



CONCORDE CAPITAL

Ukraine / Politics Election Results

Yushchenko to Rain on Orange Parade?

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Important Dates

Deadline for Election Results	Oct 15
Opening Of Rada Session	+30 days
Government Formation	+30 days

Poll Results (99.93% counted)

Party of Regions	34.35%
Tymoshenko Bloc	30.73%
Our Ukraine	14.16%
Communists	5.38%
Lytvyn Bloc	3.96%

Seats in Rada Of 450*

Party of Regions	175
Yulia Tymoshenko Bloc	156
Our Ukraine	72
Communists	27
Lytvyn Bloc	20

**226 seats required to form coalition*

Stocks to Watch

Ukrtelecom	Privatization
Luhanskteplovz	Reprivatization
Stirol	Gas Price Risk
Kyivenergo	Gas Price Risk
Dniproenergo	Corp Conflict
Turboatom	Holding Creation
Nikopol Ferroalloy	Corp Conflict

The President's suggestion yesterday that Ukraine form a three-party coalition is likely to drag out coalition negotiations, but our talks with representatives from the big three parties lead us to believe it is just a matter of time before the sitting of a new orange government. With Tymoshenko back at the helm, the privatizations of Ukrtelecom and Odesa Portside are likely to move forward. There may also be conflict on the horizon for Dniproenergo and RosUkrenergo.

99.93% of the Votes Counted, Tymoshenko Set To Return

With vote tallying all but complete the Yulia Tymoshenko Bloc (BYT) and Our Ukraine look poised to create the coalition that slipped through their fingers in March of 2006. Combined BYT-Our Ukraine account for 44.9% of the votes or 228 seats in Ukraine's 450-seat parliament where 226 votes are required to form a coalition. A slight majority over a Regions-Communist-Lytvyn coalition (43.7% or 222 seats). With the Socialists failing to get over the 3% barrier to enter Rada. There is no possibility for a coalition to be formed that does not include either Tymoshenko or Our Ukraine. This is one of the key factors that differs these elections from March 2006 when the Socialist defection from the orange camp gave Regions the ability to form the government with the Communists and Socialists in tow.

President Throws Monkey-Wrench in Coalition Talks?

In a televised address yesterday President Yushchenko called on all parties to form a "broad coalition" in an effort to unify the country. A suggestion the Party of Regions readily accepted, but was flatly refused by the Tymoshenko Bloc. The announcement has been widely suggested that the President was trying to force his party to backtrack on a previous coalition agreement with Tymoshenko and form a new government with Regions (247 seats).

Why the Next Coalition Will be Orange

Though the President's remarks certainly have come as a surprise we believe it is still unlikely that Our Ukraine will agree to form a coalition with Regions. After their failure in the last elections and the departure of one of the major business wings of the bloc, the upper echelons of Our Ukraine were restocked with younger more ideological rather than business-oriented leaders. These new leaders are young career politicians with very limited business interests and it is unlikely they will follow what increasing looks like a one-term president to their political death. The head of Our Ukraine recently stated that should Our Ukraine form a coalition with Regions he would quit the party. Additionally none but the President's closest supporters have come out in favor of the President's suggestion.

Several Ukrainian politicians and insiders have suggested that the announcement was used by Yushchenko to reassert himself as the fatherly figure in the Ukrainian political arena as he eyes the next presidential election in 2009. In any case, it looks unlikely that Yushchenko by himself will be able to get his party to form a government with Regions.

Promises, Privatizations & Gas

One of the keys to Tymoshenko's strong showing in this election (BYT increased its number of votes by 8.45% since the March 2006 poll) was her party's ability to act on its campaign promises. Unlike Yanukovich whose party lost ground in some oblasts because some voters felt he had failed to make good on previous campaign promises. We believe the return of a Tymoshenko government will breath new life into Ukraine's stalled privatization program, as she looks to fund campaign pledges with privatization revenue. Ukrtelecom, Odesa Portside and energy sector privatization all look like big cash generators for the government. By putting the right person in place at the State Property Fund and with Presidential support helping get the legislation through the Rada, 2008 could be a big year for privatizations.

On the other hand, DTEK's indirect takeover of Dniproenergo looks like it could come under threat. During the campaign the promise to look into the Dniproenergo situation was part of Tymoshenko's stump speech.

The gas issue will also be high on Tymoshenko's to do list. While in the opposition Tymoshenko called for RosUkrenergo to be excluded from Ukraine's gas deals with Russia and for a more transparent system to be put in place. If Tymoshenko makes good on these claims it will certainly ruffle feathers in the Kremlin and raise gas price exposure risks for companies like Stirol and Kyivenergo.

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