

Ukrainian Elections 2004

“What’s gonna’ change?”

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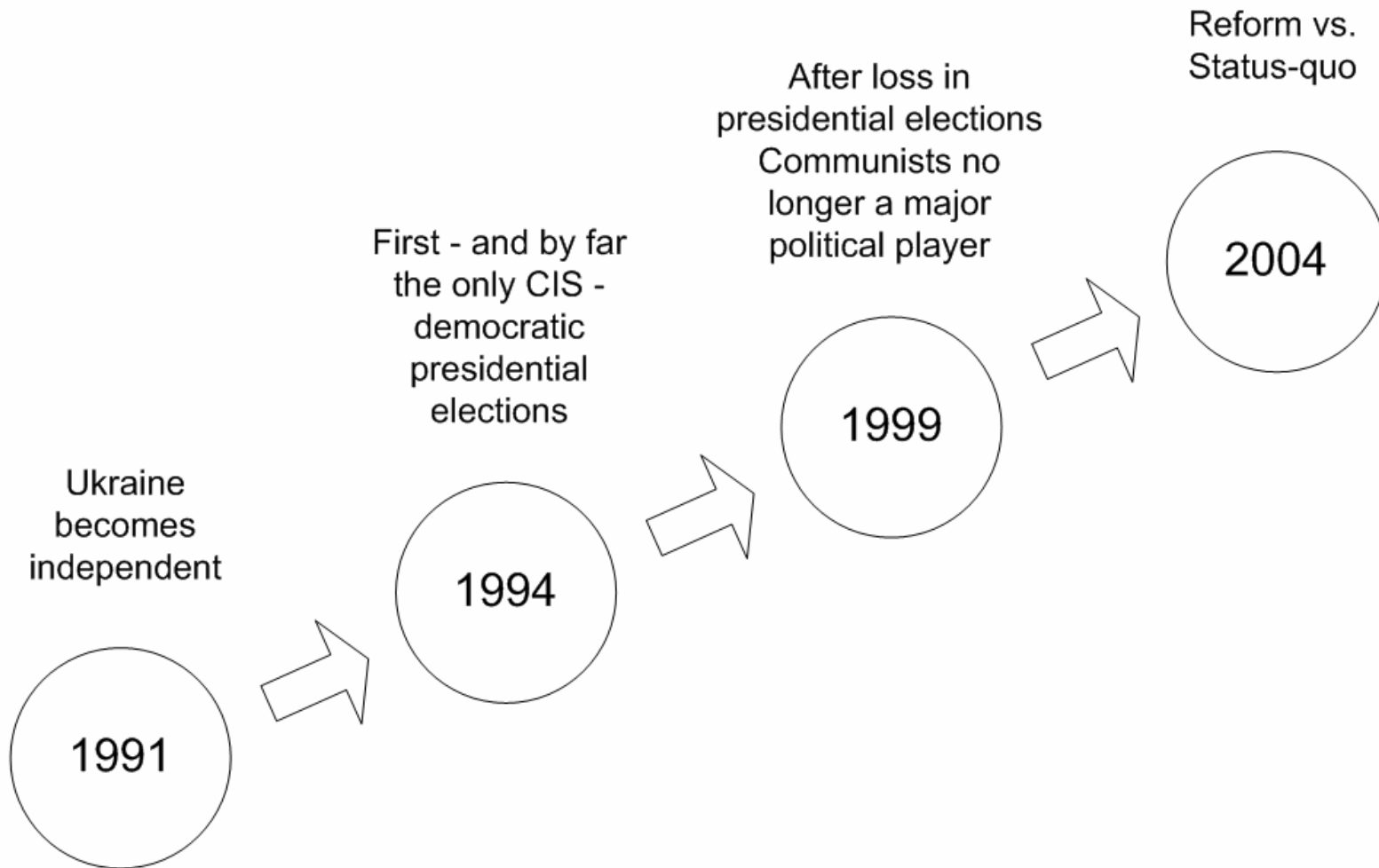
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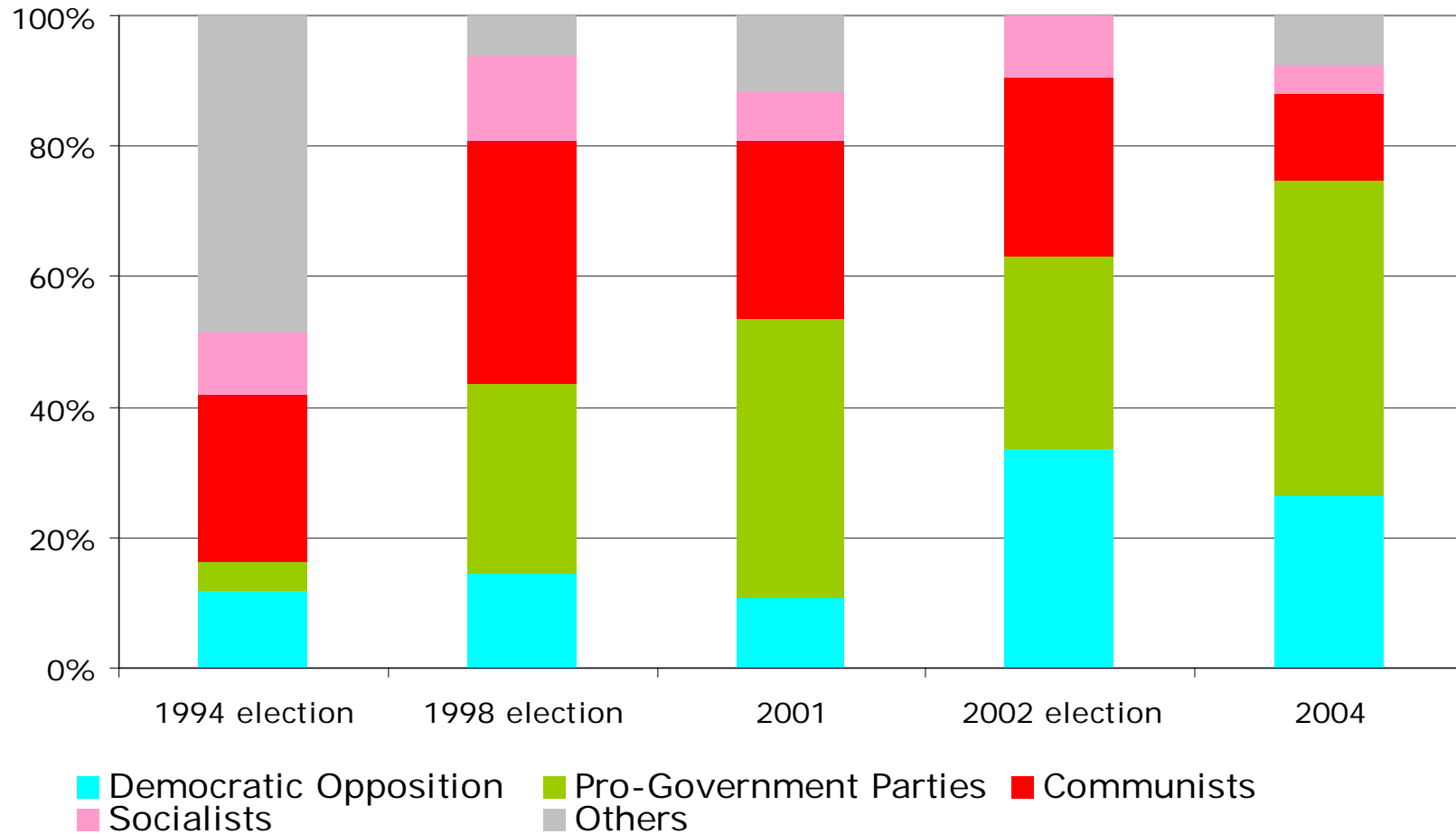


29 October, 2004

Thirteen Years of Independence



Parliamentary Structure



Parliamentary Dynamics

- **Influence of the Left spectrum has been shrinking**
- **No clear party structure – rather situational alliances based on relations to the government**
- **Pro-government factions have been growing**
- **Democratic opposition regularly tends to grow during elections -- just to fall apart shortly thereafter**

2004: Presidential Elections Schedule

October					November							
SU		3	10	17	24	31		7	14	21	28	SU
MO		4	11	18	25		1	8	15	22	29	MO
TU		5	12	19	26		2	9	16	23	30	TU
WE		6	13	20	27		3	10	17	24		WE
TH		7	14	21	28		4	11	18	25		TH
FR	1	8	15	22	29		5	12	19	26		FR
SA	2	9	16	23	30		6	13	20	27		SA

Oct 29: Final day of public election campaign by candidates

Oct 31: Election Day

Nov 15: Deadline for official announcement of Presidential election results

Nov 21: Run-off (if no candidate receives more than 50% of votes in the first round)

Major Candidates

Yanukovych



Prime Minister
since Nov. 2002
Former Donetsk
regional Governor
Age: 54

vs.

Yushchenko



Ex-Prime Minister
Ex-NBU Governor
Leader of opposition
bloc "Our Ukraine"
Age: 50

Political Platforms

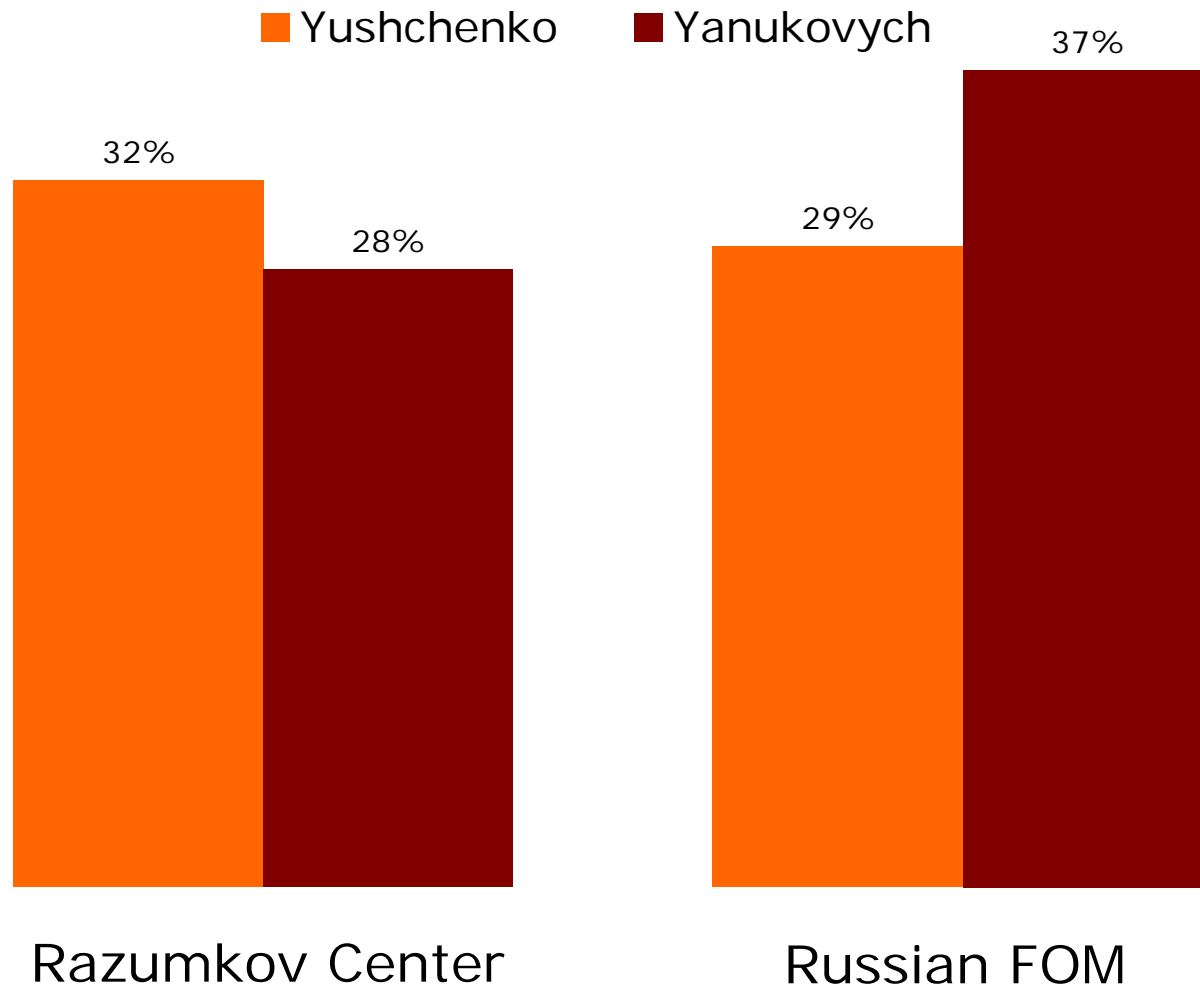
Yanukovich

- More decision-making authority for regions
- Business deregulation; protection of property rights
- Increased financing for high-tech & scientific research
- Tax cuts, simplification of accounting
- Increasing Ukraine's role as a transit country
- Completion of agricultural and military reforms
- Social welfare, healthcare and educational reforms
- Equally close ties with Russia and the EU

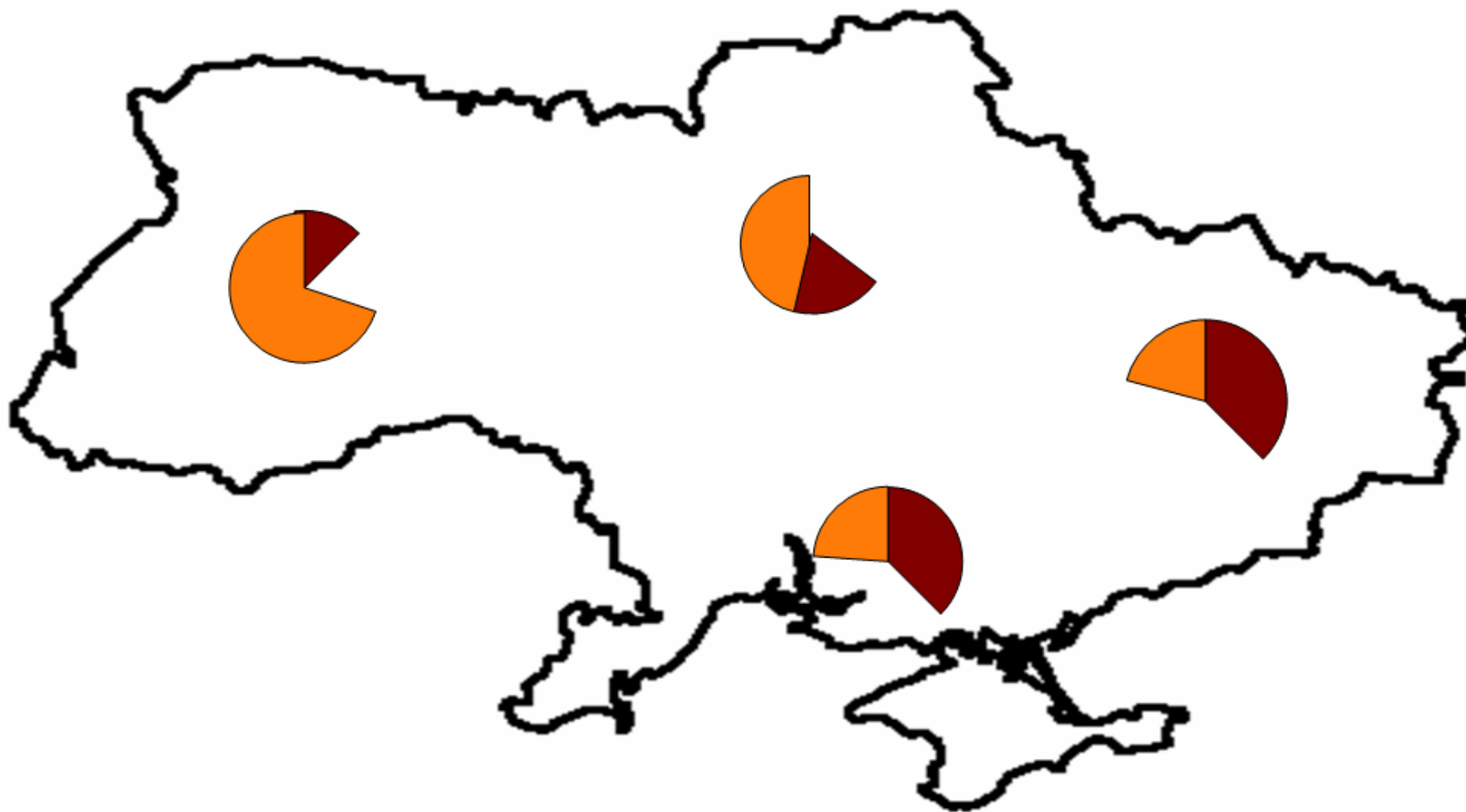
Yushchenko

- Restoration of rule of law and freedom of speech; eradication of corruption
- Deregulation and liberalization of business; administrative reforms; protection of property rights
- Tax cuts, abolishing of fiscal privileges
- Creation of 5 mn new jobs
- Completion of agricultural and military reforms
- Priority of European integration

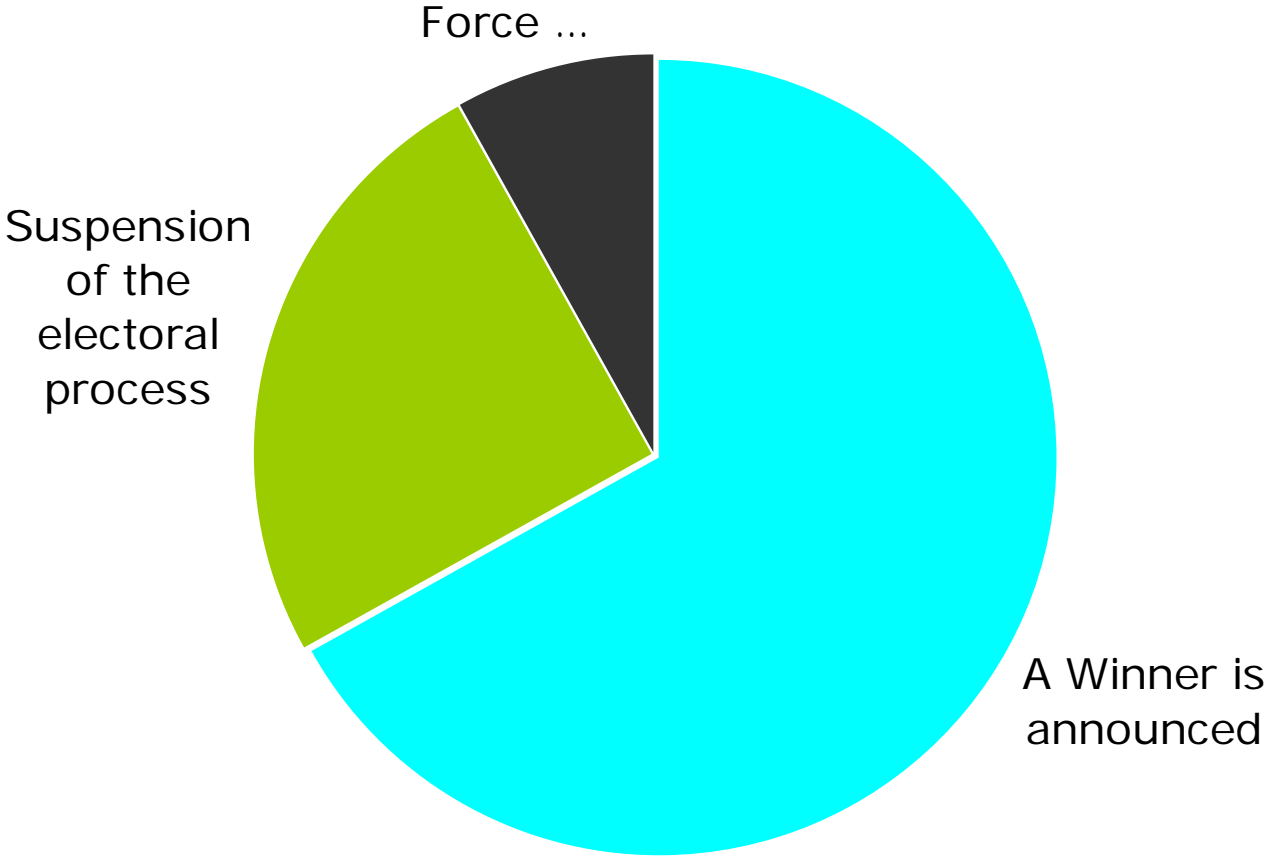
Candidates' Ratings



Regional Electoral Preferences



Probable Outcomes

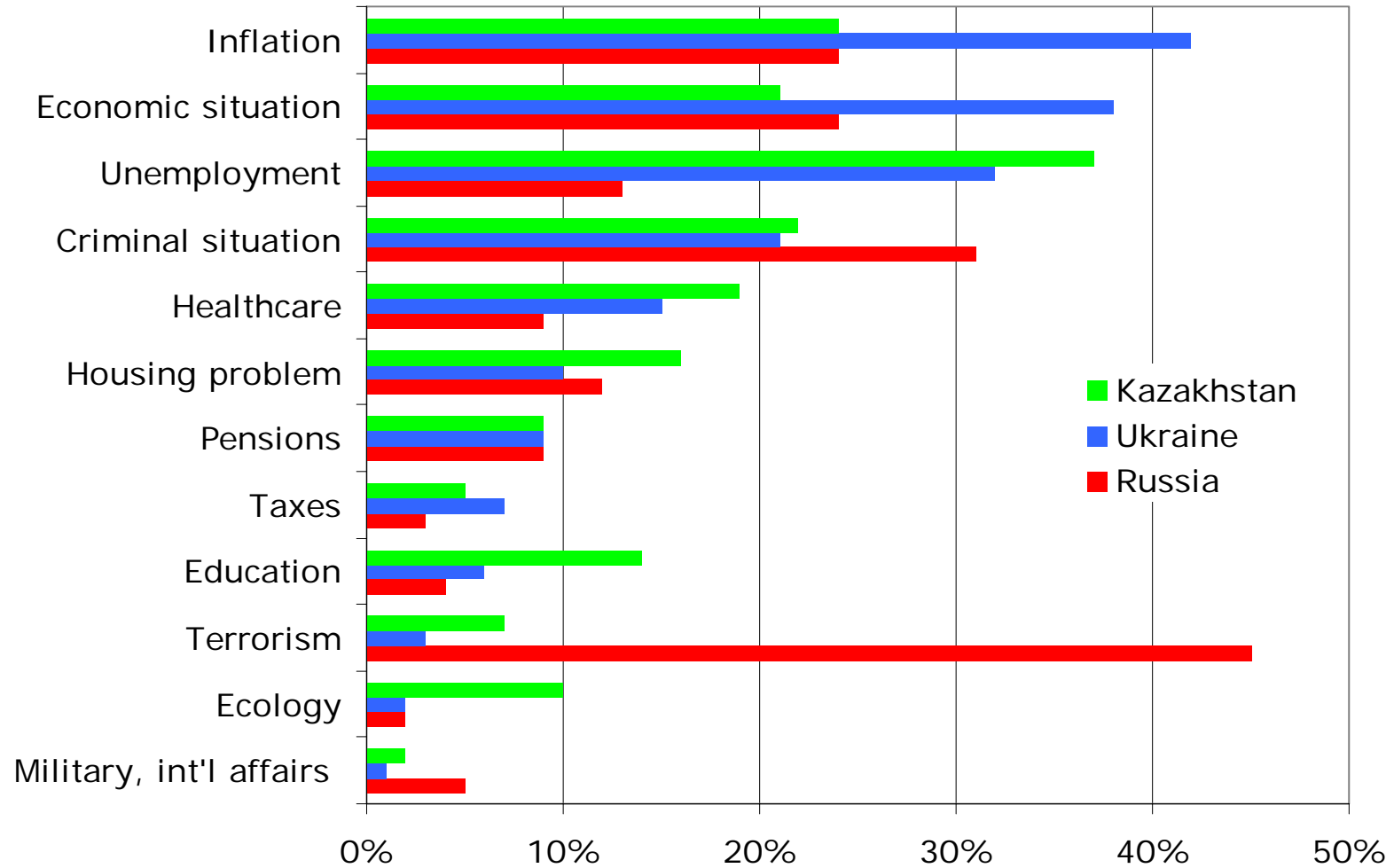


Probable Outcomes

1. Either Yushchenko or Yanukovich is declared the winner – several weeks/months of appeals against the result follow, especially if Yanukovich is declared the winner. *(The most probable scenario; there will be no revolution, this is not Georgia)*
2. Due to extreme 'irregularities', the electoral process is suspended for an indefinite time period, with Kuchma remaining in power (until parliamentary elections in 2006? – *a less probable scenario*)
3. Directed violence and cancellation of the elections. However, we do not expect anything outrageous due to the relatively passive mentality of Ukrainians *(low probability)*

Opinion Pole Comparisons

“What do you consider the most important social problem?”



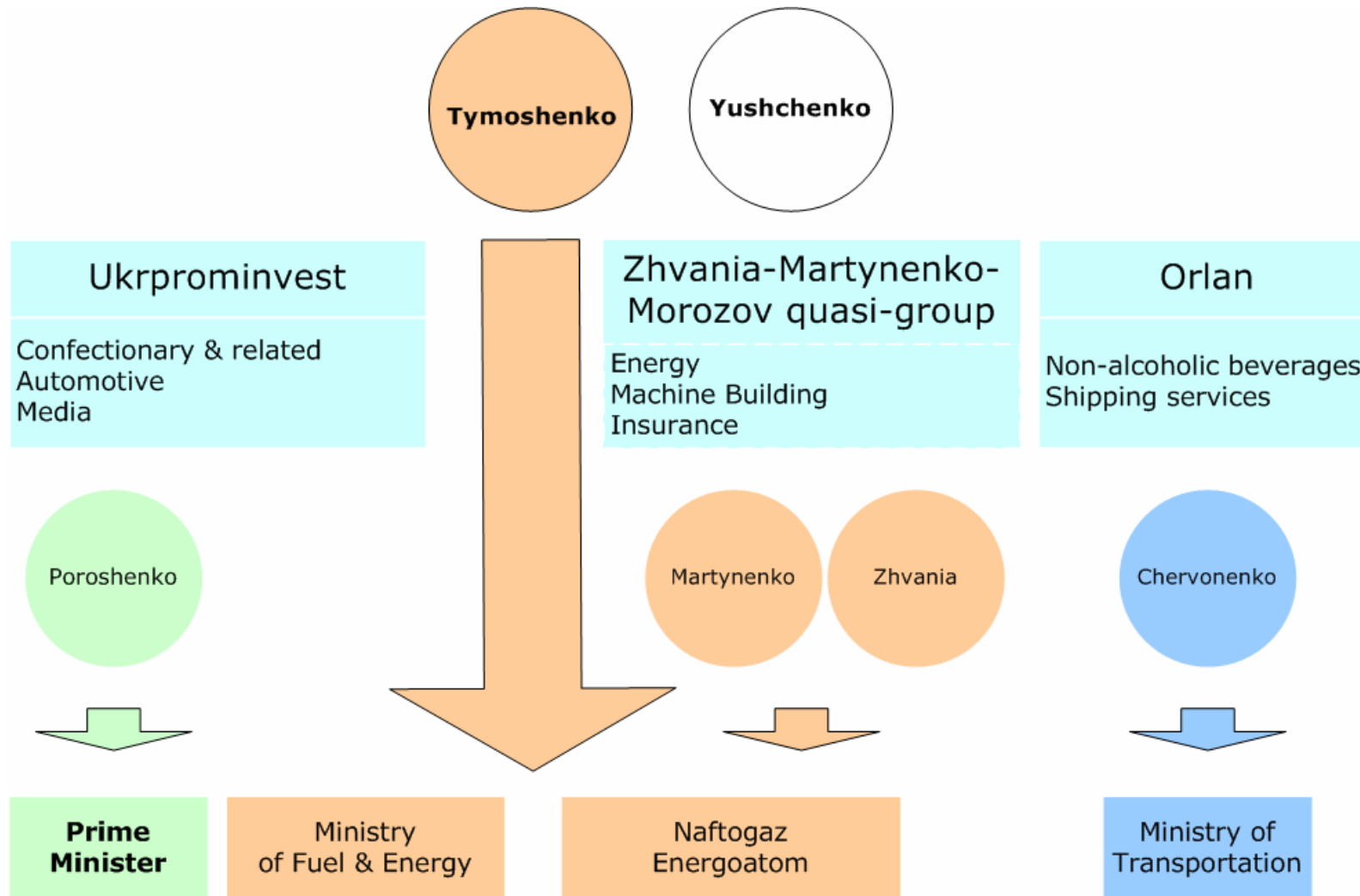
... After the Elections

- The winner distributes power; Yushchenko will have more problems building a coalition
- Adjustment of power among business groups. No significant redistribution of assets expected. With Yushchenko winning, “Democratic Oligarchs” begin to control the energy & oil sectors
- Foreign strategic integration pre-election rhetoric will be forgotten – Yanukovich will include European integration as a long-term goal, Yushchenko will develop closer relations with Russia
- In the long term, the Ukrainian economy will sustain its positive dynamics

If Yushchenko wins...

- A broad coalition of opposition forces will be created, including communists, socialists and others
- Social and economic reforms will accelerate
- Small business gets a strong push for development
- The election team is likely to break down, each business group pursuing their own interests. "Gas princess", Yulia Timoshenko, will enjoy a happy comeback into the energy branch. Relatively small businessmen from Yushchenko's surrounding will strive for power in food industry, machine building, electricity, financial services and transportation. What we call "Democratic oligarchs" will emerge
- Yushchenko may initiate a revision of some privatization results, though with little chance for success
- Foreign investors will be given the same access as local groups to forthcoming privatization of industry majors

Emerging “Democratic Oligarchs”



If Yanukovich wins...

- Status-quo in the executive branch and business environment
- Large business will be given priority treatment over small business
- The Donetsk group will concentrate unprecedented power
- Economic reforms will continue at a moderate tempo. No radical breakthroughs
- Domination of domestic protectionist policies
- Foreign investor participation in privatizations will remain restricted
- Lack of transparency in policy, economy and business

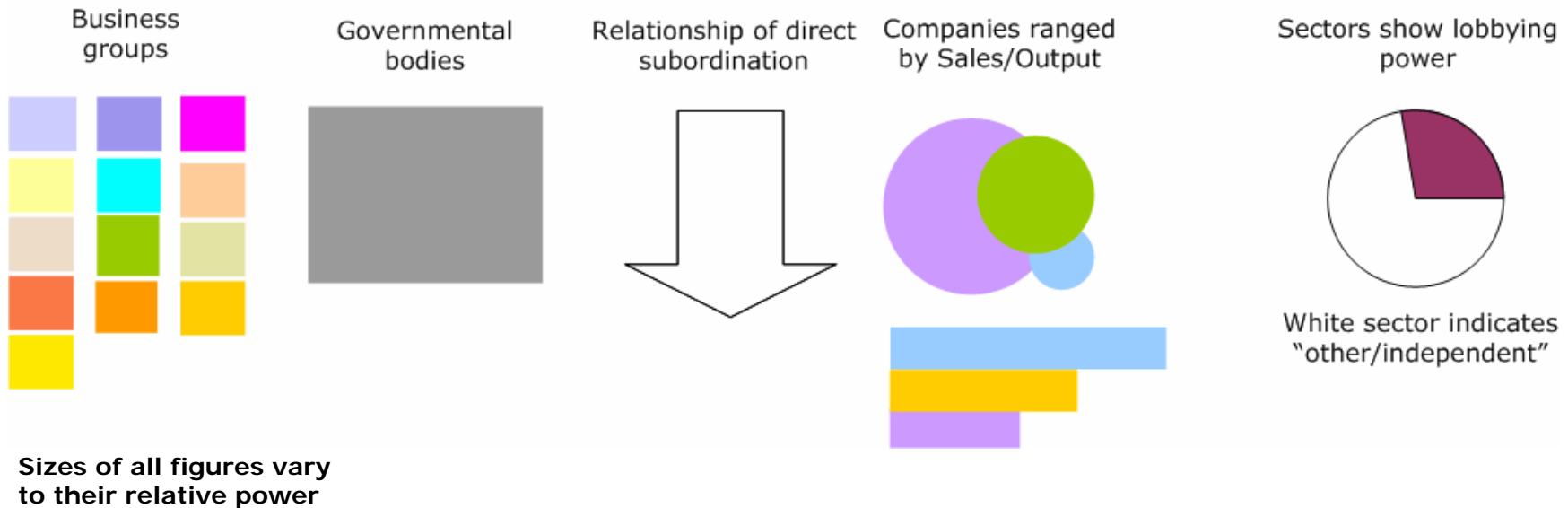
Business Group Barometer

	Yushchenko	Yanukovich
IUD		
SCM		
Interpipe		
Pryvatbank		
Ukrsibbank		
"Democratic Oligarchs"		

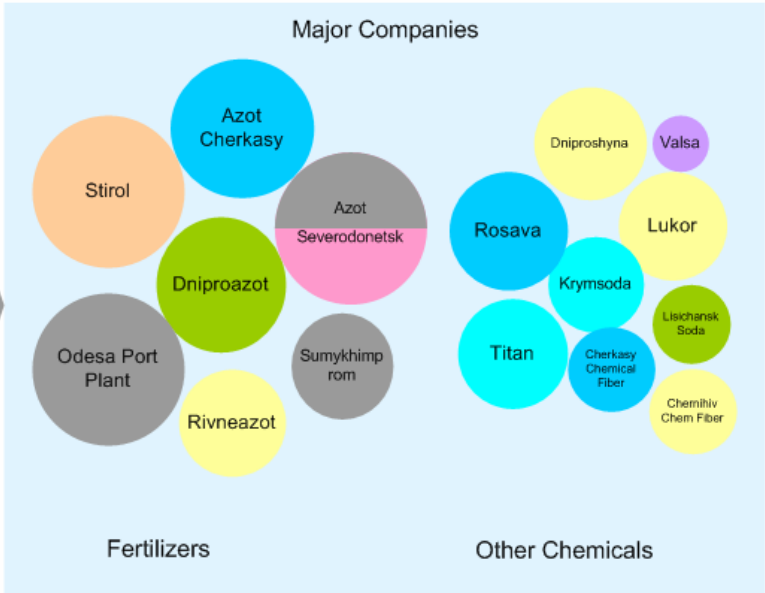
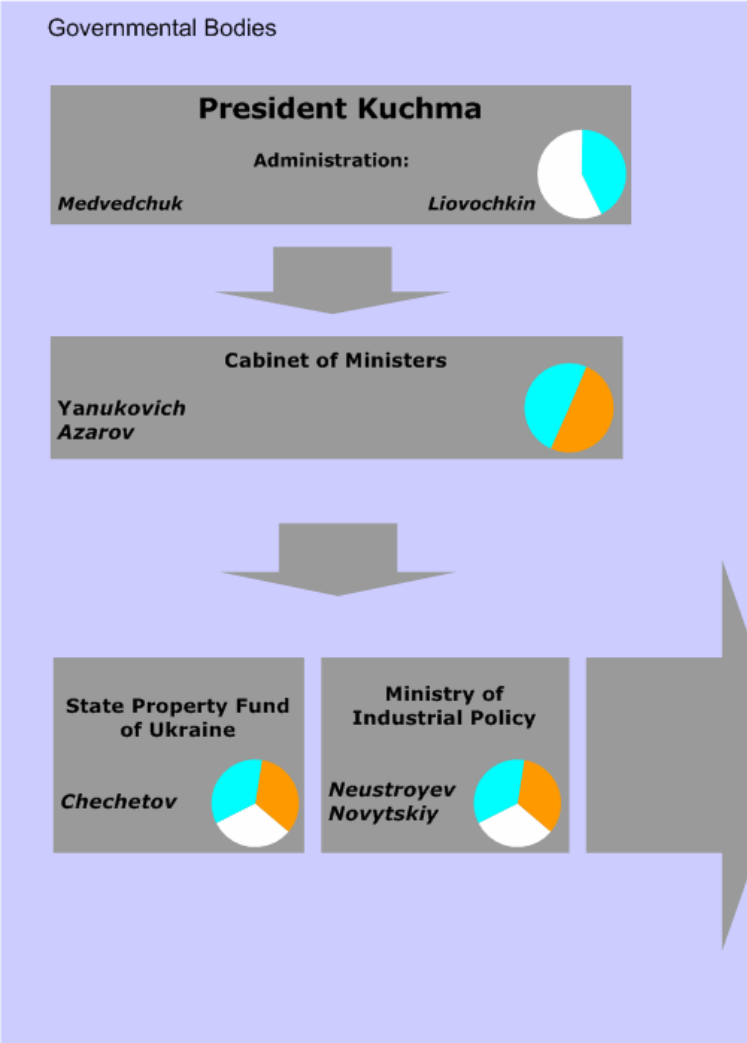
Industry Lobbying Power. Legend

Who are the key power brokers?
How are they represented in governing bodies?
Which companies do they influence and to what extent?

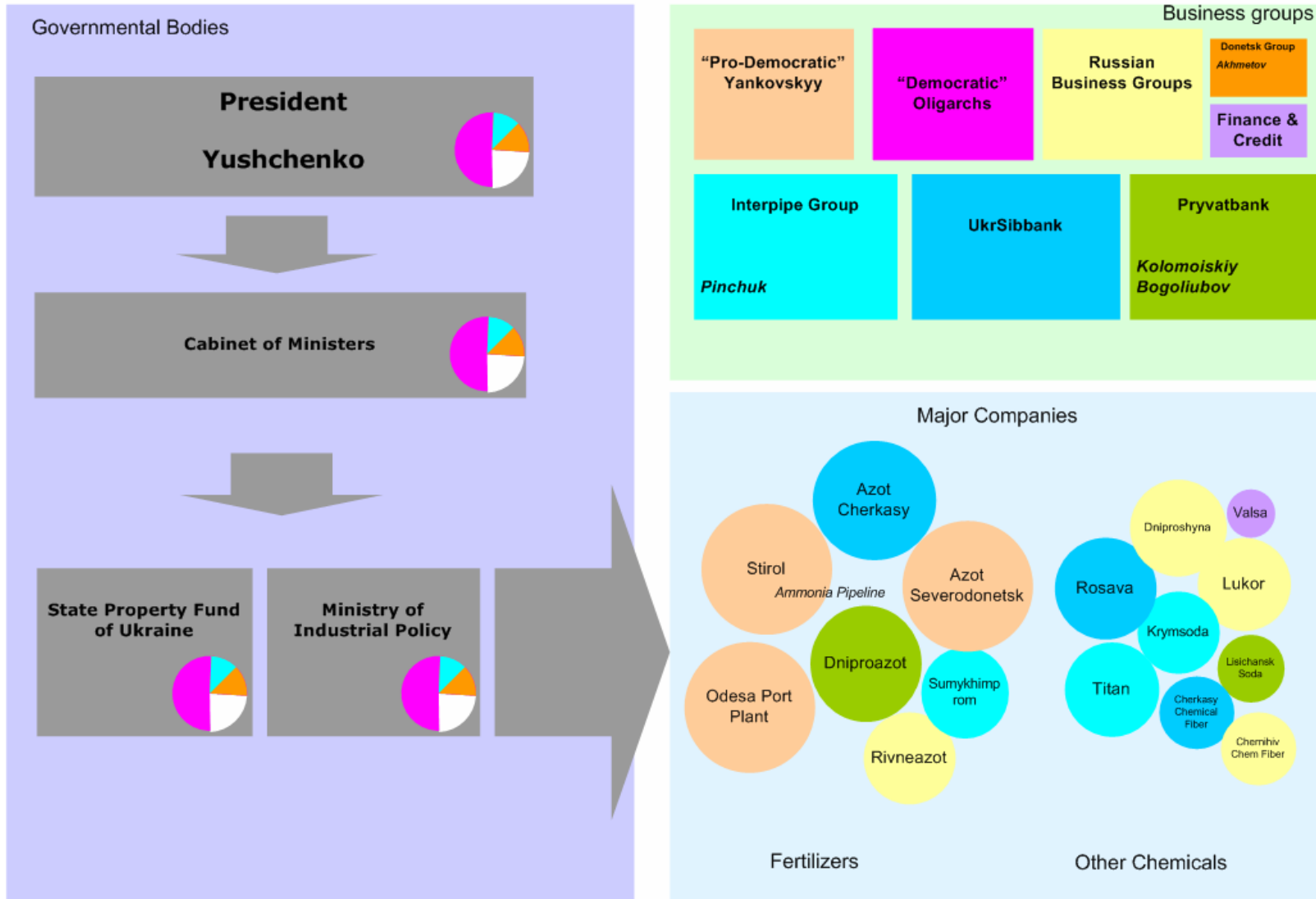
Below are some explanations to the charts that follow:



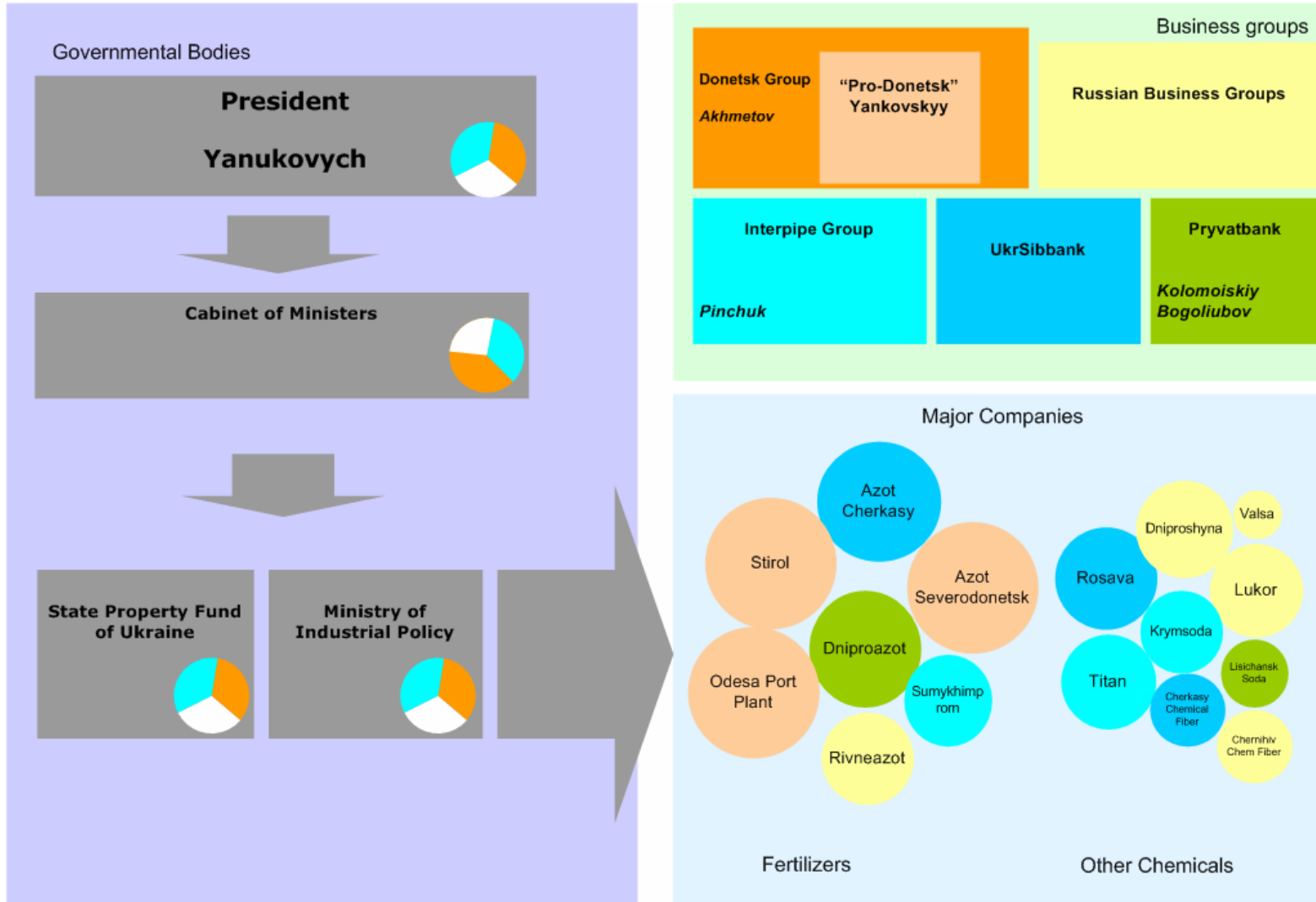
Chemicals. Current



Chemicals. Yushchenko wins



Chemicals. Yanukovich wins



Chemicals. Election Implications

Nitrogen fertilizer exporters are currently the dominant companies in the chemicals sector. Stinol (STIR) is a Company Number One. There is no predominant power group and Akhmetov does not rule. In either case, Stinol may acquire Odessa and Severodonetsk and thus enjoy their strong synergies (e.g. control over a key ammonia pipeline). Yushchenko will allow more transparency and foreigner access during privatization

Yanukovich

Yankovskyy/Stinol falls under the Donetsk Group (powerful)

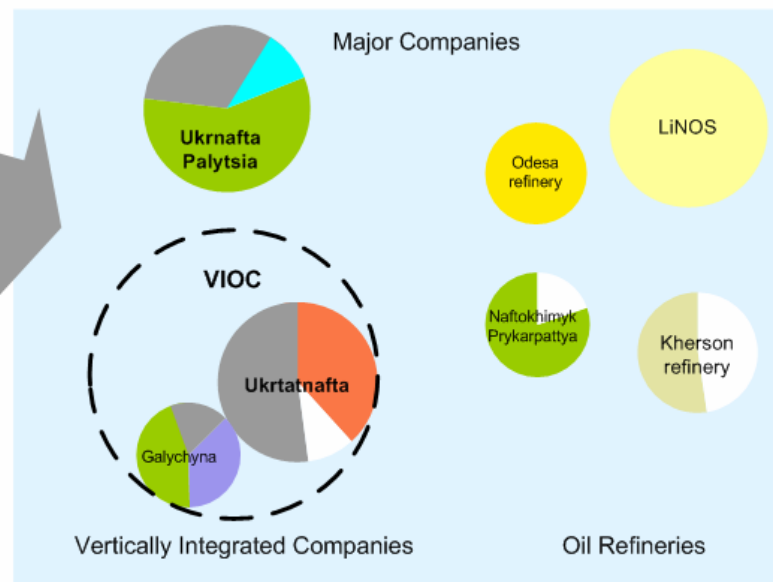
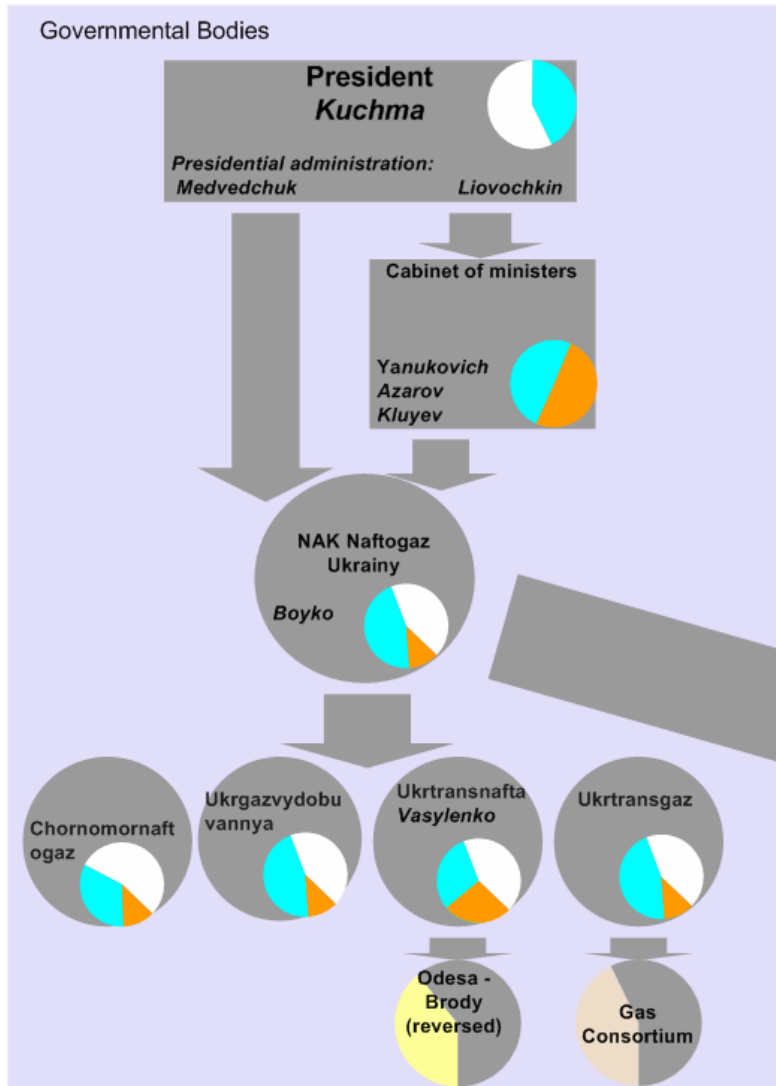
- Stinol enjoys better key shareholder's control, government-backed financing, lower feedstock costs, state procurement orders. The risks under Yanukovich are less transparency and worse corporate governance for minority shareholders

Yushchenko

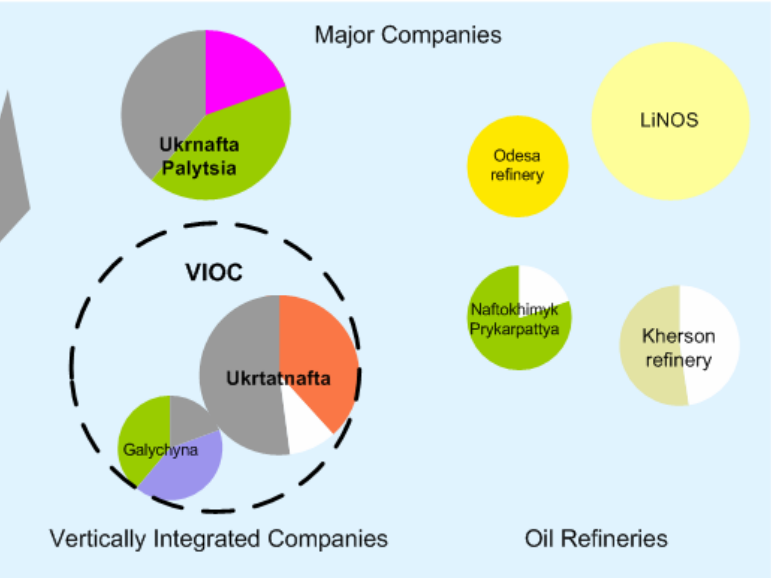
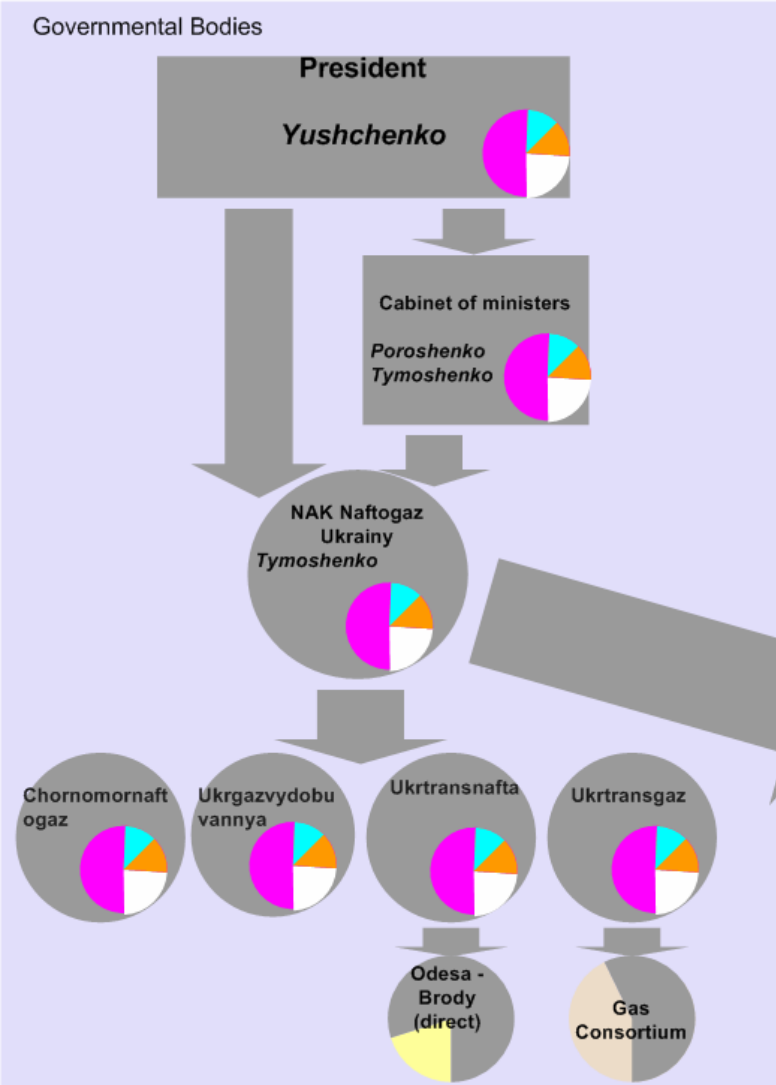
Yankovskyy becomes ally of the "Democratic Oligarchs" and Western partners

- Stinol enjoys better management, more transparency, better corporate governance, expands international market segments

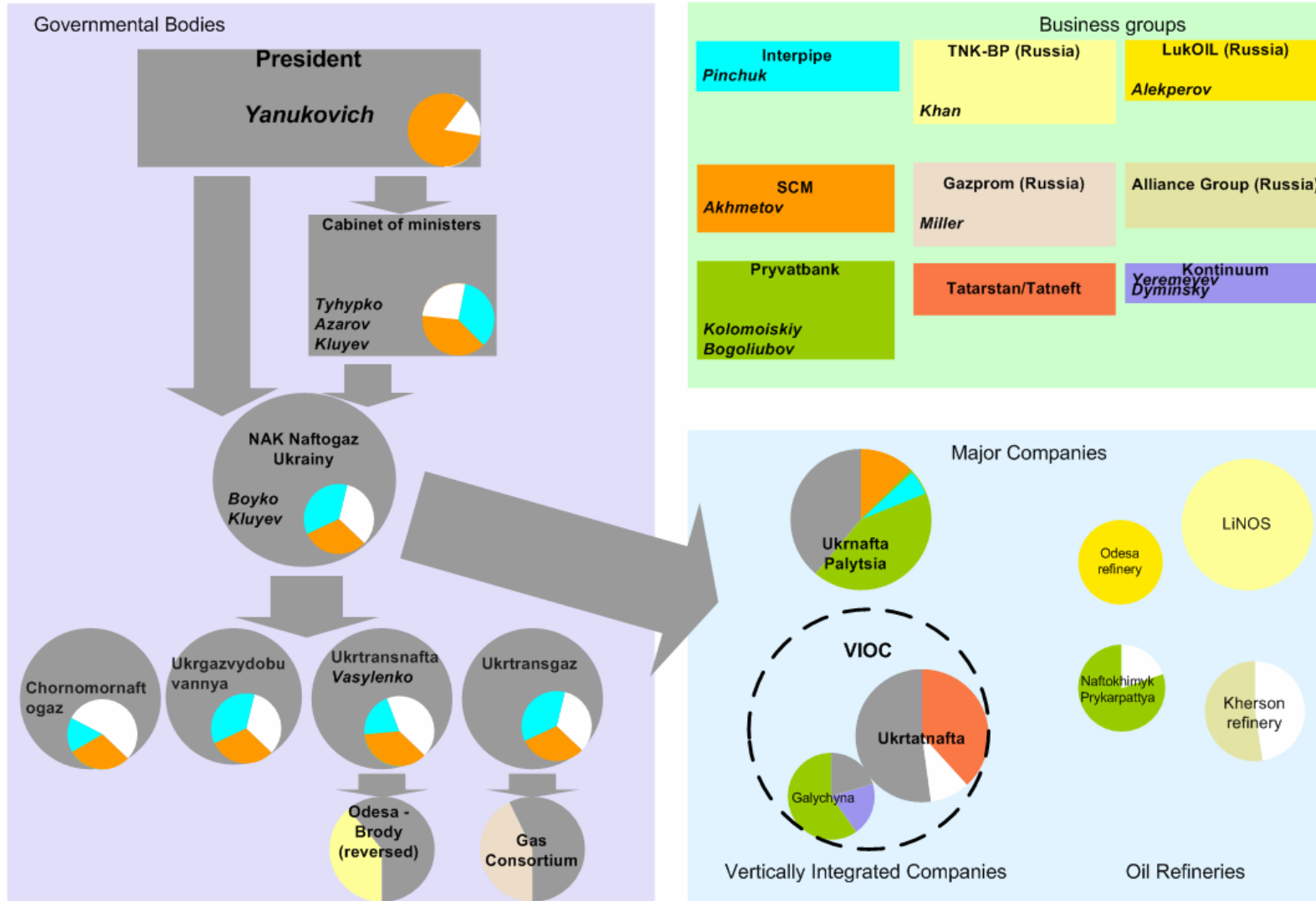
Oil & Gas. Current



Oil & Gas. Yushchenko wins



Oil & Gas. Yanukovich wins



Oil & Gas: Election Implications

Regardless of who will become President, Naftogaz is likely to strengthen its position both as a regulatory body and as a national vertically integrated oil & gas company

Yanukovich

SCM is likely to get some access to UNAF, both through Naftogaz and oil traders

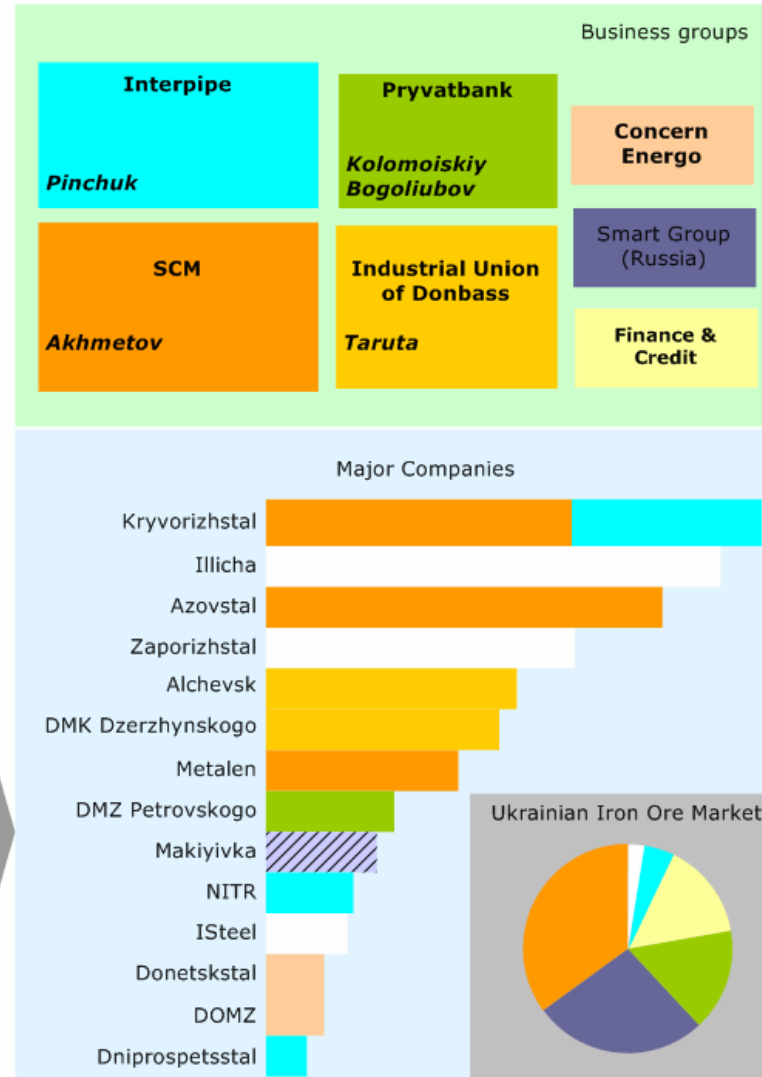
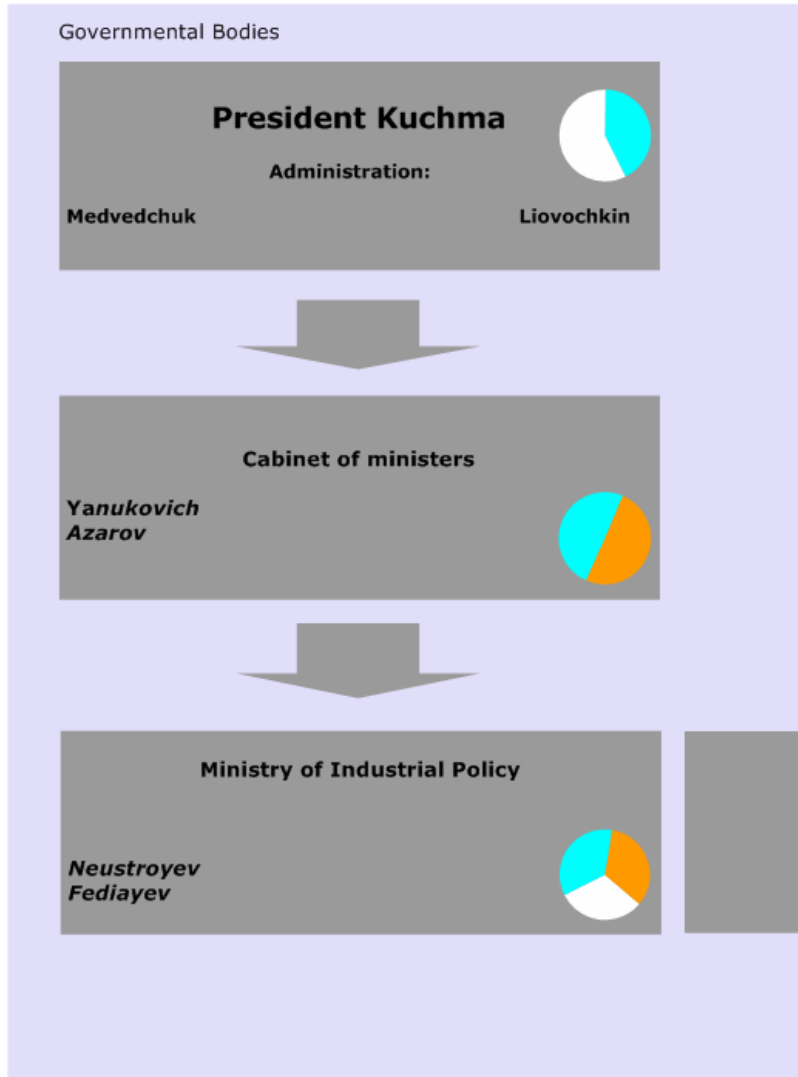
- In the short run, Pryvat's management will run UNAF
- In the medium to long term, SCM is likely to participate in UNAF's privatization
- Pryvat is likely to oust Kontinuum from the Halychyna refinery
- Transfer pricing in the industry will flourish
- Overall transparency will be impaired

Yushchenko

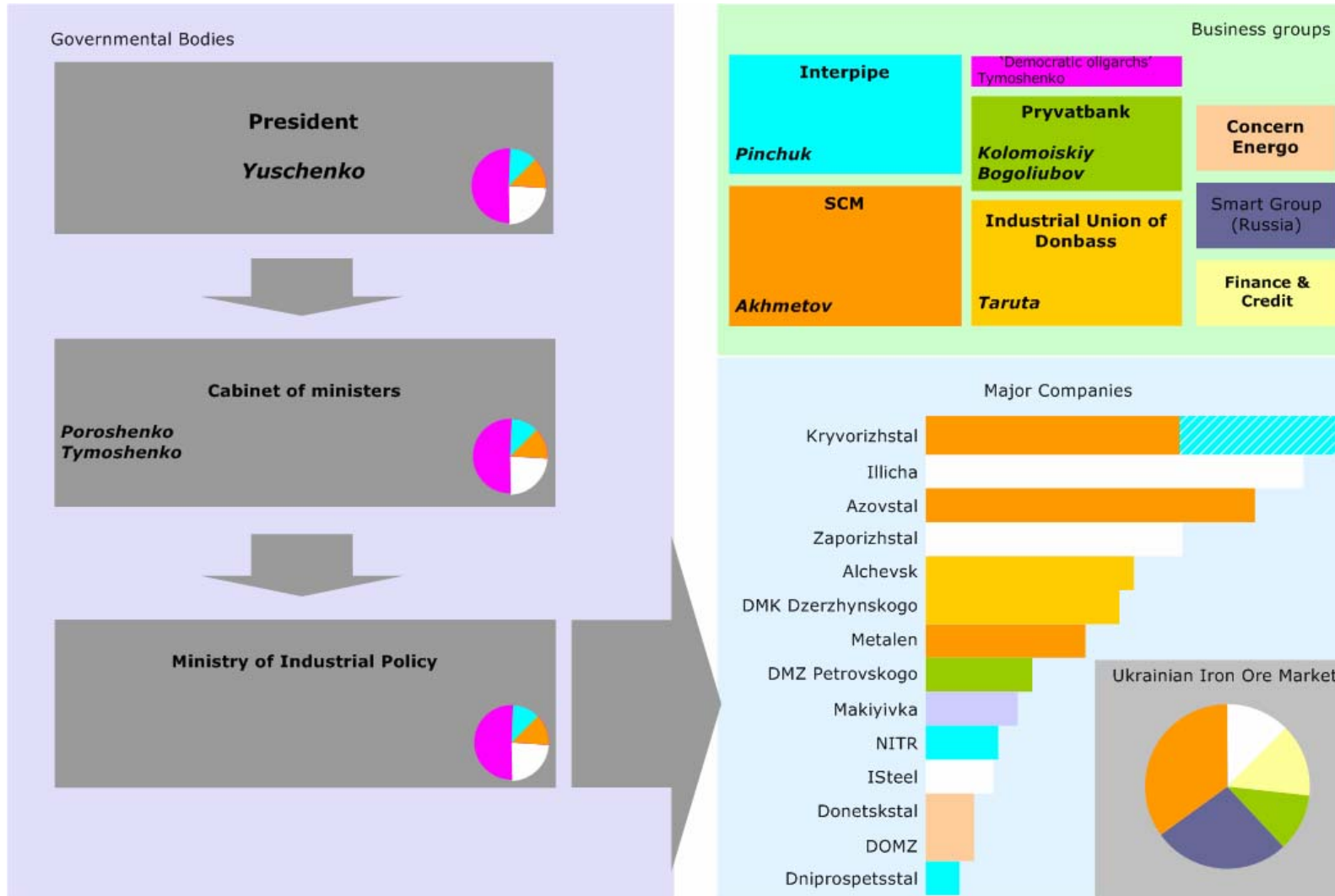
Pro-Yushchenko tycoons put their fingers into Naftogaz and influence UNAF

- The industry becomes more government-regulated
- More transparency in the oil, and especially gas, sectors
- Ukrnafta's corporate governance practices improve
- Odessa – Brody likely to be re-directed from Odessa to Brody benefiting Ukraine over Russia

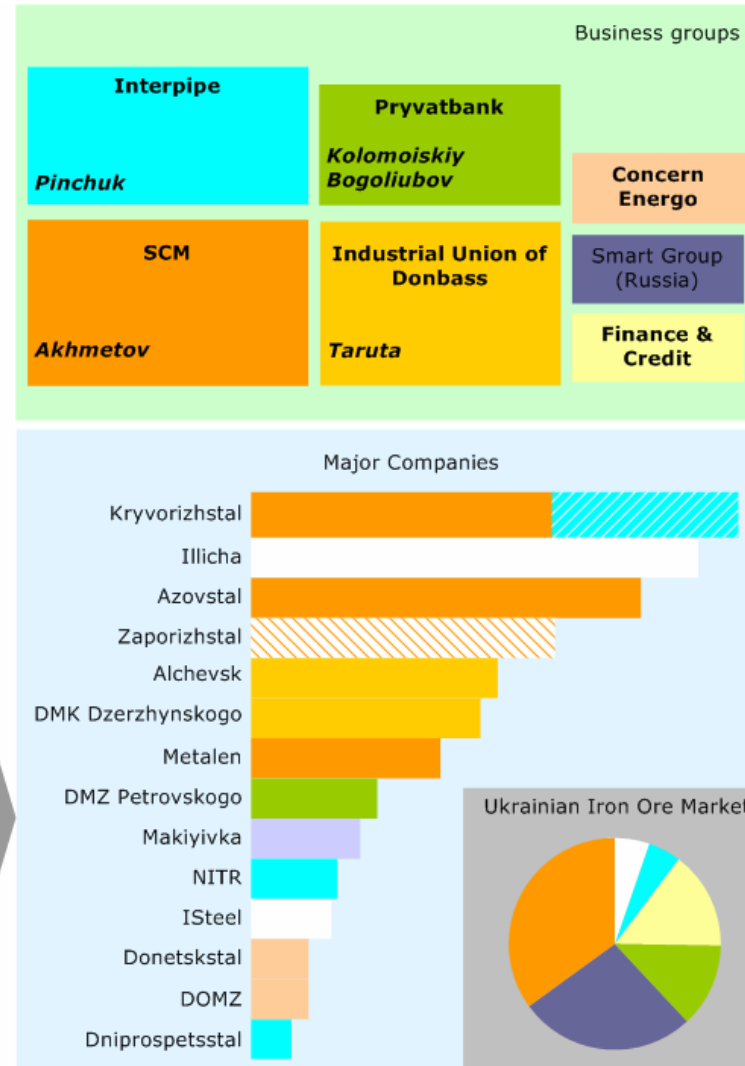
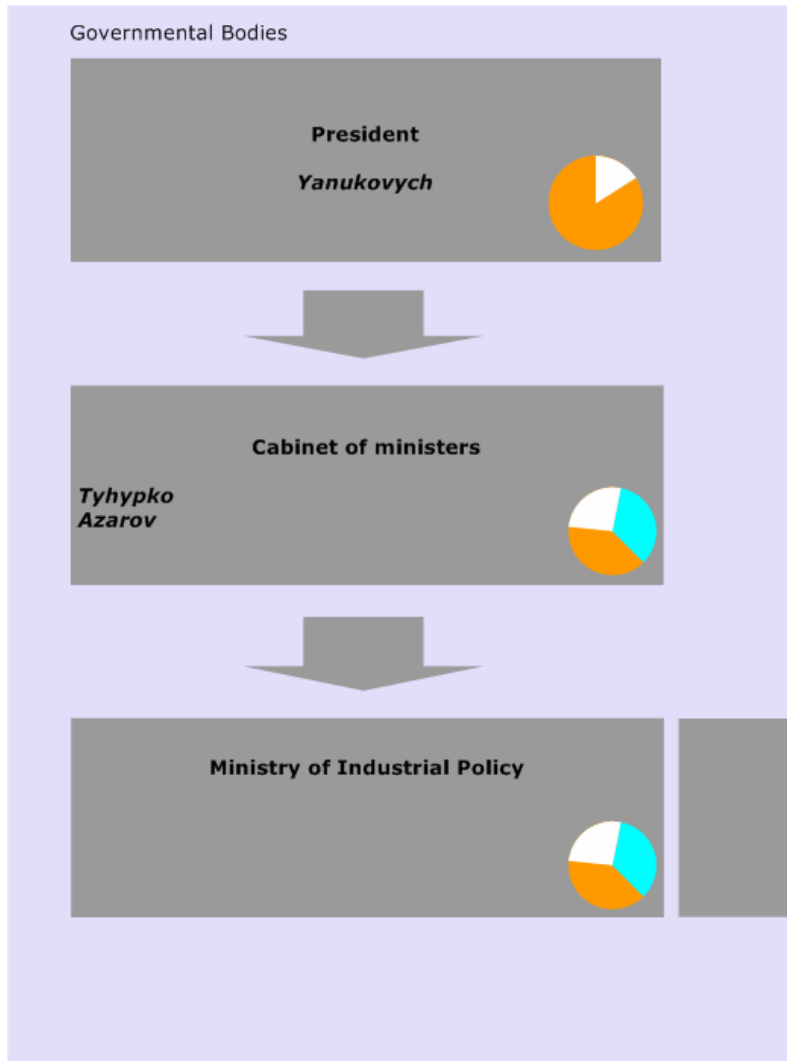
Steel. Current



Steel. Yushchenko wins



Steel. Yanukovich wins



Steel. Election implications

Regardless of the winning candidate, the current balance of power will be preserved in the metallurgy sector. **SCM** will retain their dominance. Pryvatbank will not improve their position. Interpipe likely to sell its 44% stake in Kryvorizhstal to another investor

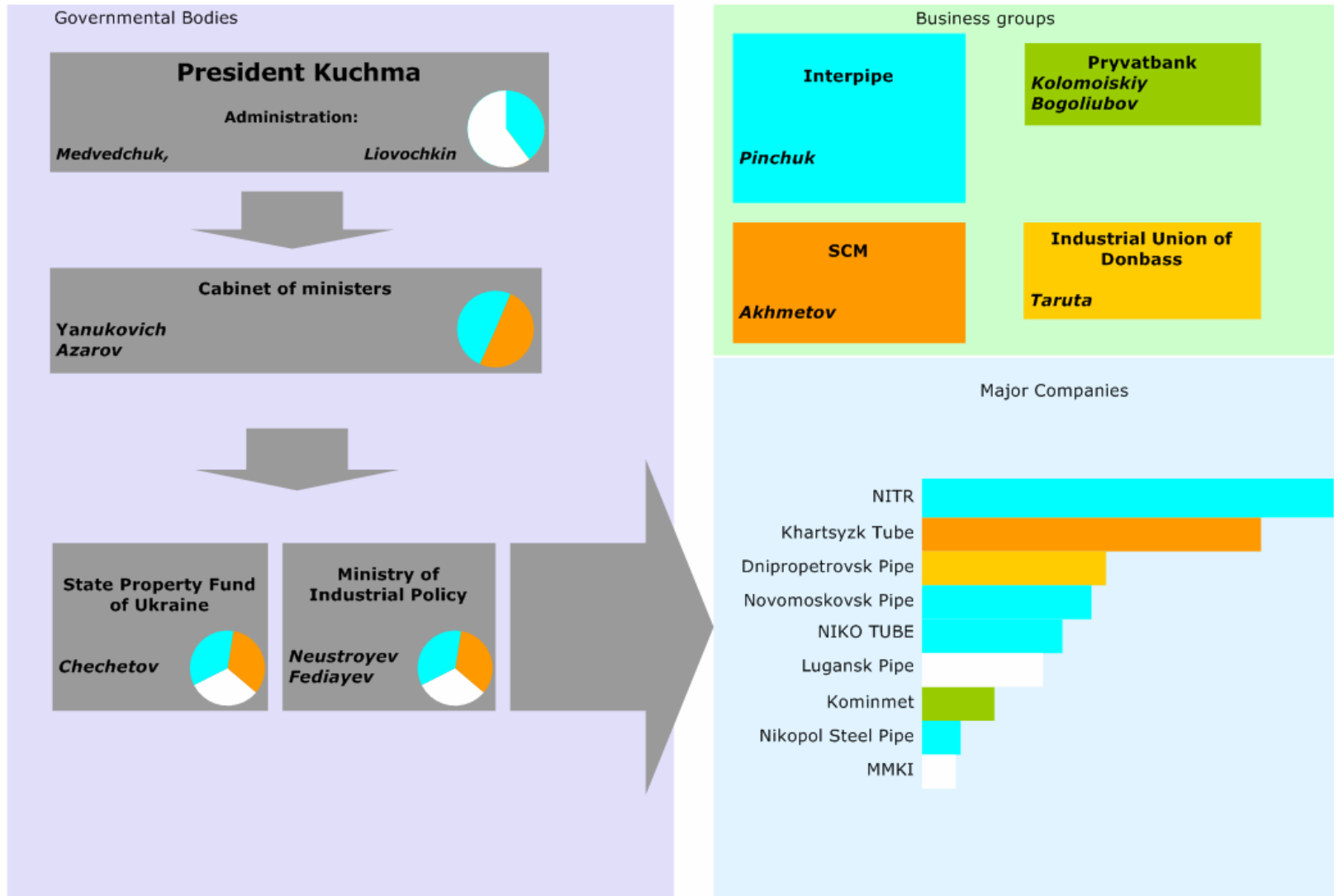
Yanukovich

- SCM's acquisition of Zaporizhstal possible
- IUD will increase in influence

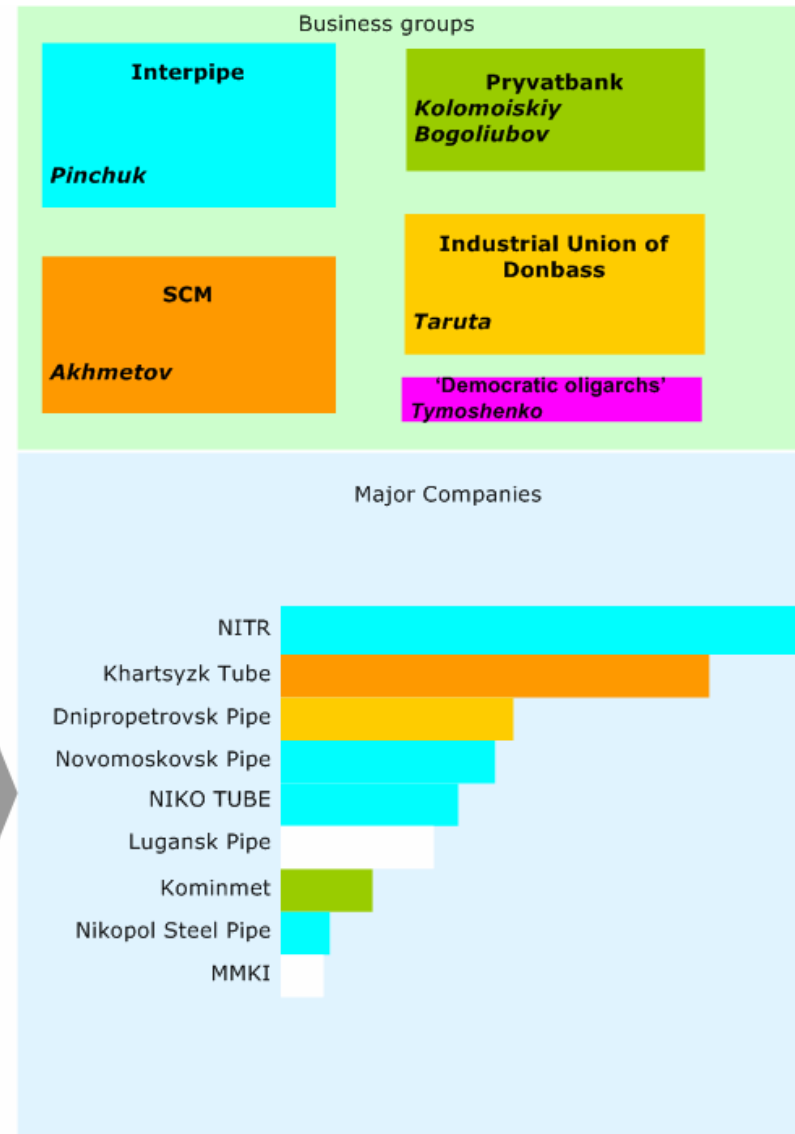
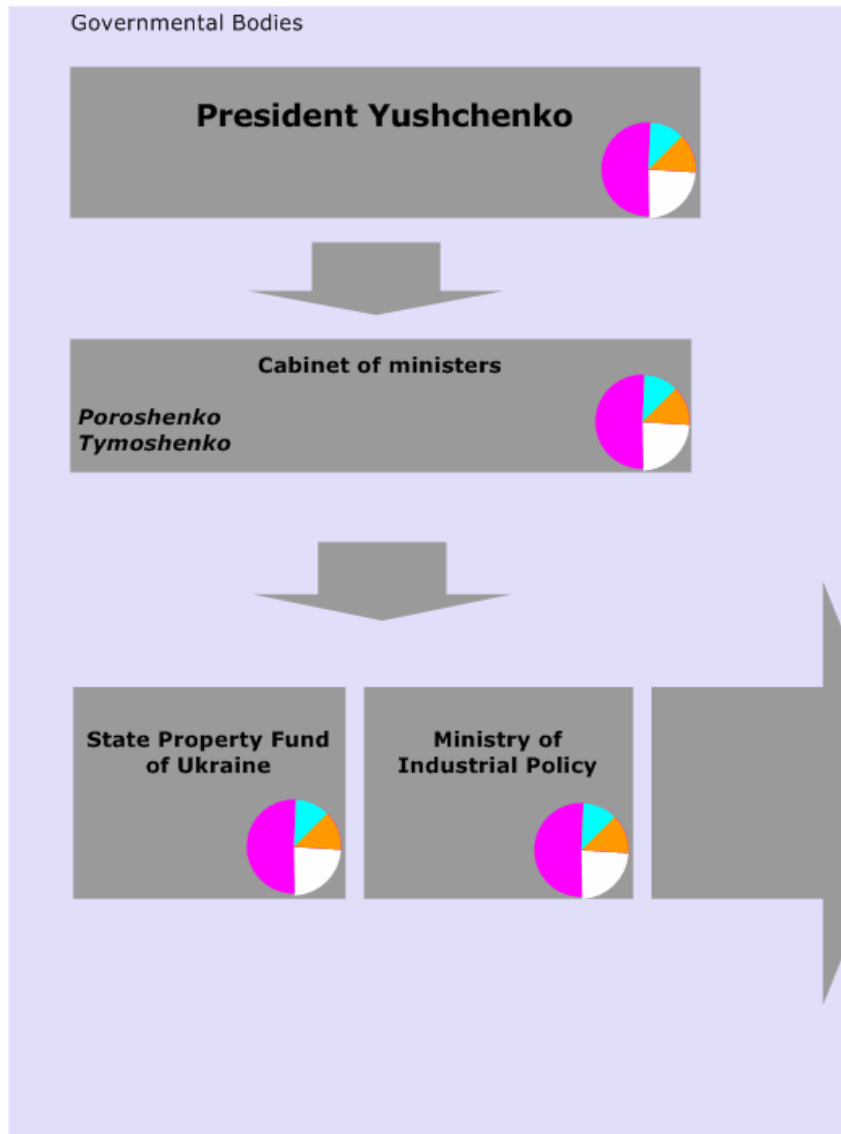
Yushchenko

- SCM/Interpipe may be forced to make an additional payment for Kryvorizhstal
- Minor redistribution of ownership in iron ore industry
- MMKI will enjoy Yushchenko's favor due to its independence

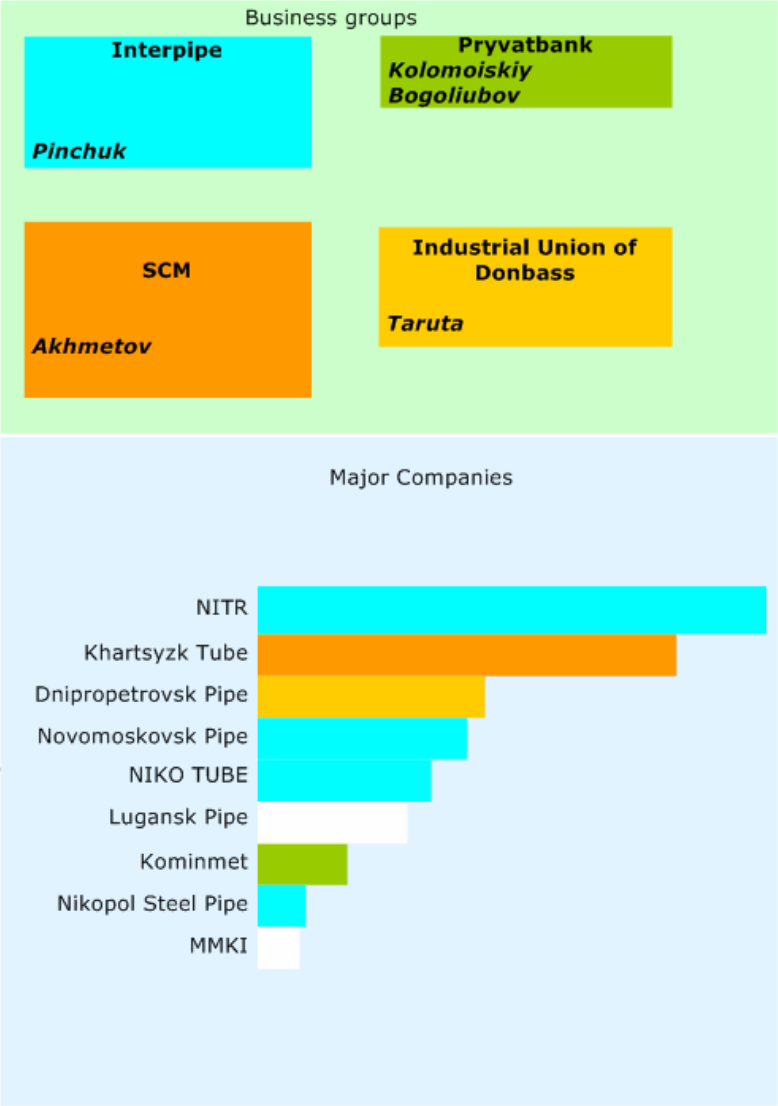
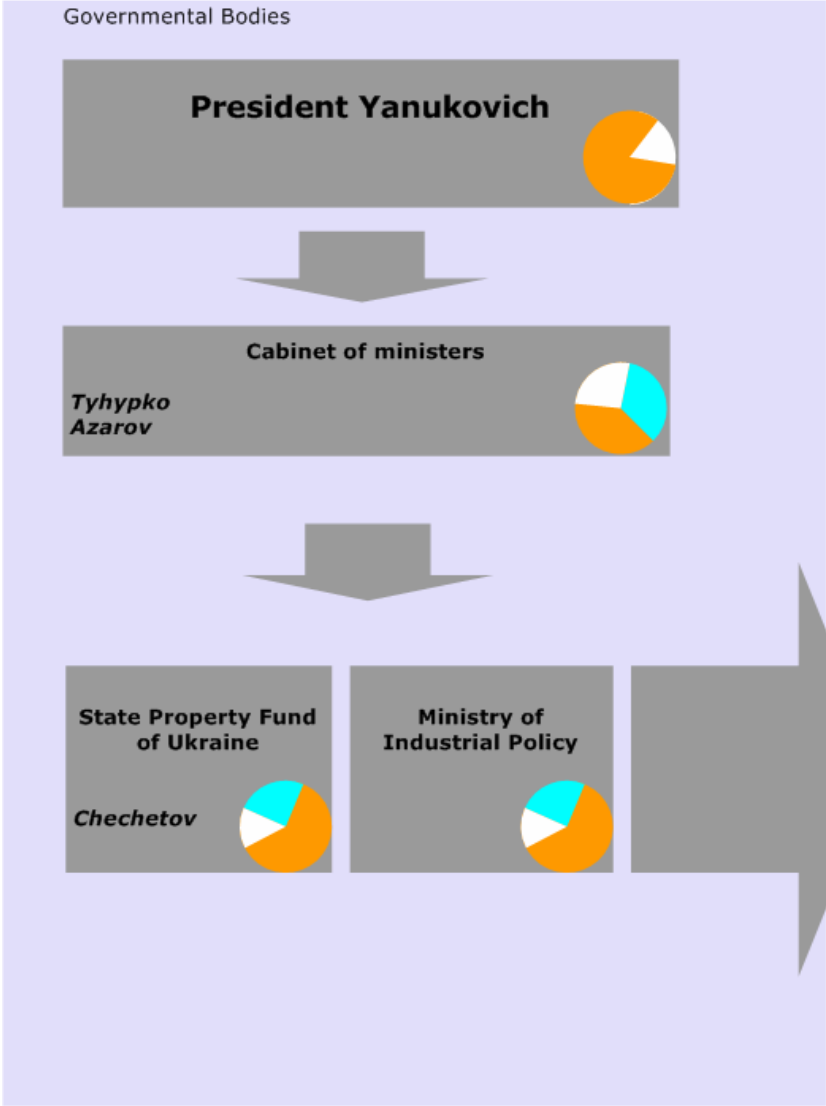
Pipe Rolling. Current



Pipe Rolling. Yushchenko wins



Pipe Rolling. Yanukovich wins



Pipe Rolling. Election implications

As privatization in the pipe industry has been completed and foreign exports are the driver, domestic regulation will not have meaningful impact on pipe manufacturers in either case. Pipe exports to Russia will not significantly change

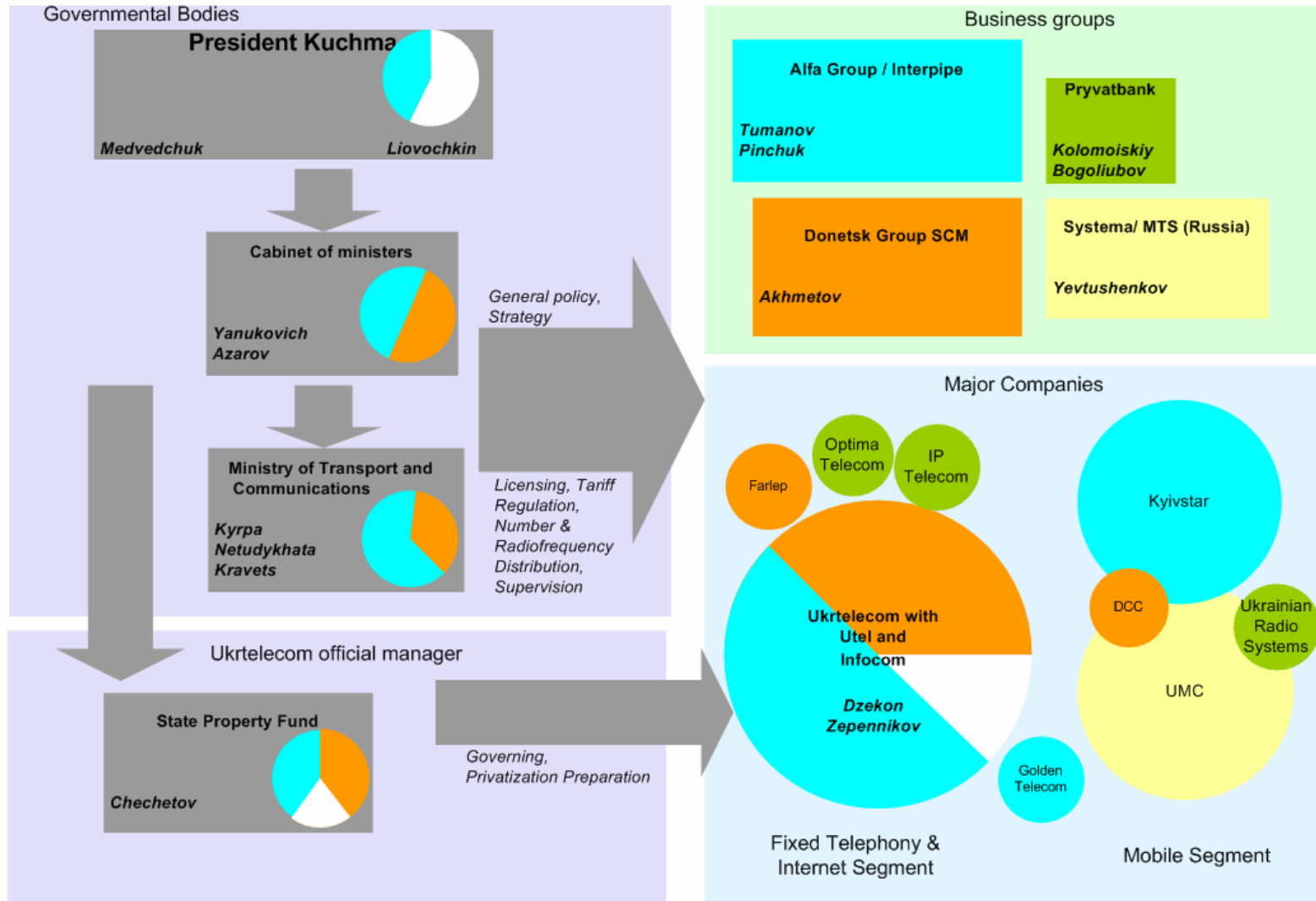
Yanukovich

- SCM will obtain more lobbying power in government
- Khartsisk Tube will get more orders for domestic pipeline construction than Novomoskovsk Pipe
- Pryvat may have to sell Kominmet to SCM

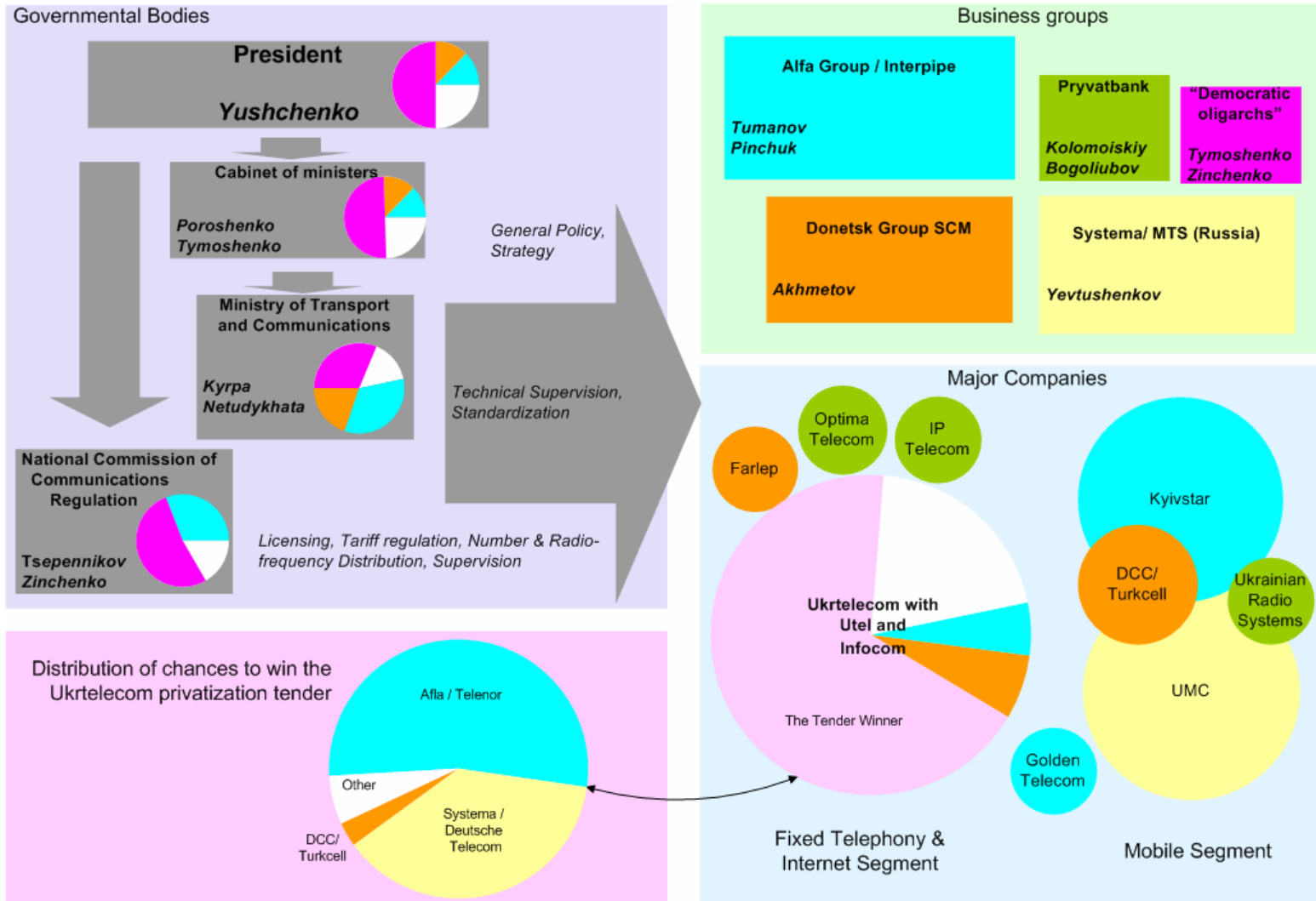
Yushchenko

- Pipe-makers not associated with Interpipe and SCM (MMKI, Lugansk Pipe, Kominmet) will get their share of quota for exports to Russia
- Interpipe and SCM may lose some Pipe industry lobbying power

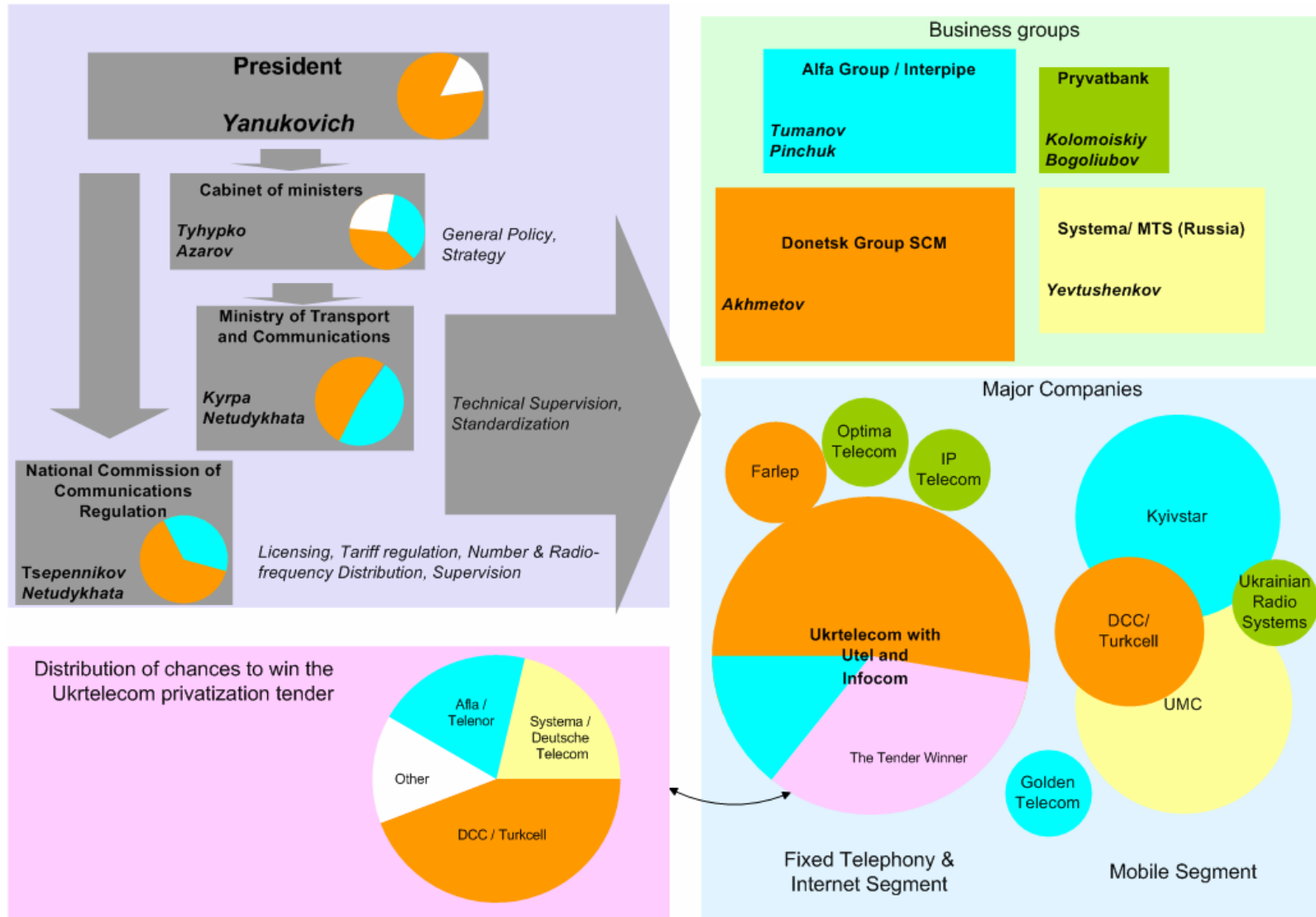
Telecommunications. Current



Telecommunications. Yushchenko wins



Telecommunications. Yanukovich wins



Telecommunications. Election implications

Ukrtelecom will be privatized soon after the elections – and the company will have more cost efficient policies. The Investor will be one of the current players in the Ukrainian mobile market, therefore, privatization will lead to synergies. No new entrant is expected.

Yanukovich

- Low liberalization, high state interference. The Ukrtelecom Investor will not be independent in their tariff policy, local telephony tariffs will remain low
- Donetsk-based business groups will gain more lobbying power. DCC/Turkcell will have preferential conditions and will increase its market share, becoming a real third mobile operator. DCC will have a greater chance to successfully compete for Ukrtelecom
- Tough competition in the mobile segment will cause mobile tariff decreases, which may threaten fixed telephony growth rates

Yushchenko

- Liberalization will lead to the distribution of lobbying power proportional to market share
- DCC/Turkcell will be the third largest mobile operator
- Ukrtelecom may be privatized to an large western telecom. The winner will exercise high lobbying power in the industry
- Fixed telephony tariffs will converge to those in the EU - Ukrtelecom will benefit

Company Barometer

	Yushchenko	Yanukovich
Ukrnafta		
Ukrtelecom		
Nyzhnodniprovsky Piperolling		
Stirol		
Zakhidenergo		
Kryvorizhstal		
Illicha Steel		
Azovstal		
Zaporizhstal		
Dniproazot		

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