

Important Dates	
<b>Issue Opens/ Close Date</b>	21 May 2007 / 29 June 2007
<b>Issue Date</b>	6 July 2007
<b>Maturity Date</b>	6 July 2011
Key Information	
<b>Investment Type</b>	Optimiser Plus is classified as a security under the Corporations Act. Optimiser Plus is a 4 year unlisted financial product.
<b>Issuer</b>	Citigroup Global Markets Australia Pty Ltd (Citigroup Australia).
<b>Underlying Investment Profiles</b>	<p><b>Growth Portion</b> - 3 multi-asset class profiles providing index exposure to the global equities, global property and commodities markets.</p> <p><b>Income portion</b> - offered via a fixed interest strategy managed by Citigroup Australia.</p>
<b>Participation Rate</b>	100% - 130%. Final participation rate to be set on the issue date. Must be a minimum of 100%.
<b>Income</b>	The Income Portion may distribute a variable amount determined by the difference between the 2 and 5 year swap rates. Income amounts can vary between 0% and 16%, depending on movements of the swap curve.
<b>Issue Price</b>	AUD 1.00 per Optimiser Plus.
<b>Capital Guarantee</b>	100% of capital is guaranteed by Citigroup Inc. Capital is only guaranteed at maturity.
<b>Delivery Asset</b>	Optimiser Plus is structured as a deferred purchase agreement where Commonwealth Bank shares (ASX Code CBA) are delivered to investors at maturity.
<b>Minimum Amount</b>	AUD 10,000 with AUD 1,000 increments.
<b>Taxation</b>	See Taxation on page 6.
<b>Liquidity</b>	Early redemption is available at the discretion of Citigroup Australia.
Fees & Commissions	
<b>Adviser Commissions</b>	<p>Citigroup may pay adviser fees from their own funds.</p> <p>Upfront Fee – 2.00% (incl GST) of the investment amount.</p> <p>Trailing Fee – Up to 0.33% p.a. (incl GST) of the investment amount.</p>

### What this rating means

➤ The Recommended rating indicates that Lonsec has conviction that the fund or product can achieve its objectives and, if applicable, outperform peers over an appropriate investment timeframe. The manager or product has a number of competitive advantages (and has few material weaknesses) in people, process and product design. The investment is a recommended entry point to access this asset class or strategy

### Lonsec Opinion of this Product

➤ Optimiser Plus is a structured market linked product offering exposure to a *growth* portion – the index - linked performance of global equities, property and commodities and an *income* portion – a fixed interest strategy managed by Citigroup Australia. The choice between the income and growth portions is determined by the investor. The rainbow-style options used in the *growth* portion provide investors with exposure to the best performing growth profile over the investment term. This should particularly suit investors not wishing to make an asset allocation decision

➤ The decision to split the bonds and property exposures from the one asset class is an enhancement over the Optimiser 5 structure. Investors in Optimiser Plus have the choice of whether to incorporate an *income* exposure, rather than having a hybrid bonds / property exposure

➤ The *income* portion is a fixed interest strategy where the pay-off is determined by the difference between the 2 and 5 year Australian swap rates. While investors can receive potential income of up to 16%, a scenario which saw the difference between the 2 and 5 year swap rates become inverse at less than – 0.175% would reduce income to zero whilst this remained the case. A core philosophy of Lonsec is that products designed to generate income and appeal to defensive or conservative risk profile investors should also provide a high degree of certainty of delivery of that income. The *income* portion of Optimiser Plus is a directional single strategy with income dependent on correct timing of the market. Investors are able to receive an above market income distribution by assuming the possibility of receiving zero income. The strategy results in income possibilities ranging from 0% to 16%. As such, Lonsec does not consider the income pay-off suitable for investors requiring income certainty, but more suited to balanced and some growth investors with a strong view on the direction of Australian interest rates and the shape of the yield curve over the next 4 years. Lonsec believes that these are only likely to be experienced investors who are able to adequately assess and monitor changes in interest rates

- The underlying investment profiles of the *growth* portion are transparent, purposely simplistic in construction and fixed for the investment term of 4 years. Citigroup Australia has not designed the investment profiles and asset classes to specifically reflect the general global performance of global equity, property or commodities markets, as measured by widely recognised global benchmarks. For example, the equities asset class is equally weighted between the major US, European, emerging markets and Japanese share market indices. Investors should note that this may lead to a return and volatility exposure that differs from the MSCI World Index, a widely accepted global equity benchmark
- Lonsec views the structure created by Citigroup Australia as an efficient means of providing capital protected exposure to the 3 investment profiles in the *growth* portion
- The capital protection mechanism employed is appropriate for shorter dated products such as Optimiser Plus. Other more actively managed means of capital protection have limited upside when the underlying assets suffer sharp falls early in the life of the product and are best suited to longer dated products
- Adviser commissions are clearly outlined and are comparable to similar products. Citigroup Australia may also profit from hedging arrangements undertaken when generating the returns for Optimiser Plus investors. The quantum of these amounts is dependent on the skills of Citigroup Australia traders and is not transparent. The determination of the participation rate is dependent a number of factors, set on the issue date and is also not transparent

## Using this Fund

- This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page
- Optimiser Plus provides investors with the opportunity to gain exposure to the growth potential of 3 multi-asset class investment profiles. Lonsec views the *growth* portion as global equity diversifiers best suited to growth investors with maximum percentage allocations outlined in Lonsec's Risk Profile Review. The *income* portion of the product is more suited to balanced investors with strong views on the direction of Australian interest rates and the shape of the yield curve over the next 4 years and who do not require income certainty. The *income* portion is not suited to investors with secure, defensive or conservative risk profiles as defined by Lonsec
- Optimiser Plus incorporates capital protection techniques that may provide additional comfort to more risk averse investors. Some growth and high growth investors may be more suited to investments with fund managers providing non-capital protected, actively managed access to these markets

## Investor Suitability

- Investors seeking capital growth from international equity markets and markets more difficult for retail investors to access
- Investors seeking exposure to global asset classes with the certainty of having greatest exposure to the best performing asset classes
- Investors seeking capital growth rather than certainty of income. Although Optimiser Plus may distribute quarterly income there is no guarantee that this will be the case so investors should be comfortable funding any interest payments on any investment loans from their own resources

## Issuer Profile

The issuer of Optimiser Plus is Citigroup Global Markets Australia Pty Ltd (Citigroup Australia). Citigroup Australia is a wholly owned subsidiary of Citigroup Inc., and a member of Citigroup. Citigroup Inc. guarantees the capital value but not the performance of Optimiser Plus. Citigroup Inc. is a diversified global financial services holding company whose businesses provide a broad range of financial services to more than 200 million customers in more than 100 countries. Citigroup Inc. has a long term credit rating of AA by Standard and Poor's and Aa1 by Moody's as at the date of this offer. Investors should note that Citigroup Australia does not have a long term credit rating.

Citigroup Australia has significant experience in managing derivative based investments offering capital protection.

## Growth Portion

An investor's return in the growth portion is based on the best performing of the following 3 multi-asset class investment profiles with the following weightings:

Investment Profiles	Equities Allocation	Property Allocation	Commodities Allocation
Equities-biased	60%	20%	20%
Property-biased	20%	60%	20%
Commodities-biased	20%	20%	60%

The underlying investment profiles and asset allocation within these profiles is fixed for the 4 year term of Optimiser Plus.

The performance of each asset class will be determined by the performance of an **equally weighted** basket of the following indices:

Equities Asset Class	Property Asset Class	Commodities Asset Class
Dow Jones Euro Stoxx 50	FTSE EPRA/NAREIT Global Real Estate Index	Goldman Sachs US Energy Index
S&P BRIC 40 Index		Goldman Sachs US Precious Metals Index
Nikkei 225 Index		Goldman Sachs US Agriculture Excess Return Index
S&P 500 Index		

Lonsec notes that the equal weighting within the asset classes is purposely arbitrary and does not reflect any widely used global indices. The equities asset class comprises 4 equally weighted exposures to the major regional indices of Europe, emerging markets, Japan and the US. As a result the performance of the equities asset class in Optimiser Plus may vary significantly from the performance of the MSCI World Index, an index widely accepted by fund managers as the benchmark for the global equities market.

The correlations between the various indices in the growth portion are shown in the table below:

	Europe	BRIC	Japan	US	Property	Energy	Metals	Agriculture
Europe	1.00							
BRIC	0.51	1.00						
Japan	0.31	0.38	1.00					
US	0.47	0.46	0.11	1.00				
Property	0.49	0.40	0.36	0.46	1.00			
Energy	0.00	0.15	0.08	-0.04	-0.06	1.00		
Metals	0.08	0.31	0.17	0.06	-0.07	0.27	1.00	
Agriculture	-0.02	0.07	0.05	0.00	-0.04	0.15	0.24	1.00

The correlations shown are for the period Jan 2000 to Feb 2007 (apart from BRIC which is from Jan 2004 to Feb 2007). The table shows the indices are not highly correlated, with the highest correlations being 0.51 for the BRIC and European share market indices and 0.49 for the European share market index and property market index.

A brief overview of the underlying indices in each asset class in the growth portion follows:

#### Dow Jones Euro Stoxx 50

Established in 1998, the Dow Jones Stoxx and Dow Jones Euro Stoxx are capitalisation weighted indexes designed to represent the largest and most liquid stocks in the market. The index aims at presenting 80% of each industry group in each market, and consequently 80% of the investable securities of each market. The Dow Jones Stoxx 50 is a subgroup of 50

companies of the Dow Jones Euro Stoxx index. For more information see: <http://www.djindexes.com/>

However, Optimiser Plus investors benefit from the capital protection and averaging of index returns (see How does the Product Work? on page 4).

The Property asset class comprises a widely recognised property securities index. The Commodities asset class is based on perhaps the most widely recognised commodities index, the Goldman Sachs Commodities Index. The sub indices of energy, precious metals and agriculture are included in the Optimiser Plus Commodities asset class. The rationale for the omission of the industrial metals and livestock sub indices is driven by Citigroup Australia analysis and feedback from investors. Investors should note, like all major commodity indices, the GSCI does not include some of the major commodities currently being consumed by China and other emerging markets (namely coal and steel) and in this sense may not provide a complete exposure to the “commodities growth story”.

The Property asset class comprises a widely recognised property securities index.

#### S&P BRIC 40 Index

The S&P BRIC 40 is designed to represent the 40 largest and most liquid companies of Brazil, Russia, India and China in USD on a price return basis. All 40 securities in the S&P BRIC 40 Index are constituent members of the S&P/IFCI Index series that meet minimum market capitalisation and liquidity requirements. For more information see:

<http://www.standardandpoors.com/>

#### Nikkei 225 Index

The Nikkei 225 Index is a price-weighted index of 225 top-rated Japanese companies, selected on the basis of high liquidity and market capitalisation, and intended

to be representative of the development of the Japanese equity market as a whole. For more information see:

[http://www.nni.nikkei.co.jp/FR/SERV/nikkei\\_indexes/](http://www.nni.nikkei.co.jp/FR/SERV/nikkei_indexes/)

**S&P 500 Index**

The S&P 500 is a stock index designed to measure the price performance of a diverse portfolio of securities, the majority of which are quoted on the NYSE. The 500 listed securities are chosen on the basis of market size, liquidity, capitalisation and industry group representation. The S&P 500 is one of the most widely used benchmarks of US equity performance. For more information see:

<http://www.standardandpoors.com/>

**FTSE EPRA/NAREIT Global Real Estate Index**

The FTSE EPRA/NAREIT Global Real Estate Index tracks the performance of listed real estate companies and Real Estate Investment Trusts worldwide. The index reflects the stock performance of companies engaged in specific aspects of the North American, European and Asian real estate markets as perceived by institutional investors. The index is quoted under Bloomberg code “ENGL Index”. For further information see:

<http://www.ftse.com/Indices>

**Goldman Sachs US Energy Index, Goldman Sachs US Precious Metals Index & Goldman Sachs US Agriculture Excess Return Index**

The Goldman Sachs Commodity Index is calculated primarily on a world production weighted basis and comprises the principal physical commodities that are subject of active liquid futures markets but with no limit on the number of contracts that can be included. The Goldman Sachs US Energy Index represents the energy component of the GSCI Excess Return Index (GSCI ER). The Goldman Sachs US Precious Metals Index represents the precious metals component of the GSCI ER. The Goldman Sachs US Agriculture Excess Return Index represents the agriculture component of the GSCI ER. For further information see:

<http://www2.goldmansachs.com/gsci/>

Lonsec believes these indices are appropriate for investors seeking passive exposure to the asset classes offered by the *growth* portion of Optimiser Plus. All indices offer broad representation, investability and transparency. The indices are widely recognised in the industry and provide clear rules for security selection.

**Income Portion**

An investor’s return in the income portion is based on the difference between two interest rate swap rates. The relevant swap rates are:

**Index 5 & Index 2**

Index 5 & Index 2 are interest rate swap reference rates that are calculated by the Australian Financial Markets Association (AFMA). The swap market can loosely be thought of as a bank credit market. Contributing banks supply quotes to AFMA by 10am each day and a mid rate is calculated. For further information see:

<http://www.afmadata.com.au/markets/swaps.asp>

**How does the Product Work?**

Investors must first determine the percentage of the product they wish to be invested in the growth and income portions. There are 5 alternatives:

	Growth Portion	Income Portion
<b>Income Only</b>	0%	100%
<b>Income</b>	25%	75%
<b>Balanced</b>	50%	50%
<b>Growth</b>	75%	25%
<b>Growth Only</b>	100%	0%

An investor’s return on the **growth portion** is firstly determined by calculating the return of each investment profile at the maturity date. A final value for Optimiser Plus is then calculated as the best performing investment profile multiplied by the participation rate\*. A full outline of this calculation is provided in Section 2 of the PDS.

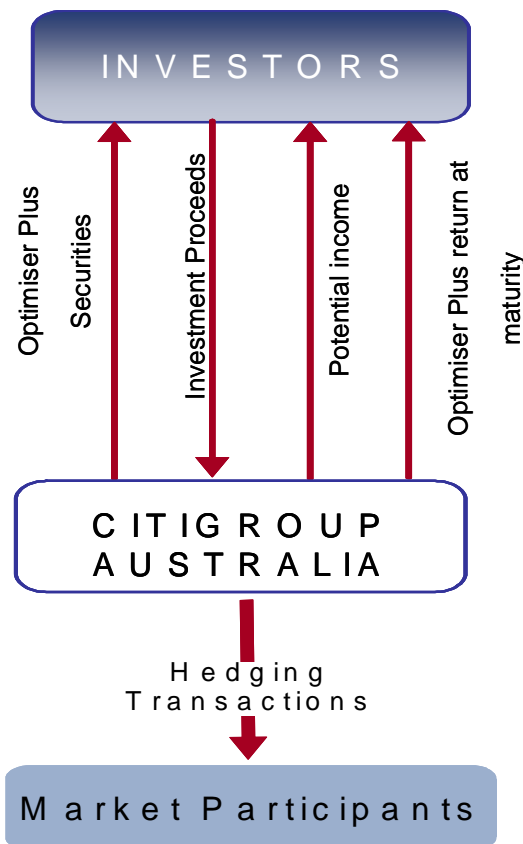
An averaging feature is used to determine the returns for each asset class. Averaging reduces the volatility of returns for the investment classes. This can potentially reduce investment returns where an index steadily rises over the investment term but can produce higher returns where an index falls sharply closer to maturity. The observation dates used for the purposes of averaging are the 4 anniversaries of the issue date.

An investor’s return on the **income portion** is determined by the difference between Index 5 and Index 2. The return can vary between 0% and 16%, is paid quarterly in arrears and works as follows:

Index 5 – Index 2 =	Income
Number of days greater than – 0.175%	8%
Number of days greater than 0.5%	An additional 8%
Number of days less than – 0.175%	Zero

The strategy is based on research undertaken by Citigroup Australia and seeks to exploit an anomaly in Australian interest rate markets where shorter term rates are currently higher than longer term rates (an inverse yield curve). Under this strategy investors are at risk of not receiving a return where Index 5 – Index 2 inverts to an amount less than - 0.175%. Citigroup Australia has outlined reasons supporting why they believe this will not be the case in the PDS. Whilst based on sound economic themes expected to play out and extensive market knowledge in the area, investors must be aware that macro-economic and other events which have not been considered may impact Australian swap rates and as such the strategy does not represent a guaranteed income stream.

The structure may be shown as:



Citigroup Australia internally hedges its capital protection obligations to Optimiser Plus investors by allocating the bulk of the investment proceeds to a notional bond over the 4 year investment term.

Investment returns on the growth portion are generated by allocating the residual investment proceeds to derivative transactions including rainbow-style options. These options are path dependent with their value being determined by how the underlying indices have performed over the investment term. In contrast the value of a vanilla option is determined by the value of the underlying asset at a single point in time.

Investment returns on the income portion come via two components. The first is simply interest earned by Citigroup Australia investing client funds into interest bearing deposits. The second source of income for investors comes from investors' selling an option to Citigroup Australia. This allows investors' to earn an option premium. The value of the option that is sold by an investor to Citigroup Australia is a function of firstly the value Citigroup Australia would receive by only having to pay a 0.00% coupon instead of an 8.00% coupon when the Index5 -Index2 is less than -0.175% and secondly the likelihood of getting to this spread on each observation period. Citigroup Australia can recoup the option costs even without the spread ever setting lower than the -0.175% by trading hedge positions in and out of the market. The value of the option premium to Citigroup Australia also pays for the right for the Investor to receive the additional 8% if Index5-Index2 is greater than 0.50%.

\* The participation rate applying to the *growth* portion is set on the issue date and is determined by Australian dollar interest rates, volatility of the underlying indices, correlations between the underlying indices, and the forward price of commodities relative to the current price of the commodity price index. The participation rate will be set between 100% - 130% on the issue date (with a minimum of 100%).

**What Happens at Maturity?**

On maturity investors have a choice of receiving physical delivery of the delivery asset (CBA shares) or instructing Citigroup Australia to sell the delivery asset and realise sale proceeds equal to the final value of Optimiser Plus. This arrangement is known as a deferred purchase agreement.

There may be different taxation implications depending on the choice made by investors. Investors are advised to seek their own taxation advice.

**Financing the Investment**

Citigroup do not provide direct financing but have arranged a number of third parties to lend certain percentages against the security of Optimiser Plus. The loan providers are:

- BT Investment Loans
- Citigroup Margin Lending
- Leveraged Equities.

## Risks

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**An investment in the Optimiser Plus carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in Section 5 of the PDS and should be read in full and understood by investors. Lonsec considers the major risks to be:**

**Variable Income risk** – Any income payable on the income portion of the product is dependent on the performance of Index 5 relative to Index 2. A scenario which saw the difference between the 2 and 5 year swap rates become inverse at less than – 0.175% would reduce income to zero whilst this remained the case.

**Early Maturity risk** – The capital guarantee is only provided at maturity. In certain circumstances, relating mainly to changes in the law or where an index can no longer be used, an early maturity could ensue. Early maturity can also result from an early redemption request from an investor. An investor can receive proceeds less than their initial investment in the event of an early maturity.

**Counterparty risk** – Investors are exposed to the creditworthiness of Citigroup Australia, as Optimiser Plus returns are dependent on Citigroup Australia performing its obligations as they fall due. Citigroup Australia's obligations are guaranteed by Citigroup Inc.

**Performance risk** – The value of all investment profiles in the growth portion of the product is dependent on the performance of underlying indices. Indices are not actively managed and can be affected by many different factors including but not limited to interest rates, economic policies, political events, war and natural events. There is no guarantee the value of Optimiser Plus will increase over the investment term.

**Leverage risk** – Investors utilising any investment loan provided by third parties should be aware that gains and losses are magnified through the use of borrowings. Leverage is also employed to the extent that the participation rate is greater than 100%.

## Taxation

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### Income

Annual coupons paid to investors should be assessable as income.

If an investor takes delivery of the delivery asset, any dividends and franking credits received on CBA shares should be included as assessable income when received by investors.

## Capital Gains / Losses

Any excess of the sale proceeds of the delivery asset over the cost base of the assets should be regarded as a capital gain. An investor may be entitled to a CGT discount on disposal of the delivery asset.

The Australian taxation opinion from Greenwoods & Freehills Pty Ltd contained in Section 6 of the PDS does not consider the deductibility of funding costs in relation to investors who borrow money to fund their investment in Optimiser Plus. Investors should seek their own advice in this respect.

**These comments constitute 'General Advice' only and Lonsec advises investors to consult a taxation specialist before making a decision to invest (or not to invest) based upon these taxation considerations. Investors should refer to Section 6 of the PDS.**

## Exit Mechanism

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Optimiser Plus is not listed on the Australian Stock Exchange or any other exchange. Due to the nature of the underlying investment profiles, investors should have the intention of holding an investment in Optimiser Plus to maturity. However, redemption requests for an investor's full amount can be made in writing before the last business day of each month. Early redemptions will generally be paid within 1 month of request.

## Fees

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Citigroup may pay adviser fees from their own funds. These are:

**Upfront Fee** – 2.00% (incl GST) of the investment amount.

**Trailing Fee** – Up to 0.33% p.a. (incl GST) of the investment amount.

Adviser commissions are clearly outlined and are comparable to similar products. However Citigroup Australia may also profit from hedging arrangements undertaken when generating the returns for Optimiser Plus investors. The quantum of these amounts and consequent determination of the participation rate means pricing of these features of Optimiser Plus are not transparent.

## Further Information

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Further information can be obtained by contacting Citigroup Australia on 1300 308 982 or email [equityfirst.au@citigroup.com](mailto:equityfirst.au@citigroup.com)

## Analyst Disclosure & Certification

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**Date Prepared: April 2007**

**Analyst: Michael Elsworth**

**Release Authorised by: Richard Everingham**

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