



Presidential election 2010

New Year, New President

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Days left before the election **3**

Presidential survey results

First round	KIIS	R&B
Viktor Yanukovych	30.3%	33.3%
Yulia Tymoshenko	15.8%	16.6%
Sergiy Tigipko	7.1%	7.4%
Arseniy Yatseniuk	4.2%	6.7%
Petro Symonenko	3.7%	3.8%
Viktor Yushchenko	2.9%	3.4%
Volodymyr Lytvyn	2.5%	4.1%
Against all	7.1%	9.0%
Undecided	19.4%	9.0%
Will not vote	4.0%	3.5%

Second round	KIIS	R&B
Viktor Yanukovych	43.3%	46.7%
Yulia Tymoshenko	29.2%	30.0%
Against all	13.9%	13.2%
Undecided	9.5%	6.5%
Will not vote	4.1%	3.6%

Source: Kyiv International Institute of Sociology (December 12-24), Research & Branding Group (December 5-13)

Government overview

Type	Democratic republic
Format	Presidential-parliamentary
Independence	August 24, 1991

Presidential election watch list

First round vote	Jan. 17
First round results	By Jan. 27
Second round vote*	Feb. 7
Second round results*	By Feb. 17
Inauguration*	By Mar. 17

* If a second round of voting is necessary.
Exact dates subject to change.

Source: Central Election Commission

- **This Sunday Ukrainians will take to the polls to decide their next president: Yanukovych & Tymoshenko look set to advance to the second round**
- **Tymoshenko faces the most challenges to victory; Yanukovych has effectively plied his time in opposition and emerged as frontrunner**
- **We remain cautiously optimistic that the end of the election cycle will drive stability in the Ukrainian political arena in 2010**

First round: Yanukovych, Tymoshenko set to pass

At this point, virtually all independent sources have deemed the Ukraine presidential election on Sunday a non-event, with no candidate set to secure 50% or more of the vote and frontrunners Viktor Yanukovych and Yulia Tymoshenko to face-off in a second round. Public opinion surveys have yielded few surprises; the biggest changes were further down the list where Sergiy Tigipko moved firmly into third place, Arseniy Yatseniuk fell more out of favor and incumbent Viktor Yushchenko gained a tad of momentum. The date being floated for the potential runoff vote is February 7.

Second round: Tymoshenko faces multitude of challenges

Looking to the second round, opinion surveys give Yanukovych a 14-17 pp lead over Tymoshenko. The latter has faced an uphill battle throughout the campaign: her government was on watch while the financial crisis battered Ukraine and was unprepared for the H1N1 outbreak in October; she has also been a constant target of attacks by Yushchenko. Meanwhile, Yanukovych has effectively plied his time in opposition and emerged as the frontrunner. However, we believe it is too early to call the race – Tymoshenko still has the time, experience and fire to make the second round competitive.

Post-election stability: Compromise in parliament still seen as key

The five years since the Orange Revolution have been supremely disenchanting, with perpetual battles between the president and parliament. The economy, which theretofore had managed to thrive despite this, was hit painfully by the financial crisis without a stable government at the helm. Either Yanukovych or Tymoshenko, each backed by big business, would work to consolidate power quickly... the key question is securing a friendly coalition in parliament in order to forward. We remain cautiously optimistic that compromise or new parliamentary elections will yield more stability in the Ukrainian political arena in 2010.

Elections, compromise to mark 2010

The five years since the Orange Revolution have been supremely disenchanting for both the population and international community. Perpetual battles between the president, prime minister and parliament have hampered reform, scuttled privatization, jeopardized government agreements and confidence in the Ukrainian state, and muddled cooperation with international financial institutions and foreign governments.

The economy, which theretofore had managed to thrive despite this, was hit painfully by the financial crisis without a stable government at the helm. Both Yanukovich and Tymoshenko, the two most likely candidates to reach the second round of voting, are backed by big business – and, in our view, each would establish a firm grip on the levers of power as Job #1 and begin implementing their policies as soon as practicable. Additional pressure to act and reform from regular citizens (their constituents), investors, international financial institutions and foreign governments will also play a role.

As a result, we remain cautiously optimistic that the aforementioned forces will lead, regardless of the eventual victor – Yanukovich or Tymoshenko, to political stability at some point by mid-2010 either via compromise and/or new parliamentary elections. See our October 29 report for our discussion on various post-election scenarios.

POLITICAL SLUGFEST HAS TAKEN ITS TOLL

The political circus of the last five years (see Appendix 3) has clearly taken a toll on Ukraine. We look at some of the recent headline reminders:

Economics/financial markets

- Ukraine's GDP declined 20.3% yoy in 1Q09, 17.8% yoy in 2Q09, 15.9% yoy in 3Q09. We forecasted a drop of 14.1% yoy in 2009
- The hryvnya was the world's worst performer versus the US dollar from September 2008 to September 2009, according to Bloomberg
- Ukraine's credit-default swaps remain the second most costly behind Argentina; quotations were at 936.26 bps as of January 12, according to Bloomberg

International relations

- European Union President Jose Manuel Barroso, at the annual Ukraine-EU summit in December 2009, was critical of Ukraine, telling President Viktor Yushchenko, "too often, it seems promises are only partly met, commitments are only partly met, words are not always matched by actions." The summit ended without substantial progress on Ukraine's European agenda (see our December 7 flash note)
- Russian President Dmitry Medvedev went so far as say that he hoped "new political leadership" in Ukraine would be more ready to build relations, in an open letter sent in August to Yushchenko. Medvedev has withheld Russia's Ambassador to Ukraine (see our August 12 flash note)

Perception of Ukraine

- Major annual global development surveys this year either downgraded or held Ukraine flat this year (see Appendix 4). Particularly egregious was the fall of 22 places in Forbes' Best Countries for Business report, 10 places in the World Economic Forum's Global Competitiveness index, and 12 places in Transparency International's Corruption Perceptions index

Round two contender profiles



Candidate	Viktor Yanukovich	Yulia Tymoshenko
Political affiliation	Party of Regions	Yulia Tymoshenko Bloc (BYuT)
Polling numbers in second round*	57.9%	39.1%
Financial sponsors**	Akhmetov (SCM), Firtash (Rosukrenergo), Klyuev (Ukrpodshipnik), Boguslayev (Motor Sich), Yankovskiy (Stirol), Pinchuk (EastOne)	Zhevago (F&C), Vasadze (UkrAvto), Kolomoyskiy (Privat), Poroshenko (Ukrprominvest), Pinchuk (EastOne)
Policy vectors	<ul style="list-style-type: none"> • Resume cooperation with IMF in 2010 • Improve relations with Russia; take accession to NATO, EU off the table • Limited privatization • Exchange rate stabilization 	<ul style="list-style-type: none"> • Resume cooperation with IMF in 2010 • Improve relations with Russia & EU; put accession to NATO on backburner • Increased privatization • Strong hryvnya
Campaign promises	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Eliminate influence of oligarchs in politics • Root out corruption in courts and ensure their independence • Build new oil & gas pipelines, modernize refineries, strengthen gas transit capacity • Increase support to manufacturing and defense • Create 300 ths jobs in nanotechnology sphere • Tax breaks for banks that lend to startups • Tax-exemption for investors that establish new production facilities for 10 years • Renew mortgage lending at European rates • Return savings lost in USSR Savings Bank • Transition to contract army
Post-election scenarios***	<p>We observe three scenarios: (1) Yanukovich & Tymoshenko agree to share power, (2) the defectors from the Tymoshenko Bloc and Our Ukraine join the Party of Regions to form a new coalition in the Verkhovna Rada, or (3) Yanukovich fails to negotiate a friendly Rada configuration and dissolves parliament.</p> <p>We estimate scenario #3 is most likely. With new parliamentary elections, if Yanukovich-friendly parties form a majority in the Rada, we believe Ukraine might see an effective and stable government as soon as July-August.</p>	<p>In our view, Tymoshenko would be likely to find support in a rejuvenated majority coalition in the current Verkhovna Rada between her eponymous Yulia Tymoshenko Bloc, Our Ukraine and the Lytvyn Bloc.</p> <p>With the Verkhovna Rada and the Cabinet of Ministers lining up behind Tymoshenko, we believe Ukraine might see an effective and stable government in short order following inauguration in March.</p>
Election platform word count	Investment: 5. Economy: 3. Democracy: 2. Courts: 1. Corruption: 0. Global: 4. EU: 1. Russia: 1. NATO: 0.	Investment: 4. Economy: 2. Democracy: 2. Courts: 8. Corruption: 5. Global: 5. EU: 1. Russia: 1. NATO: 0.
Potential Prime Minister candidates	Yulia Tymoshenko (if compromise), Mykola Azarov, Sergey Tigipko	Oleksandr Turchinov, Hryhoriy Nemyrya, Sergey Tigipko
Previous national government posts	Prime Minister, 2002-2004, 2006-2007 Governor of Donetsk Oblast, 1997-2002	Prime Minister, 2005, 2007-Present Vice Prime Minister of Fuel & Energy, 1999-2001
Previous business experience	20-years as executive at automobile repair and transportation companies in Eastern Ukraine	CEO, United Energy Systems, 1995-1997 General Director, Ukrainian Gasoline, 1991-1995
Campaign bank account holder	First Ukrainian International Bank, controlled by Party of Regions' Rinat Akhmetov	Brokbiznesbank, controlled by Sergey and Aleksandr Buryak, the former a member of BYuT
Personal data	Age: 59. Married. Two children. Place of birth: Enakievo, Donetsk region	Age: 48. Married. One child. Place of birth: Dnipropetrovsk
Education	MA in international law, Ukrainian Academy of Foreign Trade	Candidate degree in economics, Dnipropetrovsk State University
Web presence	www.yanukovich.com.ua	www.tymoshenko.ua

* According to Kyiv International Institute of Sociology (December 12-24); results adjusted to exclude those that did not plan to vote. ** 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. *** See our October 29 political report for more details. Source: Kyiv International Institute of Sociology, candidate websites, party websites and media reports.

Appendices

Appendix 1: 2010 presidential election timeline

Date	Event
October 19	Election campaign officially began
January 15	Last day of official public campaigning
January 17	Polling stations open from 8:00 to 22:00 Kyiv time
January 27	Deadline for Central Election Commission to publish official voting results in official government newspapers. In the event one candidate wins outright in the first round, inauguration should take place no later than 30 days after the publication of official results
February 7	Potential date for second round of voting in the event one candidate does not win outright in the first round
February 17	Deadline for Central Election Commission to publish official voting results of second round in official government newspapers (if the second round of voting takes place on Feb. 7).
By March 17	Inauguration should take place no later than 30 days after publication of official voting results of the second round

Source: Central Election Commission

Appendix 2: Presidential election survey results

Public opinion survey results round-up

First round survey results

Candidate	KIIS	R&B Group	FOM-Ukraine
Yanukovich	30.3%	33.3%	29.0%
Tymoshenko	15.8%	16.6%	14.0%
Tigipko	7.1%	7.4%	6.0%
Yatseniuk	4.2%	6.7%	6.0%
Symonenko	2.9%	3.4%	5.0%
Yushchenko	3.7%	3.8%	4.0%
Lytvyn	2.5%	4.1%	3.0%
Against all	7.1%	9.0%	9.0%
Undecided	19.4%	9.0%	16.0%
Will not vote	4.0%	3.5%	6.0%

Second round survey results

Candidate	KIIS	R&B Group	FOM-Ukraine
Yanukovich	43.3%	46.7%	38.0%
Tymoshenko	29.2%	30.0%	24.0%
Against all	13.9%	13.2%	22.0%
Undecided	9.5%	6.5%	10.0%
Will not vote	4.1%	3.6%	6.0%

Survey notes

According to Ukrainian law, the last day for the publication of public opinion surveys before elections was January 2.

Kyiv International Institute of Sociology survey: Conducted December 12-24, 2009. 4,074 participants. Margin of error: $\pm 2.3\%$.

Research & Branding Group survey: Conducted December 5-13, 2009. 3,083 participants. Margin of error: $\pm 1.8\%$.

FOM-Ukraine survey: Conducted December 17-22, 2009. 1,000 participants. Margin of error $\pm 4\%$.

Appendix 3: Key political events since the Orange Revolution

2004/2005

Ukraine has experienced significant political instability since the 2004 presidential election. The results of the first run-off of the election, between Viktor Yushchenko and Viktor Yanukovych on **November 21, 2004**, in which Yanukovych was declared the winner, were disputed on the basis of allegations of corruption, voter intimidation and direct electoral fraud, as reported by numerous domestic and foreign observers. These claims were acknowledged in a decision of the Supreme Court of Ukraine, which declared the results of the election invalid. The disputed election was followed by a series of popular protests, including a series of nationwide protests, sit-ins and planned general strikes by supporters of Yushchenko. A second run-off was ordered by the Supreme Court of Ukraine and was held on **December 26, 2004**. Yushchenko was declared the official winner of the second run-off and was inaugurated as president on **January 23, 2005**. International observers declared the run-off election process fair, transparent and democratic.

Prime Minister Yulia Tymoshenko took office on **February 4, 2005** with a Cabinet of Ministers formed based on an agreement between various political and economic groups that supported Yushchenko during the presidential elections.

On **September 8, 2005**, President Yushchenko dismissed Prime Minister Tymoshenko and the Cabinet of Ministers, and appointed Yuriy Yekhanurov as acting prime minister. On **September 22, 2005**, Yekhanurov was appointed prime minister by Ukraine's parliament, the Verkhovna Rada.

2006

Ukraine held a parliamentary election on **March 26, 2006**, it marked the first election that was held according to a party-list proportional election system; in previous parliamentary elections half of parliamentary representatives were elected on a proportional basis and the other half in single-mandated constituencies.

Five political parties and election blocs managed to collect 3% or more of the national vote required to gain seats in Parliament. The Party of Regions, led by Yanukovich, came in first in voting and took 186 of 450 seats. Tymoshenko's Bloc established a faction with 129 seats; the Our Ukraine Bloc, associated with Yushchenko, established a faction with 81 seats; the Socialist Party of Ukraine and the Communist Party of Ukraine established factions with 33 and 21 seats, respectively. International observers declared the election process free and fair.

On **May 25, 2006**, when the Verkhovna Rada elected in March 2006 gathered for its first session, the constitutional reform limiting the powers of the president and transferring certain powers from the president to Verkhovna Rada and the prime minister became effective (with certain provisions already in effect since January 1, 2006). As a result of this constitutional reform, Ukraine became a parliamentary-presidential republic, with the president no longer empowered to exercise direct executive powers over the decisions and actions of the Government. In particular, the Verkhovna Rada is now empowered to appoint, upon the president's nomination, the prime minister, minister of defense and minister of foreign affairs and, upon the nomination of the prime minister, the remaining members of the Government. The Verkhovna Rada is also empowered to dismiss these officials. The president is no longer empowered to appoint members of the Government.

According to other provisions of the constitutional reform, parliamentarians are now required to form a majority coalition, which is entitled to propose a candidate for the position of prime minister to the president, who makes a further nomination to Verkhovna Rada. The majority coalition is further entitled to propose candidates for positions of members of the Government (subject to certain exceptions) to the prime minister who makes further nominations to Verkhovna Rada. The president has received new powers for early termination of Verkhovna Rada. In particular, the president can dissolve Parliament if (i) it fails to form a majority coalition within a month of the commencement of its first session or the dissolution of the previously existing coalition; (ii) it fails to appoint the Government within 60 days following the previous Government's dismissal or resignation; or (iii) it fails to convene for 30 days in a continuous period.

The president retained his veto power over laws approved by the Verkhovna Rada. The president can exercise a veto within fifteen days of the date on which the law is submitted for presidential signature. If the president vetoes the law, it will be returned to the Verkhovna Rada for further consideration, and, if following subsequent consideration, the Verkhovna Rada passes the same law by a two-thirds majority, the president is obliged to sign the law and officially promulgate it within ten days. Furthermore, if the president fails

to sign such law within ten days, it shall be immediately signed by the speaker of the Verkhovna Rada and officially promulgated.

The majority coalition in the Verkhovna Rada elected in March 2006 was established on **July 18, 2006** and was composed of the parliamentary factions of the Party of Regions, the Socialist Party of Ukraine and the Communist Party of Ukraine. On **August 4, 2006**, the Verkhovna Rada approved of the appointment of Yanukovich as prime minister and endorsed the coalition government.

2007

In a first reading on **January 12, 2007**, the Verkhovna Rada overrode a presidential veto to pass a draft law on parliamentary opposition. The law provided for the right of the opposition to create an opposition government and to head 12 committees of the Verkhovna Rada (out of the existing 26 committees), as well as to have its representative take up the position of deputy speaker. In addition, pursuant to the law, the parliamentary opposition would have a monitoring power over all stages of the budgetary process and shall nominate a candidate for the position of the chairman of the auditing chamber, the main function of which is to monitor and supervise the implementation of the state budget of Ukraine.

In **February 2007**, Borys Tarasyuk, an ally of Yushchenko and advocate of ties with Europe and NATO, resigned as the minister of foreign affairs. Subsequently, the coalition in parliament, divided over support for Yushchenko and Tymoshenko, broke up.

On **April 2, 2007**, Yushchenko signed a decree dissolving the Verkhovna Rada. The president's decree stated that the process of forming a majority coalition in the Verkhovna Rada during recent months had breached the procedure set forth in the Constitution of Ukraine. Pursuant to this decree, new parliamentary elections were scheduled for May 27, 2007. On **April 26, 2007**, by a subsequent decree, the president rescheduled the parliamentary election for June 24, 2007.

Following negotiations held by a working group to break a deadlock around holding new parliamentary elections, Yushchenko, Oleksandr Moroz, speaker of the Verkhovna Rada and Yanukovich reached agreement on **May 27, 2007** to hold early parliamentary elections on September 30, 2007.

On **May 31, 2007**, the Verkhovna Rada also passed other bills, including laws related to WTO accession.

On **September 30, 2007**, early elections to the Verkhovna Rada were held as a result of which, out of 20 political parties and election blocs participating in the elections, only five political parties and election blocs managed to collect the 3% or more of the national vote required to gain seats in the Rada. Of these, the Party of Regions won 175 seats; Tymoshenko's Bloc took 156 seats; and the Our Ukraine – People's Self-Defense Bloc - 72 seats; the Communist Party of Ukraine and Lytvyn's Bloc won 27 and 20 seats, respectively. The election was declared by international observers to generally have met international standards for democratic elections.

On **December 18, 2007** Tymoshenko was confirmed as Prime Minister by the Verkhovna Rada with 226 votes in favor, following the formation of a coalition between her eponymous Bloc and the Our Ukraine – People's Self-Defense Bloc.

2008

On **April 16, 2008**, the Verkhovna Rada ratified the country's package of bills for accession to the World Trade Organization. One month later, on May 16, 2008, the World Trade Organization welcomed Ukraine as its 152nd member. Ukraine had started accession negotiations in 1993.

On **June 6, 2008** two parliamentary representatives representing the Tymoshenko Bloc and Our Ukraine announced that they had left the parliament's governing coalition. Without the two votes, the coalition was one vote shy of a simple majority at 224.

On **September 2, 2008**, the Verkhovna Rada convened after a summer recess and adopted a series of laws that curtailed the powers of the president. Among other things, the laws ease rules for impeaching the head of state and remove the president's power to veto a candidate for prime minister. The bills were initiated by the opposition Party of Regions, which voted together with the Tymoshenko Bloc to gain a parliamentary majority for passage. Representatives of the Our Ukraine – People's Self-Defense Bloc, loyal to Yushchenko, walked out of the parliament hall in protest.

On **September 16, 2008**, Arseniy Yatsenyuk, speaker of the Verkhovna Rada, announced that the majority coalition between the Tymoshenko Bloc and the Our Ukraine Bloc was

officially dissolved. In **October 2008**, as the parties elected into the Rada failed to form a new coalition, President Yushchenko passed a decree dissolving parliament and calling new parliamentary elections for December 7.

In late **October 2008**, the Ukrainian government reached an agreement with the International Monetary Fund on a USD 16.5 bln standby loan facility to help shield the country from the global financial crisis. The Verkhovna Rada convened and passed legislation necessary for Ukraine to draw from the loan on **October 31, 2008**. The loan agreement mandated Ukraine control its budget deficit, switch to a floating exchange rate for the hryvnya, among other reforms. As of the publication of this report, Ukraine has received three tranches under the loan program, totaling USD ~10.5 bln.

On **December 9, 2008**, the Verkhovna Rada voted in Volodymyr Lytvyn of the eponymous Lytvyn Bloc as its new speaker. The election signaled the emergence of a new governing coalition formed from the Tymoshenko, Our Ukraine, and Lytvyn blocs. The appointment was approved by 244 MPs of 422 votes, receiving 154 votes from the Tymoshenko Bloc, 40 from Our Ukraine, 27 from the Communist Party, 20 from the Lytvyn Bloc, and 3 from the Party of Regions. The addition of the Lytvyn Bloc to the coalition increased the coalition's combined pull in parliament past the slim majority the Tymoshenko-Our Ukraine coalition commanded (248 votes in the 450 seat parliament vs. 229 previously). Yushchenko and Tymoshenko agreed to cancel another round of early parliamentary elections.

2009

On **April 1, 2009**, the Verkhovna Rada voted to hold the next presidential poll on October 25. The measure was approved by 401 deputies: 174 lawmakers from the Party of Regions, 155 from BYuT, 27 from the Communist Party, 19 from the Lytvyn Bloc and 26 from the pro-Presidential Our Ukraine – People's Self-Defense Bloc. However, in May, Ukraine's Constitutional Court invalidated the Rada's decree, opining that it violated procedures laid out in the Constitution of Ukraine. According to the Constitution, the Rada has the power to set the date, but the Constitutional norm is to hold the presidential election on the last Sunday of the last month of the incumbent's fifth year in office (as Yushchenko was sworn in on Jan. 23, 2005, the Constitution implied a January 2010 date). On June 23, the Rada rescheduled the date for the election to Sunday, January 17, 2010, with 399 lawmakers approving the measure.

Volodymyr Lytvyn signed into effect a new law on the presidential elections that was officially published on **September 10, 2009**. Earlier, on August 21 the Rada overrode a presidential veto to pass the law with 325 votes in favor in the 450 seat parliament. One of the key points of the law is that it shortened the campaign period before elections from 120 days to 90 days.

Appendix 4: Ukraine global development rankings

In general, major annual global development surveys this year dropped or held Ukraine steady – confirming the widely held view that political infighting and pre-election jostling sidetracked any meaningful reform in 2009. Particularly egregious downgrades were falls of 22 places in Forbes' Best Countries for Business report, 10 places in the World Economic Forum's Global Competitiveness index, and 12 places in Transparency International's Corruption Perceptions index. On the other side, Ukraine did move up 4 places in the World Bank's Doing Business report, largely thanks to the passage of the new Law on Joint Stock Companies in April, while press/political freedom rankings continued to be kind to Ukraine.

We provide a roundup of how Ukraine stacked up according to some major annual global development surveys in 2009 along with excerpts from the report relevant to the rating.

ECONOMIC/BUSINESS

Best Countries for Business Index: 97/127

Forbes

After Russia, the Ukrainian republic was far and away the most important economic component of the former Soviet Union, producing about four times the output of the next-ranking republic. Its fertile black soil generated more than one-fourth of Soviet agricultural output, and its farms provided substantial quantities of meat, milk, grain, and vegetables to other republics. Likewise, its diversified heavy industry supplied the unique equipment (for example, large diameter pipes) and raw materials to industrial and mining sites (vertical drilling apparatus) in other regions of the former USSR. Shortly after independence was ratified in December 1991, the Ukrainian Government liberalized most prices and erected a legal framework for privatization, but widespread resistance to reform within the government and the legislature soon stalled reform efforts and led to some backtracking... The drop in steel prices and Ukraine's exposure to the global financial crisis due to aggressive foreign borrowing has lowered growth in 2008 and the economy probably will contract in 2009. Ukraine reached an agreement with the IMF for a \$16.5 billion standby arrangement in November 2008 to deal with the economic crisis. However, political turmoil in Ukraine as well as deteriorating external conditions are likely to hamper efforts for economic recovery. *Previous year rank: 75. Survey components: Trade freedom, monetary freedom, property rights, innovation, technology, red tape, investor protection, corruption, personal freedom, tax burden, market performance.* (www.forbes.com/bestbizcountries/)

Global Competitiveness Index: 82/133

World Economic Forum

The remaining countries from the region place below Russia. Kazakhstan, as it struggles with the consequences of the economic crisis, drops one position to 67th place and Ukraine drops by 10 spots to 82nd. With a steep fall in demand for export products, a devaluation of the currency, and a near breakdown of the financial system, Ukraine faces daunting challenges in the short term. Nonetheless, past reform efforts will have to continue, in particular aiming at upgrading the institutional environment (120th), strengthening financial markets (106th), and rendering goods markets more efficient (109th). *Survey score: 4.0. Previous year rank: 72 (4.09). Survey components: starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, closing a business.* (www.weforum.org/en/initiatives/gcp/index.htm)

Doing Business Index: 142/183

World Bank / International Finance Corporation

Ukraine conducted reforms in one of ten Doing Business indicators: protecting investors. In April 2009, after 9 years of parliamentary debate, Ukraine adopted the Law on Joint Stock Companies. The new law considerably strengthens the legal protection of minority shareholders. It requires the supervisory board to approve transactions between interested parties and prohibits those parties from participating in the process. The new law introduces detailed requirements for disclosing conflicts of interest to the supervisory board, increasing the transparency of the companies' activities. It also spells out duties of supervisory board members and their liability in the event that their actions or inactions cause harm to the company. Despite this important progress, reforms in other areas covered by Doing Business stalled, and Ukraine only improved marginally in its total rank from 146th to 142nd place. *Previous year rank: 146. Survey components: institutions, infrastructure, macroeconomic stability, health & primary education, higher education & training, goods market efficiency, labor market efficiency, financial market sophistication,*

technological readiness, market size, business sophistication, innovation. (www.doingbusiness.org)

Index of Economic Freedom: 152/179

Heritage Foundation

In comparison to other countries that have been moving toward a more market-oriented economy, Ukraine lags behind in price liberalization and the efficiency of its business environment. The regulatory framework remains burdensome. While foreign investment is officially welcome, corruption and bureaucracy deter many investors. The judiciary does not always enforce contracts fairly and is tarnished with corruption, which also plagues the civil service. Bureaucratic inefficiency makes many commercial operations difficult. *Survey score: 48.8. Previous year rank: 133 (51.0). Survey components: business freedom, trade freedom, fiscal freedom, government size, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption, labor freedom. (www.heritage.org/index/)*

Global Retail Development Index: 17/30

A.T. Kearney

While the region has been hit hard by the global recession, the scene for global retailers is as attractive as ever in many Eastern and Central European countries. Slovenia, Latvia, Lithuania and Croatia move up eight or more spots in this year's index, thanks to attractive markets with limited country risk. Russia moves back into second place, thanks to a fragmented market that leaves lots of room for global retailers to grow. *Survey score: 49. Previous year rank: 17 (51). Survey components: country risk, market attractiveness, market saturation, time pressure. (www.atkearney.com)*

GOVERNANCE/CORRUPTION/LAW

Bertelsmann Transformation Index: 37/128

Bertelsmann Stiftung

In the period under review, Ukraine's politics were characterized by continuous constitutional and political crises, hampering political decision making... The year 2008 was characterized by institutional and personal competition between Prime Minister Tymoshenko and President Yushchenko. Institutional ambiguities caused by the constitutional amendments of December 2004 (after the Orange Revolution) had not yet been resolved. Both sides used these to widen their power and prerogatives. Moreover, rules and laws were disregarded, as politicians continued to play with, rather than by, the rules... In the economic sphere, Ukraine experienced rather high growth rates, rising household incomes and investment rates until the end of 2008. *Democracy & Market Economy Index: 37/128 (6.55). Management Index: 66/128 (4.92). Previous year rank: Democracy & Market Economy: 35/125 (6.93); Management: 55/125 (5.21). Survey components: democracy, market economy, political management. (www.bertelsmann-transformation-index.de)*

Corruption Perceptions Index: 146/180

Transparency International

Political turmoil in Ukraine has led to political corruption, corruption involving the public and private sectors, along with high tolerance levels among citizens in regards to corrupt practices, providing for a bleak outlook. *Survey score: 2.2. Previous year rank: 134 (2.5). Survey components: Bertelsmann Transformation Index, EIU Country Risk Service, Nations in Transit by Freedom House, IHS Global Risk Service, Institute for Management Development World Competitiveness Report, WEF Global Competitiveness Report. (http://transparency.org/policy_research/surveys_indices/cpi)*

Intellectual Property Rights Index: 82/115

Property Rights Alliance

The widening gap between the highest IPRI score of 8.7 and lowest score of 2.6 illustrates a disparity in the property rights regime in the world, as measured by the IPRI criteria. The authors would argue that while those countries at the very bottom of the index scoring certainly demonstrate a severe deficiency in property rights protection, they are not alone in representing regimes with a clear need to improve. Indeed, a large number of countries with a scoring in the mid vicinity of 6 and below highlight the need for change and improvement. *Survey score: 4.2. Previous year rank: 83 (4.3). Survey components: legal and political environment, physical property rights, intellectual property rights, gender equality. (www.internationalpropertyrightsindex.org)*

PRESS/POLITICAL FREEDOM

Freedom in the World Index: Free *Freedom House*

President Viktor Yushchenko and Prime Minister Yulia Tymoshenko continued their political infighting in 2008, and after Tymoshenko joined the opposition in trying to reduce the president's powers, Yushchenko in October sought to disband the parliament and hold new elections. The parliament refused to fund the voting, however, forcing Yushchenko to postpone the elections indefinitely. Yushchenko and Tymoshenko reached a new coalition agreement in December, forestalling the push for early elections, but relations between the two remained hostile at year's end. The sharp deterioration of the economy in the fall highlighted the politically divided state's inability to carry out fundamental reform. Also during the year, the president continued to interfere with the courts, and corruption remained a severe problem. Even as the domestic media operated with relative freedom, regulators suggested that broadcasts from Russia be taken off the air, leading some local stations to do so. *Survey score: 2.5. Political rights score: 3. Civil liberties score: 2. Previous year rank: Free (2.5). Survey components: electoral process, political pluralism and participation, functioning of government, freedom of expression and belief, associational and organizational rights, rule of law, personal autonomy and individual rights. (www.freedomhouse.org)*

Press Freedom Index: 89/175 *Reporters without Borders*

Russia (153rd) tumbled 12 places, below Belarus for the first time... Indicators point to a deterioration in the press freedom situation in almost all of the former Soviet Republics except Georgia (81st) and, to a lesser extent, Belarus (151st), whose government has initiated a cautious and so far limited improvement in its relations with the press as part of a renewed dialogue with the EU. *Survey score: 22.00. Previous year rank: 87 (19.25). Survey components: physical attacks, imprisonment and direct threats; indirect threats, pressures and access to information; censorship and self-censorship; public media; economic, legal and administrative pressure; internet and new media; number of journalists murdered, detained, attacked or threatened and government role in this; country media data. (www.rsf.org)*

Europe & Eurasia Media Sustainability Index: 9/21 *IREX*

Russia and Western Eurasia showed some improvement, due mainly to better performance of the business management objective and overall progress recorded in Ukraine. Ukraine's media continue to develop, but the pace of improvement in professional journalism is not keeping up with other areas. Panelists were critical of the ability of much of the Ukrainian media to provide the public with objective information, and pointed out in particular the adverse effect of "advertorial" content and other hidden advertisements. *Survey score: 2.14. Previous year rank: 11 (2.00). Survey components: freedom of speech, professional journalism, plurality of news sources, business management, supporting institutions. (www.irex.org/programs/MSI/index.asp)*

HUMAN DEVELOPMENT/OTHER

Human Development Index: 85/182 *United Nations Development Program*

In 2007 relative to 2006, 50 countries – including Ukraine - fell one or more places in rank between 2006 and 2007, and a similar number moved up. Ukraine ranks 85 (one place down); and 7 places down between 2006 and 2005 (in 2005 – Ukraine's HDI rank was 78 out of 177 countries). *Survey score: 0.796. Previous year rank: 76 (0.788). Survey components: life expectancy, education, GDP. (http://hdr.undp.org)*

Happy Planet Index: 95/143 *New Economics Foundation*

Central and Eastern European countries also score poorly overall, due not only to unsustainable footprints, but also to low levels of life satisfaction and mediocre levels of life expectancy. *Survey score: 38.1. Previous rank (2006): 174 (22.2). Survey components: life expectancy, life satisfaction, ecological footprint. (www.happyplanetindex.org)*

Global Services Location Index: 42/50 *A.T. Kearney*

Among the most dramatic changes in this year's index is the decline in the rankings of established Central and Eastern European countries that were global leaders just a few

years ago. The Czech Republic was 4th in the 2004 index and now ranks 32rd. Hungary, Slovakia and Poland experienced similar falls in their rankings... Russia has lost some of its attractiveness due to the increasingly volatile political environment and rapidly escalating costs, particularly in Moscow and St. Petersburg. *Survey score: 4.58. Previous year rank: 47. Survey components: financial attractiveness, people skills & availability, business environment. (www.atkearney.com)*

E-Readiness Index: 62/70
Economist Intelligence Unit

Many of the poorest served markets in terms of access are clustered in eastern Europe and Asia—including Ukraine (62nd), Pakistan (66th), Iran (68th) and Kazakhstan (69th). They have poor track records in terms of overall connectivity expansion programs, underpinned by governments that are variously indifferent—and sometimes even hostile—to expanding access to digital channels for its citizens. *Survey score: 3.85. Previous year rank: 61 (4.31). Survey components: connectivity & technology infrastructure, business environment, social & cultural environment, legal environment, government policy & vision, consumer & business adoption. (www.eiu.com)*

Social Institutions & Gender Index: 10/102
OECD Development Center

The Constitution of Ukraine upholds the principle of equality between men and women and the country's Penal Code specifically mentions the need to eradicate all forms of discrimination. A law providing for equal opportunities for men and women was passed in 2006, but very few judges are aware of its existence. In general terms, Ukraine's legislation upholds the rights of women and guarantees their protection. Negative stereotypes persist, however, and continue to limit women's participation in society. The effect is exacerbated by the low level of female representation in decision-making bodies. Poverty and cultural attitudes also contribute to discrimination against women in Ukraine. *Survey score: 0.00969. Survey components: family code, physical integrity, son preference, civil liberties, ownership rights. (www.genderindex.org)*

Appendix 5: 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.

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