

“From now on, the government will serve the people, not people working in the interest of the powers that be.” (Timoshenko Government Program, February 2005)



New Government – New Ukraine Executive Summary

- ✓ **The team that never worked together?** The new Ukrainian government appointed by President Yushchenko was selected from supporters of the Orange Revolution coalition that do not constitute a unified team. The new government includes Ukraine's top reformers and has the potential to change the country from one ruled by corrupt oligarchs to a modern Central European democracy with a growing economy.
- ✓ **Plenty of priorities.** While the most important objective is to fight corruption and promote business transparency, maintaining the current budget stability, curbing inflation and maintaining social order will be top priorities in the short term. Structural and sector reforms are important, as well as relations with Russia, the EU, US and the developing economies of India and China.
- ✓ **Yushchenko's allies lead new government bodies.** The new government introduced the department of Presidential Secretariat (headed by Oleksandr Zinchenko) to replace Kuchma's Presidential Administration. The government also increased the powers exercise by the National Security and Defense Council. The power structure of existing ministries is also being altered by the new government.
- ✓ **Significant risks factors.** These risks include a lack of resources, the opposition of powerful business groups and a little time before the 2006 Parliamentary campaigns begin. While the new team has the potential to implement the reform tasks and enjoys Western support, especially from the US, the government needs to professionally manage its energy, time and resources to achieve the expected positive results.

Yushchenko's Coalition at The Helm

The new Ukrainian government was selected by President Yushchenko on a coalition basis. According to the agreement within the People's Power Coalition, a quarter of parliamentary seats were given to the Timoshenko bloc, while one sixth were granted to Socialist Party.

While the initial "revolutionary" coalition included only Yushchenko's Our Ukraine bloc, the Yulia Timoshenko's Bloc (BYut) and Socialists, several posts were also given to political groups that did not directly support Yushchenko. These other groups played important roles at a later point during the Orange Revolution. The supporters included Parliament Speaker **Volodymyr Lytvyn** is believed to have nominated governors for the Khmelnytskii and Dnipropetrovsk Regions. His brother will most likely maintain his position as Head of Ukraine's Border Service. Meanwhile, Kyiv Mayor **Oleksandr Omelchenko** nominated his protégé and former CEO of Kieveneergo, Ivan Plachkov, as Fuel and Energy Minister.

Although Yushchenko promised transparency and openness during the process of nominating new government ministers, **the selection process itself was secretive** and, as some observers noted, several candidates were not aware of their future jobs until the very last moment before the parliamentary session. Conflicts arose and the vote was postponed twice. Eventually, the Socialists applied additional pressure on Yushchenko and received important seats in the Interior Ministry and State Property Fund (pending approval by the Parliament).

Yulia Timoshenko received overwhelming support from parliamentary deputies, winning 373 votes of the 407 members in attendance to become Prime Minister. Only the Communist faction of the Parliament said they would not vote for Timoshenko. Regardless, three Communists voted in her favor, only to be sacked from the faction. The Parliament also approved (by 357 votes) a Government Program allowing Timoshenko's Cabinet Ministers a one-year "safe" period in office.

Management Profiles



Prime Minister Yulia Timoshenko

An experienced crisis manager, Timoshenko was instrumental in implementing energy sector reform as Deputy Prime Minister in the 1999-2000 Yushchenko government. From 1996 to 1997 she was the owner of Unified Energy Systems, a powerful business group. She also spent 40 days in remand prison under the Kuchma regime, accused of high-level bribery, but was later acquitted and triumphantly elected to Parliament. A criminal case is still open in Russia, supposedly at Kuchma's request, according to some analysts. However, Russian authorities recently said she would be allowed to travel there.

There was some speculation before her nomination for Prime Minister that she would irritate Russian authorities, but there is little ground for this concern as she was successful in her business with Gazprom. As she is not popular in the Russian-speaking Donetsk region, she engaged in a successful goodwill mission to the region and held negotiations with SCM tycoon Rinat Akhmetov. She also successfully challenged hostile and even rude questions during her live appearance at a pro-Yanukovich Donetsk TV station.

Timoshenko's personal qualities as a workaholic and quick thinker add to her charisma. She may be devoted to President Yushchenko, but she will definitely aspire to establish a dominant position over his other allies, Poroshenko and Zinchenko.



NSDCU Secretary Petro Poroshenko

A successful businessman and owner of the Roshen confectionery factory with operations in Ukraine, Russia and exports to Europe and the US. He is also a stakeholder of the LUAZ and Bogdan automotive plants, Leninska Kuznia shipyard and Mriya bank. Poroshenko has been an MP since 1998 and headed the centrist Solidarity faction. He joined Yushchenko's opposition in 2002.

An international economist by education, Poroshenko quickly became an influential figure in Yushchenko's Our Ukraine bloc. He is believed to have contributed significantly to financing the campaign.

Poroshenko was Timoshenko's rival candidate for PM. As a compromise, President Yushchenko nominated him as Secretary of the National Security and Defense Council (NSDCU). Formerly a mere advisory body, the NSDCU will be given greater power in the government, including authority over economic issues. It was not until the agreement was made that he consented to serve as the new secretary on 21 February.



Secretary of State, Oleksandr Zinchenko

After working briefly as a physics researcher, Oleksandr Zinchenko held several posts in the Komsomol (Young Communists League) in Ukraine and Moscow from 1985 to 1992. Zinchenko strongly opposed the Moscow 1991 coup attempt. He used the relationships he established as a high-ranking member of the Komsomol Central Committee of the Former USSR to enter business and establish the Inter TV Company in 1995.

From 1996 until 2003, Zinchenko was a leader of the SDPU (U) political party, whose founders Viktor Medvedchuk and Grigoriy Surkis, were believed to be influential political and business tycoons and power brokers. After a strong disagreement with Medvedchuk, Zinchenko was invited to manage Viktor Yushchenko's Presidential campaign in 2003. As Secretary of State, Zinchenko will be involved in all important political actions by the new government.

Deputy Prime Ministers



DPM for European Accession, Oleh Rybachuk

Chief of Staff in Yushchenko's 2004 Election Campaign, Rybachuk is believed to be among the new President's closest allies. Mr. Rybachuk has degrees in Foreign Languages and in International Economics. One of his first jobs was helping to start a private bank in 1992.

Rybachuk's working relationship with Yushchenko began in 1992 when Rybachuk headed the National Bank of Ukraine's International Department. It was Rybachuk who introduced Yushchenko to the IMF officials working on reform issues with the NBU. He also has other valuable international contacts gained through his studies in Britain and the US, and from his days as VP of the Black Sea Trade and Development Bank.

During the Orange Revolution, Rybachuk performed many critical and dangerous tasks. He was a liaison with officials at the Ukrainian Security Service (SBU) who revealed government plans to use force against the protesters. He also has a reputation for being able to openly argue with President Yushchenko.

Oleh Rybachuk's personal goal is for Ukraine to join the EU and he has been working on an integration strategy for two years as the founder of the think-tank, Center of Europe. In addition to EU accession issues, he will probably be involved in Ukraine-Russia and US-Ukraine relations.



DPM, Administrative Reform, Roman Bezsmertniy

A historian by education, Mr. Bezsmertniy is a master power broker and believed to know all the ins-and-outs of Ukrainian politics. He served as a Representative of President Kuchma before Parliament, where he was very articulate in defending the president, who was suspected of being involved in the murder of journalist Georgy Gongadze in 2001. He joined opposition in spite of this.

Bezsmertniy is unfriendly to PM Timoshenko. Bad relations between the two influenced his resignation as the head of the Yushchenko campaign. Instead, Oleksandr Zinchenko took the position in 2003. Bezsmertniy publicly criticized Timoshenko's PM nomination and agreed to work in her government only after receiving personal requests from Yushchenko and Poroshenko. Political analysts believe he may support Poroshenko against Timoshenko in the future.

Although Bezsmertniy will likely work in his own favor behind the scenes, he proved himself to be a good administrator as Commandant of the Maidan Protest Camp during the Orange Revolution. Overall, his influence in the Yushchenko team is rather moderate.



First Deputy PM, Anatoliy Kinakh

Political scientists make jokes that Mr. Kinakh is "always second" in all government contests and ambition is probably not his greatest virtue. Kinakh had numerous "interim" government posts, including PM and Deputy PM, under former President Kuchma.

Nonetheless, Kinakh proved he was a man of character when he joined the opposition in 2004. While acting as the Head of the Ukrainian Industrialists and Entrepreneurs Party, Kinakh gained a reputation as a lobbyist for business interests, and not only for big companies. It was largely due to his reputation that many representatives of SMEs voted for Yushchenko.

Overall, Anatoliy Kinakh will be instrumental in the execution of the government's program and a bridge to businesses. However, he may continue to be a corporate lobbyist.



Humanitarian & Social Issues DPM, Mykola Tomenko

Mykola Tomenko is a combination of political scientist and political player. He was always consistent in his views as a non-supporter of the Kuchma regime. Tomenko was appointed DPM for his role in the strategy and management of Yushchenko's team. He is a good public speaker and spent the most time among the Maidan protesters.

Mr. Tomenko's main area of concern will be press freedom. He will be instrumental in assuring that the media is independent from large political and business groups and conforms to internationally accepted journalism standards. However, Tomenko may have difficulties mastering the issues of science and technological development, according to some Ukrainian academic officials. He also has little experience with social policy issues.

Key Issues on The Agenda

The government will address the following political and economic reform issues:

Domestic Issues:

- Fighting corruption, encouraging and enforcing business transparency and developing the rule of law are, we believe, the most important tasks for the new government, and probably the most difficult. Resolving these issues will trigger the improvement of corporate governance practices at Ukrainian companies and promote SME development.
- Maintaining the current budget stability and curbing inflation is the most urgent task, given the excessive social expenses made by Yanukovich's government before the 2004 Presidential Elections. Resolving the overly tight controls on the UAH exchange rate will be related to this task.
- An important challenge will be to gain the respect of pro-Russian voters that supported Yanukovich. Ukraine was on the verge of splitting during the tensest moments of the Presidential election crisis. Although Yushchenko was the clear winner, he lacked the support of some 44% of Ukrainians, the majority being Russian speakers residing in Eastern Ukraine and the Crimea.
- The new government will have to resolve the problem of its relationship with powerful Ukrainian business groups. Ukraine was to a large extent ruled by its four largest business and political groups under the Kuchma regime. Yushchenko lacks the support of the two most powerful ones, Donetsk SCM, led by Rinat Akhmetov, and Dnipropetrovsk Interpipe, led by Kuchma's son-in-law Viktor Pinchuk.
- Political Reform is a challenge facing the new government and will impose a tough time limit on its work. The reforms, set to take effect in September 2005, will turn Ukraine from a presidential to parliamentary political system. Therefore, both President Yushchenko and his new government will have to undertake measures to retain power and the support of a parliamentary majority. However, political parties will be preparing to run for the 2006 parliamentary elections and the parliament may not have the momentum to adopt necessary reform laws, as deputies will be too busy campaigning.
- Structural and sector reforms will mean completing privatizations, which will include Ukrtelecom, the Odesa Port Plant and thermal power generators. They will also need to address the issue of inter-enterprise indebtedness in the energy sector, fair pricing in the coal industry and the downsizing of loss-making mines. Reforms will need to set the groundwork for long-term structural reforms in the steel, machine building and agricultural industries, which require substantial capital investment in equipment and technology modernization.
- Social sector reforms will require the shrinking of untargeted subsidy programs and the reduction of poverty levels. In addition, pension reform needs to be implemented urgently.

International Issues:

- The new government has to fight for the integration of Ukraine into the West. This will not be easy as the European Union remains cold toward Ukrainian membership. The EU fears it will be unable to cope with further enlargement and that Ukraine will remain dependent on its big neighbor, Russia.
- Yushchenko's government has to re-establish friendly relations with the Russian authorities, yet not fall under their influence. This is especially important as Putin's regime openly supported Yanukovich in the Presidential elections. Some Ukrainian observers called Yanukovich "Putin's Project".

- Ukraine is currently enjoying support from the US, perhaps even more so than with Europe. However, Ukraine still plans to withdraw its peacekeepers from Iraq.
- Ukraine needs to integrate economically with major global players on favorable terms. It has yet to gain market economy status from either the EU or the US. It will also have to speed up its WTO integration process, while continuing to provide short-term government support to its key sectors
- Yushchenko's government should develop economic and political cooperation with China and India, as they are important future players in the world economy. The Chinese government was among those to officially recognize Yanukovich as Ukraine's President, so Yushchenko will have plenty of diplomatic work to do.

Administrative Reform: Changing Ukraine's Power Structure

In the most dramatic way since Ukraine's 1991 independence, Yushchenko's government has started to sweep away numerous bureaucratic structures. The most significant organizational changes include:

- **Abolishing The Presidential Administration.** This body of hatred and fear that gave orders to ministries, judges and even businesses no longer exists.
- **The introduction of new executive branch power centers.** The government will introduce the Presidential Secretariat, while the National Security and Defence Councils will be granted greater authority. President Yushchenko largely did this to equally employ his top aides, Timoshenko, Poroshenko, and Zinchenko. As it now stands, the Presidential Secretariat will oversee every other government body and report to the President and work as his "think tank." This was a step back for Yushchenko, who as a candidate said his administration would include only secretaries and technical aides. The NSDCU's key function will be control of the Security Ministries and possibly some economic ministries as well.
- **Power management streamlining** through the abolishment of government committees. Fourteen of the 42 State Committees will be either removed or integrated into other Ministries. Redundant structures, such as the State Committee on Religious Affairs will be removed.
- **Restructuring existing government ministries.** This includes the elimination of unnecessary departments – such as the Administrative Reform Division which existed in almost every Ministry – firing both corrupt and outmoded officials, and hiring new professionals. The latter task is especially difficult as public sector salaries are many times lower than in private business. Nonetheless, the revolutionary government wants to recruit young graduates with Western MBAs and plans to find ways to increase government salaries in the future. However, it is not clear where the government officials that will leave would be employed. Perhaps new government institutions will be established instead?
- **Attracting outside consultants.** Think tanks will help resolve some important government tasks. The President and ministers increasingly appoint independent individual advisors from analytical centers and the private sector.

Risk Discussion and Summary

The new government has begun by terminating everything corrupt and unlawful. Cleaning office has to be performed quickly, as the reform process is using resources.

One priority will be to overturn unlawful privatisations. The most notable case has been the investigation into the privatization of steel major Kryvorizhstal. President Yushchenko said the privatization of 30 enterprises would be reviewed, although Timoshenko proudly announced that the government would investigate 3 the privatizations. The government may be tempted to use this process to suppress its former political opponents and limit the resources of potential opponents to finance their 2006 parliamentary campaigns. According to Yushchenko's economic advisor Oleksandr Paskhaver, the mere announcement of large-scale re-privatizations would negatively impact the business of these companies.

Socialist Party Representatives are likely to oppose unpopular economic reforms. An agreement between Yushchenko and the socialists enabled the nomination of MP Valentyna Semeniuk as Head of the State Property Fund (SPF.) The SPF will also receive more authority to manage state-owned enterprises. It is most likely that Yushchenko will try to limit the socialists' aspirations, thereby inclining them to join left-wing opposition to the new government.

Similarly, land privatisation could be a source of conflict. While Timoshenko's government program envisages the development of a land market in Ukraine, Yushchenko previously promised the Socialist party he would suspend land privatizations until 2007.

Yushchenko's government plans to eliminate non-performing free economic zones that have often been used as a means for businesses to avoid taxes. These measures face opposition from the Donetsk elite, as the region is a free economic zone.

Yushchenko's election platform included significant social welfare plans, but making these promises a reality will be a difficult challenge. For example, Yushchenko promised to raise state maternity benefits from UAH 423 to UAH 8,460. However, the Parliament voted on February 7 to raise them to UAH 1,270. With the accumulation of cases like this, Yushchenko's government faces the risk of an unfavorable social reaction. Nevertheless, both the trust the new government has from the people and the likely possibility of financial support from the IFI (The WorldBank and IMF) will help to mitigate the burden of social spending and budget deficit risks.

Surprisingly, the only opposition to the new government is the Communist Party. Political analysts say this is due to the "virtual" nature of Ukrainian political parties. Most parties are lobbying groups for big business interests. These businesses are conservative and seek peaceful coexistence with the new government, and therefore do not support the opposition. Regardless, new government measures may irritate several influential Ukrainian business groups. Thus, tycoons like Viktor Pinchuk may become influential centers of power and even finance Yushchenko's future opposition.

Opposition centers may stem from the inner circle of the revolutionary coalition's members and supporters. They may include the Socialist Party and even some opponents within the Yushchenko/Timoshenko bloc. The influence of Yulia Timoshenko, Oleksandr Zinchenko and Petro Poroshenko may become sources of tension for President Yushchenko. Several opposition groups may also be formed on the basis of those who supported Viktor Yanukovich in the Presidential elections.

While the new government needs to rely on the support of law enforcement ministries to fight corruption, the security forces may still abuse their power. However, the democratic foundations that began taking shape during the Orange Revolution are a sign that greater public control is being established over the security ministries.

Overall, the new government's intent to establish a "fair play" system for business, the state, and the public, gives us odds that its policies will succeed. The government needs to professionally manage its energy, time, and resources to achieve the expected positive results.

Table I. Ukrainian Cabinet of Ministers

Ministry	Name	Party	Background	Influence
PM	Yulia Tymoshenko	BYuT	CEO of Unified Energy Systems (1996-97) MP (1996-99) Deputy PM, Energy (1999-2000) Opposition bloc leader (2002-05)	High
Deputy PM	Anatoliy Kinakh	Party of Industrialists & Entrepreneurs	MP (1990-92; 1998-01) Mykolaiv Governor (1992-94) Deputy PM Ind. Policy (1995) President of Ukrainian Union of Industrialists (1996) Prime Minister (2001-2002)	Moderate
Deputy PM	Oleh Rybachuk	Our Ukraine	Head of NBU Int'l Dept (1992-99) PM Chief of Staff (99-01) VP Black Sea Trade & Dev't Bank (01-02) MP (2002-05), EU Integr.	High
Deputy PM	Roman Bezsmertniy	Our Ukraine	MP (1994-97; 2002-04) President Kuchma's Rep in Rada (97-02) Joins pro-Yushchenko Reforms & Order Party (2002) Head of Yushchenko Presidential Election Campaign (2002-04) Coordinator of Maidan protests (Nov.04-Jan.05)	Moderate
Deputy PM	Mykola Tomenko	Our Ukraine	Chair of Political Science, Public Adm. Academy (1992-04) Official of Ministry of Nationalities & Migration (1992-04) Political scholar & campaign manager (1994-08) Head of Media Dept., Kyiv Mayor Office (2000-01) MP (2002-05), Media Committee	High
Foreign Affairs	Borys Tarasiuk	Our Ukraine	Career diplomat from 1975 Minister of FA (1998-00) MP (2002-04), EU Integr. Head of Rukh Party (2003-)	Moderate
Economy	Serhiy Teriokhin	Our Ukraine	Various gov't posts in finance & economics MP (1994-2005) – Fin. & Bank	Moderate
Finance	Viktor Pynzennyk	Our Ukraine	Economist (1975-92) Min.Econ; DPM (1992-97) MP (1991; 1994-98; 2002-05)	Moderate
Industrial Policy	Volodymyr Shandra	Timoshenko	CEO, Bld Mt. Plant, MP (2002-05)	Low
Fuel & Energy	Ivan Plachkov	Omelchenko	Former CEO, Kievenergo (KIEN)	Moderate
Agrarian Policy	Oleksandr Baranivskiy	Socialist Party	MP (2002-05), Budget Committee	Low
Interior	Yuriy Lutsenko	Socialist Party	Electronics Engineer. Rivne Gov't official (1994-96) Gov't posts (1997-99) Asst. to MP Moroz (199-02) MP (2002-05). Transp. & Comm.	Moderate
Defense	Anatoliy Grytsenko	Yushchenko	Former NSDCU official, President of Razumkov think tank	Moderate
SBU	Oleksandr Turchinov	Timoshenko	Former Key Person in BYuT. Timoshenko's closest ally	High
Justice	Roman Zvarych	Our Ukraine	Naturalized American citizen (95) MP (1998-2005). Law & For. Affr.	High
Science & Education	Stanislav Nikolaenko	Socialist Party	MP (1994-02). Science & Edu	Low
Health Care	Mykola Polishchuk	Our Ukraine	Neurosurgery scientist MP (2002-05) Health Care Cmt	Low
Environmental	Pavlo Ignatenko	Yushchenko	Alfa Bank Ukraine project manager. Yushchenko sponsor CEO, Brinkford business group. Yushchenko sponsor.	Low
Emergency	David Zhvania	Our Ukraine	MP (2002-05) Counter-corruption	Moderate
Labor & Social Policy	Viacheslav Kyrylenko	Our Ukraine	MP (1998-02) Labor & Soc Cmt	Moderate

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