

War in Ukraine

Situational Awareness Briefing

30 May 2023



The information contained in this briefing is prepared by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. It is for general guidance on matters of interest, and intended for the personal use of the reader only and in connection to the PwC Webcast series "War in Ukraine" or based on individual consent in the context of an existing client relationship. This informational material shall not be deemed to establish a contractual relationship between PwC and the reader. Further distribution requires explicit consent of PwC.



Situational Awareness – Briefing as of 30 May 2023 (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.

This Situation Awareness Briefing is provided for information purposes only by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft and will be updated regularly.

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

- Overall Geopolitical Assessment
- Industry/Topic/Country Special
- Forecast
- People
- Operations
- Finance



Overall Geopolitical Assessment

The battle of Bakhmut is concluded. Russian forces have taken total control of the city, while Ukrainian counterattacks on the northern and southern flanks have subsided. Ukrainian preparations elsewhere are indicative of an upcoming large-scale counteroffensive. It is likely that the Ukrainian strategic counter-stroke will commence shortly.



Forecast

Tensions between Saudi Arabia and Russia are rising as Moscow continues to supply huge volumes of cheap oil to the market // Kyiv will consider allowing Russian ammonia to transit through its territory for export // China halts Russian pipeline project "The Power of Siberia - 2".



Operations (Focus: Cyber)

The number of cyberattacks on Ukraine is declining // Germany warns of increased risk of sabotage from Russia // In exchange for Iranian military assistance, Russia is supplying Tehran with cyber weapons, including digital surveillance equipment.



Inside-out view on reconstruction efforts in Ukraine

Ukraine has started the development of the Geoinformation System (GIS) // Ukraine approved the Heating Season Action Plan 2023-2024 // The System for Subsoil Use has been approved // Ukraine and Germany start a new project for Ukrainian communities - Renewable energy sources for a sustainable Ukraine - R2U.



People

German arms manufacturer Rheinmetall plans to produce Fuchs APCs in Ukraine // French tyre manufacturer Michelin has announced the sale of its assets in Russia // The German insurance group Allianz has closed the sale of a controlling stake in its Russian subsidiary.



Finance (Focus: Sanctions)

Russia buys and imports drones and missile chips through Kazakhstan // UK announces new sanctions against Russia // The US adds new Russian companies to the Trade Blacklist // Japan strengthens sanctions against Russia.

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



Key takeaways

- After the fall of Bakhmut, a rotation of positions between Wagner forces and regular Russian Army forces has commenced.
- Ukrainian attacks in Bakhmut have subsided, but all eyes are focused on the timing and location of the anticipated strategic Ukrainian counterattack.

Current topics

Current situation in the Russo-Ukrainian War

The Kherson front remained static this week. At the Zaporizhzhia front smaller skirmishes occurred between Kamyaske (on the Dnieper) and Huliapole. As this section of the front is one of the likely venues of attack for the upcoming Ukrainian counteroffensive, Russian forces continued to expand their multi-layered defensive works. The Russian defense line in the region is one of the most formidable with up to four trench systems augmented by minefields, lines of dragon teeth, strongpoints and weapon emplacements. At Marinka Russian efforts yielded some minimal territorial gains within the city, as another few blocks were occupied. Minor Russian efforts also continued in the Avdiivka direction with negligible territorial exchanges. The fighting has transformed into positional warfare characterized by artillery duels, small scale incursions and skirmishes.

At Bakhmut the conclusion of the eight-month battle occurred. Successful Ukrainian counterattacks at the northern and southern flanks of the Bakhmut front had regained favorable positions and threw the Russian forces off-balance for a few days. However, these operation could not halt the Russian advances in the city, where Wagner units eliminated the last pockets of resistance in the citadel area. The battle of Bakhmut was costly for both sides. Wagner admitted sustaining 20.000 casualties since fighting began in the fall of 2022. It is likely that Russian and Ukrainian losses are similarly high in the area of operations. Wagner also declared it will withdraw from Bakhmut and hand over the city to the regular Russian Army. Such rotation is seen as a necessary step for the PMSC to recoup its losses. It may also be seen as an anticipatory step in the power struggle between the Russian Defense Ministry and Wagner. A loss of Bakhmut to Ukraine after its offensive begins would negatively impact the standing of the Russian defense ministry in the Kremlin and benefit Wagner politically. Wagner also announced that after its reorganization it will concentrate on operations in Africa to ensure Russian interests there. In the northern sector smaller Russian gains occurred at Bilohorivka in the region of Seversk as well as along the Kreminna sector, whereas Ukrainian offensive operations gained some territory in the northernmost section of Kharkiv Oblast close to the Ukrainian-Russian border.

Free Russian Legion incursion into Russia

Last week, an armored column consisting of a tank, several armored personnel carriers as well as a dozen of armored Humvees penetrated the territory of Russia in Belgorod Oblast. The unit, consisting of about 200 to 300 men attacked and occupied the border checkpoint at Glotovo and advanced unchecked into the minor city of Graivoron, about 50 km West of Belgorod, a major Russian urban center and essential supply and logistic center of the Russian Army. The formation is part of the so-called Free Russian Legion and other makeshift Russian volunteer formations. For about 36 to 48 hours these forces occupied the border post as well as several smaller settlements and the town of Graivoron, where the unit also occupied a local police station. Russian forces responded with delay as they were completely surprised by the attack and only conscript forces were deployed in the immediate area. After reorganizing their forces, Russian air assets and ground vehicles counterattacked and reoccupied the territory within 24 hours, claiming to have killed and captured 70-100 combatants and destroying several vehicles by various means.

Despite its minimal scale, the important lessons of this operations are that it highlighted that Russia has neglected its border defense forces and seems unprepared in case of a larger attack. The operation can also be seen as a perfect example of a feint offensive to distract Russia from the anticipated Ukrainian counterattack. Politically it also has large-scale implications. On the Ukrainian side it acts as a confidence boost by highlighting Russian weakness and unpreparedness. In addition, it acts as a blueprint for Russian anti-regime and pro-democratic forces to emulate such operations along the Russo-Ukrainian and Belorussian border or elsewhere within Russia. However, it might also negatively impact Western support for Russia as many Western partners have explicitly expressed their opposition against offensive operations in the territory of the Russian Federation in an attempt to limit the war's escalatory potential. On the Russian side the effect of highlighting vulnerability to such attacks coupled with fears of Ukrainian successes may spark anti-regime sentiment.

Overall Geopolitical Assessment (2 of 2)



Key takeaways

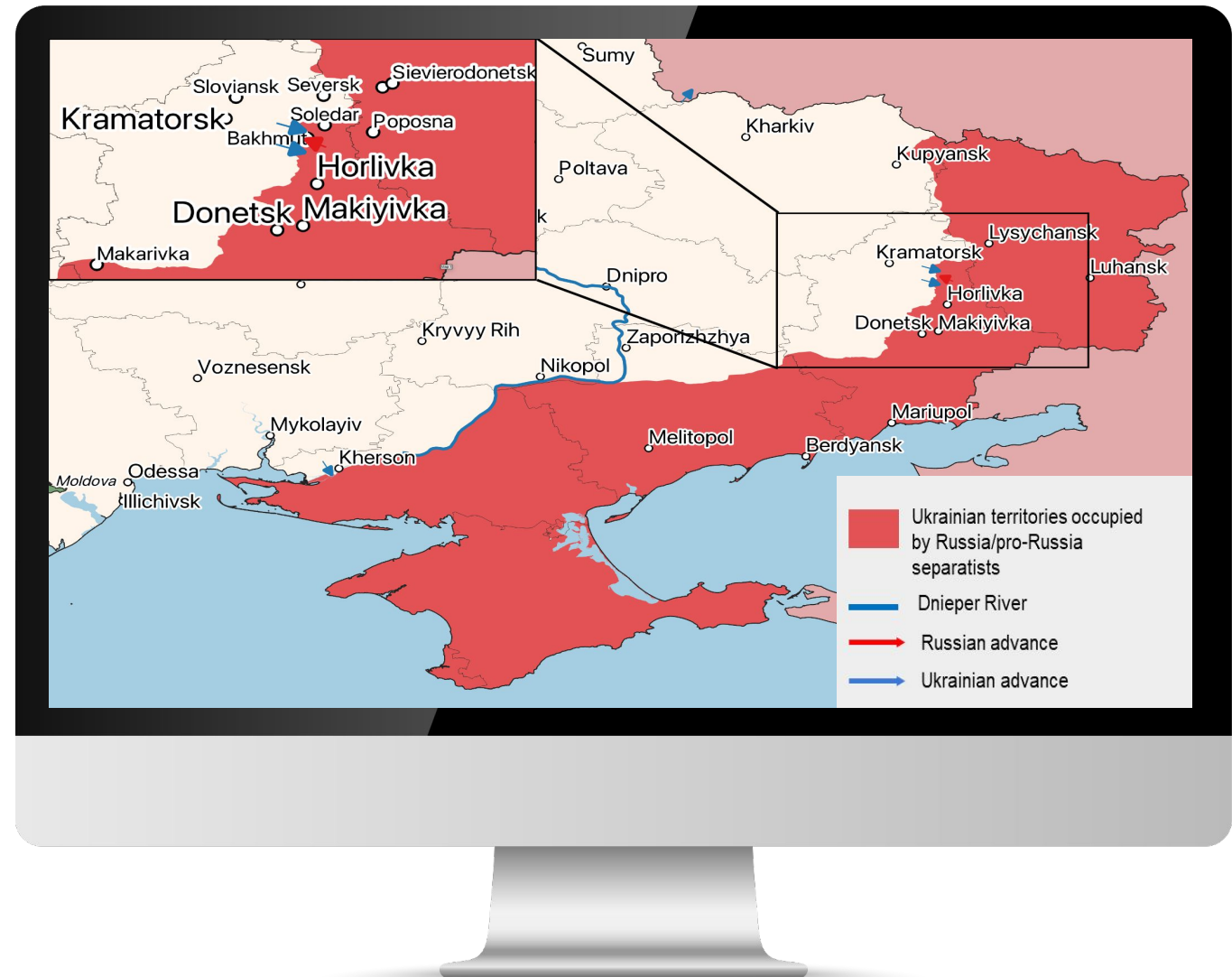
Bakhmut has fallen.

Ukraine is in preparation to launch its strategic offensive.

Selected upcoming events

- 21-22 June 2023 - Ukraine Recovery Conference (URC 2023) in London.

Current military situation in Ukraine (blue arrows indicate current Ukrainian counterattack, red arrows indicate potential future Russian operations in the coming weeks)



Inside-out view on Ukraine reconstruction efforts



Donor activity - update

As part of the Asian Leadership conference, a Preliminary Agreement was signed between the Government of Ukraine and the Government of the Republic of Korea regarding loans from the Economic Development and Cooperation Fund (EDCF) to promote economic cooperation between Korea and developing countries. Ukraine is included in the list of priority countries for bilateral cooperation with the Republic of Korea within the Official Development Assistance program. The first tranche from the EDCF in the amount of up to USD 300mn is expected in 2023, the next tranche will become available in 2024 with a gradual increase in the limit according to the project's pipeline for the post-war reconstruction.

Ukraine will participate in the European program "Mechanism Connecting Europe" which will allow to attract funding from the EU for the development of transport, energy and digital infrastructure. The total budget of the program until 2027 is almost EUR 21bn.

The Government of Ukraine approved a loan in the amount of USD 500mn and a grant in the amount of USD 1.2bn from the International Bank for Reconstruction and Development. It is part of the Public Expenditures for Administrative Capacity Endurance (PEACE) Project.

An agreement to attract a loan of USD 1.5bn under the Japanese government guarantee as part of the support for the development and recovery policy was approved.

The Board of Governors of the European Bank for Reconstruction and Development has adopted a resolution that launched an increase of the bank's capital by approximately EUR 3-5bn, which can be used for macro-financial assistance to Ukraine and for reconstruction. Ukraine received the fourth tranche of EUR 1.5bn from the EU as part of large- scale macro-financial assistance for 2023.

Geoinformation System platform

Ukraine has started the development of the Geoinformation System (GIS) for monitoring and evaluating the regions and territorial communities development. The minimum viable product of the system will be ready by the end of 2023. The GIS will make it possible to quickly assess the social and economic situation in each community, effectively manage investments and regional development across communities, individual industries and spheres of activity, identify typical problems and assess public funds spending on the implementation of local recovery plans. Interactive maps will indicate the locations of the war damaged or destroyed facilities, the access to educational or medical services, the dynamics of population changes, etc.

Preparing for the upcoming heating season

The Government of Ukraine approved the Heating Season Action Plan 2023-2024 and created the Anti-Crisis Headquarters, composed of government representatives, in view of the need to restore damaged facilities. Currently, intensive repairs of damaged networks and energy facilities are underway with a focus on modernization and resistance to possible new missile attacks, equipment stock is being formed, and the system is being decentralized with the help of small generation facilities.

System for Subsoil Use

The operation of the Unified State Electronic Geo-information System for Subsoil Use has been approved. The system will provide access to 17 databases and registers. The principle of quick access to all data on one platform will allow businesses to conduct their own searches, choose assets and make investment decisions without leaving the office. And the public will have open access to environmental data. The launch of the platform will allow Ukraine to get closer to joining the European Critical Raw Materials Act (the European Strategy until 2030).

German-Ukrainian energy partnership

Ukraine and Germany start a new project for Ukrainian communities - Renewable energy sources for a sustainable Ukraine - R2U. This is the first stage of the agreements' implementation signed to deepen the German-Ukrainian energy partnership with an emphasis on the recovery and reconstruction of Ukraine's energy industry. As part of the project, up to 20 communities will be selected, in which energy audits of critical infrastructure buildings will be conducted for further re-equipment with renewable energy sources.

Preliminary Assessment

- The GIS is a component of the DREAM reconstruction management digital ecosystem, which provides monitoring, management and control of reconstruction projects at all stages. The GIS is also integrated with the prioritization of reconstruction projects methodology which is being developed by the World Bank.
- Ukraine and the Republic of Korea signed a 5-year Memorandum aimed at strengthening cooperation with representatives of the Korea public and private sectors on comprehensive territorial and urban planning, development of transport (railways, highways and airports) and social infrastructure, decentralized energy, cooperation of enterprises related to reconstruction, creation of new jobs, etc.
- The Anti-Crisis Energy Headquarters agreed with energy companies on a plan to restore 1,710 MW of generating capacities before the beginning of the next heating season and attract EUR 200mn of grant funds for repairs of energy equipment.
- The Ministry of Digital Transformation of Ukraine and Palantir, a world leader in software development and provider of cloud solutions for the US Department of Defense and major investment banks, signed a Memorandum of cooperation in the fields of defense and reconstruction of Ukraine after the Russian invasion. The collaboration involves the use of Palantir digital technologies, in particular in the buildings and infrastructure damage assessment, as well as to optimize and coordinate reconstruction processes in Ukraine.



General context

Considerations on implications for businesses along the PESTEL framework

P Political	Tensions between Saudi Arabia and Russia are growing.
E Economic	Kyiv is ready to allow transit of Russian ammonia. China halts Russian pipeline project.
S Social	Social related implications: e.g. refugee streams, labour market developments
T Techno-logical	Technology related implications: e.g. cyber threats and disinformation, IT infrastructure disruptions
E Environ-mental	Environment related implications: e.g. Resource scarcity, energy embargo
L Legal	Legal implications: Compliance with changing regulations, contractual obligations, etc.

Current topics

Tensions between Saudi Arabia and Russia are growing

Tensions between Saudi Arabia and Russia are rising as Moscow continues to supply huge volumes of cheap oil to the market, undermining Riyadh's efforts to raise prices, The Wall Street Journal reports. Saudi Arabia, which is the de facto leader of the Organisation of the Petroleum Exporting Countries (OPEC), believes that Russia has not fully fulfilled its promise to cut production in response to Western sanctions. The cartel members are due to meet in Vienna on 4 June to decide on a production plan for the second half of the year amid growing concern that the global economic slowdown is reducing energy demand. The increase in oil production has boosted Russia's revenues but created an oversupply, which has led to a nearly 10% drop in prices since April.

Kyiv is ready to allow transit of Russian ammonia

Reuters reports that Kyiv will consider allowing Russian ammonia to transit through its territory for export, provided that the recently revived Black Sea Grain Initiative is expanded to include more Ukrainian ports and a wider range of commodities. The United Nations has also supported the resumption of ammonia supplies through the pipeline in an effort to help global food security. Only three of Ukraine's largest Black Sea ports are included in the agreement. Kyiv has repeatedly stated that it would like the agreement to cover more goods and ports.

China halts Russian pipeline project

China is advancing the construction of a long-delayed Central Asian pipeline to obtain gas from Turkmenistan, even as Russia pushes its own new "The Power of Siberia 2" line. Beijing is eager to strengthen Central Asian ties through its Belt and Road Initiative. According to Chinese oil officials and industry advisors, Moscow's current effort to secure its second Siberia pipeline link with China, the Power of Siberia 2, to compensate for reduced sales in Europe due to the Ukraine conflict, presents Beijing with a lever to develop the central Asian project. The Power of Siberia 2 would transport natural gas from the Yamal Peninsula in Western Siberia to China. According to Business Insider, analysts say that China is making use of its "newfound power over heavily-sanctioned Russia", which needs Chinese investment to mitigate Western sanctions on its economy. China may eventually close both accords to meet its vast long-term gas demands, but industry experts say Beijing is reportedly prioritizing Turkmenistan.

Preliminary Assessment

- In March 2020, oil prices plunged after Saudi Arabia and Russia failed to agree on an emergency plan to address the oversupply. Following the disagreement, Saudi Arabia launched a price war in an attempt to win back market share from Russia.
- Russia, a major ammonia exporter, has been pushing for the resumption of ammonia supplies through a pipeline from Togliatti, Russia, to the Black Sea port of Pivdennyi near Odessa, which has the capacity to pump up to 2.5 million tonnes of ammonia a year.



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

German arms manufacturer Rheinmetall plans to produce Fuchs APCs in Ukraine

Armin Papperger recently said that Rheinmetall had established a joint venture with Ukroboronprom to repair and manufacture tanks. The German concern Rheinmetall wants to start producing Fuchs armoured personnel carriers in a joint venture. Ukraine is also interested in a modern Panthera battle tank and Lynx infantry fighting vehicle. However, the first step is to meet the country's urgent defence needs. In addition, Handelsblatt wrote that the concern plans to sign contracts to establish two more joint ventures - for the production of ammunition and air defence.

Michelin sells its assets in Russia

French tyre manufacturer Michelin has announced the sale of its assets in Russia to its partner, distribution company Power International Tires. The deal was approved by local authorities. At the same time, 250 jobs will be saved, mainly in Davidovo. All costs associated with the termination of activities in Russia were allocated to 2022. However, in May 2023, the group will recognise costs estimated at several tens of millions of euros related to exchange rate differences," the statement said.

Allianz closes deal to sell a controlling stake in Russian business

The German insurance group Allianz has closed the sale of a controlling stake in its Russian subsidiary Alliance to the local company Interholding, the owner of the Russian company Zetta Insurance. As a result of the transaction, Zetta Insurance will include Zetta Insurance, Alliance and Alliance Life. In July last year, Allianz decided to sell a controlling stake (50.1%) in its Russian subsidiary, Interholding, to financier Oleg Yachnik, while retaining a 49.9% stake in the Russian unit. Allianz later recognised a EUR400mn loss on the sale of the stake.

Preliminary Assessment

- The United States has ordered the seizure of several Russian tycoons' assets related to Russia's 2014 actions and the 2022 invasion of Ukraine.
- Altogether, foreign investors who left Russia after selling their businesses there between March 2022 and March 2023 withdrew about USD 36bn from the country, the state RIA news agency reported on Monday, citing analysis of data from the Central Bank.
- In mid-March 2022, Allianz stopped insuring new businesses in Russia, and in May, the company's CFO Giulio Terzariol said that the likelihood of a complete cessation of the group's operations in Russia is very high.

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

The number of cyberattacks on Ukraine is declining

According to Victor Zhora, Ukraine's Deputy Chairman and Chief Digital Transformation Officer, since the beginning of 2023, his office has detected a decrease in the total number of cyberattacks waged by pro-Russian hacktivist groups compared with the previous quarter, with 549 cyber-incidents and cyberattacks processed by CERT-UA between January and April this year. But the complexity, systematic nature and intensity of such attacks remains high.

German domestic intelligence service warns of increased risk of sabotage from Russia

On May 22, Thomas Haldenwang, Head of the German Federal Office for the Protection of the Constitution (BfV) reported an "increased risk" of acts of sabotage in the country by Russia. According to him, the German authorities have already recorded "preparatory work" - in particular, surveillance of the IT infrastructure of enterprises from the supply sector. Meanwhile, a massive cyber attack directed against Germany's critical infrastructure has not yet been observed, he said.

Russia supplies Iran with cyber weapons

In exchange for Iranian military assistance in the war against Ukraine, Russia is supplying Tehran with cyber weapons, including digital surveillance equipment. According to The Wall Street Journal sources, Moscow has long resisted the exchange of digital offensive capabilities with Iran, fearing that they would later be sold on the dark web. However, cooperation in the cyber industry between Russia and Iran has intensified after Tehran sold Shahed drones, short-range missiles, and tank and artillery shells to Russia.

The WSJ points out that Tehran is seeking help in the cyber industry, but is also asking for dozens of elite Russian attack helicopters and jet fighters and help with its long-range missile program.

According to the publication, since the beginning of the full-scale invasion of Ukraine, Russia has provided Iran with communications and surveillance equipment, as well as listening devices, modern photographic devices and lie detectors. And Moscow has probably already shared more advanced software with Iran that will allow it to hack the phones and systems of dissidents and adversaries.

According to the WSJ, the key supplier of cyber services to Iran is the Russian company Proteus, which has contracts with the Russian Ministry of Defense.

Preliminary Assessment

- A certain decline in the number of attacks may indicate that technology sanctions against Russia and the global community's efforts to reduce Russia's cyberattack potential might be effective.
- Iran has long worked to develop its cyberweapons, with government hackers conducting disinformation campaigns, attacking supply chains and damaging infrastructure in rival countries such as the US and Saudi Arabia.



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

Russia buys and imports drones and missile chips through Kazakhstan

According to investigative journalists, foreign trade statistics show that Kazakhstan's imports of drones and microelectronics have increased significantly. Kazakhstani companies registered by Russians after the start of the war act as intermediaries for imports. The Kazakhstani company Aspan Arba imported drones and supplied them to the Russian company Heavenly Mechanics, which sold them to organisations linked to the military. Both companies are owned and operated by the same individuals. The Kazakhstani company Da Group 22 imported electronics to Russia, which it received from Germany, the investigation says.

UK announces new sanctions against Russia

The United Kingdom has announced new sanctions against Russia, targeting advanced military technologies and Moscow's current "sources of income". The sanctions were imposed on 86 Russian citizens and legal entities. These include companies involved in the "theft of Ukrainian grain", the development of military technologies, the supply of Russian energy, and banks. Restrictive measures have been imposed on 24 Russians and companies involved in transport services. London's sanctions list includes nine organisations linked to Rosatom that produce materials and technologies, including lasers, and are directly funded by the state. Sanctions have also been extended to the energy, metals, defence and financial sectors.

The US adds new Russian companies to the Trade Blacklist

The US Department of Commerce's actions are aimed at supporting the Russian military and expanding the scope of export controls on Russia and Belarus. The blacklist includes 69 Russian companies, one from Armenia and one from Kyrgyzstan. The new export control measures are aimed at oil and gas projects in Russia and Belarus, the ministry reports.

Japan strengthens sanctions against Russia

Chief spokesman for the Japanese government Hirokazu Matsuno said that Tokyo is preparing new sanctions against Russia after the G7 meeting hosted by Japan last week, at which the allies agreed to increase sanctions pressure on Russia. Japan's Foreign Ministry has announced the details of the sanctions: it includes a freeze on the assets of 78 groups and 17 individuals, including the Russian military, and an export ban on 80 Russian companies, including research centres working for the military industry. In addition, Japan will ban the provision of engineering and construction services to Russia.

Preliminary Assessment

- The countries of origin of the goods are indicated: they were imported to Kazakhstan from Hong Kong, Germany, the Netherlands and Singapore.
- The British government has said that Russia's assets will remain frozen until Moscow agrees to pay for the damage it has caused to Ukraine.
- These actions are part of the latest round of sanctions and export controls by the US and other countries in response to Russia's invasion of Ukraine. They are designed to weaken Russia's industrial base and its ability to sustain the war.

General remarks



- The information contained in this briefing is prepared by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. It is for general guidance on matters of interest, and intended for the personal use of the reader only and in connection to the PwC Webcast series “War in Ukraine” or based on individual consent in the context of an existing client relationship. This informational material shall not be deemed to establish a contractual relationship between PwC and the reader. Further distribution requires the explicit consent of PwC.
- The information contained in the briefing is selected with due care. We have made every attempt to ensure that the information contained in this briefing has been obtained and arranged with due care. No representation or warranty of any kind (whether expressed or implied) is given by PwC as to the accuracy or completeness of the information contained within this briefing.
- PwC accepts no liability for any actions taken as response hereto. The information is provided on the understanding that the authors are not herein engaged in rendering legal, accounting, tax or other professional advice or services. As such, it should not be used as a substitute for consultation.
- PwC reserves the right to change or update at any time the briefing without prior notice.
- This briefing may contain references to public sources (e.g. media outlets) maintained by third parties. PwC has no control or influence over the content of such sources. The information from such sources have neither been checked nor approved by PwC in any way. References do not mean that PwC adopts the content behind the reference or link as its own. Therefore, PwC does not assume, for whatever legal reason, any responsibility for the content of the websites of third parties.