2	3	20	3	6	8	45	7
Food & Beverage (29)	541,967	7.8	-4	-6	-14	-3	1	-1	4	0
Personal & H'hold Goods (30)	391,710	5.6	1	-3	-4	-1	5	1	15	2
Health Care (33)	812,476	11.7	3	4	4	5	8	9	25	8
Retail (28)	224,782	3.2	-1	-5	-1	-3	3	0	19	1
Media (28)	183,042	2.6	1	1	14	-1	5	5	37	3
Travel & Leisure (20)	106,124	1.5	1	8	9	3	6	13	32	7
Telecommunications (24)	312,997	4.5	-1	1	19	0	3	5	44	3
Utilities (26)	286,171	4.1	2	2	4	4	7	6	26	7
Banks (47)	939,338	13.5	-1	2	-1	2	3	7	20	5
Insurance (37)	450,029	6.5	1	1	12	-1	5	6	35	2
Real Estate (25)	93,812	1.4	2	3	0	5	7	8	21	8
Financial Services (32)	111,786	1.6	0	1	5	-3	4	6	27	0
Technology (22)	219,522	3.2	0	-4	-3	-4	5	1	18	-1
Stoxx - Pan Europe (600)	6,937,430	100.0	—	—	—	—	4	5	21	3
Pan Euro - Large Cap	5,569,763	80.3	0	-1	-1	-1	4	4	19	3
Pan Euro - Mid Cap	933,587	13.5	1	3	5	2	5	8	27	5
Pan Euro - Small Cap	434,080	6.3	2	5	5	2	6	10	27	6
Stoxx ex UK (416)	4,717,849	68.0	—	—	—	—	5	5	21	4
EuroStoxx - Eurozone (292)	3,203,608	46.2	—	—	—	—	5	4	24	3

Source: Citi Research & DataStream

Figure 25. Pan-European Sector Relative Ratings

As at Close 25 Feb 14 Sector	P/E Relative to Stoxx				Yield Relative to Stoxx			
	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E
Oil & Gas	59	76	79	86	139	138	133	123
Chemicals	103	105	112	109	81	80	81	79
Basic Resources	87	92	89	89	108	99	97	94
Construction & Materials	114	121	115	109	85	90	90	88
Industrial Goods & Service	114	112	109	107	81	83	84	83
Automobiles & Parts	65	80	74	69	81	82	88	90
Food & Beverage	119	118	129	132	86	90	91	87
Personal & H'hold Goods	117	114	117	117	79	85	87	85
Health Care	102	110	117	117	90	91	89	85
Retail	110	113	115	119	93	91	91	88
Media	106	117	123	123	119	100	99	94
Travel & Leisure	154	134	116	109	66	60	64	70
Telecommunications	87	88	118	131	130	142	130	125
Utilities	74	78	97	105	182	162	143	132
Banks	132	104	81	75	97	102	112	132
Insurance	81	71	74	77	114	116	116	121
Real Estate	142	134	143	150	115	117	115	108
Financial Services	125	86	103	102	105	99	102	100
Technology	328	177	142	132	60	47	48	46
Stoxx - Pan Europe	100	100	100	100	100	100	100	100
Pan Euro - Large Cap	93	96	97	98	103	104	103	104
Pan Euro - Mid Cap	130	120	114	110	88	83	87	85
Pan Euro - Small Cap	191	133	120	111	90	84	83	84
Stoxx ex UK	109	104	102	100	98	98	97	98
EuroStoxx - Eurozone	107	103	98	97	100	99	97	98

Source: Citi Research & DataStream

Figure 26. Pan-European Sector Growth

As at Close 25 Feb 14 Sector	Earnings Growth %			Net Dividend Growth %		
	2013E	2014E	2015E	2013E	2014E	2015E
Oil & Gas	-20.4	6.2	2.3	1.7	2.4	3.2
Chemicals	-0.7	4.6	14.7	1.5	7.7	9.3
Basic Resources	-4.7	14.5	12.1	-6.2	4.0	8.9
Construction & Materials	-4.7	16.8	18.0	9.0	5.8	8.8
Industrial Goods & Services	2.8	14.5	13.5	5.4	7.4	10.7
Automobiles & Parts	-18.4	20.8	19.8	4.3	13.7	14.0
Food & Beverage	2.4	2.0	8.8	7.3	8.3	6.7
Personal & H'hold Goods	3.5	8.6	11.2	10.3	8.6	9.2
Health Care	-6.2	4.7	12.1	3.3	4.0	5.9
Retail	-1.6	9.4	7.8	-0.1	6.0	7.8
Media	-8.0	5.9	11.5	-13.9	5.3	5.7
Travel & Leisure	15.9	29.1	18.7	-5.9	13.5	20.9
Telecommunications	-0.6	-16.6	0.5	12.1	-2.4	7.1
Utilities	-3.5	-10.7	3.0	-8.7	-6.0	2.6
Banks	28.7	43.1	19.2	8.1	16.5	30.8
Insurance	15.3	7.8	7.0	4.6	6.2	15.8
Real Estate	7.2	4.8	6.2	4.4	4.2	4.6
Financial Services	47.6	-7.7	12.9	-3.4	9.5	9.1
Technology	87.3	38.8	20.1	-19.6	8.6	8.0
Stoxx - Pan Europe	1.2	11.3	11.6	2.7	6.2	11.4
Pan Euro - Large Cap	-1.5	9.8	10.4	3.9	5.5	11.8
Pan Euro - Mid Cap	9.6	17.5	15.7	-2.8	11.6	8.9
Pan Euro - Small Cap	45.6	23.0	20.6	-4.8	6.0	11.7
Stoxx ex UK	5.3	14.2	13.5	2.6	5.7	12.2
EuroStoxx - Eurozone	4.6	16.9	13.2	1.6	4.7	12.4

Source: Citi Research & DataStream

Figure 27. Pan-European Sector Ratings

As at Close 25 Feb 14 Sector	Price/Earnings				Net Dividend Yield			
	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E
Oil & Gas	9.7	12.2	11.5	11.2	4.33	4.41	4.51	4.66
Chemicals	16.9	17.0	16.2	14.2	2.51	2.55	2.75	3.00
Basic Resources	14.2	14.9	13.0	11.6	3.36	3.15	3.27	3.56
Construction & Materials	18.7	19.6	16.8	14.2	2.63	2.87	3.04	3.31
Industrial Goods & Services	18.7	18.2	15.9	14.0	2.51	2.64	2.84	3.14
Automobiles & Parts	10.6	13.0	10.8	9.0	2.51	2.62	2.98	3.40
Food & Beverage	19.6	19.1	18.7	17.2	2.66	2.86	3.09	3.30
Personal & H'hold Goods	19.1	18.5	17.0	15.3	2.45	2.71	2.94	3.21
Health Care	16.8	17.9	17.1	15.2	2.81	2.90	3.02	3.20
Retail	18.1	18.4	16.8	15.6	2.90	2.89	3.07	3.31
Media	17.4	18.9	17.9	16.0	3.69	3.18	3.35	3.54
Travel & Leisure	25.2	21.7	16.8	14.2	2.04	1.92	2.18	2.63
Telecommunications	14.2	14.3	17.2	17.1	4.04	4.53	4.42	4.73
Utilities	12.2	12.6	14.1	13.7	5.66	5.17	4.86	4.98
Banks	21.6	16.8	11.7	9.8	3.02	3.27	3.80	4.98
Insurance	13.3	11.5	10.7	10.0	3.54	3.71	3.94	4.56
Real Estate	23.3	21.7	20.7	19.5	3.58	3.74	3.90	4.08
Financial Services	20.5	13.9	15.1	13.3	3.26	3.15	3.45	3.77
Technology	53.8	28.7	20.7	17.2	1.85	1.49	1.62	1.75
Stoxx - Pan Europe	16.4	16.2	14.5	13.0	3.11	3.19	3.39	3.78
Pan Euro - Large Cap	15.2	15.5	14.1	12.8	3.19	3.32	3.50	3.91
Pan Euro - Mid Cap	21.3	19.4	16.5	14.3	2.72	2.65	2.96	3.22
Pan Euro - Small Cap	31.2	21.5	17.5	14.5	2.80	2.67	2.83	3.16
Stoxx ex UK	17.8	16.9	14.8	13.0	3.03	3.11	3.29	3.69
EuroStoxx - Eurozone	17.5	16.7	14.3	12.6	3.10	3.15	3.30	3.71

Source: Citi Research & DataStream

Figure 28. 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	26,580	0.4	-3	-5	-7	1	1	0	14	4
Belgium	104,134	1.5	1	0	-1	-1	6	5	21	2
Denmark	160,003	2.3	9	18	7	15	14	25	31	18
Finland	101,984	1.5	2	-3	14	-1	6	2	39	2
France	1,051,425	15.2	1	-1	2	-1	6	4	25	3
Germany	933,097	13.5	-1	-1	4	-2	3	4	27	1
Greece	8,747	0.1	-4	-6	3	-2	0	-1	26	1
Ireland	53,691	0.8	8	13	22	15	12	18	48	19
Italy	261,363	3.8	1	3	9	4	5	8	33	7
Netherlands	274,785	4.0	-3	-4	3	-3	1	1	25	0
Norway	89,359	1.3	-4	-5	-17	-4	0	0	1	-1
Portugal	22,725	0.3	1	-1	-9	3	5	4	11	6
Spain	341,670	4.9	-1	1	9	0	3	6	33	3
Sweden	331,337	4.8	-1	0	-7	-1	3	5	14	2
Switzerland	927,772	13.4	0	0	-4	1	4	5	17	5
UK	2,219,580	32.1	-1	0	-3	-1	3	5	18	2
Stoxx - Pan Europe	6,908,253	100								

Source: Citi Research & DataStream. *Note: Country returns use MSCI indices.

Figure 29. Pan-European Country Relative Ratings

Country	Price/Earnings				Net Dividend Yield			
	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E
Austria	98	131	87	86	81	88	95	95
Belgium	124	123	115	115	100	96	113	107
Denmark	164	144	131	124	45	54	60	60
Finland	177	130	122	126	126	101	96	89
France	110	103	97	96	99	103	103	101
Germany	85	93	92	91	93	83	85	86
Greece	61	113	134	121	75	20	84	136
Ireland	140	150	132	123	48	48	49	46
Italy	113	112	99	93	95	95	97	99
Netherlands	108	103	96	96	75	72	78	88
Norway	74	79	82	83	148	146	141	138
Portugal	1756	635	151	105	140	112	109	107
Spain	134	101	106	109	140	164	137	137
Sweden	105	104	110	108	108	113	114	114
Switzerland	116	107	110	107	90	90	92	93
UK	86	92	97	100	105	105	106	105
EuroStoxx - Eurozone	107	103	98	97	100	99	97	98
Stoxx ex UK - Europe ex UK	109	104	102	100	98	98	97	98
Stoxx - Pan Europe	100	100	100	100	100	100	100	100

Source: Citi Research & DataStream

Figure 30. Pan-European Country Growth

As at Close 25 Feb 14 Country	Earnings Growth %			Dividend Growth %		
	2013E	2014E	2015E	2013E	2014E	2015E
Austria	-24.1	67.4	13.4	11.7	14.6	11.9
Belgium	2.1	18.9	11.2	-1.9	25.1	5.6
Denmark	14.8	22.4	17.7	22.8	19.1	11.7
Finland	37.9	18.6	7.3	-17.6	0.9	3.2
France	8.4	17.5	13.4	7.0	5.2	10.1
Germany	-7.0	12.7	12.4	-8.4	8.6	13.3
Greece	-45.5	-6.2	23.4	-73.0	353.1	80.0
Ireland	-5.7	27.2	19.8	2.6	9.1	5.0
Italy	2.0	25.2	19.2	2.5	8.2	14.3
Netherlands	6.3	18.9	12.3	-1.9	15.2	25.8
Norway	-5.3	6.9	10.2	1.2	2.8	9.2
Portugal	179.9	368.6	60.5	-18.0	3.9	9.1
Spain	34.2	5.5	9.0	20.3	-11.3	11.4
Sweden	2.2	4.5	14.4	8.0	7.4	10.6
Switzerland	9.6	8.1	14.6	3.0	7.8	12.7
UK	-5.6	5.9	7.7	2.8	7.2	9.9
EuroStoxx - Eurozone	4.6	16.9	13.2	1.6	4.7	12.4
Stoxx ex UK - Europe ex UK	5.3	14.2	13.5	2.6	5.7	12.2
Stoxx - Pan Europe	1.2	11.3	11.6	2.7	6.2	11.4

Source: Citi Research & DataStream. *Note: Country returns use MSCI index

Figure 31. Pan-European Country Ratings

As at Close 25 Feb 14 Country	Price/Earnings				Net Dividend Yield			
	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E
Austria	16.1	21.2	12.7	11.2	2.51	2.80	3.21	3.60
Belgium	20.3	19.9	16.7	15.1	3.12	3.06	3.83	4.05
Denmark	26.8	23.3	19.1	16.2	1.40	1.71	2.04	2.28
Finland	28.9	21.0	17.7	16.5	3.91	3.22	3.25	3.35
France	18.0	16.6	14.2	12.5	3.09	3.30	3.47	3.82
Germany	14.0	15.0	13.3	11.9	2.88	2.64	2.87	3.25
Greece	9.9	18.2	19.4	15.8	2.34	0.63	2.86	5.14
Ireland	23.0	24.3	19.1	16.0	1.48	1.52	1.65	1.74
Italy	18.5	18.1	14.5	12.1	2.96	3.03	3.28	3.75
Netherlands	17.7	16.7	14.0	12.5	2.34	2.30	2.65	3.33
Norway	12.1	12.8	12.0	10.9	4.60	4.65	4.78	5.23
Portugal	287.6	102.7	21.9	13.7	4.35	3.57	3.70	4.04
Spain	21.9	16.3	15.5	14.2	4.34	5.23	4.63	5.16
Sweden	17.1	16.8	16.0	14.0	3.34	3.61	3.88	4.29
Switzerland	19.0	17.3	16.0	14.0	2.80	2.88	3.10	3.50
UK	14.1	14.9	14.1	13.1	3.26	3.35	3.59	3.95
EuroStoxx - Eurozone	17.5	16.7	14.3	12.6	3.10	3.15	3.30	3.71
Stoxx ex UK - Europe ex UK	17.8	16.9	14.8	13.0	3.03	3.11	3.29	3.69
Stoxx - Pan Europe	16.4	16.2	14.5	13.0	3.11	3.19	3.39	3.78

Source: Citi Research & DataStream

Figure 32. UK Sector Weightings & Relative Returns

As at Close 26 Feb 2014	Mkt	% of	% of	Relative return				
	Cap £m	AllShare	Group	1m	3m	12m	Qtd	Ytd
OIL & GAS (26)	303,510	14.5		-1	-1	-6	-1	-1
Oil & Gas Producers (18)	291,365	14.0	96	-2	-1	-5	-1	-1
Oil Equip, Serv and Distrib (7)	12,035	0.6	4	9	-1	-10	6	6
BASIC MATERIALS (35)	171,170	8.2		4	4	-19	2	2
Chemicals (8)	15,910	0.8	9	-1	5	4	-1	-1
Forestry & Paper (1)	3,827	0.2	2	8	1	12	-2	-2
Industrial Metals (4)	703	0.0	0	-17	-20	-68	-27	-27
Mining (22)	150,730	7.2	88	4	4	-21	3	3
INDUSTRIALS (111)	213,836	10.2		-1	-1	5	-2	-2
Construction & Materials (12)	19,603	0.9	9	5	9	13	11	11
Aerospace (9)	43,198	2.1	20	-12	-14	-4	-15	-15
General Industrials (6)	14,963	0.7	7	-3	0	5	-6	-6
Electronic & Electrical Equip (13)	11,138	0.5	5	0	3	4	-2	-2
Industrial Engineering (12)	20,792	1.0	10	4	4	8	3	3
Industrial Transportation (8)	6,977	0.3	3	3	2	32	4	4
Support Services (51)	97,166	4.7	45	1	2	7	0	0
CONSUMER GOODS (39)	279,989	13.4		0	-3	-7	-1	-1
Automobiles & Parts (1)	6,715	0.3	2	3	6	41	9	9
Beverages (6)	80,264	3.8	29	-4	-9	-15	-7	-7
Food Producers (11)	46,476	2.2	17	-2	2	-5	1	1
Household Gds & Home Cons (13)	53,239	2.6	19	6	4	14	6	6
Leisure Goods (2)	485	0.0	0	-4	-16	23	-8	-8
Personal Goods (4)	9,001	0.4	3	1	1	3	0	0
Tobacco (2)	83,808	4.0	30	2	-4	-13	-1	-1
HEALTH CARE (14)	168,200	8.1		4	9	17	9	9
Health Care Equip & Services (6)	10,404	0.5	6	5	14	21	8	8
Pharmaceuticals & Biotech (8)	157,796	7.6	94	4	9	16	9	9
CONSUMER SERVICES (86)	230,812	11.1		0	0	11	1	1
Food & Drug Retailers (7)	42,568	2.0	18	-2	-8	-10	-3	-3
General Retailers (23)	44,698	2.1	19	2	2	30	8	8
Media (23)	66,192	3.2	29	-1	-4	10	-4	-4
Travel & Leisure (33)	77,354	3.7	34	2	6	18	3	3
TELECOMMUNICATIONS (8)	105,460	5.1		0	1	33	-1	-1
Fixed-Line Telecoms (6)	37,370	1.8	35	4	7	36	6	6
Mobile Telecoms (2)	68,090	3.3	65	-2	-1	33	-2	-2
UTILITIES (7)	76,672	3.7		2	3	-2	1	1
Electricity (2)	16,854	0.8	22	4	5	-4	3	3
Gas, Water & Multi-Utilities (5)	59,819	2.9	78	2	2	-2	1	1
TECHNOLOGY (21)	30,292	1.5		0	2	-3	-3	-3
Software & Computer Serv (12)	11,783	0.6	39	-1	7	3	2	2
Technology Hardware & Equip (9)	18,509	0.9	61	0	-1	-7	-6	-6
TOTAL NON-FINANCIAL (347)	1,579,941	75.7		1	1	1	0	0
FINANCIALS (269)	506,292	24.3		-2	-3	-3	-1	-1
Banks (6)	231,377	11.1	46	-5	-8	-16	-5	-5
Non-Life Insurance (11)	20,533	1.0	4	-1	0	-1	0	0
Life Insurance (11)	92,811	4.4	18	3	5	22	2	2
Real Estate Investment Svs (23)	12,254	0.6	2	4	9	30	8	8
REITS (17)	34,853	1.7	7	2	8	14	8	8
Financial Services (27)	44,971	2.2	9	3	3	12	0	0
FTSE ALL SHARE (616)	2,086,233	100.0		0	0	0	0	0
FTSE 100 (100)	1,705,438	81.7		0	-1	-2	0	0
Mid 250 (250)	319,338	15.3		2	4	9	2	2
Small Cap (266)	61,456	2.9		-1	2	11	2	2

Source: Citi Research & DataStream

Figure 33. UK Relative Ratings

As at Close 26 Feb 2014	P/E Relative				Yield Relative			
	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E
OIL & GAS	69	84	85	91	121	122	114	105
Oil & Gas Producers	68	84	84	91	122	124	115	106
Oil Equip. Serv. and Distrib	104	88	85	80	81	80	86	90
BASIC MATERIALS	85	90	90	87	98	94	92	89
Chemicals	141	132	127	123	54	56	64	65
Forestry & Paper	130	91	85	91	69	73	93	86
Industrial Metals	-34	-171	850	88	53	25	22	53
Mining	80	87	87	85	104	99	95	92
INDUSTRIALS	122	115	111	108	77	76	75	74
Construction & Materials	142	166	139	119	96	94	89	85
Aerospace	94	85	88	89	93	93	91	88
General Industrials	109	102	97	96	84	86	87	84
Electronic & Electrical Equip	141	136	130	126	55	56	57	57
Industrial Engineering	133	121	114	114	64	64	65	63
Industrial Transportation	114	110	111	104	30	59	86	95
Support Services	133	126	121	116	73	69	66	66
CONSUMER GOODS	126	115	117	115	90	95	94	93
Automobiles & Parts	110	100	90	87	55	59	65	68
Beverages	138	130	133	132	73	73	73	72
Food Producers	141	128	133	132	85	91	88	87
Household Gds & Home Cons	148	125	117	112	61	81	82	83
Personal Goods	168	145	135	132	54	57	62	64
Tobacco	101	94	100	100	136	135	132	128
HEALTH CARE	97	105	113	113	113	111	108	103
Health Care Equip & Services	141	136	136	135	52	49	49	48
Pharmaceuticals & Biotech	96	104	111	111	117	115	112	106
CONSUMER SERVICES	121	111	109	107	82	81	83	81
Food & Drug Retailers	80	82	90	98	129	124	117	106
General Retailers	135	121	114	111	67	67	69	69
Media	119	111	111	107	79	87	86	86
Travel & Leisure	161	130	117	109	67	61	68	69
TELECOMMUNICATIONS	115	110	147	161	118	112	114	117
Fixed-Line Telecoms	122	114	106	103	76	79	85	103
Mobile Telecoms	112	108	187	232	141	130	130	125
UTILITIES	102	101	101	103	155	149	147	141
Electricity	89	92	91	90	168	156	156	152
Gas, Water & Multi-Utilities	106	103	104	107	151	147	145	138
TECHNOLOGY	215	189	173	159	36	38	43	46
Software & Computer Serv	145	134	125	121	62	64	68	69
Technology Hardware & Equip	306	254	227	199	19	22	27	32
TOTAL NON-FINANCIAL	100	103	105	106	100	100	98	95
FINANCIALS	100	91	86	84	99	100	108	119
Banks	89	81	74	72	94	102	114	135
Non-Life Insurance	82	79	79	80	154	143	144	139
Life Insurance	99	98	94	93	100	97	99	103
Real Estate Investment Svs	251	208	199	194	54	55	57	57
REITS	200	189	184	184	96	94	93	89
Financial Services	137	92	96	92	103	93	98	99
FTSE ALL SHARE	100	100	100	100	100	100	100	100
FTSE 100	96	97	98	98	105	105	104	105
Mid 250	125	117	116	111	75	74	76	76
Small Cap	154	145	114	104	70	65	67	66

Source: Citi Research & DataStream

Figure 34. UK Earnings Growth

As at Close 26 Feb 2014	Earnings Growth %			Net Dividend Growth %		
	2013	2014E	2015E	2013	2014E	2015E
OIL & GAS	-19.6	3.2	0.1	7.9	-1.6	1.2
Oil & Gas Producers	-20.5	3.0	-0.4	8.0	-2.0	0.8
Oil Equip, Serv and Distrib	14.7	8.0	13.8	5.1	14.2	14.3
BASIC MATERIALS	-8.3	4.2	10.9	2.1	3.1	6.4
Chemicals	4.2	7.9	10.9	10.2	20.0	11.2
Forestry & Paper	39.4	10.8	1.0	13.0	35.2	1.0
Industrial Metals	-80.6	-120.9	944.6	-49.3	-6.1	159.1
Mining	-10.6	3.5	10.7	1.6	1.5	6.0
INDUSTRIALS	3.3	6.9	11.0	5.5	3.8	7.9
Construction & Materials	-16.8	24.3	26.2	4.5	0.7	4.1
Aerospace	8.4	0.2	5.7	6.8	3.4	5.3
General Industrials	3.7	9.8	8.6	9.2	7.1	6.3
Electronic & Electrical Equip	0.9	8.2	11.1	8.2	7.5	8.3
Industrial Engineering	7.4	10.4	8.0	6.5	7.0	6.8
Industrial Transportation	0.9	2.3	15.5	106.6	53.9	20.9
Support Services	3.4	7.7	12.5	1.3	0.5	10.0
CONSUMER GOODS	6.6	2.0	9.3	12.2	4.4	8.4
Automobiles & Parts	7.8	15.1	12.0	15.0	15.0	15.0
Beverages	3.3	1.3	8.8	6.8	5.6	8.7
Food Producers	7.4	-0.4	9.1	13.8	2.3	7.8
Household Gds & Home Cons	15.2	11.1	12.1	42.9	6.6	11.6
Personal Goods	12.6	11.5	10.0	13.8	14.1	13.1
Tobacco	4.6	-2.5	7.8	5.8	3.0	6.6
HEALTH CARE	-10.1	-2.7	7.6	4.9	2.2	4.4
Health Care Equip & Services	0.9	3.8	8.4	2.0	4.7	7.6
Pharmaceuticals & Biotech	-10.6	-3.0	7.5	4.9	2.2	4.3
CONSUMER SERVICES	6.3	6.2	9.6	5.7	7.1	7.4
Food & Drug Retailers	-5.9	-5.2	-1.3	2.0	-0.4	-0.7
General Retailers	9.2	9.7	10.4	7.0	8.3	10.2
Media	4.3	4.5	11.1	16.5	5.0	9.7
Travel & Leisure	20.2	15.4	15.7	-2.1	17.2	11.0
TELECOMMUNICATIONS	2.2	-22.6	-1.3	1.3	7.3	12.3
Fixed-Line Telecoms	4.4	11.4	10.7	11.5	13.2	32.6
Mobile Telecoms	1.1	-40.2	-13.0	-1.7	5.4	5.0
UTILITIES	-1.7	3.5	5.6	2.9	4.1	4.6
Electricity	-6.2	5.5	8.8	-0.8	5.2	6.7
Gas, Water & Multi-Utilities	-0.2	2.9	4.6	4.1	3.8	4.0
TECHNOLOGY	10.4	13.4	17.1	14.3	18.6	17.5
Software & Computer Serv	5.0	11.1	12.1	10.7	10.7	11.7
Technology Hardware & Equip	17.5	16.2	22.6	21.5	33.3	26.3
TOTAL NON-FINANCIAL	-5.4	1.9	6.8	6.2	3.2	6.0
FINANCIALS	7.0	10.3	10.4	8.6	13.6	21.0
Banks	6.4	13.5	11.2	15.7	18.3	29.1
Non-Life Insurance	0.3	4.8	6.4	-1.5	6.4	6.1
Life Insurance	-2.2	8.1	8.9	3.1	8.2	13.9
Real Estate Investment Svs	17.6	8.7	10.3	9.3	8.9	8.3
REITS	3.2	6.4	7.9	4.4	3.9	4.6
Financial Services	43.7	0.0	12.0	-4.3	11.9	10.5
FTSE ALL SHARE	-2.7	3.9	7.7	6.7	5.4	9.5
FTSE 100	-3.6	3.4	6.9	7.0	5.2	9.6
Mid 250	4.0	5.0	12.6	5.5	7.5	9.2
Small Cap	2.8	32.7	18.3	-0.6	7.2	8.0

Source: Citi Research & DataStream

Figure 35. UK Sector Ratings

As at Close 26 Feb 2014	Price/Earnings				Net Dividend Yield			
	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E
OIL & GAS	9.9	12.3	11.9	11.9	3.82	4.13	4.06	4.11
Oil & Gas Producers	9.7	12.3	11.9	12.0	3.88	4.19	4.10	4.14
Oil Equip, Serv and Distrib	14.8	12.9	12.0	10.5	2.56	2.69	3.08	3.52
BASIC MATERIALS	12.1	13.2	12.7	11.4	3.12	3.18	3.28	3.49
Chemicals	20.1	19.3	17.9	16.1	1.72	1.90	2.28	2.53
Forestry & Paper	18.5	13.3	12.0	11.9	2.18	2.46	3.33	3.37
Industrial Metals	-4.9	-25.1	119.7	11.5	1.67	0.85	0.80	2.06
Mining	11.4	12.7	12.3	11.1	3.29	3.35	3.40	3.60
INDUSTRIALS	17.3	16.8	15.7	14.1	2.44	2.57	2.67	2.88
Construction & Materials	20.3	24.3	19.6	15.5	3.03	3.16	3.19	3.32
Aerospace	13.4	12.4	12.4	11.7	2.95	3.15	3.26	3.43
General Industrials	15.5	14.9	13.6	12.5	2.65	2.89	3.10	3.30
Electronic & Electrical Equip	20.0	19.9	18.4	16.5	1.76	1.90	2.04	2.21
Industrial Engineering	19.0	17.7	16.0	14.8	2.03	2.16	2.31	2.47
Industrial Transportation	16.2	16.1	15.7	13.6	0.96	1.99	3.06	3.70
Support Services	19.0	18.4	17.1	15.2	2.31	2.34	2.36	2.59
CONSUMER GOODS	17.9	16.8	16.5	15.1	2.87	3.22	3.36	3.64
Automobiles & Parts	15.7	14.6	12.7	11.3	1.75	2.01	2.31	2.66
Beverages	19.7	19.0	18.8	17.3	2.30	2.46	2.59	2.82
Food Producers	20.1	18.7	18.8	17.2	2.71	3.08	3.15	3.40
Household Gds & Home Cons	21.1	18.3	16.5	14.7	1.92	2.74	2.92	3.26
Personal Goods	23.9	21.2	19.0	17.3	1.70	1.93	2.20	2.49
Tobacco	14.3	13.7	14.0	13.0	4.30	4.55	4.69	5.00
HEALTH CARE	13.9	15.4	15.9	14.7	3.59	3.76	3.85	4.01
Health Care Equip & Services	20.1	19.9	19.2	17.7	1.64	1.67	1.75	1.88
Pharmaceuticals & Biotech	13.6	15.2	15.7	14.6	3.71	3.89	3.98	4.15
CONSUMER SERVICES	17.3	16.3	15.3	14.0	2.60	2.75	2.94	3.16
Food & Drug Retailers	11.3	12.0	12.7	12.8	4.10	4.18	4.17	4.14
General Retailers	19.3	17.7	16.1	14.6	2.12	2.27	2.46	2.71
Media	17.0	16.3	15.6	14.1	2.52	2.93	3.08	3.38
Travel & Leisure	22.9	19.0	16.5	14.2	2.12	2.08	2.44	2.70
TELECOMMUNICATIONS	16.4	16.1	20.8	21.0	3.74	3.79	4.06	4.56
Fixed-Line Telecoms	17.4	16.7	15.0	13.5	2.40	2.67	3.02	4.01
Mobile Telecoms	15.9	15.8	26.4	30.3	4.48	4.40	4.64	4.87
UTILITIES	14.5	14.7	14.2	13.4	4.91	5.05	5.26	5.50
Electricity	12.6	13.5	12.8	11.7	5.32	5.28	5.56	5.93
Gas, Water & Multi-Utilities	15.1	15.1	14.7	14.0	4.79	4.98	5.17	5.38
TECHNOLOGY	30.5	27.7	24.4	20.8	1.13	1.29	1.53	1.79
Software & Computer Serv	20.6	19.6	17.7	15.8	1.97	2.18	2.41	2.69
Technology Hardware & Equip	43.6	37.1	31.9	26.0	0.60	0.73	0.98	1.24
TOTAL NON-FINANCIAL	14.2	15.0	14.8	13.8	3.18	3.38	3.49	3.70
FINANCIALS	14.2	13.3	12.1	10.9	3.12	3.39	3.85	4.66
Banks	12.7	11.9	10.5	9.4	2.98	3.45	4.08	5.27
Non-Life Insurance	11.6	11.6	11.1	10.4	4.90	4.82	5.13	5.44
Life Insurance	14.1	14.4	13.3	12.2	3.17	3.27	3.54	4.03
Real Estate Investment Svs	35.7	30.4	28.0	25.3	1.72	1.88	2.04	2.21
REITS	28.5	27.6	25.9	24.0	3.05	3.19	3.31	3.47
Financial Services	19.4	13.5	13.5	12.1	3.27	3.13	3.51	3.87
FTSE ALL SHARE	14.2	14.6	14.1	13.1	3.17	3.38	3.57	3.91
FTSE 100	13.7	14.2	13.8	12.9	3.31	3.54	3.73	4.08
Mid 250	17.8	17.1	16.3	14.5	2.39	2.52	2.71	2.95
Small Cap	21.9	21.3	16.0	13.5	2.23	2.21	2.37	2.56

Source: Citi Research & DataStream

Figure 36. Stocks Mentioned in the Report

Stock Name	RIC	Price	Rating	Currency	Stock Name	RIC	Price	Rating	Currency
A P Moller - Maersk	MAERSK.CO	66,100.00	2	DKK	Legal & General	LGEN.L	2.39	2	GBP
Adecco R	ADEN.VX	74.40	3	CHF	Lloyds Banking Group	LLOY.L	0.82	2	GBP
Aggreko	AGGK.L	16.29	1	GBP	LVMH	LVMH.PA	134.80	1	EUR
Ahold Kon.	AHLN.AS	13.88	1	EUR	Marks & Spencer Group	MKS.L	5.03	1	GBP
AMEC	AMEC.L	11.16	2	GBP	Merck KGAA	MRCG.DE	124.80	2	EUR
Arcelormittal	ISPA.AS	11.46	1	EUR	Michelin	MICP.PA	87.57	1	EUR
Assicurazioni	GASI.MI	16.24	3	EUR	Mondi	MNDI.L	10.35	2	GBP
Aviva	AV.L	4.69	1	GBP	Pandora	PNDORA.CO	348.90	1	DKK
BAE Systems	BAES.L	4.11	2	GBP	Philips Electronics	PHG.AS	25.15	1	EUR
Banco Santander	SAN.MC	6.58	2H	EUR	Prudential	PRU.L	13.53	1	GBP
BAT	BATS.L	32.20	1	GBP	Red Electrica	REE.MC	56.24	1	EUR
Berkeley Group	BKGH.L	27.46	2	GBP	Rexam	REX.L	4.95	1	GBP
BHP Billiton	BLT.L	19.13	1	GBP	Rio Tinto	RIO.L	34.61	1	GBP
BNP Paribas	BNPP.PA	58.74	1	EUR	RWE	RWEG.DE	28.97	3	EUR
BSKyB	BSY.L	9.40	1	GBP	Sage Group	SGE.L	4.33	1	GBP
BT Group	BT.L	4.11	1	GBP	Santander	SAN.MC	6.58	2H	EUR
Centrica	CNA.L	3.18	2	GBP	SEB A	SEBa.ST	90.70	1	SEK
Cobham	COB.L	2.97	2	GBP	SES Fdr	SESFd.PA	24.83	1	EUR
Continental	CONG.DE	171.05	1	EUR	Shire	SHP.L	34.15	1	GBP
Credit Agricole	CAGR.PA	11.27	1	EUR	Siemens	SIEGn.DE	95.64	1	EUR
Daimler	DAIGn.DE	66.54	2	EUR	Smith (DS)	SMDS.L	3.42	1	GBP
Danske Bank	DANSKE.CO	142.50	1	DKK	Smiths Group	SMIN.L	13.46	3	GBP
DNB	DNB.OL	108.00	2	NOK	Smurfit Kappa Group	SKG.I	19.82	1	EUR
E.On	EONGn.DE	13.80	3	EUR	Societe Generale	SOGN.PA	47.26	1	EUR
Easyjet	EZJ.L	17.21	2	GBP	SSE	SSE.L	14.25	3	GBP
EDP Energias	EDP.LS	3.10	2	EUR	Standard Life	SL.L	3.82	2	GBP
Elisa	ELI1V.HE	20.40	2	EUR	Statoil	STL.OL	158.40	2	NOK
Enel	ENEI.MI	3.71	1	EUR	Suez Environment	SEVI.PA	14.53	1	EUR
Enel Green	EGPW.MI	2.01	3	EUR	Swedbank A	SWEDa.ST	179.40	2	SEK
ENI	ENI.MI	17.40	2	EUR	Thales	TCFP.PA	48.63	1	EUR
Ericsson B	ERICb.ST	83.45	2	SEK	Total	TOTF.PA	46.35	1	EUR
Essilor Intl.	ESSI.PA	76.14	1	EUR	Trelleborg B	TRELb.ST	125.30	1	SEK
Fortum	FUM1V.HE	17.31	3	EUR	UBI Banca	UBI.MI	6.25	2H	EUR
Gas Natural	GAS.MC	18.74	2	EUR	UBS R	UBSN.VX	18.63	1	CHF
GDF Suez	GSZ.PA	18.35	2	EUR	Unicredit	CRDI.MI	5.81	1H	EUR
GKN	GKN.L	4.08	1	GBP	Vestas Windsystems	VWS.CO	193.80	2	DKK
Glencore Xstrata	GLEN.L	3.30	1	GBP	Voestalpine	VOES.VI	33.31	2	EUR
Iberdrola	IBE.MC	4.83	1	EUR	Volvo B	VOLVb.ST	96.95	1	SEK
Imi	IMI.L	15.13	1	GBP	Weir Group	WEIR.L	25.13	2	GBP
Imperial Tobacco Gp.	IMT.L	24.37	2	GBP	William Hill	WMH.L	3.75	1	GBP
Informa	INF.L	5.15	2	GBP	Wolseley	WOS.L	34.80	1	GBP
Kuehne+Nagel Intl.	KNIN.VX	123.50	1	CHF	Wolters Kluwer	WLSNc.AS	20.64	2	EUR

Source: Citi Research

Notes

Notes

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.

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