

War in Ukraine

— Situational Awareness Briefing

10 January 2023



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Situational Awareness – Briefing as of 10 January 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

Russian forces achieved a breakthrough north of Bakhmut after months of attritional battles. // France, the United States and Germany pledged additional Armored Infantry Fighting Vehicles (AIFV) to bolster the Ukrainian Army. // A proposed ceasefire for Russian Orthodox Christmas was rejected by Kiev as a ruse, while both sides ignored it despite Russia declaring it one-sidedly.



Forecast

Germany is open to using frozen Russian assets to help Ukraine rebuild, if the legal issues are resolved and allies follow suit. // The US and other Western countries are pressuring Switzerland over frozen Russian assets that could be used to rebuild Ukraine. // The Bank of Russia may hike interest rates in 2023.



Operations (Focus: Cyber)

Moldova's government institutions reported a wave of phishing attacks. // Ukraine will need to invest a minimum of USD 1.79bn to restore its telecommunications sector to pre-war levels. // A Russian hacking team known as Cold River targeted three nuclear research laboratories in the United States the past summer.



Inside-out view on reconstruction efforts in Ukraine

The World Bank's Multilateral Investment Guarantee Agency allocated USD 30 mn to Ukraine for a pilot project implementation on war risk insurance. // The World Bank recognized the electronic procurement system Prozorro as appropriate for conducting procurements for the reconstruction of Ukraine. // The damage caused by Russian aggression to the economy of Ukraine amounts to more than USD 700 bn.



People

The Minister of Defense of Ukraine, Oleksiy Reznikov, stated that Russia caused damage to the ecology of Ukraine in the amount of EUR 36 bn. // McDonald's is set to exit Kazakhstan after disruptions caused by war. // Ukraine allowed enterprises that import electricity from EU countries to receive uninterrupted power supply.



Finance (Focus: Sanctions)

Russia can seize the assets of Western countries if they decide to confiscate its assets. // In Ukraine, the property of Russian oligarch Alisher Usmanov was seized. // Ukrainian billionaire Konstantyn Zhevago has been detained in France at Ukraine's request.

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



Key takeaways

- A Russian breakthrough north of Bakhmut has the potential to unhinge a wide section of the Ukrainian defensive line in the central Donbas defense sector.
- Generative AI will pose a significant threat from 2023 onwards, allowing malign actors to create fake content that can destabilise politics and democratic discourse.
- The financial sector could see more of new types of manipulation, for example through flash-loan arbitrage, in which anonymous traders exploit vulnerabilities in smart contracts

Current topics

Current situation in the Russo-Ukrainian War

The Kherson and Zaporizhzhia front remained static with the exception of sporadic artillery exchanges and clashes of smaller recon units. Both sides are fully concentrated on efforts in the Donbas. The Russian incursion west of Horlivka was partly thwarted by Ukrainian counterattacks at Dylivka, while Russian forces continued their local advances north of the settlement. At the epicenter of operations at Bakhmut, Russian forces occupied Opytne south of the city and advanced east of it. In addition, Russian forces launched another frontal attack of Bakhmut on January 1 and entered the most eastern suburbs. Russian army and Wagner forces also continued their push north of the city and achieved a significant breakthrough. After cutting the road connection between Soledar and Bakhmut, Russian forces occupied half of Soledar itself, a cornerstone position in the defense of Bakhmut, as well as the town of Bakhmut'ske after months of fighting. This breakthrough is significant as it allows Russian forces to occupy higher ground overseeing the city of Bakhmut and threatening the road connection between Bakhmut and Siversk further north. To counter this threat Ukrainian reserves have been moved to the area, while Ukrainian artillery is attacking Russian deployment zones to hamper their movements. A HIMARS attack in the Russian rear hit a Russian deployment area of a mobilized battalion practically wiping out an entire battalion of reserves. The degree of attrition on both sides as well as the losses in men and materiel have sparked an additional wave of support for Ukraine by Western states. France (AMX-10 RC), the United States (Bradley) and Germany (Marder A3) have pledged to supply Ukraine with batches of AIFVs to compensate for the sustained losses in combat vehicles and allow Ukraine to form new or reconstitute lost mobile brigades for potential counteroperations. Meanwhile, Ukrainian forces continued their attacks on the Svatove-Kreminna line in the northern front section. Particularly north of Svatove minor advances allowed Ukraine to uphold the pressure on the Russian forces defending the approaches to the city. However, Ukraine is forced to keep a significant number of troops in reserve after new reports that Russian reinforcements are transferred to Belarus. Whereas the majority of those troops are likely reservists transferred there for training by Belarussian personnel, their number is estimated at 30.000 to 50.000, posing a considerable threat to Ukraine's northern border.

New digital hybrid threats 2023+

Hybrid threats will increasingly shape international security. Malevolent states will utilize hybrid threats during peacetime to exploit the vulnerabilities of complex and highly interconnected societies and to weaken adversaries by creating a permanent state of pseudo-war. Recent advances have increased the potential of artificial intelligence (AI) to manipulate people and disrupt societies. A new form, known as generative AI such as Chat GPT3 will allow users to create realistic images, videos and text with just a few sentences of guidance. Advances in deepfakes, facial recognition, and voice synthesis software will render control over one's likeness a relic of the past. Such tools will help autocrats undermine democracy abroad and suppress dissent at home. It will also enable populists within democracies to weaponize AI to polarize societies for short term political gain at the expense of democratic stability. Hybrid threats in the financial sector already exist in the form of strategic patent acquisitions, economic espionage or targeted market manipulation. In most cases, the aim is to generate a financial emergency or political pressure in order to restrict the target's capacity to act and to prompt governments to take certain courses of action. Further digitization of commerce and finance is expected to create new vulnerabilities in the financial sector. While conventional market manipulation is characterized by coordinated action of several market players or insider trading, the digital sector now has to deal with flash-loan attacks: anonymous traders borrow millions or billions of dollars for a few seconds, buy securities on the stock exchange and flood another stock exchange until exchange rates fall through the floor. Such flash-loan transactions only take a few seconds and can cause millions in damage, sweep individual companies (e.g., ones dealing in key technologies) off the market, paralyze national economies and destabilize currencies. While it used to take years to achieve such effects with traditional means of exerting economic force (e.g., sanctions), it might soon take only a few short destructive blows.



Key takeaways

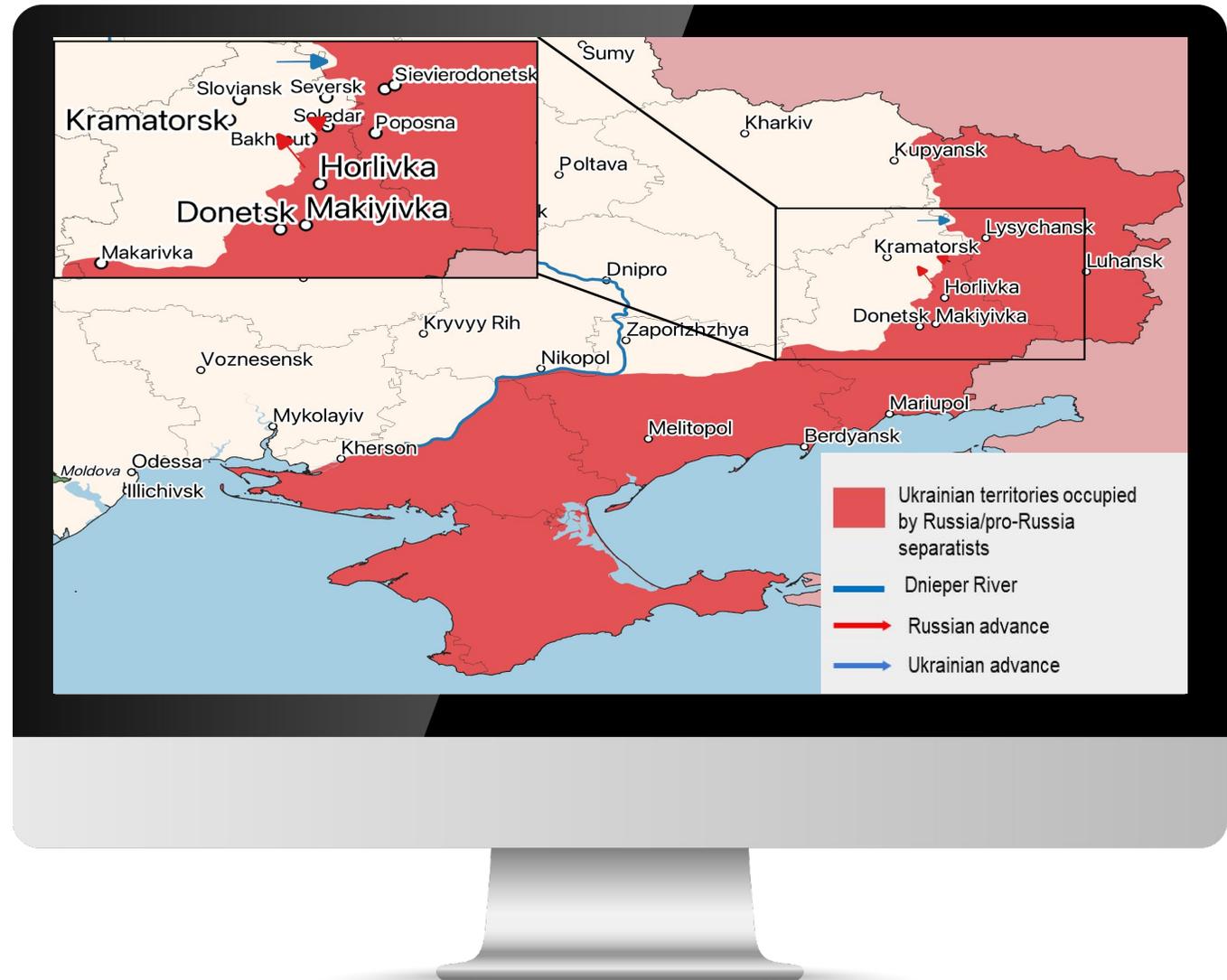
- Fighting has largely degenerated into attrition warfare without any major territorial gains by either side in recent weeks.

Selected upcoming events

- 17 January 2023:** Economic and Financial Affairs Council of the EU
- 25-27 January 2023:** Informal meeting of justice and home affairs ministers of European Council
- 17-19 February 2023:** Munich Security Conference

Current Military Situation in Ukraine

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



Inside-out view on reconstruction efforts in Ukraine



Donor activity in Ukraine

The European Investment Bank and Kyiv signed a memorandum of further cooperation regarding the financing and preparation of priority investment projects for the post-war reconstruction of the capital of Ukraine. The current estimated cost of the project is EUR 450mn. The International Finance Corporation will support the restoration program of the Energy Efficiency Fund by directing EUR 25mn to cover the costs for the restoration of multi-apartment buildings. The European Bank for Reconstruction and Development confirms its commitment to invest EUR 3bn to the private sector of Ukraine. The World Bank approved an additional financing package totaling USD 610 mn to address urgent relief and recovery needs in Ukraine.

The European Commission, the EBRD and the World Bank announced the financial package of 1 billion euros for the “corridors of solidarity” with Ukraine. Possible projects include: equipment for night navigation on the Danube, improvement of border crossings between Poland, Romania, Moldova and Ukraine, mobile equipment for night navigation, equipment for transshipment of goods, improvement of railway tracks to ports of Romania, construction of terminals and wagons in Ukraine.

The World Bank recognized the electronic procurement system Prozorro as appropriate for conducting procurements for the reconstruction of Ukraine. At the same time, World Bank representatives provided their recommendations on the implementation of best international procurement practices. This will allow conducting international tender procedures for Ukraine in the amount of more than EUR 5 mn precisely in Prozorro with funds from the World Bank.

Current topics

Sectoral updates - Reconstruction efforts

The Water Strategy of Ukraine until 2050 and the operational plan for its implementation until 2024 were updated and approved by the government with a focus on compliance with international obligations in the field of water security, the Association Agreement with the EU and the Resolution of the UN General Assembly. Ukraine intends to purchase 14 mobile gas power plants with a capacity of about 1 GW in European and Asian countries. Also, Ukraine needs mobile gas plants with a capacity of less than 50 MW to prevent power outages of critical infrastructure facilities as a result of Russian missile attacks. One such mobile gas plant will be transferred to Ukraine by UNDP with a Japanese grant. The State Property Fund of Ukraine has prepared the privatization of Ust-Dunaisk sea trade port. This will be the first sale of a seaport in the history of Ukraine. Since April 1, 2022, the port has processed 153,000 tons of grain and 58,300 tons of other imported goods. The Fund for Liquidation of Russia's Armed Aggression Consequences will be provided with UAH 35.5bn for such priorities as the construction of public and critical infrastructure facilities, and destroyed housing for internally displaced persons. Also, the government plans to finance the reconstruction with already confiscated funds of Russian banks to the tune of UAH 17bn.

War damage compensations

According to the Ukrainian government assessment as of the end of December 2022, the damage caused by Russian aggression to the economy of Ukraine amounts to more than USD 700bn. Previously, as of the end of June 2022, the damage estimated by the World Bank amounted to USD 350bn. In November last year, the UN General Assembly, with the support of most of the countries of the world, adopted the Resolution, which recognized that the Russian Federation should be held accountable for any violation of international law in or against Ukraine, and that Russia shall be legally responsible for all its internationally wrongful acts, including the payment of reparations for damages, for any damage caused by such acts. Further, the resolution recognized the need to create, in cooperation with Ukraine, an international compensation mechanism for losses and damages resulting from the internationally illegal acts of the Russian Federation in Ukraine or against Ukraine. It is recommended that the member states, in cooperation with Ukraine, create an international Register of Damages, which would serve as a record, in documentary form, of evidence and claim information regarding losses and damages for all interested individuals and legal entities, the state of Ukraine, caused by the internationally illegal actions of the Russian Federation in Ukraine or against Ukraine, and would also facilitate and coordinate the collection of evidence.

Preliminary Assessment

- The World Bank's Multilateral Investment Guarantee Agency (MIGA) allocated USD 30mn to Ukraine for a pilot project implementation on war risk insurance. Additionally, the Ministry of Economy of Ukraine is in the process of negotiations with the American agency DFC, UKEF (UK) and Bpifrance (France) and plans to expand war risks coverage from MIGA and DFC to USD 2bn in 2023.
- Ukraine has fulfilled the EU Association Agreement by more than 70%. Negotiations on joining the EU are planned for 2023. The strategic task is to meet all criteria by the end of 2024.
- MoE has preliminarily estimated the decline in Ukraine's GDP in 2022 to 30.4% [$\pm 2\%$], which is a better indicator than predicted by previous forecasts.
- While the aggregate export revenue of all services decreased by 11.5% compared to 2021, the export of IT services had positive dynamics in the 11 months of 2022.
- In September 2022 the Committee of Ministers of the Council of Europe adopted a decision to ensure the responsibility of the Russian Federation for aggression against Ukraine. The Committee also noted Ukraine's proposals for the creation of a special tribunal to consider crimes of aggression against Ukraine and a comprehensive international compensation mechanism, including an international register of damages.



General context

Considerations on implications for businesses along the PESTEL framework

P Political	Pressure on Switzerland regarding frozen Russian assets.
E Economic	Seized Russian assets to help rebuild Ukraine. Russia may raise interest rates in 2023.
S Social	Social related implications: e.g. refugee streams, labour market developments
T Techno-logical	Technology related implication: 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

Seized Russian assets as damages compensation

According to Bloomberg, Germany is open to using frozen Russian assets to help Ukraine rebuild, if the legal issues are resolved and allies follow suit. Chancellor Olaf Scholz's government supports Ukraine's demand for war reparations, but has yet to take an official position on seizing Russian state assets due to differences in the ruling coalition. According to the publication, German Foreign Minister insists that the seizure of at least part of the frozen assets should be an option. Instead of an outright arrest, a more likely legal path would be to seize the assets of individuals proven to be involved in Russian war crimes, one of the interviewees said. However, such cases can take years to go through the courts, which can reduce such an initiative to mere symbolism. According to the Swiss publication Neue Zürcher Zeitung, the United States and other Western countries are pressuring Switzerland over frozen Russian assets that could be used to rebuild Ukraine. Switzerland has blocked Russian financial assets worth about CHF 7.5bn and 15 real estate properties. Several sources in various departments say that the pressure on Switzerland will continue to increase. According to estimates by the bankers' association, the amount of Russian assets in Switzerland is about CHF 150-200bn. However, most of this money belongs to people who are not subject to sanctions. The Swiss federal government responded to the discussions and created a working group to study the issue.

Russia may raise interest rates in 2023

The Bank of Russia may hike interest rates in 2023 if inflationary issues such as labor shortages and import restrictions have a significant impact, according to Deputy Governor Alexei Zabolotkin in an interview with the RBC newspaper. The bank kept its benchmark interest rate at 7.5% at its final meeting of the year on December 16, but altered its wording slightly to acknowledge rising inflation risks, citing a recent military mobilization as contributing to labor shortages. He cited strong inflationary expectations as dangers, such as a labor shortage, logistical difficulties, a higher-than-expected budget deficit trajectory, and worsening external conditions.

Preliminary Assessment

- The EU and the G7 countries froze about EUR 300bn of reserves of the Russian central bank. The EU has also frozen around EUR 19bn in assets belonging to sanctioned Russian businessmen, although these estimates are not complete. These assets are in a suspended state and cannot be distributed at this time.
- Russia's oligarchs lost almost USD 95bn last year amid harsh sanctions imposed by Western countries over the war in Ukraine.
- According to Rosstat, inflation in Russia has been fixed at 12.5% for a couple of months.



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

The amount of damage caused by the war to the ecology of Ukraine

The Minister of Defense of Ukraine, Oleksiy Reznikov, stated that Russia caused damage to the ecology of Ukraine in the amount of EUR 36bn. “Millions of hectares of nature preserves are under threat. Of the EUR 36bn in environmental damage, 11.4bn is caused by soil damage, and 24.6bn is caused by air pollution, said Ruslan Styrets, the Minister of Environmental Protection and Natural Resources of Ukraine. In addition, in the seven months of the war, as a result of forest fires, bombings of oil refineries and industrial facilities, the volume of carbon emissions into the atmosphere is at least 31mn tons. At the same time, the minister said that potentially 79mn tons of greenhouse gases will be produced during the post-war reconstruction and restoration of the infrastructure of cities and villages of Ukraine. As a result of hostilities in Ukraine, about a third of the country's forest plantations were destroyed or significantly damaged. 2.45mn hectares of forest plantations have been cleared so far, but will take decades to be fully restored.

McDonald's may leave Kazakhstan due to supply disruptions

McDonald's is set to exit Kazakhstan after disruptions caused by Russia's invasion of Ukraine left the country without a replacement for Russian meat supplies. Even though the Kazakh business is not subject to sanctions against Moscow, McDonald's, which left Russia after the invasion, has banned a local franchisee from buying meat from Russian suppliers, the sources of Bloomberg said. The interlocutors of the agency explained that the Kazakh business could not purchase products from local or European suppliers, because the higher prices and costs of transporting across the vast country would mean running the business at a loss. Also, the fate of McDonald's in Kazakhstan is complicated by franchisee owner Kairat Boranbayev, who was arrested in March on charges of embezzlement.

Ukrainian business that buys electricity in the EU will be provided with an uninterrupted power supply

On January 3, the Cabinet of Ministers of Ukraine allowed enterprises that import electricity from EU countries to receive uninterrupted power supply, so as not to depend on power outage schedules. The Cabinet of Ministers explained that the import of electricity is one of the tools to reduce the deficit of generating capacity in the energy system of Ukraine, which arose as a result of systematic Russian shelling of energy facilities, starting from October. The resolution for the period until April 30 provides for additional guarantees of protection against planned restrictions on the electricity supply of those non-household consumers whose facilities will consume imported electricity in accordance with the relevant contracts.

Preliminary Assessment

- On November 3 2022, the Ministry of the Environment of Ukraine approved the Methodology for determining damage and losses caused to the forest fund as a result of the armed aggression of the Russian Federation, which will also take into account lost income and damage from the destruction of animal habitats.
- The Kazakh billionaire Kairat Boranbayev is the subject of multiple domestic and international investigations, on allegations of embezzlement.
- Hourly outage schedules will not apply if the consumer import volumes are no less than their own consumption in September 2022 - before the application of forced restrictions on electricity supply.



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

Moldova's government hit by flood of phishing attacks

Last week Moldova's government institutions reported a wave of phishing attacks — the latest cyber assault on the country since it pledged support for Ukraine in its defense against Russia.

Hackers have sent more than 1,330 emails to accounts belonging to the country's state services. In one campaign, emails contained a message about the alleged expiration of the .md government domain and instructed users to follow a malicious link leading to a fake payment page to renew it. Moldova's cybersecurity regulator did not disclose whether the phishing campaigns were successful and how many state institutions were affected. It is also not clear who is behind these attacks and if the perpetrators were nation-state hackers or unaffiliated ransomware gangs.

UN: Ukraine will need USD 1.79bn to restore its telecom sector

Ukraine will need to invest a minimum of USD 1.79bn to restore its telecommunications sector to pre-war levels, the Geneva-based International Telecommunication Union (ITU) has determined.

The agency was commissioned in April to conduct a damage assessment of the destruction of Ukraine's communication networks as a result of Russia's ongoing invasion of the country.

The long-anticipated report has found that there was considerable damage and destruction to communications infrastructure in more than 10 out of 24 regions of Ukraine over the first six months of the conflict. It also alleged that Russia had "destroyed completely or seized" networks in parts of the country.

Russian hackers targeted US nuclear research laboratories

According to a recent publication in The Guardian, a Russian hacking team known as Cold River targeted three nuclear research laboratories in the United States this past summer.

Between August and September, as Vladimir Putin indicated Russia would be willing to use nuclear weapons to defend its territory, Cold River targeted the Brookhaven, Argonne and Lawrence Livermore national laboratories, according to internet records that showed the hackers creating fake login pages for each institution and emailing nuclear scientists in an effort to make them reveal their passwords. The journalists were unable to determine why the labs were targeted or if any attempted intrusion was successful.

Preliminary Assessment

- Over the past year, Moldova has witnessed a sharp increase in cyberattacks, likely in connection to the country's support of Ukraine during the war with Russia.
- In November, Moldova Leaks released private Telegram conversations purportedly involving prominent Moldovan political figures, sparking a political scandal. The Moldovan president's office claimed the content of the conversations was fake, but the leak indicates the probable interference of Russian hackers and intelligence services in the country's internal politics.
- In October, hackers targeted 80 Moldovan state computer systems with DDoS attacks, though with limited success.
- Earlier in August, the pro-Russian hacker group Killnet announced a week-long hacking campaign against Moldova.
- Since the Russian invasion of Crimea in 2014, Ukraine has been forced to reckon with repeated attacks on its telecommunication systems. During the war, Ukraine's military forces have been relying on SpaceX's Starlink satellite network for crucial battlefield communications.
- The digital blitz against the US labs occurred as UN experts entered Russian-controlled Ukrainian territory to inspect Europe's biggest atomic power plant and assess the risk of a radiation disaster.
- Cold River, which first appeared on the radar of intelligence professionals after targeting Britain's Foreign Office in 2016, has been involved in dozens of other high-profile hacking incidents in recent years.



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

Russian retaliatory confiscation of European assets

Russia can seize the assets of Western countries if they decide to confiscate its assets, the Chairman of the State Duma of the Russian Federation said. "Today, the German government decided to transfer the problems created by their predecessors to our country. For this purpose, they plan to seize Russian assets for the restoration of Ukraine," Volodin wrote. He said that Russia has the right to take similar actions regarding the assets of Germany and other states.

Ukraine seized property of Russian oligarch Usmanov

In Ukraine, the property of the Russian oligarch Alisher Usmanov worth almost USD 54mn was seized. Reported by the Security Service of Ukraine, on the premises of ports in Ukraine there were underground warehouses with iron ore belonging to his company. It is noted that as a result of investigative and operational actions together with detectives of the Bureau of Economic Security, the location of underground warehouses, containing more than 160 thousand tons of Ukrainian iron ore, was established.

According to operational information, the hidden raw materials were tried to be illegally transported by sea vessels to the territory of the Russian Federation. After that, the minerals were planned to be transferred to the needs of the metallurgical industry and the military-industrial complex of the Russian Federation to meet the needs of the Russian occupation groups.

Ferrexpo owner seized in France

According to a representative of the local prosecutor's office, Ukrainian billionaire Konstantyn Zhevago, the majority shareholder of the London-listed iron pellet firm Ferrexpo, has been detained in France at Ukraine's request. Zhevago was wanted on suspicion of embezzlement and money laundering in connection with the loss of USD 113mn from the now-bankrupt lender Finance & Credit Bank, according to Ukraine's official bureau of inquiry DBR. In 2021, Ukraine's DBR stated that Zhevago was placed on an international wanted list in connection with the probe into Finance & Credit Bank, which the former legislator managed indirectly.

The French court in the decided to release the Ukrainian billionaire on bail ahead of his extradition hearing on January 19, when the issue of his extradition to Ukraine will be considered.

Preliminary Assessment

- It is noted that in Germany Usmanov is suspected of money laundering and tax evasion. According to Spiegel, for the period from 2014 to 2022, Usmanov could avoid paying taxes on income and gifts for EUR 555mn.
- Konstantyn Zhevago is a Ukrainian politician, owner of the "Finances and Credit" group — one of largest conglomerates of Ukraine.
- Ferrexpo plc is a Swiss-based commodity trading and mining company which is the third largest exporter of iron ore pellets in the world. Ferrexpo's operating base is in central Ukraine.

General remarks



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