

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

4 February 2015

Organisations referenced in this week's Field Notes include:

Africa Governance Initiative	KPMG
Alliance Group	Labour Party
ANZCO Foods	Lincoln University
Ballance Agri-Nutrients	Matipo Orchards
Bayleys	Ministry for Primary Industries
Blue River Dairy	Ministry of Business, Innovation and Employment
Blueriver Nutrition HK	Mountain River Venison
Callaghan Innovation	National Australia Bank
Canadian Government Public Sector Pension Investment Board	New Zealand Forest Certification Association
Canterbury Development Corporation	Opuha Water
Cumberland Dairy Farm	Overseas Investment Office
Dairy Goat Co-operative	Silver Fern Farms
Dairy NZ	Southern Pastures
Danone	Statistics New Zealand
Deer Industry New Zealand	Synlait Milk
Duncan and Co	Waihao Downs Irrigation
Federated Farmers	Warkworth A&P Show
Firstlight Foods	Wine Marlborough
Fonterra Co-operative Group	World Food Prize Foundation
Hastings District Court	Zhenfa New Energy
Kellogg Rural Leadership Programme	

This week's headlines

Forestry	Forestry certification alternative offered [28 January/ Radio New Zealand]
Water	First sod turned for new irrigation plan [2 February/ Business Day: NZ Farmer]
Dairy	Synlait cuts market milk price to \$4.40 kg/MS, ups capital spend [2 February/ National Business Review]
Red Meat	\$41m funding for meaty projects [30 January/ NZ Herald]
Agribusiness education	New trade chair funded by meat industry exec [28 January/ Radio New Zealand Rural]



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HOT OFF THE PRESS:
**KPMG AGRIBUSINESS
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Horticulture

Hawke's Bay orchard fined \$40,000 [January 28/ Business Day: NZ Farmer] Matipo Orchards in Hawke's Bay pleaded guilty to ten charges laid by the Ministry for Primary Industries under the Crimes Act for providing fraudulent documentation deliberately to the Ministry in 2009 and 2011 which resulted in non-complying apples being exported to Taiwan. The company was fined \$40,000 in Hastings District Court. The Ministry for Primary Industries central investigations manager, Steve Ham stressed the importance of the certification scheme in maintaining the country's premium markets and ensuring that New Zealand's international obligations are fulfilled. The Matipo Orchard is no longer approved to hold a packhouse registration for exportation of apples to Taiwan.

Kiwifruit businesses breach laws in Bay of Plenty [29 January/ NZ Herald] The Ministry of Business, Innovation and Employment regional labour inspectorate, Natalie Gardiner said that seven of the eight improvement notices that were issued after discovering 22 minimum employment standard breaches had now been complied with, with one still being assessed for compliance. The Government's employment watchdog has proceeded with enforcement action against eight employers in the Bay of Plenty Kiwifruit industry. Mrs Gardiner said that breaches will be subjected to compliance action, with potential penalties of up to \$10,000 for individuals and \$20,000 for companies.

Viticulture

Water crisis forcing early shutdown [30 January/ Business Day: NZ Farmer] A major water supply in Marlborough, which irrigates over 8,000 hectares south of Renwick is likely to be closed off on February 2, the earliest it has been shut down since 1973, highlighting the water crisis in the region. Approximately 110 properties, mostly vineyards will be cut off from the Wairau River supplied irrigation scheme. Although most vineyards have storage dams and wells, some are solely reliant on the irrigation scheme. Marlborough District Council hydrologist, Val Wadsworth said supply is also expected to be cut from Waihopai Class A next week. Wine Marlborough board chairman, Clive Jones said a lack of water could result in poor fruit quality.

Arable

Bumper canola crop a world beater [3 February/ Business Day: NZ Farmer] North Otago cropping farmer, Chris Dennison has set an unofficial new world record yield of 6.3 tonnes per hectare of canola production from a 10.2 hectare paddock of irrigated land on the Waitaki Plains, beating the previous unofficial record of 6.14 tonnes per hectare set by English farmer, Tim Lamyman in 2014.

Forestry

Forestry certification alternative offered [28 January/ Radio New Zealand] A new industry body, the New Zealand Forest Certification Association is to represent New Zealand in the largest international programme for verifying that forests are sustainably managed. New Zealand Forest Certification Association chair, Andrew McEwen said the Programme for Endorsement of Forest Certification had over 260 million hectares of certified forests. Despite over half of the New Zealand forests already being certified under an alternative Forest Stewardship Council scheme, Dr McEwen stressed the advantage of having the option of both schemes by saying that most of the country's markets around the Pacific, including China, the United States, Malaysia, Japan and Australia had recognised the Programme for Endorsement of Forest Certification scheme. Dr McEwen said the next stage was to establish an endorsed certification scheme for the Programme for Endorsement of Forest Certification.

Wool

Lamb wool price jumps to 3 ½ year high on increased demand [30 January/ The National Business Review] The price of New Zealand lamb wool in the North Island auction increased 30 cents to \$6.40 per kilogram, while the South Island auction price increased to \$6.25 per kilogram due to an increase in demand for the fibre used in clothing, driven by a decline in the New Zealand dollar. The price for 35 micron clean wool increased to \$5.05 per kilogram in the North Island and \$5.10 per kilogram in the South Island, with Merino wool not trading in the recent auction. According to Statistics New Zealand wool exports increased 6.7 percent to \$752 million in 2014.

Water

First sod turned for new irrigation plan [2 February/ Business Day: NZ Farmer] Work on the \$30 million Waihao Downs Irrigation scheme that is to provide water to 3,300 hectares of the country's most drought prone land has commenced. The new scheme will use six 500 kilowatt pumps to deliver water over the hills to the north of the Waitaki and into the Waihao valley through 6.5 kilometres of 900 millimetre pipes with a vertical lift of 130 metres. Waihao Downs Irrigation vice chairman, Jon Kirk said the scheme will not be subjected to shortages from dry conditions as it is supplied from the reliable Waitaki river. The scheme has consent to obtain 3.05 cumecs from the Waitaki river, but the initial phase will only take half of the consented amount.

Dairy

Fonterra cuts milk volume forecasts [29 January/ NZ Herald] Fonterra Co-operative Group said it has reduced its milk volume forecast for the 2014-15 season to 1,532 million kilograms of milksolids, which is 3.3 percent lower than the 1,584 million kilograms collected last season. The co-operative said it could meet all its current sales commitments but it expects to reduce the quantity of product offered on the GlobalDairyTrade auction. Fonterra Group Director Co-operative Affairs, Miles Hurrell said that daily milk production is 6.1 percent lower than the same time last season on a daily basis. Mr Hurrell said that in regions where pasture quality had declined significantly since mid-January, farmers were drying off cows early, with evidence of reduction in consumption of feed supplements.

Fonterra in \$11m cheese blunder [1 February/ Business Day: NZ Farmer] Fonterra Co-operative Group has failed to renew its United States import licences, with sources saying that the company forgot to complete the process to renew the license. The effect of the failure is likely to result in Fonterra's 2015 quota been allocated to overseas competitors. ASB economist, Nathan Penny valued New Zealand's total cheese exports to the United States at \$11 million per annum. Federated Farmers dairy industry group chairman, Andrew Hoggard expressed his frustration at the incident. Fonterra Director of Global Ingredients, Kelvin Wickham said that the co-operative could still sell products to the United States through commercial agreements with other New Zealand licence holders.

Fonterra, Danone to fight behind closed door [2 February/ NZ Herald] The Court of Appeal stayed the High Court proceedings between Fonterra and French food giant, Danone over the alleged breach of the Fair Trading Act and alleged claim of negligent misstatement until the final outcome of their arbitration proceedings Singapore. The arbitration proceedings are scheduled to take place in early 2016. The confidentiality of the arbitration proceedings will ensure that any outcomes from the interactions are kept out of the public arena. A key issue to be resolved is whether the co-operative's liability is limited to \$32 million. The High Court action is capable of being heard if necessary, once the arbitration has been concluded, with any costs to Danone from the stay of proceedings capable of being addressed through an appropriate order for interest, if the damages claims against Fonterra are successful.

Synlait cuts market milk price to \$4.40 kg/MS, ups capital spend [2 February/ National Business Review] Synlait Milk cut its forecast market milk price to \$4.40 per kilogram of milksolids for the 2014/15 season, from \$5.50 per kilogram of milksolids. Synlait highlighted the current oversupply of milk products caused by supply growth from major exporters, competitor pressure from Europe due to weak local currency, the Russian trade embargo and high inventory levels in China. Synlait said the dry weather should only have a minimal impact on its supply base, as most suppliers have irrigated farms. Synlait Chairman, Graeme Milne said it expects the majority of its higher value product sales to take place in the second half of the 2015 financial year, which will be reflected in the full year results, but it will result in interim results being substantially lower than the previous period. Synlait Managing Director, John Penno expects the price to strengthen in the medium term along with the rebalancing of supply and demand. He expects Chinese demand to pick up later in the year as excess stock levels deplete. Mr Penno said it expects to update the forecast market milk price towards the end of May 2015. Synlait said the company expects to increase contracted milk supply for the 2016 financial year, and is increasing the size of the third \$135 million dryer to 10.5 tonnes per hour (a 25 percent increase in volume capacity). The scope of the blending and consumer packaging facility commissioned in July has also been increased from 18,000 tonnes to 30,000 tonnes per annum.

Dairy sheep

Blue River sold to Chinese company [31 January/ The Southland Times] Chinese Blue River Nutrition HK has acquired Blue River Dairy's processing plant and brand in an investment deal that includes a \$40 million plus injection into the business. Blue River Nutrition HK said that there is likely to be an addition of a second drier, with up to \$40 million worth of new development. Blue River Nutrition HK will continue to process Blue River milk, with Blue River Dairy focusing on expanding farming and milk production operations. The sale is to open up distribution in China, with a Blue River Nutrition HK spokesman saying the combination of Blue River's expertise in sheep milk production and Blue River Nutrition HK's access in Asia will make the operation well placed to meet market demand. Chamber of Commerce Southland President and Legal Advisor to the sale, Sean Woodward said the sale should remedy the market access issues Blue River suffered in 2014.

Red meat

\$41m funding for meaty projects [30 January/ NZ Herald] Two projects aimed at developing the premium markets for New Zealand venison and lamb, Passion2Profit (\$16 million) and Targeting New Wealth with High Health (\$25) has won Government and industry co-funding under the Primary Growth Partnership. Targeting New Wealth with High Health is focusing on reaching existing and emerging markets with a new class of premium lamb products with improved health qualities. It is seeking to develop new production, processing and marketing techniques that could be implemented in other industries. Primary Industries Minister, Nathan Guy said Passion2Profit would allow New Zealand producers to supply premium chilled venison to both domestic and overseas markets, especially Europe. He said Targeting New Wealth with High Health would provide significant economic benefits by raising the value and profitability of New Zealand lamb products. The Primary Growth Partnership has 18 long term programmes with approximately \$720 million of co-investments.

Deer

New PGP programme to turn passion into profit [29 January/ Ministry for Primary Industries & Deer Industry New Zealand] Deer Industry New Zealand and the Ministry for Primary Industries announced that they will partner in a new \$16 million (\$7.4 million from the Primary Growth Partnership and \$8.6 from the Deer Industry New Zealand and its commercial partners), seven year Primary Growth Partnership programme called Passion2Profit. The programme is expected to deliver \$56 million in extra revenue per annum from the end of the programme and reverse the declining trend in the deer population. The next stage of the programme is for the Ministry and Deer Industry New Zealand to agree on a contract to formally commence the programme. Deer Industry New Zealand CEO, Dan Coup highlighted the two clear opportunities as branding venison as luxury red meat sold all year around in new markets and market segments and aiding farmers in adopting technology that will enable the delivery of venison that marketers seek, when it is needed. He said the programme is supported by approximately 95 percent of the New Zealand produced venison. Mr Coup said that Alliance Group, Silver Fern Farms, Firstlight Foods, Mountain River Venison and Duncan and Co support the concept of marketing venison under a single brand. The Ministry for Primary Industries Deputy Director General Partnerships and Programmes, Ben Dalton said Passion2Profit will foster collaboration within the red meat sector, as well as between venison marketers and processors, while increasing the uptake of new technology and on farm practices by producers.

Goat

Only three new suppliers for goat milk co-op [2 February/ Business Day: NZ Farmer] Infant formula exporter, Dairy Goat Co-operative is to only take three new dairy goat milk suppliers next season, making a total of 72 suppliers, following its 10 supplier addition last year. Dairy Goat Co-operative CEO, Tony Giles said it was developing new markets in Europe, with the former CEO Dave Stanley to head the new office in Barcelona, Spain. Mr Giles said the company is now entering a consolidation phase, with the focus being placed on business excellence and quality.

Environment and emissions

Rural details sparse in RMA plan [30 January/ NZ Farmers Weekly] Environment Minister, Nick Smith has proposed changes to the Resource Management Act, aimed at stimulating the housing development in key urban areas, such as Christchurch and Auckland. Farmers and local Government experts are uncertain as to the implications from the changes, with the changes most likely to affect the rural sector relating to property rights. Federated Farmers spokesman, Ian Mackenzie said there were other areas requiring changes that are yet to be addressed, with their major concern being the local authorities' relationship with landowners surrounding biodiversity and preservation. Mr Mackenzie said that the act needed to provide councils more guidance on their actions. He commended the possibility of national planning templates in the proposed changes. Labour Party agriculture spokesman, Damien O'Connor believed that the changes were in favour of property development, but did not show sufficient concern for its impact on ecological and amenity values that currently enjoy legislative protection under the Act, but highlighted that the purpose of the Act means this would always be an area of tension. He also agreed that the national planning template would provide a more consistent interpretation of the Act across the country. He said if the changes are targeted at facilitating easier subdivision of farmland, it will have a negative impact for New Zealand in the long term.

Farming clean streams [2 February/ Rural News Group] Ballance Agri-Nutrients has established a specialist team to help farmers comply with environmental regulations and consent requirements. Ballance Agri-Nutrient's new business extension services manager, Alastair Taylor said the new team will be a direct link between farmers and regional councils. He said the team will help farmers comply with local land and water plans.

Research and development

Lincoln plant to hurry foods to market [30 January/ Business Day] The Canterbury Development Corporation and Callaghan Innovation are providing \$5.7 million of joint funding over five years for a food testing and production plant in Christchurch that will allow local businesses to experiment and test new food substances. Canterbury Development Corporation CEO, Tom Hooper said the facility would allow Canterbury food and beverage companies to respond to consumer demands and global market opportunities. The plant is intended to increase speed to market, as well as allowing samples to be produced, which will support the production of high value goods. The facility is to be reassessed after five years, with the potential for businesses to be charged for its use. The plant is to be housed at Lincoln University and join ones in Auckland, Hamilton and Palmerston North.

Animal health

Experience, care help after ending of theileria subsidy [30 January/ Business Day: NZ Farmer] The Ministry for Primary Industries has ended the subsidy given for the PCR testing of suspected cattle for theileria ikeda. Dairy NZ veterinary policy advisor, Nita Harding said the Ministry would subsidise the testing in the South Island where the disease was non-endemic, and for farmers in special circumstances. Theileria is widespread throughout the Waikato and upper North Island, with the Ministry for Primary Industries' response update for December stating that the infected cattle numbers increased by 83 more reported cases in December 2014, bringing the total number of cases to 1,268. The report has classified the northern North Island, Waikato and King Country as a stable or an endemic area (where every animal is expected to become infected), with the region south to the Central Plateau, Taranaki, Manawatu, Wairarapa and the top of the South Island been classified as non-endemic and the rest of the country classified as a free area. Ms Harding said with the Waikato now being considered stable, the area is more predictable than other parts of the country with vets able to estimate what animals are likely to experience. The unstable areas included those where it was known that the disease was present, but was still spreading. These areas are not accurately predictable as to what might be experienced.

International

Farmers can grow China's solar power to help meet energy and food needs; Mark Godfrey says investors first need incentives to install panels on farms across the nation [28 January/ South China Morning Post] China is seeking to employ solar power to subsidise the modernisation of Chinese agriculture and aquaculture sectors. In accordance with the recent climate change agreement signed with the United States, China needs to add an estimated 1,000 gigawatts of carbon-neutral energy capacity to meet its obligation of capping carbon emissions by 2030. China is currently the highest installer of solar panels with panels being added to rooftops, along with building utility scale installers. China is implementing the roll out of solar panels through its growing agriculture sector, which will also provide greater income stability for farmers. The large scale fish farming taking place in China provides a significant amount of space for solar installations. Solar power installer, Zhenfa New Energy, in conjunction with the local Government has installed solar panels above ponds in new fish farms in Shaanxi, producing 1,100 megawatts of capacity which is not only able to power the local village but can also be sold to the local grid. China's National Energy Administration has taken on the regulation of solar integrated agriculture, while certain provinces are requiring all new solar installations to incorporate agriculture. The Government offers long term security through minimum feed-in tariffs generated from solar power, but with no national standards to regulating the installation of solar panel systems on farms. However, Regional Governments' inconsistent certifications and requirements are hindering the ability to achieve efficiencies and economies of scale.

'Natural capital' set to impact credit ratings [28 January/ The Australian Financial Review] Australia's biggest agribusiness lender, National Australia Bank is shifting its policies to put more emphasis on sustainability of farmers' business practices in credit assessments, with the bank saying it will include natural capital or environmental assets such as water, soil or forests in its lending policies and is raising the issue with farmer customers. National Australia Bank general manager of agribusiness, Khan Horne said that the concept of natural capital is likely to be included into its credit assessments. A paper by National Australia Bank, KPMG, the Melbourne Sustainable Society Institute and Flora and Fauna International stated that the decline of Australia's natural capital assets was a 'material risk' to the economy. NAB, along with Rabobank, Standard Chartered and Italy's UniCredit have endorsed the Natural Capital Declaration, which acknowledges these risks. Mr Horne said there was a clear link between farmers' environmental performance and their profitability. A NAB survey of 5,000 of the bank's farming customers in 2014 indicated that almost three quarters were changing their businesses in response to sustainability concerns.

Can dairy farming help solve the youth unemployment crisis in Malawi? [30 January/ The Guardian] Lecturer and entrepreneur from Malawi, Bettie Kawonga won a \$150,000 prize from Tony Blair's Africa Governance Initiative and the World Food Prize Foundation for the idea of encouraging underemployed young people to become dairy farmers with the concept of creating business incubation centres that will help young people to become successful dairy entrepreneurs. The idea is targeted at overcoming underemployment and low agricultural productivity in Malawi. Ms Kawonga says that smallholder dairy farming provides year around income, as opposed to seasonal employment opportunities available through crop farming. Additionally the product's higher nutritional and economic value supports nutrition security and poverty reduction. Kawonga's incubation centres will provide youth with leadership and technical skills in dairying and agribusiness management, loans and savings as well as business proposal writing. They will have access to business mentors and start-up capital from a grant created using part of the award money. Hindering her efforts are the three percent tax on milk introduced by the Government in 2014 and the severe flooding across the southern half of Malawi over the past week.

Agribusiness strategy

A&P shows must satisfy new public [2 February/ NZ Farmers Weekly] The 148th Warkworth A&P Show was held on January 24. Since the Warkworth A&P Show committee's decision to tell the public about its concerns over its survival, there has been strong support from local businesses and the public. The new major sponsor of the show is real estate agency, Bayleys in the North. In addition there are sponsors of individual sections. With a fast diminishing farming community and the growing urban population in the area, the show needed to stay relevant to the changing demographics. In recent years, the show has included Highland cattle and alpacas, with the addition of Maine Anjou this year. There was a further initiative with the introduction of the donkey section, which is to continue to be a regular part of the show next year. The show is also focusing on entertainment for families and children, including a magic show by the French circus performer, JP. Urban New Zealand is showing a greater interest in coming to the country, with the A&P shows having an opportunity to bridge the rural-urban divide, but with the need to adjust to the changing needs of the customer base.

Agribusiness education

New trade chair funded by meat industry exec [28 January/ Radio New Zealand Rural] ANZCO Foods founder and chairman, Sir Graeme Harrison is funding a new academic position at Lincoln University, a Professorial Chair in Global Value Chain and Trade. He anticipates the new position will provide leadership for local businesses on global trade. He said that in order to benefit from the increased access opportunities and the fast growing Southeast Asian markets and China, businesses must position themselves beyond the traditional transactional relationships, and venture towards partnerships. He said the funding would cover the full costs of the professorship for a number of years, with the right of renewal.

Rural course revamp reflects primary industry needs [2 February/ Rural New Group] The Kellogg Rural Leadership Programme at Lincoln University has introduced a new structure and new content, with the new structure including a shortened six month programme and a second course to start in June. The new structure has had 23 enrolments so far and includes three residential components and an industry based project. Kellogg Rural Leadership Programme general manager, Anne Hindson said that field trips are a new addition to the programme, where strategy and leadership are examined in the visited organisations. She said the programme participants are selected to ensure a varied cross section of sector, age, gender and geographical location, including a large group from the agribusiness sector such as bankers, consultants and vets working in rural communities. She said the course provides tools and knowledge necessary for success in the primary sector, and mentioned that it relies on support from industry and sponsors.

Economics and trade

Kiwi dollar tipped to keep falling [2 February/ NZ Herald] The New Zealand dollar may continue its decline this week, with a BusinessDesk survey of 12 currency traders and strategists saying that it may trade between 70 and 74.90 United States cents. The Reserve Bank Governor, Graeme Wheeler said future interest rate moves could fluctuate in either direction. CMC Markets chief market analyst, Ric Spooner said that the New Zealand dollar is unlikely to decline at the same rate as last week, while some traders maintain that the dollar will rise or remain neutral. New Zealand labour market data for the December quarter, which is to be released on 4th February is expected to hint at a robust economy.

Farmers and producers

More of NZ's farmland in foreign hands [31 January/ The Press] Three thousand hectares of Canterbury dairying land has been approved for foreign sale. The Overseas Investment Office statistics show that 26,405 hectares of New Zealand land was transferred to foreign ownership in December 2014, with a total of 65,954 hectares of land being purchased by foreigners for the year ended December 2014. Overseas Investment Office decisions for December showed that it had approved the purchase of 1945 hectares by Southern Pastures Limited Partnership, with Swedish, Luxembourg, German and New Zealand interests and 964 hectares by Canadian Government's Public Sector Pension Investment Board owned Cumberland Dairy Farm Ltd. Federated Farmers dairy industry group chairperson, Andrew Hoggard said the issue of foreign ownership was complex and needs to be considered on a case by case basis. He said the Federated Farmers' main concern was to ensure that total foreign ownership of the supply chain is prevented, which would ensure that the farms under foreign ownership still supplied a New Zealand owned dairy company. Some farmers want a more stringent approval processes and a cap on the land held by foreigners.

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Contact Us			
Auckland/ Audit Ian Proudfoot 09 367 5882 021 656 815 iproudfoot@kpmg.co.nz	Taxation Greg Knowles 09 367 5989 021 307 332 gknowles@kpmg.co.nz	Tauranga Robert Lee 07 571 1773 027 451 1035 relee@kpmg.co.nz	Wellington Graeme Edwards 04 816 4522 027 296 5050 gdedwards@kpmg.co.nz
Christchurch Andrew Hawkes 03 353 0093 027 508 0135 ahawkes@kpmg.co.nz	Financial Advisory Services Gary Ivory 09 367 5943 021 932 890 givory@kpmg.co.nz	Management Consulting Simon Hunter 09 367 5881 027489 9737 simonhunter@kpmg.co.nz	Hamilton/ Private Enterprise Hamish McDonald 07 858 6519 021 586 519 hamishmcdonald@kpmg.co.nz
Farm Enterprise North Island Roger Wilson 07 858 6520 027 281 9575 rogerwilson@kpmg.co.nz	Julia Jones 07 858 6553 027 524 8901 juliajones1@kpmg.co.nz	South Island Brent Love 03 683 1871 027 528 1537 blove@kpmg.co.nz	

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