Cadila Healthcare (CADI.BO)

Sell: No Surprises

- **2Q subdued as expected** — with sales and profit up 28% YoY and 14% YoY respectively despite the acquisition of Nikkho earlier this year. EBITDA margins declined 136 bps YoY, despite improvement in gross margins due to higher staff & manufacturing expenses in the acquired company.
- **Other highlights** — 1) France turned around in 2Q despite a stronger rupee; 2) Hospira JV on course, with revenues expected in late FY09 and significant pick up in FY10; 3) 25 CRAMS contracts with peak revenue potential of US$38m; 4) lead NCE to complete phase II trials by 1QFY09 – no plans to demerge R&D
- **On Protonix** — Cadila indicated that only 20 out of the 120 tonne API market goes to the US and would be at risk in case of early genericisation. It would also become the sole supplier in Europe (1 of 2 now) & is in discussions to add more products to the JV. This appears better than the high risk scenario we had envisaged although we find it highly unlikely that the JV would be able to maintain its current high profitability post genericisation.
- **Maintain Sell (3L)** — Cadila has been a big underperformer over the last 2 years, and valuations appear to factor in most of the negatives. However, given the limited differentiation in its model, we do not see many positive catalysts in the near term. We are reviewing our estimates in light of the recent acquisitions (Nikkho in Brazil & Nippon in Japan). In the interim, maintain Sell (3L).

Sell/Low Risk	**3L**
Price (26 Oct 07)	Rs300.05
Target price	Rs335.00
Expected share price return	11.6%
Expected dividend yield	1.2%
Expected total return	**12.8%**
Market Cap	Rs37,690M
	US$958M

Price Performance (RIC: CADI.BO, BB: CDH IN)

Statistical

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	1,524	12.13	25.4	24.7	5.4	23.7	1.0
2007A	2,338	18.61	53.4	16.1	4.3	29.7	1.2
2008E	2,781	22.14	19.0	13.6	3.5	28.3	1.3
2009E	3,361	26.75	20.8	11.2	2.8	27.5	1.3
2010E	3,794	30.20	12.9	9.9	2.3	25.0	1.3

Source: Powered by dataCentral

Prashant Nair, CFA[1]
+91-22-6631-9855
prashant.nair@citi.com

Chirag Dagli[1]
+91-22-6631-9874
chirag.dagli@citi.com

Akshay Rai[1]
akshay.rai@citi.com

See Appendix A-1 for Analyst Certification and important disclosures.

[1]Citigroup Global Markets India Private Limited

Sell: No Surprises

2Q FY08 was subdued as expected with sales and profit up 28% YoY and 14% YoY respectively despite the acquisition of Nikkho earlier this year. Cadila has been a big underperformer over the last 2 years, and valuations appear to factor in most of the negatives. However, given the limited differentiation in its model, we do not see many positive catalysts in the near term. We are reviewing our estimates in light of the recent acquisitions (Nikkho in Brazil & Nippon in Japan). In the interim, maintain Sell (3L).

Figure 1. Cadila - Consolidated Earnings Summary (Rupees in Million, Percent)

YE 31 Mar	2QFY07	2QFY08	*% Ch YoY*	1Q FY08	*% Ch QoQ*	CIR Comments
Sales and Other operating income	4,967	6,343	*27.7*	5,968	*6.3*	Exports to US/France drove growth. Altana JV declined 24%, while domestic formulations grew 12%
Excise Duty	219	246	*12.3*	246	*0.0*	
Excise duty rate	*4.4*	*3.9*	*-53 bps*	*4.1*	*-24 bps*	
Net sales	**4,748**	**6,097**	***28.4***	**5,722**	***6.6***	
Expenditure	3,658	4,780	*30.7*	4,610	*3.7*	
EBIDTA	**1,090**	**1,317**	***20.8***	**1,112**	***18.4***	
EBIDTA Margins (%)	23.0	21.6	*-136 bps*	19.4	*217 bps*	Margins decline due to the forex impact on realizations and higher fixed overheads in Brazil; Gross margins up
Interest	69	137	*98.6*	73	*87.7*	
Forex loss/ (Gain)	(15)	(10)	*-33.3*	(91)	*-89.0*	Translation of debt in foreign currency;
Depreciation	213	235	*10.3*	239	*-1.7*	
Other income	3	(24)	*nm*	3	*nm*	
PBT	826	931	*12.7*	894	*4.1*	
Tax	100	114	*14.0*	121	*-5.8*	
Tax rate	*12.1*	*12.2*	*14 bps*	*13.5*	*-129 bps*	
Recurring PAT	726	817	*12.5*	773	*5.7*	
Minority Interest	21	16	*-23.8*	34	*-52.9*	
Net Income	**705**	**801**	**13.6**	**739**	**8.4**	

Source: Company Reports and Citi Investment Research

Figure 2. Cadila - Consolidated Revenue Break Up (Rupees in Million, Percent)

YE 31 Mar	2QFY07	2QFY08	*% Ch YoY*	1Q FY08	*% Ch QoQ*	CIR Comments
Domestic						
Formulations	2,968	3,163	*6.6*	3,134	*0.9*	Muted growth due to high base effect of last year due to higher sales of anti infectives.
API	119	111	*-6.3*	134	*-17.2*	Lumpy business
Consumer & others	410	654	*59.5*	657	*-0.5*	Growth due to acquisitions of Carnation and Liva; Organic growth at 12%
Total Domestic Business	**3,496**	**3,928**	***12.4***	**3,925**	***0.1***	
As a % of total revenues	*70.4*	*61.9*		*65.8*		
Exports						
Formulations	810	1,798	*122.0*	1,256	*43.2*	Driven by growth in US, France and acquisition of Nikko in Brazil
API	586	488	*-16.7*	674	*-27.6*	Lumpy business; Management indicated that this was a timing issue and INR appreciation
Total Exports	**1,396**	**2,286**	***63.8***	**1,930**	***18.4***	
As a % of total revenues	*28.1*	*36.0*		*32.3*		
Other operating income	75	129	*72.0*	113	*14.2*	Contract manufacturing and processing income
Total Revenues	**4,967**	**6,343**	***27.7***	**5,968**	***6.3***	

Source: Company Reports and Citi Investment Research

Figure 3. Cadila – Consolidated Cost Break Up (Rupees in Millions; Percent)

	2QFY07	2QFY08	*% Ch YoY*	1Q FY08	*% Ch QoQ*	CIR Comments
Raw materials consumed	1,644	1,993	*21.2*	2,094	*-4.8*	
As a % of sales	*34.6*	*32.7*	*-194 bps*	*36.6*	*-391 bps*	Lower due to higher formulation sales as well as the consolidation of Brazilian acquisition which has lower RM costs.
Staff Cost	515	772	*49.9*	579	*33.3*	High staff costs due to the consolidation of the Nikko; Like to like increase of 12% for the quarter.
As a % of sales	*10.8*	*12.7*	*182 bps*	*10.1*	*254 bps*	
Mfg & other expenses	1,248	1,727	*38.4*	1,561	*10.6*	
As a % of sales	*26.3*	*28.3*	*204 bps*	*27.3*	*104 bps*	
R&D	251	288	*14.7*	376	*-23.4*	
As a % of sales	*5.3*	*4.7*	*-56 bps*	*6.6*	*-185 bps*	
Total Expenditure	**3,658**	**4,780**	***30.7***	**4,610**	***3.7***	
As a % of sales	*77.0*	*78.4*	*136 bps*	*80.6*	*-217 bps*	

Source: Company Reports and Citi Investment Research

Cadila Healthcare

Company description

Cadila Healthcare (Zydus Cadila) is an offshoot of the Cadila group, founded in 1952. It split into Cadila Pharma and Cadila Healthcare in 1995. A leading participant in the Indian market, Cadila consolidated its position with the acquisition of Recon Healthcare (1999) and German Remedies (2001). For the overseas markets, it has adopted a combination of the contract manufacturing and generics strategy. As part of its generics strategy, it acquired Alpharma's arm in France in 2003, and also started filing its own ANDAs and DMFs in the US market. On the contract manufacturing front, it has a profitable JV with Altana, and has recently entered into a series of other smaller contracts.

Investment strategy

We rate Cadila Healthcare Sell/Low Risk (3L) with a target price of Rs335/share, as we believe its valuations do not leave much room for upside in the near to medium term. We believe Cadila's generics business does not offer any significant differentiation vis-à-vis the several other Indian companies targeting this space. Although the company has an aggressive record of regulated market filings and has started receiving approvals, most of the initial products are ones where competition would be high. Moreover, the company's acquisition of Alpharma's French operations continues to face teething troubles. Cadila is also focusing on the contract-manufacturing business, and has started getting contracts in this space - its JVs with Altana and Mayne Pharma being the most notable ones. However, barring the Altana deal, we do not expect its contract manufacturing operations to contribute significantly to revenues or profits. About 31% of Cadila's FY07 net profit came from its JV with Altana. With *Protonix's* scheduled patent expiry in FY10 and the product already facing patent challenges, we believe that the JV's earnings are at risk and would not extend beyond FY10.

Valuation

Our target price for Cadila is Rs335. A large share of Cadila's earnings (we estimate 24% in FY08) would come from Altana JV, which is unlikely to continue beyond FY10. Thus, we do not give a multiple to the JV's earnings. We value Cadila on a sum-of-parts basis by using DCF for Zydus Altana, and P/E relative to growth for the rest of the business. We value Cadila's non-Altana business on a P/E basis in view of the healthy growth expected in earnings. We use 18x 12-month forward earnings to value the business. With the growth rate moderating to 24% CAGR (in line with most mid-sized Pharma companies), we prefer to value Cadila in line with other mid-sized Pharma stocks - i.e. at a 10% discount to sector leaders. At 18x June'08E earnings, we value Cadila's non-Zydus Altana business at Rs319/share (v/s Rs258/share earlier). We value the Zydus Altana JV on DCF given that we expect this business to witness sharp erosion when Protonix goes off patent. We use a three-stage DCF model to value this business with explicit forecasts to FY10, beyond which we assume 95% decline in cash flows (on patent expiry) for one year and 5% terminal growth. Based on the above assumptions and a 12.5% discount rate, we value Cadila's stake in the JV at Rs16/share (v/s Rs14/share earlier). We thus arrive at a sum-of-the-parts value of Rs335/share: Rs16 for Zydus Altana and Rs319/share for the rest of the business.

Risks

We rate Cadila Healthcare Low Risk according to our quantitative risk-rating system. The main downside risks to our target price include: 1) If generic competition in pantoprazole comes in before the scheduled patent expiry in 2010, it would severely hit our estimates; 2) We have estimated Cadila's French business to break even in CY07 (FY08E); any delay would put our estimates at risk; 3) Greater-than-anticipated price erosion / competition in the US; and 4) Break-up of any of its alliances. The main upside risks to our target price include: 1) Cadila may be able to bag sizable contract manufacturing deals; 2) We have factored in only US$5m revenues from the Mayne Pharma JV in FY08E; actual revenues could come in higher; and 3) Any value accretive acquisition by the company in Europe.

Appendix A-1

Analyst Certification

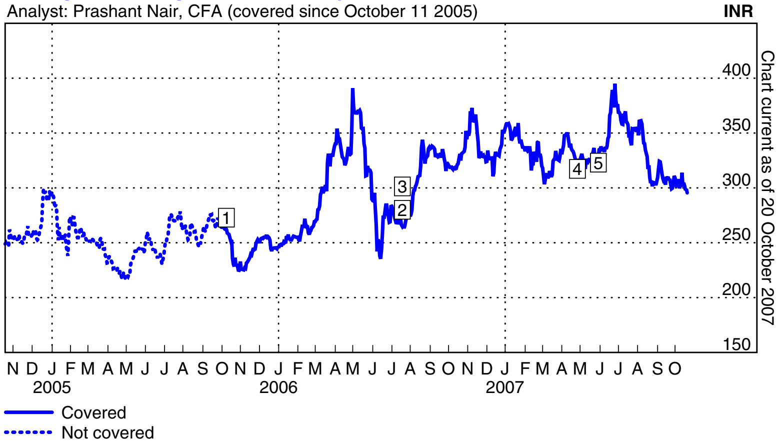
Each research analyst(s), strategist(s) or research associate(s) responsible for the preparation and content of this research report hereby certifies that, with respect to each issuer or security that the research analyst, strategist or research associate covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s) strategist(s) or research associate(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst, strategist or research associate in this research report.

IMPORTANT DISCLOSURES

Cadila Healthcare (CADI.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Prashant Nair, CFA (covered since October 11 2005)



#	Date	Rating	Target Price	Closing Price
1:	10 Oct 05	3L	208.00	262.50
2:	19 Jul 06	3L	*272.00	264.75
3:	19 Jul 06	3L	272.00	264.75
4:	26 Apr 07	3L	272.00	326.55
5:	30 May 07	3L	*335.00	328.25

*Indicates change.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Cadila Healthcare in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, securities-related: Cadila Healthcare.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, non-securities-related: Cadila Healthcare.

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 revenues from, among other business units, the Private Client Division, Institutional Sales and Trading, and Investment Banking.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Investment Research product ("the Product"), please contact Citi Investment Research, 388 Greenwich Street, 29th Floor, New York, NY, 10013, Attention: Legal/Compliance. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Private Client Division clients should refer to www.smithbarney.com/research. 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 Ratings Distribution

Data current as of 30 September 2007	**Buy**	**Hold**	**Sell**
Citi Investment Research Global Fundamental Coverage (3358)	50%	38%	12%
% of companies in each rating category that are investment banking clients	53%	55%	42%

Guide to Fundamental Research Investment Ratings:

Citi Investment Research's stock recommendations include a risk rating and an investment rating.

Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

Investment ratings are a function of Citi Investment Research's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings are: 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.

Guide to Corporate Bond Research Credit Opinions and Investment Ratings:

Citi Investment Research's corporate bond research issuer publications include a fundamental credit opinion of Improving, Stable or Deteriorating and a complementary risk rating of Low (L), Medium (M), High (H) or Speculative (S) regarding the credit risk of the company featured in the report. The fundamental credit opinion reflects the CIR analyst's opinion of the direction of credit fundamentals of the issuer without respect to securities market vagaries. The fundamental credit opinion is not geared to, but should be viewed in the context of debt ratings issued by major public debt ratings companies such as Moody's Investors Service, Standard and Poor's, and Fitch Ratings. CBR risk ratings are approximately equivalent to the following matrix: Low Risk Triple A to Low Double A; Low to Medium Risk High Single A through High Triple B; Medium to High Risk Mid Triple B through High Double B; High to Speculative Risk Mid Double B and Below. The risk rating element illustrates the analyst's opinion of the relative likelihood of loss of principal when a fixed income security issued by a company is held to maturity, based upon both fundamental and market risk factors. Certain reports published by Citi Investment Research will also include investment ratings on specific issues of companies under coverage which have been assigned fundamental credit opinions and risk ratings. Investment ratings are a function of Citi Investment Research's expectations for total return, relative return (to publicly available Citigroup bond indices performance), and risk rating. These investment ratings are: Buy/Overweight the bond is expected to outperform the relevant Citigroup bond market sector index (Broad Investment Grade, High Yield Market or Emerging Market), performances of which are updated monthly and can be viewed at http://sd.ny.ssmb.com/ using the "Indexes" tab; Hold/Neutral Weight the bond is expected to perform in line with the relevant Citigroup bond market sector index; or Sell/Underweight the bond is expected to underperform the relevant sector of the Citigroup indexes.

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 26 October 2007 03:59 PM on the issuer's primary market.

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 subject company(ies) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Investment Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi Investment Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

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

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia to wholesale clients through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992) and to retail clients through Citi Smith Barney Pty Ltd. (ABN 19 009 145 555 and AFSL No. 240813), Participants 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 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. The Product may not be distributed to private clients in Germany. The Product is distributed in Germany by Citigroup Global Markets Deutschland AG & Co. KGaA, which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). Frankfurt am Main, Reuterweg 16, 60323 Frankfurt am Main. If the Product is made available in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Ltd., it is attributable to Citigroup Global Markets Asia Ltd., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Product is made available in Hong Kong by The Citigroup Private

Bank to its clients, it is attributable to Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. The Citigroup Private Bank and Citibank N.A. is regulated by the Hong Kong Monetary Authority. 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. If the Product was prepared by Citi Investment Research and distributed in Japan by Nikko Citigroup Limited ("NCL"), it is being so distributed under license. If the Product was prepared by NCL and distributed by Nikko Cordial Securities Inc. or Citigroup Global Markets Inc. it is being so distributed under license. NCL 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. In the event that an error is found in an NCL research report, a revised version will be posted on Citi Investment Research's Global Equities Online (GEO) website. If you have questions regarding GEO, please call (81 3) 6270-3019 for help. The Product is made available in Korea by Citigroup Global Markets Korea Securities Ltd., which is regulated by Financial Supervisory Commission and the Financial Supervisory Service. Hungkuk Life Insurance Building, 226 Shinmunno 1-GA, Jongno-Gu, Seoul, 110-061. The Product is made available in Malaysia by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450. The Product is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, which 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 through Citigroup Global Markets New Zealand Ltd., a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 19, Mobile on the Park, 157 lambton Quay, Wellington. The Product is made available in Poland by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Papierów Wartosciowych i Gield. Bank Handlowy w Warszawie 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., a Capital Markets Services Licence holder, and regulated by Monetary Authority of Singapore. 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192. 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. 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 Taiwan through Citigroup Global Markets Inc. (Taipei Branch), which is regulated by Securities & Futures Bureau. No portion of the report may be reproduced or quoted in Taiwan by the press or any other person. No. 8 Manhattan Building, Hsin Yi Road, Section 5, Taipei 100, Taiwan. 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 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 regulated by NASD, NYSE and 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. Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Investment Research's Products can be found at www.citigroupgeo.com. Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations. The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would be illegal. 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.

This Product is not intended for distribution in Poland. Any receipt or review of the Product in Poland is not authorized by the Firm.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST