

War in Ukraine

Situational Awareness Briefing

31 May 2022



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Situational Awareness – Briefing as of 31 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 advanced further to the Sievierodonetsk-Lysychansk area. Further, they have occupied Lyman along the Izium-Yampil' line and are clearing the areas north of the Siverskyi Donets river. At Kherson, a Ukrainian counterattack is underway seeking to ease the pressure on the Donbas front.



Forecast

A bill on external governance, which would allow Russian courts to appoint an external administration of inter alia foreign-owned companies under certain conditions was accepted by the state Duma of the Russian Federation in the first draft.



Operations

The Anonymous hacker group took down government websites in Belarus. The hackers said they did so because of the country's complicity in the attack on Ukraine. Furthermore, the group announced a successful hack of the Russian Killnet group, who acted against Ukraine and its foreign partners. Anonymous claimed to have hacked and made public the email addresses and passwords of Killnet members in order to expose their identities and disrupt their activities.

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



Industry Special: Shipping and Shipbuilding

The supply chain disruptions have caused the shipping industry to rise much to the frustration of its customers. South Korean Shipbuilders also see a strong rise in orders, however must also have deal with rising material prices, which affect their margins.



People

The flow of refugees for entry into Ukraine exceeded the flow for departure for the past month. Ukrainian refugees in Germany will be transferred to job centers and will be required to look for work in accordance with their education. In Ukraine, there is an ongoing debate about the legalization of the carrying of weapons by civilians.



Finance

Following up on last weeks Biden administration's disclosure to consider blocking Russia from paying its U.S. bondholders, Russia's Sberbank and VEB development bank declared to pay in rubles on dollar-nominated Eurobonds. Majority state owned Sberbank announced to make a coupon payment on its outstanding Eurobond issues in rubles, as the international financial infrastructure is preventing the bank from paying its investors as set out in its issuance documentation.



Key takeaways

The Popasna breakout of Russian forces poses a critical risk to Ukrainian Army elements facing east. An encirclement of several Ukrainian formations in the Sievierodonetsk-Lysychansk has become highly likely.

Current topics

Current situation in the Russo-Ukrainian War

Russian forces continue to pursue their double envelopment approach. This week they made significant progress, but their focus has shifted towards the inner encirclement ring. From the Izium salient Russian forces moved east along the Siverskyi Donets river and are gradually occupying all territory north of the river. Russian forces also captured Lyman and aim at crossing the Siverskyi Donets river at Staryi Karavan. The Yampil' pincer continued its advance to the south, but the forces that crossed the Siverskyi Donets river were eliminated at Platonivka. This was the sixth or seventh crossing attempt that was successfully thwarted by the Ukrainian defense. Russian forces continue their attempt to isolate Sievierodonetsk-Lysychansk from Sloviansk. At Popasna, a major Russian breakthrough extended the salient northwards along the line of Soledar and Berestove effectively cutting the highway link between Artemivsk and Sievierodonetsk-Lysychansk. Russian forces have also entered Sievierodonetsk and seek to pin the defenders there. About 2-3 Ukrainian brigades (approx. 10.000 men) at Sievierodonetsk-Lysychansk are almost isolated, while the loss of the highway means that they cannot retreat with their heavy equipment intact. 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, a Ukrainian counterattack to ease the pressure on the Donbas front has commenced in the West towards Kherson. Despite this offensive being a minor operation, it aims at absorbing Russian reinforcements and reserves that would otherwise be employed in the Donbas in support of recent Russian advances.

EU Strategic Autonomy

Efforts to emancipate the EU from NATO, BREXIT and current security challenges in the European environment are renewing the debate on more strategic autonomy. EU strategic autonomy would mean that the Union maintains an independent foreign policy should the EU's core security interests diverge from those of its allies. The two key terms are "independent" and "core interests". Strategic autonomy comprises political (strategy), operational (capabilities) and industrial (equipment) components or dimensions, which are combined in different proportions and can thus lead to different forms of strategic autonomy. The relative composition of these elements has changed throughout the history of European defense based on national preferences. At present, efforts to derive a guiding assessment for all EU states predominate. The European Security Strategy adopted in 2003 did not explicitly mention the concept of strategic autonomy and rather emphasized global action and the EU's responsibility to support multilateral security architectures. Moreover, strategic autonomy is not necessarily synonymous with a European army, but rather with an independent European strategic culture that provides joint forces and equips them for the operations to be carried out through industrial focalization. In the EU Global Strategy published in 2016, the Union describes itself as a global actor that both seeks to deepen the transatlantic partnership and, for the first time in its history, confidently strives for its own strategic autonomy. Flanked by the establishment of the Permanent Structured Cooperation (PESCO) and the European Defence Fund (EDF), another opportunity has thus been created to further advance the strategic autonomy of the EU. While France sees above all the political dimension of strategic autonomy as the starting point of the debate, the operational and industrial dimension currently predominates in Germany. France is dominated by a post-transatlantic mindset coupled with an ambivalent national and European understanding of strategic autonomy, Germany is currently dominated by the transatlantic mindset, within which European strategic autonomy plays a complementary role. In principle, a different emphasis can be seen in the assessment of the components of strategic autonomy: France prefers the establishment of a common strategic culture in the sense of the political dimension of strategic autonomy, while the German debate is primarily conducted in the light of European armed forces and defense-industrial cooperation. The limits of strong Franco-German cooperation also lie in the fact that France reserves the option of acting outside the established institutions in coalitions of the willing (CW) and, if necessary, even unilaterally, while Germany can participate in CWs according to the most recent White Paper by the Federal Ministry of Defense (Weißbuch 2016: Zur Sicherheitspolitik und zur Zukunft der Bundeswehr), but for the foreseeable future military action is only conceivable in established multilateral contexts.

Overall Geopolitical Assessment (2 of 2)



Key takeaways

A Ukrainian push towards Kherson aims at easing the pressure in the Donbas. Meanwhile Russian forces seek to isolate larger Ukrainian formations..

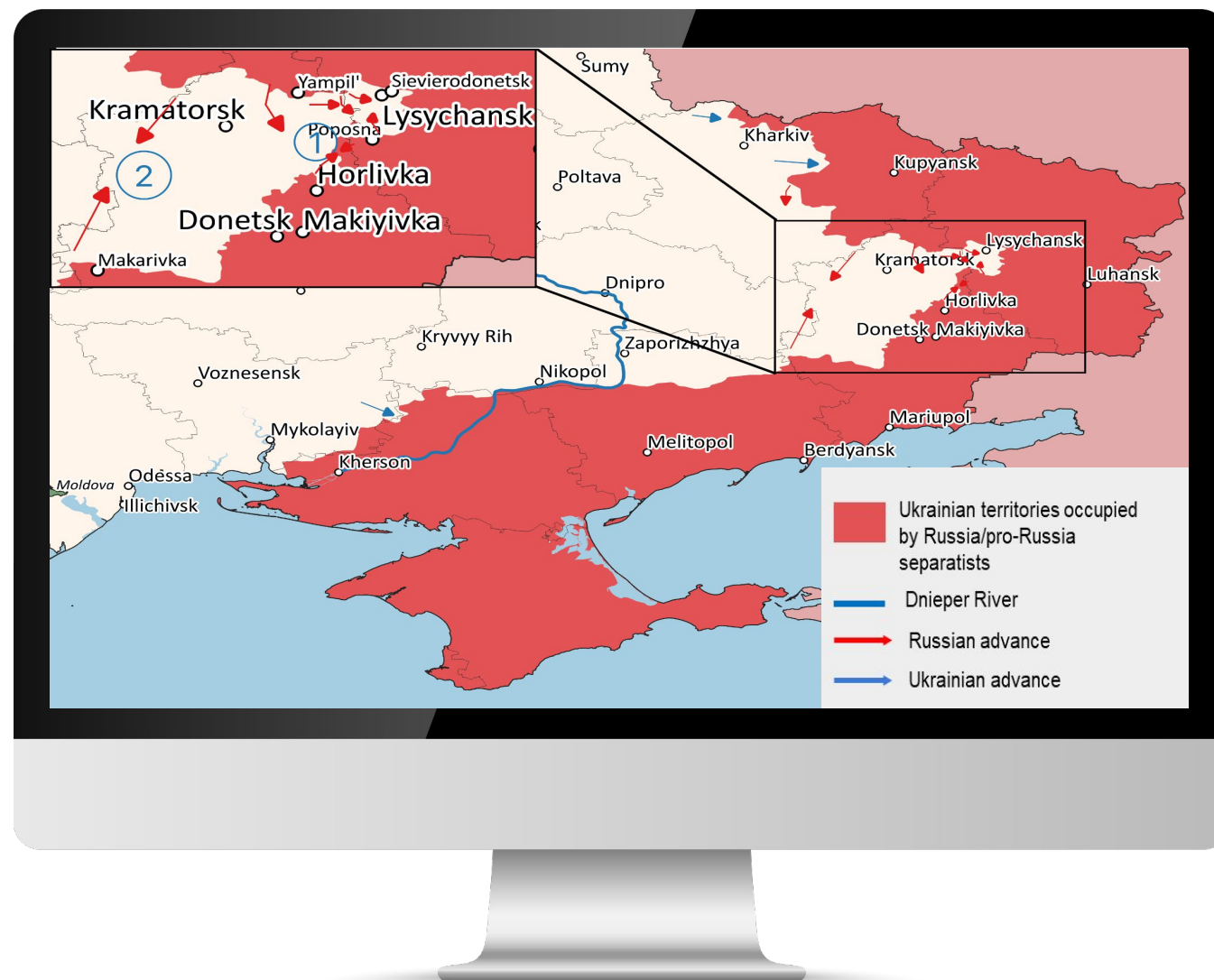
Selected upcoming events

- **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
- **29 - 30 June the NATO summit** in Madrid will address the adoption of the 2022 strategic concept that shall guide the future of the alliance

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: Shipping and Shipbuilding



General context

The Russo-Ukrainian war has disrupted the global energy market and supply chains. Shipping companies are the beneficiary of the development, as they can pass on their rising costs to their customers. For shipbuilders these developments are bittersweet, as on the one hand Korean Shipbuilders saw a spike in new orders over the past months, on the other hand, rising material costs cut deep into the margins of existing orders the companies are still due to deliver on.

Current topics

Maersk sees high profits as supply chain disruptions continue

The container shipping industry is currently experiencing an economic upswing. AP Moller-Maersk has announced a more than doubling of first-quarter EBITA. However these record results come at a cost, as high freight rates have infuriated customers. Maersk has stated the current situation is exceptional, however the company is certainly the beneficiary of the supply chain chaos, which has been exacerbated by the Shanghai lockdown, that helped lift freight rates by a extensive 71% in the first quarter of this year. The group predicts a return to normality in the second half caused by a slowdown in demand. This prediction is doubted by experts, as nearly 40% of shipping customers expected the container crisis to last at least another 15 months, reportedly pushing up consumer prices 1% this year.

South Korean shipbuilders face high steel prices

Shipbuilders are suffering under the higher steel prices, as the raw material makes up about a fifth of their production costs. Higher steel plate costs – which are directly linked to energy prices – have been exacerbated by the war in Ukraine, which disrupted energy markets and supply chains. The three biggest Korean shipbuilders reported \$3.5bn in combined operating losses in 2021. Rising orders and prices will not be enough to support the industry to make up for the losses this year. There has been a surging demand for LNG tankers over the past year, a trend that will likely continue as European countries seek independence from Russian piped gas. The Shipbuilders are struggling to renegotiate preliminary orders with customer to adjust for higher material prices, which eat up their current margins. Furthermore, currently it is still uncertain, whether Korean shipbuilders will ultimately be paid for the \$5.6bn of outstanding orders from Russia. For instance, Daewoo Shipbuilding recently cancelled a Russian LNG order worth \$273mm after the Russian customer failed to pay.

China's COSCO continues operations in Russia

The world's leading shippers all stopped deliveries to and from Russia, with the exception of COSCO. The state-owned group continued transport of Russian crude oil to China, which gave Russia much needed economic support. In recent years COSCO has reportedly become a strategic asset for the geopolitical ambitions of China. With the companies global network, COSCO has become a central part of the Chinese Navy's ability to operate outside of its own immediate maritime periphery.

Preliminary Assessment

- Large-size LNG carrier orders increased nearly seven-fold in the first four months of this year – Korean builders winning 30 of a total of 47 ships ordered with a total worth of \$10.3bn, hitting 60% of its annual target
- Daewoo Shipbuilding won \$4.6bn in orders in between January and April – 52% of its annual target and Samsung Heavy won \$2.2bn, constituting 25% of its annual target
- For more than a year the prices for building vessels have been rising and are up more than 26% since November 2020 – which is the highest level in nominal terms in 13 years



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

The law on the external governance in the Russian Federation

Last week Russian State Duma accepted the first draft of a so-called bill on external governance. The bill stipulates that under certain conditions an external administration of companies may be appointed by a court decision. This mainly applies to systemically important companies, which are important for ensuring the stability of the economy and civil transport, as well as for protecting the rights and legitimate interests of citizens in the Russian Federation as a whole. But companies that are significant in a particular region and in which foreigners from so-called unfriendly states directly or indirectly own more than 25% of the shares are also affected.

External management is appointed for up to 18 months with the possibility of renewal for the same period. As a result, two scenarios are envisaged: the transfer of the company's shares in trust to external management or the transfer of authority to manage a legal entity to external management.

Continues rise of the eurozone inflation

For 10 consecutive months the inflation in the eurozone has been rising and most economist think that more is still to come. Two key factors are to blame: one the Russo-Ukrainian war has created a surge in energy prices and disrupted supply chains, and two, the lifting of COVID-19 restrictions has encouraged demand in the eurozone and beyond. The eurozone inflation has now soared to a new high of 8.1%, reaching the highest point since the creation of the Euro. A poll by Reuters had averaged Economists forecasts for May, which predicted consumer prices would increase 7.7% in the year to May, which is off by 0.4 percentage points. Germany is has now seen a new 40-year inflation high of 7.9% according to the Federal Statistical Office. The European Central Bank is currently on track to raise the deposit rate from minus 0.5% to at least zero by September as the current inflation is far beyond the central banks 2% target.

African countries hope to capitalize on the surge of coal demand

European sanctions on Russian coal is a opportunity for African coal producing countries capitalize on, as the EU in the search for alternatives. The biggest contender is South Africa. The prices for export grade coal have doubled in South Africa since the beginning of the Russo-Ukrainian war. However the country's state freight operator Transnet is facing logistical challenges to move the demanded volume. The company is facing massive theft of copper cable and a lack of trains. The shortage of coal trains is a direct legacy of the systematic looting of the government resources under President Zuma, who has been ousted in 2018.

Preliminary Assessment

- Goldman Sachs Economists predicted the European Central Bank would raise the deposit rate up to 1.5% by June 2023 over the course of a year incrementally
- Energy prices - the main driver of the eurozone inflation - have increased 39.2% in the year to May
- Landlocked Botswana has respond to the surging demand in Europe for coal and send shipments through Mozambique and Namibia
- African countries won't be able to capitalize long of the surge in European demand in alternative coal sources as the EU's long term priorities are still to move away from fossil fuels



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

Legalization of weapons in Ukraine

According to the intermediate results of the Citizens' Survey in the government app “Diya”, more than 62% of Ukrainians support the circulation of weapons for personal protection, and another 18% support limited circulation for special needs. Denis Monastyrsky, Minister of Internal Affairs, emphasized that the first alternative entails limiting the circulation of firearms. It will state that all citizens who follow the law are allowed to possess guns, but that carrying weapons is prohibited. It can only be kept at home and used in shooting ranges and galleries. The second alternative entails allowing firearms to circulate freely and making it permissible to carry weapons in public places.

For reference: These polls are official government opinion polls. However, the results of the survey do not oblige the authorities to make certain decisions, but are only of a recommendatory nature.

Transfer of Ukrainian refugees to job centers in Germany

In Germany, from 1st of June, Ukrainians of working age and their children will be cared for by local job centers. The latter will allocate benefits similar to those received from social security centers, but higher if the recipient remains economically active (has a formal employment, attends German language courses or receives higher education).

Soon, Ukrainians will be obliged to start looking for official employment in their specialty, if they have such, or look for a job that does not require higher or special education.

Refugees are returning to their Homeland

The State Border Guard Service of Ukraine reported that since May 9, the number of people entering the country exceeds the number of people leaving it. As of 27th of May 6,737,208 people fled Ukraine since 24th of February and 2,229,500 entered, most of them are man of military age and women. In April the Office of the United Nations High Commissioner for Refugees conducted a survey of those crossing the western border with Ukraine. Its results showed that the main reasons for the return were the desire to reunite with their families and the feeling that the region from which they had left was safe to live in. Each of these answer options scored 33%. One in twenty people (5%) returned due to lack of housing, and 15% came temporarily to bring aid, take belongings from their homes or see family members.

Preliminary Assessment

- If the business has a branch or office in Ukraine, it is recommended to prepare a policy of protection and action in crisis situations in case of possible riots between opponents and supporters of legalization of weapons. This is especially the case for offices located in the capital of Ukraine, Kyiv, near the government quarter, when the rallies will most likely take place.
- For a business it is possible to register as an employer in the job center to advance communication with highly qualified job seekers from Ukraine. In Germany, refugees from Ukraine currently receive social insurance from the state, which facilitates the conditions for hiring them for business.



Leapfrogging phenomenon

What are the reasons behind the massive inclusion of cyber criminals in cyber warfare between states? It would be easy to blame the emergence of new technologies. However, there is more to it than that. The shift in focus of cybercriminals is deeply connected to changes in the internal dynamics of the cybercriminal world itself.

The cybercrime world is now experiencing what is known as "leapfrogging," where a follower organization outpaces ("leapsfrogs") a rival organization to become an industry leader. "Leapfrogging" involves the circumvention of a standard development path, where hackers skillfully exploit other's innovations to accelerate their own development.

The cybercrime underground provides hackers with a large number of opportunities for 'leapfrogging'. In particular, new players can take advantage of tools and services developed by their more experienced peers and use them to conduct sophisticated cyber-attacks that previously could only be conducted through incremental development and gaining sufficient expertise.

The demand for such tools is prompting more and more hackers to offer new services under different business models. One of the most popular services nowadays are initial access brokers, selling access to compromised networks to other cybercriminals. Thus one can buy access to an organisation's networks and gain a foothold in its systems without having to hack it themselves. By outsourcing some of the processes, ordinary hackers can leapfrog several steps at once and bring their attacks closer in level to those of advanced persistent threat groups (APTs).

As ordinary cybercriminals acquire capabilities equal to those of APTs, more and more groups find themselves mere clicks away from serious government-funded hackers and acquire quasi-APT status.

Current topics

Anonymous put down websites of Belarusian ministries for complicity in attack on Ukraine

The Anonymous hacker group took down government websites in Belarus. The hackers said they did so because of the country's complicity in the attack on Ukraine. The websites of the ministries of interior, education, justice, and the State Statistics Committee were among those that were down. The website of the Ministry of Economy, which was also attacked, was able to recover.

Anonymous hacked Russian Killnet hackers

Anonymous announced a successful hack of the Russian Killnet group, who acted against Ukraine and its foreign partners. Anonymous claimed to have hacked and made public the email addresses and passwords of Killnet members in order to expose their identities and disrupt their activities. Allegedly, the hackers also leaked the Killnet targets, including, for example, the website of the Odessa City Council and the "Right Sector", a far-right Ukrainian nationalist organization.

One Twitter user cross-referenced the table with a database recently stolen from a food delivery service and found a match: someone named Vladimir Demidov from Magnitogorsk (a city in Russia's Chelyabinsk Oblast), with his address and mobile phone number listed. Another commenter writes that he was able to use the disclosed data to log into Facebook accounts. The Killnet hackers themselves claim that Anonymous published fake data.

Sanctions frustrating Russian ransomware actors

According to experts from the U.S. National Security Agency, Russia's invasion of Ukraine appears to be having an unanticipated impact in cyberspace - a decrease in the number of ransomware attacks. One reason for the decrease in ransomware attacks since the February 24 invasion is likely improved awareness and defensive measures by businesses. Furthermore, sanctions and the inability to use credit cards and other payment methods to get Western infrastructure have made running the ransomware attacks much more difficult.

Conti rebranding as several new ransomware groups

Conti, a Russian-Based Ransomware Group, shut down its Ransomware-as-a-Service operations website, negotiation services, and chat servers. Conti's dissolution aims to create smaller autonomous groups that partner with other cybercrime groups. According to experts, the disbanding follows the group's public allegiance to Russia in the country's invasion of Ukraine, dealing a huge blow to its operations and provoking the leak of thousands of private chat logs as well as its toolset, making it a "toxic brand."

Preliminary Assessment

- Anonymous is an international group of hackers who for political reasons fight in the digital space with the governments of the world, political structures and elites. Following Russia's attack on Ukraine, Anonymous declared cyber war on Russia.
- On May 18 Killnet declared cyber war on 10 countries, including Ukraine. The Russian hackers promised to "liquidate" governments and all hacker groups that oppose them.
- "Cyberknow" experts have estimated which hackers are fighting for Ukraine and for Russia in the cyber war. Apart from Anonymous, the Ukrainians are supported by 45 government and independent groups from various countries, while Russia is supported by 26 groups. According to other experts, there are many more groups involved in the cyber war, but the balance of power is clearly in Ukraine's favour. Thus, the founder and owner of the Russian company "Internet Search", Igor Bederov, has calculated that at least 650,000 people are involved in the cyber war against Russia, launching DDoS attacks against Russian infrastructure on a daily basis.
- Conti's disintegration will likely allow its members to avoid detection in future attacks by operating in smaller and less monitored cybercrime groups and attack more regularly due to this reduced detectability.



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

Sberbank and VEB to pay Eurobond coupons in rubles

Following up on last weeks Biden administration's disclosure to consider blocking Russia from paying its U.S. bondholders, Russia's Sberbank and VEB development bank declared to pay in rubles on dollar-nominated Eurobonds. Majority state owned Sberbank announced to make a coupon payment on its outstanding Eurobond issues in rubles, as the international financial infrastructure is preventing the bank from paying its investors as set out in its issuance documentation. Earlier this month the European Commission announced to remove Sberbank as well as Credit Bank of Moscow and the Russian Agricultural Bank from the international payments system SWIFT. Major Russian development financial institute VEB also declared to have paid out the equivalent of around \$68 million in rubles on two of its issued Eurobonds. After Russia's invasion of Ukraine the federation's ability to service its debt is in focus as western countries imposed extensive sanctions, raising concerns of a prospective sovereign default.

As part of the stabilization of the ruble rate the Russian finance ministry declared last week to cut the proportion of foreign currency revenues that have to be converted in rubles by exporters from 80% to 50%. The policy adjustment follows the rubles boost near a seven year high against the euro after the mandatory conversion had been introduced in face of the freezing of nearly half the country's reserves.

Swiss pumpmaker Sulzer to sell business in Russia

Publicly listed industrial engineering manufacturer Sulzer has decided last week to exit the Russian market by putting its Russia business on sale. The group also announced to wind down its business in Poland as the country's government is taking sanctions against Sulzer's major shareholder Russian oligarch Viktor Vekselberg. The Russian market accounted for 2.7% of the around \$3.3 billion group sales.

Preliminary Assessment

- The rouble has been boosted by demand from exporters, while there has been limited demand for dollars and euros from importers due to disrupted supply chains
- Retail demand for foreign currency has also been held back by restrictions on money withdrawals from bank accounts and on cross-border transactions
- The increased insecurity caused by the Russian invasion is currently also directly decreasing European business leaders' by half as new survey data from the European Round Table for Industry shows.

General remarks



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