

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network



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Organisations referenced in this week's Field Notes include:

Agricultural Fielddays	Meridian Energy
Ausveg Australia	Ministry for Primary Industries
Brancott Estate	National Agricultural Fielddays
Bee Industry Group	New Zealand Meat Board
DairyNZ	Paringa Livestock Australia
Federated Farmers	PGG Wrightson
Focus Genetics	Primary Growth Partnership
Fonterra Cooperative	Ravensdown
Food Industry Asia	Synlait New Zealand
Kiwifruit Vine Health	UN Food and Agriculture Organisation
Infant Nutrition Council	University of California
Livestock Improvement Cooperation	Vegetables New Zealand
Marlborough District Council	Westpac New Zealand
Massey University	Zespri New Zealand

This week's headlines

Viticulture	Winemakers celebrate 'vintage of the century' [11 June/ Rural News Group]
Dairy	NZ infant formula status at risk, say big players [7 June/ New Zealand Herald]
Meat	Working to improve frozen meat technology [10 June/ Business Day]
International	China's appetite for food imports to fuel agribusiness M&A [6 June/ Financial Times]
Economics and Trade	Primary exports to rise 2.2pc next year [10 June/ New Zealand Herald]

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Horticulture

KVH seeks new managers for abandoned kiwifruit orchards [7 June/ Radio New Zealand Rural] New managers are being sought for 47 abandoned kiwifruit orchards, following kiwifruit Vine Health (KVH) being instructed to find suitable candidates. PSA vine disease was first detected in a Te Puke orchard in 2010 and has had a significant negative impact on the financial prospects of many kiwifruit orchard owners. The (KVH) views abandoned orchards as high risk sites, where untreated, uncontrolled kiwifruit plants act as incubators for the bacteria and threatened the recovery of neighbouring orchards. (KVH) Chairman Peter Ombler said that he is a firm believer that many of the abandoned orchards can be turned back into viable businesses, with careful management or the implementation of new varieties.

Vegetable processors turn to local suppliers [6 June/ Radio New Zealand Rural] High production costs in Australia have had positive flow-on effects on the New Zealand vegetable industry. Global processors such as Watties are now sourcing more of their crops from New Zealand. Higher costs have pushed much production out of Australia, Chair of the Australian Vegetable and Potato Growers' Organisation (Ausveg) John Brent said. He said that water costs have tripled and electricity costs have nearly tripled with carbon tax adding 10 to 11 per cent to electricity bills. Many local New Zealand growers are welcoming the shift back to New Zealand and Vegetables New Zealand Chairperson Keith Vallabh said that New Zealanders are lucky the Heinz Watties factory has been kept up to date and modernised. Mr Vallabh indicated that production increases had been noted for products such as beetroot and carrots.

Vintage year for Zespri kiwifruit [10 June/ Rural News Group] Kiwifruit organisation Zespri has labelled the 2013 New Zealand kiwifruit season as one of the best ever seen. Zespri's General Manager of Marketing Carol Ward said that every block of every Zespri-supplying orchard is tested for levels of dry matter before harvest, with dry-matter corresponding to the sweetness of the ripe fruit. She said that the highest-ever levels of dry-matter were being seen for all categories of Zespri Kiwifruit, which meant a vintage year for excellent tasting fruit. Ms Ward also said that there was strong indication of the popularity of New Zealand kiwifruit in overseas markets, with offshore teams saying that there was a strong drive evidenced with repeat purchasing consumers. Record sunshine levels in New Zealand this summer have also contributed to the record tasting vintage crop, with most of Zespri's kiwifruit grown in the Bay of Plenty area which received considerable amounts of sun. Ms Ward also said that Zespri's marketing teams have been overwhelmed by the positive reaction from customers and consumers around the world to this year's harvest.

Viticulture

Vineyards to form grape waste company [6 June/ Radio New Zealand Rural] Uses for grape wastage left over after the winemaking process are being sought by eight Marlborough wine companies. Approximately 40,000 tonnes of grape marc is produced each year from the country's largest wine region. Grape marc is the skins, seeds and other residue left over after wine making grapes are pressed. The wineries are proposing to form Grape Marc Ltd with the support of the Marlborough District Council. Brancott Estate Spokesman Eric Hughes said that the company will explore more profitable ways of disposing of the grape waster which is just being composted at the moment. Mr Hughes said that changing the waste material into a more stable form so that it can be used extensively throughout the year or into high quality compost would be the ultimate goal. He also said that other uses may include producing grape seed oil and stock food.

Winemakers celebrate 'vintage of the century' [11 June/ Rural News Group] Recently pressed grapes which have now been successfully barrelled are being labelled as exceptional and the 2013 vintage is set to be the vintage of the century for the Hawke's Bay. A recent survey of Central Hawke's Bay winemakers has revealed that many believe that the flavours and colours of this season's pressed grapes could not have been better. This is true for both white and red varieties of wine. Sacred Hill's Tony Bish believes that this year's grapes will make the greatest wine the Hawke's Bay has ever seen. Clearview Estate Winery's Tim Turvey believes that this year's vintage has been the best in his 30 years of winemaking. This vintage has indicated low pH levels and a balanced acid and sugar ratio, especially in red varieties. Linden Estate winemaker Trevor Shepherd said that the fruit-driven wines with their low tannins will create softer, more elegant wines.

Honey

Beekeepers suffering heavy losses from varroa [8 June/ Radio New Zealand Rural] The varroa honey bee parasite is continuing to cause issues for beekeepers as some apiaries have reportedly lost up to a fifth of their hives. According to a Federated Farmers Bee Industry Group conference in Queenstown last week, the deadly mite has been established in the North Island for more than a decade and has spread as far South as Bluff. The Bee Group's Chair, John Hartnell, said that some South Island beekeepers are still learning how to manage the mite. He added that numbers of bees were down 15 per cent to 18 per cent in some cases which he said was a combination of a fairly weak autumn a year ago and the mite starting to have an impact on hives. Mr Hartnell said that in 2000 bee numbers between the wild and managed population were around 600,000 hives and now varroa has taken out half of these to bring this number back around 300,000 hives. He said that building the hive population back up has now commenced again with hive numbers being aimed at around 435,000.

Forestry

Strong demand from China for NZ logs [6 June/ Radio New Zealand Rural] Continual increases in log exports to China have been evident recently. This year has seen a resurgence in demand for lumber and logs in China after a drop last year, according to Wood Research Quarterly. Total Chinese log imports fell by 15%, with New Zealand being the only country to increase its shipments. Russia has been a major log supplier to China for a number of years, however in the first quarter of this year, Russia and New Zealand both had a 33 per cent market share. Prior year statistics indicate that shipments to China from Russia were down 18 per cent while those from New Zealand increased almost 50 per cent.

Fishing and aquaculture

Study planned of Sounds' blue cod [7 June/ Business Day] Research is to be undertaken of blue cod numbers in the Marlborough Sounds this year, with the Government backing statements released earlier this year. A time frame for the results will not be known until a researcher is contracted. Primary Industries Minister Nathan Guy said in April that he looked forward to seeing the results early next year. He added that he was confident that they will show more positive signs of the health of the fisheries that existed in the region. The Ministry has a limited research budget and is required to undertake research on all Quota Management System stocks. This consists of 99 species and 636 stocks of fish. The project list for the 2013 to 2014 financial year was already finalised. A spokeswoman for the Ministry said that all new information would be reviewed when assessing the Marlborough Sound's blue cod management rules.

Dairy

NZ infant formula status at risk, say big players [7 June/ New Zealand Herald] A risk exists for New Zealand's reputation for high quality infant formula as inexperienced companies threaten to jeopardise the relationship the country has with Chinese consumers, an industry commentator has said. Jan Carey, the Infant Nutrition Council's Chief Executive has called for all firms involved in the marketing of infant formula to be required to comply with an agreed set of industry standards. The Council's members include major manufacturers and marketers of baby milk formula such as Fonterra Cooperative, Nestle, Nutricia, New Image and Synlait. Ms Carey highlighted recent media reports revealing that a variety of companies lack the basic supply-chain integrity that is required to ensure the quality of the product and maintenance of the industry's reputation in New Zealand and abroad. She emphasised the fact that the Council has a code of conduct that its members must adhere to, which aims to prevent false and misleading claims about products and promote food safety standards. One dairy exporter who wished to remain anonymous said that the lack of regulation of formula brands was a "ticking bomb". Carey said that New Zealand baby formula was among the best in the world and if the Asian formula boom continued into the future, then the opportunity to supply Chinese demand would advantage New Zealand greatly. She added that that in feeding this demand, New Zealand supply needed to be strongly managed.

Fonterra share, unit prices plunge [6 June/ New Zealand Herald] Late last week saw Fonterra Cooperative's share and unit prices fall sharply on top of the announcement that farmers would be able to sell more of their "dry", or non-production related shares. Trading units were down by 26 cents (3.45 per cent) to \$7.28 and the Fonterra shares were down by 32 cents (4.23 per cent) at \$7.25. Both the shares and the units are designed to loosely track each other. As of last week, farmers' requirement to hold shares based on production moved from a fixed number based on prior season production to a three-year rolling average, meaning that many farmers had a significant increase in the number of dry shares they were able to sell. One fund manager has indicated that there is considerable interest by some farmers to sell.

Meat

Top NZ rams flown across the ditch [6 June/ New Zealand Herald] Two air shipments of live New Zealand rams and more than 1000 embryos have been sent by Hawke's Bay-based Focus Genetics, who specialise in red meat genetics. This latest shipment joins the other 34 live rams that were flown across the Tasman in March and another 103 that were flown last month. The demand for high-quality New Zealand rams in Australia has grown quickly in the past year, animal breeding specialist Daniel Absolom said. He said that Focus Genetics had a long term plan to establish New Zealand sheep genetics in the Australian market, adding that New Zealand was fifteen years ahead of Australia in research and development. The company has paired with Victoria-based genetics company Paringa Livestock, which supplies bulls and rams for the country's beef and lamb producers. The rams that have been sent to Paringa are Primera and Highlander breeds and the animals travel in the hold of normal scheduled commercial passenger flights. Specially designed crates contain the animals which are capable of fitting up to 60 full-grown animals. Paringa Livestock Director Tom Lawson said that demand for quality New Zealand sheep was growing because their lambs had better survival rates in extreme drought conditions. This comes as Australia is just exiting from one of their worst droughts on record. During such times, Mr Lawson said that farmers need top genetics. Focus Genetics recently exported about 1300 embryos as part of a plan to meet future demand without having to keep sending live animals. Mr Absolom of Focus Genetics said that sending the live rams was a means to an end; the company is effectively setting up the 'manufacturing plant' in Australia through sending embryos. This process has begun with sending the rams as indication of what the desired product needs to be like in its finished state.

Meat consolidation is happening already [7 June/ Business Day] New Zealand Meat Board figures indicate that the meat processing sector has been consolidating for years with barely any farmer involvement. Evidence for this is in the annual record of companies granted access to European sheep and goat meat quota in addition to the pattern for quota-linked United States beef and veal. Quota trade is still a feature of New Zealand's trade today and the Meat board allocated tariff rate quotas for exports to the European union, such as sheep meat, goat meat and high-quality beef as well as US and Canada in beef and veal. There has also been a noticeable decline in the number of beef exporters granted European quota limits from 12 a decade ago to 10 today. China still applies a sheep meat tariff to NZ goods of 4 to 7.7 per cent but this is scheduled to be eliminated by 2016 under the New Zealand-China Free Trade Agreement. That penalty-free access will match Europe, which has no in-quota tariff on NZ sheep meat. High-quality, quota-compliant beef to Europe has a tariff of 20 per cent applied compared to Canada's zero percent and the United State's 4.4 cents per kilogram.

Working to improve frozen meat technology [10 June/ Business Day] Freezing techniques are being improved by AgResearch so that exported meat can match the quality of chilled meat. This will have the effect of reducing cost and increasing profitability for producers. Senior scientist of muscle biochemistry and meat processing, Dr Brad Kim, is leading the project to work out the best way for freezing meat products in order to narrow consumers' perceived quality differences. Dr Kim said that research had indicated that consumers perceive that non-frozen chilled meat has better quality attributes than frozen-thawed meat. He said that this perception was likely to pertain to chilled New Zealand meat receiving a higher price than frozen meat not only because the chilled products are prime cuts, but also because they are considered a higher quality product and has more reliable tenderness, less drip loss and longer retail colour display life. Recent studies from AgResearch said that for such meat quality attributes, such as tenderness, water-holding capacity and colour stability, the difference between chilled and frozen meat cuts could be narrowed so long as the meat was aged sufficiently prior to freezing.

Rural infrastructure

LIC's Dewdney named as Wrightson chief [7 June/ New Zealand Herald] PGG Wrightson have announced that Mark Dewdney former CEO of the Livestock Improvement Corporation (LIC), will join its executive team as Chief Executive Officer, succeeding George Gould. Mr Dewdney will take up the position on July 1 after running LIC for seven years. LIC helped China's Agria take control of PGG Wrightson in 2011 with a \$10 million loan. Agria now owns 50.1 per cent of Wrightson. In April 2011, Mr Dewdney said that LIC made the loan because it had a strategic interest in supporting the PGGW AgriTech businesses – Seeds, AgriFeeds, and Grain. It had no interest in making a direct investment in Wrightson and the loan was on commercial terms. It was in December of last year when Dewdney announced his departure from LIC, saying at the time that he was keen to fulfil his long held goal to be a 'hands on' dairy farmer, coupled with expanding his professional director roles.

High hopes for this year's Fieldays [11 June/ Radio New Zealand Rural] New attendance records are expected at the four day National Agricultural Fieldays event starting this Wednesday at Mystery Creek near Hamilton. Chief Executive of the event Jon Calder said that if the weather plays its part, then he is confident that the event will get 130,000 people through the gates, topping the previous record of 128,000 in 2012. The theme this year is "getting down to business in the global economy", and Mr Calder said that Fieldays has something to interest all types of farmers and the public.

Environment and emissions

Rules worry more than droughts – study [7 June/ Business Day] A study carried out by University of California PhD candidate Meredith Niles has revealed that farmers are more concerned about the economic and regulatory impacts from climate change than its physical and climatic effects. The study involved 313 farmers in Hawke's Bay and 177 farmers in Marlborough. It was shown that when it comes to planning for the future, farmers were very concerned about more economic and policy matters such as regulation, higher fuel and energy prices, new pests and diseases and more volatile markets. Only a relatively small proportion showed major concern about more severe droughts, less reliable water, more frequent heatwaves, increased flooding and warmer temperatures.

Fresh hope for DCD as tool [6 June/ Business Day] DairyNZ believes that Nitrogen Inhibitor Dicyandiamide (DCD) may be able to be used by farmers again, but in a completely different way. Latest research from the organisation indicated that a withholding period between DCD application to pastures and cows grazing could be important in stopping traces from showing up in dairy products. Chief Executive of DairyNZ Tim Mackle said that he believed the compound was a tool in the greenhouse gas armoury and that farmers could be optimistic that it could be used again soon. He said that with increasing consumer preferences towards fully understanding how and from where food has been produced, the use of DCD had to be treated very carefully. He indicated the need for New Zealand to give more attention towards best practices in using DCD.

Research and development

Asian backing for food safety initiative [6 June/ Rural News Group] Support from Food Industry Asia has been given to The Global Food Safety Partnership. The Partnership is a World Bank initiative facilitated by Massey University. The aim of the initiative is to increase food safety capacity. Bev Postma, Executive Director of Food Industry Asia said that food safety is integral to ensuring people have access to sufficient, safe and nutritious food at all times. She added that it was increasingly important today because of the current highly globalised world food supply chain. Ms Postma said that she believes the partnership is a great initiative aimed at filling critical capacity building gaps and the organisation was looking forward to working with their global and regional stakeholders to improve overall food safety standards. Massey University Professor of Agribusiness Hamish Gow says that the Food Industry Asia's decision to join the partnership is good for the New Zealand agri-food sector. He added that the organisation was a major food industry association across Asia, and with the region being such an important food and beverage export location for New Zealand, the partnership will have important implications for the country.

Biosecurity

MPI group in UK for disease outbreak study [7 June/ Rural News Group] A group of senior managers for The Ministry of Primary Industries have departed for the United Kingdom this week as they participate in a major disease simulation there. Deputy Director General, Compliance and Response, Andrew Coleman, Director of Response, Veronica Herrera and Manager of Surveillance and Incursion Investigation, Paul Bingham will attend Exercise Walnut which will simulate a national scale outbreak of swine fever. The UK's existing plans and policies for the control and eradication of a significant exotic disease are set to be under the test. Mr Coleman said that a key component of the preparation for a major disease outbreak is researching and exercising possible scenarios, both here in New Zealand and internationally. He also highlighted the recently announced trans-Tasman action plan between Australia and New Zealand which is set to see the defences against the threat of foot and mouth disease strengthened in both countries. Mr Coleman said that over the years, New Zealand's government agricultural and biosecurity agencies (MPI and its predecessors MAF and Biosecurity New Zealand) have invested significant time and resource into preparing for a foot and mouth disease outbreak.

International

Ravensdown to sell Adelaide arm [7 June/ Business Day] Ravensdown, the New Zealand fertiliser cooperative, has decided to sell its stake in Direct Farm Inputs (DFI) and is in talks with the other owners of the Adelaide-based business which sells fertiliser in South Australia and Victoria. The exit has been said to have come about due to ravensdown's preference towards the cooperative model of selling fertiliser directly to farmers rather than through other businesses. Ravensdown will retain its Australian presence through subsidiaries in Western Australia and Queensland. The company's Chief Executive Greg Campbell said that the DFI sale would release some capital and the company plans to continue to invest in helping farmers to manage their environmental responsibilities.

China's appetite for food imports to fuel agribusiness M&A [6 June/ Financial Times] Imported grains, oilseeds and meat are set to be in greater demand in China over the next ten years. The bullish view comes from the UN manage Food and Agricultural Organization (FAO) and the OECD Annual Agricultural Outlook Report, released last Thursday for Chinese food demand. By 2022, China's imports of coarse grains are expected to double and imports of soya beans will increase by 40 per cent. Meat imports are also expected to receive an import demand boost, with forecasts estimating an increase in beef imports by almost two times. A report released by the two organisations highlighted the importance of satisfying China's food demands in the context of the country's rapid economic growth and resource constraints. The report also said that China's consumption growth will slightly outpace its production growth. Such forecasts have come about in the wake of China's entry into global agricultural markets; an event which has already started to drive mergers and acquisitions in the agribusiness industry. The report also indicated the fact that constraints of land, water and even rural farm labour appears to limit future supply. This limiting factor will most likely increase China's reliance on the international markets for its food resources. The inevitability of higher food imports was acknowledged by Chen Xiwen, a top Chinese agricultural official, earlier this year. He said that making full use of international resources and international markets has become very necessary. FAO and OECD estimates have put China on the path to become the world's leading consumer of pork on a per-capita basis, surpassing the European Union by 2022. China's importation of milk has placed it as one of the largest, and the country's demand for dairy products is expected to increase by a further 60 per cent in dairy product imports over the next ten years.

Agribusiness strategy

Minster aiming high for agribusiness [5 June/ Rural News Group] Minister for Primary Industries Nathan Guy has said that doubling New Zealand's primary exports to \$60 billion by 2025 is a challenge but something that will be good to aim for nonetheless. Mr Guy said that the Primary Growth Partnership (PGP) will play a large role in achieving this goal. The PGP will see over \$650 million invested into it over seven years, with the government meeting 50 per cent and the industry supplying the rest of the investment capital. He said that what is known is that it all of the returns are realised from the PGP, it will be worth approximately \$7 billion. Each one dollar investment will be made up of fifty cents from industry and fifty cents from the government, returning about \$11 over seven years. Mr Guy also highlighted the hope for showcasing Maori business as well, which he said will have positive flow on effects for marketing New Zealand national business. \$8.8 million has been awarded from the Sustainable Farming Fund for a number of projects that will eventually lift productivity as well. He also said that a one per cent productivity gain by New Zealand farmers is worth about \$4 billion in exports a year.

Economics and Trade

Primary exports to rise 2.2pc next year [10 June/ New Zealand Herald] New Zealand primary sector exports are set to grow 2.2 per cent in 2014, and accelerate through 2017. Market commentators have said that this forecast will help to make up for the effects that came about from the drought and for a subdued meat and wool trade market. In the year ending June 30 2014, exports of dairy, meat, wool, forestry, horticulture and seafood are forecast to reach \$24.1 billion. These will grow at a compound annual rate of 7.4 per cent to reach \$29.5 billion by 2017. The dairy sector has also been highlighted as contributing to the growth, with a modest increase in cow numbers and productivity lifting exports by 2025, however new forecast's from the Ministry for Primary Industries say that this will be reliant on programmes to lift productivity as it can't be achieved on current projections. The Ministry's assessment is in line with Fonterra's assessment that dairy prices will remain elevated through 2014, given global supply shortages and rising demand. In comparison, the outlook for meat and wool is more subdued. Beef export values are forecast to sink 3.3 per cent to \$1.9 billion in the June 2013 year, even as volumes hold almost unchanged at 347,000 tonnes. This decline is also evident in 2014, with a 5.9 per cent fall to \$1.83 billion on volume of 333,000 tonnes. These prices are forecast to recover in 2015 to reach \$2.17 billion by 2017, while volumes are forecast to hold at about 2014 levels. Lamb exports have been seen to weaken 16.4 per cent to \$1.93 billion in the June 2013 year, right the way through to 2017 where it is estimated lamb exports will fall to \$1.925 billion, as volume falls to 249,000 tonnes. Kiwifruit exports are expected to improve from the 88 million trays forecast in 2014, to increase to 101 million trays in 2017 where they will reach a value of \$1.2 billion. Apple and pear exports were up this year to 16.8 million cartons and are forecast to reach 17 million cartons by 2016 and \$459 million in value.

Farmers and producers

Easier access for solar energy [6 June/ Rural News Group] Farmers are being supplied with easier access to solar energy which has the potential to save thousands on power bills each year. Westpac and Meridian Energy are among the companies wanting to help out. The Agricultural Fielddays event held at Mystery Creek this week will showcase the initiative. The Westpac Taranaki Agricultural Research Station in Hawera will pilot the first solar panels, aimed at providing an ongoing bundle of operation and cost savings. Dave Jones, the Westpac Bank Head of Agribusiness, said that part of Westpac's 2013-2015 Sustainability Strategy initiative will see more support being given to clean-tech business ideas. From implementation of such energy schemes, average farms have been assessed at having a break-even period of around seven to eight years from which estimated farmer energy savings could be as much as \$3000 per year. Meridian Energy General Manager of Retail Bill Hight said that the company's customer base of those who are able to generate energy to be sent back to the grid has increased dramatically in recent times. He said that it would not be long before the number of internally generating customers exceeds 1000 with Australia at present having over one million.

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