

Stirol

Cheap gas supply supports 72% upside

EBITDA margin 11% in 2011E, spurred by cheaper gas

The acquisition of Stirol by Group DF, a Ukrainian business group controlled by Dmytro Firtash via affiliated Austria-based Ostchem Holding AG, was announced on September 13. Based on recent international court rulings requiring Naftogaz to return 12.1 bln m3 of natural gas to RosUkrEnergo, controlled 50/50 by Firtash and Russia's Gazprom, we expect RosUkrEnergo to supply this gas to Stirol over 2011-13 at an approximate 40% price discount to the current market.

Investment case: largest ammonia producer in Ukraine

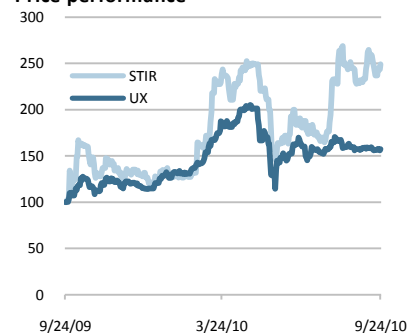
- Ukraine's largest ammonia producer; annual capacity of 1.5 mln mt of ammonia, 1.03 mln mt of urea and 710,000 mt of ammonium nitrate
- Accounted for 15% and 10% of domestic ammonia and urea output, respectively, in 1H10, working at close to 50% capacity
- Estimated 5.5% decrease in global wheat output and 0.8% drop in coarse grain output in 2010/11 should keep soft commodities prices high in the next 12 months, supporting our estimate of 30% y-o-y ammonia price growth to USD 311/mt in 2010E
- Improved demand for Stirol's products and a stronger pricing environment should increase the top line by 65% y-o-y to USD 391 mln in 2010E and at a 32% CAGR over 2010-14F, fully returning sales to its pre-2009 level by 2013F
- Gas discounts, courtesy of new shareholder Group DF, should push the company's EBITDA margin back into the black in 2011. We forecast Stirol's EBITDA margin to reach 10.8% in 2011 compared to the -6.2% we forecast for 2010
- In 2013 once Group DF's supply of inexpensive gas from Naftogaz has been fully utilized according to our estimates, we believe Stirol is most likely to be offered to a Russian fertilizer producer

Valuation: 72% potential upside

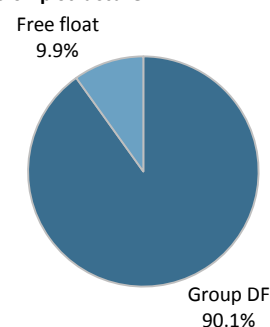
Given Stirol's strong liquidity (it is a UX index component and has an average daily turnover of USD 0.42 mln) and upcoming fundamental improvement in profitability, we see Stirol as an attractive investment idea. Our averaged EV/EBITDA, EV/Capacity valuation and implied acquisition price yields a USD 22.2/share 12M target price. Upside: 72%.

Report date	27 Sept 2010
Bloomberg	STIR UK, SVZ GR
Reuters	STIR=UA
Recommendation	BUY
Price (27 Sept 10), USD	12.9
12M price target, USD	22.2
No of shares, mln	27.13
DRs per ord share	1:1
Market Cap, USD mln	349.5
52-week performance	83%
52-week range, USD	13.43/5.83
ADT, 12M, USD mln	0.42
Free float, %	9.9
Free float, USD mln	34.6

Price performance



Ownership structure

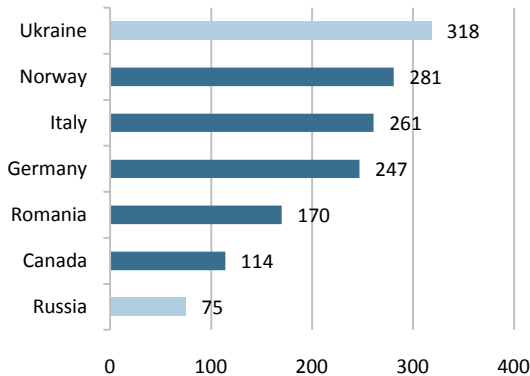


Source: Company data

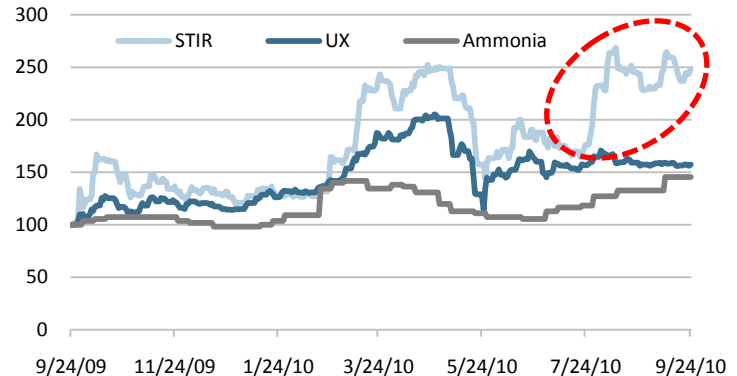
Acquisition piques investor interest

The acquisition of Stirol by Group DF, a Ukrainian group controlled by Dmytro Firtash via affiliated Austria-based Ostchem Holding AG, was announced on September 13. The news was a surprise to market participants as the revival of Russian-Ukrainian ties and the company's bottom line sensitivity to gas prices suggested a high likelihood of Russian involvement. As natural gas comprises over 90% of the plant's ammonia costs and nearly 60% of urea costs, the significantly discounted gas available from a Russian shareholder was perceived as a remedy to Stirol's poor profitability in 2009.

Gas prices for chemical producers, USD/thm³, July 2010



STIR share price dynamics vs. UX index and ammonia prices (rebased)



Source: Company data, Bloomberg, Concorde Capital estimates

Stirol has made 49% since July 1 after acquisition-related talk began. We see further 72% upside based on acquisition estimates, as Stirol's operating performance should see dramatic improvement in 2011-13F, given Group DF's 50% share of the gas (6.1 bln m³) to be returned secured from Naftogaz to RUE as a result of recent court rulings.

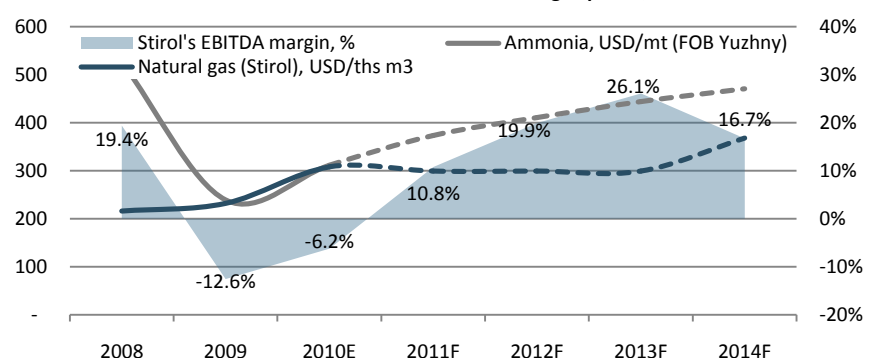
Cheap gas coming via courts, bolstering EBITDA

We believe it is highly likely Group DF will provide gas to Stirol in 2011 at an estimated USD 180-200/thm³, or 37-43% below the current market price for local chemical producers, utilizing its natural gas ordered to be transferred from Naftogaz to RosUkrEnerg, which is 50% owned by Group DF by the Stockholm Arbitrage Court (April 8) and Kyiv Court of Appeals (September 17).

The transfer of gas from Naftogaz to RUE still depends on a ruling by Ukraine's Supreme Court, but we see an affirmative ruling as likely, given Firtash's political pull as a strong supporter of the president.

Based on Group DF's capacity at RivneAzot and Stirol, implying 1.0 and 2.2 bln m³ of natural gas consumption p.a., respectively at full load, we estimate Group DF's 6.1 bln m³ of gas from Naftogaz to be sufficient for operations over 2011-13F, stimulating an impressive EBITDA margin of 10.8% in 2011F vs. negative 6.2% for 2010E.

Historical and forecasted EBITDA, % rhs vs. ammonia and gas prices, lhs



Source: Company data, Interfax, Kommersant, Concorde Capital estimates

Resale to Russian fertilizer major likely in 2013

Stinol's dependence on its major export channel, the Togliatti-Gorlovka-Odesa ammonia pipeline, which is de-facto controlled by state-owned Odesa Portside Plant, implies a high probability of Group DF's participation in its future privatization. When consolidated with OPP, the group should control approximately 50% of domestic and 4% of global ammonia output, suggesting a strong interest from Russian producers.

As the privatization timetable for OPP is not yet known, we see this happening no earlier than in 2011-12, suggesting the potential resale of Ostchem's Ukrainian fertilizer assets in 2013, when RUE's gas supply runs out.

Global fertilizer prices to continue recovering

In our view, global fertilizer prices should continue their upward trend next year, spurred by a forecasted 5.5% global decline in wheat and 0.8% drop in coarse grain production to 643 mln and 1.097 bln mt respectively in 2010/11, according to USDA. This should stimulate higher demand for nitrate fertilizers in 2H10-11F, particularly in Asia, and the Middle East, the key markets for Stinol. We expect ammonia, urea and ammonia nitrate prices to grow at 14.5%, 8.7% and 10.7% CAGRs respectively in 2010-14F, yet remain approximately 20% below 2008 highs in 2014.

Nitrogen fertilizer price forecasts, USD/mt (FOB Yuzhnyy or Black Sea ports)

	2008	2009	2010E	2011F	2012F	2013F	2014F
Ammonia, USD/mt (FOB Yuzhny)	526	239	311	374	411	444	470
Change y-o-y, %	112.2%	(54.5%)	30.0%	20.0%	10.0%	8.0%	6.0%
Urea, USD/mt (FOB Black Sea)	490	247	259	285	328	354	375
Change y-o-y, %	92.3%	(49.7%)	5.0%	10.0%	15.0%	8.0%	6.0%
Ammonium Nitrate, USD/mt (FOB Black Sea)	371	159	175	210	231	249	264
Change y-o-y, %	57.3%	(57.2%)	10.0%	20.0%	10.0%	8.0%	6.0%

Source: Bloomberg, Concorde Capital estimates

Sales should enjoy 65% y-o-y growth in 2010

Based on the aforementioned forecasts, we estimate Stinol's sales should increase by 65% y-o-y in 2010 to USD 391 mln and continue to grow at a 32% CAGR over 2010-14F, fully returning sales to its 2008 level by 2013F. This said, we expect Stinol's EBITDA to turn positive in 2011F, reaching USD 60.5 mln vs. USD -24.3 mln for 2010E due to cheaper gas from its new shareholder.

Key financials, 2008-14F

	2008	2009	2010E	2011F	2012F	2013F	2014F
Net revenues, USD mln	814.0	244.0	390.8	561.8	719.3	865.5	987.2
Change y-o-y, %	n/a	(70.0%)	60.2%	43.7%	28.0%	20.3%	14.1%
EBITDA, USD mln	157.9	(30.6)	(24.3)	60.5	143.4	225.7	165.1
Change y-o-y, %	n/a	(119.4%)	(20.6%)	(348.6%)	137.1%	57.5%	(26.9%)
EBITDA margin, %	19.4%	(12.6%)	(6.2%)	10.8%	19.9%	26.1%	16.7%
Net income, USD mln	112.2	(41.6)	(38.2)	15.4	73.7	134.6	83.7
Change y-o-y, %	n/a	(137.1%)	(8.3%)	(140.4%)	378.4%	82.6%	(37.8%)
Net margin, %	13.8%	(17.1%)	(9.8%)	2.7%	10.2%	15.5%	8.5%

Source: Company data, Concorde Capital estimates

Valuation: BUY, 72% upside

Historical M&A multiples point to 62% price appreciation outlook

Although our analysis of the recent nitrogen fertilizer M&A transactions since 2008 suggests EV/Capacity in the range of 0.1x-3.53x, we see Ukraine's privatization of the Odesa Portside Plant in 2009 (cancelled shortly after auction) as the closest proxy to estimate Stirol's potential sale price. Application of OPP's EV/capacity multiple of 0.35x yields an implied USD 20.2 share price (adjusted for an arbitrary 40% discount to offset a control premium), suggesting 62% potential growth for the stock.

Acquisition EV/Capacity multiple estimates for chemical fertilizer producers, 2008-2010

Date	Target company	Capacity, ths mt	EV, USD mln	EV/Capacity	Net debt, USD mln	Equity value, USD mln	Equity, at 40% discount, USD mln	Price, USD/sh
21.02.08	Egyptian Fertilizers Com-y	2,100	2,684.1	1.28				
12.06.08	Guizhou Jinch Chemical	820	75.3	0.09				
16.09.08	Burrup Holdings	800	2,820.0	3.53				
29.09.09	Odesa Portside Plant*	1,800	624.2	0.35				
19.02.10	Agrium (Carseland facility)	1,215	474.0	0.39				
13.09.10	Concern Stirol	2,560	887.8	0.35	-26.4	914.1	548.5	20.2

* Transaction cancelled by the State Property Fund of Ukraine

Source: MergerMarket, Interfax, Concorde Capital estimates

Peer valuation yields USD 22.3-24.0/share 12-month price targets

At the current price of USD 12.9/share, Stirol trades at 66-76% discounts to EM nitrogen fertilizer producers on 2010-11F EV/Sales. This said, we see the 42-36% discounts to both EM and DM peers on 2011F EV/EBITDA as better capturing Stirol's gas price sensitivity, as Stirol's EV/Capacity multiple of 0.13x is 46% below the EM peer median.

Given Stirol's strong liquidity (it is a UX index component and has an average daily turnover of USD 0.42 mln) and upcoming fundamental improvement in profitability, we see Stirol as an attractive investment idea. Our averaged EV/EBITDA, EV/Capacity valuation and implied acquisition price yields a USD 22.2/share 12M target price. Upside: 72%.

Stirol peer multiples

Ticker	Current Price	Country	Mcap USD mln	EV/S			EV/EBITDA			P/E			EV/Capacity	
				09	10F	11E	09	10F	11E	09	10F	11E		
EM nitrogen fertilizer producers														
ISRAEL CHEMICALS LTD	icl it equity	14.4	Israel	18,226.0	4.7	3.4	3.2	21.1	12.7	10.8	32.9	18.0	14.5	2.85
ACRON-CLS	akrn ru equity	29.0	Russia	1,382.9	1.3	1.5	1.4	4.5	7.1	6.5	7.0	9.9	7.5	0.24
ZAKLADY AZOTOWE PULAWY SA	zap pw equity	25.8	Poland	494.1	0.5	0.6	0.6	4.2	7.3	6.5	11.3	15.7	13.8	0.13
DOROGOBUZH-CLS	dbg ru equity	0.5	Russia	371.4	1.3	1.2	1.0	5.1	4.6	4.0	7.0	6.7	6.1	0.22
CIECH SA	cie pw equity	8.7	Poland	242.2	0.6	0.6	0.6	4.2	5.8	5.2	n/a	18.5	10.9	0.24
AZOT KEMEROVO-CLS	azkm ru equity	12.0	Russia	81.6	0.7	0.4	0.3	5.4	3.0	2.6	4.9	3.0	1.8	n/a
Median					3.0	2.5	2.3	12.8	9.9	8.6	20.0	14.0	11.0	0.24
DM nitrogen fertilizer producers														
POTASH CORP OF SASKATCHEWAN	pot us equity	145.7	USA	43,202.2	8.4	8.2	6.8	24.1	17.0	13.6	39.1	26.1	19.7	26.03
MOSAIC CO	mos us equity	60.4	USA	26,907.4	5.0	3.0	2.8	29.8	9.4	8.4	64.1	16.6	15.0	1.54
YARA INTERNATIONAL ASA	yara ix	46.2	Intern	13,478.5	1.6	1.4	1.2	13.6	8.5	8.0	13.0	15.7	12.4	0.00
AGRIUM INC	agu us equity	74.6	USA	11,733.5	2.1	1.2	1.1	13.2	8.8	7.0	26.6	15.7	13.3	3.39
K+S AG	sdf gr equity	58.7	Germany	11,241.3	2.7	1.9	1.7	21.2	10.3	7.8	n/a	21.6	14.4	1.79
CF INDUSTRIES HOLDINGS INC	cf us equity	101.3	USA	7,202.0	2.3	2.4	2.0	9.2	7.6	6.2	19.3	15.7	12.6	3.10
Median					2.5	2.2	1.9	17.4	9.1	7.9	26.6	16.2	13.8	2.4
Stirol Concern	stir uk equity	12.9		349.5	1.3	0.8	0.5	n/a	n/a	5.0	n/a	n/a	22.7	0.13
Stirol (Discount)/Premium to EM Peers					(58%)	(66%)	(76%)	n/a	n/a	(42%)	n/a	n/a	107%	(46%)
Stirol (Discount)/Premium to DM Peers					(52%)	(57%)	(69%)	n/a	n/a	(36%)	n/a	n/a	57%	(93%)

Source: Bloomberg, Concorde Capital estimates

Financial statements, UAS

Income statement summary, USD mln

	2008	2009	2010E	2011F	2012F	2013F	2014F
Net Revenues	814.0	244.0	390.8	561.8	719.3	865.5	987.2
Cost Of Sales	(544.4)	(251.0)	(380.0)	(450.7)	(511.2)	(561.8)	(733.3)
Gross Profit	269.6	(7.0)	10.8	111.0	208.1	303.6	253.9
Other Operating Income/Costs net	(42.5)	2.4	3.9	5.6	7.2	8.7	9.9
SG&A	(69.2)	(26.1)	(39.1)	(56.2)	(71.9)	(86.5)	(98.7)
EBITDA	157.9	(30.6)	(24.3)	60.5	143.4	225.7	165.1
<i>EBITDA Margin %</i>	<i>19.4%</i>	<i>(12.6%)</i>	<i>(6.2%)</i>	<i>10.8%</i>	<i>19.9%</i>	<i>26.1%</i>	<i>16.7%</i>
Depreciation	(29.6)	(21.8)	(32.4)	(46.3)	(51.9)	(53.5)	(61.1)
EBIT	128.4	(52.4)	(56.7)	14.1	91.5	172.2	104.0
<i>EBIT Margin %</i>	<i>15.8%</i>	<i>(21.5%)</i>	<i>(14.5%)</i>	<i>2.5%</i>	<i>12.7%</i>	<i>19.9%</i>	<i>10.5%</i>
Interest Expense	3.8	4.5	5.9	6.4	6.8	7.2	7.6
Foreign Exchange Gain/(Loss)	17.4	(0.5)	-	-	-	-	-
PBT	149.6	(48.5)	(50.9)	20.5	98.3	179.4	111.6
Tax	(37.4)	6.9	12.7	(5.1)	(24.6)	(44.9)	(27.9)
Net Income	112.2	(41.6)	(38.2)	15.4	73.7	134.6	83.7
<i>Net Margin %</i>	<i>13.8%</i>	<i>(17.1%)</i>	<i>(9.8%)</i>	<i>2.7%</i>	<i>10.2%</i>	<i>15.5%</i>	<i>8.5%</i>

Balance sheet summary, USD mln

	2008	2009	2010E	2011F	2012F	2013F	2014F
CURRENT ASSETS	171.7	149.1	148.1	184.6	261.5	345.1	408.8
Cash & equivalents	62.4	40.6	29.5	52.1	117.3	178.4	222.1
Trade receivables	13.9	9.5	11.8	13.9	17.7	21.3	21.6
Inventories	39.1	59.2	67.8	68.1	61.7	67.4	76.2
Other current assets	56.3	39.9	39.1	50.6	64.7	77.9	88.9
NON-CURRENT ASSETS	256.6	243.2	253.5	277.1	272.4	281.4	276.7
PPE, net	154.1	153.3	136.3	108.5	92.6	91.0	79.3
Other non-current assets	102.5	89.9	117.3	168.5	179.8	190.4	197.4
TOTAL ASSETS	428.3	392.3	401.7	461.7	533.9	626.5	685.5
EQUITY	339.6	286.9	248.2	266.7	340.4	468.3	531.0
CURRENT LIABILITIES	88.8	105.4	153.4	194.8	193.3	158.0	154.3
ST bank debt	9.6	3.0	3.1	3.2	3.2	3.2	3.2
Trade payables	21.1	34.1	56.5	68.1	46.3	33.7	32.6
Other current liabilities	58.1	68.3	93.8	123.6	143.9	121.2	118.5
NON-CURRENT LIABILITIES	0.0	0.0	0.1	0.1	0.1	0.2	0.2
Other LT liabilities	0.0	0.0	0.1	0.1	0.1	0.2	0.2
TOTAL LIABILITIES & EQUITY	428.3	392.3	401.7	461.7	533.9	626.5	685.5

Cash flow statement summary, USD mln

	2008	2009	2010E	2011F	2012F	2013F	2014F
Net income		(41.6)	(38.2)	15.4	73.7	134.6	83.7
Depreciation		21.8	32.4	46.3	51.9	53.5	61.1
Decrease/(Increase) in current assets		(3.1)	(10.4)	(12.3)	(11.7)	(22.5)	(20.0)
(Decrease)/Increase in current liabilities		26.1	48.1	39.5	(1.5)	(35.2)	(3.8)
CF from operations		3.2	32.0	88.9	112.4	130.4	121.0
CAPEX & other investments		(17.0)	(43.2)	(66.6)	(47.3)	(62.5)	(56.4)
CF from investing		(17.0)	(43.2)	(66.6)	(47.3)	(62.5)	(56.4)
Debt/capital issuance, net		(6.2)	0.2	0.0	0.0	0.0	0.0
Dividends		-	-	-	-	(6.7)	(20.9)
CF from financing		(6.2)	0.2	0.0	0.0	(6.7)	(20.9)
Net change in cash		(20.0)	(11.0)	22.3	65.2	61.2	43.7
Currency translation adjustment		1.7	0.1	(0.4)	-	-	-
Cash bop		62.4	40.6	29.5	52.1	117.3	178.4
Cash eop		40.6	29.5	52.1	117.3	178.4	222.1

UAH/USD exchange rates

	2008	2009	2010E	2011F	2012F	2013F	2014F
Average	5.3	7.8	8.0	7.9	7.9	7.9	7.9
Year-end	7.7	8.0	8.0	7.9	7.9	7.9	7.9

Selected ratios

	2008	2009	2010E	2011F	2012F	2013F	2014F
Net debt/EBITDA	(0.33)	1.23	1.08	(0.81)	(0.80)	(0.78)	(1.33)
Net debt/Equity	(0.16)	(0.13)	(0.11)	(0.18)	(0.34)	(0.37)	(0.41)
Total debt/Assets	0.02	0.01	0.01	0.01	0.01	0.01	0.00
ROA	0.26	(0.11)	(0.09)	0.03	0.14	0.21	0.12
ROE	0.33	(0.15)	(0.15)	0.06	0.22	0.29	0.16

Disclosures

Analyst certification

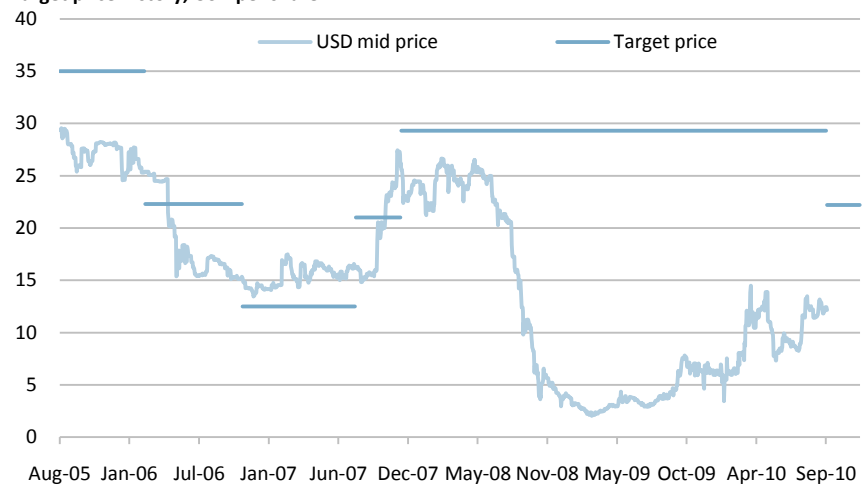
I, Ruslan Patlavskyy, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views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

Stirol ratings history

Date	12M target price, USD	Market price, USD	Recommendation	Action
08-Aug-05	35	25	BUY	Initiate
01-Nov-05	35	26	BUY	Maintain
13-Dec-05	35	28	BUY	Maintain
07-Mar-06	22.3	23.9	HOLD	Downgrade
27-Sep-06	U/R	15.7	U/R	Review
31-Oct-06	12.5	15	SELL	Downgrade
03-Aug-07	21	16.1	BUY	Upgrade
24-Oct-07	21	26	HOLD	Downgrade
22-Nov-07	29.3	25.9	BUY	Upgrade
27-Sept-10	22.2	12.9	BUY	Maintain

Note: In September 2010, Ruslan Patlavskyy took over coverage; prior to that point, it was covered by other Concorde analysts.

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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