

War in Ukraine

Situational Awareness Briefing

24 May 2022



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Situational Awareness – Briefing as of 24 May 2022 (Summary)

Ukraine Crisis

The current geopolitical developments in Eastern Europe and the unprecedented attack on Ukraine are also an attack on our way of living and doing business together.

At the moment, no one can foresee all the consequences of this aggression. This is why urgent questions are now being asked in all areas of our social life. Also for companies this means far-reaching cuts and changes.

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The overview to the right represents a summary of points along the following five dimensions:

- Overall Geopolitical Assessment
- Industry Special
- Forecast
- People
- Operations
- Finance



Overall Geopolitical Assessment

Russian forces made several advances in the Donbas that may prove catastrophic for the defending Ukrainian forces. All focus is currently aimed at the Sievierodonetsk-Lysychansk area. Ukrainian forces continue to clear the rural areas north and east of Kharkiv.



Forecast

US businesses are boosting their capital spending to invest in supply chain resilience in response to the mounting disruptions. China has released a stimulus package with the aim to safeguard its property market and Russia's biggest shipping company was forced to sell 10% of its fleet to avoid defaulting on its debt.



Operations

A group of human rights lawyers and investigators has called on the International Court of Justice to bring the first-ever "cyber war crimes" charges against Russia's hackers for their cyberattacks in Ukraine. At the same time Putin claims a large-scale cyber war is being waged against Russia and stating that government agencies were the main driver behind these attacks.



Industry Special: Energy, Oil and Gas - Update

The Russo-Ukrainian war continues to wear on the energy sector, which has been the core driver of European inflation. As countries are scrambling to stabilize their economies, Russian nuclear fuel has become an additional challenge for Eastern European countries.



People

Russia continues to simplify the procedure for the illegal issuance of Russian passports in the occupied territories. The situation in Mariupol is deteriorating due to lack of drinking water and unsanitary conditions. The EU will help with the financial support of Ukrainian refugees to Eastern European countries.



Finance

Allianz will likely give up its Russian business and Google Russia is filing for bankruptcy after Russian authorities seize the company's bank accounts and property. The European Commission has confirmed that companies of the EU member states can pay for Russian gas without breaching sanctions.

For questions, comments or details, please contact Joint Crisis Center team: de_ukraine-crisis@pwc.com



Key takeaways

- The Platonivka and Popasna breakouts of Russian forces pose a critical risk to Ukrainian Army elements facing east. In the north Ukrainian forces attempt to break through into the Russian rear.

Current topics

Current situation in the Russo-Ukrainian War

Russian forces continue to pursue their double envelopment approach. This week they made significant progress. From the Izium salient Russian forces moved east along the Siverskyi Donets river and created a small cauldron in the area of Sosnove. The Yampil pincer continued its advance to the south, crossed the Siverskyi Donets river, turned east towards Platonivka, and is now threatening Lysychansk from the West. This is a particularly dangerous development as Russian forces can now attempt to isolate Sievierodonetsk-Lysychansk from Sloviansk. At Popasna, a major Russian breakthrough has split into four directions in an attempt to extend the salient. More importantly, the stronger push out of Popasna is aiming north to link up with the Platonivka forces, ultimately isolating about 2-3 Ukrainian brigades (approx. 10,000 men) at Sievierodonetsk-Lysychansk. This development is critical and if it remains unchecked it will likely lead to a major deterioration of the Ukrainian position in the entire Donbas. Meanwhile, Ukrainian counterattacks continued north and south of Kharkiv. It is important to note that on this front, the Ukrainians effectively crossed the Siverskyi river and are attempting to penetrate the rear area of the Izium salient. At Mariupol, the last pocket of resistance has practically ceased to offer resistance, after 200-300 wounded soldiers were allowed to be evacuated to Russian territory. In the aftermath, an additional 1700 defenders surrendered, and it is currently unclear if any defenders remain in the Azovstal factory. At Kherson, the situation has transformed into static warfare as both sides conduct defensive operations.

Biden visits Asia to boost Indo-Pacific alliances

US president Biden has traveled to Asia to visit long standing US partners South Korea and Japan. The goal of the visit is to strengthen Indo-Pacific alliances amid China's rise and Russia's invasion of Ukraine. The US desire to signal to allies and opponents alike that Washington is committed to uphold a rule-based international order in the Indo-Pacific, safeguard the sovereignty of states and adherence to international law. Biden will also address the issue of the formation of a "democratic alliance" to counter authoritarian regimes worldwide as this was one of his administration's core policy goals during his election campaign. Biden has reassured South Korea and Japan of US support and backing against revisionist policies of China and North Korea. The president has furthermore stated, that the US would come to Taiwan's assistance should it be attacked by China, possibly breaking with the US's decades old strategy of "strategic ambiguity". The visit does not come without criticism. Despite an overall improvement of US-Asia relations after the end of the Trump presidency, the US still lacks a comprehensive economic strategy for the region since its withdrawal from the Trans-Pacific Partnership. It is expected that Biden will announce a new Indo-Pacific Economic Framework in cooperation with Seoul and Tokyo. The goal of such a policy aims at limiting the expansion of Chinese influence throughout the Indo-Pacific region.

South-Ossetian referendum

Anatoliy Bibilov, leader of Georgia's breakaway region of South Ossetia, announced that the territory will hold a referendum on joining Russia on July 17. The announcement was part of Bibilov's election campaign in which he proposed closer alignment with Russia in an effort to muster more votes. In May, Bibilov lost the election to his challenger Alan Gagloev who has been much more cautious towards holding a referendum. Whereas Bibilov insisted to use the current window of opportunity for South Ossetia to join the Russian Federation, Gagloev favors postponement of the issue. Bibilov also angered the South Ossetian voters by sending local troops to support Russia in Ukraine, whereas Gagloev was opting for a more neutral stance. Such nuances will likely not influence the general pro-Russian alignment of the new South Ossetian government. Georgia, which considers South Ossetia as a rogue Russian-occupied breakaway province, does neither recognize the republic's existence nor its elections. Tbilisi reacted with criticism over the planned referendum, identifying it as an attempt to conclude the secession of the breakaway province. The referendum is currently unlikely to proceed as planned. Moreover, South Ossetia - similar to Crimea - would not be considered as having legitimately acceded to the Russian Federation by most of the international community.

Overall Geopolitical Assessment (2 of 2)



Key takeaways

- Russian forces in the Donbas made a critical breakthrough at Popasna. If it remains unchecked, a significant number of Ukrainian forces are likely to be encircled.

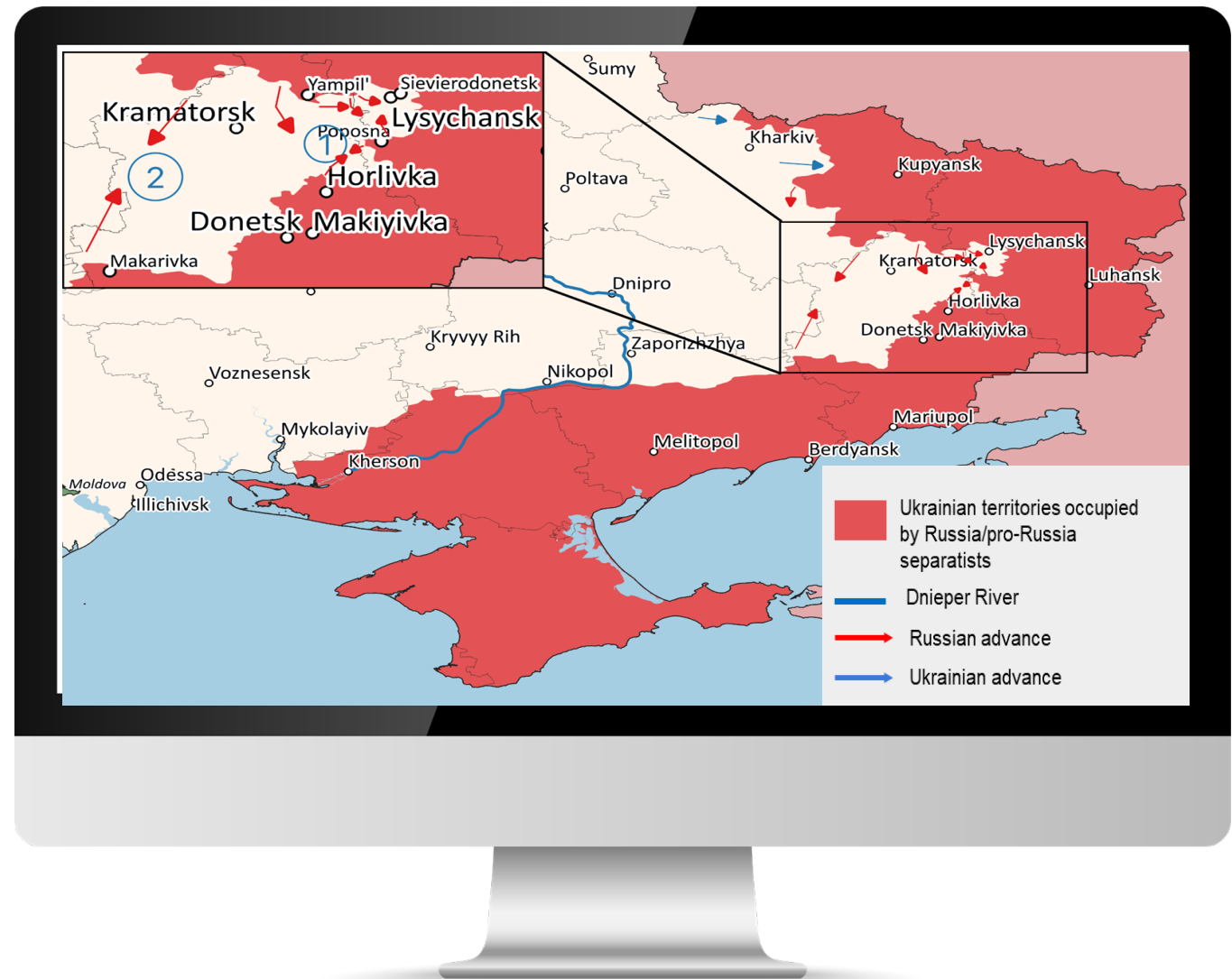
Selected upcoming events

- **30 - 31 May: a Special Meeting of the European Council** will be held to discuss urgent current issues at hand with European relevance - on the agenda are inter alia defense, energy and Ukraine
- **5 June: Kazakhstan** will hold a **constitutional reform referendum**, which would strengthen the parliament's powers – a response to the violent January unrest
- **12 June: French legislative elections**, in which lawmakers get elected to the national assembly, will be held
- **19 June: Second round of French legislative elections** will be held

In June, it is also expected that EU leaders will assess Ukraine's membership.

Current Military Situation in Ukraine

(arrows indicate potential future Russian operations in the coming weeks)



Industry Special: Energy, Oil and Gas - Update



General context

Russia is a key supplier of European energy. For Oil, gas or nuclear fuel Russia is the biggest player in the European market. The Russian invasion of Ukraine and thereby resulting economic fallout for Europe was mainly driven by the energy sector, Russia's most important export. Eastern European countries are particularly hard hit by the soaring oil and gas prices, with inflation hitting 18.9% in Estonia.

Current topics

Russian energy prices stoke European inflations

For many European countries, the nearer they are to Russia, the faster their cost of living is rising. The dependence on Russia for its energy needs is a key factor. According to Eurostat data based on 2020, almost all of Lithuania's energy imports came from Russia until recently, while in Slovakia and Greece it was close to half. In April, Lithuania became the first EU country to cut off supplies of Russian gas. Energy costs accounted for more than half the overall rise in inflation in the eurozone to record levels of 7.4 per cent in the past year. Mounting energy costs were also a central driver for German industrial goods producer prices, which rose by more than a third in the year to April, the fastest rise since 1949, according to the federal statistical office. Power plants are currently paying in Germany four times more for energy supplies than they were this time last year. The prices of metals, paper, fertilizer, food and other materials also increased sharply, being directly affected by the energy prices.

Italy is importing Russian oil at record levels

Russia has exported about 450,000 barrels per day of crude to Italy this month, more than four times as much as in February and the most since 2013, according to Kpler, a commodity data company. Italy is now on track to overtake the Netherlands as the EU's largest import hub for Russian seaborne crude oil. The surge in Russian crude shipments comes at a time when the Italian Prime Minister Mario Draghi has made it a priority to reduce the country's dependency on Russian gas and advocates for an EU wide implantation of an Oil embargo on Russian oil imports – which to date have been stopped by Hungary.

Brussels to reduce Europe's dependency on Russian nuclear fuel

The Slovakia, Bulgaria, Czech Republic, Hungary and Finland need Russian atomic fuel for reactors built to Russian design and in some cases the Russian company Rosatom is the only licensed provider. Brussels aims to help these EU countries to end their dependency with technical support along with international agencies. This announcement was contained in the RepowerEU plan, which is a roadmap that outlines how the EU can wean itself from Russian energy by 2027. The US company Westinghouse is now seeking to receive a quick approval from these national governments to deploy its replacement fuel that would work in Soviet-designed reactors. Some EU Countries have been pushing for a ban of Russian nuclear fuel in the 6th sanctions package, which, however, has been held up so far by Hungary.

Preliminary Assessment

- Spain put a cap on gas prices, which helped lower the amount households pay for energy – helping inflation drop back from a 37-year high in the previous months
 - Measures to shield European households from the surging energy and fuel prices slowed inflation throughout the eurozone however the prices stay elevated at a 37 year high
 - Denmark, Germany, Belgium and the Netherlands stepped up their pledge to harness wind power to wean themselves of Russian gas
 - To date Poland, Bulgaria and Finland have been cut off from Russian Gas supplies
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- There are cautious voices in the EU when it comes to banning all Russian nuclear collaboration as questions such as nuclear waste management is also handled by the Russian company (Rosatom) which is selling the nuclear fuel
 - Slovakia stated it would switch once alternatives would be available, having currently 2 years worth of fuel stockpiled



General context

Considerations on implications for businesses along the PESTEL framework

P Political	Sanctions Exit from Russia
E Economic	Business Relationships Supply chain
S Social	Brain Drain Refugees Disinformation
T Technological	Cyber threats Disrupted IT operations
E Environmental	Resource scarcity Energy embargo
L Legal	Compliance with changing regulations Contractual obligations

Current topics

US business investing in supply chain resilience

US companies are accelerating capital spending to address supply chain bottlenecks despite slower economic growth, as the impact and worries of supply chain disruptions and deglobalization is greater than fears of a looming recession. The wave of disruptions of the past years, from coronavirus lockdowns to the Russo-Ukrainian war and the US-China trade war have left many high-profile investors to predict the reversal global sprawling global supply chains and "just in time" inventory management. Recent quarterly reports from that largest US companies provide first concrete insight that companies are following through on those plans. The trend is broad-based, with every sector except real estate increasing spending.

China unveils new stimulus measures package

China has cut its benchmark mortgage lending rate by a record amount. Chinese economic activity has plunged last month, during stringent coronavirus lockdowns in around 40 cities in the country. The efforts were made by the Chinese government to save the property market which has seen the worst contraction since many years. Nomura (a Japanese Bank) stated that the effect cutting of the five-year loan prime from 4.6% to 4.45% would be "limited", as the lockdown has significantly impacted the employment, income and confidence of Chinese households. Goldman Sachs has since then cut its China growth forecast for 2022 from a previous projection of 4.5% down to 4%.

Russia's largest shipping group sells part of its fleet

Sovcomflot, Russia's biggest shipping group and it's western lenders have sold some of its Kremlin-owned fleet as part of plans to repay debts and eventually return to international markets once sanctions are lifted. The company said that the share of the encumbered vessels decreased to 10% of the fleet. The sale was conducted to reduce Sovcomflot's total outstanding debt by \$1.3bn in a loan restructuring to avoid defaulting and triggering bad loans on the banks balance sheets. Annual accounts showed that Sovcomflot had \$2.4bn of net debt at the end of last year, but it is unknown how much of this is owed to international creditors and whether it could use its \$644mn of cash to repay loans from the banks. The Russian government owns 82.8% of the company. The remaining shares are listed on the Moscow Exchange since October 2020. Sovcomflot's stock has tumbled 60 per cent since then because of the sanctions.

Preliminary Assessment

- The geopolitics of business are difficult to navigate, particularly when the situation on the ground can change rapidly. The Russian invasion of Ukraine has transformed supply chains within a month, making it clear that nearshoring and supply chain resilience will become the driving supply chain subjects in the future
- Emerging Markets in Asia, Africa and Latin America are building regional production networks for critical goods to create more resilient trade pathways
- China is facing particular supply chain disruptions with regards to semiconductors and is trying to make itself self-reliant, which now experts say will be hard for the country to achieve, as it will take decades to build leading-edge capabilities



Key Considerations

Response measures may include the following:

- Scenario planning sessions to explore how the escalating situation could impact the organization and identify the risks and mitigating actions.
- “Table-top exercising” can be used to validate response structures if they are not already in operation.
- Ensuring that playbooks are in place for extreme but plausible scenarios such as loss of IT for an extended period and disruption to critical suppliers.
- Ensuring the ability to locate all personnel based in, or travelling to, regions of conflict and ensure appropriate steps are taken for their protection.

Current topics

Russia uses an accelerated mechanism to illegally certify citizens of the temporarily seized territories of Donetsk and Luhansk regions

Residents of Donetsk and Luhansk regions can seek for Russian citizenship without having to use a passport issued by illegitimate pseudo-state entities named ORDLO. The existence of a valid Ukrainian passport (paper or ID) and registration of residence in the temporarily occupied region are both required. In the absence of registration, the “applicant” must submit an “address certificate” confirming permanent residency in the occupied territory.

According to Ukraine's human rights ombudsman, all Ukrainians who were forcibly given Russian passports remain Ukrainian nationals. Any Russian documents imposed by Russia will not be recognized by Ukraine or the EU.

Reportedly almost 100,000 Mariupol residents are threatened by the spread of infectious diseases

Lack of water, significant damage to filtration systems and pumps, rising air temperatures, lack of drugs threaten the spread of dangerous infections - cholera, dysentery, etc. in Mariupol region.

It is also stated that more than 3,000 civilians in Mariupol are being held by the occupants in the so called “filtration prison” - a former correctional facility in the village of Olenivka, Donetsk region. Reportedly among the hostages are about 30 volunteers who tried to bring humanitarian aid to Mariupol and save the residents.

Five EU countries will receive 248 million euros to help refugees from Ukraine

Poland, Romania, Hungary, Slovakia, and the Czech Republic will get emergency assistance from the Internal Affairs Funds.

Member states can use these funds to provide emergency aid to those fleeing Russia's invasion of Ukraine, including as food, transportation, and temporary housing, as well as to improve their ability to regulate the EU's external borders.

Preliminary Assessment

- If the business has employees in the occupied territories of Ukraine, holding consultations with human rights lawyers on the possibility of financial and legal support for employees who were forcibly issued a Russian passport may be considered.



Learning Cyber Defence: cyber-war games

Experts recommend conducting annual cyber-war games that help organizations find weaknesses in their systems. Cyber-war games are creative exercises in which an incident response team reacts to a hypothetical set of scenarios, such as massive DDoS attacks, ransomware or loss of servers. Such a game can expose any shortcomings a real attacker may uncover. Here is how to conduct a cyber-war game:

1. Scenario creator provides participants with scenario information such as someone is out with the flu, there's an unexpected power outage, etc.
2. Referee facilitates participants through responding to the scenario, generally in a series of time-limited exercises to simulate urgency.
3. Participants articulate how they're handling auditable logging and preserving chains of evidence.
4. Once complete, conduct after-action review to address what worked and what needs improvement.

Expert community also stresses that the company's incident response team should have an explicit goal of using the output of the cyber-war game to update the incident response plan. This ensures the incident response plan is a living document, capturing insight from responses to both real and simulated breaches. Other after-action review deliverables might include a list of action items, such as updating contact information for key participants.

Current topics

War crimes charges against Russia's hackers

Recently, a group of human rights lawyers and investigators has called on the International Court of Justice to bring the first-ever "cyber war crimes" charges against Russia's hackers for their cyberattacks in Ukraine. Specifically, the investigations team points to Sandworm, a notorious group of hackers within Russia's military intelligence agency, and to two of Sandworm's most egregious acts of cyberwarfare: blackouts triggered by targeting electric utilities in Western Ukraine in 2015 and a year later in Kyiv. Reportedly these attacks were chosen for legal and practical reasons: They've already been thoroughly investigated and pinned on Sandworm's hackers. Six of the group's hackers were indicted by the US Department of Justice in October 2020 with a long rap sheet that includes those blackouts. The cyberattacks occurred during active fighting in the eastern region of the country, which makes it easier to argue they occurred in the context of a military conflict and thus constitute a war crime. They have a clear civilian target, given that no military operations were occurring in Western Ukraine or Kyiv at the times of the blackouts there. Further, they had a clear and direct physical result, which makes for a simpler case that they were equivalent to the sort of physical attacks that war crimes tribunals have charged in the past.

Putin says cyber war is being waged against Russia

Russia's President Vladimir Putin stated at a meeting of the Security Council on 20 May that a large-scale cyber war has been waged against Russia for several years and has become even more aggressive this year. As he noted, there have been deliberate attempts to disable Internet resources of critical information infrastructure facilities in Russia, including the media, financial institutions, socially important portals and networks, official websites of government authorities and corporate networks of leading Russian companies. Putin allegedly believes that government agencies in other states may be behind these attacks "We know that the armies of some countries already quite officially include cyber forces".

Ukraine wins two cybersecurity awards

Ukraine has won two CYBERSEC Award cybersecurity awards for the first time: for heroic resistance to Russian aggression and defending the digital boundaries of the democratic world. The award ceremony was held on 17 May at the SYBERSEC European Cybersecurity Forum, one of Europe's largest cybersecurity events.

Preliminary Assessment

- A precedent would help not only to seek justice for those harmed by Sandworm's cyberattacks but also to deter future, potentially worse cyberattacks affecting critical civilian infrastructure around the world.
- Though the head of Russia stressed that his country is so far successfully resisting external cyber influence, he admitted that Russia needs to strengthen information security at critical industry sites and government agencies, and has to consider the creation of a "state information protection system".
- Digital Transformation Minister of Ukraine Mikhail Fedorov has said that the Ukrainian IT community has refuted the myth of Russia as the strongest cyber state. He also stressed that the award is also for the entire cyber community and volunteers who are now "fighting the world's first cyber war" together with Ukraine.



Key Considerations

Sanctions Screening Activities

- Screening solutions generate increasing number of alerts (especially banks must deal with increased workload)
- Appropriateness and effectiveness of sanctions screening measures in identifying sanctioned parties and activities must be ensured. Complex ownership structures complicate the proper identification of involved parties (OFAC 50% rule)
- Trade transactions with Russia and Belarus must be reviewed

Sanctions Compliance Governance

- Sanctions Compliance Governance as a key requirement increasingly in the focus of regulatory authorities
- Robustness of Sanctions Compliance Management System and sanctions controls to counter the current and new sanctions regulations
- Adequateness of internal safeguards to prevent sanctions circumvention activities

Current topics

Allianz to give up Russian business, Google Russia to file for bankruptcy

The CFO of Europe's largest insurance company (by market value), Allianz, has declared a high likelihood of exiting its operations in Russia and Belarus. The company announced not to accept new business ventures and reduce the existing business in an orderly manner. The exit would reduce profits by around 500 Million Euro. However, the Russian market is of low significance for Allianz, with less than 30 Million Euro net profit and less than 0.3% of its 800 billion Euros capital investments. The decision follows the exit of Swiss insurer Zurich Insurance and second world's largest reinsurance company Swiss Re as well as the insurance broker Willis Towers Watson, Marsh and Aon. Google's Russian subsidiary has declared to file for bankruptcy after Russian authorities seized the company's bank accounts and property. Consequently Google stopped ad sales in Russia but maintains however the operation of free services like the company's search engine or video platform YouTube. The Russian market counts for around 1% of Alphabet Inc. revenue last year (around \$2.6 billion).

The United States and Canada to increase pressure on the Kremlin

The government of the United States is considering to block Russia from paying its U.S. bondholders by deciding against extending the U.S. license, which allows Russia to make according payments. The refusal of renewing the license issued by the U.S. Treasury Department is intended to increase pressure on the Kremlin. Eventually the U.S Treasury department is expected to force Russia to default on its external debt payments of around \$2 billion worth of external sovereign bond to harm its investment grading. Canada has increased pressure on the Russian government by introducing a bill to ban around 1,000 governmental and military members including Russian President Vladimir Putin from entering the country.

Preliminary Assessment

Following increasing pressure on Google for months for not deleting content Moscow deems illegal and the restriction of some Russian media channels on YouTube, the seizure of its whole bank account remains unprecedented.

Against early analysts' speculations the Biden administrations was not expected to expire the waiver necessary as a mean to increase financial pressure on Moscow since this also implies to harm U.S. bondholders.

General remarks



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