CONCORDE CAPITAL

Ukraine / Non-Ferrous

Zaporizhya Aluminum

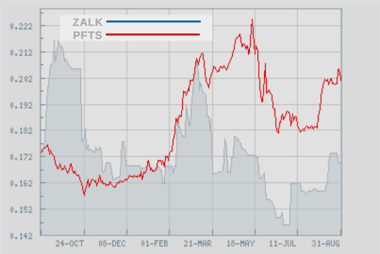
Betting on Blue for Cheaper Electricity

HOLD

Sept. 8, 2006	**USD 0.16**
Target Price	**USD 0.19**

Eugene Cherviachenko
+380 44 207 50 37
ec@concorde.com.ua

ZALK Mid-Market, USD



Market Information

Bloomberg	ZALK UZ
No of Shares, mln	622.7
Market price, USD	**0.16**
52Wk H/L, USD	0.22/0.14
MCap, USD mln	**99.6**
Free Float, %	**2.5%**
FF MCap, USD mln	2.5

Stock Ownership

SUAL	97.5%
Minorities	2.5%

Ratios 2005

EBITDA Margin	2.4%
EBIT Margin	0.2%
Net Margin	-2.0%
Net Debt/Equity	1.0

We believe the market has priced in the uncertainties related to ZALK's electricity tariffs. The current price fairly reflects the risks implied by a possible in electricity costs and the impending dip in aluminum prices in the mid-term. We downgrade the stock to HOLD, with a new target of USD 0.19 per share based on DCF, which still implies a 19% upside.

Aluminum Price Growth Covers Electricity Cost Increase. In contrast to what we expected, the government did not resume a differentiated tariff scheme. However, ZALK was able to boost its margins to 17% in 1H06 from -2.0% in 1H05, despite pressure from electricity tariff growth, thanks to the continued upswing in aluminum prices. While prices for raw materials (primarily bauxite) are expected to stabilize due mainly to increased extraction in China, electricity costs will remain an issue after aluminum prices cool in the mid-term.

Aluminum Price Trend Expected to Reverse. We believe aluminum prices have almost reached the top of their ten-year cycle and are headed for a reversal in the mid-term. Demand for aluminum will remain high over the next few years due to demand from Asia, but we expect China to launch new capacities in one or two years which will increase world aluminum supplies. Our forecast for average aluminum prices per mt for the next three years is as follows: USD 2560 in 2007, USD 2176 in 2008 and USD 1959 in 2009.

The Electricity Issue: Our Scenarios. We believe ZALK's owner, Russia's SUAL, owned by Viktor Vexelberg, could gain from the end of political turmoil in Ukraine. The new pro-Russian government is likely to support ZALK's calls for renewed lower electricity tariffs, as helping the Kremlin favorite SUAL could be a way for Ukraine's government to gain some favor with Moscow. We see two likely outcomes: the resumption of differentiated tariffs, or a switch to direct electricity supplies from the Zaporizhya nuclear power station located nearby. Both cases suggest healthy 10%-12% EBITDA margins in the long term. In the meantime, the introduction of a 10% discount on electricity for large consumers, expected this fall, could improve ZALK's profitability marginally.

ZALK's Multiples. ZALK had higher volatility than the PFTS and traded in a range of USD 0.14-0.22 per share. Currently the stock trades at P/E x3.6, P/EBITDA x1.9 and P/S x0.3, which is close to those implied by our DCF models (P/E x4.5, P/EBITDA x2.4, P/S x0.4). The multiples do not account for downside risks, which imply large discounts (P/E x6.7, P/EBITDA x3.4, P/S x1.1 based on 2007E average).

KEY FINANCIAL DATA, USD mln

	Net Revenue	EBITDA	Net Income
2005	241	6	(5)
2006E	300	52	27
2007E	303	53	30
Spot Exchange Rate		*5.05*	

** calculated at average exchange rate for the reported year*

KEY RATIOS

	P/S	P/EBITDA	P/E
2005	0.5	21.1	neg
2006E	0.4	2.4	4.5
2007E	0.4	2.4	4.1

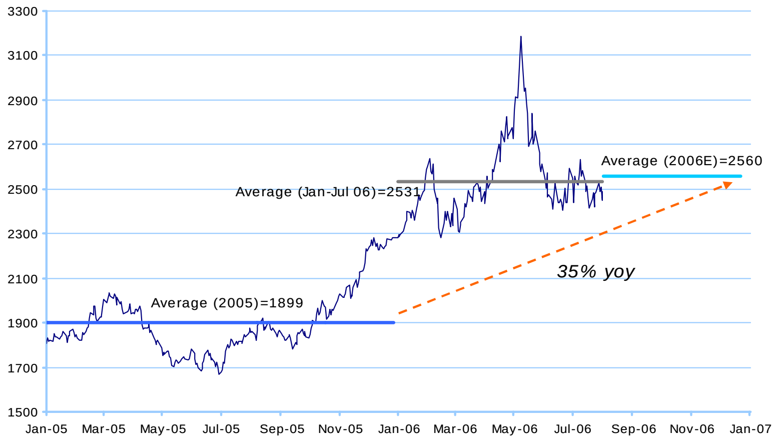
Content

Era Of High Aluminum Prices Coming to an End

The sky-high aluminum prices in 2006 reflected by ZALK's EBITDA margin growth of 17% in 1H06 were a stark contrast to the -2% the company reported in 1H05. However, we are expecting an aluminum price trend reversal in 2008, which could cut into ZALK's margins significantly, making the company's need for lower electricity prices all the more severe.

Aluminum Prices Beat Our Forecasts. The average aluminum price reached USD 2531 per mt in Jan-Jul, primarily due to demand from Asia. The number exceeded our forecast of USD 1950 per mt for 2006 (see our ZALK initiating report of Sept. 6, 2005). We now expect the average price to grow by around 35% yoy in 2006 to USD 2560 per mt.

LME Cash Aluminum Prices 2005-2006E, USD per mt

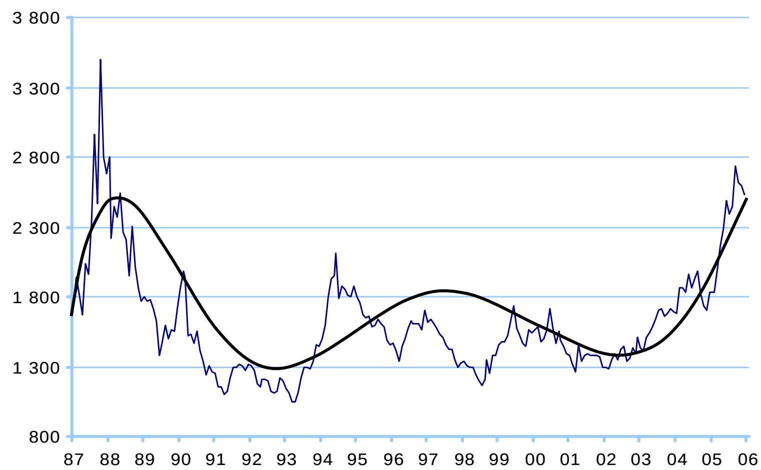


Source: Bloomberg, Concorde Capital estimates

Trend Expected to Reverse in the Mid-term. We believe that aluminum prices are nearing the peak of their ten-year cycle (see chart below) and we expect them to fall, threatening ZALK's margins in the mid-term.

While growing global demand for aluminum will remain strong in the long-term, especially in China, additional alumina/aluminum capacities are expected to be put into operation, primarily in China, which should lower prices.

Historical LME Cash Aluminum Prices, USD per mt



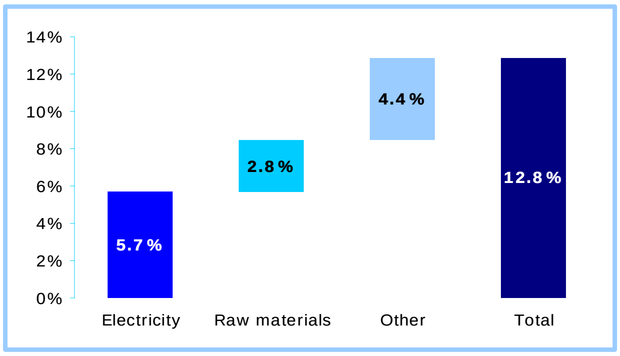
Source: Bloomberg

Electricity Costs Drive COGS In 2006

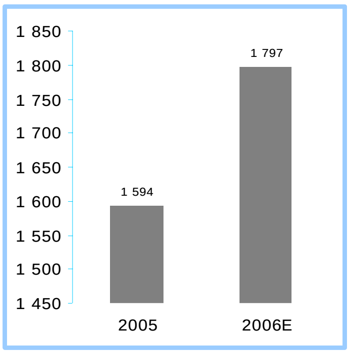
Together electricity and alumina (a major raw material for primary aluminum) accounted for 73% of ZALK's total COGS in 2005. We expect the cost of alumina to stabilize in the mid-term due to stabilization of the price for imported Indian bauxite, leaving the company exposed to electricity costs.

Electricity: The Main COGS Booster. We predict COGS growth of 12.8% yoy in 2006 primarily due to power (electricity, gas, fuel, heat, auxiliary materials) and wage inflation. We estimate the share of electricity costs in aggregate COGS growth will be ~45% in 2006 (~35% in 2005).

COGS Growth by Contributor, 2006E



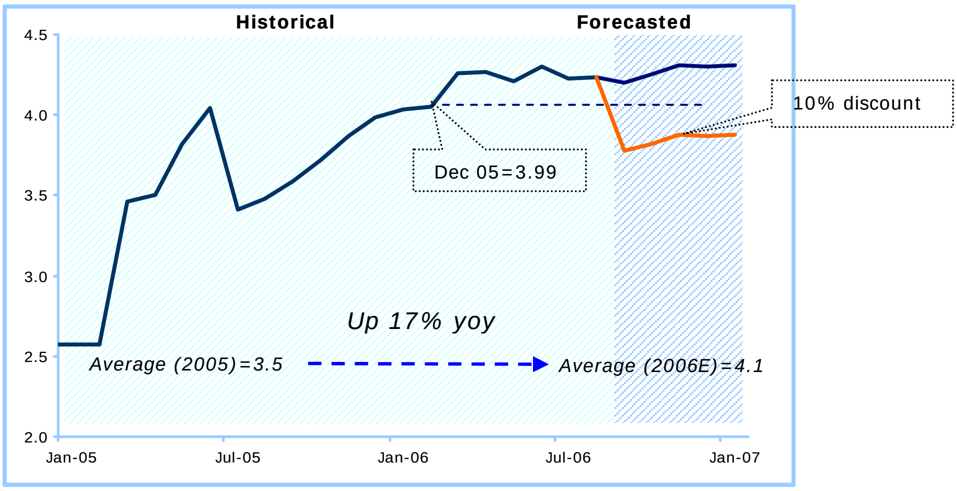
Production Cost, USD mt



Source: Company Data, Concorde Capital estimates

Weak Government Support in 2006. The previous government decided to extend a 10% discount on electricity tariffs for big industrial consumers, including ZALK, starting from September 1, 2006. However, we do not think the discount will be significantly limit electricity cost pressure on ZALK's profitability in the long term. We believe the average electricity tariff paid by ZALK will increase by 17% yoy in 2006, instead of the 20% yoy that it would have increased without the discount.

ZALK's Electricity Tariffs, ¢/Khw*



Source: Company Data, Concorde Capital estimates
** Orange line indicates implementation of a 10% discount on electricity tariff*

Electricity Privileges to be Restored

We believe the new government in Ukraine will be good for ZALK. In our opinion, the pro-Russia leanings of the new government, led by Viktor Yanukovich, combined with ZALK's ownership by the powerful Russian business group SUAL, make the resumption of privileged electricity tariffs for the company more likely.

Historically ZALK Has Been a State Darling. As the sole domestic producer of primary aluminum, ZALK's owners have always been able to find a trade-off with the government concerning electricity tariffs. Traditionally the government offered support in two ways: direct contracts for electricity supplies from Zaporizhya nuclear power station and privileged electricity tariffs.

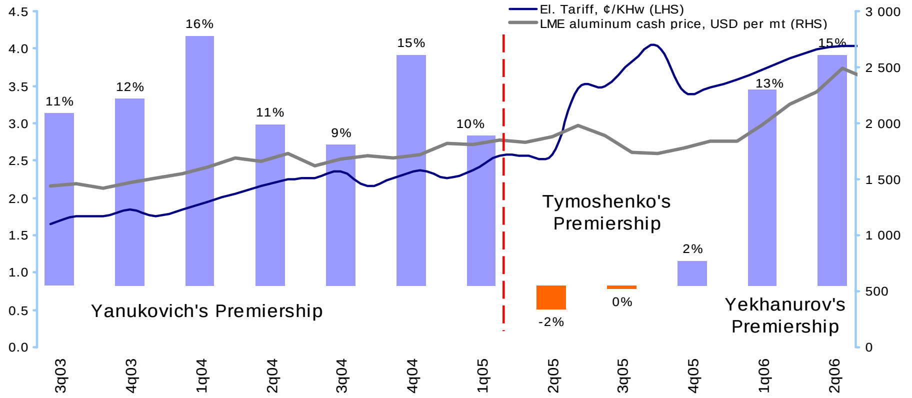
Why Were Electricity Privileges Cancelled? In 2Q05 ZALK's electricity privileges were canceled (see chart below) by Tymoshenko's government due mainly to ZALK's association with the Interpipe group (see our report of Sept. 6, 2005). Since then, friction between Ukraine and Russia and the lack of a stable government in Kiev complicated negotiations between the government and SUAL about the resumption of ZALK's privileged electricity status.

ZALK to Benefit From Ukraine's New Political Shift. We believe the warming of relationships between Kyiv and the Kremlin (see our Blue Revanche report of Aug. 8) are favorable for ZALK. SUAL's owner Viktor Vexelberg's relationship with the Kremlin could be a key factor that leads to the resumption of privileged electricity tariffs for ZALK. Furthermore, ZALK stands to become part of an even more influential group in Russia after the likely merger between SUAL and RUSAL (owned by another major Russian businessman, Oleg Deripaska). According to the media, the merger of the world's two largest aluminum producers into the largest global aluminum player has the support of the Kremlin.

Electricity Privileges are an Accepted Practice. Aluminum producers worldwide enjoy lower electricity tariffs than other industries. In Canada, Russia and the USA, producers buy electricity from hydro or nuclear power generators or are able to produce part of what they need by themselves (Alcan, Canada). This is also the case in Russia where SUAL has several energy agreements within the bounds of the Voskhod project aimed at the construction of new aluminum plants. In addition, SUAL recently inked a memorandum with Kazakhstan's Nurenergoservice (owned by AES of the US) for privileged electricity tariffs (pegged to the LME price) for an aluminum plant SUAL plans to build in the country.

No Conflicts with the New Government. ZALK had privileged tariffs during Yanukovich's first premiership in 2002-2004, which allowed the aluminum producer to post solid operating margins (see the chart below). Thus we believe Vexelberg has no conflicts with the people in charge of the new government.

Historical EBITDA margins, %



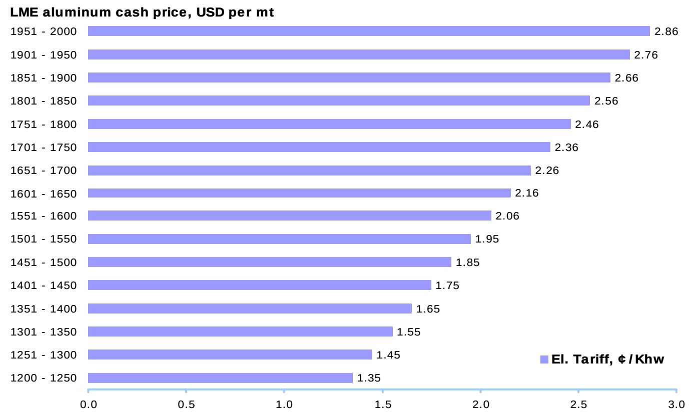
Source: Company Data, Concorde Capital estimates

Two Likely Ways to Resume Electricity Discounts

Scenario 1. Resumption of differentiated tariffs

We believe the most likely result of negotiations between SUAL and the government will be the resumption of differentiated electricity tariffs. From August 2002 until March 2005 ZALK had similar tariffs, which were pegged to LME aluminum prices (see the chart below). According to the scheme, privileges were to be applied when the aluminum price dipped below USD 2000 per mt.

Differentiated Tariffs Scale

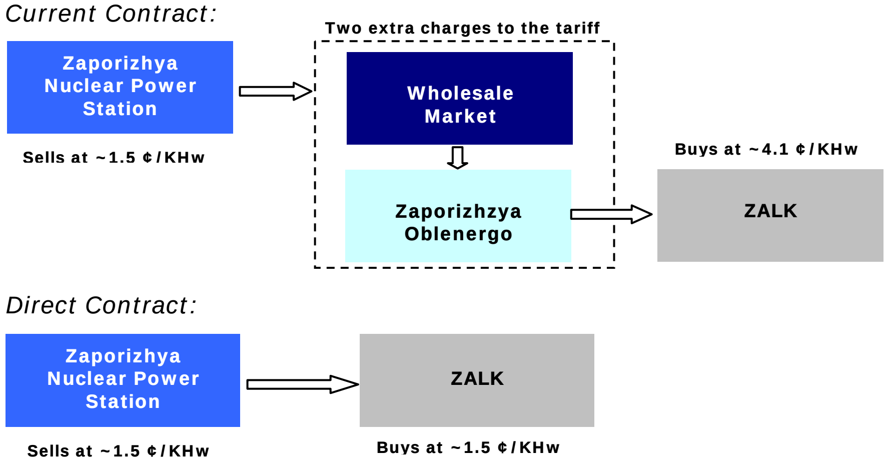


Source: National Electricity Regulation Commission

Scenario 2. Direct Contract

It is also possible that SUAL's negotiations with the government could lead to ZALK receiving a direct contract with electricity generators. The introduction of a bilateral electricity supply contract would allow ZALK to avoid a markup in tariffs by retailers.

ZALK's Electricity Supply Schemes



In 2002 the government adopted principles of electricity market development, which envisaged step-by-step introduction of bilateral electricity supply contracts. We expect the new government to implement these principles and expect the completion of this process in the mid-term. In any case it seems likely the government would make an exception for its domestic aluminum monopoly by giving ZALK this privilege earlier than other industries. According to one report, ZALK had a direct electricity supply contract with the Zaporizhya nuclear power station (circumventing the wholesale market) in 2002.

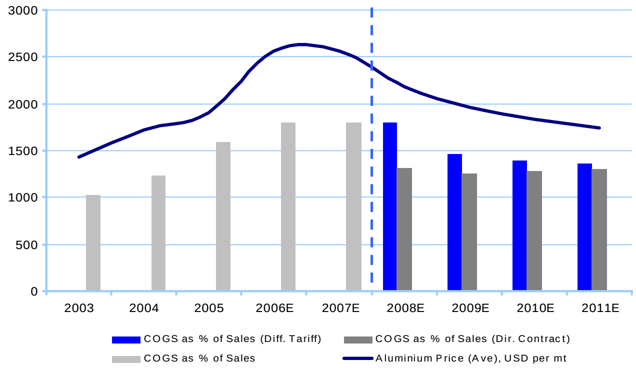
Electricity Liberties: The Numbers

Electricity Privileges Projected to Begin in 2008. We expect the resumption of electricity privileges for ZALK to start from 2008, when we project a decline in aluminum prices (see p. 3) which will greatly intensify the power supply issue for ZALK's owners. We expect the privileges will result in COGS stabilization in the long run (see chart below).

Differentiated Tariffs vs Direct Contract. Our differentiated tariffs scenario foresees a smooth decline in electricity tariffs starting in 2009, while the direct contract scenario envisages a sharp decline in tariffs in 2008. The scenarios foresee 79% and 82% maximum COGS/Sales ratios for the company in the long-run, much lower than the company reported in 2005, when it posted weak profitability margins (EBITDA margin of 2.4% and a net margin of -2.7%).

Overall, we believe the direct contract scenario would be more favorable for ZALK as it envisages aluminum production costs of USD 1307 per mt in the long term, while the forecasted production cost for our differentiated tariff scenario is USD 1362 per mt.

COGS to Sales Analysis

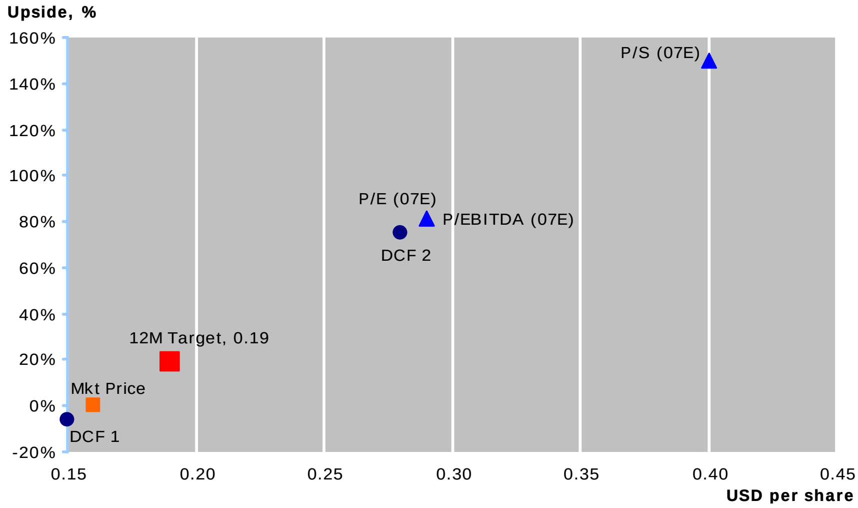


Source: Concorde Capital estimates

Valuation Summary

We conducted both a DCF and a peer comparison analysis to value Zaporizhya Aluminum.

Our peer comparison yields a range from USD 0.29/share to USD 0.40/share based on 2007E median multiples. Our DCF model, which outlines several scenarios for ZALK's electricity tariffs, yields a range from USD 0.15/share to USD 0.28/share. In this report, unlike our initiating report on ZALK, we rely on our DCF valuation rather than on peer comparison. DCF modeling enables us to look beyond the aluminum price peak of 2006-2007 and more accurately determines ZALK's value.



Our 12M target price is USD 0.19/share based on probability-weighted DCF, implying a 19% upside. We downgrade the stock to HOLD given uncertainties related to electricity tariffs.

Multiples Comparison

We put more weight on P/EBITDA and P/E ratios as some of ZALK's international peers are able to produce special aluminum for the aerospace and consumer industries, which is a more value-added product than ZALK manufactures. Our calculations led us to the price of USD 0.33 based on multiples, which is closer to the prices implied by P/EBITDA and P/E metrics rather than by the P/S ratio.

Ukraine

Company	Current Price, USD	Mcap, USD mln	P/S		P/EBITDA		P/E	
			2006E	2007E	2006E	2007E	2006E	2007E
ZALK	0.17	105.9	0.3	0.3	1.9	1.9	3.6	3.3

International Peers

Company	Mcap, USD mn	P/S		P/EBITDA		P/E	
		2006E	2007E	2006E	2007E	2006E	2007E
Century Aluminum Company	1140.4	0.7	0.7	3.2	2.5	8.1	4.7
Alcoa Inc	25633.9	0.8	0.8	4.2	3.9	8.9	8.5
Aluminium Corp of China	6100.8	0.9	0.9	2.3	2.8	4.0	5.1
Alcan Inc	17731.5	0.8	0.8	4.5	4.3	9.3	9.3
National Aluminium Co Ltd	2667.0	2.5	2.2	4.8	3.4	8.9	5.9
Average		**1.2**	**1.1**	**3.8**	**3.4**	**7.8**	**6.7**
Median		**0.8**	**0.8**	**4.2**	**3.4**	**8.9**	**5.9**

		P/S 2006E	P/S 2007E	P/EBITDA 2006E	P/EBITDA 2007E	P/E 2006E	P/E 2007E
ZALK	Premium/ (Discount) by Average	-71%	-69%	-50%	-44%	-54%	-51%
	Premium/ (Discount) by Median	-60%	-60%	-54%	-45%	-59%	-44%
	Implied Price by Average, USD	**0.55**	**0.52**	**0.32**	**0.29**	**0.35**	**0.32**
	Implied Price by Median, USD	**0.40**	**0.40**	**0.35**	**0.29**	**0.39**	**0.29**
	Upside (Downside) by Average	247%	222%	99%	80%	116%	102%
	Upside (Downside) by Median	153%	149%	119%	83%	144%	79%

Source: Thomson Financials, Bloomberg, Company Data, Concorde Capital estimates

Key Financials

Company	Sales, USD mln		EBITDA mgn, %		Net mgn, %	
	2006E	2007E	2006E	2007E	2006E	2007E
Zaporizhzya Aluminum	300	303	17%	17%	9%	10%
International Peers						
Century Aluminum	1594	1676	23%	27%	9%	15%
Alcoa Inc	30578	31307	20%	21%	9%	10%
Aluminium Corp of China	6791	6865	38%	32%	22%	17%
Alcan Inc	23219	23396	17%	18%	8%	8%
National Aluminium Co	1051	1240	53%	62%	29%	36%
Average			**30%**	**32%**	**15%**	**17%**
Median			**23%**	**27%**	**9%**	**15%**

Source: Thomson Financials, Bloomberg, Concorde Capital estimates

DCF Valuation

We believe that due to the reasons mentioned in this report ZALK is likely to be granted electricity privileges. We focused on two scenarios that allow us to take a longer term view on ZALK, included reinstatement of differentiated tariffs (70% probability) and a direct contract with a nuclear power station (30% probability. Our probability weighted DCF yields an implied price of **USD 0.19.**

Price Assumptions

In our DCF modeling we used weighted aluminum prices (see the table below). Our three scenarios reflect different price curves and account for the most likely outcomes. **All our scenarios envisage aluminum prices topping out in 2007.**

Aluminum Price Forecasts

	Bear (25%)	Base (50%)	Bull (25%)	Weighted
2006E	2560	2560	2560	2560
2007E	2534	2560	2585	2560
2008E	2027	2176	2327	2176
2009E	1824	1958	2094	1959
2010E	1642	1860	1989	1838
LT	**1560**	**1767**	**1890**	**1746**

Source: LME, Concorde Capital estimates

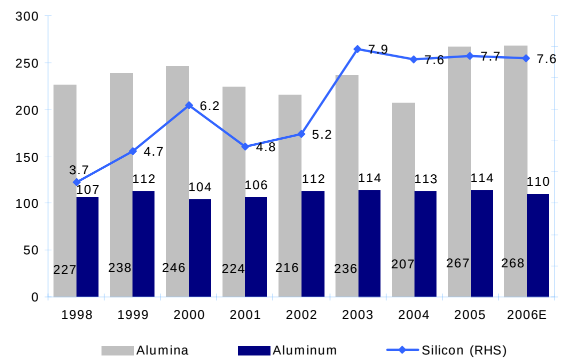
Output Volume Assumptions

We believe ZALK will continue to operate at 100% capacity in the long-term due to high demand for aluminum worldwide. This year we expect primary aluminum output to decline slightly due to an overhaul of some of the company's facilities (see the chart below). The management plans to fix aggregates in the electrolysis, alumina and silicon workshops this year. Thus, we estimate aluminum production to decrease by ~4% yoy to 109.6 ths mt, and forecast a dip in crystal silicon output to 7.6 ths mt or down 1% yoy.

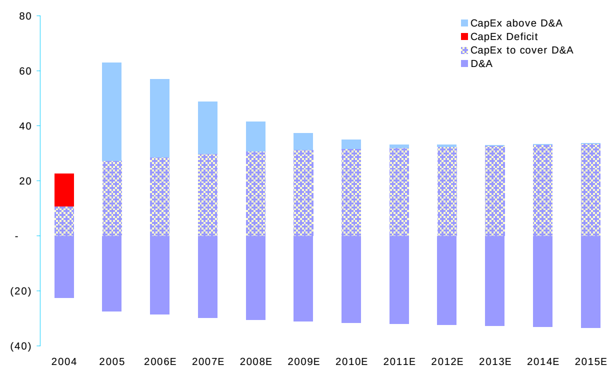
CapEx Assumptions

We expect ZALK to complete its USD 50 mln modernization program (2004-2009) aimed at environmental protection improvement and making a minor overhaul. We assume the company's owner SUAL will continue to use ZALK's capacities without significant modernization over the next few years (see the chart below). The company's plans to construct a foil plant (see our report of September 6, 2005) are on the back burner for now and there have been no signs from ZALK's management suggesting they plan to start focusing their efforts in this direction any time soon.

ZALK's Production Volumes, ths mt



Projected CapEx, UAH mln



Source: Company Data, Concorde Capital estimates

Scenario 1. Differentiated Tariffs (Probability 70%)

We regard the resumption of differentiated tariffs (see p. 5, 6) in 2008 as the most viable scenario for ZALK to reduce electricity cost pressure on its profitability. Discounting projected cash flows, we arrive at an implied price of **USD 0.15** per share.

Basic Assumptions

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Output, ths mt										
Primary aluminum	109.6	110.7	110.7	110.7	110.7	110.7	110.7	110.7	110.7	110.7
Crystal silicon	7.6	7.5	7.5	7.5	7.4	7.4	7.4	7.4	7.4	7.4
Aluminum Price, USD/mt	2560	2560	2176	1959	1838	1746	1746	1746	1746	1746
Total Sales, USD mln	300	303	259	233	219	208	208	208	208	208
Electricity Tariff, ¢/MHw	4.1	4.3	4.5	3.0	2.6	2.4	2.4	2.4	2.4	2.4
Growth, % yoy	*17%*	*5%*	*5%*	*-33%*	*-13%*	*-8%*	*0%*	*0%*	*0%*	*0%*
Production Cost, USD mln	1797	1797	1796	1463	1393	1362	1362	1362	1362	1362

Source: Concorde Capital estimates

For the purposes of forecasting local currency is used

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
EBITDA	**264**	**267**	**65**	**155**	**130**	**102**	**102**	**102**	**102**	**102**
EBIT	235	238	35	124	99	70	70	70	70	69
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	177	178	26	93	74	53	53	52	52	52
Plus D&A	28	29	30	31	31	31	32	32	32	33
Less CapEx	(53)	(46)	(39)	(35)	(33)	(31)	(32)	(33)	(33)	(33)
Less change in OWC	9	(26)	54	16	(6)	8	(10)	(0)	-	-
FCFF	**161**	**136**	**71**	**104**	**66**	**61**	**42**	**52**	**52**	**51**
WACC	14.2%	14.4%	13.6%	13.0%	12.4%	12.0%	11.5%	11.5%	11.5%	11.5%
WACC To Perpituity										11.0%
Terminal Value										620
Firm value	673								Portion due to TV	35.3%
Less Net Debt	(210)								Perpetuity Growth Rate	2.5%
Equity Value	463								Implied exit EBITDA Multiple	6.1x

Current Fair Value Per Share	**USD 0.14**
12M Fair Value Per Share	**USD 0.15**

Source: Company Data, Concorde Capital estimates

Sensitivity Analysis

Implied Share Price. USD

WACC to perp.	**Perpetuity Growth Rate**				
	1.5%	***2.0%***	***2.5%***	***3.0%***	***3.5%***
8.0%	0.1653	0.1738	0.1839	0.1960	0.2108
9.0%	0.1538	0.1603	0.1677	0.1763	0.1866
10.0%	0.1452	0.1503	0.1560	0.1625	0.1700
11.0%	0.1386	0.1427	**0.1472**	0.1523	0.1581
12.0%	0.1334	0.1368	0.1405	0.1446	0.1492
13.0%	0.1292	0.1321	0.1352	0.1386	0.1424
14.0%	0.1259	0.1283	0.1309	0.1338	0.1370

Scenario 2. Direct Contract (Probability 30%)

This scenario envisages ZALK agreeing with the Zaporizhya nuclear power station (NPS) (see p. 5, 6) for direct electricity supplies in 2008. Electricity from Zaporizhya NPS is significantly cheaper (1.5-1.7 ¢/KHw) than that generated at thermal power stations. The scenario implies a **USD 0.28** per share intrinsic value.

Basic Assumptions

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Output, ths mt										
Primary aluminum	109.6	110.7	110.7	110.7	110.7	110.7	110.7	110.7	110.7	110.7
Crystal silicon	7.6	7.5	7.5	7.5	7.4	7.4	7.4	7.4	7.4	7.4
Aluminum Price, USD/mt	2560	2560	2176	1959	1838	1746	1746	1746	1746	1746
Total Sales, USD mln	300	303	259	233	219	208	208	208	208	208
Electricity Tariff, ¢/MHw	4.1	4.3	1.7	1.8	1.9	2.0	2.0	2.0	2.0	2.0
Growth, % yoy		*4.9%*	*-60.5%*	*2.9%*	*8.6%*	*5.3%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Production Cost, USD mln	1797	1797	1319	1256	1284	1307	1307	1307	1307	1307

Source: Concorde Capital estimates

For the purposes of forecasting local currency is used

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
EBITDA	**264**	**267**	**355**	**282**	**194**	**127**	**126**	**126**	**126**	**126**
EBIT	235	238	325	251	163	96	95	95	94	94
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	177	178	244	188	122	72	71	71	71	70
Plus D&A	28	29	30	31	31	31	32	32	32	33
Less CapEx	(53)	(46)	(39)	(35)	(33)	(31)	(32)	(33)	(33)	(33)
Less change in OWC	9	(26)	56	14	(6)	8	(10)	(0)	-	-
FCFF	**-**	**136**	**291**	**198**	**114**	**79**	**60**	**70**	**70**	**70**
WACC	14.2%	14.4%	13.7%	13.0%	12.4%	12.0%	11.5%	11.5%	11.5%	11.5%
WACC To Perpituity										11.0%
Terminal Value										843

Firm value	1085	Portion due to TV	30%
Less Net Debt	(213)	Perpetuity Growth Rate	2.5%
Equity Value	872	Implied exit EBITDA Multiple	6.7x

Current Fair Value Per Share	**USD 0.25**
12M Fair Value Per Share	**USD 0.28**

Source: Company Data, Concorde Capital estimates

Sensitivity Analysis

Implied Share Price. USD

WACC to perp.	**Perpetuity Growth Rate**				
	1.5%	***2.0%***	***2.5%***	***3.0%***	***3.5%***
8.0%	0.3012	0.3127	0.3263	0.3427	0.3627
9.0%	0.2858	0.2945	0.3046	0.3163	0.3301
10.0%	0.2745	0.2813	0.2890	0.2978	0.3080
11.0%	0.2657	0.2712	**0.2774**	0.2843	0.2922
12.0%	0.2589	0.2635	0.2685	0.2741	0.2803
13.0%	0.2536	0.2574	0.2616	0.2662	0.2713
14.0%	0.2493	0.2525	0.2561	0.2600	0.2642

Pro-forma Financial Statements, According To UAS (Basic Scenario)

Income Statement Summary, USD mln

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Revenues	**300**	**303**	**259**	**233**	**219**	**208**	**208**	**208**	**208**	**208**
Cost Of Sales	(223)	(225)	(225)	(183)	(174)	(170)	(170)	(170)	(170)	(170)
Gross Profit	78	78	34	50	44	37	37	37	37	37
Other Operating Income/Costs	(12)	(12)	(10)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
SG&A	(14)	(14)	(12)	(10)	(10)	(8)	(8)	(8)	(8)	(8)
EBITDA	**52**	**53**	**13**	**31**	**26**	**20**	**20**	**20**	**20**	**20**
EBITDA margin,. %	*17%*	*17%*	*5%*	*13%*	*12%*	*10%*	*10%*	*10%*	*10%*	*10%*
Depreciation	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
EBIT	**47**	**47**	**7**	**25**	**20**	**14**	**14**	**14**	**14**	**14**
EBIT margin, %	*16%*	*16%*	*3%*	*11%*	*9%*	*7%*	*7%*	*7%*	*7%*	*7%*
Interest Expense	(10)	(7)	(5)	(2)	(1)	(1)	(1)	(1)	(1)	(0)
PBT	**37**	**40**	**2**	**22**	**18**	**13**	**13**	**13**	**13**	**13**
Tax	(9)	(10)	(1)	(6)	(5)	(3)	(3)	(3)	(3)	(3)
Effective tax rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Net Income	**27**	**30**	**2**	**17**	**14**	**10**	**10**	**10**	**10**	**10**
Net Margin.%	*9%*	*10%*	*1%*	*7%*	*6%*	*5%*	*5%*	*5%*	*5%*	*5%*
Dividend Declared	**-**	**-**	**1**	**12**	**11**	**9**	**9**	**9**	**9**	**9**

Balance Sheet Summary, USD mln

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Current Assets	**86**	**91**	**77**	**70**	**69**	**67**	**68**	**68**	**68**	**68**
Cash & Equivalents	0	0	0	0	0	0	0	0	0	0
Trade Receivables	12	12	12	12	11	11	12	12	12	12
Inventories	51	55	44	40	39	37	37	38	38	38
Other current assets	23	24	21	19	19	18	18	18	18	18
Fixed Assets	**102**	**106**	**107**	**100**	**100**	**99**	**99**	**99**	**99**	**99**
PP&E.net	63	67	69	70	70	70	70	70	71	71
Other Fixed Assets	39	39	38	30	29	29	29	29	29	29
Total Assets	**188**	**197**	**184**	**170**	**169**	**166**	**167**	**167**	**167**	**167**
Shareholders' Equity	**106**	**136**	**137**	**142**	**144**	**145**	**146**	**147**	**148**	**149**
Share Capital	31	31	31	31	31	31	31	31	31	31
Retained Earnings and Other	75	105	106	111	113	114	115	116	117	118
Current Liabilities	**47**	**42**	**35**	**23**	**20**	**20**	**20**	**19**	**19**	**18**
STInterest Bearing Debt	21	16	13	4	4	4	6	5	4	3
Trade Payables	21	21	18	15	14	14	12	12	12	12
Other Current Liabilities	5	5	4	3	2	2	2	2	2	2
LT Liabilities	**35**	**19**	**12**	**5**	**4**	**0**	**0**	**0**	**0**	**0**
LT Interest Bearing Debt	35	19	12	5	4	-	-	-	-	-
Total Liabilities & Equity	**188**	**197**	**184**	**170**	**169**	**166**	**167**	**167**	**167**	**167**

Source: Concorde Capital estimates

Reported Financial Statements, According to UAS

Income Statement Summary. USD mn

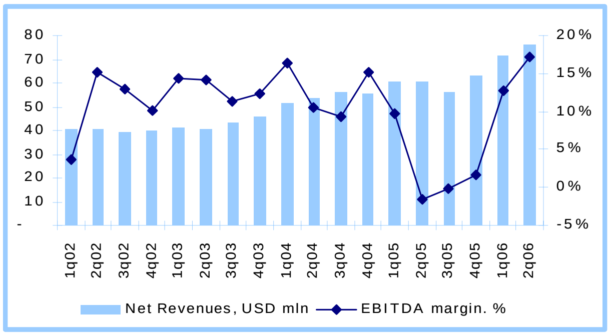
	1Q02	2Q02	3Q02	4Q02	1Q03	2Q03	3q03	4Q03	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06
Net Revenues	**41**	**41**	**39**	**40**	**41**	**41**	**44**	**46**	**52**	**54**	**56**	**56**	**60**	**61**	**56**	**63**	**71**	**76**
Cost Of Sales	(36)	(33)	(32)	(31)	(32)	(31)	(35)	(35)	(39)	(42)	(46)	(45)	(49)	(55)	(52)	(58)	(59)	(59)
Gross Profit	5	8	7	9	9	10	9	11	12	11	11	11	12	6	5	5	12	17
Other Operating Income/Costs. net	(2)	(0)	(1)	(4)	(2)	(3)	(2)	(2)	(1)	(4)	(3)	(0)	(3)	(4)	(2)	(1)	(1)	(1)
SG&A	(1)	(1)	(1)	(1)	(1)	(2)	(1)	(3)	(3)	(2)	(2)	(2)	(3)	(2)	(2)	(3)	(2)	(3)
EBITDA	**1**	**6**	**5**	**4**	**6**	**6**	**5**	**6**	**8**	**6**	**5**	**8**	**6**	**(1)**	**(0)**	**1**	**9**	**13**
EBITDA margin. %	4%	15%	13%	10%	14%	14%	11%	12%	16%	11%	9%	15%	10%	-2%	0%	2%	13%	17%
Depreciation	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(1)	(2)
EBIT	**0**	**5**	**4**	**3**	**5**	**5**	**4**	**4**	**7**	**4**	**4**	**8**	**5**	**(2)**	**(1)**	**(0)**	**8**	**11**
EBIT margin. %	0%	12%	10%	7%	11%	11%	9%	9%	14%	8%	7%	14%	8%	-4%	-3%	-1%	11%	15%
Interest Expense	(2)	(2)	(4)	(3)	(1)	(2)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)
Financial income	1	0	2	0	0	0	0	(0)	0	0	0	0	0	0	0	0	0	0
Other income/(expense)	(0)	(0)	(0)	(1)	(0)	(0)	0	(0)	0	(2)	0	(1)	1	3	0	(0)	0	0
PBT	**(1)**	**3**	**2**	**(0)**	**4**	**2**	**3**	**2**	**6**	**2**	**3**	**6**	**5**	**(1)**	**(4)**	**(3)**	**6**	**10**
Tax	-	-	(0)	(1)	-	(3)	(1)	(4)	(2)	(0)	(2)	(4)	-	(1)	(0)	(0)	-	(1)
Net Income	**(1)**	**3**	**2**	**(1)**	**4**	**(0)**	**2**	**(1)**	**4**	**2**	**2**	**2**	**5**	**(2)**	**(4)**	**(3)**	**6**	**9**
Net Margin. %	*-4%*	*8%*	*5%*	*-3%*	*9%*	*-1%*	*4%*	*-3%*	*9%*	*3%*	*3%*	*3%*	*8%*	*-4%*	*-7%*	*-5%*	*8%*	*11%*

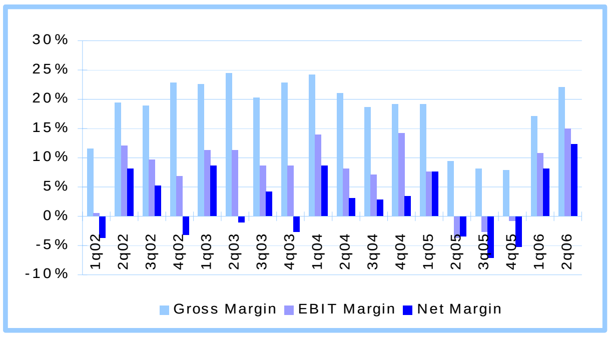
Balance Sheet Summary. USD mn

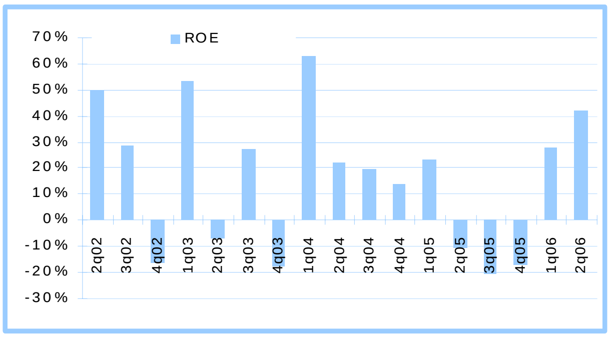
	1Q02	2Q02	3Q02	4Q02	1Q03	2Q03	3q03	4Q03	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06
Current Assets	**59**	**69**	**76**	**150**	**131**	**140**	**127**	**103**	**97**	**90**	**74**	**76**	**102**	**116**	**88**	**83**	**81**	**89**
Cash & Equivalents	1	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0
Trade Receivables	6	9	10	72	62	66	52	43	44	33	15	20	40	38	16	7	5	6
Inventories	16	20	28	32	29	33	41	42	34	41	40	39	45	60	56	54	52	57
Other current assets	36	39	38	45	40	41	33	18	19	16	19	16	16	18	16	21	24	26
Fixed Assets	**110**	**111**	**112**	**111**	**105**	**104**	**104**	**106**	**107**	**106**	**104**	**69**	**73**	**84**	**86**	**94**	**93**	**90**
PP&E. net	57	56	56	55	54	53	52	53	52	53	52	52	55	56	57	60	62	64
Other Fixed Assets	53	55	56	56	51	51	52	54	55	53	52	17	19	28	28	35	31	26
Total Assets	**170**	**180**	**187**	**261**	**236**	**245**	**231**	**209**	**204**	**196**	**178**	**144**	**175**	**200**	**174**	**177**	**175**	**179**
Shareholders' Equity	**25**	**28**	**30**	**29**	**25**	**25**	**27**	**27**	**30**	**32**	**33**	**74**	**82**	**79**	**75**	**79**	**85**	**94**
Share Capital	29	29	29	29	29	29	29	29	29	29	29	29	31	31	31	31	31	31
Reserves and Other	21	21	21	20	20	20	20	20	20	20	20	20	22	21	21	22	22	22
Reserves and Other	(25)	(21)	(19)	(21)	(24)	(25)	(23)	(23)	(20)	(18)	(16)	25	30	27	23	27	33	41
Current Liabilities	**67**	**73**	**77**	**135**	**113**	**122**	**116**	**95**	**86**	**69**	**46**	**53**	**61**	**75**	**51**	**47**	**55**	**51**
ST Interest Bearing Debt	40	47	53	38	29	46	44	45	39	24	18	19	40	45	30	27	38	39
Trade Payables	24	22	21	94	77	68	57	37	33	38	24	23	17	26	16	14	12	7
Accrued Wages	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Accrued Taxes	0	0	0	0	0	0	0	0	1	0	0	8	0	0	0	0	1	0
Other Current Liabilities	1	3	2	2	7	7	14	11	12	6	3	2	2	3	3	5	3	3
LT Liabilities	**78**	**79**	**80**	**97**	**98**	**98**	**88**	**87**	**88**	**96**	**99**	**17**	**33**	**46**	**48**	**50**	**35**	**35**
LT Interest Bearing Debt	78	79	80	97	97	97	87	82	83	91	91	13	31	44	47	50	34	34
Other LT	-	-	-	0	1	1	1	5	5	5	8	4	2	2	2	0	0	0
Total Liabilities & Equity	**170**	**180**	**187**	**261**	**236**	**245**	**231**	**209**	**204**	**196**	**178**	**144**	**175**	**200**	**174**	**177**	**175**	**179**

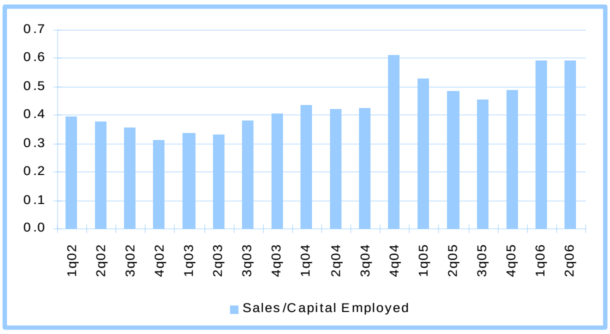
Source: Company Data

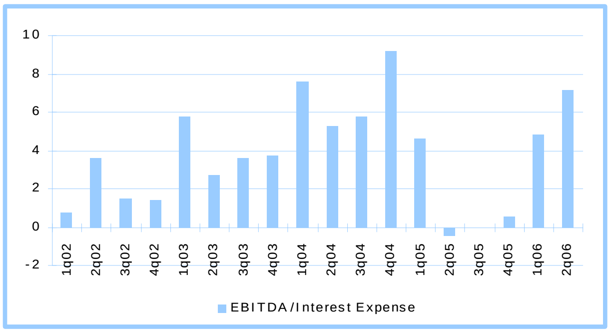
Quarterly Analysis*

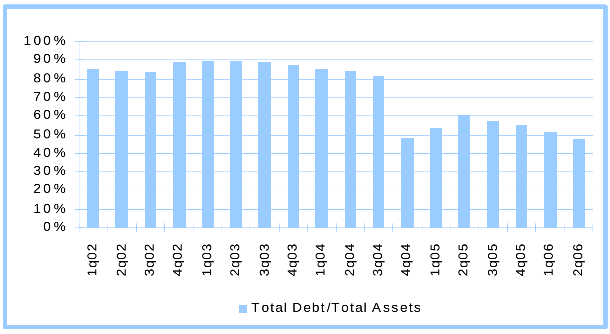












Source: Company Data, Concorde Capital calculations
** ROE is annualized*

Appendix: ZALK as a Commodity Alternative

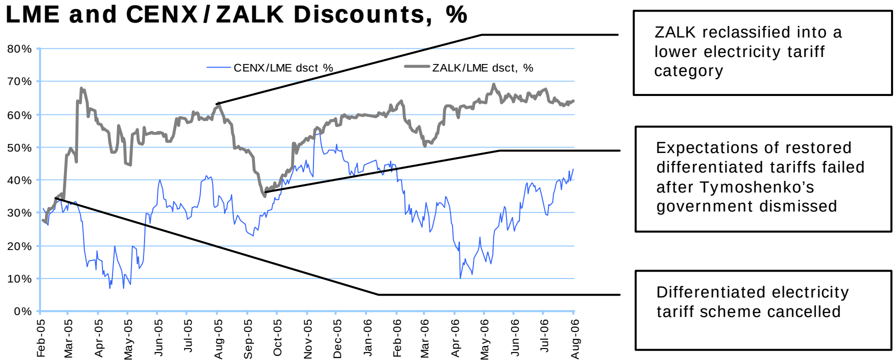
Basically, ZALK's output is primary aluminum, and theoretically ZALK in terms of MCap per mt of aluminum is an investment alternative to LME contracts for primary aluminum, with a discount due to inevitable operating inefficiencies. Other aluminum producers further up in the value chain (eg. Alcan and Alcoa), trade at huge premiums to the LME aluminum price, as the finished products they manufacture from aluminum for the aerospace, electronic or food industries incorporate significant value added.

We found a close peer for ZALK from this angle – Century Aluminum (CENX), the second largest American producer of primary aluminum with annual capacities of more than 600 ths mt. CENX's business is similar to ZALK: no big bauxite mines, an exclusive focus on primary aluminum production, and operating margins that are highly sensitive to aluminum prices.

So, we analyzed ZALK, together with CENX, as primary aluminum traded on LME less "inefficiencies". We looked at the stock in terms of its discount to mt of aluminum on the LME. CENX fluctuated around a 30% discount, which suggests that is the historical discount for companies that produce primary aluminium exclusively. ZALK, which began trading on the PFTS in Feb 2005, began at the same level. However, the cancellation of the differentiated tariff scheme (see our report of Sept. 6, 2005) immediately reflected on ZALK's discount to the LME price, which jumped up to a range around 60%, where ZALK has been fluctuating ever since. The risks associated with the still unsolved electricity issue even made ZALK's share price indifferent to the immense price hike for primary aluminum in April-June this year.

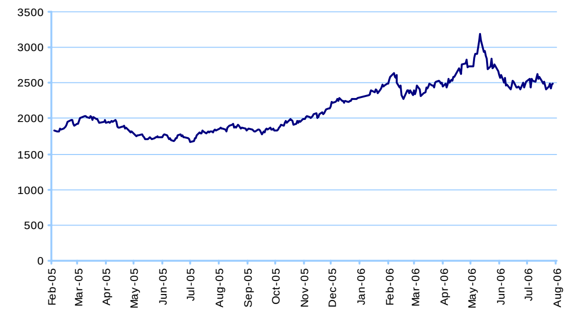
Through 2006, ZALK traded at a discount two times higher than CENX. In August-September 2005, positive news on electricity tariffs temporarily closed the gap between the two stocks. As ZALK is highly sensitive to news about electricity tariffs, it could see the discount reduce on positive news.

LME and CENX / ZALK Discounts, %



Source: Thompson Fiancials, Bloomberg, Concorde Capital calculations

LME Aluminum Cash Prices, USD per mt



Source: Thompson Fiancials, Bloomberg, Concorde Capital calculations

Concorde Capital
3V Sportyvna Square
2nd entrance, 3rd floor
Kyiv 01023, UKRAINE

Tel +380 44 207 5030
Fax: +380 44 206 8366
www.concorde.com.ua
office@concorde.com.ua

CEO	
Igor Mazepa	im@concorde.com.ua
Director, Equity Sales	
Peter Bobrinsky	pb@concorde.com.ua
Equity Sales	
Marina Martirosyan	mm@concorde.com.ua
Lucas Romriell	lr@concorde.com.ua
Anastasiya Nazarenko	an@concorde.com.ua
Elena Petrashko	ep@concorde.com.ua
Director of Research	
Konstantin Fisun, CFA	kf@concorde.com.ua
Chief Strategist	
Tom Warner	tw@concorde.com.ua
Utilities (Telecom, Energy)	
Alexander Paraschiy	ap@concorde.com.ua
Metals & Mining	
Andriy Gostik	ag@concorde.com.ua
Eugene Cherviachenko	ec@concorde.com.ua
Machine Building, Construction, Consumer Goods	
Olga Pankiv	op@concorde.com.ua
Banking & Macroeconomics, Retail	
Alexander Viktorov	av@concorde.com.ua
Oil & Gas, Chemicals	
Vladimir Nesterenko	vn@concorde.com.ua
Corporate Governance	
Nick Piazza	np@concorde.com.ua
Fixed Income	
Oleksandr Klymchuk	ok@concorde.com.ua
Junior Analyst	
Polina Khomenko	pk@concorde.com.ua