



CONCORDE CAPITAL

Presidential election 2010

Yanukovych claims victory

February 8, 2010

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- **Viktor Yanukovych claimed victory in the presidential runoff vote yesterday; exit polls gave him a 3-6 pp lead**
- **Due to the slim victory margin, we expect runner up Yulia Tymoshenko to explore legal options and hold off on a concession**
- **Now the focus turns to tricky talks to reformat the Verkhovna Rada; failure to do so could trigger new parliamentary elections**
- **The UX and PFTS both opened up today; but we expect volatility on equity and fixed income markets until Yanukovych gets his team in place**

Second round results*

Viktor Yanukovych 48.34%

Yulia Tymoshenko 46.05%

* 96.45% of ballots counted, as of 12:30

February 8

Source: Central Election Commission

Exit poll results

Viktor Yanukovych 48.7%

Yulia Tymoshenko 45.5%

Source: National Exit Poll

Verkhovna Rada composition

Party of Regions 175

Tymoshenko Bloc 156

Our Ukraine 72

Communist Party 27

Lytvyn Bloc 20

Total seats 450

Source: Central Election Commission

Presidential election watch list

Second round results By Feb. 17

Inauguration* By Mar. 17

* Exact date yet to be announced; subject to change

Source: Central Election Commission

Yanukovych claims victory; exit polls give him a 3-6 pp lead

Last night Viktor Yanukovych claimed victory in the second round of Ukraine's presidential elections. With 96.4% of the ballots counted, he leads 48.3% to Yulia Tymoshenko's 46.1%, with the margin narrowing as more votes have come in. Exit polls gave Yanukovych a 3-6 pp lead. Under Ukrainian election law, the highest vote-getter in the runoff wins, even if they get less than 50% of the vote. The Central Election Commission expects to put out a preliminary total count later today; it has 10 days to publish official results. Inauguration should take place no later than 30 days after that.

Tymoshenko to explore legal options, hold off on concession

The slim victory margin makes legal challenges to the vote a real possibility, in our view. Yulia Tymoshenko has thus far not been forthcoming with a concession and could dispute the results in court. However, legal challenges would only delay the official naming of a winner. Exit polls do not favor Tymoshenko, and, importantly, based on available evidence so far, the vote looks to have gone off relatively calmly – election observer missions will weigh in later today with their preliminary reports.

Focus turns now to coalition talks

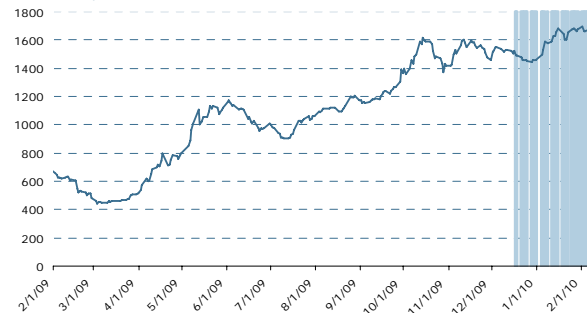
The election itself is just the first milestone in bringing a semblance of political stability to Ukraine: Yanukovych will now turn his attention to securing a friendly majority coalition in parliament. We do see a chance for Yanukovych to build a coalition in the current parliament without having to resort to pre-term parliamentary elections: Ukrainian politicians are notorious for changing sides as the wind blows. The pivotal Our Ukraine Bloc supported Yanukovych's Party of Regions in several key votes in the run-up to the election. If the MPs fail to line up behind him, Yanukovych has said he will not be afraid to call for new elections.

Market view

As of 12:00 today, the UX was up 0.01% and the PFTS up 0.58%. Exchanges in Europe (FTSE 100 +0.52%, CAC 40 +0.82%) and Russia (RTS +0.14%, Micex +0.38%) have also gained this morning; with markets in the region responding to the weekend news of Europe's top finance ministers endorsement of Greece's austerity plan. We expect to see volatility on both equity and fixed income markets in the short-term, until it is clear that Yanukovych will be able to secure a friendly coalition in parliament.

Ukrainian market sensitivity to 2010 elections

UX index, Feb. 2009-Feb. 2010



Ukraine CDS quotations (5Y USD), bps, Feb. 2009-Feb. 2010



Note: Shaded blue bars indicates the 2010 presidential election period and 30 days prior. Source: Bloomberg, Concorde Capital

FLASH NOTE

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Getting control of parliament

Potential parliamentary configurations	Probability
<ul style="list-style-type: none"> Pre-term parliamentary elections: New Rada elections have the most questionable prospects for stability and timing. While fresh elections might allow for the formation of a cooperative majority (with Yanukovich consolidating electoral gains), we believe Ukrainians could also rally around Tymoshenko following her electoral defeat and appoint a majority of combative MPs. Either way, we believe the exit or minimalization of the Our Ukraine Bloc and reconfiguration (with the potential entrance of other parties) should breed a more cohesive majority. <p>Yanukovich has said new elections could be held as early as May, simultaneously with local elections. However, this might be difficult to realize logistically and negotiations could drag out the date until late summer/early fall. After elections, according to law, the new Rada has 30 days to convene, and then one month from that point to form a coalition. <i>Under this scenario, a new government could be formed as soon as June-July or as late as September-October.</i></p>	60%
<ul style="list-style-type: none"> New Party of Regions-led majority: The Party of Regions needs the Our Ukraine Bloc to enter into a coalition agreement in order to form a new coalition that includes political parties representing a majority of deputies. <p>While a good portion of Our Ukraine deputies have sided with Regions on specific issues, it is unclear if the entire bloc would agree to it. The offer of a compromise (non-Regions) candidate for Prime Minister and a sufficient portfolio of cabinet posts could win them over. The fluidity of allegiance by Ukrainian politicians – eager to carve out their piece of the pie for the next several years – also plays to Yanukovich’s advantage. The appointment of Yulia Tymoshenko as Prime Minister after the 2004 Orange Revolution garnered 373 of the votes in the 450 seat Rada, more than just the so-called “orange” parties.</p> <p>Coalition-building talks will begin almost immediately, but they could drag out for several weeks. <i>Under this scenario, a new government could be formed in April-May.</i></p>	35%
<ul style="list-style-type: none"> Yanukovich-Tymoshenko truce: Yanukovich and Tymoshenko agree to cooperate on key issues and share power. This route is questionable, given their history, and only possible after difficult negotiations. <i>Under this scenario, a new government could be formed in April-May.</i> 	5%

Viktor Yanukovich profile



Candidate

Viktor Yanukovich

Political affiliation

Party of Regions

Financial sponsors*

Akhmetov (SCM), Firtash (Rosukrenergo), Klyuev (Ukrpodshipnik), Boguslayev (Motor Sich), Yankovskiy (Stirol), Pinchuk (EastOne)

Policy vectors

- Improve relations with Russia; take accession to NATO, EU off the table
- Exchange rate stabilization

Declared first steps as president

- Resume cooperation with IMF
- Call pre-term parliamentary elections, if coalition-building talks fail
- Open Russia-EU talks on a gas transportation consortium

Campaign promises

- Bring Ukraine into G-20 by 2020
- Increase FDI to USD 50 mln by 2014
- Review gas agreements with Russia
- Make Ukraine neutral state; stay out of NATO
- New tax code: 5-year tax holiday for SME, cut VAT to 17% and income tax to 19% in 2011
- Increase population to 50 mln by 2020
- Renew mortgage lending at rates not exceeding 7% p.a.
- Grant Russian language status of official minority language
- Rank 3 universities among world's top 500
- Transition to contract army in 2011

Potential Prime Minister candidates

Mykola Azarov, Sergey Tigipko, Yulia Tymoshenko (if compromise)

Previous national government posts

Prime Minister, 2002-2004, 2006-2007
Governor of Donetsk Oblast, 1997-2002

Previous business experience

20-years as executive at automobile repair & transportation companies in Eastern Ukraine

Personal data

Age: 59. Married. Two children.
Place of birth: Enakievo, Donetsk region

Education

MA in international law, Ukrainian Academy of Foreign Trade

Profession

Mechanical engineer

Web presence

www.yanukovich.com.ua
www.partyofregions.org.ua

* Information on financial sponsors is not purported to be accurate as by its nature it is based on unofficial information; it was culled from media reports, Concorde Capital sources and the blogs of Ukrainian political commentators and journalists. Source: Candidate website, party website and media reports.

Appendices

Appendix 1: Exit poll results

Exit poll results round-up

Second round exit poll results

Candidate	National Poll	ICTV	Inter-SOCIS	Inter-FOM	Shuster	R&B
Yanukovych	48.5%	49.3%	49.6%	49.7%	48.7%	50.3%
Tymoshenko	45.7%	45.3%	44.5%	44.6%	45.6%	44.2%
Against all	5.6%	5.4%	5.9%	5.6%	5.7%	5.5%

Exit poll notes

National Exit Poll 2010 (Democratic Initiatives, Kyiv International Institute of Sociology, Razumkov Center for Economic & Political Studies): 16,332 participants at 300 polling stations. Margin of error: $\pm 1.1\%$.

ICTV (GfK) exit poll: 21,635 participants at 300 polling stations. Margin of error not published.

Inter (SOCIS) exit poll: 20,000 participants at 602 polling stations. Margin of error: $\pm 0.7\%$.

Inter (Ukrainian Sociological Service and FOM-Ukraine) exit poll: 15,000 participants at 300 polling stations. Margin of error: $\pm 0.8\%$.

Savik Shuster Live exit poll: 20,000 participants at 350 polling stations. Margin of error not published.

Research & Branding Group exit poll: 10,000 participants at 500 polling stations. Margin of error: $\pm 1.0\%$.

Appendix 2: Ukrainian political system

Ukraine is a semi-presidential republic. It declared independence from the Soviet Union on August 24, 1991. The government has three branches: executive, legislative and judicial. Ukraine has 24 oblasts (regions), one autonomous republic and two cities with special status. Ukraine's capital is Kyiv. Ukraine's current constitution was adopted June 28, 1996 and was amended December 8, 2004.

Verkhovna Rada of Ukraine. Ukraine's Verkhovna Rada (Supreme Council in Ukrainian) is a unicameral parliament with 450 seats. The Verkhovna Rada amends the Constitution of Ukraine, adopts laws, approves the state budget, ratifies and denounces international treaties, declares war and peace, and appoints officials and judges. The Verkhovna Rada can dismiss the Cabinet of Ministers. The Verkhovna Rada can override a presidential veto with a two-thirds majority. The Verkhovna Rada is presided over by a speaker. Seats in the Verkhovna Rada are distributed on a proportional basis among political parties based on the results of a nationwide vote (to parties whose vote total exceeds a 3% barrier).

President of Ukraine. Ukraine's president is the head of state. The Ukrainian president is elected by popular vote for a five-year term. The current president, Viktor Yushchenko, was inaugurated on January 23, 2005; his term expires January 23, 2010. The Ukrainian president has the power to:

- Guarantee independence, territorial integrity, national security, the Constitution of Ukraine and basic human rights and freedoms
- Disband the Verkhovna Rada if it does not form a majority coalition within a month, appoint the government within 60 days or convene for an ordinary session for 30 days
- Nominate several key government positions to the Verkhovna Rada for approval: the Prime Minister proposed by the majority coalition, the Minister of Foreign Affairs, the Minister of Defense, the Prosecutor General, Head of the Security Service of Ukraine (SBU), and Head of the National Bank of Ukraine
- Sign into effect or veto laws passed by the Verkhovna Rada
- Suspend acts passed by the Cabinet of Ministers if they contradict the Constitution of Ukraine and challenge the acts in the Constitutional Court

Cabinet of Ministers of Ukraine. Ukraine's Cabinet of Ministers is the highest body of executive power. Ukraine has 20 ministries and there are 25 positions in the Cabinet (including the Prime Minister and Vice Prime Ministers). Nominations to the Cabinet, made by the Prime Minister or President depending on the position, are affirmed by the Verkhovna Rada. The Cabinet of Ministers term is for the duration of the parliamentary convocation or coalition. In Ukraine, the Prime Minister is the head of the executive and presides over the Cabinet of Ministers. The Prime Minister is appointed by the Verkhovna Rada, following submission by the President of Ukraine of the nominee from the majority coalition in the Verkhovna Rada. The Prime Minister nominates the heads of government ministries, the State Property Fund, the Antimonopoly Committee to the Verkhovna Rada for approval. The current prime minister, Yulia Tymoshenko, was confirmed on December 18, 2007.

Constitutional Court of Ukraine. Ukraine's Constitutional Court is charged with interpreting the Constitution of Ukraine and decides whether laws and legal acts are unconstitutional. The court is composed of 18 judges, appointed in equal shares by the president, Verkhovna Rada and the Congress of Judges. Judges are currently appointed for a single nine-year term.

Court system in Ukraine. The judicial system in Ukraine has four levels of courts of general jurisdiction: local courts, appeals courts, high courts and the Supreme Court. High courts include the High Administrative Court of Ukraine, which rules on administrative cases, and the High Economic Court of Ukraine, which rules on economic and commercial cases. The highest level is the Supreme Court of Ukraine. Supreme Court appointments are made by parliament and have no term limits. The Supreme Court is regarded to be an independent and impartial body.

Appendix 3: Yanukovich victory speech

Dear fellow countrymen, friends!

I congratulate you and all Ukrainian people on winning the election! We have worked with you hard to ensure this day would come! I want to thank you for your support of our common cause – the fight for changes that were the essence of this campaign. Thank you for coming here today to share in our common joy.

On this day, February 7, Ukraine starts a new journey - a prosperous country, which is respected around the world.

On this day we, the proud, hardworking and wise Ukrainian people, supported a new Ukraine.

The people of Ukraine said that they want to be free, to have decent jobs and salaries, decent living and to provide decent lives for their families, and to be sure of their future!

The people of Ukraine said that the time has come for the authorities to take care of the elderly, those who find themselves in difficult situations and need help, and those who should get decent pensions after years of work. It is time for the authorities to provide quality health care and jobs for every citizen.

It is time for the government, which will take care of our children, for them to get good education that will allow them to build their own future.

Dear countrymen!

During the election campaign, I traveled our great country. I saw you battling to survive. I saw your eyes and heard your heart. I heard your call for change. You expressed your hopes and I heard you!

Today the whole world heard your voice – the voice of a people who expressed themselves in fair and free elections!

I want to say “thank you” to all of you that voted throughout Ukraine today for me and my program. Your faith in me and my team, and the belief that we will lead this country through changes – for me that is a great honor, which gives me more strength. I will justify your trust.

To all of you who supported Tymoshenko, who voted for other candidates in the election and feel disappointed, I promise to work well and to earn your trust.

I think the biggest challenge for any President of Ukraine is to unite the country – east and west, north and south, uniting our citizens into a single nation.

Achieving this goal is my primary task. And in this journey, I need your support, the support of every citizen today – and in the future! Only together we can revive Ukraine!

In the election, I proposed to the people the program “Ukraine for the people”. I am confident that its implementation will lead our country to development and prosperity. The program includes the consolidation of our country’s economic recovery, job creation, the return to stability and hope for a better life for all citizens of Ukraine.

Beginning tomorrow we will start implementing this program, and you will quickly feel real positive results from our work.

We, the citizens of Ukraine, love our country and want to be proud of your country. Let today be a turning point, from which we start on a new path of unity and prosperity! By combining our efforts, we can build a new Ukraine, where the government is worthy of its people and the people are proud of their country and look confidently toward the future!

Today we have a chance to start a new journey to revive Ukraine. Let us take this opportunity to revive our country!

Let’s praise and thank God for helping us make a decisive step down the road to peace and prosperity in our country.

Source: Party of Regions. Translation by Concorde Capital

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