



Alchevsk Iron & Steel Share Issue Alert

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Undiluted Price
Market: USD 0.32
Target: USD 0.60

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Diluted Price
Equivalent Market: USD 0.042
Target: USD 0.062

We recently received confirmation of a ruling by Kyiv's Darnytsia District Court that prohibits Alchevsk Iron & Steel (**ALMK: BUY**) from issuing additional shares. Earlier, on September 30, 2005, the company's AGM voted to increase its charter fund 13.9-fold via a share issue. The subscription period was set from December 16, 2005 to February, 18, 2006, and the ex-rights date was set for December 16, 2005. The first stage of subscription, during which individual shareholders could exercise their rights of proportionate participation in the new share issue, would have spanned from December 16, 2005 to February 16, 2006. However, the court ruling will put a halt on the share issuance and the subscription unless it is overturned by a higher court.

We think that Alchevsk Iron & Steel will appeal the unwelcome court ruling and will almost certainly succeed in overturning it. In our opinion, the ruling by Darnytsia District Court is based on unfounded legal arguments. The lawsuit was brought forward by one individual against another, and concerns a ALMK stock purchase. ALMK is a secondary party in the suit. We believe this ruling stands virtually no chance of holding up in a court of appeals. Thus, the most probable implication for ALMK will be a delay of the share subscription, or, at the most, a rescheduling of the subscription period by another EGM.

ALMK needs huge inflows of capital to finance its widely publicized USD 1.8 bln CapEx program. It is our understanding that equity financing is the most convenient for the company. ALMK's holding company, IUD, is able to raise debt on local and international markets as well as accumulate earnings from its other subsidiaries and then pump the money into ALMK through additional share issues.

We have not changed our **BUY** recommendation for the stock and continue to report both undiluted and diluted target prices.

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