



## Zaporizhstal Share Issue Alert

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### **Action Plan To Resist ZPST's Dilutive Share Issue Taking Shape**

On April 27, 2006 Concorde Capital hosted a conference call with Mikhail Nepran, Managing Director of the Ukrainian Securities and Exchange Commission in regard to the additional share issue planned by Zaporizhstal and its implications for portfolio investors in the stock. The prevailing sentiment among investors participating in the conference was fear that minority shareholders will not be able to subscribe for the shares of the additional issue and thus will have their stakes diluted, while stock price will be depreciating. Michail Nepran assured portfolio investors of the SEC's full support in protecting their rights and suggested several concrete steps that market participants together with regulators can take to prevent negative consequences of the issue.

The immediate action plan elaborated by the SEC and the Advisory Council to the SEC (formed by market participants, Concorde Capital inclusive) calls for the following steps:

- 1) Preparation of a new SEC regulation that will introduce a term of *market price* for the stock with the purpose of mandating companies that do additional share issues to offer share buyout from minorities at the market price. To this end, market price is defined as the six-month average trade price on the PFTS that meets certain trading criteria. On the opposite, current legislation only employs the term of nominal price thus legitimizing a detrimental to portfolio investors practice of a share buyout at par, which in most cases is significantly below the market.
- 2) As this initiative can take up to three months to be implemented due to Ukraine's notorious red tape, Concorde Capital and implicitly the SEC suggested bringing legal action and unfolding a powerful PR campaign against Zaporizhstal's attempt to dilute minorities. The effect of this move would be at least a postponement of ZPST's AGM where the share issue will be considered, which would provide a sufficient lead time for the new proposed SEC regulation to take effect.
- 3) A likely positive side effect resulting from the threat that the aforementioned PR campaign would present to ZPST's controlling shareholders is their agreement to settle the issue with the offended minority shareholders in a peaceful and mutually acceptable way, which could be either a buyout of shares at a compromise price or finding ways for the minorities to participate in the share issue. Concorde Capital suggests pursuing this opportunity as well in order to resolve the imminent shareholder conflict. For starters, concerned portfolio investors can prepare an official letter together with Ukrainian market participants that would state common market position in regard to the disputable corporate action planned by the majority shareholders, Midland Resources in the first place and warn them of negative all ensuing negative consequences.

In the longer term perspective, the precedence with the dilutive planned Zaporizhstal's share issue will definitely be used to lobby a passage of a new law in the Parliament that would outline regulation of the like corporate actions and prescribe certain measures to protect the rights of minorities. The respective draft law has already been

developed but it was failed by the Parliament several times in the recent past due the lack of support by interested parties.  
market.

We keep our recommendation for the stock SUSPENDED and watch closely the developments of the situation.

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