

AGRIBUSINESS

# FIELD NOTES

Weekly news update from the KPMG Agribusiness network



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HOT OFF THE PRESS:  
**KPMG AGRIBUSINESS  
AGENDA 2013 VOLUME 4**

27 November 2013

#### Organisations referenced in this week's Field Notes include:

Alliance Group	Ministry of Business, Innovation and Employment
ATS Cooperative	New Zealand Goldmax Health
Beef + Lamb New Zealand	New Zealand King Salmon
Bank of New Zealand	New Zealand Stock Exchange
Dairy New Zealand	New Zealand Supreme Court
Environmental Defence Society	NZX Dairy Futures
Environment Southland Council	Pouarua Dairy Complex
Federated Farmers	Thai Horticultural Science Society
Fonterra Brands Sri Lanka	Ravensdown
Fonterra Co-operative Group	Silver Fern Farms
Forest and Bird	Sustain Our Sounds
Goodman Property Trust	Synlait Farms
Horticulture Export Authority	Waikato University
Irrigation New Zealand	Waitaki Irrigators Collective
Meat Industry Excellence Group	Westpac Bank
Ministry for Primary Industries	

#### This week's headlines

<b>Dairy</b>	<b>Sri Lanka agreement a boost for Fonterra</b> [25 November/ NZX Agri News Group]
<b>Meat</b>	<b>Merger 'will come at a cost'</b> [25 November/ NZX Agri News Group]
<b>Water</b>	<b>Waterways will get worse – Commissioner</b> [21 November/ Business Day]
<b>Economics and trade</b>	<b>Early tariff cuts put a cherry on top of Christmas</b> [22 November/ Radio New Zealand Rural]
<b>Farmers and producers</b>	<b>Farmers right to be wary of borrowing</b> [20 November/ Business Day]

### Fishing and aquaculture

**Salmon decision reserved** [22 November/ Business Day] The New Zealand Supreme Court has reserved its decision after hearing arguments over an appeal the High Courts decision to allow more salmon farms to be built in the Marlborough Sounds. Sustain Our Sounds (SOS) hit back at New Zealand King Salmon earlier in the week, stating that the approach taken by the company towards building salmon farms in the Marlborough Sounds was not lawful. The Supreme Court was hearing an appeal by environmental group SOS and the Environmental Defence Society (EDS) to New Zealand King Salmon being allowed to build four new salmon farms in the Marlborough Sounds. The legal team representing the environmental groups was headed by Matthew Palmer and he highlighted his belief that the earlier High Court has taken a balancing approach instead of the proper precautionary approach.

### Dairy

**First glimpse of new Fonterra HQ** [20 November/ New Zealand Herald] Goodman Property Trust is to take control of the proposed 16,000 square metre campus-style offices of Fonterra's new Head quarters in Auckland's Viaduct Harbour area. The large office complex is to be built around a central green zone, and will be developed by Goodman Group and Fletcher Building on a leasehold site. Fonterra's new Head quarters will be built on Fanshawe Street, opposite Victoria Park and between the trust-owned Air New Zealand building and the Viaduct Corporate Centre. Environmentally friendly materials will be incorporated into construction of the building and energy efficient building systems will drive innovation, technology and improve workplace practices.

**New parasite hits hard in Waikato Dairy heartland** [22 November/ Radio New Zealand Rural] A new anaemia-causing parasite has hit dairy cattle stocks in over 300 farms in the Waikato area. Biosecurity checks are finding approximately 20 new infected herds every week and the infected levels continue to increase. The Ministry for Primary Industries has confirmed 327 farms throughout New Zealand as being infected with the parasite with about 20 of this number returning positive tests for the parasite *theileria ikeda*, which kills about 1 per cent of the cattle it infects and makes the rest very ill. A further 20 tests are still to have results released by testing laboratories. The majority of the infected cattle exist on Waikato farms, with the Ikeda strain of *theileria* being first detected in Northland in 2012. The Ministry for Primary Industries says that the parasite is posing a large threat to New Zealand and that urgent action needs to be taken to prevent further infection.

**Sri Lanka agreement a boost for Fonterra** [25 November/ NZX Agri News Group] A formal cooperation agreement signed between the New Zealand and Sri Lankan governments has given much rigour to Fonterra large investment in the area. The New Zealand dairy giant hopes that the agreement will re-start Fonterra's stalled milk supply growth in the country which has been delayed constantly over the past decade. Fonterra is also investing heavily in educational programs in Sri Lanka with the Fonterra Farmer Education and Development Programme teaching farmers a variety of skills including how to detect and treat early signs of mastitis. Fonterra Brands Sri Lanka Managing Director Leon Clement said that last week alone, 30,000 litres of milk per day was being collected for processing at the Biyagama plant on the outskirts of Colombo. He added that by investing in local farmer education and development, as well as training local employees at Fonterra's own milk-collection facilities, the organisation has managed to ensure that the quality of the milk collected over the last decade has increased considerably.

**Futures market hits record high** [25 November/ Business Day] 1294 lots were traded in the recent NZX Dairy Futures Market program, beating the previous record set in August of 1270 lots. Market commentators have noted that trading on the dairy futures markets has increased significantly in the second half of this year, mainly driven by increased demand for risk management in the dairy area in addition to an extension in dairy trading hours. The Dairy Futures market has opened at 2am New Zealand time since August in a move that was designed to allow easier access for overseas participants and investors. The particular markets of interest were located in the United States and Europe. NZX said that the total volume traded this year was up 45 per cent on the previous year with a clear point being made that many organisations were looking to manage risk by using tools such as NZX Dairy Futures. NZX Head of Derivatives Kathryn Jaggard said that consistently high dairy commodity prices over recent months had only increased the need to mitigate risk and to create price certainty.

**Waikato farmer wins seat on Fonterra board** [26 November/ Business Day] The newest addition to Fonterra's board of directors is Waikato dairy farmer and businessman Michael Spaans. Mr Spaans farms at Te Aroha and lives in Hamilton, winning the farmer's seat that was left vacant by the retirement this year of former chairman Sir Henry van der Heyden. Malcolm Bailey and Ian Farrelly were re-elected incumbent Directors. Mr Spaans also has farming interests in Chile.

**Guide for dairy farmers hiring migrant workers** [26 November/ Radio New Zealand Rural] The recognition by Federated Farmers of the increasing reliance the agriculture industry has on migrant workers has prompted the organisation to produce a practical guide to help dairy farmers follow the right procedure and avoid the pitfalls of hiring overseas staff. Willy Leferink, Federated Farmers' Dairy Chair said that farmers are being pushed towards hiring migrant labour due to the shortage of skilled local people to fill the job vacancies that exist on dairy farms. The driver for the guide comes as more issues are being raised in hiring migrant labour by New Zealand farmers.

### Meat

**SFF plots recovery** [25 November/ NZX Agri News Group] Recovery from two heavy annual losses will be the main focus for Silver Fern Farms over the next financial year. A main consideration will be in reducing the interest costs that the company has had to bear, which essentially has eroded earnings over the past few years. Silver Fern Farms had to pay \$28 million in interest for the recent financial year ending September 30, with Chief Executive Keith Cooper adding that every dollar the company could save on interest repayments would go directly to help improve the bottom line. Mr Cooper said that with up to 40-45 per cent of New Zealand lamb and sheep meat exported from the country expected to end up in China this year, this large market would help to improve cash flow prospects. Shorter transit times to the Chinese market compared with European markets would also assist Silver Fern Farm's cash flow.

**Merger ‘will come at a cost’** [25 November/ NZX Agri News Group] The merger of Alliance Group and Silver Fern Farms (SFF) which is being pushed by the Meat Industry Excellence Group (MIE) will require all shareholders to commit livestock for processing for a three to five year period. They will also be required to invest new capital into the business to ensure its continued operation, although the exact amount of capital required is not yet known. The overall restructuring process will also require Government legislation. Gisborne-based SFF candidate Dan Jex-Blake said that the meat industry in New Zealand was running out of time to reform, to fix low lamb returns and low cooperative profitability. He said that increasing voter turnout was also a key feature that he hoped the merger would achieve. Current figures indicated that typical voter turnout was only 20-22 per cent, Mr Jex-Blake said that it was hoped that this figure could be increased up to 50-60 per cent through consolidation.

**Positive outlook for lamb prices** [25 November/ NZX Agri News Group] Silver Fern Farms (SFF) Chief Executive Keith Cooper said that lamb price prospects were looking good for the end of the year and into the New Year. He said that farmers could expect better prices in the peak season which centred between January to March. The worst case scenario would result in a price range of \$5.30 to \$5.50 a kilogram, Mr Cooper said. The new season would see an improvement of \$1 per kilogram on last year and Mr Cooper said that he was confident that this would be the start of a rebuild of value for the coming seasons. He said that the Chinese market was looking particularly positive for lamb farmers, with New Zealand now sending 30 to 40 per cent of their sheep meat exports to the region. While China wasn't taking the premium end of lamb carcasses, they were taking secondary cuts and carcasses cut into six pieces, Mr Cooper added.

**Meat company trims staff at Silverstream** [25 November/ Radio New Zealand Rural] Silver Fern Farms has decided to merge the management of two of its processing plants in Otago. The Silverstream plant near Dunedin which operates as a lamb cutting facility is going to be operated from the larger Finegand plant in South Otago. Due to the drop in lamb numbers and a lower demand for processed lamb, the plant could potentially shut down. This led to the decision to decrease the amount of management, administration and engineering staff at Silverstream from 15 to 6. The other 180 employees at Silverstream are meat workers and employed seasonally for lamb cutting, they are being granted priority for any seasonal job vacancies at Finegand according to Wayne Shaw, Sheepmeats and Venison Operations Manager. At this stage Shaw says 70 staff from Silverstream have taken up the offer to work at Finegand and more staff increases are being discussed. Silver Fern Farms pursued similar ventures with two North Island beef plants in Waitoa and Te Aroha in the Waikato, by merging management teams and reducing staff numbers.

**Meat farmers urged to look at positives** [25 November/ Radio New Zealand Rural] The meat industry has recorded continued losses of land to dairy farm conversions. This has sparked market commentators to urge sheep and beef farmers to stay positive and continue operating in their current environment. Beef + Lamb New Zealand's new chairperson James Parsons told Federated Farmers that the loss of land was leaving many farmers with low self-esteem. Mr Parsons indicated a bench-marking system as providing new incentives and to improve the morale of many operating in the industry.

### Agribusiness strategy

**Food an ‘investors sector’ but NZ needs to lift game** [26 November/ Business Day] Agriculture is becoming increasingly appealing for financial investors, according to KPMG's Global Head of Agribusiness Ian Proudfoot. Mr Proudfoot highlighted the food supply and increasing demand for protein from East Asian consumers as a couple of the main current and future aspects driving the global demand for food. He suggested that there was a lot more private equity coming into agriculture, with investors being more prepared to look beyond market volatility and into the long run. Mr Proudfoot said that further issues surrounded inter-generational research and development in addition to developments in rural areas to ensure that these places had quality schools and hospitals to attract people to work in rural areas. Sitting in the middle of the GM debate did not yield any premium, Mr Proudfoot said, and New Zealand should establish the cause of action of this issue that will yield the best return from markets.

### Water

**Waterways will get worse – Commissioner** [21 November/ Business Day] A new report from the Parliamentary Commissioner for the Environment, Jan Wright, says waterways will get worse as the dairy industry continues to boom as a result of run-off of nutrients from farm land breeding invasive weeds, slime and potentially toxic algal blooms. The Commissioner highlighted that the deterioration of agricultural land will be worst in the lower South Island and Wellington. The report suggests that by 2020 almost 400,000 hectares of beef or sheep farming land would be converted into dairying land with higher stocking rates and increases in nitrogen run off into fresh water rivers and streams. Ms Wright said that she hoped the report would inform national and local government water quality policies and improve the practices of individual farms. Irrigation NZ CEO, Andrew Curtis, said the report failed to take account of recent innovations in land use management, including implementation of farm-specific environmental land use management plans. A spokesperson for Dairy NZ also noted that the uncontrolled growth of dairy farms the report suggests is unlikely to occur as nutrient limits being set by local communities were an effective management tool, while Forest and Bird noted that resource consents should be required to start dairying, where nearby waterways were close to or beyond acceptable pollution limits.

**Scientists call freshwater plan ‘meaningless’** [22 November/ Otago Daily Times] The New Zealand Government's proposed amendments to the National Policy Statement for Freshwater Management have been labelled as meaningless and lacking necessary science, according to leading New Zealand freshwater scientists. Massey University Centre for Freshwater Ecosystem Management and Modelling Director Associate Professor Russell Death said that bottom lines lacked appropriate measures to protect rivers and other New Zealand ecosystems. Mr Death said that more appropriate measures should be used such as those that limit in-stream nitrogen concentration, in-stream phosphorus concentration, and other physical and chemical measures. Mr Death also said that the measurements of biological communities were necessary if freshwater quality and ecosystem health was to be protected.

**Visiting Canada to study water issues** [25 November/ Otago Daily Times] Elizabeth Soal, the Policy Manager for Waitaki Irrigators Collective, is set to travel to Canada next year to study water management and beneficial farming practices. Ms Soal is also Director of Irrigation New Zealand and has been named a 2014 Churchill Fellow receiving a travel grant from the Winston Churchill Memorial Trust. She will meet with Government representatives, academics, water managers, farmers and members of the irrigation community where she will observe on-the-ground research projects. Ms Soal has a background in policy management, working as a policy adviser to the Ministry of Social Development before being appointed to the position with the irrigation collective in 2011.

**Council divided on water strategy** [26 November/ Business Day] Environment Southland is split on how to deal with degrading environmental quality of Southland rivers outlined in a report by the Parliamentary Commissioner for the Environment, Dr Jan Wright. Councillor Marion Miller said that while many of the proposals make some sense, the Council is still not in the position to tell farmers how to use their land. Councillor Ross Cockburn backed up these statements and said that the Council was not in the farming business so could not tell people what to do. Mr Cockburn added that the Council had to remain open-minded about dairying and water quality issues and that the organisation had already gone to great lengths to come up with innovative initiatives to help combat the issue of water quality. Councillor Robert Guyton said that he believed that while many Council members were holding the economy in high regard, in many instances it was at the environment's expense. He said that a balance needed to be struck between conflicting issues.

### International

**Key confident of Thai tariff move** [20 November/ New Zealand Herald] New Zealand Prime Minister John Key is confident that his meeting with Thai Prime Minister Yingluck Shinawatra earlier last week has managed to secure a solid commitment from the country to phase out trade tariffs early. Currently, trade tariffs are due to be phased out completely by 2020 however Mr Key is pushing for this to be brought forward as soon as possible. Mr Key said that he was confident that this quicker reduction could be achieved and that he was not overly concerned that the current political tensions in Thailand would derail the work. Mr Key said that during meetings, not much regarding the tensions was discussed, apart from noting the protests. Mr Key added that the majority of the food imported into Thailand from New Zealand went on feeding the 24 million tourists that visited the country every year. It was highlighted in the meeting that Ms Yingluck was receptive to the increasing New Zealand beef market in the country and that tariff level reviews would be undertaken over the next few years.

**Chinese 'still wary of formula from New Zealand'** [25 November/ NZX Agri News Group] Suguo Wu, the owner of New Zealand Goldmax Health - the Chinese formula company - has indicated that many Chinese parents still do not believe that New Zealand formula is safe. Mr Wu was in Dunedin earlier this month for a global food-safety conference and his advice was for New Zealand to put as much effort as possible into restoring its food safety reputation. He added that the initial reporting of Fonterra's botulism scare cost his company considerably as consumers deserted New Zealand-sourced brands. According to Mr Wu, official reassurances from Fonterra and the New Zealand Government were not reported on widely in China. This has resulted in consumers remaining very wary about New Zealand dairy products. Jan Carey, of the Infant Nutrition Council, which represents New Zealand and Australian infant formula exporters to China, said that she acknowledged China's concerns about the proliferation of foreign brands.

**Thai-European FTA 'will end the agribusiness monopoly'** [26 November/ Bangkok Post] Anata Dalodom is the President of the Horticultural Science Society in Thailand, and he has said that the proposed free-trade agreement (FTA) between Thailand and the European Union is likely to bring an end to the country's relatively monopolised agribusiness sector. Mr Dalodom said that liberalisation under the FTA would enable countries in the EU to bring new technology to the country and raise competition in an area that faces large monopolisation problems. Recent reports indicate that the FTA will liberalise investments in non-service sectors such as agriculture, forestry, fisheries, mining and manufacturing. Research Director at the Thailand Development Research Institute, Viroj Na Ranong, said that higher competition will benefit consumers and farmers with more choices, variety in service lines and country selection.

### Economics and Trade

**Early tariff cuts put a cherry on top of Christmas** [22 November/ Radio New Zealand Rural] Positive signs have emerged from recent tariff talks with Taiwan, with reductions set out in the free trade agreement being committed to earlier than expected. According to Simon Hegarty, Chief Executive of Horticulture Export Authority, the tariffs on some highly exported fruit and vegetables to Taiwan will either be removed or be significantly reduced by 1 December. This is very good timing with the start of our export season just around the corner, starting with the cherry market. The start of December will show the 20% tariff on apples and 7.4% tariff on cherries completely taken off, this is good news as 40% of exported cherries are sent to Taiwan. Kiwifruit's tariff of 20% will start to decline over the next 3 years and will be gone by end of 2016, the tariff of beef will be gone by 2015 and the lamb tariff by 2017. The sheep and beef sector will be pleased with this result as New Zealand exports \$208 million of beef and lamb and pays \$18 million in tariffs on top of that.

**NZ's economy making serious traction** [26 November/ Business Day] Senior Economist for BNZ Doug Steel has highlighted growth in Waikato farm building consents as being a pointer to how the New Zealand economy is standing out from the global crowd. In the most recent period, building consents were valued at \$52 million, compared to \$34 million in the previous period. Mr Steel was speaking at a recent KPMG and BNZ rural update seminar in Hamilton and he indicated New Zealand's economy as standing out in a positive way from the global economy. He indicated the large demand shift from China for protein for its emerging middle-class as resulting in a large change in the percentage of New Zealand exports going to the country. On the flip-side New Zealand's largest volume of imports from China were computers with mobile phones being posted in second place. New Zealand also recently posted a trade surplus with China sending positive signals to the market.

### Farmers and producers

**Farmers right to be wary of borrowing** [20 November/ Business Day] A Westpac Senior Economist has said that softer international commodity prices and rising interest rates in the coming year means that farmers are wise to be cautious about borrowing. Economist Anne Boniface said that it was apparent that many farmers were prioritising debt reduction after this year's serious drought, with borrowers becoming increasingly wary of ongoing volatility in commodity prices. The Bank's forecast of softer commodity prices and higher interest rates is in line with these expectations, Ms Boniface said. Relatively high international dairy prices stabilised in the most recent Global Dairy Trade auction with the headline trade-weighted index nudging 0.1 per cent higher after falls in the last two online auctions. Westpac said that it was confident with its \$8.30 forecast for the 2013-2014 milk production season, however it continued to lower forecast dairy prices next year under the weight of increased global production. Ms Boniface said that the value of lending in the agricultural sector had also stepped up in the past two years.

**Farm Sales rising** [25 November/ Radio New Zealand Rural] According to the Real Estate Institute there has been strong growth in the prices of farms and the quantity of farm sales. The latest statistics show the medium farm price is up 23% to \$24,500 per hectare from last year's prices. The statistics also show 349 farms were sold for the last 3 months ending in October; this is 93 more than the same period last year. Over the last year 1,600 farms have been sold, the highest number in 4½ years, with dairy farms making up 10% of these sales.

**Synlait takeover offer extended** [26 November/ Business Day] A \$2.10 per share takeover bid has been extended by Chinese bidders Shanghai Pengxin and their Canterbury partners as they seek to take control of Synlait Farms. The bidders have received acceptance for 81.35 per cent of Synlait Farms shares since the offer was opened three weeks ago. Holding 31.17 per cent, forty-nine shareholders have agreed to the sell with the company's founders, John Penno, Juliet Maclean and Ben Dingle agreeing to sell under a "lockup agreement". The company's founders have a combined holding of 50.18 per cent. It was indicated that Penno and Maclean will use the proceeds from selling their Synlait shares to buy into SFL Holdings with their combined stake set to be 26 per cent.

**Five iwi buy biggest Hauraki Plains dairy farms** [26 November/ Radio New Zealand Rural] The Pouarua Dairy Complex in the Hauraki Plains has been bought by five Hauraki iwi. The dairy operation is the largest of its kind in the area with the Crown advancing the Hauraki Collective \$53 million to enable them to buy the farms as part of a Treaty of Waitangi settlement. A representative for the iwi said that the purchase was incredibly important for Hauraki Maori, given their socio-economic status, lack of employment opportunities, and extreme lack of similar land holdings. The farming complex is located near Ngatea and has about 5000 cows over 2200 hectares. A spokesperson for the group said that the farms will be supplying the Open Country Dairy company in Waharoa.

**Dairy farm employment conditions scrutinised** [26 November/ Business Day] Many dairy farmers throughout New Zealand have been put on notice to ensure that they comply with minimum required New Zealand employment rights. The Ministry of Business, Innovation and Employment is expected to continue its visits to farms around New Zealand, with scheduled visits planned for farms in the Waikato, Hawke's Bay and Taranaki. Labour Inspectorate Central Region Manager Kris Metcalf said that inspectors would be gathering information on the business practices of dairy farms and also researching the impacts of migrant labour. Mr Metcalf said that a main aspect of focus is the practice that averages out pay across a season, especially for those earning low salaries, as it is possible that many farms may likely be in breach the minimum wage rates set in legislation by following this approach.

**Moves to corporate-style farms carry risk, opportunity** [26 November/ 26 November] A leading academic has said that New Zealand farmers will encounter both opportunities and risks as they move from family-orientated farms to larger, more corporate style business operations. Waikato University's Professor of Economics Frank Scrimgeour told the Future Farming conference in Wellington that the number of farms is declining significantly through amalgamation. He said that the surviving businesses are becoming much larger and more corporate in style. Mr Scrimgeour also said that the single independent farming unit will no longer be the norm in New Zealand. He added that many decisions to amalgamate farms were likely to be driven by profitability incentives.

### Rural infrastructure

**Co-op happy with growth** [22 November/ Business Day] Ashburton farmer cooperative ATS has had turnover boosted from strong retail performance, with an increase of 4.5 per cent being recorded, raising the figure to \$232 million during the 2012-2013 season. Chief Executive of ATS Group Neal Shaw said that he was happy with the growth that existed in the competitive rural retail environment and challenging commodity markets for farmers. Mr Shaw said that the result was indicative of the solid and growing support that the organisation has from its members. Shareholder numbers increased to 2698 with average shareholder spending increasing \$2000 to \$85,000. The Group also reported an operating surplus of \$5.4 million, which was well up on last year's surplus of \$2.05 million. The surplus was linked with ATS's joint venture with Ravensdown as it launched the Ruralco charge card for shareholders of both cooperatives.

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Field Notes presents a summary of some of the media comment on the Agribusiness sector in the last week. The views expressed do not necessarily represent the views of KPMG but are summaries of the articles published.

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