

UVCA

UKRAINIAN VENTURE CAPITAL &
PRIVATE EQUITY ASSOCIATION



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KYIV

The Ukraine Redevelopment and Recovery plan

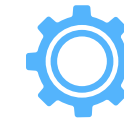
We Invest in **Ukraine**

Ukrainian Venture Capital and Private Equity Association (UVCA) was established in 2014 to improve investment and business climate in Ukraine and strengthen startup ecosystem.

Key aspects of economic reconstruction



Prioritizing renewal and development of the **manufacturing and service sectors**. **Foreign direct investments**, grants, and loans from international organizations for business are necessary for a prompt renewal of the economy.



Economic recovery of Ukraine will develop in parallel with **structural reforms** in its role as a candidate for membership in the European Union.



Attracting international aid for the recovery should take place by means of a trust to ensure **transparency in its distribution**.



The continuing military threat from Russia will require **security guarantees** for Ukraine from Western countries.

Key aspects of economic reconstruction:



The renewal process should take into account geographic location and human potential. The most promising is the development of **the western and central regions of Ukraine**. For the quick rise of individual industries it is necessary to create **industrial parks and special economic zones**.



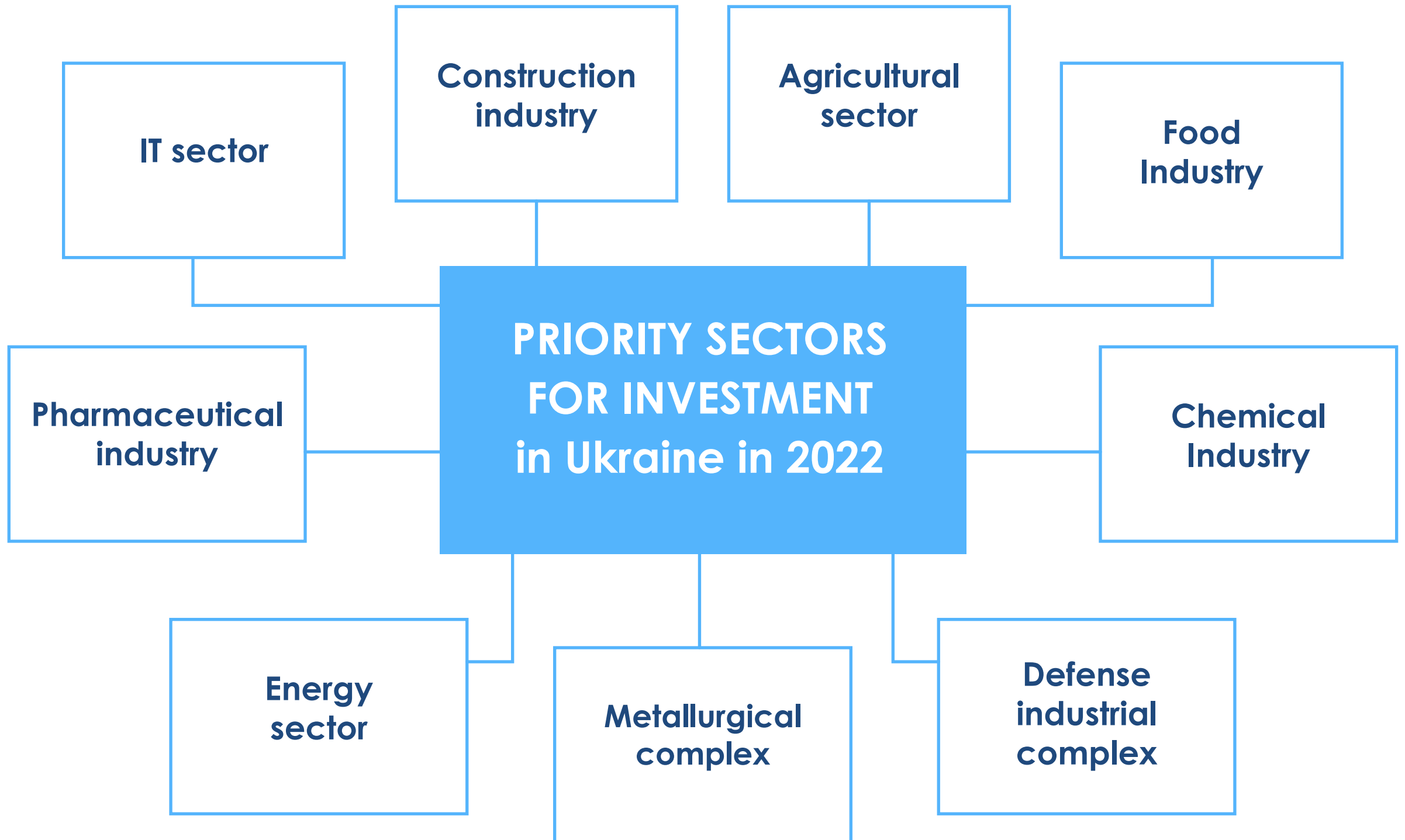
Obsolete existing production facilities in Ukraine require **technological renewal** - the use of innovative technologies and robotization of new enterprises, primarily in mechanical engineering and the agricultural sector.



Removal of quotas and duties for Ukrainian products on Western markets during the transition period.



The resource and manufacturing potential of Ukraine should be used **to replace products from the Russian Federation** in European markets.



In the event of **continued hostilities on the territory of the state**, full-fledged economic recovery may face the following risks and threats:

1 —————

Problems with Ukraine's critical import commodities:

energy resources, fuel, fertilizers, medicines and medical equipment, scarce food products. Reorientation to new import markets. Dependence on Russian and Belarusian energy and potash fertilizers.

2 —————

Logistical difficulties

Destroyed transport infrastructure. Problems include blocked seaports, congested railroad tracks, and large queues of road freight transport at the border.

3 —————

Humanitarian problems:

limitation of population's access to food, water, medical services and social protection; growth of unemployment; mass internal and external migration. There are currently 8 million internally displaced persons in Ukraine.

4 —————

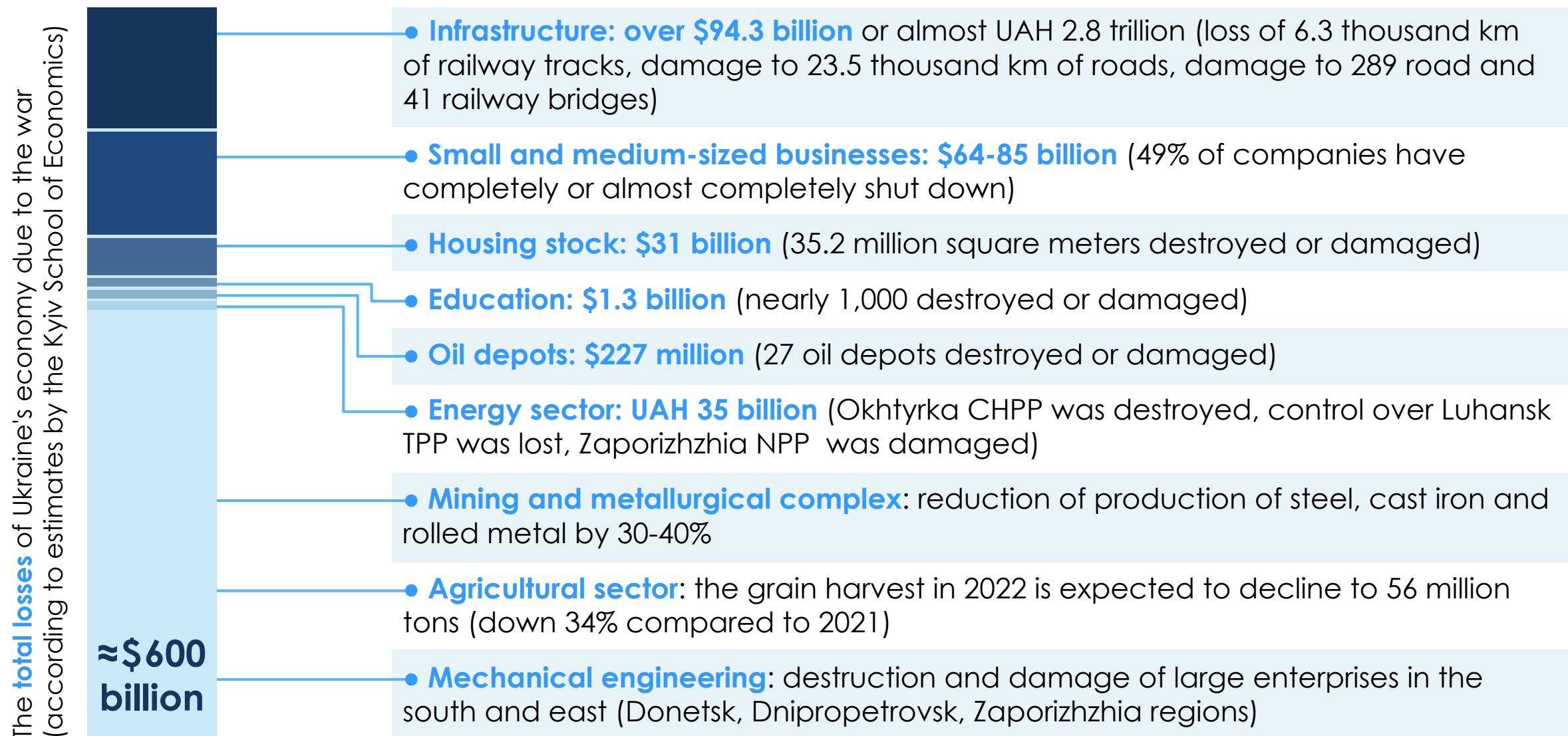
Issues of efficient allocation of funds and material resources:

Ukraine is facing the challenges of prioritizing the matters of economic recovery with specific strategically oriented goals, the formation of transparent principles of distribution of budgetary funds with control over their use.

1. Actual damages as a result of military action

208 businesses
508 medical facilities
562 kindergartens
295 bridges
156 warehouses
102 religious buildings
83 administrative buildings
27 oil depots
12 civilian airports

have been damaged, destroyed or seized since the start of Russia's war against Ukraine.



2. The impact of military operations on the labor force

1 _____

The total number of refugees from Ukraine was more than **6 million** (1.6 million people returned to Ukraine).

2 _____

4.8 million (30%) jobs have been lost in Ukraine.

3 _____

About **8 million** people have become internally displaced persons.

4 _____

As a result of large-scale hostilities, about **40%** of employed persons in Ukraine may have lost their jobs.

5 _____

The protracted nature of the conflict will lead to further waves of Ukrainian migration abroad.

Strengths

- Huge potential of utilized, explored, and potential natural resources.
- Human potential (highly educated qualified personnel, cheap labor force).
- Geographical location, transport infrastructure with great export opportunities.
- Well-developed services sector (small and medium-sized businesses, including strong IT-sector).
- Stable financial system in spite of military operations.
- Armed forces with unique combat experience and modern weaponry.
- Local self-governance, self-organized population and businesses

Opportunities

- Acquisition of EU candidate status.
- Abolition of duties and quotas for export products and sanctions against Russia.
- Attraction of large international mining companies to Ukraine.
- Reform of the regulatory and tax system, demonopolization of the economy.
- Modernization of destroyed and outdated infrastructure.
- Reform of the judicial system, creating conditions for attracting foreign investment.
- Ukraine's new geopolitical status, regional state leadership.

Weaknesses

- Monopolization of the economy.
- The role of the state in the economy, corruption.
- Lack of transparency and independence of the judicial system.
- Deteriorated infrastructure, lack of modernization of companies.
- Dependence on critical imports of energy carriers and potash fertilizers from Russia and Belarus.
- Dependence on world prices for raw materials (grain crops, metal, iron ore).
- Poor integration into the EU economy.

Threats

- Protracted war, which will increase the damage and potential cost of the recovery.
- Loss or occupation of territories, in particular regions of high economic value.
- Blockage of seaports through which key products are exported.
- Lack of reforms and incentives from the government for business development.
- Rising inflation rates, which carries serious risks for citizens.
- Unemployment, migration, humanitarian crisis with the threat of collapse of the social sphere.
- The signing of a peace treaty with Russia on terms that are disadvantageous for Ukraine, with the threat of military escalation remaining.

Annex. Priority sectors for investment in Ukraine in 2022

IT sector

- High potential is represented by the IT sector, which involves 5,000 companies and 285,000 professionals.
 - Prospects for increasing the number of employees due to about 7 million Ukrainians who lost their jobs (including many qualified engineers with a high level of education and training skills).
 - Ukraine ranks first among the Eastern European countries by attractiveness for IT outsourcing and recruitment of programmers.
 - More than 100 R&D centers of the world's leading companies work in Ukraine (Google, Oracle, Samsung, Amazon, Ericsson, Huawei, etc.), and in 2021, 19 additional R&D offices were opened.
 - In 2021, the share of IT in the export of all services was 37%, with the export of IT services from Ukraine growing by 27% annually.
 - It is expected that in the next 4 years the IT industry can generate \$37-44 billion in export revenues by 2025.
 - In spite of the war, the productivity of specialists decreased only by 10%.
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Annex. Priority sectors for investment in Ukraine in 2022

IT sector

- IT sector generated a record \$2 billion in export revenues in the first quarter of 2022.
 - Dii.City is a unique legal and tax space for IT-business, providing special taxation terms for resident legal entities. In addition, IT-companies will receive flexible terms of employment and a separate procedure of interaction with state controlling bodies.
 - According to the results of 2021, Ukrainian startups attracted venture capital in the amount of \$779.6 million which is 46% more than in 2020. About half of the 216 agreements (47%) were made by the Ukrainian Startup Fund (USF).
 - The total estimated value of Ukrainian IT startups is \$20.7 billion.
 - In the first quarter of 2022, despite large-scale Russian aggression, 11 venture deals worth \$11.5 million, 3 private equity agreements worth \$4 million, and 8 exit agreements worth \$135 million were signed.
 - Cryptocurrency market turnover in Ukraine amounts to about \$30 million a day, and about 1 million Ukrainians have experience of using and investing virtual assets.
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Annex. Priority sectors for investment in Ukraine in 2022

Construction industry

- As of May 15, 2022, approximately 40% of construction companies resumed their operations in Ukraine (primary housing market).
- There is a demand for new programs of social housing construction and attraction of external investments in the regions which are safer for living and conducting business.
- Under the conditions of mass internal displacement of population, restoration of damaged communities and the development of new ones (in particular, satellite towns around enterprises) is promising, which will stimulate the influx of new labor force and encourage entrepreneurship.

Agricultural sector

- Maintaining high dynamics of grain yields (in 2018 the harvest amounted to 70.1 million tons; in 2019 - 75.1 million tons; in 2020 - 65.4 million tons; in 2021 - 84.1 million tons).
 - Agro-food products account for the largest percentage of Ukraine's total exports - about 41% per year (in 2021, agriculture gave the highest percentage of GDP among all sectors of the economy - more than 10%).
 - In total, there are about 160 agricultural holdings in Ukraine, including more than 10 foreign companies.
 - The largest agricultural holdings are Kernel (with revenue of 2329.5 million dollars); Nibulon (with revenue of \$1946.4 million); Myronivsky Hliboproduct (with revenue of \$1183.3 million); UkrLandFarming (with revenue of \$937.5 million); Astarta Holding (with revenue of \$347.5 million).
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Annex. Priority sectors for investment in Ukraine in 2022

Food industry

- In total, about 18% of the country's population works in the food and processing industry.
 - There are 7.5 thousand operating food production enterprises and about 800 beverage production companies.
 - More than 20 industries that produce finished products and semi-finished products.
 - Large quantities of stored agricultural products - the issue of their processing (existing capacities are insufficient) and exporting them as finished products is becoming increasingly pressing.
 - Of the \$27.9 billion in agricultural exports for 2021, finished food products accounted for \$3.8 billion.
 - With a huge cheap raw material base, the cheapest labor force in Europe and the elimination of quotas in the EU and North American markets, the food industry is already highly promising for investment.
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Annex. Priority sectors for investment in Ukraine in 2022

Pharmaceutical industry

- 113 pharmaceutical factories, most of them new and certified, operate under the international GMP standard.
- There is a large number of qualified personnel, chemists, pharmacologists, pharmacists.
- On February 23, 2022 20.8 thousand pharmacies worked in Ukraine; as of April 6, 16.2 thousand pharmacies were operating.
- Average monthly sales of drugs, medical products, etc. are about \$3 billion, and drugs prevail in its structure (about 80%).
- According to the results of the 1st quarter of 2022 the growth of the industry is fixed at the level of 19%.
- The industry is attractive both in terms of the growing domestic market and the large export potential for entering international markets.

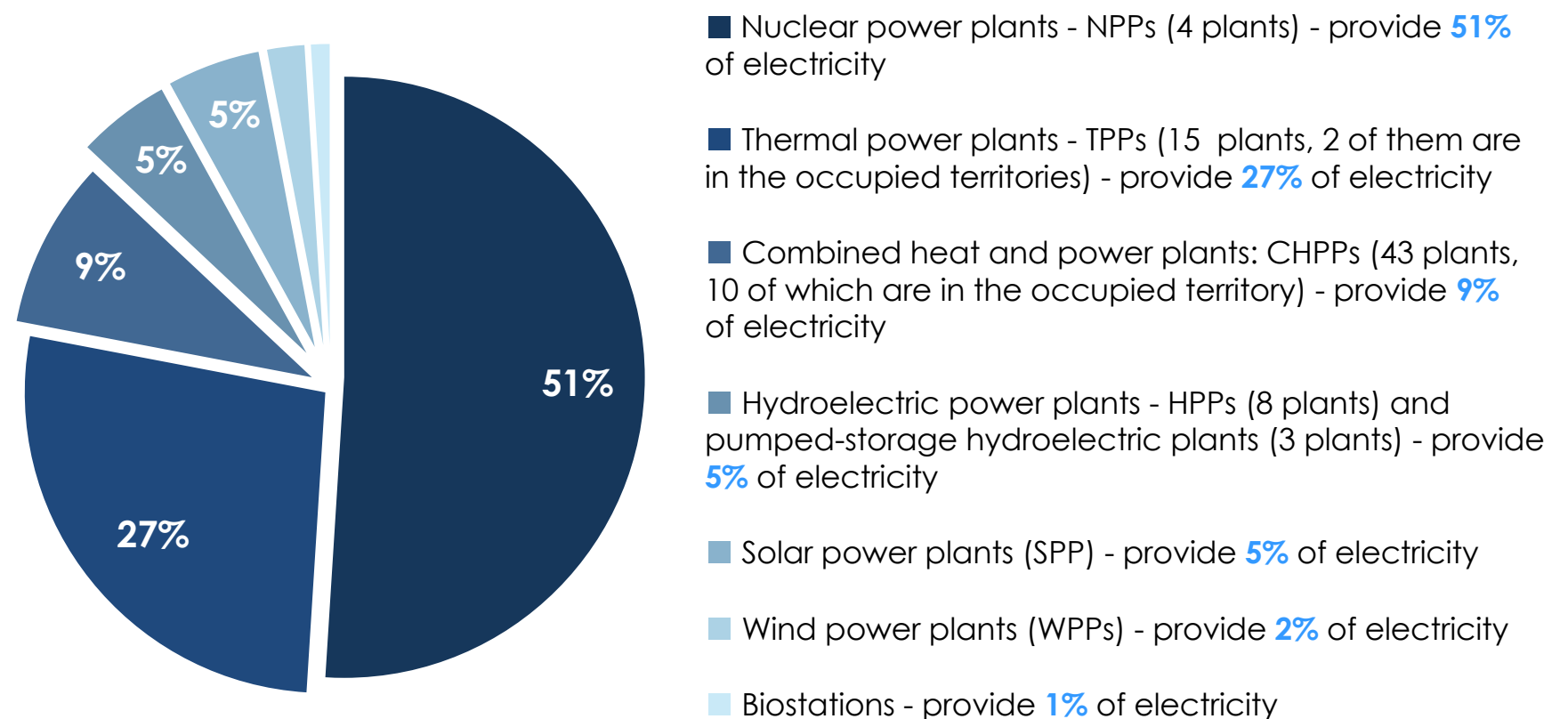
Chemical industry

- 250 chemical plants, of which 100 are giants (\approx 220,000 employees)
 - Chemicals account for 9-10% of the industrial output
 - The share of large enterprises is significant in the production of fertilizers, nitrogen compounds, plastics in primary forms, synthetic detergents
 - Medium enterprises provide production of plastic products, small ones supply plastic and rubber products, organic substances, paints and coatings, synthetic detergents.
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Annex. Priority sectors for investment in Ukraine in 2022

Energy sector

- Renewable energy is a high-potential area of focus.
- It is expected that in 2030 the share of electricity production from renewable energy sources will be about 25-30%.
- Potential accumulation of energy resources in the form of hydrogen (possible production could reach 505 billion cubic meters or 45 million tons) and biogas.
- Ukrainian electricity exports could replace 17% of Russian natural gas consumed in the EU.



Annex. Priority sectors for investment in Ukraine in 2022

Metallurgical complex

- The need to rebuild the destroyed housing stock, infrastructure and industrial enterprises will create a demand for the supply of metal products.
 - Metallurgical complex accounts for up to 16% of total industrial sales, 1/5 of merchandise exports and more than \$10 billion export revenue of the state.
 - More than 200 thousand workers are employed in metallurgy (10% of all employees in the industry).
 - Ukraine's largest steelmakers are Metinvest Group; ArcelorMittal Kryvyi Rih; Interpipe Steel, an electric steelmaking plant, etc.
 - In 2021 Ukraine produced 21.10 million tons of cast iron; 21.30 million tons of steel; 19.04 million tons of rolled products (35% of exports were to the EU).
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Annex. Priority sectors for investment in Ukraine in 2022

Defense industrial complex

- Ukraine ranked 12th among arms exporters in 2016-2020 with a 0.9% share in global exports.
 - From 2017 to 2021, the share of private enterprises in the implementation of the defense order increased from 23% to 54%.
 - Ukraine is among the top 5 countries with the full cycle of rocket and space technology production, from rocket fuel to ready-made bodies, launch vehicles, and spacecraft.
 - In 1991-2021 there were 169 launches of Ukrainian carrier rockets.
 - Ukrainian engineers developed an engine for the Vega launch vehicle at European request (2018); participated in the development of NASA's Antares launch vehicle (2020).
 - About 40 major enterprises in Ukraine are presently working on the construction of satellites, launch vehicles, etc. (among the current projects is the development and launch of the Sich 2-30 satellite; testing of the Cyclone-4 space rocket system, etc.)
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