Asian Income Plus YIELDS3

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Rating Summary	Rating	Comment
Asian Income Plus: **Y**ield **I**ncome **E**nhanced **L**isted **D**eferred **S**ecurities **3** (YIELDS3)	Investment Grade	Citigroup has structured a product designed to provide investors with exposure to a large-cap, income-biased portfolio of Asian stocks while ensuring that an investor's initial capital is protected at maturity.

Key Issues

Asian Income Plus is the third offering of the capital guaranteed product, **Y**ield **I**ncome **E**nhanced **L**isted **D**eferred **S**ecurities ("YIELDS3"). This product is designed to deliver income to investors from an exposure to both the dividends of 30 stocks selected from the MSCI AC Asia Index ("MSCI Asia Index") and the premiums generated from selling call options on these stocks. YIELDS3 is structured as a Deferred Purchase Agreement. At maturity in six years, investors are guaranteed the delivery of their initial invested capital.

YIELDS3 provides investors with exposure to the Asian Income Plus Trading Strategy III ("the Strategy"). The Strategy is designed to track the performance of a portfolio of the 30 largest stocks by free float-adjusted market capitalisation selected from the MSCI Asia Index and listed on the exchanges of Hong Kong, Japan, Korea, Singapore and Taiwan. Stocks are selected for the Strategy to maximise liquidity, while providing the portfolio with a degree of sector diversity. The underlying portfolio of stocks is a contractual obligation of Citigroup. Citigroup is obligated to match the risks and rewards that pertain to the underlying stocks within the Strategy.

Citigroup intends to enhance the dividend income received on the stocks by writing (that is, selling) call options over these stocks. Each quarter, the option overlay typically writes three-month call options on the underlying stocks selected within the Strategy. Citigroup has previously found that three-month options systematically generate the optimal premium, while offering the greatest liquidity without over-trading.

Dynamic management of the stock portfolio uses a mechanism known as Constant Proportion Portfolio Insurance. This process facilitates the allocation between the risky asset (that is, the Strategy) and the cash asset (referred to as a Bond Portfolio). As the Strategy is valued in real time, Citigroup has the ability to dynamically reallocate between the Strategy and the Bond Portfolio. Dynamic management is not a guarantee of capital value. Rather it is a Citigroup entity that guarantees payment of the investors' initial capital at maturity. The performance of YIELDS3 is not guaranteed.

YIELDS3 is targeting a net income yield of 12% per annum, as indicated by Citigroup's research. The target annual yield is based on income generated by the Strategy (that is, about 2.5% dividends plus 11.25% premiums less 1.75% trading strategy fee), assuming there is a 100% allocation of capital to the Strategy during the full six-year term of the investment. Actual allocation to the Strategy may, however, fluctuate between 0% and 150%.

YIELDS3 is intended to be a buy and hold investment. Nevertheless, YIELDS3 will be listed on the Australian Stock Exchange ("ASX"), where it is expected that Citigroup will offer liquidity by providing a bid price and an offer price as a spread to the value of YIELDS3. On the Issue Date, the value of YIELDS3 will be $A9.67 per Unit after deduction of the upfront fee. The spread compensates Citigroup for the costs it incurs from unwinding the exposures used to hedge its liabilities to holders of YIELDS3.

The fee structure of YIELDS3 is transparent, allowing investors to determine the cost of each component and the overall cost of YIELDS3. The estimated fees and embedded costs of YIELDS3 are 3.35% per annum, based on a 100% allocation to the Strategy during the full term, plus an upfront sales fee of 3.3% (including GST) in the first year. An additional cost of the Reserve Bank of Australia ("RBA") cash rate plus 1.25% per annum is also payable when the Leverage Facility is used.

Citigroup retains the right to bring an early maturity date to the product. The limited events that could trigger an early maturity include Citigroup's inability to legally offer the product, or a market event that makes it impossible for continued servicing of the product. Although investors would consequently lose their capital protection on an early maturity, they will receive the value of YIELDS3, less the costs of Citigroup unwinding the positions. Accordingly, the investors would, at a minimum, receive the present value of the guaranteed amount, discounted by a factor derived from the Bank Bill Swap ("BBSW") interest rate.

The product may be suitable for investors seeking Asian equity exposure, and certainty that their capital will be guaranteed at maturity.

Explaining YIELDS3

Issuer	Citigroup Global Markets Australia Pty Ltd.
Security	**Y**ield **I**ncome **E**nhanced **L**isted **D**eferred **S**ecurities **3** (YIELDS3)
Domicile of issue	Australia
Underlying Strategy	Rules-based, nondiscretionary trading model that combines Asian stocks with covered call option writing.
Offer Open Date	May 23, 2005
Offer Close Date	July 26, 2005
Issue Date	August 2, 2005
Maturity Date	August 2, 2011
Investment Term	Six years.
Denomination	Australian dollars.
Minimum Investment	A$5,000 then A$1,000 increments.
Coupon	Targeting net 12% per annum, based on historical estimates by the sponsor, comprising 2.5% dividends and 11.25% premiums less 1.75% trading strategy fee, assuming there is a 100% allocation of capital to the Strategy during the full six-year term.
Coupon Frequency	Quarterly in arrears.
Upfront Fee	3.3% (including GST).
Trailing Fee	0.85% (including GST) per annum.
Dynamic Portfolio Fee	0.75% per annum based on issue price.
Trading Strategy Fee	1.75% per annum based on A$ amount allocated to the Strategy.
Leverage Facility Fee	RBA cash rate plus 1.25% per annum based on initial leverage facility.
Capital Guarantor	Citigroup Inc., rated Aa1 by Moody's and 'AA-' by Standard & Poor's.
ASX Listing	Citigroup has applied for official quotation of YIELDS3 on the ASX.

Asian Income Plus Trading Strategy III

The MSCI Asia Index is composed of about 858 Asian companies. Selected annually from this index are the 30 largest stocks by free float-adjusted market capitalisation that are listed on the exchanges of Hong Kong, Japan, Korea, Singapore and Taiwan, subject to a diversification rule that prevents the portfolio inclusion of more than eight stocks from any single country or industry sector. Citigroup has indicated to us that the historical dividend yield on the portfolio is about 2.5% per annum. Investors should be aware that the resulting portfolio is likely to be weighted towards the Information Technology, Consumer Discretionary, Telecommunication Services and Financials sectors.

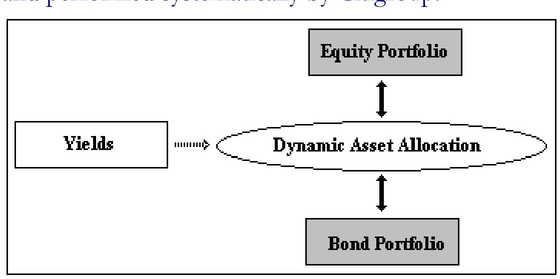
The Strategy intends to enhance the dividend income received by writing call options over the stocks in the portfolio. Quarterly, the option overlay typically writes three-month options on the underlying stocks. Citigroup has previously identified that three-month options systematically generate the highest premium, while offering the greatest liquidity. The option overlay mimics a Dutch auction where Citigroup seeks bids for European-style, cash-settled call options on the underlying stocks from a minimum of two independent brokers together with Citigroup Global Markets Ltd. (or one of its affiliates). Citigroup then accepts the counterparty that offers the highest premium for a given strike. The strike prices of the options are targeted to generate a net cash flow of 12% per annum (in combination with the dividends on the underlying stocks). The Strategy will write options with permitted strike prices of 100% at-the-money options up to 130% out-of-the-money options of the current market value of the underlying stock. For any given quarter, this would imply a minimum potential capital gain of 0% on the stocks during the quarter. By retaining the flexibility to set the strike price above the prevailing market price, the Strategy has the potential for limited capital appreciation.

Cash Asset

The cash asset is a notional Bond Portfolio. The present value of the Bond Portfolio is calculated using a discount factor determined from the BBSW interest rate.

Dynamic Management Mechanism

The portfolio is dynamically allocated between the Strategy and the Bond Portfolio. This mechanism aims to ensure that the value of YIELDS3 at maturity in six years is at least equal to the guaranteed amount. The rules governing this process are nondiscretionary and performed systematically by Citigroup.



Dynamic management is simple for Citigroup to operate. Generally speaking, when the Strategy is performing well most of the invested capital is exposed to the Strategy's performance. The actual proportion exposed is a function of a constant (that is, 5x) gearing factor multiplied by the trading equity (that is, equal to the amount that the unlevered exposure to the Strategy and Bond Portfolio exceeds a bond floor, which is the present value of the protected capital discounted at an interest rate). In other words, the gearing factor is an implied source of leverage and Citigroup will theoretically maintain enough of a cushion to maintain the initial invested capital at maturity. Citigroup monitors the value of assets in the stock portfolio, the leverage level and the bond floor. When the Strategy is not performing, more of the capital is diverted to the Bond Portfolio.

YIELDS3 Value Determination

The value of YIELDS3 will be determined where possible from real-time market prices of the underlying stocks within the Strategy and the Bond Portfolio. When the market is closed for an underlying stock, the stock will be priced based on the closing price of the stock on its particular exchange. The diagram below indicates the total value determination of YIELDS3.

[$A Value Equity Equity Portfolio
+
$A Value Bond Portfolio]
−
[$A Leverage Facility
+
$ A allocation of discount amount]

Source: Citigroup

The dividends and the option premiums will accrue to the portfolio continually during each quarter. The value will decrease by the coupon amount when YIELDS3 goes ex-coupon.

The Risks

Investors need to be aware that the terminal capital value of this product, and cash flows received over the products' life are dependent on a large number of exposures including the following factors:

Interest Rate Exposure

The market value of the bond floor and the Bond Portfolio is reliant on the prevailing interest rates.

Foreign Exchange Exposure

The stocks in the portfolio may be denominated in a number of currencies. The Strategy itself will be denominated in U.S. dollars, while the Bond Portfolio will be denominated in Australian dollars. Consequently, YIELDS3 will be exposed to foreign exchange movements. A rising U.S. dollar will, for example, increase the Strategy's value in Australian dollar terms, thereby decreasing the likelihood of a deleveraging dynamic allocation into the Bond Portfolio. A falling U.S. dollar will, however decrease the Strategy's value in Australian dollar terms, and increase the likelihood that the Strategy will be de-leveraged into Bond Portfolio.

Equity Exposure

The performance of YIELDS3 is driven by the performance of the underlying assets in the Strategy. A brief description on how the Strategy will perform in different market conditions is shown in Table 1.

Table 1

Covered Call Option Strategy Performance

If the selected stocks' performance is…	The Strategy performance is likely to be…	Relative to a direct equity investment, the Strategy is likely to…	Relative to a cash deposit, the Strategy is likely to…
Very positive / strong bull market	Very positive	Underperform	Outperform strongly
Moderately positive / rising market	Positive	Outperform	Outperform
Flat	Positive	Outperform	Outperform
Moderately negative / falling market	Slightly positive to slightly negative	Outperform	Underperform slightly
Very negative / bear market	Negative	Outperform	Underperform

Source: Citigroup

Investor Profile

YIELDS3 may be suitable for investors:

- Seeking exposure to Asian equity markets;
- Seeking regular income, the potential for capital growth and principal protection at maturity;
- Seeking to add an Asian equity-linked investment to their portfolio to further diversify existing fixed income and equity assets; and
- Investors who can accept a holding period of six years.