

# FRONTEZA

## General

### Business Development Strategy

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Created: 12 October 2009  
Last Revised: 19 January 2010  
Pages: 12

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## Executive Summary

*The best way to get bargains is to create the relevant opportunities itself; otherwise, you will wait for them to appear for ages.*

This document presents the general development strategy of the investment company and considers the investment directions for the Ukraine's market. The main purpose of the document is to set the direction for further work and present the investment idea. The document covers business lines that will be developed gradually. The operating business model of the company is based on the synergic combination of operating models of a hedge fund, a private equity fund and an investment bank. The document presents and rationalizes the investment portfolio structure as well.

The document structured in the following manner. *The first section* covers the investment directions and industries of interest in the Ukraine's market and rationalizes the investment portfolio structure. *The second section* covers the operating business model of the investment company. It also presents the proposed investment vehicle and the organizational structure of the Research and Development Center.

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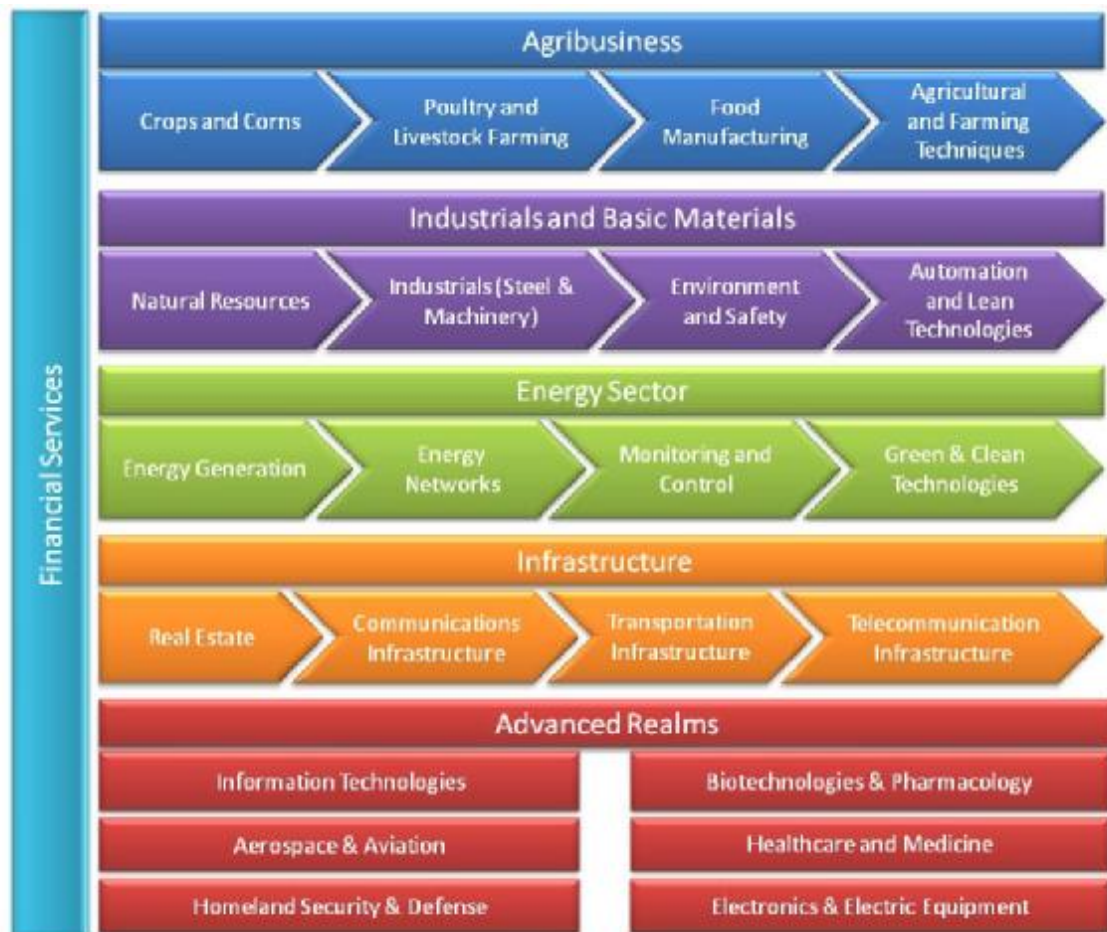
## 1 Industries of Interest

This section covers the investment directions and industries of interest in Ukraine’s market and rationalizes the investment portfolio structure. The investment idea is to create the relevant opportunities in the Ukraine’s real economy itself to secure its organic growth and advancement. Basically, the proposed general strategy is nothing but the economy development strategy that embraces the investment idea of the economy organic growth.

The following industries and sectors are of interest and match to the investment idea:

1. Agribusiness;
2. Industrials and basic materials;
3. Energy sector;
4. Infrastructure;
5. Financial services;
6. Advanced technology sectors.

The figure below depicts the portfolio structure using the economic value added chains. Basically, it represents the economy development roadmap.



### 1.1 Agribusiness

The general economy evolution path has the following consequent stages: resources economy – industrialized economy – technological economy – ruling economy. For Ukraine, the ground rests on its agriculture, land and farming potential. As far back as in the times of USSR, Ukraine was

designated as the important grain-crops region. As the economy advances to the next development stage, so the agribusiness must also advance through the implementation and integration of new agricultural and farming techniques and through the improvement of the agriculture in whole.

In the whole, the following sectors must be considered:

1. Crops and corns;
2. Poultry and livestock farming;
3. Food manufacturing;
4. Agricultural and farming techniques (including chemicals and fertilizers).

Thus the development of the agribusiness industry must be based on creation of the economic value in the foregoing sections. Agricultural and farming techniques are depicted as the last section, but they create the cycle of constant improvements in the agribusiness, qualitative improvements as well.

### 1.2 Industrials and Basic Materials

As defined in the previous section, the next consequent stage of the economic development is the industrialized economy. This layer of the economy is formed by basic materials and manufacturing enterprises. Though the former is very dependent on the geographic location of the country, there are different approaches to secure the economy with required raw materials and natural resources required by manufacturing enterprises.

Ukraine is rich in different natural resources, but its key natural resource is the coal. The accompanying spinoff product is methane that accumulates in a great amount in coal mines and potentially represents the alternative to natural gas, which is important from the standpoint of energy diversification and independence. With regard to the industrials, the key manufacturing enterprises of interest operate in heavy machinery sector, steel production sector, automotive and aircraft sector.

The industrials and resources extraction base of Ukraine is pretty old and requires the modernization and structural modifications. And it concerns not only the modernization of production and extraction facilities, but environmental, safety and ecological issues as well. That is why the environment and safety section is presented in the economic value added chain in the figure above and the attention must be paid to the relevant projects.

As in the case of the agribusiness, in order for the economy to advance, the relevant technologies must be developed and integrated in the production process. Automation and lean technologies finalize the economic value added chain and create the cycle of constant improvements, qualitative improvements as well. The attention must be paid to the relevant projects.

In the whole, the following sectors must be considered:

1. Natural resources (coal and methane);
2. Industrials (steel, heavy machinery, automotive sector and aircraft);
3. Environment and safety (including coal processing and methane treatment techniques);
4. Automation and lean technologies (industrials, resources extraction and processing).

### 1.3 Energy Sector

Diversified energy sources are important to secure the energy independence and safety. Reliable energy supply depends heavily on safe energy networks and the establishment of reliable monitoring and control facilities. Current state of the designated components of the energy infrastructure requires its modernization and structural modifications.

Thus the energy sector development strategy must include diversification of the energy sources and improvement of the energy networks. The former must adopt the alternative energy sources such as solar and wind power, but this must not be done to the detriment of the recreation, tourism and agriculture potential of Ukraine: it is not a good idea to sacrifice perfect recreation areas e.g. in Crimea and put up solar farms all over the hundreds of square kilometers. The balance must be maintained to leverage both of opportunities e.g. by building recreation and tourism centers and supplying them with energy generated by stand-alone solar and wind farms put up on the nearby area. We must not go nuts about the alternative energy sources and have to keep the reasonable balance in each region to secure the organic development of all of its potentials.

Monitoring and control facilities must also be modernized through the gradual implementation of the new smart monitoring and metering instruments and creation of the modern control centers. The modernization and structural modifications of energy networks are not possible without the implementation of new clean technologies and promotion of energy-save products. Such businesses belong to the final section of the economic value added chain which secures the constant qualitative improvements of the energy sector.

The environment protection and waste utilization also belong to the final section of the economic value added chain. The attention must be paid to the waste utilization, fuel utilization and water treatment facilities, which also can serve as the alternative energy and fuel (biofuel) sources.

In the whole, the following sectors must be considered:

1. Energy generation (including alternative energy sources);
2. Energy networks (transformation, transmission and storage);
3. Monitoring and control facilities (smart energy networks);
4. Green and clean technologies (energy-save products, environment protection, environment-friendly technologies, waste utilization, fuel utilization, water treatment, biofuel production, coal processing).

### 1.4 Infrastructure

Modern economy requires modern infrastructure: real estate objects connected by modern communications, telecommunications and transportation infrastructure. The development of infrastructure projects is a capital-intensive process with the relatively long payback period that incubates different risks. With this regard, the reasonable balance must be maintained in the capital structure between the debt and the equity: it must be less conservative and more open to equity investments.

In the real estate sector, the foremost attention must be paid to the commercial real estate, to the recreation and tourism objects in particular. Modernization and structural modifications of the

existing infrastructure objects, implementation of modern construction standards as well, must be considered. Once again, the recreation and tourism objects must be accounted for the foremost part of investments.

Existing communications requires modernization and structural modifications. The foremost attention must be paid to the gradual improvement of communication channels to facilitate the renewal and roll-out of new energy facilities, commercial and living objects in the regions and rural areas. The regions development programs must be established to facilitate the improvement of life conditions in the regions and secure their economic development, the development of the relevant economy sectors as well.

The transportation infrastructure projects must cover such areas as the modernization and structural modifications of sea-ports, sea-gateways and airports; the improvement of the logistics and storage infrastructure; gradual roll-out of the advanced automotive infrastructure to facilitate the promotion of environment-friendly and energy-save vehicles.

The modernization and structural modifications of the telecommunication infrastructure, the roll-out of modern satellite and navigation systems must gain the foremost attention in the telecommunication sector. The roll-out of the modern telecommunication systems is vital not only to provide the high-quality public services, but to form the ground for facilities of tactical reconnaissance as well.

In the whole, the following sectors must be considered:

1. Real estate (commercial real estate, including recreation and tourism objects);
2. Communications infrastructure (including regions development programs);
3. Transportation infrastructure (sea-ports, sea-gateways, airports, logistics and storage infrastructure, advanced automotive infrastructure);
4. Telecommunication infrastructure (including satellite and tactical reconnaissance systems).

### 1.5 Financial Services

The main purpose of the fiscal system, the banking system in particular, is to serve the cash and capital flows in the real economy, as well as to accumulate and mobilize the capital required to finance the operations in the real economy sectors. In order to secure the investment company's capital safety and efficient management of its assets and cash flows of its portfolio companies it is important to have the investment and corporate banking arm in its structure. Also, the creation of the retail banking arm can be considered in order to provide the retail banking services for employees of the portfolio companies. It is better to acquire the existing retail bank and restructure its operating business model to accommodate it to the requirements of the investment company.

The details of the financial services unit are presented in the "Operating Business Model" section.

### 1.6 Advanced Sectors

The advanced economy cannot be such without technologies. Technologies play vital role in the cost reduction, quality improvement and production modernization initiatives. The research and development programs play key role in the development of new technologies, while integrated

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portfolio structure and direct business ownership allows seamless implementation and commercialization of the new technologies and production techniques.

The relevant unit must be created to secure the technological advancement. The Research and Development Center must be established and integrated into the structure of the investment company. The top-bottom program-based flexible budgeting approach must be implemented to secure reliable financing of research programs and projects. The Research Center must include the following units:

1. Information technologies (including cyber-security);
2. Aerospace and aviation (including spatial navigation, neogeography and situational awareness programs);
3. Homeland security and defense (including armament, tactical reconnaissance and disaster protection systems);
4. Biotechnologies and pharmacology (including microbiology and bioengineering);
5. Healthcare and medicine (including medical devices and equipment);
6. Electronics and electrical equipment (including nanosystems, quantum systems and cybernetics).

The operating model of the Research Center is presented in the “Operating Business Model” section. The research center’s development strategy must be defined, but it is out of scope of this document.

## 2 Operating Business Model

<<< THE CONTENT OF THIS SECTION HAS BEEN REMOVED INTENTIONALLY. PLEASE REFER TO THE AUTHOR FOR DETAILS >>>