

# War in Ukraine

## Situational Awareness Briefing

6 September 2022



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# Situational Awareness – Briefing as of 6 September 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

A major Ukrainian push towards Kherson continues but has so far failed to produce promising results. A Russian counterattack at Izyum was thwarted this week. While the Kharkiv front remains static, Russian forces are advancing slowly along the entire Donbas front towards the cornerstones of the Ukrainian defense at Seversk and Bakhmut.



### Forecast

End of last week Gazprom stopped gas flows through the Nord Stream 1 pipeline to Germany. The company stated there was a gas leak and provided no timeline for the restart. Reportedly Russia initiated talks with several Asian nations for potential long-term oil contracts with considerable discounts: for instance, a 30% discount was allegedly offered to Indonesia.



### Operations (Focus: Cyber)

Reportedly Montenegro's websites and databases were attacked by Russian hackers, the US was involved in the investigation. Allegedly Ukrainian hackers disabled more than 450 Russian resources in two weeks, including Russian Central Bank. Beijing accused US of "tens of thousands" cyber attacks, highlighting the attack on the state university, which specializes in aerospace and space research.



### Industry Special: Technology - update

Apple is gradually moving its production from China to India, Vietnam and Mexico. Nvidia Corp, a company that designs computer chips, said that US officials had instructed it to stop exporting two computing chips for artificial intelligence work to China. German and US technologies were found in Russian weaponry.



### People

The European Union suspends the agreement with Russia, which simplifies the issuance of visas. According to the UN, 5,587 civilian people died between the beginning of Russian aggression against Ukraine and August 22 as for official data from the liberated territories.



### Finance (Focus: Sanctions)

The UK authorities further scrutinize the proposed sale of the UK tech company Truphone with ownership links to Roman Abramovich. Italy imposed an administrative arrest on 11 real estate units belonging to the Russian oligarch Moshe Cantor, a close Putin's ally. Canada expanded the sanctions list against Russia, adding 62 persons and Russia's Avtomatika defense technology company to it.

For questions, comments or details, please contact Joint Crisis Center team: [de\\_ukraine-crisis@pwc.com](mailto:de_ukraine-crisis@pwc.com)



## Key takeaways

- In the past weeks, Russian forces continued to push along the entire Seversk-Soledar-Bakhmut line in the direction of Sloviansk. Battles are waged in Soledar and Bakhmut. At the Zaporizhzhia front a small offensive operation was launched by Ukrainian elements creating a dent in the Russian defensive line.

## Current topics

### Current situation in the Russo-Ukrainian War

The Kharkiv front continues to remain static, even though several artillery duels and tactical engagements are taking place. The Ukrainian attack into the Izium salient in the last weeks was reversed by Russian counterattacks. In addition, a Russian breakout towards Ivanka threatening the Western approaches to Sloviansk was cut off and destroyed south of Dovhenke. Despite receiving little media attention, the Izium front has transformed into the largest meat grinder for both sides as attacks, counterattacks and counter-counterattacks absorb large formations into persistent combat with high attrition rates. In the east, Russian forces continue to push along the entire Seversk-Soledar-Bakhmut line and have advanced further in the direction of Sloviansk and Kramatorsk. Russian progress is very slow as the majority of Ukrainian forces concentrated in the area attempt to hold the extensive defensive lines. East of Berestove and north of Horlivka, Russian forces have penetrated the second defensive line and seem to be aiming at a breakthrough north of Soledar and south of Bakhmut in an attempt to encircle large Ukrainian formations. As a large Ukrainian operation is currently underway in the west and Belarus is conducting military drills along the Ukrainian border additional reserves are not available in the foreseeable future. At the Zaporizhzhia front another small offensive operation was launched by Ukrainian elements south of Orichiv creating a dent in the Russian defensive line. According to Russian sources Ukrainian special forces also attempted to raid the Russian ammo depots in the vicinity of the Enerhodar nuclear power plant in speedboats but were discovered and eliminated. A major Ukrainian offensive continues in the Kherson sector. Ukrainian efforts concentrate at three points that were penetrated in May. The main axis of attack is in the area south of Davydiv Brid. There Ukrainian forces created a larger salient in the area in the shape of an eight, meaning the central flanks are exposed to Russian pressure attempting to chop off the tip of the advancing Ukrainian forces. As the Ukrainian forces are attacking they are exposed to heavy Russian artillery and tank encounters where Russian tanks still hold the upper hand. Several tank and accompanying mechanized infantry detachments were destroyed while attempting to widen the gap and achieve a breakthrough towards Kherson. The battle has moved into its decisive phase as either the encirclement of the Ukrainian spearhead or their breakthrough can occur. Its outcome is important for Ukraine as success will likely convince Western powers to increase their material support.

### IAEA Mission to Enerhodar nuclear power plant

In the last three weeks artillery duels, smaller skirmishes and special forces operations have taken place in the vicinity of the Zaporizhzhya Nuclear Power Plant (ZNPP) at Enerhodar. The plant is of strategic importance as it produces energy for the entire region. The ZNPP has been held by Russian forces since early March, but its Ukrainian staff continues to operate the plant. The complex has sustained damages due to military operations, artillery shelling as well as aerial bombardment. The ZNPP has lost the connection to its last remaining main external power line, but the facility continues to supply electricity to the grid through a reserve line. A secure off-site power supply from the grid and back-up power supply systems are essential for ensuring nuclear safety. There was also damage to the facility's solid radioactive waste storage, the ventilation pipe of special building 1, and the ZNPP training building. A mission of the International Atomic Energy Agency (IAEA) has been dispatched to inspect the site, damages as well as establish a monitoring mission at the plant to ensure its operation and technical safety.

Both Russia and Ukraine have accused each other of being responsible for the damages and the associated risks of a nuclear meltdown. Ukraine has accused Russia of storing military material in warehouses next to the plant and using the complex to bombard Ukrainian positions across the Dnieper. In contrast, Moscow claims that Ukrainian forces have shelled the complex and attacked it with saboteur groups to cut off its power production capability, ignoring the risks of a nuclear meltdown that could dwarf the Chernobyl catastrophe of 1986.

# Overall Geopolitical Assessment (2 of 2)



## Key takeaways

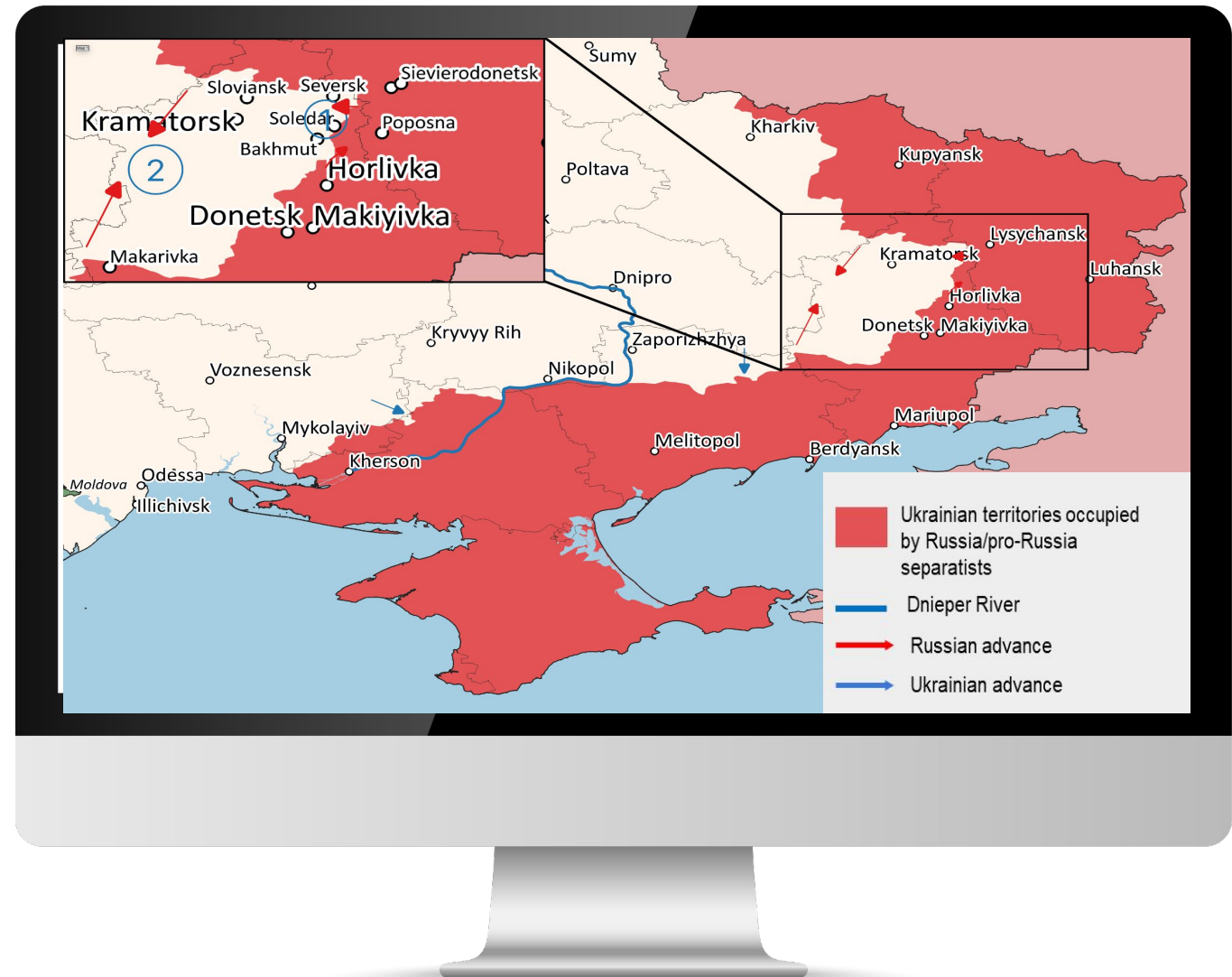
- Ukrainian efforts continue in the southwest to liberate Kherson Oblast. Meanwhile, Russian forces slowly advance in the east.

## Selected upcoming events

- 9 September:** (EU) Extraordinary Transport, Telecommunications and Energy Council
- 9-10 September:** (EU) Informal meeting of economic and financial affairs ministers
- 13-27 September:** Opening of the UN General Assembly
- 14-15 September:** Meeting of trade ministers under the German G7 Presidency

## Current Military Situation in Ukraine

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







## General context

Before the war, the Ukrainian information technology sector was growing: the IT exports volume had increased by 36% from USD 5 bln in 2020 to USD 6.8bn in 2021.

Since the Russian invasion of Ukraine, the IT services sector has been exposed to the consequences as all other industries. While in Ukraine the IT industry has survived fairly well and is even considered to be a beacon of light in the otherwise war torn economy – its Russian counterpart has fallen apart. Crushing sanctions and a increasingly hostile environment makes Russian IT workers leave the country in search of more favorable conditions abroad

## Current topics

### Apple is gradually moving its production from China

Apple has reportedly shifted some iPhone manufacture from China to other regions, including India, the world's second-largest smartphone market, and plans to produce iPad tablets there as well. It intends to begin manufacturing the iPhone 14 in India approximately two months after its sale outside of China, shortening the customary six to nine-month lag for prior releases. Besides, Nikkei published a report stating that Apple suppliers are in discussions to make the Apple Watch and MacBook in Vietnam for the first time.

According to the report of Apple's Taiwan-based supplier Foxconn, the company is considering its options after Beijing's disputes with Washington and nationwide lockdowns halting production.

### US officials reportedly order to halt sales of top AI chips to China

Nvidia Corp, a company that designs computer chips, claimed that US officials had reportedly instructed it to stop exporting two of the best computing chips for artificial intelligence work to China. The statement marks a significant increase in the United States' crackdown on China's technical capabilities, as tensions rise over the destiny of Taiwan, where chips for Nvidia and nearly every other major semiconductor business are built. This move could severely limit Chinese companies' ability to perform advanced tasks like image recognition and hurt Nvidia's business there.

China's foreign ministry accused the US of aiming to impose a "tech blockade" on the country, while its commerce ministry warned such steps would jeopardize the integrity of global supply chains.

### Western technologies in Russian weapons

In a joint research by Reuters and the Royal United Services Institute, the Western components in the Russian weaponry were examined. The names of American and German chip manufacturers are imprinted on several of the most crucial electrical components, including signal processors, programmable chips, and microcontrollers. According to a Ukrainian official, "Russian missiles and the majority of Russian armaments would not function without those US chips."

In an effort to weaken Russia's military sector after the invasion, the United States and other nations restricted high-tech exports to the country, and tech corporations made the announcement that they had stopped all shipments to Russia. However, the reporting team discovered that thousands of shipments of Western brand-name computer parts had been sent to Russia since the invasion of Ukraine. Most of the shippers were unlicensed suppliers, but several were also producers.

## Preliminary Assessment

- Contract manufacturers who supply American companies are increasingly relying on Mexico, Vietnam, and other nations as they aim to diversify their manufacturing away from China.
- Chinese firms allegedly won't be able to efficiently do the type of advanced computation needed for image and voice recognition, among many other tasks, without American chips from companies like Nvidia and AMD.
- After Reuters supplied the customs data revealing hundreds of recent shipments of their devices to Russia via third-party vendors, three of the manufacturers, AMD, Analog Devices, and Infineon, stated they had started internal investigations. Products that Infineon and Texas Instruments claimed to have delivered were already on their way when the invasion occurred. Before it stopped operating in Russia in early April, Intel claimed that the products it supplied were internal business supplies.



## General context

Considerations on implications for businesses along the PESTEL framework

<b>P Political</b>	Russia reportedly offers oil at discounted rates to Asian countries
<b>E Economic</b>	Gazprom stopped gas flows to Europe via Nord Stream 1.
<b>S Social</b>	Potential social unrest across Europe due to rising fuel prices
<b>T Techno- logical</b>	Technology related implications: e.g. cyber threats and disinformation, IT infrastructure disruptions
<b>E Environ- mental</b>	Environment related implications: e.g. Resource scarcity, energy embargo
<b>L Legal</b>	Legal implications: Compliance with changing regulations, contractual obligations, etc.

## Current topics

### Gazprom stopped gas flows to Europe via Nord Stream 1

Gazprom stopped gas flows through the Nord Stream 1 pipeline to Germany end of last week. The company stated there was a gas leak and provided no timeline for the restart. A spokesperson for Economy Minister Robert Habeck said Germany was continuing to uncouple its energy supply from Russia. "We have seen Russia's unreliability in past weeks and so have continued to take measures to reinforce our independence from Russian energy imports," said the spokesperson.

At the same time EU drafts measures to protect citizens and industries from soaring electricity and gas prices. The ministers will discuss end of the week a number of options including a price cap on gas used to produce electricity, or temporarily removing gas power plants from the current EU system of setting electricity prices.

### Potential social unrest across Europe due to rising energy prices

According to a risk advisory company, countries in Europe with higher living standards are more likely to have civil disturbance this winter, including street rallies and demonstrations, as a result of high energy bills and living expenses. More than half of the roughly 200 countries covered by Verisk's most recent report on its civil unrest index experienced an increase in the risk of mass unrest between the second and third quarter of 2022. This is the highest number of countries since the company first published the index in 2016. Bosnia and Herzegovina, Switzerland, and the Netherlands were among the nations with the greatest anticipated rise in risk.

### Russia reportedly offers oil at discounted rates to Asian countries

According to Bloomberg Russia is in talks with several Asian nations for potential long-term oil contracts with considerable discounts. Reportedly Indonesian Tourism Minister Sandiaga Uno via social media claims Russia offered Indonesia crude oil at 30% discount, noting concerns over potential US sanctions. The dilemma indicates further international tensions with regard to the price-cap plan anticipated by G7 state (to start before December 2022). The plan aims to reduce negative economic effects on Western economies and decrease Russian margins on oil. However, it requires several other economically relevant states such as Indonesia to join the coalition to make the plan effective.

## Preliminary Assessment

- Supporters of the price cap state that it would prevent some derivatives transactions to avoid margin calls. However, the cap would likely not help boost power storage and could instead keep demand high, depending on distribution modalities.
- Food prices have risen quickly after Russia's invasion of Ukraine on February 24; they again reached an all-time high in February and March. Energy costs have increased significantly, with Europe being at the center of the consequences.



## 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

### Suspension of visa facilitation agreement for Russia

The European Union will suspend the agreement with Russia, which simplifies the issuance of visas. But there will be no complete ban on visas for Russian citizens - there is no unanimity on this issue among EU members. In addition to Hungary itself, Germany, France, Greece, Cyprus, Italy, Spain, Portugal and some other countries oppose visa sanctions, and the eastern EU countries are in favor. The news was announced by the Minister of Foreign Affairs of Hungary, Peter Szijarto, following the results of the ministerial meeting in Prague, Reuters reports. Ending the deal agreement will increase visa processing times, require more documentation and increase costs.

### Half a year of war in numbers

According to the UN, 5,587 civilian people died between the beginning of Russian aggression against Ukraine and August 22. According to UN estimates, there are 362 children among them. 7,890 people were injured. This data concerns only fully confirmed and identified cases in the liberated territories of Ukraine. The Office of the High Commissioner for Human Rights of the United Nations emphasizes that the actual number of civilian deaths is much higher. According only to the morgue of Mariupol, the most affected city during the war, 87,000 dead were documented in six months, 90% of which were civilians.

According to Military general base of Ukraine, as of the 190th day of the war, the losses amount to 48,350 Russian soldiers and 9,500 Ukrainian soldiers.

According to estimates, about 13 million Ukrainians left their homes, fleeing the war to other regions of Ukraine or abroad.

### Due to inflation and the departure of Russians, the prices of luxury houses in London are falling

Average prices for “luxury” houses in London are 17.6% below their peak in 2014, according to The Financial Times. According to market participants, the situation has worsened over the past few years. “It was a long process... [There was] Brexit, the pandemic and then the war. The market is really very tight now because of the rising cost of construction,” said one of the sellers.

“Russian buyers, who were once commonplace in the center of London, have become fewer in recent years and have almost disappeared after the Russian invasion of Ukraine,” the article says.

## Preliminary Assessment

- Poland, Finland, Estonia, Latvia and Lithuania demand from the European Commission to take collective measures to strengthen the visa policy for Russian citizens. Otherwise, they will take action at the national level.
- Reuters notes that it cannot confirm the losses of either side based on independent sources.
- According to the FT, construction works are becoming more expensive in due to the highest inflation in several decades and an increase in the key rate in Great Britain, which makes loans more expensive.

# Operations (Focus: Cyber Threats)



## Key considerations

### Detecting a cyber attack:

- Ensure centralized log collection and monitoring capability to boost the ability to promptly detect the threats and investigate incidents
- Implement monitoring for behavioral evidence or network and host-based artifacts from known state-sponsored actors in Russia

### Responding to an incident:

- Immediately isolate breached systems
- Secure backups
- Collect and review relevant logs, data, and artifacts
- Consider soliciting support from qualified specialists to provide subject matter expertise
- Report incidents to authorities (if applicable)

### Mitigating risk of incident occurrence:

- Ensure proper training for staff regarding incident detection, reporting and response
- Ensure appropriate number of IT security personnel
- Prepare a Cyber Incident Response and Resilience Plan, as well as a Continuity of Operations Plan

## Current topics

### Montenegro was attacked by Russian hackers

According to the Minister of Public Administration of Montenegro, hackers attacked the country's websites and databases with the help of the Cuba ransomware and a new virus called Zero Date. Most government websites have been temporarily disabled as a precautionary measure. The Minister of Internal Affairs of Montenegro, after meeting with the representatives of the FBI in the United States, said that the rapid response team of the FBI in Montenegro will help to deal with cyber attacks. The head of the cyber security department of Montenegro, said that the personal data of citizens did not fall into the hands of cybercriminals. The state broadcaster RTCG of Montenegro, citing sources in the country's security agency, said that Russia was behind the attack.

### Ukrainian hackers allegedly disabled more than 450 Russian resources in two weeks

From August 15 to 28, hackers allegedly attacked more than 450 online resources of Russia, including The Central Bank, money transfer services, and a job search service. The "IT Army", as Ukrainian hackers call themselves, blocked the websites of Central Bank of the Russian Federation, the "Just Russia - Patriots - for the Truth" political party, the DNS retail company, which allowed Russians to illegally import Ukrainian goods into the Russian Federation, a number of propaganda media, and Russian websites in the temporarily occupied Crimea.

Hackers also suspended the work of Russian analogues of banking services through which Russians could issue international virtual cards and transfer money.

On August 24, on the main pages of Russian sites currently operating in Crimea, Ukrainian hackers posted congratulations on the Independence Day of Ukraine.

### China accuses US of thousands of cyber attacks

Beijing said on Monday that the US had launched "tens of thousands" of cyberattacks on China and had stolen a vast amount of private information, including that from a public research university. It specifically charged the Office of Tailored Access Operations (TAO) of the NSA with breaking into the Xi'an-based Northwestern Polytechnical University.

The institution, which specializes in aerospace and space research, is supported by China's Ministry of Industry and Information Technology. CVERC alleged TAO of infiltrating the university's network and taking control over of "tens of thousands" network devices, including servers, routers and network switchers.

## Preliminary Assessment

- Montenegro receives support from the US and other NATO allies in repelling cyber attacks on its information systems and electronic services.
- A cyber attack on The Central Bank of the Russian Federation reportedly disabled its operations. The bank had to deactivate its services and the exchange of electronic documents. This paralyzed work with financial institutions and registers and destabilized the work of other Russian banks.
- Earlier, Washington had accused China of cyberattacks against US businesses and government agencies. However, China had denied the claims.





## Key Considerations

### Sanctions Screening Activities

- Screening solutions generate increasing number of alerts (especially banks must deal with the 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

### UK extends security inquiry into a telecom company linked to Roman Abramovich

The UK government has leveraged a recently passed national security laws to postpone the sale of the UK tech company Truphone, which specializes in eSims, to German billionaire Hakan Koc and his business partner Pyrros Koussios. The purchase of Truphone, a company with ownership links to Roman Abramovich, a sanctioned Russian oligarch, has drawn the attention of the Department for Business, Energy and Industrial Strategy (BEIS), which has requested 45 more working days to review it.

According to Sky News, citing unnamed sources, the inquiry's delay does not necessarily imply the government would oppose the sale, and that "one executive close to the process" was "assured" that it might be completed by the end of this month.

### Italy seized 11 villas of an oligarch close to Putin

The Italian authorities imposed an administrative arrest on 11 real estate units in Sardinia belonging to the Russian oligarch Moshe Cantor, writes the local publication L'Unione Sarda. He was the main owner of the world's largest producer of mineral fertilizers "Acron", Forbes estimates his fortune at USD 4.6 bln. After the sanctions were imposed, Kantor transferred his shares to the management department.

In connection with the sanctions imposed on the oligarch, Italian authorities seized 11 villas in Porto Rotondo registered directly to Cantor or related to him.

### Canada expanded Russian sanction list

End of August Canada expanded the sanctions list against Russia. 62 persons and Russia's Avtomatika defense technology company were added to it. In particular, ex-defense minister Anatoly Serdyukov and his family, First Deputy CEO of Rostec Corporation Vladimir Artyakov and his family members, President of Kalashnikov Holding Alan Lushnikov and other senior managers were added to the list. News were announced by Canadian Prime Minister Justin Trudeau during an online speech at the second summit of the Crimean Platform.

According to reports, the Canadian administration will also include 27 Russian governors on the sanction list.

The sanctions apply to the governors of Russian regions bordering the territory of Ukraine, Ombudsmen by the President of the Russian Federation for children's rights, as well as top managers of the Rostec state corporation and 5 directors of military equipment plants, according to a publication on the Canadian government website.

## Preliminary Assessment

- The BEIS department first initiated its Truphone investigation in July, shortly after Koc and Koussios made a nominal GBP 1 bid for the business.
- Moshe Cantor was placed on EU and UK sanctions lists in April as a person close to Russian President Vladimir Putin.
- 1,750 individuals and organizations have already been added to Canada's sanctions list against Russia, among which are National Wealth Fund of Russia, Central Bank of Russia, Gazprombank, Russian Agricultural Bank, Gazprom, Transneft, Rostelecom, RusHydro, Alrosa, Sovcomflot, Russian Railways, Sberbank, AlfaBank, VTB Bank PJSC, Rosneft, Gazprom etc.

# General remarks



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