

Creativ Group

Capacity expansion to underpin aggressive sales growth

Sales expected to grow by 51% in 2010

Creativ Group launched a new multi-seed extraction plant in mid-2009, increasing its crushing capacity by 48% to 398,000 mt, and put into operation a new protein products plant. In our view, the group's increased output should trigger a 51% y-o-y increase in revenues to USD 319 mln by yearend, followed by 27% CAGR over 2010-2014. We initiate coverage of Creativ with a target price of USD 21.5. Upside: 70%.

Investment case: Cheapest sunoil play in Ukraine

- Fifth largest domestic crude sunflower oil producer with total crushing capacity of 398,000 mt sunseeds per year, or 5% of Ukraine's total capacity as of 2009
- Second largest vegetable fat and margarine manufacturer in Ukraine with an estimated market share of 28% in 2009
- Sunoil crushing capacity upgrades in 2009, coupled with diversification into the high-protein fodder segment, are expected to boost the group's revenues by a 27% CAGR over 2010-14
- The launch of another USD 40 mln multi-seed extraction plant in late 2011 should increase the group's sunoil output by 76% to 320,000 mt annually
- The estimated EBITDA contribution from Creativ's new facilities should reach USD 56 mln, or 46% of the company's 2014E EBITDA
- Creativ Group's net debt-to-EBITDA is forecast to normalize at 1.7x in 2013, down from 3.95x in 2009 on the back of an anticipated 19% CAGR for EBITDA over 2010-14
- A 100:1 stock split and admission to the most liquid domestic exchange (UX) in July 2010 should alleviate liquidity concerns and increase investor interest in the stock

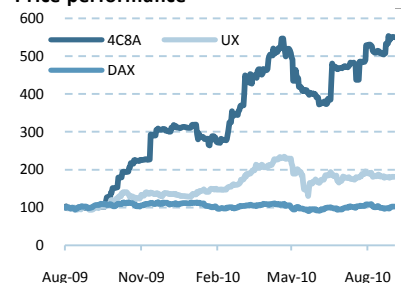
Valuation: 70% potential upside

At its current price of USD 12.7 per share, Creativ trades at discounts of 14-27% to emerging and developed market sunflower-growing peers on 2010-11E EV/EBITDA. In addition, the stock shows hefty discounts of 45-62% to both EM and DM peers on 2010-11E P/E. We believe these discounts are unjustified given the company's impressive estimated 27% CAGR in revenue for the 2010-2014 period.

Report date	9 Sept 2010
Bloomberg	CRGR UK, 4C8A GR
Reuters	CRGR.UAX
Recommendation	BUY
Price (08 Sept 10), USD	12.7
12M price target, USD	21.5
No of shares, mln	10.25
DRs per ord share	1:1
Market Cap, USD mln	130.1
52-week performance	451%
52-week range, USD	12.75/2.25
ADT, 12M, USD mln	0.02
Free float, %	23.4
Free float, USD mln	30.5

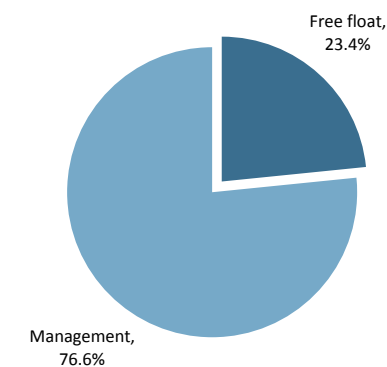
Prices as of Sept. 6, 2010

Price performance



Source: Bloomberg, UX

Ownership structure

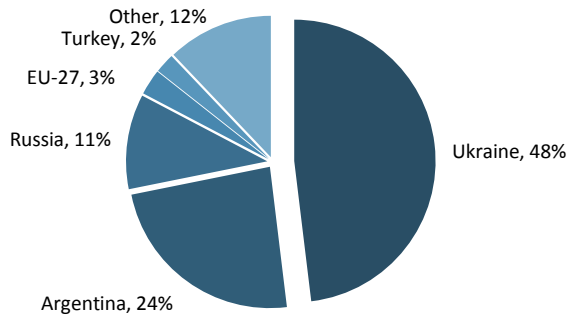


Source: Company data

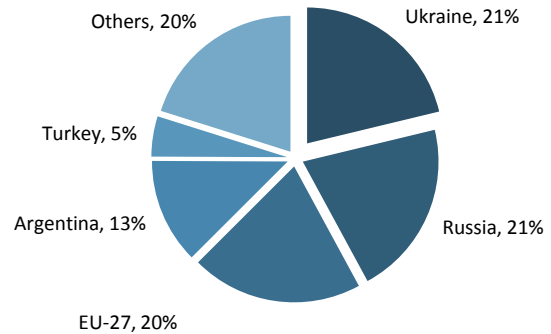
Ukraine: largest global sunoil producer and exporter

Ukraine is the largest global producer and exporter of sunflower oil, responsible for 21% of the world's 2010/11 forecasted output and 48% of global sunoil exports over the same period, according to the US Department of Agriculture. This is explained by Ukraine's favorable climate, highly fertile black soil and 32 million ha of arable land – the second largest agricultural land mass in Europe.

Ukraine's share in global sunoil exports, 2010/11E



Ukraine's share in global sunoil production, 2010/11E

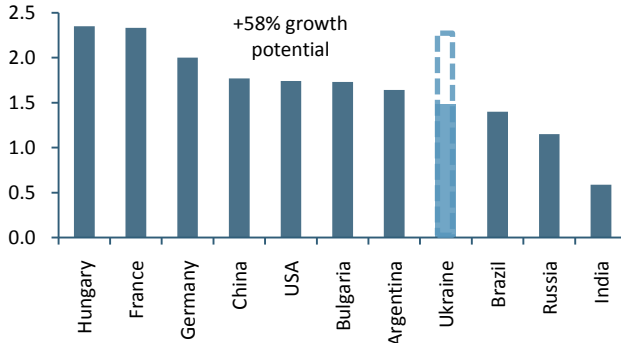


Source: USDA, Concorde Capital estimates

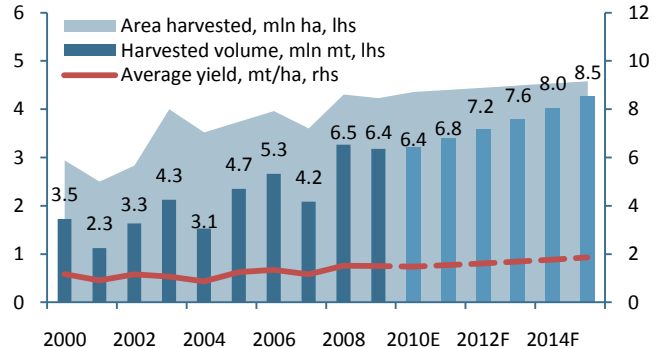
Sunoil demand suggests 5% CAGR in harvest yields for 2010-14

Unlike this year's grain harvest, which was damaged by June droughts and forecasted at 39.6 mln mt (down 14% y-o-y), Ukraine's sunseed harvest outlook remains unchanged at 6.4 mln, or flat y-o-y. Sunflowers, which ripen later and are harvested in September, did not see yields negatively affected by the summer heat.

2009 sunseed yields for major global producers, mt/ha



Ukraine's sunseed harvest, mln mt vs. yield, mt/ha



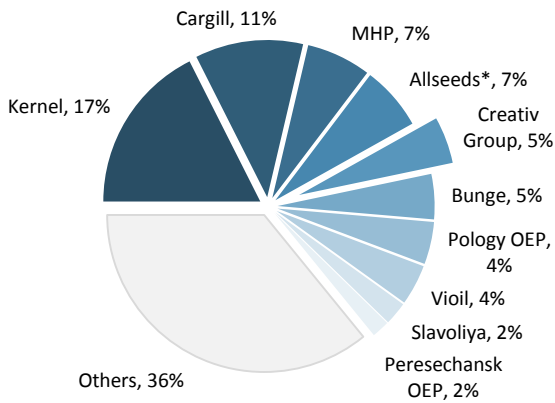
Source: USDA, State Statistics Committee, Concorde Capital estimates

Given strong demand in the EU and India for sunoil, we expect Ukraine's sunseed harvest to expand by a 5% CAGR over 2010-14 to 8.5 mln mt in 2014 compared to the 16% CAGR witnessed over 2004-09. Assuming Ukraine's sunflower growing area is capped due to crop rotation demands (sunflowers are planted once every seven years in Ukraine compared to every 3-4 years in Europe), we anticipate a significant focus on higher productivity, pushing domestic yields (1.5 mt/ha) closer to those of Bulgaria (1.8 mt/ha) and Hungary (2.0 mt/ha) by 2015.

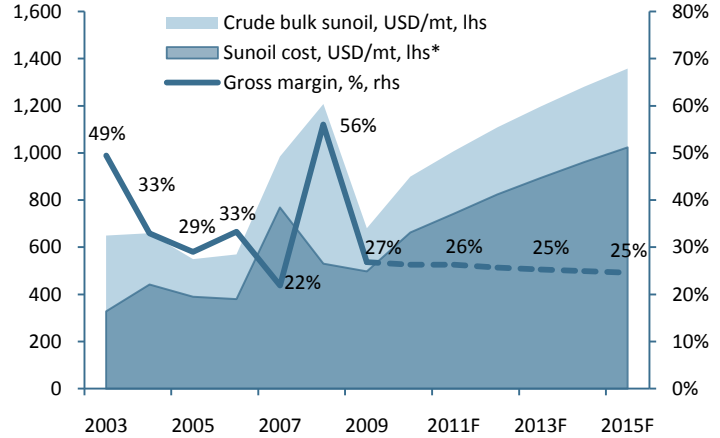
Competition to normalize long-term bulk oil gross margin at 25%

Ukraine's sunflower crushing capacity of 8.6 mln mt p.a. is 34% higher than the projected 2010 sunseed harvest of 6.4 mln mt, implying increased competition for seed supply in 2010-14. This is likely to have an adverse effect on small players with low cash reserves who will be unable to build up inventories effectively during the low season.

Domestic sunflower crushing capacity distribution, %



Average crude bulk sunflower oil gross margin in Ukraine, %



* Acquired by Kernel in early 2010

Source: Company data, Bloomberg, Concorde Capital estimates

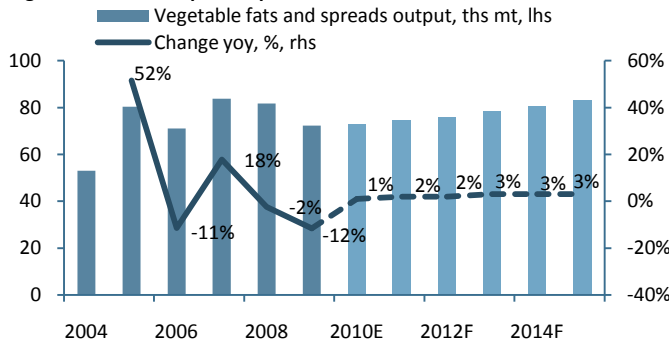
As a result, we forecast the average gross margin on local crude bulk sunoil production to normalize at 25% in the long run, down from a high of 49% in 2003. At the same time, we believe top industry players will likely outperform this benchmark due to economies of scale and higher cost-efficiency in the crushing process.

Vegetable oils & fats: driven by B2B demand

Ukraine's vegetable fats and spreads (of up to 75% vegetable oil content) output increased by 6% CAGR over 2004-09 to 72,300 mt, and we forecast a 2% CAGR over 2010-14, driven by B2B (confectionary & bakery), which was responsible for 88% of local consumption in 2009, as well as by expanding exports. Vegetable fat exports increased at a 22% CAGR between 2004-09 and constituted 15% of Ukraine's fat and spread output last year.

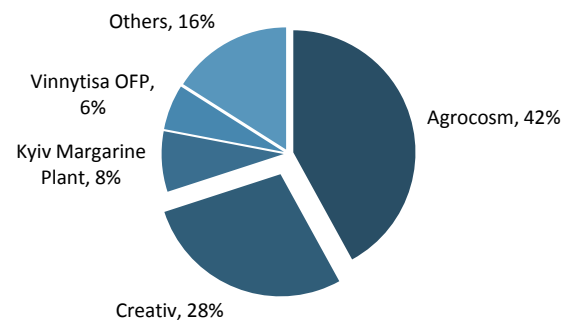
Similar to the Ukrainian sunflower seed processing market, the vegetable oil and fats processing market is highly consolidated as the three largest players, Agrocasm, Creativ Group and Kyiv Margarine, jointly control 78% of the market.

Vegetable fats and spreads production in Ukraine, 000 mt



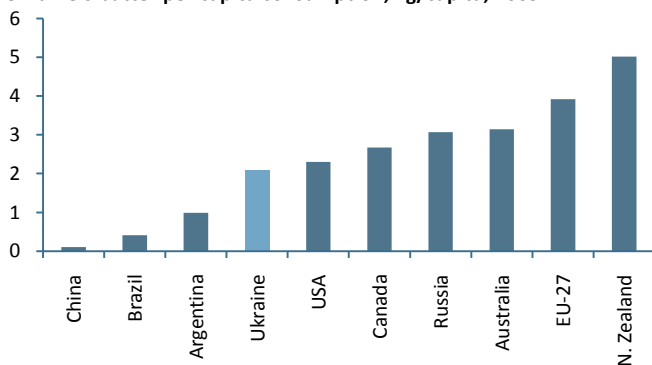
Source: Company data, State Statistics Committee, Concorde Capital estimates

Ukrainian margarine market players (by volume) in 2009



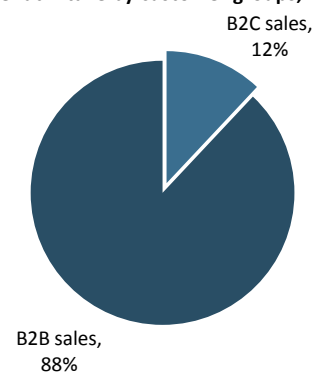
In addition to exports and B2B demand, the domestic vegetable fats and spreads sector should benefit from the ongoing economic recovery in Ukraine, where consumer disposable income is projected to increase at a 14% CAGR (in nominal terms) over 2010-2014. As Ukraine's butter and butter equivalents consumption per capita (2.1 kg/capita) is 47% below that of the EU-27 average, expanding consumer incomes is likely to increase consumption of local butter and equivalents and favor production growth in domestic vegetable fats in 2010-14.

Ukraine's butter per capita consumption, kg/capita, 2009



Source: Company data, State Statistics Committee, Concorde Capital estimates

Domestic vegetable fat intake by customer groups, 2009

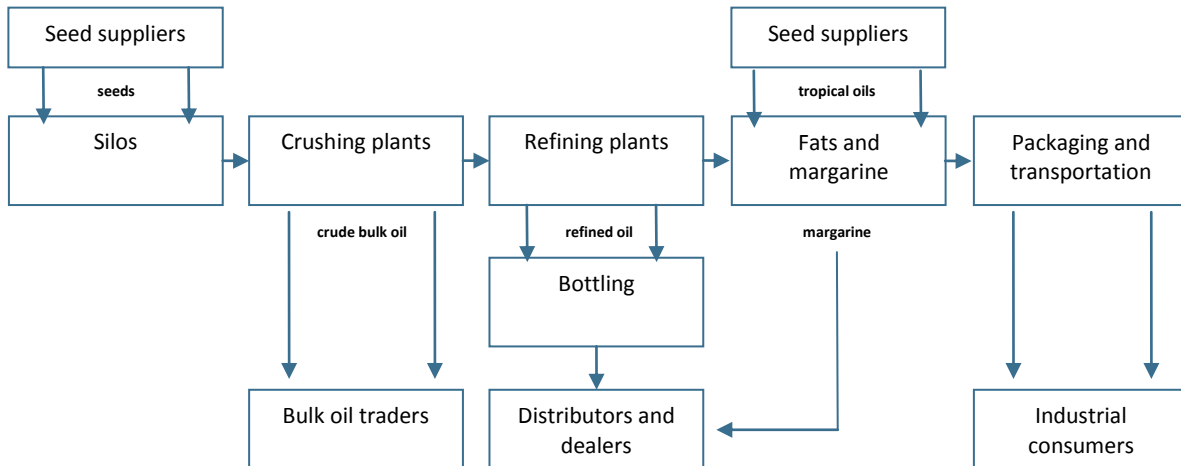


Creativ Group: a diversified oil & fats business

Company profile

Creativ Group is a vertically integrated company, operating in the crude bulk and bottled sunflower oil segment as well as the vegetable fats & margarine industries, and located in Kirovograd, Central Ukraine. The company owns two sunflower oil extraction plants (total crushing capacity: 398,000 mt p.a.), three modified fats plants and a protein products plant (capacity: 480,000 mt of soybean seeds p.a.). In addition, the company operates two silos (total capacity: 124,000 mt) and a transportation fleet of 57 trucks and 32 trailers.

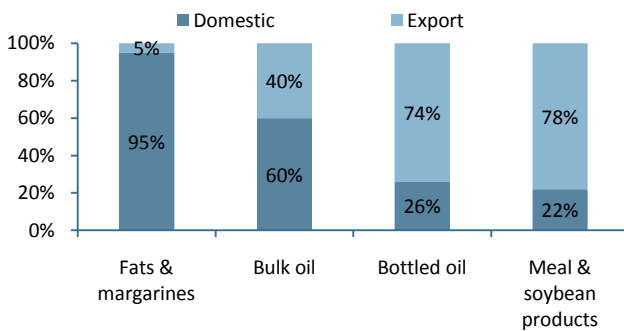
Creativ Group operating structure as of 2010



Source: Company data

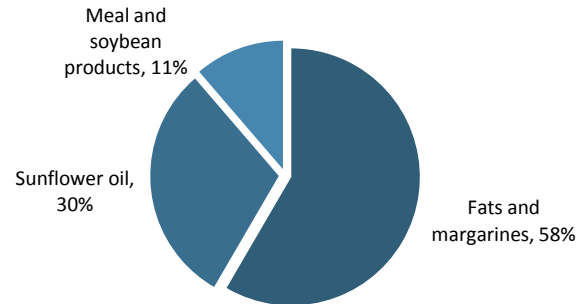
In 2009, company exports totaled USD 55 mln or 26% of revenues, while major sales destinations were Switzerland (7% through an SPV established to deal with multinational traders), Belarus (4%), Georgia (3%) and Kazakhstan (1%).

Company sales by markets (in USD terms) in 2009, %



Source: Company data, Concorde Capital estimates

Creativ sales by segments in 2009 (in USD terms) in 2009, %



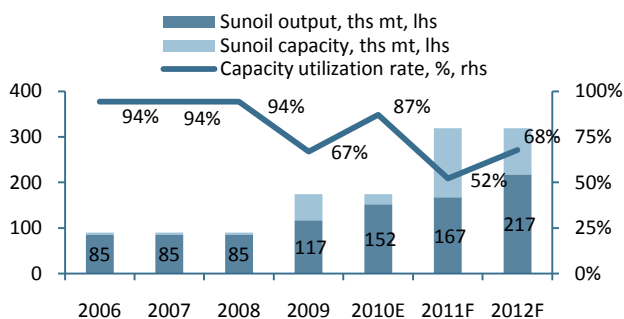
Capacity expansion expected to trigger 51% sales growth in 2010

In mid-2009, Creativ launched a new oil extraction plant in Kirovograd (capacity: 24,000 mt sunseeds per month), which increased Creativ Group's crushing capacity by 48% to 398,000 mt per year. In addition, the company put a brand new protein products plant into operation last year, capable of crushing 19,200 mt of soybean seeds per month and diversifying the group's product mix into high-protein soybean fodder.

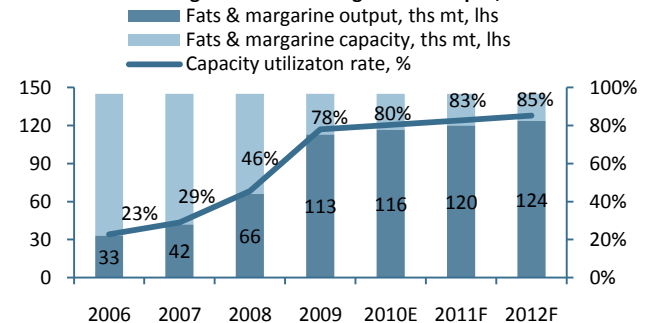
In addition, Creativ Group expects to commence operations at a USD 40 mln, 300,000 mt sunoil crushing plant in late 2011, which will expand its crushing capacities by 76% to 696,000 mt and boost the company's sunoil output capacity to 320,000s mt by 2012.

According to our estimates, the company's sunseed crushing segment was operating at 67% of capacity, while our forecast 30% y-o-y improvement in the group's sunoil output to 152,000 mt in 2010 suggests a 20 pp y-o-y improvement in utilization to 87%. This said, we expect stable 3% y-o-y growth in Creativ's fat and margarine output this year to 116,000 mt, which should increase the segment's capacity utilization to 80% (up 2 pp y-o-y) by the end of 2010.

Creativ's sunoil capacity utilization vs. oil output, %



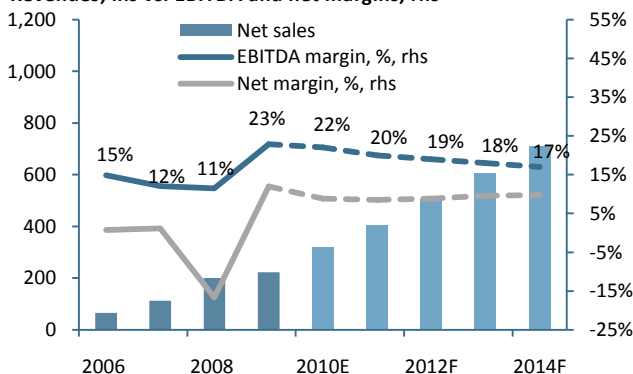
Creativ's fat & margarine load vs. segment's output, %



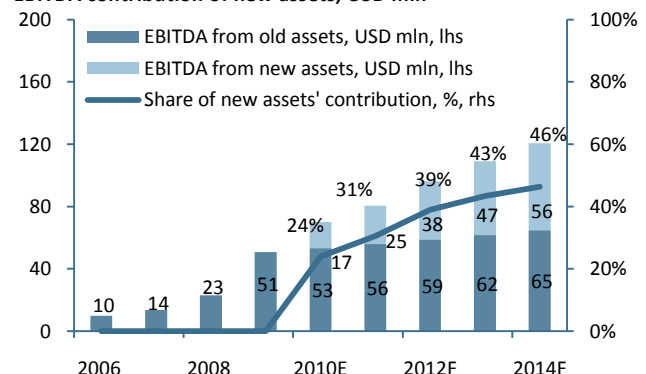
Source: Company data, Concorde Capital estimates

Therefore, on the back of upgraded capacity, we forecast the group's sunflower output to increase by a 15% CAGR over 2010-14 compared to 17% in 2006-09. We expect Creativ's sunflower meal and soybean products to grow at a spectacular 19% CAGR over 2010-14 (34% in 2006-09). In our view, this should drive the company's sales up by 51% y-o-y in 2010E to USD 319 mln and suggests revenues should increase at a 27% CAGR over 2010-14 (vs. a 47% CAGR over 2006-09).

Revenues, lhs vs. EBITDA and net margins, rhs



EBITDA contribution of new assets, USD mln



Source: Company data, Concorde Capital estimates

According to our estimates, the incremental contribution to Creativ Group's EBITDA from the new plants launched in 2009 should be USD 17 mln, or 24% of the company's forecasted 2010 EBITDA of USD 70 mln (up 38% y-o-y). In our view, the share of the new plants' contribution to the group's EBITDA should reach 46%, or USD 56 mln in 2014, enhanced by the launch of a new oil extracting plant in late 2011.

Strong 1H10 financial results support favorable full-year outlook

Our positive outlook for Creativ Group over the 2010-14 period is enhanced by the strong 1H10 financial results released in mid-August. Group sales grew by 110% y-o-y to USD 147 mln, while EBITDA reached USD 26 mln (up 140% y-o-y) and net profit totaled USD 17 mln (up 164% y-o-y). This corresponds to an EBITDA margin of 17.7% (up 2.2 pp y-o-y) and net margin of 11.6% (up 2.4 pp y-o-y) and is consistent with our expectations for this year.

Liquidity constraints alleviated by stock split and local UX listing

In July 2010, the company carried out a 100:1 stock split, which brought the total number of outstanding shares to 10,250,000 and implied a new DR ratio of 1:1. At the same time, the stock was listed on the Ukrainian Exchange (UX), which should help alleviate liquidity constraints and contribute to increased investor interest in the stock.

Comparative valuation

At the current price of USD 12.7 per share, the stock trades at 14-27% discounts to emerging and developed sunflower market peers on 2010-11F EV/EBITDA. In addition, the stock shows hefty 45-62% discounts to both EM and DM peers on 2010-11F P/E, and we believe these discounts are not justified given the company's impressive projected 27% CAGR in revenues over 2010-2014, as revenues will be bolstered by capacity upgrades. We initiate coverage of Creativ Group with a 12M target price of USD 21.5 per share. Upside: 70%.

Creativ Group peer multiples

	Ticker Bloomberg	Current Price		Mcap		EV/S		EV/EBITDA		P/E	
		USD	USD mln	10F	11E	10F	11E	10F	11E		
EM Sunflower Oil											
KERNEL HOLDING SA	KER PW	20.2	1,480.4	1.5	1.2	7.4	5.9	9.1	6.8		
UNITED PLANTATIONS BHD	UPL MK	4.8	996.5	3.2	2.8	7.0	5.6	12.4	10.3		
THAI VEGETABLE OIL PCL	TVO TB	0.8	582.0	0.8	0.7	8.5	7.1	11.0	9.6		
BERLIAN LAJU TANKER TBK PT	BLTA IJ	0.03	302.2	2.4	2.1	6.2	5.2	9.9	5.0		
ELSTAR OILS SA	ELS PW	1.8	88.0	0.8	0.7	13.2	9.8	47.2	15.5		
Median				1.5	1.2	7.4	5.9	11.0	9.6		
DM Sunflower Oil											
ARCHER-DANIELS-MIDLAND CO	ADM US	32.0	20,458.4	0.4	0.3	7.0	5.9	10.9	10.0		
BUNGE LTD	BG US	55.7	7,806.5	0.2	0.2	6.4	4.9	15.9	9.7		
GRAINCORP LTD	GNC AU	6.5	1,279.4	0.8	0.7	7.9	5.9	15.7	10.9		
AWB LTD	AWB AU	1.3	1,098.7	0.3	0.3	12.3	9.8	19.4	13.6		
Median				0.3	0.3	7.4	5.9	15.8	10.5		
CREATIV INDUSTRIAL GROUP	4C8A GR	12.7	130.1	1.0	0.9	5.4	5.0	6.0	5.0		
Creativ (Discount)/Premium to EM Sunflower Oil Peers				(36%)	(30%)	(27%)	(15%)	(45%)	(48%)		
Creativ (Discount)/Premium to DM Sunflower Oil Peers				195%	174%	(27%)	(15%)	(62%)	(52%)		

Source: Bloomberg, Concorde Capital estimates

Financial statements, IFRS

Income statement summary, USD mln

	2008	2009	2010E	2011F	2012F	2013F	2014F
Net Revenues	200.5	211.5	318.7	402.8	506.7	605.9	709.8
Cost Of Sales	(161.2)	(156.7)	(229.5)	(298.1)	(380.0)	(460.5)	(546.6)
Gross Profit	39.3	65.6	89.2	104.7	126.7	145.4	163.3
Other Operating Income/Costs net	(7.1)	(3.5)	(3.2)	(4.0)	(5.1)	(6.1)	(7.1)
SG&A	(9.2)	(11.3)	(15.9)	(20.1)	(25.3)	(30.3)	(35.5)
EBITDA	23.0	50.8	70.1	80.6	96.3	109.1	120.7
<i>EBITDA Margin %</i>	11.5%	22.8%	22.0%	20.0%	19.0%	18.0%	17.0%
Depreciation	(3.2)	(4.5)	(5.7)	(7.3)	(9.1)	(10.9)	(12.8)
EBIT	19.8	46.3	64.4	73.3	87.2	98.2	107.9
<i>EBIT Margin %</i>	9.9%	20.8%	20.2%	18.2%	17.2%	16.2%	15.2%
Interest Expense	(7.8)	(16.1)	(26.4)	(26.4)	(26.4)	(19.8)	(16.0)
Foreign Exchange Gain/(Loss)	(46.7)	(2.7)	-	-	-	-	-
PBT	(34.8)	27.5	38.0	46.9	60.8	78.4	91.9
Tax	1.4	(0.9)	(9.5)	(11.7)	(15.2)	(19.6)	(23.0)
Net Income	(33.4)	26.6	28.5	35.2	45.6	58.8	68.9
<i>Net Margin %</i>	(16.7%)	12.0%	8.9%	8.7%	9.0%	9.7%	9.7%

Balance sheet summary, USD mln

	2008	2009	2010E	2011F	2012F	2013F	2014F
Fixed Assets	114.4	154.9	197.2	231.1	263.3	289.8	313.4
PPE	110.0	153.0	195.1	228.1	259.5	285.0	307.7
Other Fixed Assets	4.4	1.9	2.1	3.0	3.8	4.8	5.7
Current Assets	55.1	102.1	155.3	177.5	210.2	221.5	260.5
Inventories	8.5	52.3	69.2	81.7	104.1	113.5	134.8
Accounts Receivable	45.4	39.5	69.9	77.3	83.3	83.0	97.2
Bank deposits	-	7.9	11.3	14.3	18.0	21.5	25.2
Cash	1.2	2.4	4.9	4.3	4.8	3.5	3.3
Total Assets	169.5	257.0	352.5	408.7	473.5	511.3	574.0
Equity	26.5	42.8	70.8	105.1	149.8	207.7	276.7
Accounts Payable	10.4	41.6	56.6	73.5	93.7	113.5	127.3
Other Short-term Liabilities	12.2	0.1	-	-	-	-	-
Short-term Debt	51.5	46.3	45.0	50.0	50.0	40.0	30.0
Long-term Debt	68.9	126.2	180.0	180.0	180.0	150.0	140.0
Total Liabilities	143.0	214.2	281.6	303.5	323.7	303.5	297.3
Total Liabilities and Equity	169.5	257.0	352.4	408.6	473.5	511.3	573.9

Cash flow statement summary, USD mln

	2008	2009	2010E	2011F	2012F	2013F	2014F
Net Income	(33.4)	26.6	28.0	34.3	44.7	57.9	68.9
D&A	3.2	4.5	5.7	7.3	9.1	10.9	12.8
Non-operating and Non-cash Items	(4.4)	2.5	(0.2)	(0.9)	(0.8)	(1.0)	(0.9)
Changes in Working Capital	(31.3)	(26.7)	(35.8)	(6.0)	(12.0)	7.2	(25.4)
Operating Cash Flow	(65.9)	6.8	(2.2)	34.7	41.0	75.0	55.3
Capital Expenditures, net	(113.2)	(47.4)	(47.8)	(40.3)	(40.5)	(36.4)	(35.5)
Other Investments, net	(2.0)	(1.0)	-	-	-	-	-
Investing Cash Flow	(115.2)	(48.4)	(47.8)	(40.3)	(40.5)	(36.4)	(35.5)
Net Borrowing/(Repayment)	120.4	52.1	52.5	5.0	0.0	(40.0)	(20.0)
Financing Cash Flow	120.4	52.1	52.5	5.0	0.0	(40.0)	(20.0)
Beginning Cash Balance	3.0	1.2	2.4	4.9	4.3	4.8	3.5
Ending Cash Balance	1.2	2.4	4.9	4.3	4.8	3.5	3.3
Exchange Rate Impact	(46.7)	(2.7)	-	-	-	-	-
Net Cash Inflow/(Outflow)	(107.5)	7.8	2.5	(0.6)	0.5	(1.3)	(0.2)

UAH/USD exchange rates

	2008	2009	2010E	2011F	2012F	2013F	2014F
Average	5.27	7.79	8.00	7.90	7.90	7.90	7.90
Year-end	7.70	7.99	8.00	7.90	7.90	7.90	7.90

Selected ratios

	2008	2009	2010E	2011F	2012F	2013F	2014F
Net debt/EBITDA	5.18	3.35	3.14	2.80	2.34	1.71	1.30
Net debt/Equity	4.50	3.97	3.11	2.15	1.50	0.90	0.57
Total debt/Assets	0.71	0.67	0.64	0.56	0.49	0.37	0.28
EBITDA Interest Coverage	2.94	3.15	2.60	2.92	3.49	5.22	7.54
ROA	(0.20)	0.10	0.08	0.08	0.09	0.11	0.12
ROE	(1.26)	0.62	0.40	0.33	0.30	0.28	0.25

Disclosures

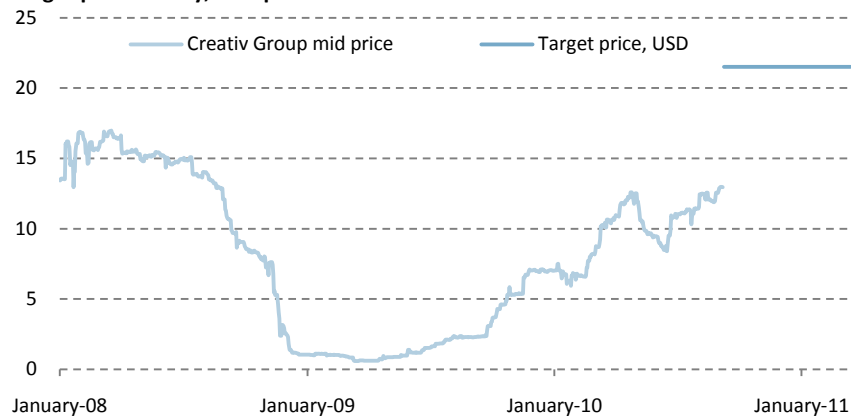
Analyst certification

I, Ruslan Patlavskyy, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Creativ ratings history

Date	12M target price, USD	Market price, USD	Rating	Action
08-Sept-10	21.5	12.7	BUY	Initiate

Target price history, USD per share



Investment ratings

The time horizon for target prices in Concorde Capital's research is 12 months unless otherwise stated. Concorde Capital employs three basic investment ratings: Buy, Hold and Sell. Typically, Buy recommendation is associated with an upside of 15% or more from the current market price; Sell is prompted by downside from the current market price (upside <0%); Hold recommendation is generally for limited upside within 15%. Though investment ratings are generally induced by the magnitude of upside, they are not derived on this basis alone. In certain cases, an analyst may have reasons to establish a recommendation where the associated range given above does not correspond. Temporary discrepancies between an investment rating and its upside at a specific point in time due to price movement and/or volatility will be permitted; Concorde Capital may revise an investment rating at its discretion. A recommendation and/or target price might be placed Under Review when impelled by corporate events, changes in finances or operations. Investors should base decisions to Buy, Hold or Sell a stock on the complete information regarding the analyst's views in the research report and on their individual investment objectives and circumstances.

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