



Alchevsk Iron & Steel Share Issue Alert

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Undiluted Price
Market: USD 0.22
Target: USD 0.60

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Diluted Price
Equivalent Market: USD 0.034
Target: USD 0.062

February 8, 2006. The subscription for Alchevsk Iron & Steel's (ALMK: BUY) shares starts today.

On January 26, 2006, Ukraine's Higher Economic Court ruled in favor of Alchevsk Iron & Steel (ALMK: BUY) and allowed the company to carry out subscription for the additional share issue which earlier had been blocked by minority shareholders. Now ALMK will be able to carry out its additional share issue, which was approved at a shareholder meeting on September 30, to finance the company's CapEx program. The first stage of the subscription will end on February 16, and the second on February 20.

We think that with the new ruling of the Higher Economic Court, those shareholders who opposed the share issue will have little chance to block it again, mainly due to the lack of time.

We reiterate that the share issue was an inevitable step for the company given its aggressive development plans and the only question concerned its timing. In 2005, ALMK radically revised its investment program, increasing it from USD 400 mln to USD 1.8 bln until 2010. After the plan has been implemented, the capacity of the mill will double to 7.6 mln mt of crude steel.

In our view, the construction of new steel smelting capacities will be value adding for the company's shareholders due to the higher efficiency of the new equipment and higher future cash flows. Our target price adjusted for the new number shares is USD 0.062, and the price equivalent to the current market is USD 0.034.

Our **BUY** recommendation for the stock remains.

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