

European Equity Strategy

What if the Euro goes to Parity?

Equity Strategy

Europe including UK

Currencies don't always stop at "fair value"...

Our House View remains Bullish of the Dollar and we forecast EUR/USD 1.20 at end-2015. But what if the Euro overshoots to the downside? In this report we run scenario analysis of the Euro going to parity. Critically, we assume that the move comes from USD strength rather than a collapse in the Eurozone macro. Our Quant team highlight a move to parity by mid-2015 would be very unlikely, given historic volatility. But unlikely events occur - this was also true ahead of the move in the Yen in 2012/2013. Also, the Euro has historically only tended to stop briefly at "fair value" (Figure 1).

What would be the Macro impact?

Our European Economics team point to ECB models that suggest the move in the trade-weighted currency might boost nominal Eurozone GDP, ceteris paribus, by 0.6% in year one and a cumulative 2-3% over 3 years. There would be some drag on the US, but the starting point is a weak US dollar compared to the last 40yrs and it's not an equal negative effect - the US economy is significantly less open than the Eurozone with exports at 14% of GDP vs. 44%.

What about European Equities: A potential 11% boost to earnings in year 1

The impact on earnings would come through: (1) a boost to the top-line from stronger economic growth and, (2) the direct impact of FX tailwinds. This suggests an earnings boost of 11% in year one and a cumulative gain of 20-25% over 3 years.

Sectors & Stocks – Winners & Losers

We would continue to buy US exposed stocks that benefit from the FX gain – see Figure 2 (full table p.17). Clearly this scenario is an artificial one and assumes all else equal, but when our sector teams plug a Euro rate of parity into their models, the direct impact on estimates is very large in some cases. Our Sector teams point to a theoretical boost to EBIT of 33% at VW and 41% at Daimler, and a near 60% boost to theoretical fair value for Airbus. Other potential winners include Bayer, Wolters Kluwer, SAP and Inditex (see pages 20-27 for full analyst comments).

Nick Nelson

Strategist

nick.nelson@ubs.com

+44-20-756 81960

Karen Olney, CFA

Strategist

karen.olney@ubs.com

+44-20-7568 8944

Andras Nagy, CFA

Associate Strategist

andras-a.nagy@ubs.com

+44-20-7568 3577

Reinhard Cluse

Economist

reinhard.cluse@ubs.com

+44-20-7568 6722

David Jessop

Analyst

david.jessop@ubs.com

+44-20-7567 9882

Geoffrey Yu

Strategist

geoffrey.yu@ubs.com

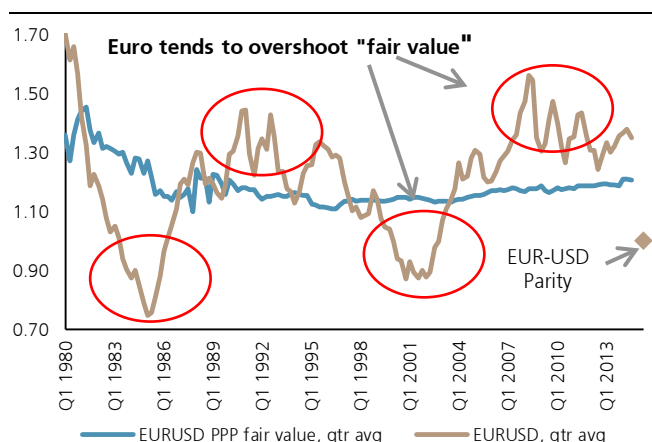
+44-20-7568 0605

European Research Department

+44-20-7568-4541

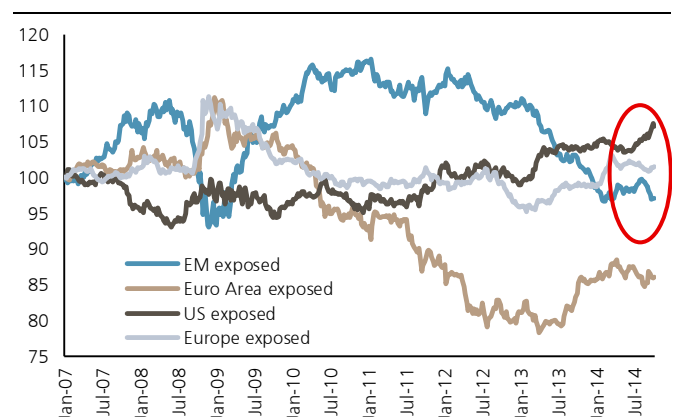
UBS-European-Product@ubs.com

Figure 1: EUR/USD and PPP fair value estimate (Qtr avg)



Source: OEF, Haver, Datastream, UBS European Equity Strategy

Figure 2: Performance of European stocks by Regional Exposure



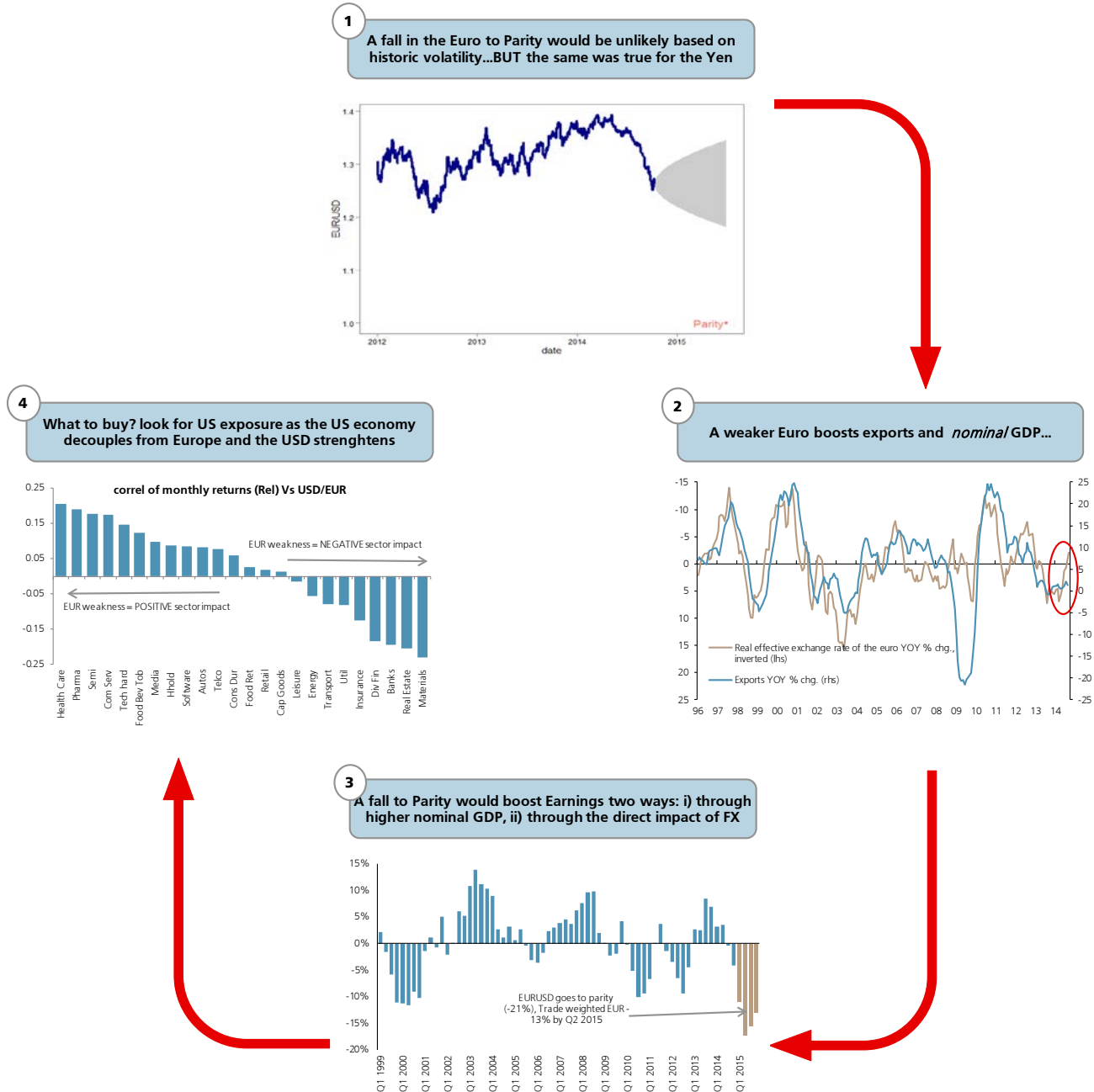
Source: Datastream, UBS European Equity Strategy

www.ubs.com/investmentresearch

This report has been prepared by UBS Limited. **ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 31.** UBS 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.

The 4 Key Charts...

Figure 3: The Transmission Effect of the Euro at Parity on European Equities



Source: Haver, OEF, Thomson Datastream, UBS European Equity Strategy, UBS Global Quantitative Research

What if the Euro goes to Parity?

We are US Dollar Bulls and our House View is that the Euro falls to EUR/USD 1.20 by end-2015. But what if the Euro was to overshoot sharply on the downside? In this report we examine what the implications are if the Euro were to fall to parity.

By the nature of the forecast it is clearly not a central scenario, and simply a risk scenario, but nevertheless, given the importance of the currency to the Equity market we think it's worth investigating. We look at the potential impact on the Macro, Market and Sectors & Stocks.

In recent weeks, the Euro had rallied somewhat from the lows of EUR/USD 1.25 at the beginning of October. But we think this is more to do with technical factors and investor positioning rather than anything more structural.

The end of QE in the US shifts attention to the timing of the first rate hike. In turn, this should focus investors' attentions on the widening gap between central bank policy in the US and Europe. It's the nature of the market to look forward to the next event. The end of US QE is the catalyst to cause that.

For more details on our FX view, please see Geoff Yu's Macro Keys from today, "When Valuations Fail" 3 November and Larry Hatheway and Andy Cates' Global Economic Perspectives: "Strong Dollar" 15 September.

Our House View is that EUR/USD falls to 1.20 by end-2015

But what if the Euro overshoots fair value to the downside?

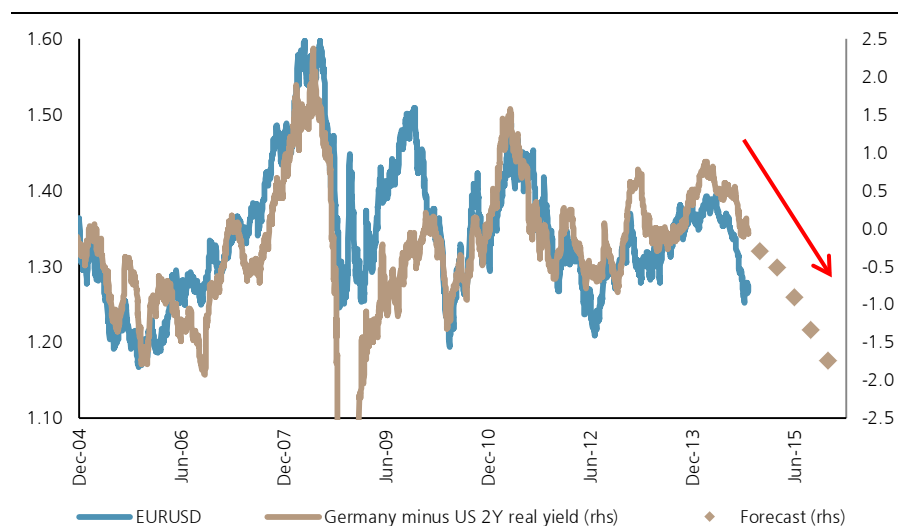
What might cause the Euro to fall to parity?

(1) Interest rate differentials widening

One of the key fundamental drivers for the exchange rate in the last decade has been the 2yr real interest rate differentials between US and Germany. This has done a reasonable job of explaining much of the move in EUR/USD.

Looking at our forecast for 2yr rates from our interest rate strategists suggests further downside to the Euro. We would argue that now that the Federal Reserve has finished QE, the gap between central bank policy (and rates) will become more and more important.

Figure 4: EUR/USD vs 2yr real yield differential (Germany minus US)¹



Our forecasts for Real Interest rate differentials point to a much weaker Euro

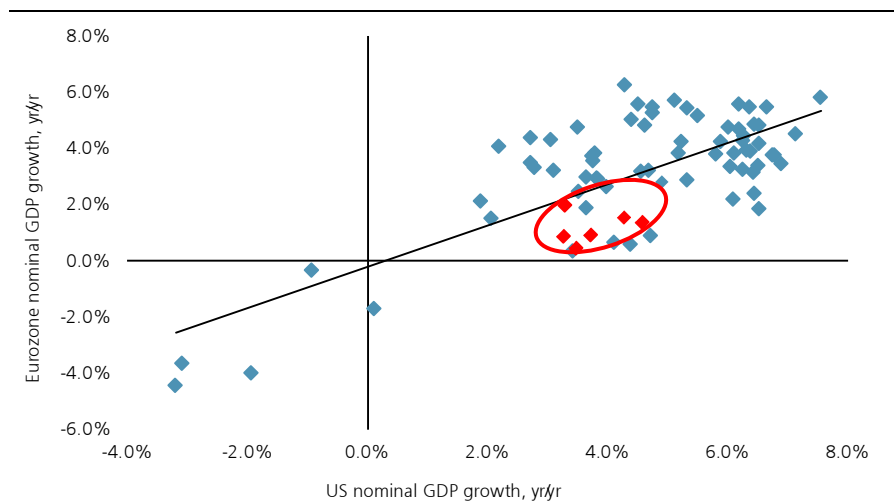
Source: Datastream, UBS European Equity Strategy

(2) Diverging nominal growth rates

The US has tended to have higher nominal GDP growth over and above that in Europe. But even bearing in mind the 1.3% "usual premium" the current state of affairs is extreme. On the most recent reading (Q2 estimate GDP) – the US is growing at 4.3% YoY vs. 1.4% YoY for Europe.

¹ US 2-year real yield forecast for end-2015 is the nominal yield forecast (2.5%) minus 2%. For Germany, the 2-year real yield forecast is the nominal yield forecast (-0.05%) minus 1.2%.

Figure 5: Eurozone nominal GDP vs US nominal GDP



The gap between Eurozone and US GDP is higher than usual...

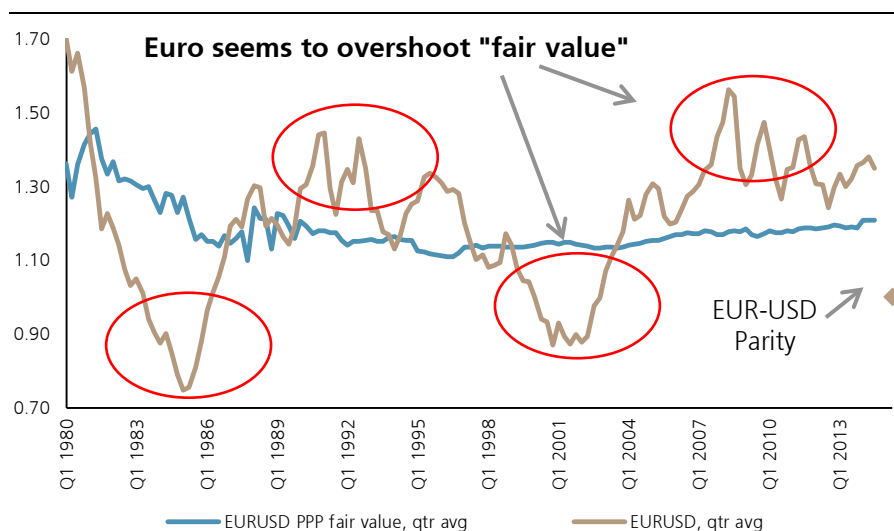
Source: Haver, UBS European Equity Strategy

(3) Fair value isn't always the stopping point...

It is not clear that the Euro is actually "cheap" at current levels. The fair value estimate for EUR/USD is 1.21 (according to Oxford Economic Forecasting). And asset classes generally, and certainly currencies, don't seem to also stop conveniently at "fair value".

Over the last 35 years or so, the currency has traded at the estimate of fair value based on purchasing power parity only fleetingly – usually on the way to extreme overvaluation or extreme undervaluation.

Figure 6: EUR/USD and PPP fair value estimate (Qtr average)



Currencies don't seem to stop at "fair value"

Source: Haver, OEF, Datastream, UBS European Equity Strategy

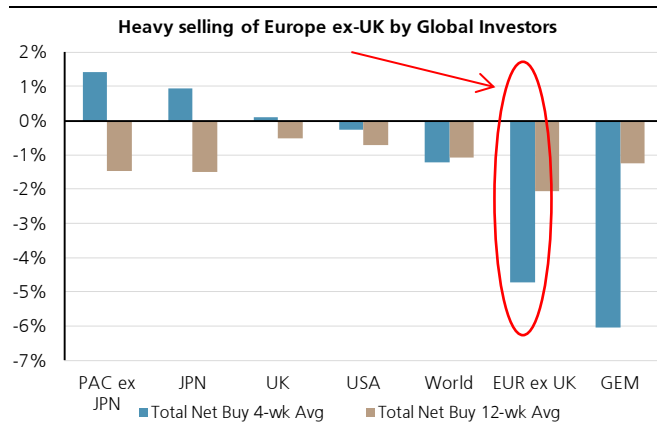
(4) Asset flows

A further reason for Euro weakness has been international investors selling European assets. Outflows from US listed European Equity ETFs have been close to 10yr highs and our own proprietary client flows data, shows that UBS Global clients were heavy sellers of European equities over September, but also the two months earlier.

Asset outflows have weakened the Euro

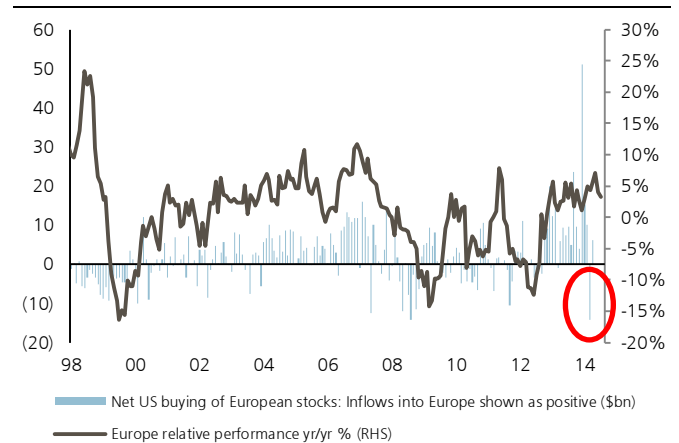
Also our Fixed Income team point to some slowdown in flows into European sovereign Bonds (*For more details please see Japan: Flows Time for L'Affaire Americain?* October 10).

Figure 7: UBS Client Flows: Net Buying (Selling) by Regions (to end-September)



Source: UBS European Equity Strategy

Figure 8: US Domiciled Investors: Net Buying (Selling) of European Equities

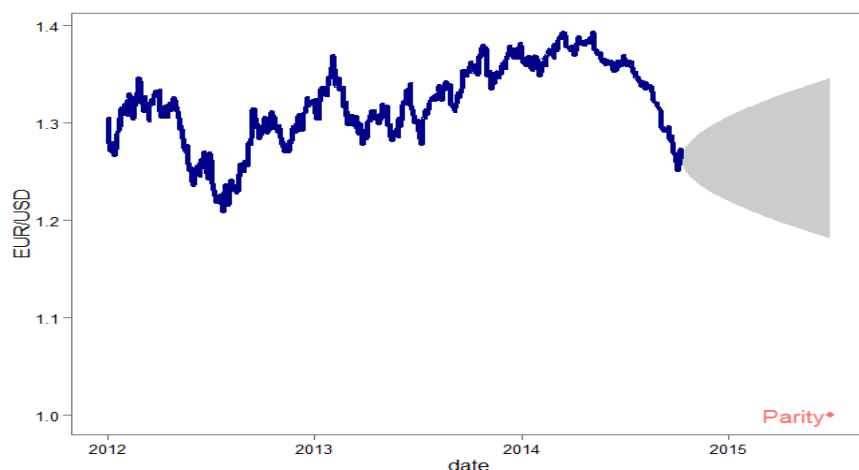


Source: Haver, US Treasury, UBS European Equity Strategy

How likely is a move to parity, based on a Quantitative approach?

David Jessop, our Global Head of Quant research, has looked at the historical volatility of the EUR/USD exchange rate to provide a range of likely values assuming that the forward rate is a fair estimate of the mean return by mid-2015. This should capture 68% of the outcomes. On this particular measure, at first sight the likelihood of parity in this timescale seems low.

Figure 9: EUR/USD: forecast range by mid-2015 based on historic volatility

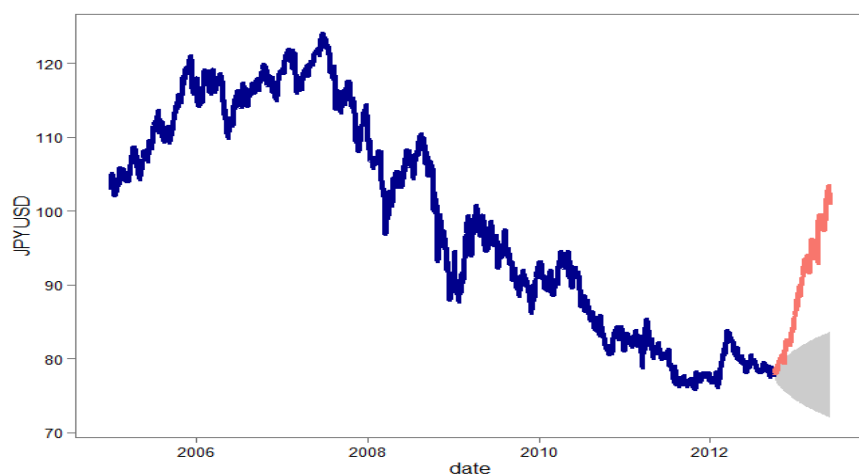


Source: UBS Global Quantitative Research, Datastream

But fundamental drivers, such as policy changes at central banks, can move currencies well out of expected ranges quite rapidly.

If we run the same exercise for the USD/JPY ahead of the launch of "Abenomics" in September 2012, it is clear that the actual move in the currency was far larger than would have been forecast and well outside the expected range. The top of the range was for USD/JPY 83.65, but in reality the outcome was 100.93 – some 21% higher. This is further outside the forecast range than a move to parity for the EUR/USD would be.

Figure 10: USD/JPY: forecast range based on historic volatility and actual outcome



Source: UBS Global Quantitative Research, Datastream

Analysis from our Quant team on historic volatility shows parity by mid-2015 as unlikely...

...but the same would have been the case ahead of the big move in USD/JPY...unlikely events do occur.

An update on Japanese Central Bank Policy

On October 31st, the Bank of Japan unexpectedly expanded their QQE programme (one of the three arrows of 'Abenomics') by a further JPY10 – 20 trillion of asset purchases per year. Several hours later the \$1.2tn Government Pension Investment Fund also announced a 15pp increase in overseas allocations. USDJPY rallied by over 2% on the day, the biggest gain since April 2013 when the initial QQE programme was announced. This is yet another example of a (perhaps coordinated) change in the fundamental policy – both monetary and political/fiscal – conditions set by the authorities which disrupts the utility of using historical volatility as a measure of future ranges.

The BoJ has also pledged to step up the effectiveness of the execution in its asset purchases, a thinly-veiled reference at minimising interest rate volatility in JGB markets, necessary in light of anticipated deterioration in Japan's debt position. This is particularly helpful for asset managers hoping to follow the GPIF and allocate more of their holdings overseas. Such activities are fundamentally carry-trades in nature and holding down domestic rate levels and volatility can amplify risk reward the pursuit of higher returns overseas. This is particularly helpful while global rates remain well below historical averages.

While the ECB's policy scale is well behind that of the BoJ, the net effect is similar: ultimately policy will be designed to enforce recycling of savings (mostly in the Eurozone core) into risk assets and if this cannot be done within the Eurozone, flows will be forced overseas and gradually entrench the euro as a funding currency.

(1) Macro Impact on Eurozone

Our current growth forecast for the Eurozone of 1.2% 2015E and 1.6% 2016E is based on EUR/USD at 1.20 by end-2015 and 1.15 by end-2016. (See our *European Economists' "Forecast Outlook for 2015- 2016"* 31 October).

What is the boost to GDP if the Euro were to rapidly fall to parity?

Below we adapt an analysis undertaken by the ECB as to what the impact of the move in the exchange rate and the effect on economic growth, exports and inflation.

We adapt models from the ECB to estimate the potential impact on growth

(1) GDP

If the Euro was to fall to parity to the US dollar, we assume that the fall in the trade-weighted exchange rate (or the Nominal Effective Exchange Rate) would have a beta of c.0.6x and this would point to a c.13% fall in the trade-weighted index. We suspect this beta might be conservative and could mean an even greater fall in the TWI.

Combining the impact on GDP and inflation this would point to a c.0.6% boost to *nominal* GDP in year 1 from the baseline forecast and a large cumulative c.2-3% boost by year 3.

Figure 11: Impact of a 13% Depreciation in the Nominal Effective Exchange Rate (percentage deviation from Baseline, cumulative)

A move to parity might boost nominal GDP by 0.6% in year 1 and a cumulative 2-3% by year 3

		Year 1	Year 2	Year 3
Real GDP	AWM*	0.3	0.8	1.2
	GVAR*	0.3	0.5	0.8
Import Prices	AWM	4.3	6.6	7.0
Export prices	AWM	2.7	4.4	4.9
HICP	AWM	0.4	1.2	1.8
	GVAR	0.3	0.7	1.3
HICP ex energy	AWM	0.3	1.0	1.7

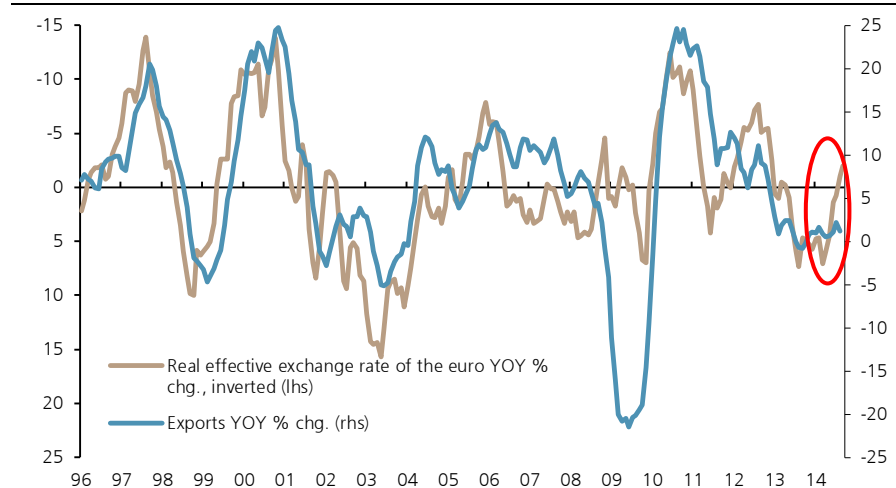
Source: ECB, UBS. * = The ECB ran two separate models: AWM = "Area Wide Model" and GVAR = "Global VAR"

This exercise was run assuming ceteris paribus, and initially was set up for the sensitivity to a 10% appreciation to the currency. We simply reverse the sign to look at the effect of currency depreciation and multiply up to get to a 13% fall in Nominal Effective Exchange Rate. For more details please see the ECB paper "The Changing Role of the Exchange rate in a Globalised Economy", September 2008.

(2) Exports

A simpler way to look at this comes from Martin Lueck, our Germany Economist, who highlights the close relationship between the exchange rate and exports. Even simply "marking to market" to the currency on this basis suggests that Eurozone exports could be up c.8.5% YoY. And this is before we consider a move in the currency lower, let alone to parity.

Figure 12: Euro (REER) YoY vs. Eurozone Exports YoY...a key driver



The Euro has a clear effect on export growth...

Source: Datastream, UBS European Economic Research

(3) Inflation

There is also a second effect through inflation, the ECB models suggest a c.0.3-0.4% move up in HICP. This would be welcome outcome in this regard given the ECB concerns with persistently missing their target for inflation to the downside.

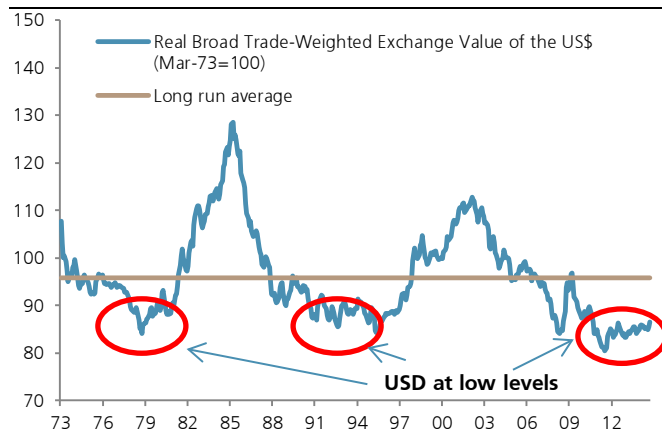
What about the potential US reaction?

One risk to this scenario is that the US authorities resist the rise in the US dollar. But our US economists argue that it is not clear that the dollar is actually that strong currently or having major drag on US exports. The trade-weighted US dollar has risen 6.4% from its low in June 2014. But is still 10% below its 40 year average – see Figure 13.

The US dollar is 10% below its 40 year average

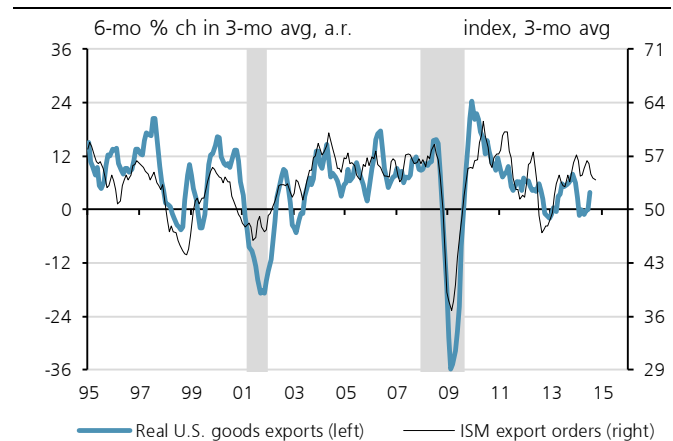
For more details on this please look at Maury Harris and team's Macro Keys - "Dovish Dollar?" 3 October.

Figure 13: US: Trade-weighted value of the dollar



Source: Haver, UBS European Equity Strategy

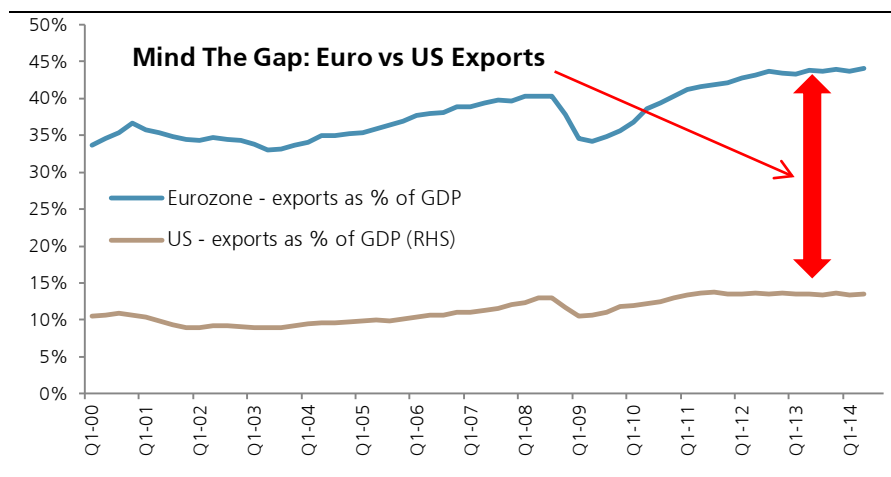
Figure 14: US: Export Orders and Growth



Source: ISM, BEA, UBS US Economic Research

Critically, we don't see it as a "zero sum game" between the US and Europe... the weaker Euro is likely to boost the Eurozone more than the strong dollar is a drag on the US. Europe is a far more open trading region than the US – exports make up 44% of GDP vs just 14% in the US. Even if a fair degree (just over 40%) of Eurozone exports is intra-Eurozone, there is still a clear gap.

Figure 15: Exports as % share of GDP for Eurozone and the US



Source: Haver, UBS European Equity Strategy

It's not a zero-sum game – Exports are more important for the Eurozone

But there remains a risk of "currency wars"....

The Federal Reserve and US government have not been overly concerned by the yen's rise over the last two years. However, now that EURUSD has started to decline and EM currencies have also reversed course, several Fed officials have begun to voice increasing concern over the impact on import prices and whether that would be a drag on inflation expectations in the US. The pressures are particularly acute due to the fall in oil prices as a result of weak global demand and structural changes to US primary energy supply sources. We forecast USDJPY to stay above 115 over the coming year and for USDCNY to also hit 6.35 by end-2015. If EURUSD should suffer a larger than expected fall, the drag on US input costs will be material. Of course, if the net income gains can result in stronger-than-expected US growth (seen a decade ago) then demand pull should be able to offset any haircuts to US CPI (and not affect Fed policy), but the jury is still out on this matter.

The bigger danger with EURUSD at parity, however, is likely globally as the topic of 'currency wars' could move up the agenda. The Euro weakening well beyond fundamentals could attract criticism from some close competitors towards the higher end of the value chain such as Japan and Korea, while emerging market nations seeking to join their ranks would see their efforts undermined. Enhanced central bank coordination has been one of the more positive developments since the financial crisis but with national interests and individual inflation targets at stake, competitive devaluation can never be dismissed outright.

But the biggest risk to a move to parity is if this was to ignite "currency wars"

(2) What is the Equity Market impact?

The impact on the Equity market clearly depends on what the conditions are under which the Euro falls to parity. If it is because the Eurozone falls back into a deep recession, then this is clearly not a good outcome for European equities and corporate profits. But in this scenario exercise we assume that the adjustment comes through a stronger US economy and higher US rates.

We assume that the move comes from a stronger US, rather than a weaker Europe

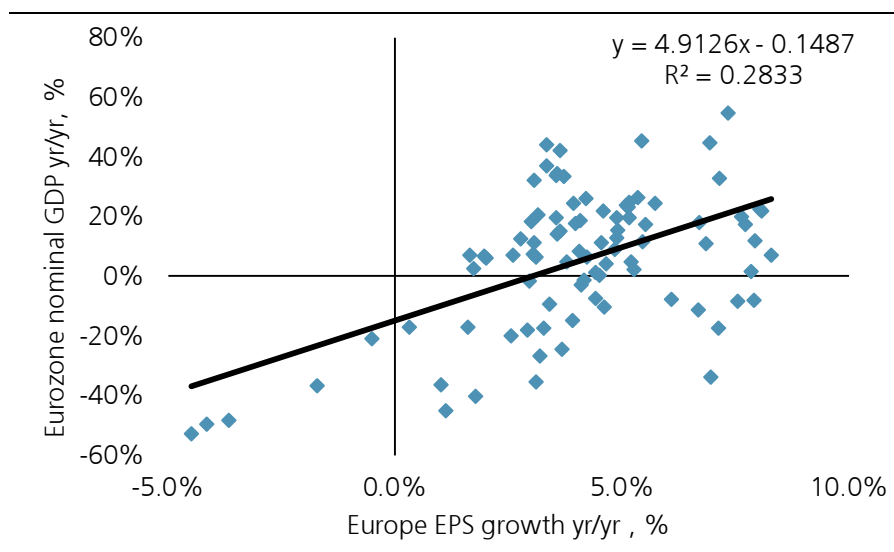
The key effect would come through in earnings in two ways:

(i) Improved European GDP growth

The boost to *nominal* GDP growth – estimated to be c.0.6% using our interpretation of the ECB's model (see above) - would translate into stronger top line and earnings growth for European companies. Looking at the simple relationship between nominal Eurozone GDP and EPS suggests the increase in economic growth alone would boost earnings by c. 3% in year one.

Given how low European earnings growth has been (with no material earnings growth over the last 4 years) even this relatively small amount could have a large impact on sentiment.

Figure 16: Nominal GDP and EPS growth in Europe



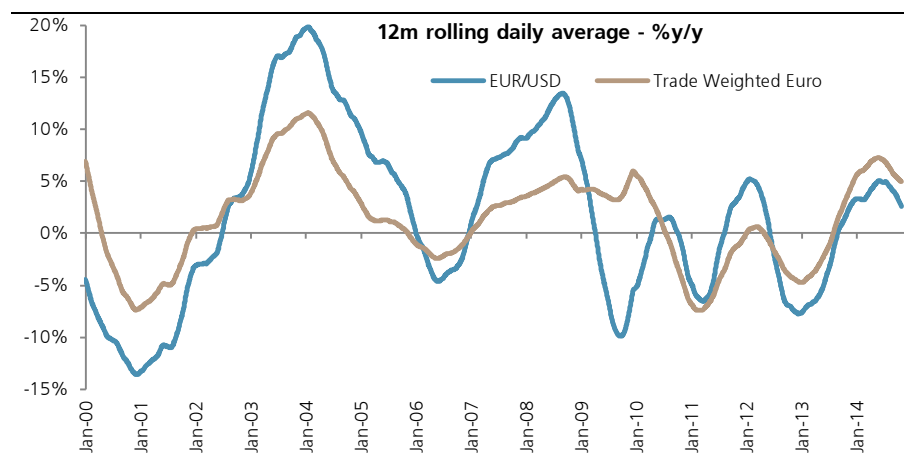
Higher nominal GDP could boost earnings by 3% in year one...

Source: Datastream, UBS European Equity Strategy

(ii) The FX effect on Earnings

If we assume that the beta of the Trade-Weighted Euro (TWI) stays roughly constant with the EUR/USD at 0.6x, then that suggests that the 21% move in the EUR/USD is equivalent to c. 13% fall in the Euro TWI.

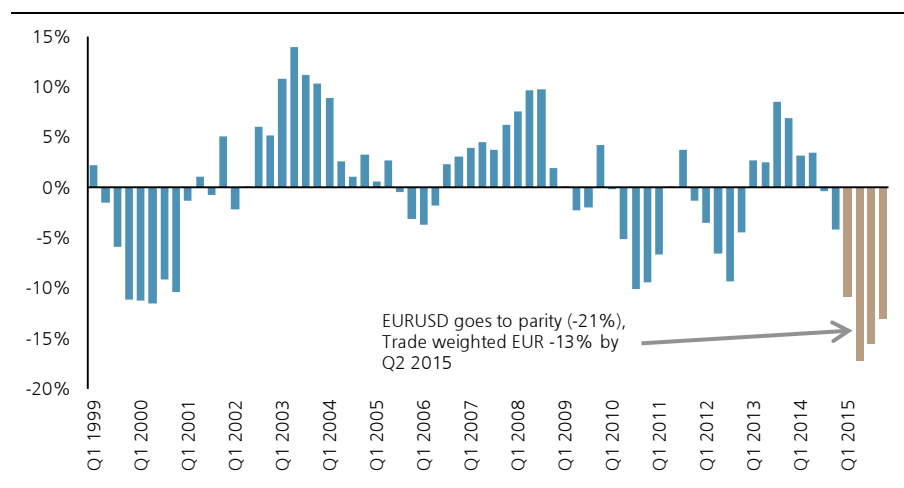
Figure 17: EUR/USD and EUR TWI - % y/y change of 12m rolling daily average



Source: Thomson Datastream, UBS European Equity Strategy

So in this scenario, the trade-weighted Euro falls 13% by the end of Q2 2015 (Figure 18). In our previous analysis we have estimated that a 10% fall in the trade-weighted currency generates a c.6% boost to earnings (*for details see "Can FX Effects offset weaker EU Growth?" 15 September*).

Figure 18: Change in quarterly average trade-weighted euro, % yr/yr



Source: Datastream, UBS European Equity Strategy

...and the direct boost from FX could be 8%...

In Summary: Taken *together*, the support from nominal GDP and the direct FX impact would likely boost European earnings by 11% in year one and by 20-25% cumulatively over 3 years.

This points to an 11% boost to earnings in Year 1 and a cumulative 20-25% by Year 3

Previous Example: What was the FX boost to Japan's earnings 2012/2013?

From mid-September 2012 to December 2013 the Japanese Yen fell by 35% against the US Dollar. This is greater than the c.21% fall in the Euro for it to go to parity. Whilst both these outcomes were seen to be unlikely (see the Quant analysis above) we thought it worth examining the case in Japan as a potential reference point.

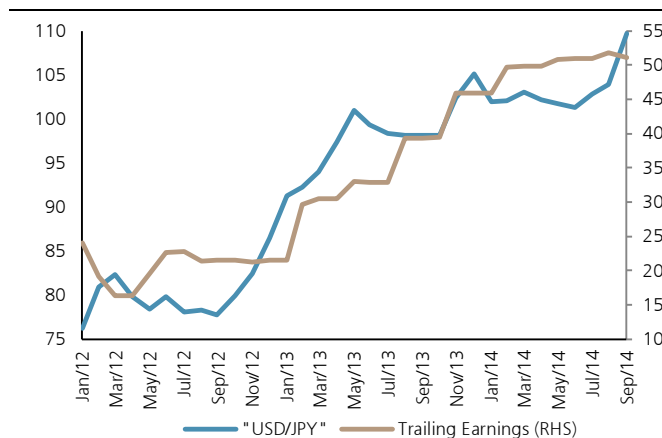
The beta of Japanese earnings to the currency was close to 3:1 (Figure 19). But the FX move was close to 1.7x greater and the Japanese equity market has far higher exposure to some of the key transactional beneficiaries – such as Autos and Industrials.

Figure 19: JPY weakness, earnings and RoE (September 2012 – End 2013)

	JPY Weakness	Earnings	RoE
% Change: Sept 2012 to End 2013	35.1%	113.8%	80.2%

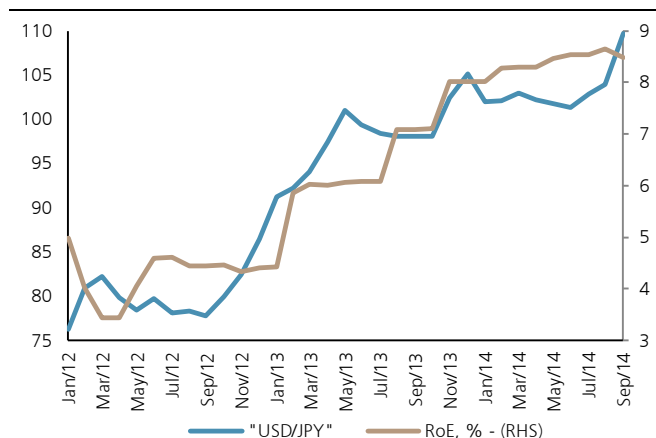
Source: UBS European Equity Strategy

Figure 20: USD/JPY and trailing Earnings in Japan (2012-2014)



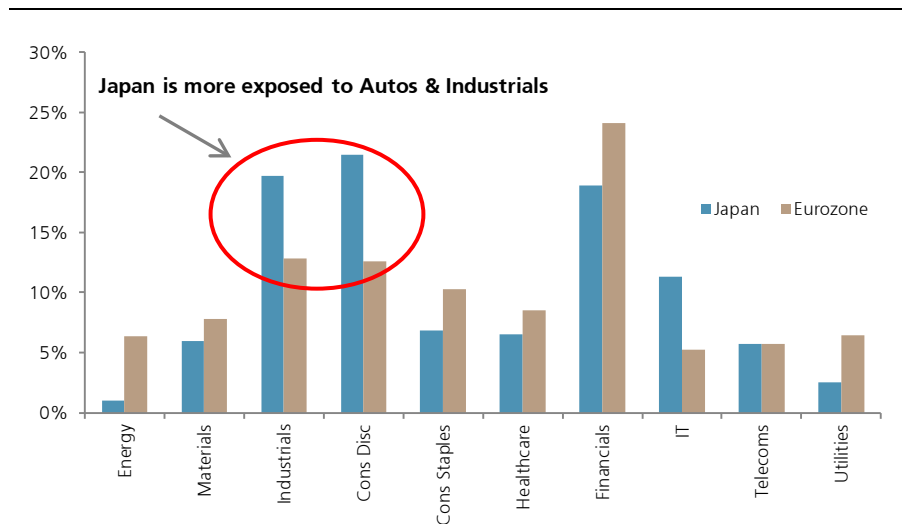
Source: Thomson Datastream, UBS European Equity Strategy

Figure 21: USD/JPY and RoE in Japan (2012-2014)



Source: Thomson Datastream, UBS European Equity Strategy

Figure 22: Japan is far more exposed to high FX sensitive such as Autos and Industrials as % of Total market cap



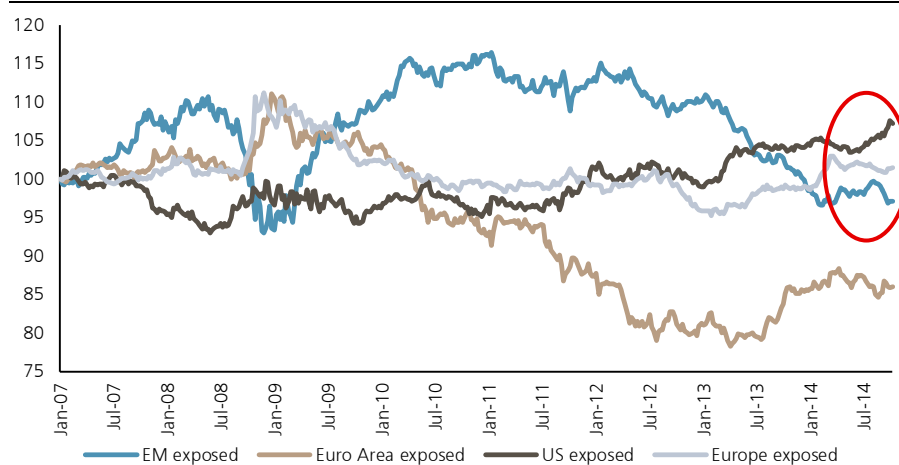
Source: MSCI, UBS European Equity Strategy

(3) What would it mean for Sectors & Stocks?

We are already seeing an improvement in the relative performance of European companies with high US exposure (Figure 23). And this is on a sector neutral basis – we look at an equally weighted portfolio of the relative performance of each stock in the list to their sector in order to remove the sector bias.

We remain positive on the theme of US exposure – stocks with high US exposure in some cases benefit from a "double whammy", stronger economic growth and the positive FX impact.

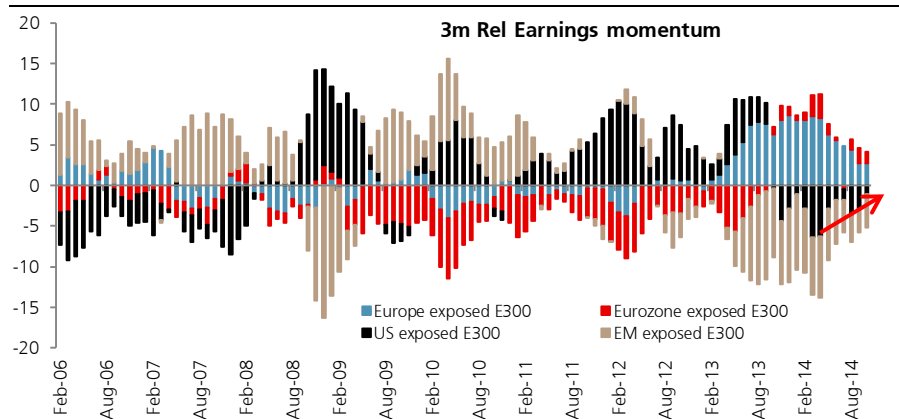
Figure 23: Performance of European stocks with different regional sales exposure



Source: Thomson Datastream, UBS European Equity Strategy

European stocks with high sales exposure to the US have had worse earnings momentum than the wider market since August 2013 as the stronger Euro has crimped profitability. But that has started to change in recent months and is now on an improving path.

Figure 24: Relative Earnings Momentum by Region: US Exposure Improving



Source: Thomson Datastream, UBS European Equity Strategy

The full list of stocks in the group is below:

We continue to recommend US-exposed European stocks

Relative earnings momentum is improving

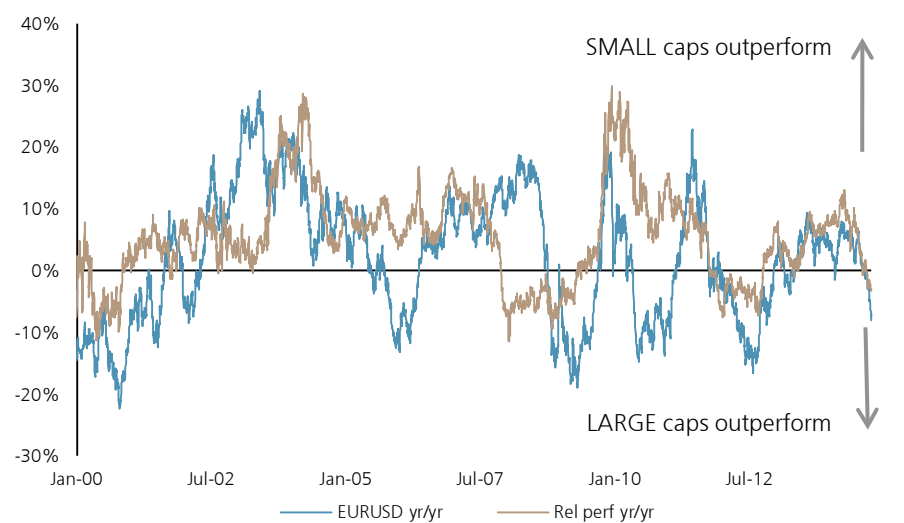
Figure 25: European stocks with >40% sales exposure to North America

Stock Name	Sector	North America Exposure	Mkt Cap (€bn)	Price Target(LC)	Rating	2014 PE	2015 PE	2014 DY	12m rel Perf (%)
Shire Pharmaceutical	Pharma	69%	30.5	5390	Neutral	18.4	16.3	0.5	57.9
Fresenius Medical	Health Care Eqp & svs	66%	17.3	60	Buy	22.4	18.9	1.4	14.9
Grifols	Pharma	65%	9.8	28	Sell	20.9	18.7	1.8	2.7
Pearson	Media	60%	11.7	1200	Buy	17.7	14.4	4.4	-7.2
Wolseley	Capital Goods	58%	11.0	3500	Neutral	16.9	14.6	2.5	4.2
Luxottica	Cons Durables	56%	18.6	41	Neutral	27.3	23.5	1.8	-2.0
National Grid	Utilities	55%	41.9	780	Neutral	17.3	16.4	4.8	22.2
Fiat	Automobiles	53%	10.6	10	Buy	n/a	8.1	2.3	48.4
CRH	Construction Materials	52%	12.7	1750	Buy	20.5	17.7	3.7	-5.3
Reed Else. NV	Media	51%	26.0	17.5	Neutral	16.6	14.8	3.0	19.1
Reed Elsevier plc	Media	51%	28.8	990	Neutral	17.7	16.2	2.6	22.7
Carnival Plc	Consumer Services	50%	23.8	2800	Buy	20.9	16.5	2.5	14.7
Smiths Group	Capital Goods	49%	5.6	1115	Sell	17.4	13.4	3.0	-14.6
InterContinental	Consumer Services	49%	7.5	2225	Neutral	23.8	21.6	2.0	33.7
Experian Group	Commercial Svs	48%	11.9	1200	Buy	16.6	14.9	2.5	-21.8
Publicis	Media	48%	12.0	54	Neutral	14.2	13.1	2.4	-14.1
Novo Nordisk	Pharma	47%	90.5	245	Neutral	25.4	21.6	2.0	31.4
Compass Group	Consumer Services	46%	20.9	975	Neutral	20.4	18.3	8.2	16.5
Alcatel-Lucent	Tech H/W	44%	5.7	3.8	Buy	26.7	7.4	0.0	-1.8
Actelion	Pharma	43%	10.8	125	Buy	25.9	18.2	1.0	60.9
Smith & Nephew	Health Care Eqp & Svs	43%	11.7	1100	Buy	20.5	17.5	1.7	34.3
Fresenius SE	Health Care Eqp & Svs	42%	22.1	42	Buy	20.8	18.0	1.1	22.7
AstraZeneca	Pharma	42%	70.5	5000	Buy	16.6	16.7	3.8	42.3
Tenaris	Energy	42%	18.2	42	Neutral	13.7	12.6	2.2	-12.1
Weir	Capital Goods	40%	6.1	2700	Buy	15.8	14.9	2.0	3.5

Source: Source: UBS European Equity Strategy

Another factor is that this would most likely favour the large cap stocks as they have higher overseas exposure than the mid and small cap universe. This has proved to be the case historically.

Figure 26: Performance of European Small vs Large caps



Source: Datastream, UBS European Equity Strategy

Additionally, Large Caps would likely outperform Small caps

Sector exposure

Looking at the correlations for sectors relative performance suggests that the biggest winners would likely be Healthcare Equipment, Pharma and Semis.

We are overweight Healthcare Equipment, in part because of this exposure, but also relative valuations such as the Dividend Yield relative that is close to a 10 year high.

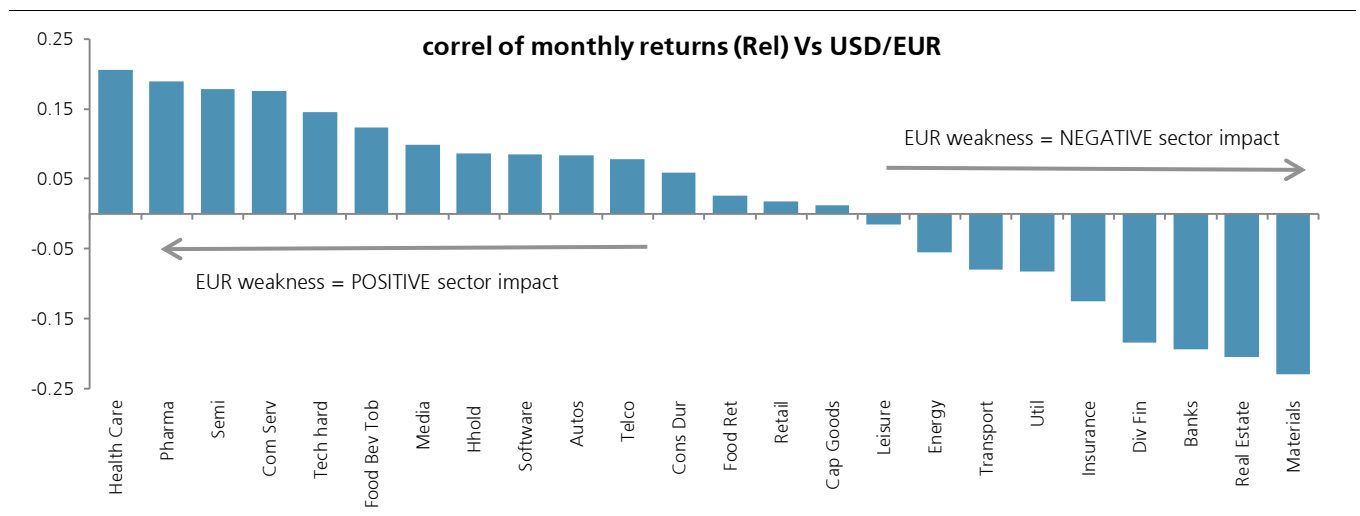
The sectors at the other end of the scale include Mining, which makes sense given the impact of a strong US Dollar on global commodity prices, but also some of the more domestic sectors, such as Real Estate, Utilities and the Financials.

We are happy to stick with our overweight of the Banks sector, although clearly not a direct beneficiary of a weaker Euro, there are other more pressing drivers for the sector – such as the improvement in earnings as provisions fall, the successful navigation of the AQR and stress test and the various ECB measures to improve credit availability, which will at the margin boost banks profitability. It is notable that the Banks have had better earnings momentum than the market for 16 out of the last 17 months.

This is just based on correlations and there are clearly other factors at work, such as the fact that the USD has been strong in periods of stress or concerns over low global growth.

The sector that outperform in periods of Euro weakness include Healthcare Equipment, Pharma and Semis

Figure 27: Correlation of sector monthly relative returns with USD



Source: UBS European Equity Strategy, Datastream

Sector Comments

Below we take commentary from our European Equity Research Sector teams. Many have also written in-depth reports on the impact on their stocks:

Aerospace & Defence

The US\$ vs local currency is important to both Aerospace and Defence companies – Aerospace sales are generally US\$ denominated, so have potentially very significant transaction exposure (although generally hedged for the near/mid-term), while most (generally UK) defence companies have a high level of US domiciled businesses, so are exposed to translation – less potential impact than transaction, but unhedgeable, so immediate impact.

It is the hedge rates that matter most with \$/Euro. Near term, **Zodiac** (August YE) is probably most exposed with both translation of 45% US profits and it typically only hedges 35% of its transaction exposure. In the long term **Airbus**, **Safran** and **MTU** have the largest impact as the hedges unwind.

Figure 28: FX sensitivity

Impact of US\$/€ move from 1.30 to 1.00							Comment
US\$/€	2014 profit*		2015 profit		Boost to Fair value	Percentage Change to FV	
	Hedged	Unhedged	Hedged	Unhedged			
Airbus	4.8%	45.0%	16.2%	81.6%	€ 34.8	58.8%	Transaction
Finmeccanica	3.0%	13.2%	5.4%	25.8%	€ 1.68	22.2%	Transl./Transac.
MTU	4.2%	22.8%	16.2%	46.2%	€ 24.0	37.8%	Transaction
Safran	0.0%	24.0%	0.0%	48.0%	€ 19.8	37.8%	Transaction
Thales	0.6%	0.6%	1.2%	1.2%	€ 0.54	1.2%	Translation
Zodiac (Aug YE)			21.0%	25.8%	€ 6.60	25.2%	Transl./Transac.

Source: UBS European Aerospace Research; as of 5 September;

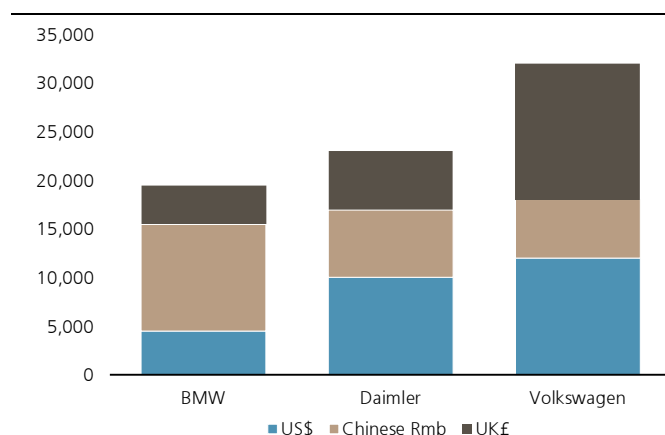
Autos

Autos are one of the most currency sensitive sectors despite continued progress in localising sourcing and assembly. OEMs are the main beneficiaries of a weakening € in terms of cost reductions, whereas tire manufacturers are exposed to rising costs assuming constant \$ prices for raw materials.

German OEMs are the main beneficiaries

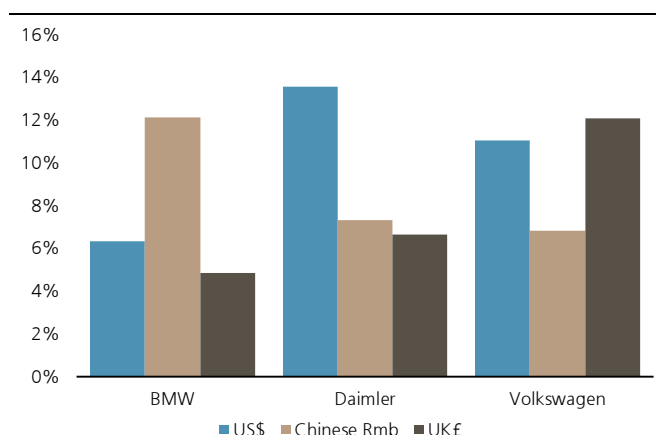
Isolating currency effects is somewhat artificial but, assuming that the €/£ goes to parity from mid-2014 levels would suggest 19% improvement in EBIT at **BMW**, 33% at **VW** and 41% at **Daimler** all else constant, combining transaction and translation effects. Since a weaker € would also be felt against other major auto currencies, we also modelled the impact of 10% weakening of the € against the Chinese Renminbi and the UK£, which suggests EBIT upside in theory as high as 45-55% across names compared to 2015 estimates based on mid-2014 currency levels. In our analysis, VW exhibits the highest sensitivity to US\$.

Figure 29: Transaction exposure by major currency, million EUR



Source: UBS Autos Research

Figure 30: EBIT impact of a 10% depreciation of € against key currencies



Source: UBS Autos Research

We would expect price discipline to prevail

Again, these sensitivities ignore any other adjustments in other parameters such as pricing. However we would expect the industry to maintain some degree of pricing discipline and use any cost easing to offset the incremental burden of CO2 compliance and implementing new technologies such as active safety and assisted driving which we expect will become mandatory over time.

Non German OEMs and VW are more exposed to EM currencies, with **Renault** particularly exposed to the Russian Rubble and, along with **PSA** and **FCA**, exposure to the Brazilian Real. FCA's forex exposure is mostly translational in nature and earnings should benefit from the group's large US exposure through Chrysler.

Tire exposure is more complex

Michelin/Conti currently benefit the most from a strong EUR vs USD as we estimate 50-70% of raw materials purchasing are located in Europe (vs **Nokian** and **Pirelli**: 20-30%). Our analysis also assumes 50% of raw materials costs are denominated in USD vs local currency. Upside risk to raw materials guidance due to lower prices (natural and synthetic rubber) could be short lived if EUR starts to depreciate.

Assuming parity between EUR and USD next year and no tailwind due to lower raw material prices would trigger material earnings downgrades for tire makers with downside risk for '15 ranging from 8% for Nokian to 33% for Michelin (25% for Pirelli and 13% for Conti given support from auto division). For more details on the methodology, please refer to our report published on 3 June.

Suppliers benefit from better natural hedge (sales/production usually in same currency).

Airlines

For airlines, Euro weakness is a negative. They are net short dollars. Low cost airlines with no dollar earnings should be most impacted. However, they hedge over 80% of dollar cost 12 months out so only impact in year 2. On a 12 months view we believe the flag carriers (**IAG**, **Air France** and **Lufthansa**) would be most impacted.

EasyJet hedge materially. All dollar impact is transactional. Per company: a 1 cent move in £:\$ impacts pre-tax by +/-£0.2m. So a 10% must mean a +/-£3.2m or c.1% of EBIT. All Euro change we would argue is translational and per company same impact as dollar.

Ryanair dollar impact is transactional. A 10% change would impact all hedging contracts by €294m. From a P&L perspective company estimates impact is €m net of tax so we would estimate c.€3.4m EBIT hit or less than 1% impact. They have a very significant hedging programme in place.

For **IAG**, all impact is transactional although there is no split available. We estimate the impact of a 10% EURUSD move at c.1% of EBIT given hedging levels. For **Lufthansa**, impact on EBIT looks like c.-2% for a 10% weakening of EURUSD and 6.5% in case of strengthening.

Beverages

The beverages sector has a relatively high exposure to FX moves – see table below.

Figure 31: European Beverage Companies FX Sensitivity

	Reporting currency	10% move versus:	Impact on earnings
Diageo	GBP	USD	4%
		EUR	1%
Pernod	EUR	USD	5%
Campari	EUR	USD	3%
		BRL	1%
		JMD	1%
Remy Cointreau	EUR	USD	15%
ABInBev	USD	BRL	3%
		MXN	1%
SABMiller	USD	ZAR	3%
		COP	2%
		AUD	2%
Heineken	EUR	USD	3%
		MXN	1%
		NGN	1%
Carlsberg	DKr	RUB	4%
C&C	EUR	GBP	6%
		USD	2%
CCH	EUR	RUB	2%
		NGN	1%
Britvic	GBP	EUR	1%
Source : UBS estimates			

Building Materials

All the impacts are at a translational level. If it is a move in EURUSD then dollar earners win (**CRH**, **WOS** but they report in GBP) but if against EM FX as well, then **HOLN**, **HEI** and **LAFP** would be big winners.

Cap Goods

Broadly speaking, the industrials will benefit from a weaker euro, as it will enable them to recover some of the ground lost on margins and profits in 2013. The companies are reasonably transparent when it comes to reporting the impact from

FX and there has been a negative impact on margins from their transactional currency exposure. However, we believe that the current FX tailwind is likely to reflect weaker underlying fundamentals in for example Europe and economic activity tends to decide what direction earnings and share prices take, not FX. Among the more currency sensitive names we find **SKF**, **Sandvik** and **Volvo**.

Chemicals

In an environment of 3-5% volume growth, flat pricing and self-help measures below the average of the past ten years, currency all of a sudden becomes the marginal earnings driver - provided volumes hold of course. In H1 2014 sector EBIT was held back by on average c.6% due to adverse exchange rates. One third stemming from dollar weakness, two thirds from emerging market currencies. All 30 stocks under coverage were affected by between 3% (Scandis) and 10% (€-denominated), with Sterling strength kicking in towards the end of Q1 and hence UK earnings dilution time-shifted.

Companies whose EBITDA/EBIT was affected worse than the avg 6% include: (1) **BASF**, **Bayer**, **Umicore** (€/\$). (2) **Clariant** and **SIKA** (CHF vs emerging market currencies, mostly translation). (3) **Arkema** and **Air Liquide** (€ vs Japanese Yen, yet this is the exchange rate which has yet to respond to European Quantitative Easing). (4) **Akzo** and **Syngenta** (transactional exposure to USD vs emerging market currencies). (5) **DSM** was probably more hit sentiment-wise as it profit warned, although its currency hit to earnings, on our analysis, was in line with sector avg. Sterling earnings only suffered from Q2.

The search for the "1 cent change = x% earnings" sensitivity proves difficult. Some ten years ago, most companies used to provide simple currency sensitivity yardsticks for dollar exposure as key guide to overall foreign exchange setup. More difficult nowadays, because of regional diversification, more complicated 'sales vs production' asset configuration in Emerging markets and at times tricky raw material sourcing (e.g TiO2 imported in USD but paints formulations priced in local currency of a given emerging market). We provide FX-synopsis by stock, for guidance, sensitivity and trends.

Food Producers

The sector is a big beneficiary of a weak Euro given it only generates roughly 25% of sales in the region. But there is a risk that FX related pricing (to recover local currency input cost inflation) is obscuring a slowdown in underlying Emerging Markets demand.

In terms of exposure to US dollar versus exposure to Euro, the stocks most advantaged by currency parity would be **Tate & Lyle** (c.85% vs c.10%) and **Nestle** (26% vs 18%).

General Retail

For most of our stocks this depends on whether the \$ is strong against all currencies. Strong US economy / weak sterling is bad news across the board for the general retailers – higher input costs, very little direct exposure to the US and any inflation risks could see UK rate expectations rise.

For the \$/€, a weak euro is a big win for **Inditex**, which is effectively a Eurozone exporter for c35% of product (70% is produced in Europe but half stays in

Europe). There is some offset from 30% of product bought in the Far East, but this is low in relative terms.

H&M would be a relative loser with c.80% bought in the Far East and c.65% of sales in the Eurozone. Given recent behaviour, H&M may be tempted to absorb the margin hit rather than price higher. In terms of reported profit, it then depends what the euro / SKr does.

Elsewhere **Kingfisher** could see some margin pressure from higher import costs (France is over 50% of group PBT), although if monetary easing kick starts the economy that would give some offset. **Darty** is almost 100% euro earnings but should have some protection in that electricals pricing tends not to move as rapidly as exchange rates.

Health Care Equipment

Out of the Medtech Sector **Fresenius Medical Care**, **Fresenius SE** and **Elekta** are likely to be most impacted by \$ movement. Fresenius Medical's impact is mostly translational: it generates ~66% of revenues in 2013 from North America (the vast majority of which will be US related) but a similar share of costs are incurred in dollars. Fresenius wholly consolidates Fresenius Medical so also has significant US exposure with 42.4% of revenues in North America, also with notable exposure in the Fresenius Kabi division but again has costs that (roughly) offset this exposure at the margin line. Elekta's exposure is transactional: it generates 47% of its revenues in dollars, but just 24% of its opex, suggesting meaningful scope for margin uplifts from recent FX moves.

Insurance

A weaker Euro is generally neutral to positive for the insurers. Neutral for those that report in Euros and derive the majority of earnings from that region, and positive for some of the names that are more internationally active.

Some companies' performances have been masked by FX – mainly those with Asian operations, especially in Indonesia, but also the weaker dollar vs. GBP.

Key beneficiaries of a weaker Euro would be the larger non-UK insurers: **Munich Re**, **Allianz**, **Generali**. To the extent that the Swiss Franc might strengthen as a result of further weakening, then losers might be **Swiss Re** and **Zurich**.

Leisure

Contract catering has big US exposure: for **Sodexo** and **Compass** it is c.40% of the group. Euro weakness has a positive translation impact for Sodexo (they report in Euros) and they also have a large Latam business. Compass reports in Sterling so if GBP weakens it is a positive. Euro weakness vs. Sterling for Compass is negative given the translation impact. **Edenred** would also be a big beneficiary of weakness from a translation perspective. The Euro was strong in Q1 vs. a year ago so was a headwind for earnings for catering and hotels

A minimal impact for **Whitbread** (over 90% of profits UK), about 30% of **Accor's** business is outside Europe, so there is a positive translation impact if the Euro weakens. For **IHG** they have 70% of business in US. However, they report in pounds so Sterling weakness would be positive. There is a minimal impact, if any, for the gaming companies (William Hill and Ladbrokes).

Media

For Media, the key beneficiaries if the euro moved to parity would be **Publicis, Wolters, Havas & Reed Elsevier** & to a lesser extent **JCDecaux / RTL**. Wolters & Reed NV have 50-60% \$ exposure, and hence would see a c.11-13% uplift. For Publicis & Havas, c.30-50% of earnings are dollar derived (incorporating some \$ debt exposure), so fall to parity from here would add c.6-11% to consensus earnings. For JCDecaux, c.10% of earnings are US-based, so a 2-3% impact. RTL would see some modest uplift through its production business Fremantle.

Pharma

For Pharma, the table below shows sensitivities. EURUSD is taken to parity, and we assumed GBP stays half way between USD and EUR (it has an impact on cost bases for AZN and GSK).

Figure 32: EPS impact of EUR/USD moving to parity

	AZN	GSK	Novartis	Roche	Sanofi	Bayer
FY'15 FX EPS impact at current exchange rates	-0.9%	0.5%	-1.3%	2.3%	3.6%	3.2%
FY'15 FX EPS impact EUR/USD at 1.00	-7.5%	5.6%	-0.2%	13.4%	13.5%	11.1%

Source: UBS European Pharmaceuticals Research

Steel

Two effects of a potential Euro weakening:

Volume improvement as net exports will increase (down ~40% last year, c.25% current year). Raw material prices become more expensive (usually negotiated in US\$). However, the net-net effect would be positive as the raw material price purchases are usually hedged on an annual basis.

Beneficiaries:

Steel traders, such as **Kloeckner & Co**

Steel stocks with less US exposure (otherwise there is translation risk), such as **Voestalpine, Salzgitter**.

Tech software

In the event that the € fell to parity with the US\$, our Software companies would typically be best placed to benefit as they are most global in their operations, although Capgemini has a meaningful (20%-plus) US presence. We have made no other adjustments to sterling, for instance, which is an important currency for Services' companies in particular, so on this basis **SAP, Dassault** and **Capgemini** would probably be the biggest beneficiaries from our large-cap universe. Applying a \$1:€1 exchange rate to our 2015 estimates would boost SAP sales by 10% and EBIT by 13% we estimate. For Dassault, revenues would be 9% higher and EBIT 11% higher. Capgemini would see 7% higher revenues and 10% higher EBIT given the higher margin it enjoys in the US. Depending on how sterling moved, the most likely losers from a weaker Euro would be our US\$ and £ reporting names, especially **Temenos, Micro Focus, Telecity** and **Aveva**.

Telecoms

FX movements affect the earnings of the European telecoms sector mainly due to translation impact. Transaction impact is limited, mainly due to some capex items denominated in USD. However the portion of capex denominated in USD is decreasing and it would be impossible to assess its impact on companies' cashflow margins as there is no sufficient disclosure.

Telecom service providers do not export goods or services, so FX movements do not affect the level of activity either.

Should the euro depreciate over the coming quarters the operators that would enjoy an uplift of their nominal earnings, triggering some potential upside on consensus, are therefore the ones with stronger exposure to markets outside the Euro area. These are mainly the former incumbents. Smaller players and players focused just on domestic markets would not enjoy any positive impact. We are not including in our analysis those European operators reporting their earnings in a currency different from the Euro (BT and Vodafone, reporting in pounds and the Scandinavian players).

Figure 33: Euro Telecoms share of Operating cashflow from non-Euro countries

Share of Op CF from non-Euro countries	2014E
Telefonica	51%
Orange	25%
Deutsche Telekom	35%
Telecom Italia	12%

Source: UBS European Telecoms Team, Company reports

Among the 4 stocks above **DT** is probably the one who would benefit the most as its non-euro exposure is mainly US. As for **Orange**, **TEF** and **TI** impact could prove limited or even opposite.

Orange: 1/3 out of the 25% exposure (ie 8% of OP CF) comes from Jordan and Senegal, where the potential exchange rate move is unclear.

As for TEF and TI large part of their non-EUR exposure is in Real and in Latam currencies more in general. These currencies have been depreciating against the euro over the last few months notwithstanding the USD appreciation. Since the end of June the USD appreciated >7% vs the EUR, the R\$ depreciated >4% vs the euro. A tightening of the US policy may trigger outflows from Latam and trigger further currency depreciation. TEF and TI may have negative translation impact from a USD appreciation as a result.

Utilities

In the event of a strong dollar rally against the euro (or GBP), this would have two main consequences:

(1) A direct effect, as some of the European names we cover do have sizeable businesses in the US (e.g. **National Grid**), operating in USD (e.g. E&P activities, or sometimes activities in Mexico) – Translation of earnings back into reporting currency (€, £) would have an impact.

(2) An indirect effect, as commodities prices can drive power prices, and commodities tend to be priced in USD. This is especially true in the case of coal.

Indeed power prices are determined by the variable cost of certain technologies (marginal pricing), and for certain markets the main price-setting technology is coal (Germany, Spain). Obviously prices of coal are a key determinant in the variable cost of coal-fired plants, and seaborne thermal coal is traded in USD. A stronger dollar leads to higher coal prices in €, which leads to a higher marginal cost of coal plants, which leads to higher power prices when these plants are price-setting. The idea here is that commodities costs are a pass-through for these plants (margin per unit stays the same for coal plants), but cheaper technologies with fixed costs (hydro, nuclear) become much more profitable as prices increase, ceteris paribus. This would be key for names very exposed to fixed cost power generation in these "coal markets" (e.g. **E.On**, **Fortum**).

As a whole, we think that the USD/EUR impact on utilities is probably quite moderate, especially as compared to some other sectors.

Figure 34: EPS sensitivity to a 10% USD appreciation against EUR and GBP

Company	Total EPS Impact, %	Company	Total EPS Impact, %
EDPR	3.8%	E.ON	-0.1%
National Grid	3.5%	Verbund	-0.5%
Centrica	2.6%	Gas Natural	-0.6%
Iberdrola	2.6%	Energias de Portugal	-0.8%
GDF Suez	1.3%	EDF	-0.9%
Veolia Environnement	0.8%	Alpiq	-1.0%
Suez Environnement	0.6%	Enel	-1.5%
SSE	0.2%	Fortum	-1.5%
Penon	0.0%	RWE	-1.6%
Severn Trent	0.0%	CEZ	-1.9%
United Utilities	0.0%		

Source: UBS European Utilities Research

Figure 35: Potential Winners from a weaker EURUSD

Name	Sector	Mkt Cap (€bn)	UBS rating	Price (LC)	2014E PE	2014E DY	YTD rel performance	Rel perf since EURUSD peak (6 May)	Rel perf since market peak (4 Sept)
BMW	Autos	53.5	Neutral	83.316	9.9	3.5	-3%	-4%	-3%
Daimler	Autos	64.8	Neutral	60.61	10.1	3.9	-4%	-5%	0%
Fiat Chrysler	Autos	10.5	Buy	8.575	123.0	0.0	42%	2%	17%
Volkswagen Pref	Autos	80.6	Buy	165.15	8.5	2.6	-19%	-10%	0%
Airbus Group	Capital Goods	35.9	Buy	45.905	14.4	2.1	-17%	-3%	1%
BE Group publ	Capital Goods	0.0	Not Rated	6.35	n/a	n/a	-50%	-52%	-34%
Klöckner	Capital Goods	0.9	Neutral	8.97	46.2	0.0	-8%	-18%	-7%
MTU Aero Engines	Capital Goods	3.5	Sell	68.833	15.5	2.0	-4%	3%	6%
Safran	Capital Goods	20.8	Buy	49.91	16.6	2.4	-2%	6%	3%
Sandvik	Capital Goods	10.8	Sell	79.75	16.8	3.7	-17%	-15%	-5%
SKF B	Capital Goods	7.2	Neutral	147.2	11.9	3.8	-19%	-13%	-8%
Volvo B	Capital Goods	18.4	Sell	83.8	20.4	3.6	-6%	-17%	5%
Wolseley	Capital Goods	10.9	Neutral	3266	16.9	2.5	0%	1%	7%
Zodiac Aerospace	Capital Goods	6.5	Neutral	23.855	17.8	1.3	-8%	0%	-2%
Accor	Consumer Svs	7.4	Buy	32.93	20.6	2.4	-4%	-6%	-7%
Compass Group	Consumer Svs	21.1	Neutral	998	20.6	8.1	7%	10%	6%
Edenred	Consumer Svs	4.9	Buy	21.65	24.7	3.7	-11%	-7%	4%
InterContinental	Consumer Svs	7.6	Neutral	2337	24.2	1.9	22%	13%	7%
Sodexo	Consumer Svs	11.5	Neutral	76.1	22.2	2.4	1%	-2%	4%
C&C Group	Food, Bev & Tobac	1.2	Neutral	3.42	10.6	3.2	-19%	-18%	-16%
Campari	Food, Bev & Tobac	3.3	Sell	5.6	21.0	1.4	-9%	-9%	-3%
Heineken	Food, Bev & Tobac	34.2	Neutral	59.32	19.4	1.6	19%	22%	6%
Nestlé	Food, Bev & Tobac	183.8	Neutral	69.45	20.2	3.2	7%	4%	2%
Pernod	Food, Bev & Tobac	23.9	Buy	89.81	17.9	1.8	7%	6%	3%
Remy	Food, Bev & Tobac	2.8	Neutral	56.41	31.3	2.3	-9%	-8%	-5%
Tate & Lyle	Food, Bev & Tobac	3.6	Neutral	608.5	15.3	4.5	-22%	-10%	-8%
Inditex	General Retail	67.9	Neutral	21.805	27.1	2.5	-9%	6%	2%
Elekta	Health Care	3.2	Sell	76.7	21.3	3.1	-28%	-19%	-2%
Fresenius Medical	Health Care	17.5	Buy	58.18	22.7	1.4	11%	22%	13%
Fresenius SE	Health Care	21.9	Buy	40.55	20.6	1.1	7%	14%	13%
Allianz	Insurance	56.5	Buy	124.2	8.7	4.9	-5%	2%	-2%
AXA	Insurance	41.2	Not Rated	17.875	n/a	n/a	-11%	4%	-2%
Generali	Insurance	24.7	Neutral	15.85	11.7	3.5	-8%	-3%	2%
Munich Re	Insurance	27.5	Buy	153.45	8.5	4.9	-5%	-1%	5%
Aperam	Materials	1.8	Not Rated	22.895	n/a	n/a	66%	20%	-7%
BASF SE	Materials	63.2	Buy	68.78	12.0	4.2	-12%	-13%	-7%
CRH	Materials	13.0	Buy	1382	20.8	3.6	-5%	-16%	0%
Salzgitter	Materials	1.4	Buy	23.29	n/a	0.9	-25%	-22%	-16%
Umicore	Materials	3.4	Buy	30.76	18.3	3.3	-11%	-9%	-13%
Voestalpine	Materials	5.4	Buy	31.325	11.3	3.0	-11%	-3%	-1%

Source: UBS European Equity Research

Figure 36: Potential Winners from a weaker EURUSD (continued)

Name	Sector	Mkt Cap (€bn)	UBS rating	Price (LC)	2014 PE	2014 DY	YTD rel performance	Rel perf since EURUSD peak (6 May)	Rel perf since market peak (4 Sept)
Havas	Media	2.6	Buy	6.334	17.4	1.9	4%	12%	5%
JCDecaux	Media	5.7	Buy	25.84	23.1	1.9	-14%	-12%	0%
Publicis	Media	12.1	Neutral	54.04	14.4	2.4	-19%	-9%	-1%
Reed Elsevier plc	Media	29.2	Neutral	1015	17.9	2.6	17%	23%	8%
RTL	Media	11.6	Buy	74.74	18.2	8.0	-22%	-1%	11%
Wolters Kluwer	Media	6.2	Buy	20.975	13.4	3.4	0%	6%	4%
Bayer	Pharma & Biotech	91.0	Buy	110.014	17.7	2.1	8%	14%	11%
GlaxoSmithKline	Pharma & Biotech	87.1	Sell	1398	15.0	5.7	-9%	-9%	1%
Roche	Pharma & Biotech	201.4	Buy	283.4	18.9	2.9	14%	14%	10%
Sanofi	Pharma & Biotech	95.4	Neutral	71.91	13.7	4.0	-7%	-6%	-11%
Capgemini	Software	8.3	Buy	51.57	13.9	2.3	4%	2%	-2%
Dassault Syst.	Software	12.7	Neutral	49.8	30.2	0.9	9%	12%	2%
SAP	Software	62.9	Buy	52.66	15.2	1.9	-16%	-5%	-7%
Deutsche Telekom	Telecom	51.8	Buy	11.632	18.9	4.3	-7%	-3%	6%
National Grid	Utilities	42.5	Neutral	914	17.5	4.7	21%	14%	6%

Source: UBS European Equity Research

Figure 37: Potential Losers from a weaker EURUSD

Name	Sector	Mkt Cap (€bn)	UBS rating	Price (LC)	2014 PE	2014 DY	YTD rel performance	Rel perf since EURUSD peak (6 May)	Rel perf since market peak (4 Sept)
Continental AG	Autos	30.8	Neutral	153.8	11.6	2.2	-4%	-6%	-2%
Michelin	Autos	12.6	Buy	68.43	8.9	4.1	-12%	-21%	-15%
Nokian	Autos	3.3	Neutral	24.53	13.3	6.3	-35%	-18%	-6%
Pirelli	Autos	5.1	Neutral	10.51	12.2	3.8	-17%	-11%	-9%
H & M	General Retail	52.2	Buy	291.9	24.2	3.6	-7%	9%	0%
Kingfisher	General Retail	8.8	Buy	293.4	12.8	3.6	-20%	-27%	2%
AstraZeneca	Pharma & Biotech	71.5	Buy	4500	16.8	3.8	31%	1%	4%
Aveva Group	Software	1.2	Buy	1503	19.3	1.7	-27%	-26%	-27%
Micro Focus	Software	1.8	Buy	994	13.8	2.8	33%	30%	21%
Telecity	Software	2.0	Buy	767.5	19.5	1.8	10%	13%	9%
Temenos	Software	1.9	Neutral	32.85	25.9	1.1	32%	8%	-2%
Air France - KLM	Transportation	2.0	Neutral	6.549	n/a	0.0	-13%	-37%	-19%
easyJet	Transportation	7.3	Buy	1460	12.5	3.2	1%	-6%	14%
IAG	Transportation	10.1	Buy	390.7	11.2	0.0	4%	4%	14%
Lufthansa	Transportation	5.3	Neutral	11.52	12.1	2.4	-26%	-36%	-11%
Ryanair	Transportation	10.3	Buy	7.46	15.1	5.0	18%	11%	5%

Source: UBS European Equity Research

Statement of Risk

Risks include macroeconomic variables (such as GDP growth rates and inflation), economic slowdown, a weakening currency, global economic events, and government policy changes.

Required Disclosures

This report has been prepared by UBS Limited, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit www.ubs.com/disclosures. The figures contained in performance charts refer to the past; past performance is not a reliable indicator of future results. Additional information will be made available upon request. UBS Securities Co. Limited is licensed to conduct securities investment consultancy businesses by the China Securities Regulatory Commission.

Analyst Certification: Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

UBS Investment Research: Global Equity Rating Definitions

12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	47%	34%
Neutral	FSR is between -6% and 6% of the MRA.	42%	28%
Sell	FSR is > 6% below the MRA.	11%	21%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 September 2014.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

KEY DEFINITIONS: **Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES: **UK and European Investment Fund ratings and definitions are:** **Buy:** Positive on factors such as structure, management, performance record, discount; **Neutral:** Neutral on factors such as structure, management, performance record, discount; **Sell:** Negative on factors such as structure, management, performance record, discount. **Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Research analysts contributing to this report who are employed by any non-US affiliate of UBS Securities LLC are not registered/qualified as research analysts with the NASD and NYSE and therefore are not subject to the restrictions contained in the NASD and NYSE rules on communications with a subject company, public appearances, and trading securities held by a research analyst account. The name of each affiliate and analyst employed by that affiliate contributing to this report, if any, follows.

UBS Limited: Nick Nelson; Karen Olney, CFA; Andras Nagy, CFA; Reinhard Cluse; David Jessop; Geoffrey Yu.

Company Disclosures

Company Name	Reuters 12-month rating	Short-term rating	Price	Price date
Accor ^{2, 4, 5, 13}	ACCP.PA	Buy	N/A	€32.93 30 Oct 2014
Actelion ^{5, 13, 18e}	ATLN.VX	Buy	N/A	CHF113.50 30 Oct 2014
Air France - KLM ^{3c, 5}	AIRF.PA	Neutral	N/A	€6.55 30 Oct 2014
Air Liquide	AIRP.PA	Sell	N/A	€95.12 30 Oct 2014
Airbus Group NV ⁵	AIR.PA	Buy	N/A	€45.91 30 Oct 2014
Akzo Nobel	AKZO.AS	Sell	N/A	€52.24 30 Oct 2014
Alcatel-Lucent ¹⁶	ALUA.PA	Buy	N/A	€2.37 30 Oct 2014
Allianz S.E ^{2, 4, 5}	ALVG.DE	Buy	N/A	€124.20 30 Oct 2014
Alpiq Holding ^{2, 3d, 4, 5}	ALPH.S	Neutral	N/A	CHF96.50 30 Oct 2014
Anheuser-Busch InBev ^{5, 16}	ABI.BR	Buy	N/A	€87.16 30 Oct 2014
Aperam	APAM.LU	Not Rated	N/A	€22.90 30 Oct 2014
Arkema	AKE.PA	Buy	N/A	€48.50 30 Oct 2014
ARM Holdings Plc ^{4, 5, 14, 16}	ARM.L	Buy	N/A	839p 30 Oct 2014
AstraZeneca ^{13, 16}	AZN.L	Buy	N/A	4,500p 30 Oct 2014
Aveva Group	AVV.L	Buy	N/A	1,503p 30 Oct 2014
AXA ^{3e, 5}	AXAF.PA	Not Rated	N/A	€17.88 30 Oct 2014
BASF SE ^{5, 14}	BASFn.F	Buy	N/A	€68.78 30 Oct 2014
Bayer ^{2, 4, 5, 6a}	BAYGn.F	Buy	N/A	€110.01 30 Oct 2014
BE Group publ AB	BEGR.ST	Not Rated	N/A	SKr6.35 30 Oct 2014
BMW ^{2, 4, 5}	BMWG.F	Neutral	N/A	€83.32 30 Oct 2014
Britvic ¹³	BVIC.L	Neutral	N/A	660p 30 Oct 2014
C&C Group	GCC.I	Neutral	N/A	€3.42 30 Oct 2014
Capgemini ⁵	CAPP.PA	Buy	N/A	€51.57 30 Oct 2014
Carlsberg A/S	CARLb.CO	Neutral	N/A	DKr522.00 30 Oct 2014
Carnival Plc ^{4, 5, 6b, 7, 13, 14, 16}	CCL.L	Buy	N/A	2,467p 30 Oct 2014
Centrica ^{4, 5, 14}	CNA.L	Sell	N/A	300p 30 Oct 2014
CEZ Group	CEZP.PR	Sell	N/A	Kc606.90 30 Oct 2014
Clariant ^{2, 4, 5, 18c}	CLN.VX	Buy	N/A	CHF16.60 30 Oct 2014
Coca-Cola Hellenic Bottling Company S.A ⁵	CCH.L	Neutral	N/A	1,349p 30 Oct 2014
Compass Group	CPG.L	Neutral	N/A	998p 30 Oct 2014
Continental AG	CONG.DE	Neutral	N/A	€153.80 30 Oct 2014
CRH ^{2, 4, 5, 14, 16}	CRH.L	Buy	N/A	1,382p 30 Oct 2014
Daimler AG ¹³	DAIGn.DE	Neutral	N/A	€60.61 30 Oct 2014
Darty PLC ^{4, 14, 24}	DRTY.L	Buy	N/A	75p 30 Oct 2014
Dassault Systèmes	DAST.PA	Neutral	N/A	€49.80 30 Oct 2014
Davide Campari	CPRI.MI	Sell	N/A	€5.60 30 Oct 2014
Deutsche Lufthansa AG ¹³	LHAG.DE	Neutral	N/A	€11.52 30 Oct 2014
Deutsche Telekom	DTEGn.F	Buy	N/A	€11.63 30 Oct 2014
Diageo ^{2, 4, 5, 16}	DGE.L	Neutral	N/A	1,810p 30 Oct 2014
DSM ¹³	DSMN.AS	Neutral	N/A	€49.28 30 Oct 2014
E.ON ^{2, 4, 5}	EONGn.DE	Sell	N/A	€13.32 30 Oct 2014

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
easyJet ¹³	EZJ.L	Buy	N/A	1,460p	30 Oct 2014
Edenred ⁴	EDEN.PA	Buy	N/A	€21.65	30 Oct 2014
EDF	EDF.PA	Neutral	N/A	€22.95	30 Oct 2014
EDP Renovaveis ⁵	EDPR.LS	Neutral	N/A	€5.13	30 Oct 2014
Elekta	EKTab.ST	Sell	N/A	SKr76.70	30 Oct 2014
Enel ^{2, 4, 5, 6a}	ENEI.MI	Buy	N/A	€3.91	30 Oct 2014
Energias de Portugal ^{2, 4, 5, 6a}	EDP.LS	Neutral	N/A	€3.33	30 Oct 2014
Experian Group ^{2, 4}	EXP.N.L	Buy	N/A	937p	30 Oct 2014
Fiat Chrysler Automobiles NV ^{4, 5, 16}	FCHA.MI	Buy	N/A	€8.58	30 Oct 2014
Fortum	FUM1V.HE	Sell	N/A	€17.98	30 Oct 2014
Fresenius Medical Care ^{5, 16}	FMEG.DE	Buy	N/A	€58.18	30 Oct 2014
Fresenius SE & Co KGaA ⁵	FREG.DE	Buy	N/A	€40.55	30 Oct 2014
Gas Natural Fenosa ⁵	GAS.MC	Sell	N/A	€22.55	30 Oct 2014
GDF Suez ⁵	GSZ.PA	Neutral	N/A	€18.93	30 Oct 2014
Generali ^{2, 4, 5}	GASI.MI	Neutral	N/A	€15.85	30 Oct 2014
GlaxoSmithKline ^{4, 5, 16}	GSK.L	Sell	N/A	1,398p	30 Oct 2014
Grifols ¹⁶	GRLS.MC	Sell	N/A	€31.91	30 Oct 2014
H & M	HMb.ST	Buy	N/A	SKr291.90	30 Oct 2014
Havas	EURC.PA	Buy	N/A	€6.33	30 Oct 2014
Heineken	HEIN.AS	Neutral	N/A	€59.32	30 Oct 2014
Iberdrola ^{2, 4, 5}	IBE.MC	Buy	N/A	€5.54	30 Oct 2014
Inditex SA	ITX.MC	Neutral	N/A	€21.81	30 Oct 2014
InterContinental Hotels Group ¹⁶	IHG.L	Neutral	N/A	2,337p	30 Oct 2014
International Airlines Group	ICAG.L	Buy	N/A	391p	30 Oct 2014
JCDecaux	JCDX.PA	Buy	N/A	€25.84	30 Oct 2014
Kingfisher ⁵	KGf.L	Buy	N/A	293p	30 Oct 2014
Klöckner ^{18b}	KCOGn.DE	Neutral	N/A	€8.97	30 Oct 2014
Luxottica ^{5, 16}	LUX.MI	Neutral	N/A	€40.03	30 Oct 2014
Michelin	MICP.PA	Buy	N/A	€68.43	30 Oct 2014
Micro Focus Intl Plc ¹³	MCRO.L	Buy	N/A	994p	30 Oct 2014
MTU Aero Engines AG ^{18b}	MTXGn.F	Sell	N/A	€68.83	30 Oct 2014
Muenchener Rueckversicherungs ^{3f, 5}	MUVGn.DE	Buy	N/A	€153.45	30 Oct 2014
National Grid ^{2, 4, 5, 16}	NG.L	Neutral	N/A	914p	30 Oct 2014
Nestlé ^{2, 4, 5, 22}	NESN.VX	Neutral	N/A	CHF69.45	30 Oct 2014
Nokian Renkaat Oyj ⁵	NRE1V.HE	Neutral	N/A	€24.53	30 Oct 2014
Novartis ^{2, 4, 5, 6a, 13, 16, 18d, 22}	NOVN.VX	Buy	N/A	CHF87.70	30 Oct 2014
Novo Nordisk ^{16, 18a}	NOVOb.CO	Neutral	N/A	DKr271.40	30 Oct 2014
Orange ¹⁶	ORAN.PA	Neutral	N/A	€12.37	30 Oct 2014
Pearson ^{13, 16}	PERSON.L	Buy	N/A	1,160p	30 Oct 2014
Pennon Group ⁵	PNN.L	Buy	N/A	821p	30 Oct 2014
Pernod Ricard ⁴	PERP.PA	Buy	N/A	€89.81	30 Oct 2014
Peugeot SA ^{5, 13}	PEUP.PA	Neutral	N/A	€9.01	30 Oct 2014

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Pirelli & C SpA ^{2, 4}	PECI.MI	Neutral	N/A	€10.51	30 Oct 2014
Publicis Groupe SA ⁴	PUBP.PA	Neutral	N/A	€54.04	30 Oct 2014
Reed Elsevier NV ¹⁶	ELSN.AS	Neutral	N/A	€18.09	30 Oct 2014
Reed Elsevier plc ^{4, 5, 14, 16}	REL.L	Neutral	N/A	1,015p	30 Oct 2014
Remy Cointreau	RCOP.PA	Neutral	N/A	€56.41	30 Oct 2014
Renault SA	RENA.PA	Buy	N/A	€57.21	30 Oct 2014
Roche ^{5, 22}	ROG.VX	Buy	N/A	CHF283.40	30 Oct 2014
RTL Group	AUDK.LU	Buy	N/A	€74.74	30 Oct 2014
RWE ^{4, 5}	RWEG.DE	Sell	N/A	€27.74	30 Oct 2014
Ryanair ¹⁶	RYA.I	Buy	N/A	€7.46	30 Oct 2014
SABMiller	SAB.L	Neutral	N/A	3,488p	30 Oct 2014
Safran SA ^{2, 4}	SAF.PA	Buy	N/A	€49.91	30 Oct 2014
Salzgitter AG	SZGG.DE	Buy	N/A	€23.29	30 Oct 2014
Sandvik	SAND.ST	Sell	N/A	SKr79.75	30 Oct 2014
Sanofi ¹⁶	SASY.PA	Neutral	N/A	€71.91	30 Oct 2014
SAP ¹⁶	SAPG.DE	Buy	N/A	€52.66	30 Oct 2014
Severn Trent	SVT.L	Neutral	N/A	1,993p	30 Oct 2014
Shire Pharmaceuticals ¹⁶	SHP.L	Neutral	N/A	4,164p	30 Oct 2014
Sika ^{4, 5}	SIK.VX	Buy	N/A	CHF3,460.00	30 Oct 2014
SKF B	SKFb.ST	Neutral	N/A	SKr147.20	30 Oct 2014
Smith & Nephew ^{4, 14, 16}	SN.L	Buy	N/A	1,054p	30 Oct 2014
Smiths Group	SMIN.L	Sell	N/A	1,150p	30 Oct 2014
Sodexo	EXHO.PA	Neutral	N/A	€76.10	30 Oct 2014
Spirent Plc ^{4, 14}	SPT.L	Neutral	N/A	74p	30 Oct 2014
SSE PLC	SSE.L	Buy	N/A	1,581p	30 Oct 2014
STMicroelectronics ^{5, 16}	STM.PA	Neutral	N/A	€5.06	30 Oct 2014
Suez Environnement	SEVI.PA	Buy	N/A	€13.13	30 Oct 2014
Swiss Re ^{2, 4, 5}	SRENH.VX	Neutral	N/A	CHF76.35	30 Oct 2014
Syngenta ^{2, 4, 5, 16, 18f}	SYNN.VX	Neutral	N/A	CHF293.40	30 Oct 2014
Tate & Lyle ⁸	TATE.L	Neutral	N/A	609p	30 Oct 2014
Telecity Group	TCY.L	Buy	N/A	768p	30 Oct 2014
Telecom Italia ^{1, 4, 5, 16}	TLIT.MI	Sell	N/A	€0.87	30 Oct 2014
Telefonica ^{2, 3a, 3b, 4, 5, 16}	TEF.MC	Neutral	N/A	€11.69	30 Oct 2014
Temenos ^{5, 59}	TEMN.S	Neutral	N/A	CHF32.85	30 Oct 2014
Tenaris ¹⁶	TS.N	Neutral	N/A	US\$39.08	30 Oct 2014
Umicore	UMI.BR	Buy	N/A	€30.76	30 Oct 2014
United Utilities	UU.L	Neutral	N/A	850p	30 Oct 2014
Veolia Environnement ¹⁶	VIE.PA	Neutral	N/A	€13.10	30 Oct 2014
Verbund AG	VERB.VI	Neutral	N/A	€15.92	30 Oct 2014
Voestalpine AG	VOES.VI	Buy	N/A	€31.33	30 Oct 2014
Volkswagen Preference ⁵	VOWG_p.DE	Buy	N/A	€165.15	30 Oct 2014
Volvo B	VOLVb.ST	Sell	N/A	SKr83.80	30 Oct 2014

Company Name	Reuters 12-month rating	Short-term rating	Price	Price date
Weir ^{4, 5, 14}	WEIR.L	Buy	N/A	2,256p 30 Oct 2014
Whitbread	WTB.L	Sell	N/A	4,313p 30 Oct 2014
Wolseley ⁵	WOS.L	Neutral	N/A	3,266p 30 Oct 2014
Wolters Kluwer	WLSNc.AS	Buy	N/A	€20.98 30 Oct 2014
Zodiac Aerospace	ZODC.PA	Neutral	N/A	€23.86 30 Oct 2014
Zurich Insurance Group ^{2, 4, 5, 13}	ZURN.VX	Neutral	N/A	CHF288.00 30 Oct 2014

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

1. UBS Limited is acting as manager/co-manager, underwriter, placement or sales agent in regard to an offering of securities of this company/entity or one of its affiliates.
2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company/entity or one of its affiliates within the past 12 months.
- 3a. UBS Limited is acting as advisor to Telefonica SA on the acquisition of 11.1% stake in Mediaset Premium
- 3b. UBS Limited is acting as advisor to Telefonica SA on the acquisition of 56% of the share capital of Distribuidora de Televisión Digital S.A from Promotora de Informaciones S.A. and a further 22% in Distribuidora de Televisión Digital S.A from Mediaset Espana S.A.
- 3c. UBS Limited is acting as sole financial adviser to Intesa Sanpaolo in relation to Alitalia's recapitalisation
- 3d. UBS Limited is advising Alpiq Holding AG on the announced sale of its 35% stake in Swissgrid AG
- 3e. UBS Limited is advising mBank S.A. on the sale of BRE Ubezpieczenia Towarzystwo Ubezpieczeń i Reasekuracji S.A. (BRE TUiR) to AXA SA together with a long-term insurance distribution agreement
- 3f. UBS Limited is advising Piraeus bank on the 100% disposal of ATE Insurance to ERGO Insurance group, a subsidiary of Munich Re.
4. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company/entity.
5. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company/entity within the next three months.
- 6a. This company/entity is, or within the past 12 months has been, a client of UBS Securities LLC, and investment banking services are being, or have been, provided.
- 6b. This company/entity is, or within the past 12 months has been, a client of UBS Securities LLC, and non-securities services are being, or have been, provided.
7. Within the past 12 months, UBS Securities LLC has received compensation for products and services other than investment banking services from this company/entity.
8. The equity analyst covering this company, a member of his or her team, or one of their household members has a long common stock position in this company.
13. UBS AG, its affiliates or subsidiaries beneficially owned 1% or more of a class of this company's common equity securities as of last month's end (or the prior month's end if this report is dated less than 10 days after the most recent month's end).
14. UBS Limited acts as broker to this company.
16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.
- 18a. A U.S.-based global equity strategist, a member of his team, or one of their household members has a long common stock position in Novo Nordisk A/S.
- 18b. In Germany, UBS Limited has entered into a contractual arrangement to act as the manager of orders (Designated Sponsor) in the financial instruments of this company.
- 18c. The equity analyst covering this company, a member of his or her team, or one of their household members has a long common stock position in this company.
- 18d. UBS AG is acting as agent in regard to Novartis AG's announced share buyback programme.
- 18e. UBS AG is acting as agent on Actelion's announced share buy-back programme.
- 18f. UBS AG is acting as an agent in regard to the company's announced share buy-back programme.
22. UBS AG, its affiliates or subsidiaries held other significant financial interests in this company/entity as of last month's end (or the prior month's end if this report is dated less than 10 working days after the most recent month's end).
24. UBS AG, its affiliates or subsidiaries beneficially held more than 5% of the total issued share capital of this company; or for UK and Irish companies, a line of stock of this company; as of the date shown in this disclosure table.
59. UBS Fund Management (Switzerland) AG beneficially owns more than 3% of the total issued share capital of this company.

For a complete set of disclosure statements associated with the companies discussed in this report, including information on valuation and risk, please contact UBS Securities LLC, 1285 Avenue of Americas, New York, NY 10019, USA, Attention: Publishing Administration.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Global Disclaimer

This document has been prepared by UBS Limited, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

This document is for distribution only as may be permitted by law. It is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or would subject UBS to any registration or licensing requirement within such jurisdiction. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document ('the Information'), except with respect to Information concerning UBS. The Information is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. UBS does not undertake to update or keep current the Information. Any opinions expressed in this document may change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS. Any statements contained in this report attributed to a third party represent UBS's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party.

Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgement in making their investment decisions. The financial instruments described in the document may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates or other market conditions. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument referred to in the document. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.

The value of any investment or income may go down as well as up, and investors may not get back the full (or any) amount invested. Past performance is not necessarily a guide to future performance. Neither UBS nor any of its directors, employees or agents accepts any liability for any loss (including investment loss) or damage arising out of the use of all or any of the Information.

Any prices stated in this document are for information purposes only and do not represent valuations for individual securities or other financial instruments. There is no representation that any transaction can or could have been effected at those prices, and any prices do not necessarily reflect UBS's internal books and records or theoretical model-based valuations and may be based on certain assumptions. Different assumptions by UBS or any other source may yield substantially different results.

This document and the Information are produced by UBS as part of its research function and are provided to you solely for general background information. UBS has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. In no circumstances may this document or any of the Information be used for any of the following purposes:

- (i) valuation or accounting purposes;
- (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or
- (iii) to measure the performance of any financial instrument.

By receiving this document and the Information you will be deemed to represent and warrant to UBS that you will not use this document or any of the Information for any of the above purposes or otherwise rely upon this document or any of the Information.

Research will initiate, update and cease coverage solely at the discretion of UBS Investment Bank Research Management. The analysis contained in this document is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this document may interact with trading desk personnel, sales personnel and other parties for the purpose of gathering, applying and interpreting market information. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS into other areas, units, groups or affiliates of UBS. The compensation of the analyst who prepared this document is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues; however, compensation may relate to the revenues of UBS Investment Bank as a whole, of which investment banking, sales and trading are a part.

For financial instruments admitted to trading on an EU regulated market: UBS AG, its affiliates or subsidiaries (excluding UBS Securities LLC) acts as a market maker or liquidity provider (in accordance with the interpretation of these terms in the UK) in the financial instruments of the issuer save that where the activity of liquidity provider is carried out in accordance with the definition given to it by the laws and regulations of any other EU jurisdictions, such information is separately disclosed in this document. For financial instruments admitted to trading on a non-EU regulated market: UBS may act as a market maker save that where this activity is carried out in the US in accordance with the definition given to it by the relevant laws and regulations, such activity will be specifically disclosed in this document. UBS may have issued a warrant the value of which is based on one or more of the financial instruments referred to in the document. UBS and its affiliates and employees may have long or short positions, trade as principal and buy and sell in instruments or derivatives identified herein; such transactions or positions may be inconsistent with the opinions expressed in this document.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this material is distributed by UBS Limited to persons who are eligible counterparties or professional clients. UBS Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. **France:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France S.A. UBS Securities France S.A. is regulated by the ACP (Autorité de Contrôle Prudentiel) and the Autorité des Marchés Financiers (AMF). Where an analyst of UBS Securities France S.A. has contributed to this document, the document is also deemed to have been prepared by UBS Securities France S.A. **Germany:** Prepared by UBS Limited and distributed by UBS Limited and UBS Deutschland AG. UBS Deutschland AG is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). **Spain:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities España SV, SA. UBS Securities España SV, SA is regulated by the Comisión Nacional del Mercado de Valores (CNMV). **Turkey:** Distributed by UBS Limited. No information in this document is provided for the purpose of offering, marketing and sale by any means of any capital market instruments and services in the Republic of Turkey. Therefore, this document may not be considered as an offer made or to be made to residents of the Republic of Turkey. UBS AG is not licensed by the Turkish Capital Market Board under the provisions of the Capital Market Law (Law No. 6362). Accordingly, neither this document nor any other offering material related to the instruments/services may be utilized in connection with providing any capital market services to persons within the Republic of Turkey without the prior approval of the Capital Market Board. However, according to article 15 (d) (ii) of the Decree No. 32, there is no restriction on the purchase or sale of the securities abroad by residents of the Republic of Turkey. **Poland:** Distributed by UBS Limited (spółka z ograniczoną odpowiedzialnością) Oddział w Polsce. **Russia:** Prepared and distributed by UBS Securities CJSC. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. UBS AG is regulated by the Swiss Financial Market Supervisory Authority (FINMA). **Italy:** Prepared by UBS Limited and distributed by UBS Limited and UBS Italia Sim S.p.A. UBS Italia Sim S.p.A. is regulated by the Bank of Italy and by the Commissione Nazionale per le Società e la Borsa (CONSOB). Where an analyst of UBS Italia Sim S.p.A. has contributed to this document, the document is also deemed to have been prepared by UBS Italia Sim S.p.A. **South Africa:** Distributed by UBS South Africa (Pty) Limited, an authorised user of the JSE and an authorised Financial Services Provider. **Israel:** This material is distributed by UBS Limited. UBS Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. UBS Securities Israel Ltd is a licensed Investment Marketer that is supervised by the Israel Securities Authority (ISA). UBS Limited and its affiliates incorporated outside Israel are not licensed under the Israeli Advisory Law. UBS Limited is not covered by insurance as required from a licensee under the Israeli Advisory Law. UBS may engage among others in issuance of Financial Assets or in distribution of Financial Assets of other issuers for fees or other benefits. UBS Limited and its affiliates may prefer various Financial Assets to which they have or may have Affiliation (as such term is defined under the Israeli Advisory Law). Nothing in this Material should be considered as investment advice under the Israeli Advisory Law. This Material is being issued only to and/or is directed only at persons who are Eligible Clients within the meaning of the Israeli Advisory Law, and this material must not be relied on or acted upon by any other persons. **Saudi Arabia:** This document has been issued by UBS AG (and/or any of its subsidiaries, branches or affiliates), a public company limited by shares, incorporated in Switzerland with its registered offices at Aeschenvorstadt 1, CH-4051 Basel and Bahnhofstrasse 45, CH-8001 Zurich. This publication has been approved by UBS Saudi Arabia (a subsidiary of UBS AG), a Saudi closed joint stock company incorporated in the Kingdom of Saudi Arabia under commercial register number 1010257812 having its registered office at Tatweer Towers, P.O. Box 75724, Riyadh 11588, Kingdom of Saudi Arabia. UBS Saudi Arabia is authorized and regulated by the Capital Market Authority to conduct securities business under license number 08113-37. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a 'non-US affiliate') to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a document prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this document must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a registered investment dealer in Canada and a Member-Canadian Investor Protection Fund, or by another affiliate of UBS AG that is registered to conduct business in Canada or is otherwise exempt from registration. **Brazil:** Except as otherwise specified herein, this material is prepared by UBS Brasil CCTVM S.A. to persons who are eligible investors residing in Brazil, which are considered to be: (i) financial institutions, (ii) insurance firms and investment capital companies, (iii) supplementary pension entities, (iv) entities that hold financial investments higher than R\$300,000.00 and that confirm the status of qualified investors in written, (v) investment funds, (vi) securities portfolio managers and securities consultants duly authorized by Comissão de Valores Mobiliários (CVM), regarding their own investments, and (vii) social security systems created by the Federal Government, States, and Municipalities. **Hong Kong:** Distributed by UBS Securities Asia Limited and/or UBS AG, Hong Kong Branch. **Singapore:** Distributed by UBS Securities Pte. Ltd. [mica (p) 107/09/2013 and Co. Reg. No.: 198500648C] or UBS AG, Singapore Branch. Please contact UBS Securities Pte. Ltd., an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110); or UBS AG, Singapore Branch, an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110) and a wholesale bank licensed under the Singapore Banking Act (Cap. 19) regulated by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with, the analysis or document. The recipients of this document represent and warrant that they are accredited and institutional investors as defined in the Securities and Futures Act (Cap. 289). **Japan:** Distributed by UBS Securities Japan Co., Ltd. to professional investors (except as otherwise permitted). Where this document has been prepared by UBS Securities Japan Co., Ltd., UBS Securities Japan Co., Ltd. is the author, publisher and distributor of the document. Distributed by UBS AG, Tokyo Branch to Professional Investors (except as otherwise permitted) in relation to foreign exchange and other banking businesses when relevant. **Australia:** Clients of UBS AG: Distributed by UBS AG (Holder of Australian Financial Services License No. 231087). Clients of UBS Securities Australia Ltd: Distributed by UBS Securities Australia Ltd (Holder of Australian Financial Services License No. 231098). Clients of UBS Wealth Management Australia Ltd: Distributed by UBS Wealth Management Australia Ltd (Holder of Australian Financial Services Licence No. 231127). This Document contains general information and/or general advice only and does not constitute personal financial product advice. As such, the Information in this document has been prepared without taking into account any investor's objectives, financial situation or needs, and investors should, before acting on the Information, consider the appropriateness of the Information, having regard to their objectives, financial situation and needs. If the Information contained in this document relates to the acquisition, or potential acquisition of a particular financial product by a 'Retail' client as defined by section 761G of the Corporations Act 2001 where a Product Disclosure Statement would be required, the retail client should obtain and consider the Product Disclosure Statement relating to the product before making any decision about whether to acquire the product. The UBS Securities Australia Limited Financial Services Guide is available at: www.ubs.com/ecs-research-fsg. **New Zealand:** Distributed by UBS New Zealand Ltd. The information and recommendations in this publication are provided for general information purposes only. To the extent that any such information or recommendations constitute financial advice, they do not take into account any person's particular financial situation or goals. We recommend that recipients seek advice specific to their circumstances from their financial advisor. **Dubai:** The research distributed by UBS AG Dubai Branch is intended for Professional Clients only and is not for further distribution within the United Arab Emirates. **Korea:** Distributed in Korea by UBS Securities Pte. Ltd., Seoul Branch. This document may have been edited or contributed to from time to time by affiliates of UBS Securities Pte. Ltd., Seoul Branch. **Malaysia:** This material is authorized to be distributed in Malaysia by UBS Securities Malaysia Sdn. Bhd (253825-x). **India:** Prepared by UBS Securities India Private Ltd. (Corporate Identity Number U67120MH1996PTC097299) 2F, 2 North Avenue, Maker Maxity, Bandra Kurla Complex, Bandra (East), Mumbai (India) 400051. Phone: +912261556000 SEBI Registration Numbers: NSE (Capital Market Segment): INB230951431, NSE (F&O Segment) INF230951431, BSE (Capital Market Segment) INB010951437.

The disclosures contained in research documents produced by UBS Limited shall be governed by and construed in accordance with English law.

UBS specifically prohibits the redistribution of this document in whole or in part without the written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect. Images may depict objects or elements that are protected by third party copyright, trademarks and other intellectual property rights. © UBS 2014. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

