

# UBS Investment Research

## UBS Business Jet Survey

Americas

Aerospace

Sector Comment

### Index Declines Along with Weaker Macro

#### ■ Index at 43, down 13%

Our latest Business Jet Market Index came in at 43, down 13% and reversing most of the improvement seen in our prior survey from March. All three of our market segment indices moved lower with large cabin down the most. Our straight up measure of absolute business conditions came in at 4.2, 6% below recent peak at 4.5 in March.

#### ■ Customer interest improvement slows

Four out of five component scores moved lower with declines in our customer interest and outlook scores driving the majority of the drop in our index, partially offset by continued inventory improvement. While lower from our prior survey, interest and outlook scores remain above 50, indicating incremental improvement.

#### ■ North America remains relatively strong

Our overall customer interest score moved 19% lower to 56 with lower scores across all regions. Customer interest continues to improve the most in North America (64) followed by Latin America (60) and Asia (59) while deteriorating in the Middle East (48) and Europe (30).

#### ■ See positive risk-rewards for stocks

Despite weakness in our survey, we continue to believe North American bizjet market is improving, driven by replacement demand postponed during the downturn. We still see positive risk-rewards as we don't think stocks incorporate much for bizjets at current levels including Buy rated TXT/COL/GD.

30 May 2012

David E. Strauss

Analyst

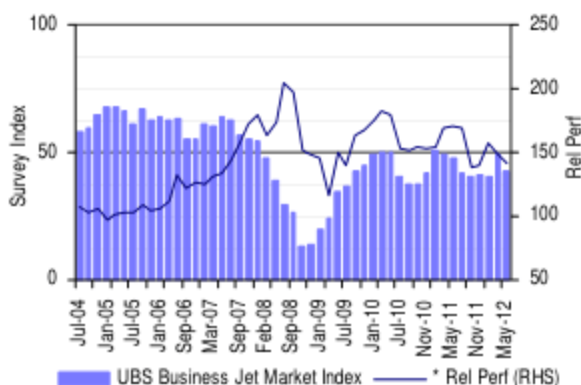
Darryl Genovesi

Analyst

Matthew Akers

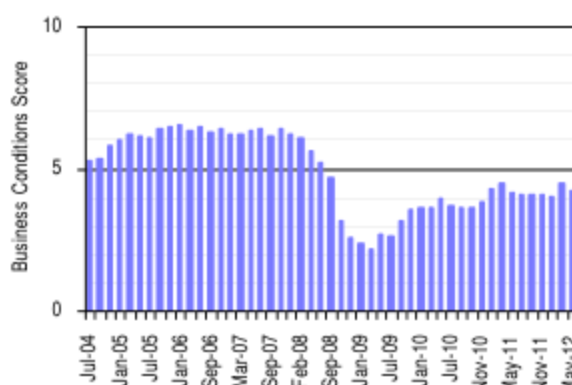
Associate Analyst

Chart 1: UBS Business Jet Market Index



\* Simple average BBD/GD/TXT stock price performance index relative to S&P 500  
Source: UBS Business Jet Survey

Chart 2: Overall Business Conditions Score



Source: UBS Business Jet Survey

This report has been prepared by UBS Securities LLC

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 18.

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## Business Jet Market Survey

Our UBS Business Jet Market Survey is designed to provide timely market data supplied directly by industry professionals. We regularly survey a group of US domestic and international broker/dealers, manufacturers, fractional providers, financiers and others, from whom we recently received 162 responses.

### Investment Conclusion

Our latest Business Jet Market Index came in at 43, 13% lower than our prior survey in March on slowing incremental improvement in customer interest/outlook along with still weak pricing. The decline in our Index reverses the improvement seen in March with all three of our market segment indices lower with large cabin down the most. Our straight up measure of absolute business conditions came in at 4.2, 6% below recent peak at 4.5 in March.

Four out of five component scores moved lower with large declines in our customer interest and outlook scores driving the majority of the drop in our index, partially offset by continued inventory improvement. While lower from our prior survey, our interest and outlook scores remain above 50, indicating incremental improvement. Our customer interest score moved 19% lower to 56, slightly above 50 still indicating improving customer interest.

Our young inventory score, not a component of our index, moved 2% higher this time to 43, still indicative of oversupply of high-quality young used aircraft. Our financing score, also not a component of our index, moved 9% lower, but remains above 50 reflecting improved financing availability.

**Table 1: UBS Business Jet Survey Results and Comparison to Prior Survey**

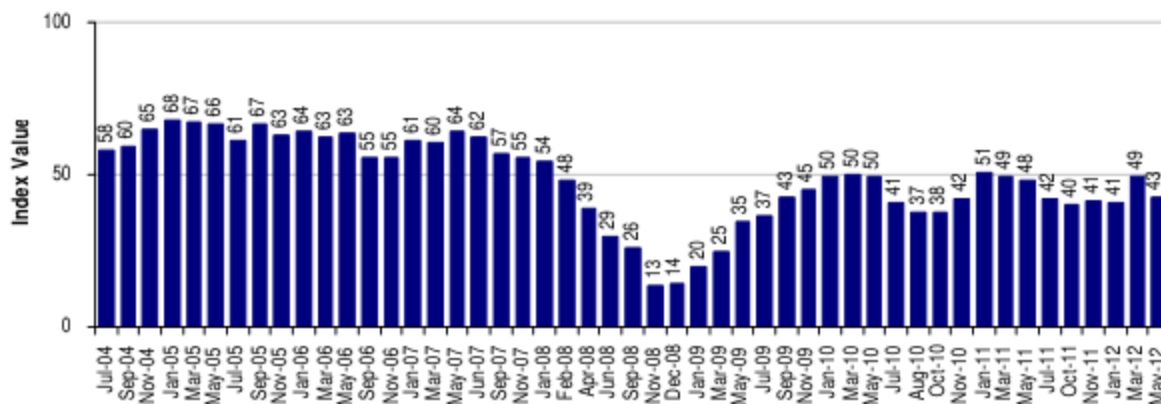
| Component                  | Better     | Same       | Worse      | Score      | Last Time  | Change      |
|----------------------------|------------|------------|------------|------------|------------|-------------|
| Customer Interest          | 27%        | 58%        | 15%        | 56         | 70         | -19%        |
| Pricing                    | 7%         | 60%        | 33%        | 37         | 42         | -12%        |
| 12 Month Outlook           | 43%        | 46%        | 11%        | 66         | 75         | -12%        |
| Inventory Levels           | 3%         | 34%        | 63%        | 20         | 18         | 13%         |
| Willingness                | 19%        | 49%        | 32%        | 44         | 51         | -14%        |
| <b>Composite Index</b>     | <b>17%</b> | <b>51%</b> | <b>32%</b> | <b>43</b>  | <b>49</b>  | <b>-13%</b> |
| Young Inventory            | 21%        | 44%        | 35%        | 43         | 42         | 2%          |
| Financing                  | 19%        | 72%        | 9%         | 55         | 61         | -9%         |
| <b>Business Conditions</b> | <b>n/a</b> | <b>n/a</b> | <b>n/a</b> | <b>4.2</b> | <b>4.5</b> | <b>-6%</b>  |

Source: UBS Business Jet Survey

## UBS Business Jet Market Index

Our UBS Business Jet Market Index is a proprietary index designed to measure the total “value” of the responses to our survey questions. We have weighted each factor in our index based on our perception of its overall importance to the condition of the new business jet market. Our index is scored on a scale of zero to 100, with 51-100 representing incrementally strengthening market conditions, 50 incrementally stable, and 0-49 incrementally weakening market conditions. Our May Business Jet Market Index came in at 43, 13% lower than our prior survey in March.

Chart 3: UBS Business Jet Market Index

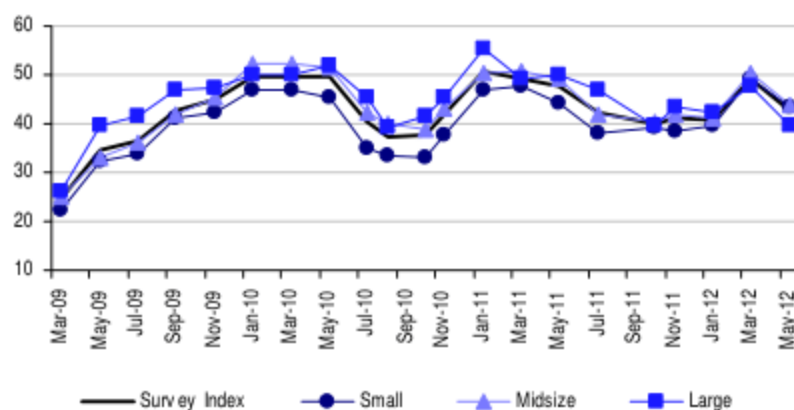


Source: UBS Business Jet Survey

## Market Segment Indices

All three of our market segment indices declined with our small cabin index decreasing 12% to 43 (from 49), midsize decreasing 13% to 44 (from 51) and large cabin decreasing 17% to 40 (from 48).

Chart 4: Market Segment Indices, by Cabin Class



Source: UBS Business Jet Survey

## Survey Participant Profile

Of the 162 market professionals who responded to our survey, a majority (62%) are broker/dealers. Brokers/dealers are involved in the purchase and sale of both new (direct from manufacturer) and used aircraft, often purchasing on spec.

**Chart 5: Business Jet Market Survey - Participant Role**

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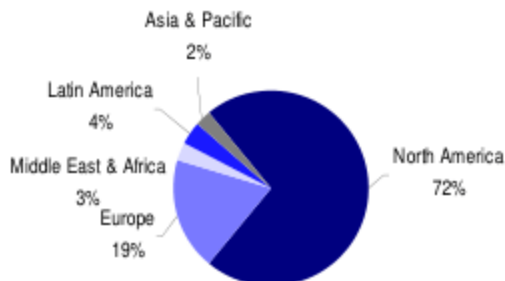
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Note: Other includes appraisers, fractional providers, management, charter, FBO and MRO service providers.  
Source: UBS Business Jet Survey

The majority of our participants are located in North America (72%) with an additional 19% in Europe.

**Chart 6: Business Jet Market Survey - Participant Location**

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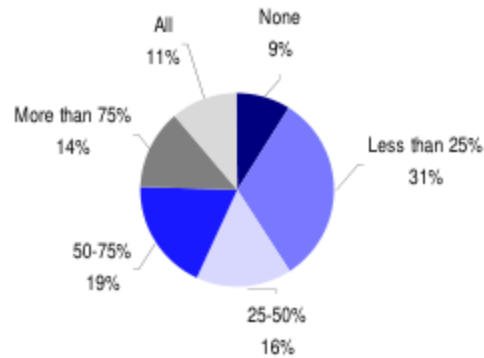


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Source: UBS Business Jet Survey

While the majority of our survey participants are located in the U.S., most transact a significant proportion of their business with foreign customers.

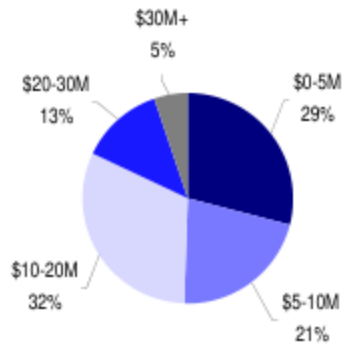
**Chart 7: Proportion of Business Transacted Outside the US**



Source: UBS Business Jet Survey

Respondents varied fairly uniformly in average transaction size with the majority in the \$5-20 million range.

**Chart 8: Business Jet Market Survey - Average Transaction Size**



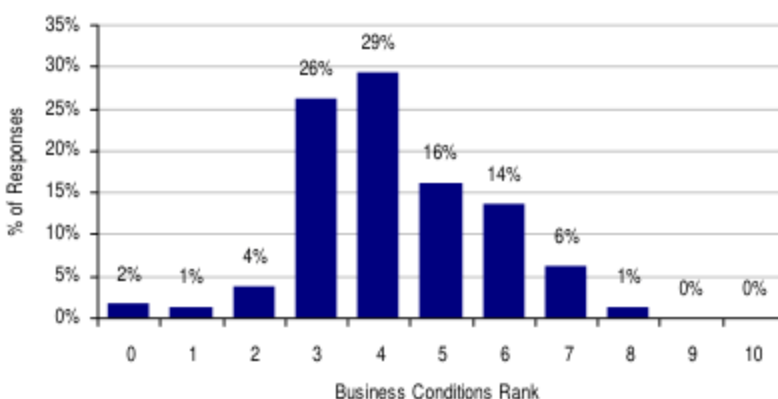
Source: UBS Business Jet Survey

## Survey Results

### Overall Business Conditions

In the first question, we asked, “On a scale of zero to 10, how would you characterize overall business conditions *after factoring typical seasonality* (0 = the worst ever, 5 = normal, 10 = the best ever)?” Note that while our Business Jet Market Index (discussed earlier) indicates *incremental change* from the prior period, this question is meant to measure the *absolute level* of business conditions. We received 160 responses (two participants did not respond to this question) with scores ranging from zero to eight.

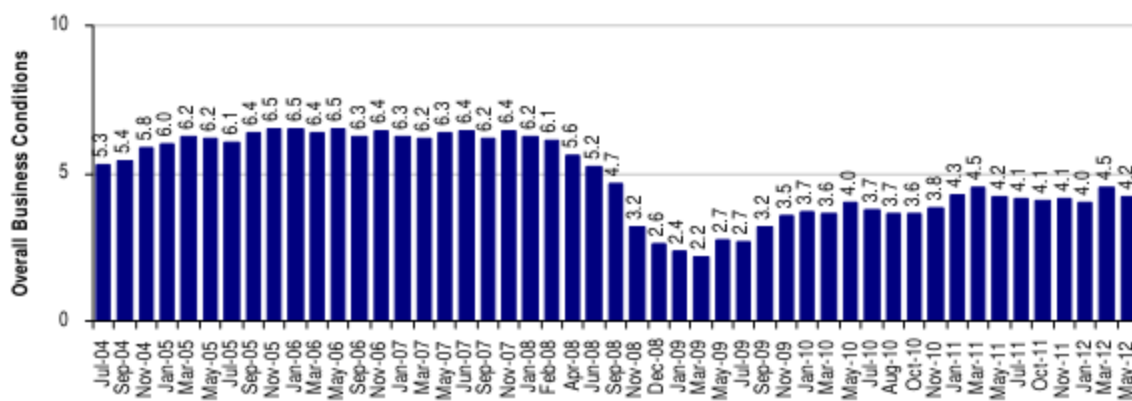
Chart 9: Indication of Overall Business Conditions, May 2012



Source: UBS Business Jet Survey

Overall, our average business conditions score came in at 4.2, 6% lower from our prior survey in March.

Chart 10: Overall Business Conditions

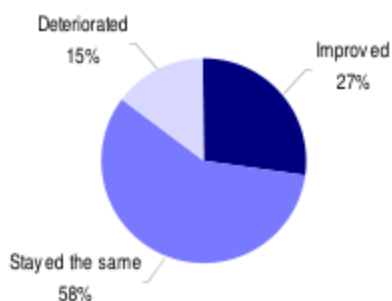


Source: UBS Business Jet Survey

## Customer Interest

In the next question, we asked, "Since our last survey in March, the level of customer interest improved, stayed the same or deteriorated?" Of the 162 responses (all participants responded to this question), 27% indicated that customer interest had improved, while 15% indicated that customer interest had deteriorated. The remaining 58% indicated that customer interest had stayed the same. This result is worse than our prior survey, in which 48% indicated that customer interest had improved, 8% indicated customer interest had deteriorated and 44% indicated that customer interest had stayed the same.

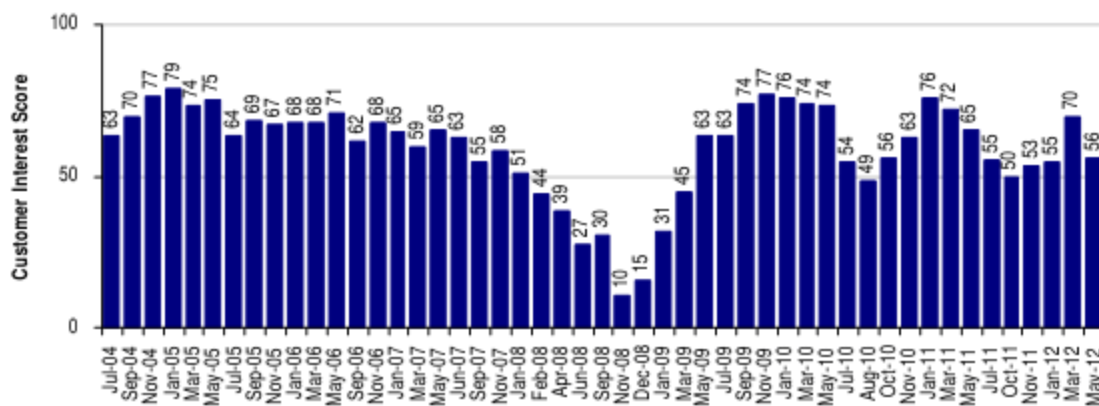
**Chart 11: Indication of Customer Interest, May 2012**



Source: UBS Business Jet Survey

Our customer interest score decreased 19% to 56, but remained above the 50 mark indicating incremental improvement.

**Chart 12: UBS Business Jet Survey Score - Customer Interest**

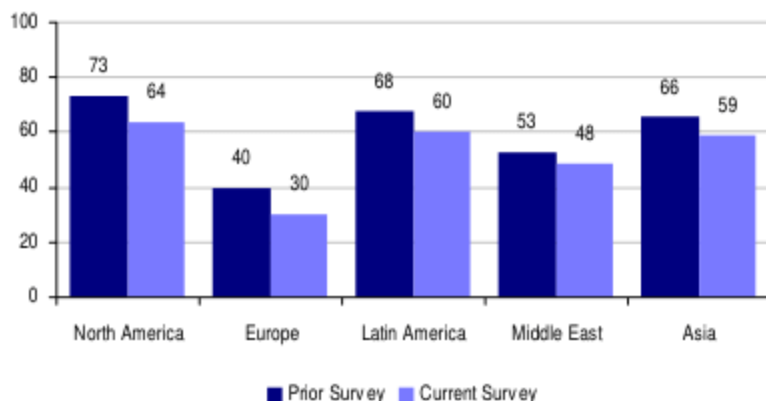


Source: UBS Business Jet Survey

## Customer Interest by Region

Our overall customer interest score moved 19% lower to 56 including declines across all regions. Customer interest continues to improve the most in North America (64) followed by Latin America (60) and Asia (59), while deteriorating in the Middle East (48) and Europe (30).

**Chart 13: Customer Interest Score by Region and Comparison to Prior Survey**

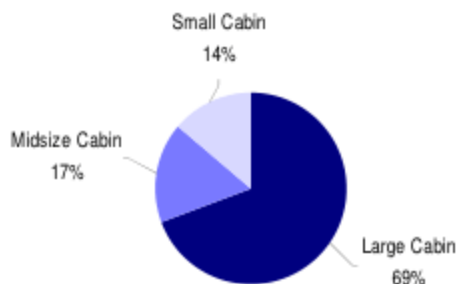


Source: UBS Business Jet Survey

## Customer Interest by Cabin Class

In the next question, our participants were asked to indicate the class of aircraft in which they were seeing the most interest from potential buyers. Respondents were asked to choose from Large Cabin, Midsize Cabin or Small Cabin. Of the 123 responses (39 participants did not respond to this question), 69% indicated they were seeing the strongest interest in large cabin aircraft, with 17% indicating midsize and 14% indicating small cabin. Compared to our prior survey, this reflects slightly more interest in large cabin relative to small.

**Chart 14: Cabin Class with Most Buyer Interest, May 2012**

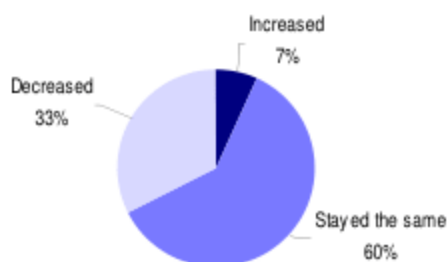


Source: UBS Business Jet Survey

## Pricing

In the next question, we asked, “Since our last survey in March, overall pricing levels increased, stayed the same, or decreased?” Of the 145 responses (17 participants did not respond to this question), 7% indicated that pricing levels had increased, while 33% indicated that pricing levels had decreased. The remaining 60% indicated that pricing levels had stayed the same. These results are weaker from our prior survey in March in which 9% indicated that pricing levels had increased, 25% indicated that pricing levels had decreased, and the remaining 66% indicated that pricing levels had stayed the same.

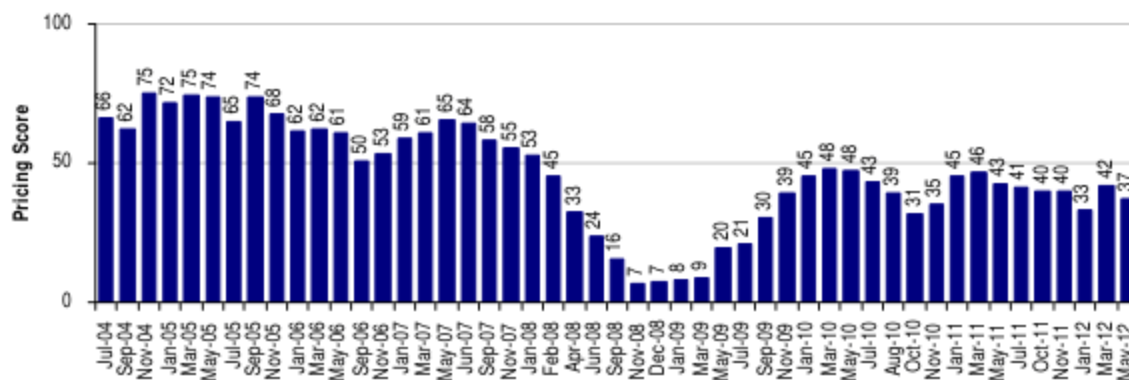
**Chart 15: Indication of Pricing, May 2012**



Source: UBS Business Jet Survey

Our pricing score came in at 37, 12% lower from our prior survey in March.

**Chart 16: UBS Business Jet Survey Score – Pricing**



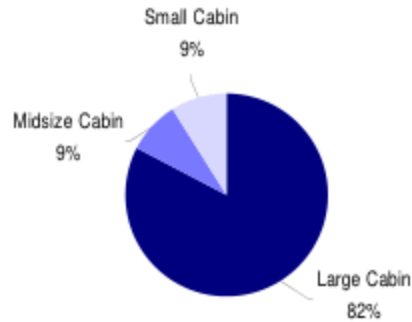
Source: UBS Business Jet Survey

## Pricing by Cabin Class

In the next question, our participants were asked to indicate the cabin class of aircraft in which they were seeing the strongest pricing. Respondents were asked to choose from Large Cabin, Midsize Cabin or Small Cabin. Of the 125 responses (37 participants did not respond to this question), 82% indicated they were seeing the strongest pricing in large cabin aircraft, with 9% indicating midsize and 9% indicating small cabin. Compared to our prior survey, this reflects stronger pricing for small cabin relative to large and midsize.

**Chart 17: Cabin Class with Strongest Pricing, May 2012**

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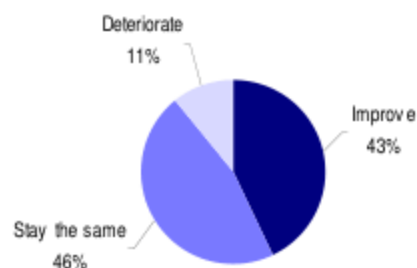
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Source: UBS Business Jet Survey

## 12-Month Outlook

In the next question, we asked, “Over the next 12 months, do you expect overall business conditions to improve, stay the same or deteriorate?” Of the 158 responses (4 participants did not respond to this question), 43% expect business conditions to improve, while 11% expect business conditions to deteriorate. The remaining 46% expect business conditions to stay the same over the next 12 months. These results are weaker than our prior survey in which 56% expected business conditions to improve, 6% expected business conditions to deteriorate and 38% expected business conditions to stay the same.

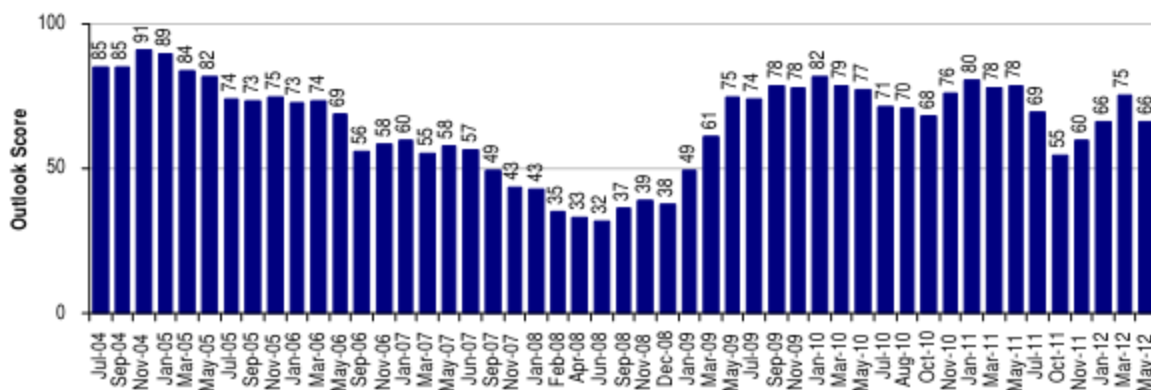
**Chart 18: 12-Month Forward Outlook for Business Conditions, May 2012**



Source: UBS Business Jet Survey

Our 12-month outlook score came in at 66 this time, 12% lower than in our prior survey, although still well above 50 indicating that on average our survey participants expect business conditions to improve over the next 12 months.

**Chart 19: UBS Business Jet Survey Score - 12-Month Outlook**

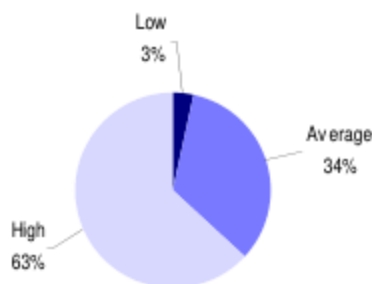


Source: UBS Business Jet Survey

## Overall Inventory Levels

In the next question, we asked, “How would you characterize current inventory levels?” In this question, we targeted broker/dealers, but in some cases, other participants also responded. The survey participants were asked to select “high”, “average”, or “low.” Of the 122 responses (40 participants did not respond to this question), 3% believe inventory levels are low, while 63% believe inventory levels are high. The remaining 34% believe inventory to be at average levels. These results are slightly better than our prior survey in March in which 3% believed inventory levels were low, 67% believed inventory levels were high and the remaining 30% believed inventory to be at average levels.

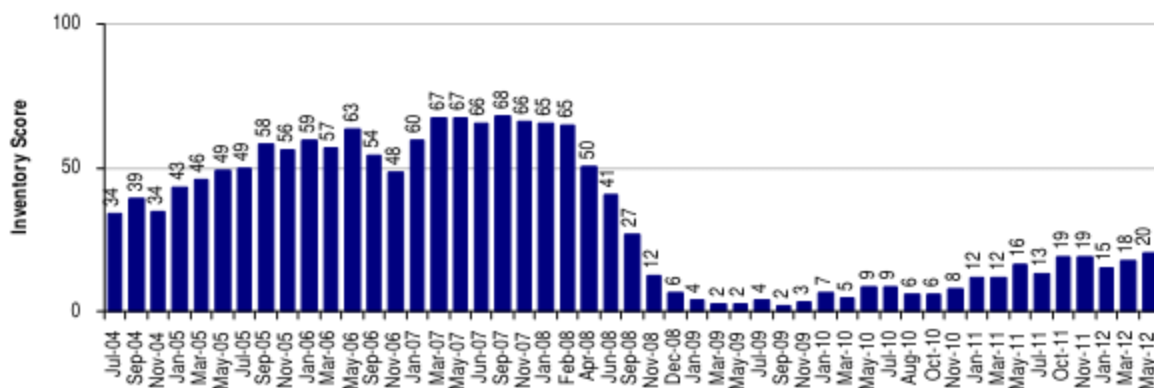
**Chart 20: Indication of Inventory Levels, May 2012**



Source: UBS Business Jet Survey

Our inventory score came in at 20 this time, 13% higher from our prior survey in March, but continues to reflect high overall inventory levels.

**Chart 21: UBS Business Jet Survey Score - Inventory Levels**

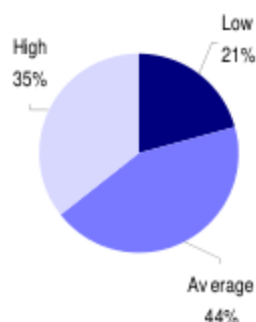


Source: UBS Business Jet Survey

## Young Inventory Levels

In the next question, we asked, “How would you characterize current inventory levels of relatively young used aircraft?” In this question, we targeted broker/dealers, but in some cases, other participants also responded. The survey participants were asked to select “high”, “average”, or “low.” Of the 124 responses (38 participants did not respond to this question), 21% believe young inventory levels are low, 35% believe young inventory levels are high, and the remaining 44% believe young inventories to be at average levels. These results are slightly better than our prior survey in which 20% believed young inventory levels were low, 36% believed young inventory levels were high and 44% believed young inventories to be at average levels.

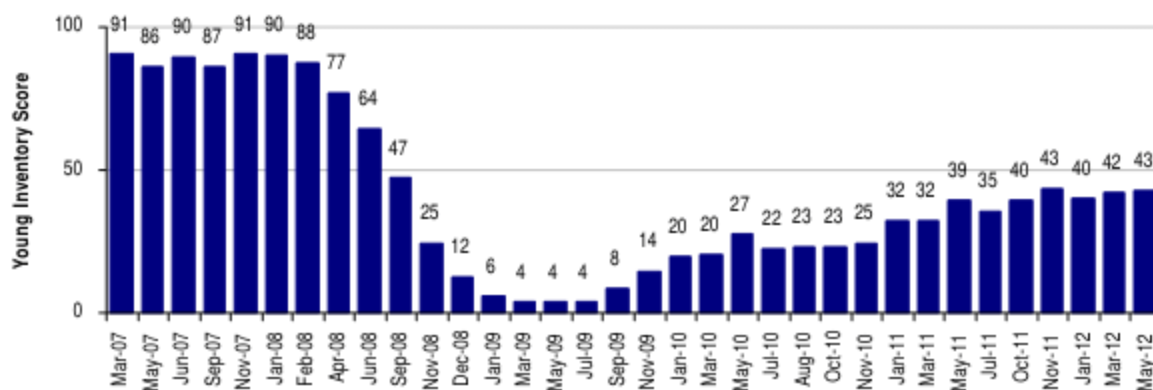
**Chart 22: Indication of Young Inventory Levels, May 2012**



Source: UBS Business Jet Survey

Our young inventory score at 43 continues to reflect oversupply of high-quality, young used aircraft.

**Chart 23: UBS Business Jet Survey Score - Young Used Inventory Levels**

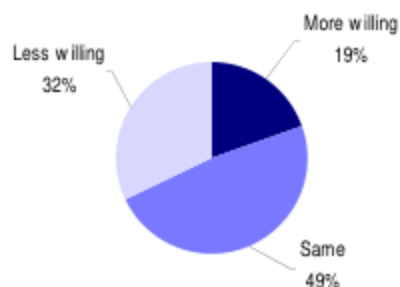


Source: UBS Business Jet Survey

## Willingness to Increase Inventories

In the next question, we asked, “Over the next month, will you be more or less willing to increase your inventory?” In this question, we again targeted broker/dealers, but in some cases, other participants also responded. The survey participants were asked to select “more willing”, “same”, or “less willing.” Of the 88 responses (74 participants did not respond to this question), 19% indicated they would be more willing to take on inventory, while 32% indicated they would be less willing to take on inventory. The remaining 49% indicated no change in their willingness to take on inventory. These results are weaker than our prior survey, in which 25% indicated they would be more willing to take on inventory, 22% indicated they would be less willing and 53% indicated no change in their willingness to take on inventory.

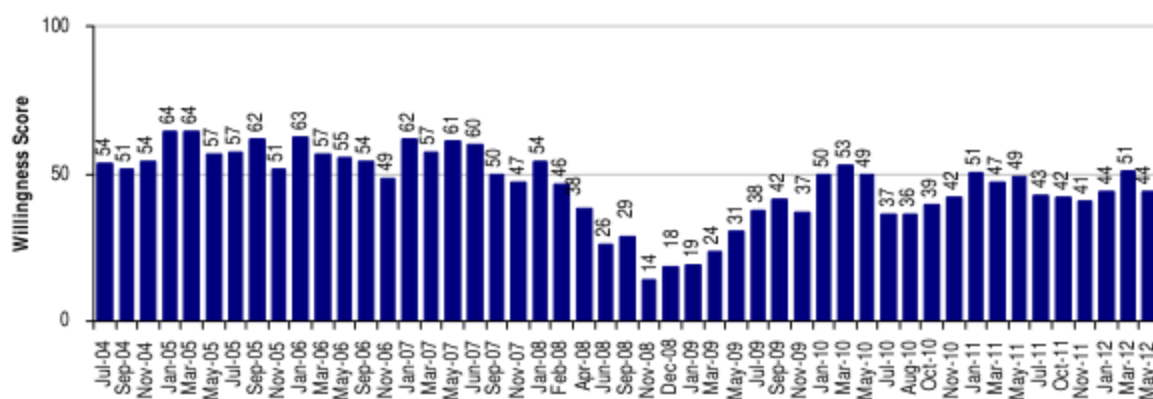
**Chart 24: Willingness to Increase Inventory Levels, May 2012**



Source: UBS Business Jet Survey

Our willingness score decreased 14% to 44 this time, below the 50 mark indicating that participants are less willing to take on additional inventory compared to our prior survey in March.

**Chart 25: UBS Business Jet Survey Score - Willingness to Increase Inventory Levels**

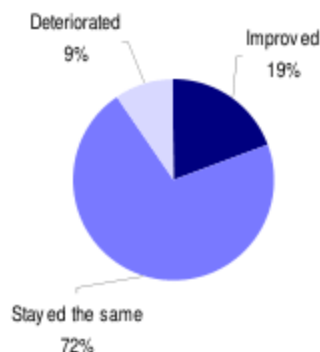


Source: UBS Business Jet Survey

## Customer Financing

In the next question, we asked, "Since our last survey in March, has the availability of customer financing improved, stayed the same, or deteriorated?" Of the 149 responses (13 participants did not respond to this question), 19% indicated that customer financing conditions had improved, while 9% indicated that financing conditions had deteriorated. The remaining 72% indicated that financing conditions had stayed the same. These results are weaker than our prior survey, in which 25% indicated financing conditions had improved, 4% indicated financing conditions had deteriorated and 71% indicated no change in financing conditions.

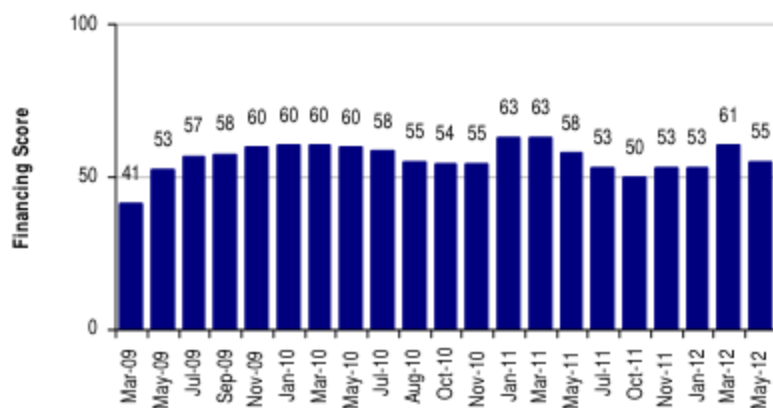
**Chart 26: Financing Conditions, May 2012**



Source: UBS Business Jet Survey

Our financing score came in at 55 this time, 9% below our previous survey but above the 50 mark indicating incremental improvement.

**Chart 27: UBS Business Jet Survey Score – Financing**



Source: UBS Business Jet Survey

## Commentary

The following are selected comments from business jet professionals.

### Overall Business Conditions

- Mixed signals in the market. Recovery is even slower than forecast.
- The Hawker Beechcraft bankruptcy is not good for our industry.
- Markets stable to slightly improving.
- Although inventory is high by historical standards, more than half is older equipment that may in fact be already "retired".
- Really no change – we're just bumping along the bottom.
- It seems like the turboprop market is gaining some momentum. Maybe it will eventually give the low end jet market some momentum.
- Expect the resale market to remain soft into 2013.

### Aircraft Values / Pricing

- Older jets have seen their values plummet, but on the flip side that represents amazing value to buyers in that segment. Good airplanes, priced right are selling.
- Older aircraft continue to decrease in value. Near new aircraft are in strong demand and have the highest prices.
- Pricing remains flat in most markets as interest has increased but demand is still very price sensitive.
- Buyers are very focused on operating cost and future investments.
- Extremely low prices are very attractive. We expect 8-10 year old large cabin aircraft on average will cost 50% more in 5 years time.

### Customer Interest

- Slight improvement in buyer interest and willingness to complete a transaction.
- Difficult trading conditions despite interest levels.
- No buyers.
- Things are a little quieter in the last two months.
- Buyer interest is up and people seem more willing to jump into the market.
- I have noticed pull back in willingness to buy. Buyer activity was much stronger in February and March versus now.

### Regional Trends

- The dire economic situation in Europe has caused sales on that continent to suffer, while continued uncertainty in the US and the upcoming election all add to an attitude of extreme caution by would-be buyers.

- Europe continues to be very unstable.
- Markets seem to be flattening on a global level with good support, but no real growth currently.
- With the financial situation in France and Southern Europe, Europe seems to be waiting to see what will (eventually) happen. Sub continent Asia still seeing strong customer interest from serious buyers.
- US market continues to strengthen. Europe is very weak.
- Fear of impact of Euro zone crisis.
- Uncertainty in Europe and election year has kept optimism tepid.

### Financing

- We are being visited by more banks seeking aircraft finance business; many regional banks seem to have an appetite for it. However, when we delve into what kind of business they are hoping to garner, it's really the A-paper or top quality notes they want to write.
- Lenders don't want anything to do with older airplanes and it's not worth their time to get involved with deals less than about three million dollars. They are ignoring a huge portion of the market which only serves to depress values of those airplanes.
- Even though there are more financial institutions in the mix, the overall availability of financing has not improved.
- I find financing to still be a big problem.

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### ■ Statement of Risk

The business jet market is cyclical in nature, largely driven by the general economic environment. Business jet manufacturers' earnings and cash flow are dependent on end-user demand, availability of customer financing, program execution and inventory management. Our estimates, ratings and price targets for General Dynamics, Textron and Rockwell Collins are subject to additional risks including poor program execution and government funding related to their defense and security businesses. Additionally, Textron faces liquidity risks related to its asset based lending businesses.

#### ■ 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.

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### UBS Investment Research: Global Equity Rating Allocations

| UBS 12-Month Rating   | Rating Category | Coverage <sup>1</sup> | IB Services <sup>2</sup> |
|-----------------------|-----------------|-----------------------|--------------------------|
| Buy                   | Buy             | 51%                   | 34%                      |
| Neutral               | Hold/Neutral    | 40%                   | 35%                      |
| Sell                  | Sell            | 9%                    | 15%                      |
| UBS Short-Term Rating | Rating Category | Coverage <sup>3</sup> | IB Services <sup>4</sup> |
| Buy                   | Buy             | less than 1%          | 25%                      |
| Sell                  | Sell            | less than 1%          | 17%                      |

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.

Source: UBS. Rating allocations are as of 31 March 2012.

### UBS Investment Research: Global Equity Rating Definitions

| UBS 12-Month Rating   | Definition                                                                                                                            |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| Buy                   | FSR is > 6% above the MRA.                                                                                                            |
| Neutral               | FSR is between -6% and 6% of the MRA.                                                                                                 |
| Sell                  | FSR is > 6% below the MRA.                                                                                                            |
| UBS Short-Term Rating | Definition                                                                                                                            |
| Buy                   | Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.  |
| Sell                  | Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event. |

**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.

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**UBS Securities LLC:** David E. Strauss; Darryl Genovesi; Matthew Akers.

**Company Disclosures**

| Company Name                                                        | Reuters | 12-mo rating | Short-term rating | Price     | Price date  |
|---------------------------------------------------------------------|---------|--------------|-------------------|-----------|-------------|
| <b>General Dynamics Corp.</b> <sup>16</sup>                         | GD.N    | Buy          | N/A               | US\$64.35 | 29 May 2012 |
| <b>Rockwell Collins Inc.</b> <sup>2, 4, 6a, 6b, 7, 8, 16, 18a</sup> | COL.N   | Buy          | N/A               | US\$50.39 | 29 May 2012 |
| <b>Textron Inc.</b> <sup>6b, 7, 16, 18b, 22</sup>                   | TXT.N   | Buy          | N/A               | US\$24.19 | 29 May 2012 |

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

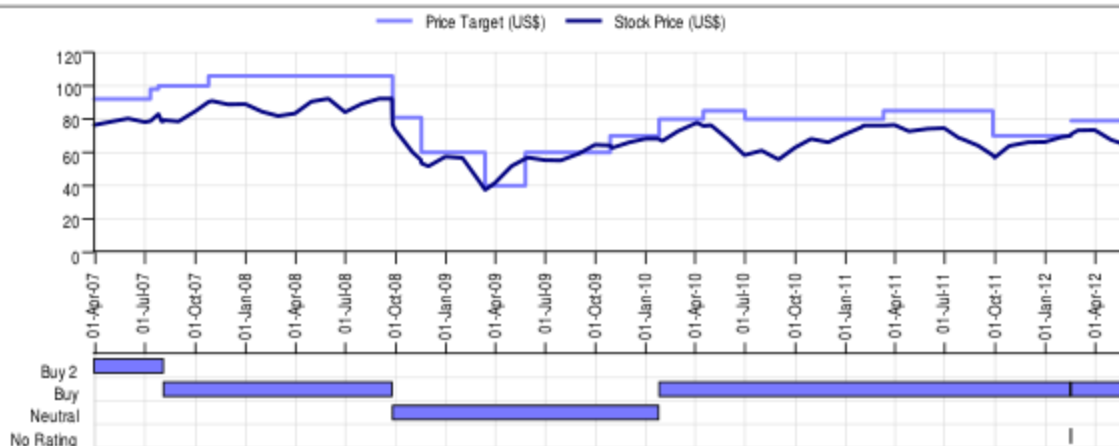
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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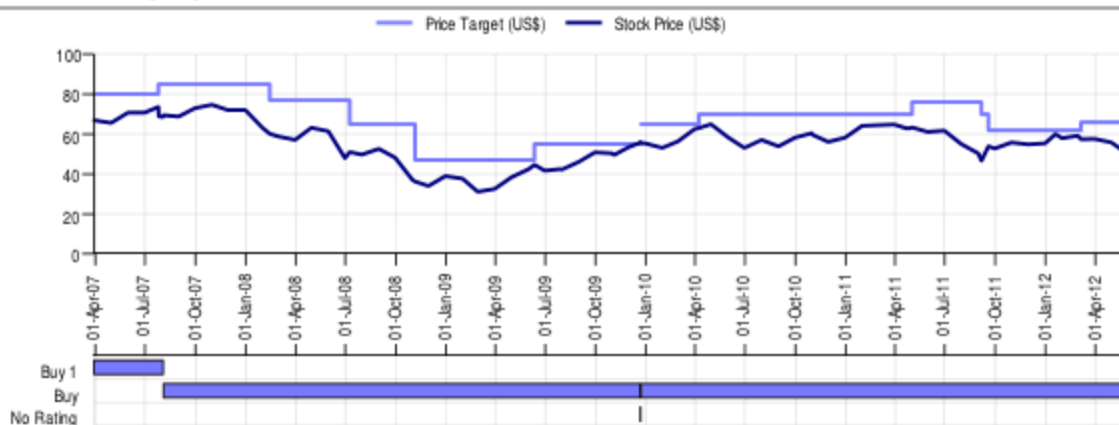
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

### General Dynamics Corp. (US\$)



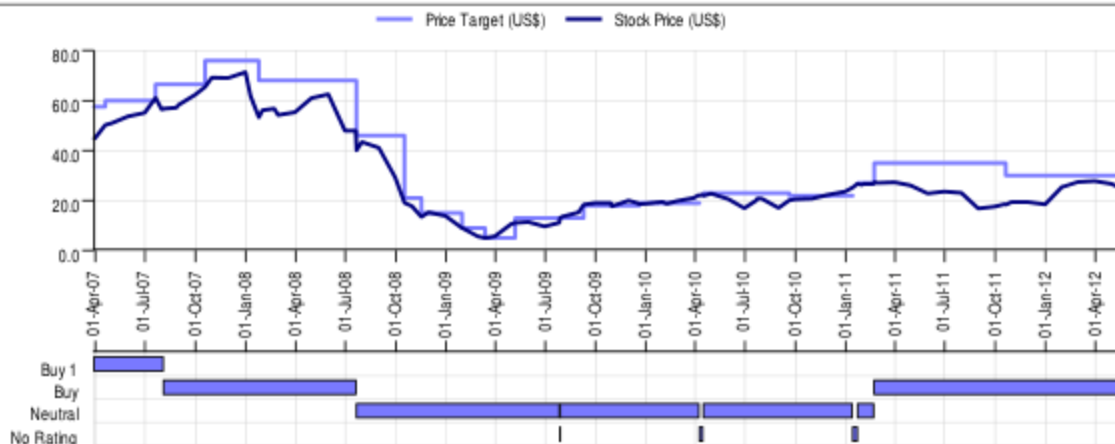
Source: UBS; as of 29 May 2012

### Rockwell Collins Inc. (US\$)



Source: UBS; as of 29 May 2012

## Texttron Inc. (US\$)



Source: UBS; as of 29 May 2012

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

Additional Prices: Bombardier Inc., C\$3.95 (29 May 2012); Embraer, US\$29.08 (29 May 2012); Source: UBS. All prices as of local market close.

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