



NAVIGATING UKRAINE'S DEFENSE TECH MARKET:

Opportunities, Trends, and Legal Insights

The background image shows two men in a workshop setting. One man is holding a drone, and the other is looking at it. There are various tools and equipment visible in the background. The image is darkened to make the text stand out.

Ukrainian Defense Tech Market Overview

Unlocking Opportunities in Ukraine's Defense Tech Market

- With substantial government spending, a diverse range of defense tech innovations, and a rapidly growing private sector, Ukraine's defense tech market presents unparalleled opportunities for investors.



This guide offers a focused overview of the industry, covering:



Key market dynamics
and growth projections



Legal frameworks
shaping investments



Understanding these critical elements enables investors and stakeholders to navigate the market effectively and capitalize on opportunities in this dynamic and evolving sector.



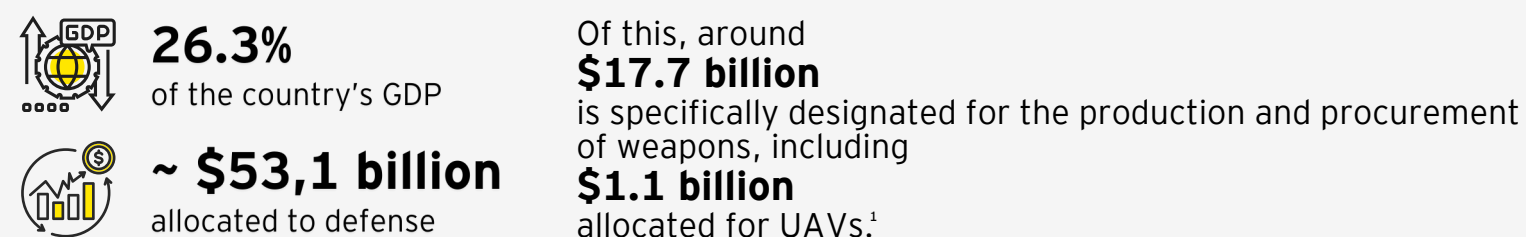
As Ukraine continues to fortify its defense capabilities, the defense tech industry will remain a cornerstone of the country's economic growth and strategic development.

Driving Growth in Ukraine's Defense Sector

Budget Overview

As military actions continue into 2025, defense and security remain top priorities in Ukraine's budget.

Total defense and security spending in 2025 is projected to account for:



Industry Composition

As of 2024, **over 500 Ukrainian enterprises** have been actively engaged in Ukraine's defense sector, employing up to **300,000 specialists**²:



This growth is expected to continue in 2025, driven by increased demand and further expansion of private sector production capacities.

Domestic Market Growth Projections

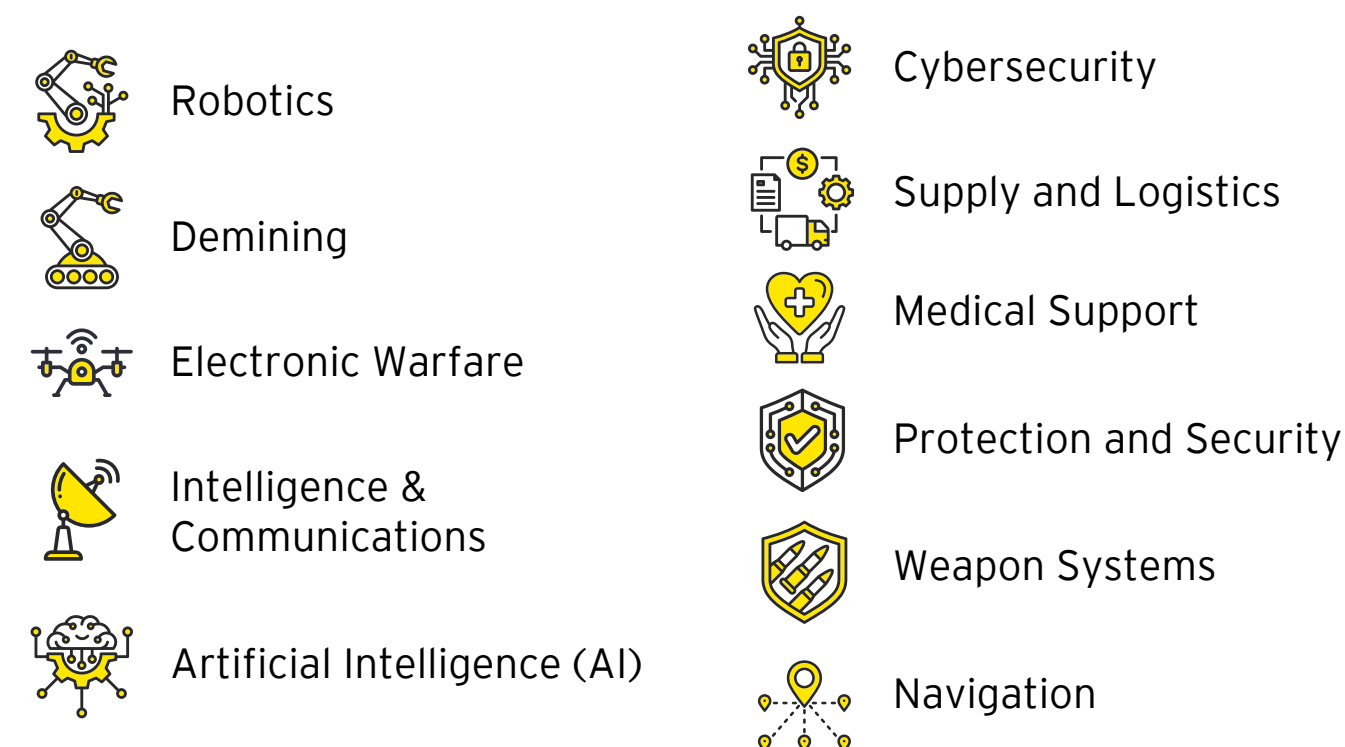
The domestic market anticipates **a 5% annual growth** in the share of Ukrainian manufacturers. **By 2027, domestic producers may account for 65% of the market, driven by**³:



The Diverse Scope of Ukrainian Defense Tech

Ukraine's substantial investment in defense procurement creates significant opportunities for Ukrainian defense tech manufacturers and their investors. Among these investments, the **drone sector** stands out as a key focus area, with over **1.3 million drones delivered to the Ukrainian defense forces in 2024**⁴.

However, Ukraine's defense tech sector extends far beyond UAVs, encompassing a **diverse range of cutting-edge technologies, including:**



This diversity highlights the **sector's potential for innovation and its ability to address various critical aspects** of modern defense and security needs.

Overview of Defense Tech Investments

Ukrainian defense startups have seen a significant increase in investments, with **\$40 million raised in 2024**¹. This marks a substantial jump from the \$5 million raised in 2023². **Brave1 Defense Tech Cluster announced plans to attract \$100 million in investments in 2025**, further boosting Ukraine's defense tech growth.

Seed round sizes have expanded considerably, with typical investments growing from up to **\$500,000 in 2023** to an average range of **\$1 million to \$3 million in 2024**³.

This growth reflects the burgeoning potential and investor confidence in Ukraine's defense tech sector.

The table on the right showcases Ukrainian defense tech startups that have recently secured significant investments from a mix of venture capital funds and angel investors. Investment amounts range from approximately **\$240,000 to \$3.75 million**, highlighting the growing confidence and interest in Ukraine's defense tech sector.



Key Trends in Ukraine's Defense Tech Sector

The evolution of VC investments in Ukraine's defense tech market is characterized by several notable trends:

► Diversification of Focus Areas:












While UAV startups continue to dominate Ukraine's defense tech market, holding the largest share, investors are increasingly funding a diverse range of innovations, including electronic warfare, AI-driven solutions, and robotics. This reflects a growing recognition of the sector's broader potential beyond traditional segments.

► Growing Presence of International Investors:

An increasing number of international VC funds and angel investors are actively entering the Ukrainian defense tech ecosystem.

► Shifting Focus Toward Larger Funding Rounds:

Ukrainian defense tech startups are securing multi-million-dollar investments, signaling a maturing market.

No.	Target	Area of Operations	Investor(s)	Value of Investment(s), \$
1.	 osavul	AI-driven media intelligence platform used to combat russian propaganda and disinformation	42CAP, SMRK VC, u.ventures	\$3 million and \$1 million
2.	 SWARMER	AI-powered drone technology designed for organizations to manage challenging or dispersed areas	Radius Capital, Green Flag Ventures, D3 VC, Angel One Fund	\$2.85 million
3.	 BAVOVNA AI	AI-powered autonomous navigation systems	Presto Tech Horizons, Network VC, Allied VC	\$2.7 million
4.	 BUNTAR AEROSPACE	Drones equipped with AI-powered modules for navigation systems	Nezlamni by Uklon, Angel One Fund, United Angels Network, Anonymous Investors	more than \$1.2 million
5.	 HIMERA	Communication systems designed for use in civil and emergency situations	Freedom Fund VC, United Angels Network, multiple angel investors, Nezlamni by Uklon, Angel One Fund	\$625,000 - \$1.1 million
6.	 FARSIGHT Vision	3D mapping technology designed to enhance drone capabilities through innovative modules	Darkstar	\$600,000
7.	 ZVOOK	AI-powered audio sensors designed to detect airborne objects	Slava Ventures, D3 VC	\$525,000 - \$625,000
8.	 Frontline	Air and ground systems for robotic defense and assault	D3 VC, Nezlamni by Uklon, Angel One Fund	\$275,000 - \$675,000
9.	 ASPICHI	Virtual reality technology enabling real-time streaming of video and audio	SMRK VC	\$500,000
10.	 AILAND SYSTEMS	AI-powered drones designed for demining	D3 VC, Nezlamni by Uklon, Google for Startups Fund	\$425,000
11.	 Mantis Analytics	AI-driven real-time information monitoring platform providing intelligent insights	Nezlamni by Uklon, Angel One Fund	\$240,000 - \$390,000

1 - Brave1 Defense Tech Cluster.
2 - Kyiv School of Economics and Brave1 Defense Tech Cluster.
3 - Kyiv School of Economics and Brave1 Defense Tech Cluster.

Overview of Defense Tech Ecosystem

- Overall, the ecosystem in Ukraine for startups and innovative companies is multifaceted and developed, offering a wide range of opportunities for development and growth. In the context of the war, this support becomes even more relevant, helping companies adapt to new challenges and contribute to strengthening the country's defense capabilities.

Key Players in Ukraine's Defense Tech Ecosystem



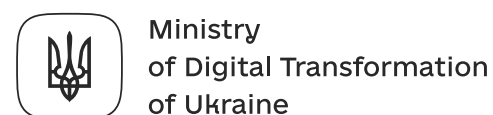
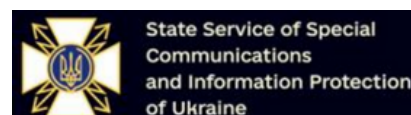
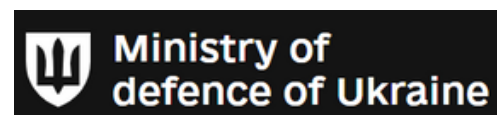
State Institutions

Ministry of Defense: The primary public offtaker through the Defense Procurement Agency and the State Operator for Non-Lethal Acquisition.

State Special Communications Service of Ukraine: Focuses on purchasing UAVs and electronic warfare systems.

Ministry of Digital Transformation: A coordinator for procurement of UAVs, particularly through initiatives like United24.

Ministry of Strategic Industries: Oversees defense procurement planning and operations.



Foreign Donors

International Drone Coalition: The support for Ukraine from the member countries of the Drone Coalition, led by Latvia and the United Kingdom, was projected to reach €1.8 billion by the end of 2024¹.

ZBROYARI: Manufacturing Freedom: This initiative raised \$1.5 billion in 2024 for the Ukrainian defense industry, with contributions from the EU, Denmark, Canada, the Netherlands, Lithuania, the UK, Norway, Iceland, and the USA.²

"Danish Model" of Support: Through this mechanism, involving the Danish government financing Ukrainian defense enterprises, the Armed Forces of Ukraine received weapons worth nearly €538 million in 2024.³



Volunteers and Charity Foundations

Organizations like **Come Back Alive** and **Prytula Foundation** purchase defense tech products, including UAVs and communication systems.



Overview of Defense Tech Ecosystem



Incubators

Incubators, including BRAVE1, Defence Builder Accelerator, IRON Lviv Tech Cluster, and MITS Accelerator, provide financing, mentorship, connections to credible partners, and access to infrastructure (e.g., offices, production facilities).


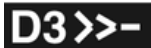





BRAVE1

**defence
builder**



Investors

The Ukrainian startup ecosystem currently features over two dozen funds, syndicates, and angel investor clubs actively investing in domestic defense startups across diverse areas such as UAVs, AI, and electronic warfare, including:

No.	Name of the Investor	Total Capital, \$	Typical Investment/Grant, \$	Portfolio Startups
1.	MITS Capital 	~\$50 million	~\$100,000 - \$200,000	Karadag, Toloka, Pegasus, Oko Camera, Vermeer, Hilion System, Aeromotors; 20 MITS Bootcamp participants
2.	D3 Venture Capital 	~\$19 million	~\$125,000	Zvook, Frontline, Swarmer, Drone Space, Island Systems, Flightmind, Guardian, Neros
3.	Ukrainian Startup Fund (providing non-equity grants) 	~\$9 million	Grants: ~\$25,000 - \$50,000	AeroDrone, IZVIZ, Drill App; 352 startups supported, including defense tech
4.	Green Flag Ventures 	Undisclosed	~\$150,000 - \$1.2 million	Karadag, Himera, Swarmer
5.	Nezlamni by Ukion NEZLAMNI	~\$2 million	~\$100,000 - \$400,000	Mantis Analytics, Himera, Ailand Systems, Buntar Aerospace, Frontline
6.	United Angels Network 	Undisclosed	~\$150,000 - \$375,000	Himera, Buntar Aerospace
7.	Angel One Fund 	Undisclosed	~\$50,000 - \$300,000	Himera, Buntar Aerospace, Swarmer, Mantis Analytics
8.	Freedom Fund VC 	Undisclosed	~\$100,000	Himera

Brave1: United Coordination Platform for Defense Tech Powered by the Ukrainian Government

BRAVE1

Brave1 is a Ukrainian government-initiated platform designed to foster innovation in defense tech by uniting various stakeholders and providing comprehensive support for defense tech projects.

► Key aspects of Brave1 include:



Government-Led Initiative

Established by the Government of Ukraine, Brave1 serves as a unified coordination platform to enhance collaboration among defense tech industry stakeholders.



Comprehensive Support

The platform offers organizational, informational, and financial assistance for defense tech projects, aiming to accelerate technological advancements in Ukraine's defense sector.



International Collaboration

Brave1 actively seeks partnerships with international investors and companies, providing them access to Ukrainian defense innovations and facilitating cooperation between public and private sectors.



Priority Development Areas

The platform focuses on 12 key areas, including automated management systems, ground and maritime robotic systems, missile and artillery systems, electronic warfare, and cybersecurity.



Funding and Investment

As of January 2025, **400+ grants totaling approximately \$30 million have been awarded**, including DeepState (Kolossal), Swarmer, SkyLab, Mantis Analytics, Frontline, Eye Camera, Uobo and Drill App.

In the 2025 state budget, nearly **\$71.6 million has been allocated for grants from Brave1**. Developers are eligible to apply for grants ranging from approximately **\$12,000 to \$192,000**.



Testing and Approval

Brave1 facilitates the testing and approval of technologies and products within Ukraine, ensuring that innovations meet the necessary standards and can be effectively integrated into defense operations.



Community Engagement

The platform encourages the formation of a robust community of defense tech stakeholders, offering opportunities for networking, participation in events, and collaboration on innovative solutions.

► By integrating these elements, Brave1 aims to advance Ukraine's defense capabilities through technological innovation and strategic partnerships.

► **The Brave1 Defense Tech Cluster currently registers over 3,300 developments by more than 1,500 domestic manufacturers, including:**



UAVs

850+ companies
specializing in UAVs



Ground robotic systems

300+ manufacturers
focused on ground robotic systems



Electronic warfare

240+ manufacturers
working on electronic warfare solutions

The background is a dark blue image with a blurred, bokeh effect of warm lights on the left. In the center, there is a faint, glowing icon of a smartphone with a padlock on its screen. A hand is visible in the lower-left foreground, with a finger pointing towards the padlock icon. The overall theme is digital security and technology.

Ukrainian Defense Tech Legal Overview



Domestic Companies

Private Ukrainian defense tech companies predominantly operate as limited liability companies (LLCs), which are the most common business structure in Ukraine (in rare cases, joint-stock companies). Under Ukrainian law, LLCs are legal entities that can be established by one or more individuals/legal entities, with charter capital divided into participatory interests.

LLCs in Ukraine share similar characteristics with private limited companies in European countries or Delaware (USA) and have the following features:

Limited Liability

LLCs are liable for their obligations with the property they own, while participants generally do not bear any personal liability for the company's debts beyond their contributed or committed capital.

Charter Capital

There is no mandatory minimum charter capital requirement.

Ownership Rights

LLCs do not issue shares; instead, ownership is based on the size of each participant's participatory interest (depending on their contribution to the LLC's charter capital). Participatory interest represents the participant's corporate rights, including the right to manage the company, receive dividends, and other entitlements.

Registration

There is no stamp duty for LLC's registration in Ukraine. It can be completed within one business day upon submission of the required documents to the state registrar.

Charter of an LLC

This is a foundational legal document that outlines the company's structure, governance, and operating procedures. Ukrainian law imposes minimal mandatory requirements for the charter, providing companies with flexibility to govern their operations within legal limits.

Governing Bodies

- **General Meeting of Participants:** The highest decision-making body, responsible for addressing key operational matters of the LLC.
- **Executive Management:** Comprising either a sole director or a board of directors, which may include executive and non-executive (controlling) members. This body is responsible for managing the LLC's day-to-day operations.
- **Supervisory Board (optional):** A body that oversees and controls the actions of executive management.



Foreign Holding Structures

Ukrainian defense tech startups often establish their holding entities overseas in jurisdictions such as Estonia, the Netherlands, the UK, Cyprus, or Delaware, while maintaining operating subsidiary LLCs in Ukraine.

Maintaining a Ukrainian subsidiary is crucial for several reasons:



Regulatory compliance



Participation in state defense procurement



Military personnel reservation



Eligibility for state grants

Despite recent advancements in Ukrainian corporate legislation, which now incorporates corporate instruments long established in common law countries, foreign investors often structure investments offshore under foreign laws, typically English law, due to its greater familiarity and reliability.

Investment and Exit Structures



Direct Investment into a Ukrainian LLC

Ukrainian law allows both Ukrainian and foreign investors to invest in a Ukrainian LLC through equity (e.g., issuance of participatory interests, secondary sales), debt (e.g., convertible loans), or a combination of both.



Indirect Investment through a Foreign Holding Company

- ▶ Many Ukrainian defense startups attract funding through indirect equity investments by establishing holding companies in foreign jurisdictions such as Estonia, the UK, Cyprus or Delaware (USA), while maintaining operational LLCs in Ukraine. This strategy is often adopted to meet the requirements of investors.
- ▶ These jurisdictions provide access to flexible capital-raising instruments, including SAFEs (Simple Agreements for Future Equity) and convertible loans, both of which are well-established and supported by robust legal frameworks.



Joint Ventures

- ▶ JVs in Ukraine can be public-private (involving state-owned enterprises) or private-private.
- ▶ JVs operate in most cases as incorporated entities (separate legal entities), in rare cases as non-incorporated entities (contractual arrangements).
- ▶ Ukrainian law generally restricts state-owned enterprises from establishing companies, though exceptions exist, particularly for enterprises that are part of state company - JSC "Ukrainian Defense Industry".



M&A as an Exit Option

It is estimated that approximately **30% of defense tech companies are interested in M&A**, either as buyers or sellers, in the coming years.¹ This growing trend highlights the potential of M&A as an attractive exit strategy for investors.

If an M&A exit is structured at the offshore level, where the holding company is registered abroad (e.g., UK, Cyprus, Delaware (USA)) and has a direct Ukrainian subsidiary, then the foreign corporate rules apply. These generally encompass the share purchase agreement, instruments of shares, updates to the internal share register, applying for state registration, etc. In Ukraine, only the update of information regarding the UBOs in the state corporate register is required.

If an M&A exit is structured at the inshore level, where the holding company is a Ukrainian LLC, both **Ukrainian and foreign entities can directly sell or acquire participatory interests in an LLC through a straightforward process, generally requiring:**



Share Purchase Agreement

Outlines the terms and conditions of the transaction and may, under certain conditions, be governed by foreign law



Statement of Transfer and Acceptance

Must be signed in the presence of a Ukrainian notary and submitted for state registration.

The state registration of transfer process is efficient and is usually **completed within one business day** after the submission of required documents.

Investment Screening, Antitrust and FX Restrictions



Investment Screening

Ukraine has not yet implemented foreign investment screening regulations. As a result, direct or indirect investments in defense startups typically do not require specific approvals from Ukrainian state authorities.



Merger Clearance

Investors may require merger clearance approval from the Antimonopoly Committee of Ukraine (AMCU) if one of the following financial thresholds is met:

➤ Combined Global Assets or Turnover Threshold

- The combined **global assets** or turnover of all participants, including their controlled entities, **exceed €30 million**; and
- The **assets or turnover in Ukraine** of at least two participants, including their controlled entities, **exceed €4 million each**.

➤ Non-Controlling Stakes and Merger Filings

Non-controlling stakes – those involving less than 50% of a target's voting rights – are generally not considered a category of concentration and therefore do not require a merger filing in Ukraine. However, exceptions apply to transactions that result in the acquisition of control or negative control rights.

➤ Single Participant Threshold

- The assets or turnover in Ukraine of at least one participant, including its controlled entities, exceed €8 million; and
- The global assets or turnover of at least one other participant, including its controlled entities, exceed €150 million.

➤ Martial Law Antitrust Exemption

Mergers between foreign entities for developing or producing military and dual-use goods for Ukraine are exempt from merger clearance during martial law and 90 days after its end if:

- End recipients include the Armed Forces, law enforcement agencies, military formations, or entities involved in national defense or combating terrorism.
- The goods or technologies are not sufficiently produced in Ukraine to meet defense needs.
- The acquirer operates in military or dual-use goods and technology markets.



Martial Law Foreign Currency Control Restrictions

The general prohibition imposed by the National Bank of Ukraine on foreign currency purchases and transfers abroad, introduced on 24 February 2022, generally remains in effect, with the following exceptions:

- ▶ Payments for the import of goods are **permitted if their delivery took place after 23 February 2021** (specific rules for payments of goods received before this date).
- ▶ Interest and other associated **payments under the loans received after 20 July 2023 are allowed and principal amount may be repaid after 1 year** (specific rules for repayment of loans received before this date).
- ▶ **Conditions for repatriation of dividends abroad:**
 - for 2024 (and next years);
 - monthly limit of €1 million;
 - Ukrainian company must be registered for at least 12 months and a foreign investor must hold shares in the company for at least six months before such repatriation.

General Protections for Investors under Ukrainian law



Ukrainian law provides comprehensive protections for foreign investors, including:



General Investment Protections

The investment regime in Ukraine ensures national treatment for foreign investors, granting them the same rights and obligations as domestic investors. It guarantees stability and predictability by protecting against legislative changes, unlawful state actions, and expropriation.



Profit Transfer Protections

Foreign investors are guaranteed unrestricted transfers of profits earned in Ukraine, provided they comply with the National Bank of Ukraine's currency control regulations and settle all applicable taxes and duties.



Insurance for Foreign Investments

To address risks associated with the conflict, **Ukraine offers extensive war and political risk insurance options:**

- Coverage from international financial institutions such as the DFC, EBRD, MIGA, as well as from foreign export credit agencies.
- Insurance from the Export Credit Agency of Ukraine.



Default Legal Mechanisms

Participants in Ukrainian LLCs are safeguarded by a range of default legal mechanisms under Ukrainian law, which can be customized to meet their **specific needs**:



Anti-Dilution Protection

Participants have preemptive rights to maintain their ownership during capital increases.



Preemptive Rights

Participants enjoy preemptive rights in secondary sales (the right of first refusal).



Foreign Law in Shareholder Agreements

Shareholder agreements can be governed by foreign laws if one of the parties is a foreign entity or individual, offering flexibility in structuring rights and obligations.



Fiduciary Duties of Directors

Directors must act in good faith, prioritize the company's interests, and avoid conflicts of interest.



Limited Liability of Participants

Generally, participants are not personally liable for the LLC's obligations; the LLC itself is responsible for its debts.

Intellectual Property (IP) Protection of Defense Tech Startups

■ **The foundational question for a defense tech company is what it needs to protect as IP.** Whether it's a product or device, a specific technology within the product, a crucial technology in the production process, or a particular production method, all these elements fall under the umbrella of IP in terms of IP rights.

Industrial property objects (inventions, utility models, industrial designs)

Invention could be a product (a device, a substance), or a process (method).

Utility model is only a device or a process (method).

Inventions should be **novel, inventive** and **industrially capable** for the used in the industry, while **utility models** could be not inventive and have twice lesser validity term.



Industrial design is external look of a product, device, or its part thereof, as determined in particular by lines, colour, shape, texture and/or material of the product.

As for other IP, **trademarks** (names, letters, numbers, images, colours, product shapes, and packaging) could be used for branding of startup, its products, marketing activities and investor attraction, and under **copyright** regime various military software could be protected.



Secret inventions

Secret inventions (utility models) contains information classified as a state secret.

The information on state registration of a secret invention (utility model) is not published in public IP registers. Use and rights transfer must comply with state secrets legislation and instructions of state secrecy experts.

International applications could be registered by foreign IP offices for qualification examination only if state secret information is absent in the invention (utility model).

Ukrainian companies usually spin off the secret part of an invention (utility model) and register only the civil part (dual-use) in Ukraine and then abroad, due to Ukraine's de facto ban on military exports.



Know-how vs traditional IP

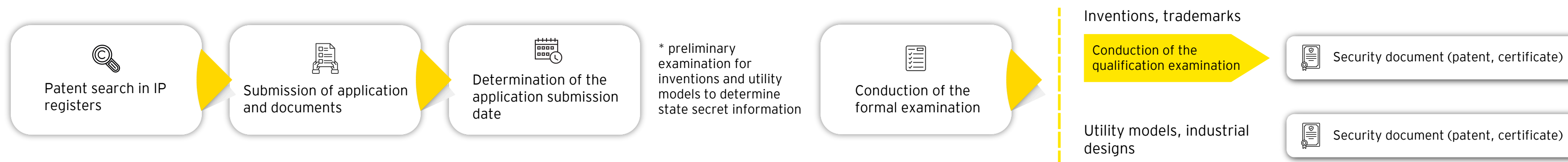
► **Know-how (a type of a trade secret) is confidential and thus isn't registered.**

Registration as an IP grants ownership recognition, legal protection from unlawful use, allowing commercialization through use in production, contributing to the charter capital, assigning or licensing, providing as a collateral under loan agreements. However, **it requires public disclosure** (as it becomes a part of the known level of technology), has temporary and territorial limits, and involves registration and maintenance fees.






► Conversely, **know-how protection keeps formulas or processes private**, without time or location restrictions, and can be more cost-effective if patent expenses are not justified or the technology is hard to reverse-engineer. Yet, **it demands rigorous internal confidentiality measures**, such as NDAs and control over breaches and leakages of confidential information, with no absolute guarantee against information leaks.

Procedures for Registering IP Rights in Ukraine and under International Treaties

■ **Trademark and industrial property protection is territorial, limited to countries of registration or those designated in international filings.** IP registered abroad and designated for protection in Ukraine (and vice versa) receives the same protection level as domestically registered IP. International IP protection facilitates business expansion into global markets and simplifies the worldwide safeguarding of IP rights. The initial jurisdiction chosen for IP asset registration can significantly influence the effectiveness of IP protection due to varying regulatory landscapes across countries



► Estimated timelines for Ukraine and other European countries frequently selected as IP holding jurisdictions:

Registration timelines for:	Ukraine 	Estonia 	Poland 	Cyprus 	Ireland 
Trademarks	~ up to 1-2 years	~ up to 8-10 months	~ up to 6-12 months	~ up to 8-12 months	~ up to 6-10 months
Inventions	~ up to 1,5-2,5 years	~ up to 2-3,5 years	~ up to 2-5 years	~ up to 2-4 years	~ up to 3 years
Utility models	~ up to 10-12 months	~ up to 2 years	~ up to 2-3 years	~ up to 2-4 years	~ up to 12 months
Industrial designs	~ up to 6-12 months	~ up to 2-4 months	~ up to 6-10 months	~ up to 4 months	~ up to 3-6 months



Licensing Requirements for Defense Tech Companies in Ukraine

► **Under Ukrainian law, the production of military-use or dual-use goods is generally not considered a licensed activity.** However, depending on the specific activities conducted by defense tech companies, certain licenses or permits may be required.

For example, companies involved in explosive works or the production of explosives must obtain a permit for the acquisition of explosive materials from the relevant divisions of the National Police of Ukraine.



Certification Benefits and Quality Assessment in Defense Contracting

► The Benefit of Certification

Generally, while certification is not legally mandatory in most cases (though, for instance, it is required for mechanized demining equipment), state contracting authorities often use it as an additional criterion when procuring military-use goods. As a result, obtaining certification can significantly enhance a company's eligibility and competitiveness for defense contracts.

► Quality Assessment

Defense contracting parties commonly evaluate the quality and compliance of **products based on certified standards, such as:**

- ISO/IEC 17021 or SSU standards for quality management systems.
- Compliance with NATO, international, European, or Ukrainian national standards.

► Certification Sources:

Producers can obtain required certifications from the State Institute for Testing and Certification of Weapons and Military Equipment.

► Self-Certification:

In certain cases, such as for unmanned systems and electronic warfare systems, producers can self-certify their products' quality, safety, and technical specifications. However, they bear full liability for the accuracy of their certifications.



Registration Procedures for Military Products in Ukraine

If a product developed by a defense tech company is not already included in the list of weapons approved for use by the Armed Forces of Ukraine, it must undergo a registration process.

The procedure varies depending on the type of product being legalized:

► Admission to Operation:

This procedure applies to most types of military products, except for those requiring specialized procedures like drones and electronic warfare systems.

Key Steps:



Preparation of primary documentation



Factory and field testing of the product



Communication with the Ministry of Defense



Review by a commission that evaluates the testing results



Outcome:

Upon approval, the product is codified, and its technical conditions are formalized



Timeline:

The process typically takes about 3 months



Joint Departmental Testing:

This specialized procedure is required for the legalization of drones and electronic warfare systems.

Key Steps:



Registration of technical conditions with the Ministry of Economy and on the online platform of the Ministry of Defense



Submission of required documentation



Testing conducted jointly with military units



Outcome:

Following successful testing, the product is codified by the military command



Timeline:

The process is streamlined and typically takes about 2 weeks



Legal Framework for Defense Contracting in Ukraine

Defense contracting in Ukraine must adhere to public procurement laws and regulations, ensuring transparency and accountability.

Defense Contracting Authorities in the Defense Sector

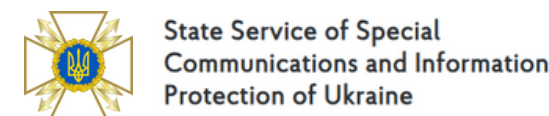
Ukraine has a range of defense contracting authorities, each with specific roles and responsibilities. **The main authorities related to defense include:**



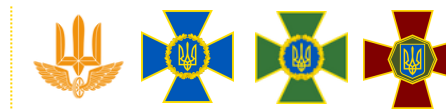
Ministry of Strategic Industries:
Responsible for procurement planning.



Ministry of Defense:
Defense Procurement Agency (combat needs, e.g. drones, weapons) and State Operator for Non-Lethal Acquisition (logistical needs, e.g. helmets, armored vests) under the Ministry of Defense oversees general defense contracting based on needs of military units of the Armed Forces of Ukraine.



Administration of the State Service of Special Communications and Information Protection:
Manages specialized defense contracting for drones and electronic warfare systems.



Other Defense Contracting Authorities:
Various authorities under Ministry of Defense (Main Directorate of Intelligence and Special Transport Service), as well as those outside its mandate (Secret Service, National Guard, and State Border Guard Service) may also act as defense contracting authorities, handling defense procurement specific to their needs.

General Defense Contracting Procedures

Defense procurement of goods and services costing approximately \$5,000 or more, or works costing approximately \$36,000 or more, must generally be conducted **via the Prozorro** electronic procurement system, using one of the following methods:



Open Tender:
Applicable during martial law and for 90 days after its conclusion or cancellation.



Simplified Procurement:
A streamlined process for smaller or less complex projects.



Selection Through Request for Proposals:
Allows contracting authorities to evaluate multiple offers.



Framework Agreements:
Long-term agreements to ensure supply stability.

Martial Law Implications for State Contracting Procedures

During martial law, **procurement regulations permit** bypassing standard procedures to conclude a "direct" defense contract with a procurement authority **under specific circumstances:**



Urgent Need:
When deadlines for standard procurement cannot be met due to pressing circumstances.



Military and Defense Needs:
For projects involving military structures, mobilization tasks, territorial defense, or other urgent requirements of military and law enforcement units.



Practical Application of Direct Defense Contracting Procedures

In practice, defense contracting during martial law often employs a streamlined direct contracting procedure, as outlined above, bypassing lengthy procurement processes.

This process typically involves the following steps:

①

Submission of a Commercial Proposal

Manufacturers initiate the contracting process by submitting a commercial proposal to the defense contracting authority.

③

Signing the State Agreement

There is no standard agreement template mandated by law; instead, terms are negotiated between the parties. However, the Defense Procurement Agency provides agreement templates to guide the process.

②

Negotiation Process

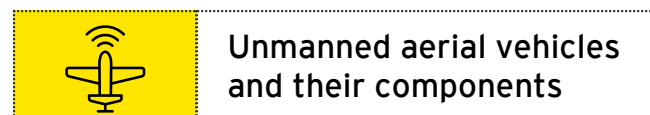
Key provisions of the agreement are negotiated between the defense contracting authority and the manufacturer of the defense equipment. This step ensures alignment on terms and conditions before finalizing the agreement.

④

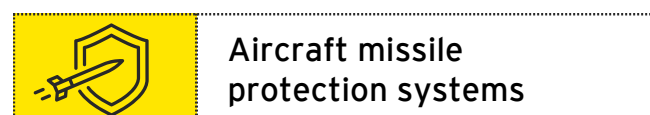
Prepayment to Treasury Account

Before the agreement is signed, the defense tech company must open a treasury account with the State Treasury Service to facilitate the receipt of prepayments from defense contracting authorities.

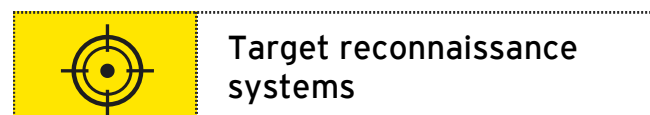
Export Restrictions on Military and Dual-Use Goods



Unmanned aerial vehicles and their components



Aircraft missile protection systems



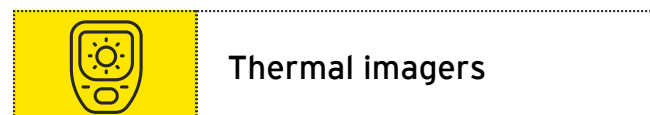
Target reconnaissance systems



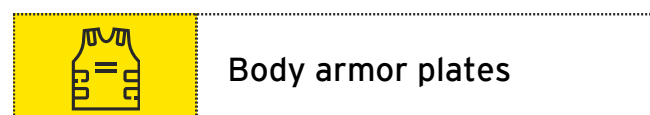
Range-finding, observation, or tracking systems



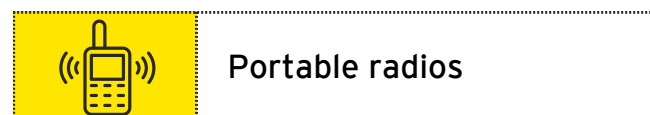
Night vision devices



Thermal imagers



Body armor plates



Portable radios



Components for armored vehicles and aviation, etc.

Key Requirements for Export and Import of Military and Dual-Use Goods in Ukraine



Preliminary Expertise and Registration:

Military and dual-use goods must undergo preliminary expertise and registration as entity conducting international transfers of goods with the State Service of Export Control (**SSEC**).



Cabinet of Ministers Authorization:

After registration, export or import of military-use goods generally requires authorization from the Cabinet of Ministers of Ukraine, with exceptions such as temporary exports for demonstrations. Requests may be denied for national security reasons.



Permit for Export or Import:

After obligatory registration and authorization (if applicable), defense tech company must obtain permit (single-use or multiple-use) from the SSEC for the export or import of military and dual-use goods.

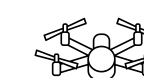
Categories of Military and Dual-Use Goods



Military-Use Goods

► **Products:** Weapons, ammunition, military equipment, explosives, and components.

► **Services:** Brokerage for development, manufacturing, maintenance, and disposal of military products.



Dual-Use Goods

► **Products:** Goods, equipment, software, and technologies not exclusively for military use but capable of military applications.

► **Technical Support Services:** For repair, development, production, use, testing, and maintenance of systems and components.



Export Restrictions on Military and Dual-Use Goods

► Since the full-scale invasion, **the SSEC has de-facto banned (although not legally formalized) export of military goods** (including military technologies, IPs) citing national security concerns.

However, **the Minister of Defense has suggested that these restrictions could be eased in the near future.** This aligns with Ukraine's strategy to attract international investments in the defense industry and its potential plans to export Ukrainian-made weapons (primarily drones) in the future.

General Overview of the Ukrainian Tax System

■ **Ukrainian companies** and branches of foreign companies that are tax residents of Ukraine **are liable for a number of direct and indirect taxes**, including corporate profit tax, value-added tax (VAT), and payroll taxes.

Tax	Tax rate	Taxpayers	Tax Base
Corporate Profit Tax (CPT)	18%	<ul style="list-style-type: none"> ▶ Resident companies ▶ Branches of foreign companies ▶ Non-resident companies with a permanent establishment in Ukraine ▶ Foreign companies with a place of effective management in Ukraine 	Pre-tax financial result determined under Ukrainian GAAP or IFRS, adjusted for tax differences prescribed by the Tax Code. For taxpayers with annual revenue ≤ UAH 40 million, tax adjustments are optional.
Capital Gains Tax	18%	<ul style="list-style-type: none"> ▶ Entities liable for corporate profit tax 	Capital gains tax is part of regular corporate profit tax in Ukraine. The tax base is included in the general taxable profit subject to CPT.
Value Added Tax	20%, 0% for export	<ul style="list-style-type: none"> ▶ Resident companies and private entrepreneurs 	Contract value of the transaction (subject to minimum VAT base requirements); customs value for imports/exports.
Withholding Tax (WHT)	<ul style="list-style-type: none"> ▶ Dividends - 15% ▶ Interest - 0/5/15% ▶ Royalties - 15% ▶ Income from Discount Bonds - 18% ▶ Capital gains - 15% ▶ Other income - 15% <p>The above rates may be reduced under provisions of double tax treaties.</p>	<ul style="list-style-type: none"> ▶ Non-resident companies deriving Ukrainian-sourced income 	Amount of income paid to non-residents: in-kind income must be grossed up
Personal Income Tax	<ul style="list-style-type: none"> ▶ 5% on dividends from Ukrainian companies ▶ 9% on dividends from non-resident companies and collective investment vehicles ▶ 18% on other income 	<ul style="list-style-type: none"> ▶ Resident individuals ▶ Non-resident individuals receiving Ukrainian-sourced income ▶ Tax agents 	<ul style="list-style-type: none"> ▶ Total monthly (annual) taxable income ▶ Ukrainian-sourced income ▶ Foreign income
Military Tax	<ul style="list-style-type: none"> ▶ 5% for individuals ▶ 1% for private entrepreneurs under the simplified taxation regime 	<ul style="list-style-type: none"> ▶ Same as for personal income tax 	Same as for personal income tax
Social Security Contribution	22%	<ul style="list-style-type: none"> ▶ Resident individuals 	Wages of employees and remuneration received by individuals under civil contracts. Tax base is capped at 15 minimum wages, i.e., UAH 106,500 or approx. \$2,550.

Tax Structuring of Investments in Ukrainian Defense Tech Companies

Overall, entry into the Ukrainian market can be structured in two main ways:

- ▶ Establishment of a Ukrainian operational company directly held by the partners/investors.
- ▶ Setting up a two-tier structure with a Ukrainian operational company held by a holding company in a foreign jurisdiction.

Generally, choosing the appropriate structure is driven primarily by commercial considerations rather than tax reasons. However, **each structure may offer tax benefits depending on specific facts and circumstances.**



For instance, when partners/investors are located in jurisdictions with a high tax burden, structuring investments through a holding company can be more tax-efficient, as it allows profits to be accumulated and reinvested at the holding company level without immediate taxation at the partners'/investors' level.

The table on the right compares the most popular jurisdictions for establishing a holding company for a Ukrainian operational company:



Criterion	Cyprus 	Estonia 	Netherlands 	Delaware (USA) 
Basic tax rate	12.5%	Estonia levies exit capital tax instead of regular corporate profit tax: ▶ 20/80 (25%) ▶ 14/86 (16.28%) - for "regular" dividends	25.8%	8.7% + franchise tax (\$175 - 200,000) Pass-through entities are not subject to CIT. Members are taxed individually.
Tax on dividends	Dividends from foreign companies may be exempt under the participation exemption.	Dividends may be exempt based on the participation exemption (minimum 10% shareholding required).	Taxed at the standard CIT rate unless participation exemption or tax credit methods apply.	Dividends taxed at the standard rate.
Tax on capital gains	Capital gains from the disposal of corporate shares are tax-exempt.	Capital gains are not taxed upon receipt but are subject to exit capital tax upon profit distribution.	Taxed at the standard 25.8% rate (may be exempt under participation exemption).	Capital gains taxed at the standard rate.
Withholding taxation upon profit distribution	No tax	7% on dividends distributed to individuals if taxed at the reduced 14% exit capital tax rate.	15% standard rate (may be exempt under participation exemption in certain cases).	30%
Taxation upon exit	Non-resident capital gains from share disposal are not taxed unless the Cypriot company is real estate rich (>50% value from immovable property).	Non-resident capital gains are not taxed unless the Estonian company is real estate rich (>50% value from immovable property).	Non-resident capital gains are not taxed unless the Dutch company is real estate rich (>50% real estate, >30% Dutch immovable property).	No tax at the state level.
Treaty rates with Ukraine	▶ Interest: 5% ▶ Dividends: 10% (5% for substantial shareholding) ▶ Royalty: 10% (5% for qualifying IP objects)	▶ Interest: 10% ▶ Dividends: 15% (5% for substantial shareholding) ▶ Royalty: 10%	▶ Interest: 5% (0% in certain cases) ▶ Dividends: 15% (5% for substantial shareholding) ▶ Royalty: 10% (5% for qualifying IP objects)	▶ Interest: 0% ▶ Dividends: 15% (5% for substantial shareholding) ▶ Royalty: 10%

Funding a Ukrainian Operational Company: Tax Implications

■ Funding for a Ukrainian operational company can be provided through equity financing, debt financing, or a combination of both.

The tax implications of each financing method are summarized below:



Taxation at the Level of the Ukrainian Operational Company

Debt Financing (Loan)

Provision of a loan is generally not taxable for the recipient. However, if the loan is interest-free or has an interest rate below the market rate, the recipient must recognize the loan at its present (discounted) value, and the discount amount becomes taxable income, subject to amortization through financial expenses.

Equity Financing (Capital Contribution)

A capital contribution does not represent taxable income for the investee and is therefore tax neutral.



Taxation of Returns on Investments at the Level of Partners/Investors in Ukraine

Debt Financing (Loan)

Interest on the loan is subject to a domestic **15%** WHT rate, unless reduced under a double tax treaty. The Ukrainian company is responsible for WHT administration, including collecting the relevant documents for WHT exemption.

Equity Financing (Capital Contribution)

Dividends are subject to a domestic **15%** WHT rate, unless reduced under a double tax treaty. The Ukrainian company is responsible for WHT administration, including collecting the relevant documents for WHT exemption.



Taxation of Returns on Investments at the Level of the Ukrainian Operational Company

Debt Financing (Loan)

Interest on the loan is generally tax-deductible for the Ukrainian company, reducing its taxable base. However, such interest may be subject to thin capitalization rules, transfer pricing control, and other anti-avoidance regulations.

Equity Financing (Capital Contribution)

Distribution of dividends does not impact the taxable base of the Ukrainian company, as it is paid on a post-tax basis. Payment of dividends may trigger an advance **18%** CPT if dividends exceed taxable profit for the relevant period.



Taxation of Returns on Investments at the Level of Partners/Investors in their jurisdiction

Debt Financing (Loan)

Exact tax implications depend on the investor's jurisdiction. However, in most jurisdictions, interest income is taxed at the regular corporate profit tax rate.

Equity Financing (Capital Contribution)

Exact tax implications depend on the investor's jurisdiction. However, in many jurisdictions, dividends benefit from a participation exemption and are exempt from taxation at the investor's level.

Tax Reliefs for the Defense Tech Sector

- The Tax Code of Ukraine (TCU) provides special VAT relief for the importation and domestic supply of specific goods during the period of martial law.

The VAT exemption applies to:



Protective equipment

Protective helmets, armor vests, and certain materials used for their manufacture.



Medicines and medical devices
for their use in defense activities.



Defense goods

(as per approved customs tariff codes)
purchased under the state contracts.



Goods whose final recipients are law enforcement agencies

the Ministry of Defense of Ukraine, the Armed Forces of Ukraine, and other military and volunteer formations.



Military Software Services

Supplies, development, and testing of military software subject to export control regulations, including related documentation and IP rights, are also exempt from VAT.



Additionally, a **VAT exemption applies to the importation of components** (materials, units, assemblies, equipment) for unmanned systems, active countermeasures against technical intelligence, mechanized demining machines, as well as remote-controlled weapon systems and ammunition **used with unmanned systems**.

These reliefs support the defense tech sector by reducing costs associated with critical supplies and services.



Diia City Regime



Acquiring Diia City Residency for Defense Tech Enterprises

Defense tech enterprises may benefit from joining the Diia City regime, a large-scale government initiative designed to foster innovation and investment in Ukraine's IT sector.

The regime supports qualifying business activities in the defense tech industry, including:



Cybersecurity



Design, production of UAVs, their maintenance and repair, UAV control training services



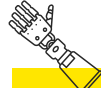
R&D in IT and Telecom



Development of technological products in defense, industrial, and domestic sectors



Robotics



Production, maintenance, sale and repair of bionic prostheses, prostheses with increased functionality and computer-controlled orthoses



Eligibility Requirements

To become a Diia City resident, enterprises must:



Conduct at least one qualifying activity as defined by law.

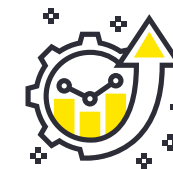


Be registered as a legal entity in Ukraine.



Comply with additional criteria outlined in the Diia City regulations.

By acquiring Diia City residency, defense tech companies can access numerous benefits, including a favorable legal and tax environment, which enhances their ability to innovate and attract investments.



Key Benefits of Diia City Residency



Tax Benefits

► Reduced Payroll Tax:

A 5% personal income tax (PIT) rate, significantly lower than the general employment PIT rate of 18%, along with a reduced unified security contribution of 22% on the minimum salary. The reduced rates apply to employees and gig-contractors of Diia City residents (excluding private entrepreneurs, who follow different tax rules).

► Tax Rebates:

Possibility to obtain a personal income tax rebate on profits exceeding the amount of the initial investment.

► Flexible CIT Options: Eligibility for either:

- 18% CIT on corporate profit, or
- 9% tax under the withdrawn capital tax regime.

► Dividend Tax Relief:

Dividends received by individuals from a Diia City resident are exempt from PIT, subject to qualifying conditions.



Legal Benefits

► Guaranteed Preferential Framework:

Diia City provides a stable legal regime with preferential terms for a 25-year period.

► Flexible Engagement of Specialists:

Diia City residents can hire specialists as employees, gig-contractors, or private entrepreneurs.

► Gig-Contracts:

A gig-contract is a unique civil law agreement available exclusively to Diia City residents. Gig-specialists are classified as independent contractors, similar to private entrepreneurs. Unlike traditional employment agreements, gig-contracts do not create an employment relationship.

► Convertible Loans:

Expressly supports the use of convertible loans.

► Enhanced Investor Protections. Incorporate mechanisms commonly used in venture capital deals, such as:

- Liquidation preferences
- Warranties and indemnities
- Options
- Liquidated damages

► Military Reservation.

Diia City residency is one of the three statutory criteria required to classify a company as critically important to the economy, enabling the reservation of conscript employees. Employees who are conscripts and work for a Diia City resident can generally be exempted from military service during martial law. However, gig-contractors are not eligible for military reservation.

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- All information is current as of 29 January 2025

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