

War in Ukraine

Situational Awareness Briefing

4 April 2023



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Situational Awareness – Briefing as of 4 April 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 battle of Bakhmut continues to absorb forces of both sides. Similarly, Russian advances around Avdiivka have created another focal point along the frontline that has equal importance to the battle of Bakhmut. Russian advances continue to run out of steam and it is likely that they lack the material and manpower to launch a large-scale offensive for the time being. In contrast, Ukrainian forces are preparing for their counterattack as Western arms reach Ukraine.



Forecast

Kazakhstan shows conformity with Western efforts to isolate Russia and is to tighten controls on re-exports to Russia. // Vittera and Cargill are planning to stop exporting grain from Russia.



Operations (Focus: Cyber)

Russian hackers attacked the websites of state institutions in Slovakia after the transfer of the MiG-29 to Ukraine. // Vulkan files leak reveals details of Putin's cyberwarfare tactics. // The French parliament was attacked by pro-Russian hackers.



Inside-out view on reconstruction efforts in Ukraine

The European Commission made changes to the indicative maps of the Trans-European Transport Network and included Ukrainian railways. // Energoatom and Rolls-Royce SMR signed a Memorandum of Understanding regarding the restoration of Ukraine's energy system // The Ministry of Energy of Ukraine and the German Eastern Business Association signed a memorandum of cooperation in the ensuring the stable operation of the energy sector of Ukraine.



People

The Ukrainian Parliament appoints two ministers and reappoints Fedorov as Vice Prime Minister. // Every Western company that wants to leave the Russian market and sell its assets will now be obliged to make a direct contribution to the budget of the Russian state. // Moscow arrests US reporter from WSJ on espionage allegations.



Finance (Focus: Sanctions)

The ECB pressures Austrian Raiffeisen Bank to withdraw from Russia. // US investigates Credit Suisse and UBS's services for Russian clients. // US sanctions a merchant of North Korean weapon to Russia.

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



Key takeaways

- Russian forces are continuing their operational encirclement of Bakhmut. They also try to encircle Avdiivka.
- In general, Russian offensive efforts are more local and at a minor scale than at the onset of their winter offensive.

Current topics

Current situation in the Russo-Ukrainian War

The Kherson front continues to remain static, characterized by artillery duels. Minor Ukrainian probing attacks along the Dnieper line are taking place. It is however unlikely that Ukraine will emphasize its efforts on this front segment as crossing the river in force will produce high casualties and complicate the logistical strain of potential offensive operations. Minor operations that were underway by Ukraine along the Zaporizhzhia front were terminated. At Vuhledar, Russian attacks were terminated completely after no significant gains and high losses for the attackers. Ukrainian forces repulsed several attacks in the area of Marinka, but had to concede ground. At Avdiivka, Russian forces further advanced north and south of the city and threaten to cut it off by creating a semi-encirclement. Both Marinka and Avdiivka were focal points of conflict along the former contact line from 2014-2022. Since the beginning of the Russo-Ukrainian War gradual Russian advances have led to a deterioration of the Ukrainian defense line. The Russian army however has not managed to achieve any major breakthrough in the area and its advances, albeit critical, are minimal. At Bakhmut the situation for Ukrainian forces has reached another critical climax. Russian flanking attacks have almost surrounded the city and have either cut all roads leading into the town or exert fire control over them. The Russian bulge north of Bakhmut has expanded deep into the Ukrainian line and is aiming at Pryvillya, Hryhirivka and Chassiv Yar. Such deep penetration further complicated the supply situation of the forces holding Bakhmut. Within the city, Ukrainian forces retreated further into the city center and heavy fighting is currently occurring within the city. The escape route for Ukrainian forces has shrunk to less than 1,7km in width. Russian efforts have slowed due to heavy losses and due to the fact that Ukraine is sacrificing forces in Bakhmut to buy time for their own upcoming offensive operations. In the month of March Russian territorial gains amounted to only 70 km² at a high attrition rate. Overall, the Russian offensive potential has significantly declined. It is likely that a Ukrainian counteroffensive is imminent as more and more Western tanks, armored infantry fighting vehicles, artillery systems and ammunitions are gradually arriving in Ukraine. The location of a Ukrainian counterattack is unknown, but likely to concentrate at the Zaporizhzhia or the Donbas front.

Implications of Russo-Chinese Summit

Chinese leader Xi Jinping and Russian President Vladimir Putin met in Moscow to affirm their alignment across a host of issues. Both leaders stressed their partnership and promised to intensify their defensive ties, military cooperation and mutual trust through bilateral military maneuvers and defense research. Xi and Putin both expressed concerns in their joint statement about NATO's continuous strengthening of military-security ties with Asia-Pacific countries and said they oppose external military forces undermining regional peace and stability. In addition, Russia and China announced that they will increase their economic cooperation in the production and energy sector and to gradually reduce their dependence on Western businesses. Putin also announced that Moscow is willing to support Chinese enterprises to cover the void. This comes at a point where Russia has grown increasingly reliant on China as both an import market and an exporter of electronics after being hit by Western sanctions. Further growth of Russian gas exports to China was discussed, including the implementation of the initiative to build the Power of Siberia 2 gas pipeline through the territory of Mongolia. China and Russia's inclination to build their alignment against the US and to work towards a world order more suited to their autocratic policies and economic agendas pivoted in their statement that the future lies in a multipolar world. China, as a challenger to US hegemony, has replaced Russia as peer competitor and is using Russian weakness and dependence to increase its influence over Moscow. In order to secure support from Beijing in form of military material (such as spare parts and ammunition) and economic support Russia is likely willing to allow China to increase its influence in the central Asian post-Soviet sphere of influence. In addition, China expects Russian support for its aspirations in Asia and the South China Sea. For China, a conflict in Europe is imperative to bind European states and redirect US forces to Europe in case it engages in a conflict with the United States and its regional allies over Taiwan or in the Indo-Pacific. In such a scenario the EU's NATO members would be unable to support the US in force.

Overall Geopolitical Assessment (2 of 2)



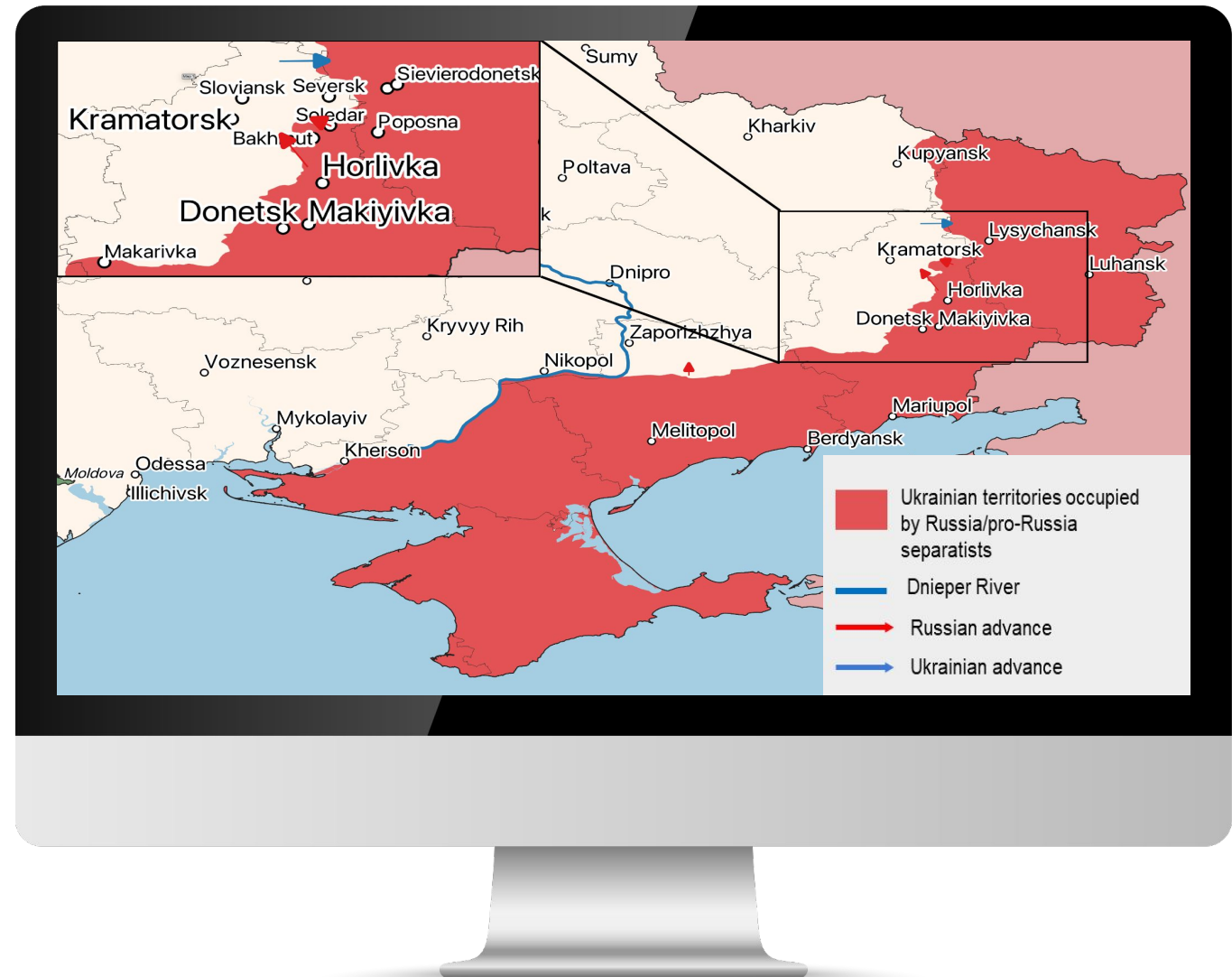
Key takeaways

Overall, the conflict remains characterized by attrition warfare, however, Russia recently achieved minor territorial gains at Bakhmut and Avdiivka and is about to surround both cities.

Selected upcoming events

- 10-12 April 2023 - G20 Finance Ministers' and Central Bank Governors' Meeting.
- 10-16 April 2023 - IMF and World Bank spring meetings.
- 15-16 April - G7 Ministers' Meeting on Climate, Energy and Environment.

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 IMF Board approved a new 48-month extended arrangement under the Extended Fund Facility (EFF) of SDR 11.6bn (about USD 15.6bn) as part of a USD 115bn total support package for Ukraine. Ukraine's EFF-supported program aims to anchor policies that sustain fiscal, external, price and financial stability and support economic recovery, while enhancing governance and strengthening institutions to promote long-term growth in the context of post-war reconstruction and Ukraine's path to EU accession.

The Government of Japan has decided to provide the grant aid for recovery and reconstruction in Ukraine: the Programme for Emergency Recovery Phase 2 in the amount of USD 400mn - to provide Ukraine with equipment for demining and debris clearance, livelihood reconstruction including the provision of basic infrastructure, recovery of agriculture and strengthening democracy and governance; the Critical Energy Infrastructure Restoration and Immediate Provision of Energy Equipment in Ukraine in the amount of USD 70mn through the United Nations Development Programme to facilitate the recovery of energy supply for combined heat and power plants.

The Ministry of Economy of Ukraine together with the Advantage Ukraine investment platform submitted the first investment projects of Ukrainian investors in the sectors of construction, production, e-commerce and residential real estate for a total of USD 430mn for consideration by the American International Development Finance Corporation (DFC) for financing and insurance of war risks.

EU - Ukraine railways

The European Commission made changes to the indicative maps of the Trans-European Transport Network (TEN-T) and included Ukrainian railways, in particular, the North-Baltic Corridor extended through Lviv and Kyiv to Mariupol; Baltic-Black Sea Corridor - through Lviv, Chernivtsi (Romania and Moldova) - to Odessa; the corridors Baltic Sea - Adriatic Sea and Rhine - Danube will pass through Lviv. The inclusion of Ukrainian railway in TEN-T makes it possible to get access to EU aid instruments, including investments. Within the framework of integration into TEN-T, Ukraine plans to implement railway development projects worth EUR 4.5bn by 2030.

Energoatom's cooperation with Rolls-Royce and Cameo

Ukrainian nuclear energy generating company Energoatom and Rolls-Royce SMR signed a Memorandum of Understanding regarding the restoration of Ukraine's energy system through the deployment of small modular reactors. According to the memorandum, Rolls-Royce SMR is committed to supporting the recovery of Ukraine by deploying a factory-built Small Modular Reactor power plant capable of generating enough carbon-free electricity to power one million homes for over 60 years.

Also, Energoatom and the Canadian company Cameco signed an agreement on the use of Ukrainian uranium in the production of nuclear fuel for all Ukrainian nuclear power plants. The agreement provides that Energoatom will be fully supplied with natural uranium hexafluoride during 2024-2035, and provides for the sale of uranium mined in Ukraine to Canada. Currently, Energoatom is preparing to launch an overhead line that will connect the Ukrainian and European energy systems through Poland. The line should provide energy transfer at the level of about 1000 MW in both directions.

GEBA and Ukraine

The Ministry of Energy of Ukraine and the German Eastern Business Association signed a memorandum of cooperation in the direction of ensuring the stable operation of the energy sector of Ukraine, as well as the development of a stable and sustainable energy system of the future. The memorandum provides for the exchange of experience between the parties in accelerating the transition to green energy, the implementation of regular joint formats of cooperation on the integration of the energy market of Ukraine with the European one, as well as the support of recovery within the framework of the joint implementation of pilot projects of energy reconstruction in Ukraine at the expense of investments by the German business.

Preliminary Assessment

- A meeting of energy ministers of the EU countries was held in Brussels. The European Union has already adopted a number of decisions to support Ukraine's energy sector and supply about 5mn items of various equipment and materials. Also, the European Energy Association ENTSO-E decided to further increase import capacity from Ukraine to the EU to 850 MW from the current 700 MW after the meeting of the Energy Council of the European Commission.
- On March 17, the Law of Ukraine on the Development of Highly Efficient Cogeneration was signed. The law approves the conditions for the introduction of highly efficient production of heat and electricity, while implementing the requirements of Directive 2012/27/EU on energy efficiency. In order to stimulate the transition to highly efficient cogeneration, the law envisages: replacing the qualification mechanism of cogeneration plants with the qualification of highly efficient cogeneration according to the EU Directive and introducing guarantees of the origin of electricity produced by highly efficient cogeneration plants.
- The updated World Bank report "Ukraine Rapid Damage and Needs Assessment", assessed the direct damage in the first year of the war at USD 135bn. Reconstruction and recovery needs, as of February 24, 2023, are estimated at about USD 411bn. The most significant direct damage was caused in the following areas: housing – USD 50.4bn; transport – USD 35.7bn; trade and industry – USD 10.9bn; energy and mining industry – USD 10.6bn; agriculture – USD 8.7 bn.



General context

Considerations on implications for businesses along the PESTEL framework

P Political	Kazakhstan shows conformity with Western efforts to isolate Russia.
E Economic	Kazakhstan is to tighten controls on re-exports to Russia. Grain traders stop exporting from Russia.
S Social	Social related implications: e.g. refugee streams, labour market developments
T Techno-logical	Russia to deploy nuclear weapons in Belarus.
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

Kazakhstan is to tighten controls on re-exports to Russia

Kazakhstan will implement an online system to trace all items entering and departing the nation beginning next month. The system, which is set to take into effect on April 1, looks to be Kazakhstan's most determined move yet to demonstrate conformity with Western efforts to isolate Russia's economy in retaliation for the continuing invasion of Ukraine.

According to data gathered by the Geneva-based Trade Data Monitor, certain sanctioned items, notably sophisticated semiconductors, are being redirected to Russia via third nations. After the introduction of sanctions, EU exports of sanctioned goods to EAEU members Kazakhstan, Kyrgyzstan and Armenia rose by an extra 30 percent compared to exports of other goods, EBRD report states.

Russia to deploy nuclear weapons in Belarus

Russian president Vladimir Putin said that his country will install tactical nuclear weapons in Belarus, intensifying a confrontation with the West and issuing a "warning" to NATO over its military assistance for Ukraine.

Despite Putin's assurances that the action would not violate nuclear non-proliferation commitments, it is one of Russia's most overt nuclear signals since the start of its invasion in Ukraine. Putin did not specify when the weapons would be transferred to Belarus, which has borders with three NATO members - Poland, Lithuania and Latvia. He said Russia would complete the construction of a storage facility there by July 1.

Grain traders stop exporting from Russia

Cargill, one of the world's largest suppliers of agricultural products, will stop exporting grain from Russia in the next agricultural year, which will start on 1 July 2023 and will last until 30 June 2024). Cargill's Russian subsidiary also announced that it is starting to review its grain export portfolio.

Following Cargill, Viteira, one of the world's largest grain traders, plans to stop exporting Russian grain, Bloomberg reports. The agency's sources believe that Viteira's withdrawal from the Russian market increases uncertainty about future crop supplies from the Black Sea region.

Preliminary Assessment

- Kazakhstan and Russia are both members of the five-nation Eurasian Economic Union (EAEU). This implies that products crossing their border are not subject to customs procedures.
- US president Joe Biden says he is "concerned" about Putin's decision to deploy nuclear arms outside of Russia.
- The United States is working to bring Russia back into compliance with the Strategic Arms Reduction Treaty, says Deputy Spokesperson for the US Department of State Vedant Patel.
- Cargill is one of the world's largest producers and suppliers of food and agricultural products. The company is one of the top 10 exporters of Russian grain.
- The Sultanate of Oman has offered Ukraine to create a grain and food hub on its territory to ensure uninterrupted supplies to the Horn of Africa.



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 Ukrainian Parliament appoints two ministers and reappoints Fedorov as Deputy Prime Minister

The Verkhovna Rada reappointed Mykhailo Fedorov to the position of Deputy Prime Minister and added powers to the position including innovations, development of education, science and technology. Fedorov's most important project as minister is the "State in a Smartphone" which aims, by 2024, to have 100% of all government services available online. Oleksandr Kamyshin was appointed as Minister for Strategic Industries of Ukraine and Oksen Lisovyi to the post of Minister for Education and Science of Ukraine.

New obligations for businesses that want to leave Russia

Every Western company that wants to leave the Russian market and sell its assets will now be obliged to make a direct contribution to the budget of the Russian state. This was announced by the Russian Commission for Foreign Investment, the Financial Times reports.

Previously, companies leaving Russia could choose between making a "voluntary contribution" to the Russian budget, which amounted to 10% of the sale price, or agreeing to defer payment from the sale for several years. The tougher regime will leave executives seeking to exit the country with no choice but to make a direct contribution to the Russian state budget. A person involved in one of the current exit talks said that about 2,000 applications are awaiting approval.

Moscow arrests US reporter from WSJ on espionage allegations

In a potential escalation of Moscow's diplomatic feud with Washington, Russia's FSB security service arrested an American reporter for The Wall Street Journal, Evan Gershkovich, on suspicion of spying for the United States. The newspaper denied the allegations and demanded the immediate release of its "trusted and dedicated reporter". US diplomatic source said the embassy had not been informed about the incident and was seeking information from the Russian authorities.

Preliminary Assessment

- The first "voluntary donation" deal to be made public was made by Norwegian company Wenaas after it sold its hotels in Russia to Sistema, a Russian conglomerate controlled by sanctioned oligarch Vladimir Yevtushenkov. In February, Sistema announced that the transaction price was "up to EUR 203 million, including a 10% contribution to the budget of the Russian Federation".
- US State Department condemned the detention of Mr. Gershkovich and advised American residents in Russia to leave the country and also warned citizens not to travel to Russia.



Russia intensifies cyberattacks on Ukraine allies

Russia's cyberwar on Ukraine has largely failed and Moscow is increasingly targeting Kyiv's European allies, according to US and French analysts.

French defence firm Thales said in a report on March, 28 that Russia was hitting Poland and Nordic and Baltic countries with an arsenal of cyberweapons aiming to sow divisions and promote anti-war messages. These attacks were increasingly carried out by groups aligned with the Kremlin rather than official groups, and they aimed to sow chaos rather than destroy infrastructure.

Poland, Latvia and Sweden were among the most affected countries. Montenegro and Moldova – candidates for European integration – were also being targeted.

Microsoft said in a threat assessment earlier in March that Russian actors had launched attacks in at least 17 European countries in the first six weeks of this year. The IT giant also added that attacks this year in Europe were largely aimed at government entities for espionage purposes.

While attacks outside Ukraine were often low-level harassment, Microsoft said Russia may well choose more damaging cyber tools in the future. The more setbacks Russia suffers on the battlefield, the more destructive its attacks may become.

Current topics

Russian hackers attacked the websites of state institutions in Slovakia after the transfer of the MiG-29 to Ukraine

Russian cyberattack on 28 March disabled several websites of Slovak state institutions and departments. The Anonymous RU hackers conducted a DDOS-attack on the websites of the National Council, the National Bank and the Ministry of Defense after Slovakia sent its first fighter jets to Ukraine. Reportedly, in addition to hacking, the perpetrators also sent a warning that Slovakia should not support Ukraine. However, this time the country managed to avoid a massive cyber attack like the one that occurred in January, when the websites of state institutions and private companies were targeted.

The French parliament was attacked by pro-Russian hackers

The website of the National Assembly, the lower house of France's parliament, became the target of a DDoS attack on March, 27 by the pro-Russian hacker group NoName057(16). "We decided to repeat our recent trip to France, where protests against Macron, who has decided not to care about the French and continues to 'cater' to Ukrainian neo-Nazis, remain unabated," a corresponding message with a picture of a bear on the group's Telegram channel read. The press service of the French Parliament, however, said that they could not confirm the source of the attack, "but the services are working to identify it."

Vulkan files leak reveals details of Putin's cyberwarfare tactics

The Guardian has released the findings of an 11-media investigation into Russia's cyber capabilities based on leaked classified documents. It concerns NTC Vulkan, a Russian cybersecurity firm that is a contractor for the Russian military and intelligence services. According to the investigation, Vulkan carried out hacking operations, trained operatives before attacks on national infrastructure, spread disinformation and controlled sections of the Internet. One document links a Vulkan product, namely a cyberattack tool, to the notorious hacker group Sandworm that is believed to be a division of the military intelligence.

Data about Vulkan, namely files dating from 2016-2021, was published by an anonymous informant, an opponent of the war unleashed by Russia in Ukraine, in February last year, by contacting the German newspaper Süddeutsche Zeitung and later a Munich-based startup Paper Trail Media.

Preliminary Assessment

- On March 17, the government of Slovakia at an extraordinary online meeting decided to transfer 13 MiG-29 fighters to Ukraine. The first four of them have already been sent to Ukraine.
- NoName is one of about 80 pro-Russian hacker groups that attack institutions in countries that support Ukraine, in particular in Western Europe.
- Recently, Italy reported a new wave of cyberattacks by this hacker group, including several government agencies.
- Reportedly five Western intelligence agencies have confirmed the authenticity of the Vulkan files. The company and the Kremlin did not respond to multiple requests for comment.
- The Vulkan Files provide insight into how Russian intelligence agencies are hiring private IT consulting firms to build the conceptual framework for cyberattacks and disinformation campaigns.
- According to the reports, several former programmers from Vulkan now work for Western companies such as Siemens, Amazon, Trivago and Booking.com.



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 ECB pressures Austrian Raiffeisen Bank to withdraw from Russia

In January, the US sanctions authority launched an investigation into Austrian Raiffeisen Bank in connection with its business in Russia, specifically for potential violations of Western sanctions. A bank spokesperson said that the financial institution was in the "early stages" of gathering information to respond to the US request.

Now, according to Reuters, the European Central Bank is putting pressure on Raiffeisen Bank International to withdraw from Russia. While the ECB is not demanding that Raiffeisen leave the country immediately, it wants a plan of action to wind down the business. Such a plan could include the sale or closure of the Russian bank. Raiffeisen, however, has no plans to submit such a plan, the source said.

A Raiffeisen spokesperson said the bank is considering possible actions for its business in Russia, "including a carefully managed exit", and clarified that it has already reduced lending in the country.

The US investigates Credit Suisse and UBS

The US Department of Justice has sent a wave of requests to banks, including Credit Suisse Group AG and UBS Group AG, to identify employees who have dealt with Russian sanctioned companies, Bloomberg reports.

According to one of the agency's interlocutors, the Ministry of Justice's requests are aimed at identifying bank employees who worked with sanctioned clients, as well as how such clients have been screened over the past few years. Before the war, Credit Suisse was well known for serving wealthy Russians. At its peak, the bank managed more than USD 60bn for Russian clients.

US sanctions a merchant of North Korean weapon to Russia

The United States sanctioned Slovakian individual Ashot Mkrtichev for attempting to organise the transfer of more than two dozen different types of North Korean weaponry and ammunition to Russia in order to assist Moscow in replacing military hardware lost in its conflict with Ukraine. It is said that Mkrtichev reaffirmed Russia's preparedness to receive military supplies from North Korea in conversations with senior Russian authorities and that they "discussed mutually beneficial cooperation."

The move is the most recent in a string of restrictions the United States has placed against Moscow and its efforts to purchase military hardware, and it comes as America issued a warning that Moscow is looking to buy more weapons from North Korea. Those that engage in certain transactions with him also risk being hit with sanctions.

Preliminary Assessment

- The Austrian bank is currently the most important Western bank in Russia, serving as a lifeline for payments and providing about a quarter of all Euro-denominated transfers to the country. Other foreign banks, such as Italy's UniCredit, also still have a presence in Russia.
- The National Agency for the Prevention of Corruption of Ukraine has added the Austrian Raiffeisen Bank International group to the list of international sponsors of the war.
- Investors are demanding that Raiffeisen Bank International Group make clear statements on the future of its business in Russia at its general meeting.
- Swiss bank UBS has agreed to buy Credit Suisse for USD 3.25bn after negotiations over the weekend with the mediation of Swiss regulators.
- According to the US Treasury, Mkrtichev worked with North Korean officials between the end of 2022 and the beginning of 2023 to acquire more than two dozen different types of weapons and munitions for Russia in exchange for materials like commercial airplanes, raw materials, and commodities to be sent to North Korea.

General remarks



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