

War in Ukraine

Situational Awareness Briefing

10 October 2023



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Situational Awareness – Briefing as of 10 October 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.

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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 Ukrainian counteroffensive along the Zaporizhzhia front continued, although it only achieved minor gains. A debate about whether to deliver Taurus missiles to Ukraine is still raging in Germany. Hamas launched a surprise terrorist attack on southern Israel with an unprecedented scale. Hezbollah has commenced operations as well, highlighting Iranian involvement behind the attacks that will further destabilize the security situation in the Middle East.



Forecast

North Korea has increased freight traffic with Russia, potentially trading weapons for energy, food aid, and advanced military technologies // Ukrainian President Zelensky warns that if the war in Ukraine is frozen, Russia may target other countries by 2028, including Baltic states and those with Russian military presence.



Operations (Focus: Cyber)

The International Committee of the Red Cross (ICRC) issued its first-ever list of rules for civilian hackers, emphasizing the importance of protecting civilian objects, avoiding indiscriminate damage, and upholding humanitarian principles during cyber operations



Inside-out view on reconstruction efforts in Ukraine

Ukraine suspended WTO complaints against neighboring countries on October 5, 2023, seeking trade solutions // Ukraine shifted to a managed exchange rate regime for economic flexibility // Ukraine is drafting a Unified Reform Plan until 2027 based on EU and IMF recommendations // The US DFC is developing investment risk insurance programs in Ukraine for economic stability.



People

Lithuania establishes a corridor for the transit of Ukrainian grain to Baltic ports, reducing border pressure and increasing grain shipments to various countries, including Africa // In September 2023, 11 international companies withdrew from the Russian market, bringing the total to 284, with notable exits such as British American Tobacco and Volvo Cars, while others like Danone and Hyundai are on the verge of leaving.



Finance (Focus: Sanctions)

The US Department of Commerce has added 42 Chinese companies to its export control list for assisting Russia's military and defense industry, requiring suppliers to obtain difficult-to-obtain licenses before exporting goods to them // Norway has joined the EU in imposing sanctions against Russia, including banning the transit of goods and technologies that could enhance Moscow's military capabilities and expanding the list of prohibited weapons and technological goods for sale or use in Russia.

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

Overall Geopolitical Assessment (1 of 2)



Key takeaways

- As the fall thaw approaches, operations are reduced to tactical engagements on both sides.
- Ukraine continues to invest forces into widening the breach in the Robotyne sector.

Current topics

Current situation in the Russo-Ukrainian War

The Ukrainian strategic counteroffensive continues along multiple sections of the Zaporizhzhia front. The two most important sectors remain the Robotyne sector (Tokmak direction) and Staromaiorske (Mariupol direction). At Robotyne, the Ukrainian breakout continued. Despite inflicting significant losses on Russian heavy artillery forces the recent advances of Ukrainian forces are minimal. Ukraine continues to attempt to widen its breach in the Robotyne sector between Novoprokopivka and Verbove. It also continued to move heavier equipment across the dragon teeth line in preparation of future offensive operations. Russian reserves arriving in the sector have somewhat stabilized the defense line. Contrary to western media reports, Russia is still capable of transferring considerable troops to the most threatened sectors. Covered Russian mobilization is constantly underway and the training and arming efforts are reported to have been intensified. According to intelligence reports, North Korea has also commenced providing artillery systems and ammunitions to Russia to compensate for sustained losses. On the second axis aiming towards Mariupol, minimal Ukrainian advances continued. South of Avdiivka Ukrainian forces entered Opytne only a few kilometers away from Donetsk international airport. Ukrainian attacks also continued south of Bakhmut. Russian air defenses have shot down three of their own advanced SU-34/SU-35 jet fighters in the vicinity of Mariupol. Such friendly fire incidents indicate the increasing degree of stress and supposed shock of Russian air defense forces due to anticipated emergence of western-built 4th generation fighter jets over Russian defense lines. Russian forces along the entire front remain in strategic defense and seem to be in a phase of reorganization. Such long-term strategic preparations indicate the preparation of a Russian offensive operation in the winter months. Whereas several countries have continued to announce additional deliveries of weapon systems and ammunitions, a heated debate persists in Germany whether TAURUS cruise missiles should be provided to Ukraine. Currently, the German government's position is still to refrain from delivering weapon systems that can penetrate deep into Russian territory.

Hamas surprise attack on Israel

On October 7, 2023, Hamas forces launched an unprecedented attack into Israel from Gaza. The attack commenced with several thousand rockets launched against targets across Israel. In addition, land incursions by several hundred armed fighters occurred along the border between the Gaza Strip and Israel. Other Hamas infiltration units used paragliders and small fishing boats to enter Israel. The Palestinian infiltration groups overran border posts and attacked Israeli settlements and police stations near the border. Within hours it became clear that this was not a legitimate military operation but a large-scale terrorist attack, as Hamas forces started to indiscriminately execute Israeli civilians and prisoners of war. Dead Israeli soldiers and civilians were paraded in the streets of Gaza. Dozens of videos emerged showing Israeli civilians being abducted and transferred to Gaza as human shields. In addition, Hamas managed to capture high ranking officers of the Israeli Defense Forces in targeted raids of their private residences. An Israeli forward operations base was also captured by Hamas forces and various tanks, armored personnel carriers and military jeeps were seized. The magnitude and scale of the Hamas attack was a strategic surprise and is indicative of an Israeli intelligence failure. Israeli authorities were in a state of shock and the national security services seemed unprepared due to a national holiday. The Israeli government declared a state of war, announced the mobilization of 10,000 reservists and commenced with a targeted bombardment campaign against Hamas assets in Gaza. The strategic implications of the Hamas attack on Israel are multifold. The sophisticated nature of the attack indicates strong Iranian involvement and Hamas forces appear to be armed with Iranian automatic weapons and rocket propelled grenades. Hezbollah, the main Iranian proxy in Lebanon, also commenced operations against Israel further indicating Iranian support for the attack. A risk exists that the conflict expands towards the West Bank, where the power vacuum left by the weak Palestinian Authority could be exploited by Hamas. Qatar, Saudi Arabia and other Muslim states have made official statements that they deem Israel responsible for the attack as it had provoked the Palestinians in the past. The attack will elicit a strong military Israeli response, which may derail the diplomatic normalisation process between Saudi Arabia and Israel.

Overall Geopolitical Assessment (2 of 2)



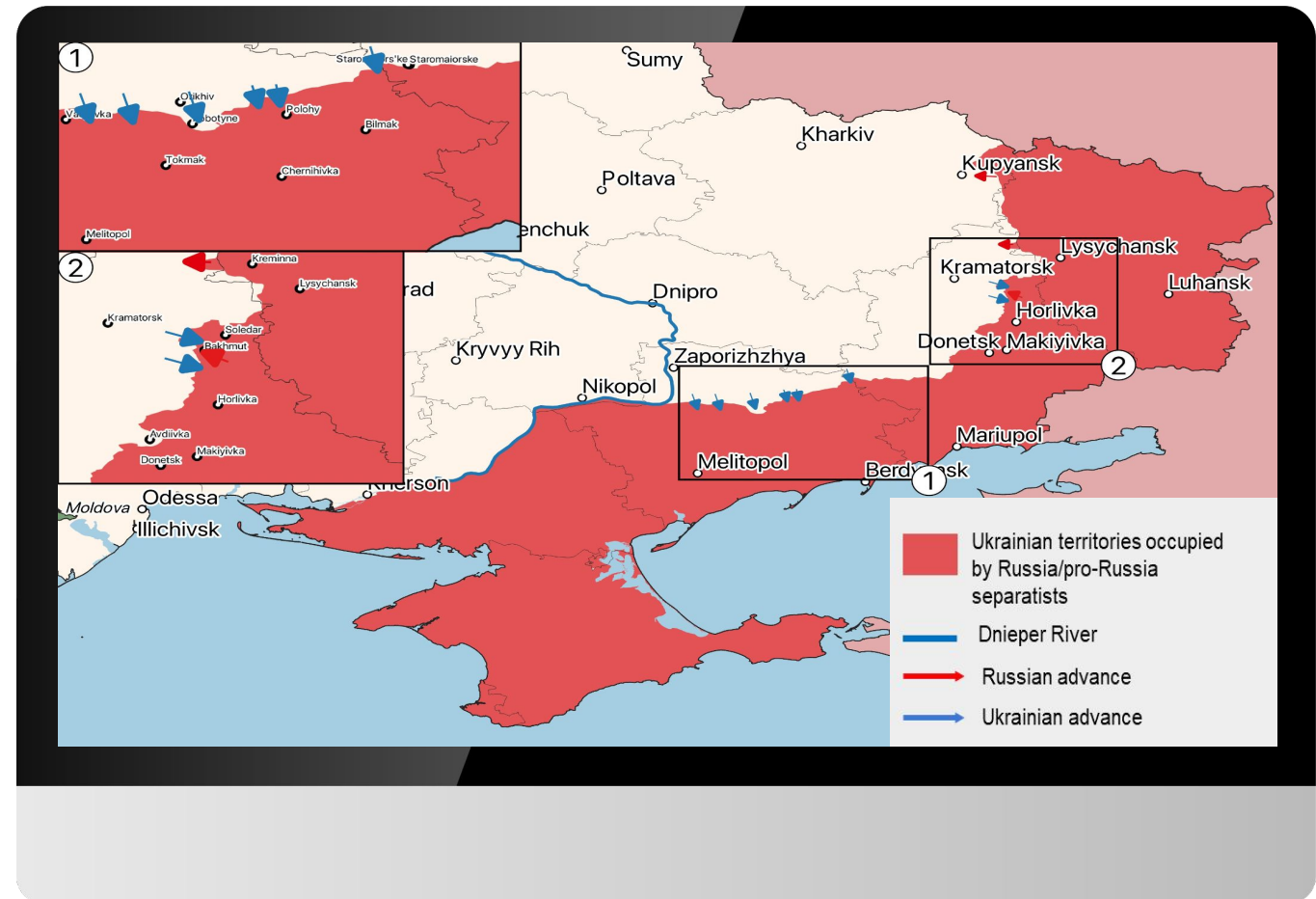
Key takeaways

- The Ukrainian offensive continues to make minor gains in the central sector of the Zaporizhzhia front.
- Important breaks in the Russian defense lines have been achieved in the vicinity of Robotyne.

Selected upcoming events

- 11-12 October: Zagreb, Croatia, will host the International Conference of Humanitarian Demining Donors in Ukraine. The conference will serve as a platform to mobilize additional international support and resources for demining initiatives in Ukraine.

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

- The “U-LEAD with Europe” project, funded by the EU, will provide support with the restoration of 100 Ukrainian communities. Under the initiative Strengthening Resilience at the Local Level Support for Emergency Repairs in Communities, three support directions are envisaged: Voucher Programme - communities select and receive necessary building materials from a store, and the cost is reimbursed; Mobility Package - communities receive transport vehicles free of charge to aid in local reconstruction; Toolkit - communities receive tools and equipment for repair and reconstruction work.
- The Ukrainian state-owned Nuclear Power Company Energoatom has tested a gas turbine mobile power station received from USAID in a test mode. The installed capacity of the portable power station is 28 MW. This installation will enable the localization of energy production in the region. The gas turbine station was obtained as part of technical assistance to Ukraine's energy sector, which has suffered damages due to regular terrorist attacks from Russia.
- In 2024, the European Bank for Reconstruction and Development (EBRD) will expand its project financing in Ukraine. The main areas of cooperation in 2024 will include financing of equipment manufacturers for agricultural land demining, war risk insurance, and financing of the real sector of the economy. The EBRD is prepared to participate in financing land demining efforts and develop a specialized financial product in collaboration with Ukrainian banks and the Ministry of Finance. The bank will continue cooperating with Development Finance Institutions (DFIs) in coordinating investment efforts in Ukraine, particularly in the private sector. The organization is also working on a product for insuring goods in transit and warehouses against war risks in collaboration with Ukrainian insurance companies.

Current topics

IMF's Engagement with Ukraine

On October 1, 2023, an IMF delegation landed in Kyiv to engage in discussions about Ukraine's economic recovery, the 2024 state budget draft, and the Extended Fund Facility cooperation program aimed at supporting macroeconomic stability. The IMF's commitment is seen as vital for Ukraine's path towards EU accession.

The IMF Managing Director announced the resumption of the IMF's permanent representative office in Kyiv on October 1, 2023, signifying strengthened collaboration with Ukraine as discussions regarding economic recovery and EU accession continue.

Trade and Transit Agreements

Ukraine took a diplomatic step on October 5, 2023, by suspending its complaints against Poland, Hungary, and Slovakia at the World Trade Organization. All parties are now focused on negotiating trade regime changes and finding mutually beneficial solutions.

On September 27-28, 2023, The Ministry of Agrarian Policy of Ukraine participated in the 43rd Food and Agriculture Organisation (FAO) European Commission on Agriculture session held at the FAO Regional Office in Hungary. During the session, the Ukrainian delegation contributed to discussions on enhancing the resilience of national agri-food systems through integrated land and water resource management in Europe and Central Asia.

Financial and Economic Policies

Beginning October 3, 2023, the National Bank of Ukraine shifted to a managed flexibility exchange rate regime. This move is in line with the nation's strategy to ease foreign exchange restrictions and regain control over its economic policies. Ukraine has embarked on drafting a Unified Reform Plan until 2027, based on recommendations from the EU and IMF. This comprehensive plan addresses various aspects of governance, economic development, and societal collaboration.

Risk Mitigation and Investment in Ukraine

The U.S. International Development Finance Corporation (DFC) is developing investment risk insurance programs in Ukraine. These initiatives aim to safeguard investments against various risks and promote economic stability.

Ukraine was elected to the Board of Governors at the International Atomic Energy Agency (IAEA) General Conference on September 28, 2023, marking its return to this pivotal role after more than a decade.

- Ukraine's Antonov and France's Turgis&Gaillard have signed an agreement to manufacture an affordable version of "Aarok" drones in Ukraine. This partnership aims to strengthen Ukraine's defense capabilities and promote cooperation in the defense industry.
- Ukrainian state-owned company "Ukrhydroenergo" collaborates with Turkish firm "ÖZALTIN Holding" to rebuild the damaged Kakhovka HPP and construct the Kanivska PSPP. This partnership contributes to Ukraine's infrastructure reconstruction efforts.
- On October 3, 2023, the Ukrainian government issued decrees No. 873-r and No. 874-r, allowing negotiations for the signing of an Agreement between the Government of Ukraine and the International Bank for Reconstruction and Development, enabling the mobilization of USD 700mn for the implementation of the Emergency Inclusive Support for the Revival of Ukrainian Agriculture (ARISE) project. This project includes financing for the Accessible Loans 5-7-9 program for agricultural production and food processing, as well as providing grant assistance to small agricultural producers.
- On September 28, 2023, a meeting of the Ministers of Energy of Romania and Ukraine took place in Paris. The meeting was held as part of the High-Level Government-Industry Conference on Roadmaps to New Nuclear Energy, organized by the Nuclear Energy Agency (NEA). Ukraine and Romania will deepen their cooperation to ensure nuclear and energy security in the region.



General context

Considerations on implications for businesses along the PESTEL framework

P Political	Zelensky warns that Russia may attack other countries in 2028
E Economic	North Korea sharply increases traffic to Russia; Japan prohibits export of used cars to Russia
S Social	Socially related implications
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

North Korea sharply increases freight traffic to Russia

The Beyond Parallel project of the US Centre for Strategic and International Studies has documented a sharp increase in the number of freight carriages between North Korea and Russia since the meeting of the two leaders in September. Satellite imagery of a railway facility in the North Korean city of Tumangan, on the border with Russia showed an unprecedented number of freight cars - about 73 in total. According to analysts, in exchange for weapons, Kim may receive energy and food aid, as well as advanced weapons technologies, including those related to intercontinental ballistic missiles, nuclear-capable submarines, and military reconnaissance satellites. There are concerns that the potential transfer of Russian technology will increase the threat posed by the growing arsenal of nuclear weapons and missiles designed to strike the United States, South Korea and Japan.

Zelensky warns that Russia may attack other countries in 2028

President Volodymyr Zelensky says that if the war in Ukraine is frozen, Russia may attack other countries in 2028. "Russia is now considering various scenarios for the coming years. If there is any pause in this aggression against Ukraine, any freezing of the situation, there will be a new critical moment - 2028. In addition to Ukraine, these might be the Baltic states and those countries where Russian contingents are present", Zelensky stated, adding that this information comes from the Ukrainian intelligence services.

Japan prohibits export to Russia of used cars

As reported by Reuters Japan "slammed the brakes" on the almost USD 2 billion sales of used cars to Russia. According to data published by a Russian analytical agency Autostat more than 50% of the approx. 300.000 used cars imported by Russia in the first eight months of the current year were coming from Japan. During 2022 Russia was buying more than 25% of Japan used cars for an average price of USD 8,200 per car. In comparison before the Ukrainian war and corresponding sanctions in 2020 Russia was buying approx. 15% of Japanese used cars. In August Japan banned export of used cars to Russia, except for subcompact cars. Luxury vehicles were placed under export ban in April 2022 and in June export of heavy trucks was prohibited.

Preliminary Assessment

- The analysts warn that it is impossible to draw accurate conclusions, as all the cargoes on the satellite image are covered with tarpaulin. But they recall that it was in Tumangan that Russian railway cars were already spotted in November 2022, when the United States first announced the supply of weapons from North Korea to the Russian Wagner group.
- Zelensky stressed that Russia is "looking for opportunities to freeze the situation and adapt, draw conclusions from its mistakes and prepare to move on".



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

Lithuania opens corridor for transit of Ukrainian grain

Lithuania has agreed on a corridor for the transit of Ukrainian grain to Baltic ports, Lithuanian Foreign Minister Gabrielius Landsbergis has said. According to him, the corridor for grain transit to Baltic ports has been accepted and agreed upon, which has reduced pressure on the Ukrainian border and increased grain supplies to Africa and other countries.

Earlier it became known that over the next two days, veterinary, sanitary and phytosanitary control from the Ukrainian-Polish border will be transferred to the port of Klaipeda in Lithuania for all agricultural cargoes going to this port. The media reported that Lithuania would take over phytosanitary inspections of grain cargoes transiting through Poland from Ukraine.

11 international companies left Russia in September

In September 2023, 11 foreign companies left the Russian market, bringing the total number of businesses that left Russia to 284. This is evidenced by the results of the KSE Institute's monitoring as part of the Self-Sanctions project. According to the KSE Institute, in September 2023, 11 international companies fully completed their withdrawal from Russia, including: Bilfinger (presumably an internal transaction, as a foreign private entity became the new owner), British American Tobacco, Fletcher Hotels, IHI Corporation, Ingram Micro, Magna International, Mondi Group, National Investment Company, Ponsse PLC, PPG, Volvo Cars. Another three exited partially by selling some of their local assets: Philips, Softline International, Knorr-Bremse.

In addition, many companies are literally on the verge of exiting, although they have not yet completed the process, including the well-known food producer Danone, Ingka, the holding company that owns the IKEA furniture and home furnishings chain, South Korean car manufacturer Hyundai, and others.

Preliminary Assessment

- This change in procedure is expected to allow more Ukrainian grain to be exported through Poland.
- In total, as of 1 October 2023, 284 (8.1% of the total number of entries in the KSE database or 21.2% of the companies that generated revenue in Russia in 2022) international companies have completely ceased operations in Russia.
- In addition, 1,225 (35.1% of the total) foreign businesses have curtailed operations and announced their intention to leave the country.

Operations (Focus: Cyber Threats)



Several pro-Russian hacker groups declared war on Israel

A pro-Russian Killnet has joined in on the Israel-Hamas conflict escalation that started over the weekend after the Palestinian militant group launched a major attack.

KillMilk, the leader of the group has released a message, in which he states that in 2022 the Israeli government betrayed Russia by supporting Ukraine. Therefore, now Killnet will consequently join the anti-Israel campaign of Anonymous Sudan, a Muslim hacker group responsible for attacks against all individuals and entities (especially in the West) accused for having offended Islam.

A different Pro-Russian UserSec collective also joined the cyber warfare against the Jewish State.

Moving straight from words to actions, Killnet swiftly claimed responsibility for the Sunday evening attack on the gov.il website. Anonymous Sudan announced it targeted newspaper The Jerusalem Post. The Tel Aviv media outlet confirmed this saying that "multiple cyberattacks" caused its website to crash. Simultaneously, Anonymous Sudan took credit for a digital assault on the Israeli government's Iron Dome all-weather air defense capability.

In contrast to the above mentioned hacker groups, however, the Cyber Army of Russia announced a position of neutrality on the events.

Current topics

"Geneva Code of cyber-war"

Patriotic hacking has risen over the past decade. Since the invasion of Ukraine the number of disruptive cyber-attacks has skyrocketed and is now spreading globally. In this context, on October 4, the International Committee of the Red Cross (ICRC), responsible for overseeing and monitoring the rules of war, issued the first list of rules for civilian hackers created:

- Do not direct cyber-attacks against civilian objects
- Do not use malware or other tools or techniques that spread automatically and damage military objectives and civilian objects indiscriminately
- When planning a cyber-attack against a military objective, do everything feasible to avoid or minimise the effects your operation may have on civilians
- Do not conduct any cyber-operation against medical and humanitarian facilities
- Do not conduct any cyber-attack against objects indispensable to the survival of the population or that can release dangerous forces
- Do not make threats of violence to spread terror among the civilian population
- Do not incite violations of international humanitarian law
- Comply with these rules even if the enemy does not

The ICRC also appealed to governments and drafted rules that countries should observe in an effort to diminish hacktivist activity:

- If civilian hackers act under the instruction, direction or control of a State, that State is internationally legally responsible for any conduct of those individuals that is inconsistent with the State's international legal obligations, including international humanitarian law
- States must not encourage civilians or groups to act in violation of international humanitarian law
- States have a due diligence obligation to prevent international humanitarian law violations by civilian hackers on their territory
- States have an obligation to prosecute war crimes and take measures necessary to suppress other international humanitarian law violations

Preliminary Assessment

- Speaking to the BBC, the leader of a pro-Russian hacking group Killnet said he agrees to the terms and rules of the Red Cross
- The IT Army of Ukraine also said it would be following the ICRC's eight rules.
- However, a number of other hacktivist groups working for other patriotic or ethical causes in the world told the BBC they would not be following the rules



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

The US imposes sanctions on 42 companies from China

The US Department of Commerce on Friday added 42 Chinese companies to its export control list for supporting Russia's military and defence industrial base, including the supply of US-origin integrated circuits.

In addition to the Chinese companies, the US imposed export controls on seven companies from Finland, Germany, India, Turkey, the United Arab Emirates and the United Kingdom.

"Today's inclusion of companies in the export control registry sends a clear message: if you supply the Russian defence sector with US-origin technology, we will know about it and take action," said Matthew Axelrod, Assistant Secretary of the US Department of Commerce for Export Administration. Now, before sending goods to the organisations on the list, suppliers must provide licences, which are usually difficult to obtain.

Norway imposes new sanctions against Russia

Norway joined the 11th package of EU sanctions against Moscow with a number of national adaptations.

In particular, it bans the transit through Russia of goods and technologies that could contribute to the increase of Moscow's military and technological potential or the development of the defence and security sector. The list of such goods has also been expanded. In addition, new lists of firearms and other weapons prohibited for sale to individuals or legal entities in Russia or for use in Russia have been introduced. The transit of technological goods suitable for use in the aviation or space industry through Russia is prohibited.

Oslo will also amend the legislation to prohibit access to ports for vessels involved in transshipment of Russian oil and suspected of violating the ban on oil imports or oil price restrictions.

Preliminary Assessment

- The companies are alleged to have facilitated the supply of microelectronics to Russia, including those used by Russia for precision-guided missile and drone systems launched against civilian targets in Ukraine.

General remarks



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