



Ukraine's 2020 CEO Outlook: COVID-19 Special Edition

KPMG in Ukraine

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Foreword

The new normal

This is the third annual report prepared by KPMG Ukraine's team, based on the results of our survey of local business leaders. This year, we have prepared a special edition, dedicated to COVID-19 related issues. The pandemic has presented business leaders with unprecedented challenges, many of which change every day and which significantly affect the future of organisations, corporate strategies and the ability to achieve business goals, creating a 'new normal'.

The crisis caused by COVID-19 shook the confidence of business leaders in Ukraine. When it comes to their own businesses, executives are more confident about prospects for growth over the next three years. In part, this is because they have more control over the levers that determine growth.

I invite you to review the results of the survey and explore the changing priorities of Ukrainian business leaders, the key challenges and business opportunities offered up by the COVID-19 pandemic, and take the opportunity to learn their strategies to overcome the crisis and ensure further business growth. The structure of the survey is based on the questions from the global survey, KPMG 2020 CEO Outlook, which will allow you to compare global and Ukrainian trends.

On behalf of the KPMG team in Ukraine and KPMG International, I would like to sincerely thank all the leaders who participated in the survey for their insights into the most important issues of the day.

Andriy Tsybmal

Managing Partner
KPMG in Ukraine





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Key findings

Overall, three key themes emerged from this year's survey which we characterise as Purpose, Prosperity, and Priorities.

Purpose

In the midst of a health and humanitarian crisis, business leaders are focused on creating trusted, purposeful organisations.

● A renewed sense of purpose

In Ukraine, 74 percent of respondents noted a renewed focus on the strategic goals and purpose of their companies during the pandemic and this crystallised their approach to interaction with stakeholders. 70 percent of Ukrainian, and **79 percent of respondents around the world, say they have felt a stronger emotional connection to their organisation's purpose since the crisis began** and that they are even more inspired by strategic goals.

● From empathy to action

16 percent of respondents have had their health or the health of one of their family affected by COVID-19. Worldwide, 39 percent of respondents have had their health or the health of one of their family affected by COVID-19. 55 percent have changed their strategic response to the pandemic as a result.



Prosperity

As well as crisis response, business leaders are positioning their businesses for long-term growth and prosperity.

● Growing in adversity

Today, most business leaders in Ukraine (78 percent) say they are less confident now about prospects for long-term global economic growth than they were at the start of the year. However, globally just a third of respondents (32 percent) say they are less confident about prospects for long-term global economic growth than they were at the start of the year. **In Ukraine, 79 percent of business leaders are also less confident about prospects for long-term national economic growth than at the beginning of the year.**

● Accelerating digital growth

In Ukraine, **more than one third of respondents say the pandemic has accelerated digital transformation** with the biggest advances in digital operations (39 percent), and the creation of new digital business models and revenue flows (36 percent).

On a global scale, progress has been significantly more intense: **80 percent of respondents say that the pandemic has accelerated digital transformation**, with the biggest advance in digital operations where 30 percent of business leaders say that recent progress has put them years ahead of where they would have otherwise expected to be.

● The talent premium

In Ukraine, talent risk was identified as the number 4 threat to long-term growth. **However, 59 percent of business leaders say they prefer to invest in the development of human capital compared with technologies.**

On a global scale, with the onset of the crisis, talent risk moved up from 11th to top the list of threats to long-term growth.

Priorities

Business leaders are fostering further transformation to take advantage of the new opportunities and to be able to address the post-Covid challenges.

● Leaning to ESG (environmental, social and governance issues)

In Ukraine, 38 percent of respondents said they wanted to lock in climate change gains made as a result of the pandemic. 26 percent note their response to the pandemic caused a shift in focus to the social pillar of their ESG programme.

This indicator scores significantly higher on a global scale: **71 percent of business leaders say that they want to lock in climate change gains made as a result of the pandemic** and 63 percent talk of their shift in focus to the social component of their ESG programme.

● Future of work

88 percent of respondents in Ukraine, and 77 per-cent around the world, say they will continue to develop the digital cooperation and communications tools that were implemented as a consequence of the pandemic. 73 percent of global leaders, and 39 percent in Ukraine, are confident that remote working has widened their available talent pool.

● Customer-centric supply chain

Nationally, 43 percent of respondents say they have had to rethink their supply chain approach given the disruptive impact of the pandemic. Globally this figure is 67 percent. The change is driven by a desire to become more agile in response to changing customer needs.



Purpose

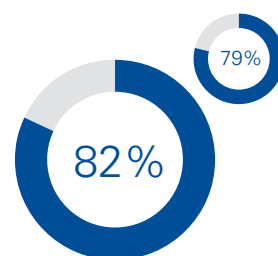
39 percent of respondents in Ukraine, and 79 percent around the world, have had to re-evaluate their company's purpose as a result of COVID-19 to better address the needs of their stakeholders.

The profound consequences of the pandemic on people's health and livelihoods — and its impact on the future of companies and industries — has presented business leaders with the greatest possible test of their leadership abilities and personal resilience, forcing them to revise their businesses' strategic goals.

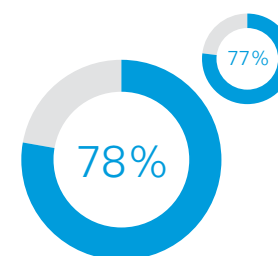
A renewed sense of purpose

During the pandemic, as Chart 1 shows, purpose helped business leaders understand what needed to be done to meet the needs of stakeholders during the crisis, from employees to communities.

Chart 1: In light of the pandemic, business leaders believe that a deeper understanding of their company's business purpose is more necessary and relevant than ever



The company's purpose provides a clear framework for making quick and effective decisions



The purpose of our company has helped us understand what we need to do to meet the needs of stakeholders: employees, communities, customers, partners and investors



I feel a stronger emotional connection to our company's purpose since the crisis began

Sources Ukraine's 2020 CEO Outlook: COVID-19 Special Edition
KPMG 2020 CEO Outlook: COVID-19 Special Edition



Oleh Popov
CEO
JSC SCM

“

Strategic investors, such as SCM, usually make assessments and investment decisions for at least 5 years into the future. Our businesses, which are largely industrial assets, invest heavily in modernisation and new capacity. Investments like this usually require long-term planning. For us, long-term benchmarks are the cornerstone of our activity.

Today, it is impossible to produce long-term forecasts and make investment decisions, which means we have to live and work purely in today's environment. This applies both to us as an investor and to our assets as a business. And for an investor, this is probably the most difficult thing — to invest in conditions of global uncertainty.

But we have learned to work efficiently in the new environment and the future is gradually becoming clear, particularly with regard to the impact of our decisions and the actions taken to implement them. Firstly, we have restructured operational processes with a focus on the health and safety of our employees. Where possible, we transferred them to remote working. Secondly, we have focused on the most efficient projects which provide a quick return.

At the same time, we have not stopped investing, even for a second, and it is this continuous investment in industrial businesses that has already formed the foundations for future growth of the economy as a whole. This way, big business creates the 'destination of the future' for all society, creating jobs and generating salaries for our people, and taxes for the state budget ”



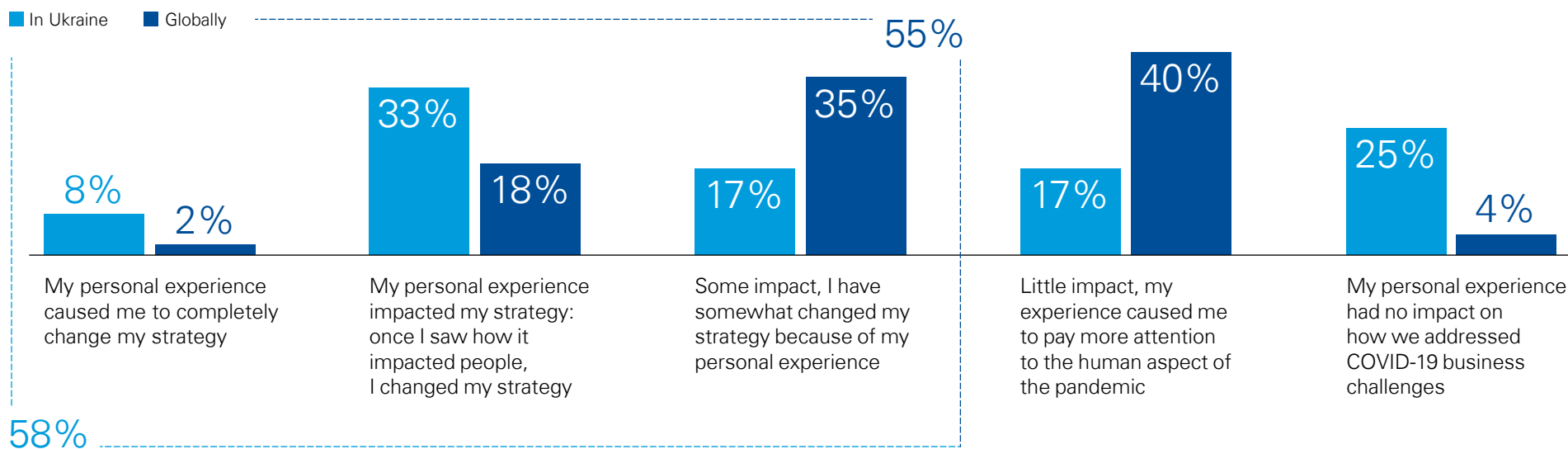
Purpose has become a central pillar for business leaders: 70 percent of respondents in Ukraine, and 77 percent around the world, said they felt a stronger emotional connection to their corporate purpose since the crisis began. At the same time, however, the massive disruptive impact of the pandemic has caused many business leaders to question whether their current purpose really meets the needs of stakeholders. In fact, 39 percent of business leaders in Ukraine, and 79 percent around the world, said that they have had to re-evaluate their purpose as a result of COVID-19.

From empathy to action

This increasingly personal and emotional connection to business purpose during the pandemic reflects the fact that business leaders face similar health and family challenges to their employees and communities. In fact, well over a third of business leaders (39 percent) around the world, and 16 percent in Ukraine, have had their health or the health of one of their family affected by COVID-19.

The pandemic will be remembered by many as a defining moment for this generation. Business leaders are clearly determined to learn from the pandemic and their own personal experience to recalibrate and make well-informed decisions. As Chart 2 shows, out of those who were personally affected by the health implications of the crisis just 25 percent of respondents in Ukraine and only 4 percent globally say that they made no change to their approach to the pandemic. In all, 58 percent in Ukraine, and 55 percent of worldwide respondents, changed their strategic response either completely or to some degree. Other business leaders, while not changing their strategy, did pay more attention to the human aspect of the pandemic.

Chart 2: How business leaders changed their response to the pandemic as a result of their health, or that of a member of their family, being affected



Sources Ukraine's 2020 CEO Outlook: COVID-19 Special Edition
KPMG 2020 CEO Outlook: COVID-19 Special Edition

Note: Total adds up to 99 percent due to rounding.

**Petro Mykhailyshyn**

CEO

Epicentr K

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Every crisis is both a challenge and an opportunity. Epicentr K has always followed this rule and even tried to boost its development during crises. Last year, we invested more than UAH 9.5 billion in the economy of the country, including in the construction of elevators, purchase of equipment, construction of new shopping centres and completion of a ceramic tile plant. COVID-2019 did not stop us, but did partially change our priorities. The coronavirus pandemic has changed the habits of Ukrainians and that is why a business that wants to remain relevant in the 'new reality' must very quickly adapt to new customer preferences.

It's true that during quarantine Ukrainians have become used to buying online, and there is no way back. The share of online sales in our business tripled during quarantine from 3 percent to 10 percent. This has significantly accelerated the introduction of various online services that will help improve the shopping experience in our omnichannel ecosystem. We are actively working to increase our own capacities, particularly with the construction of logistics complexes that will serve not only shopping centres but also online trade.

Import substitution remains our No.1 issue. With each crisis, the share of our imports has been decreasing. We started with 25 percent of imports, now it is 11 percent. Domestic manufacturers have been increasingly requesting that we give them samples of products [we buy] from China, saying they will make the same products cheaper. The crisis has only accelerated this process.

Today, everyone is talking about Western investment as a panacea for the Ukrainian economy. However, at the same time, there is a shortage of Ukrainian products in almost every segment. And I believe that the future of Ukraine is in the development of domestic production. We only need to muster up the courage to invest in creating domestic products ”



Prosperity

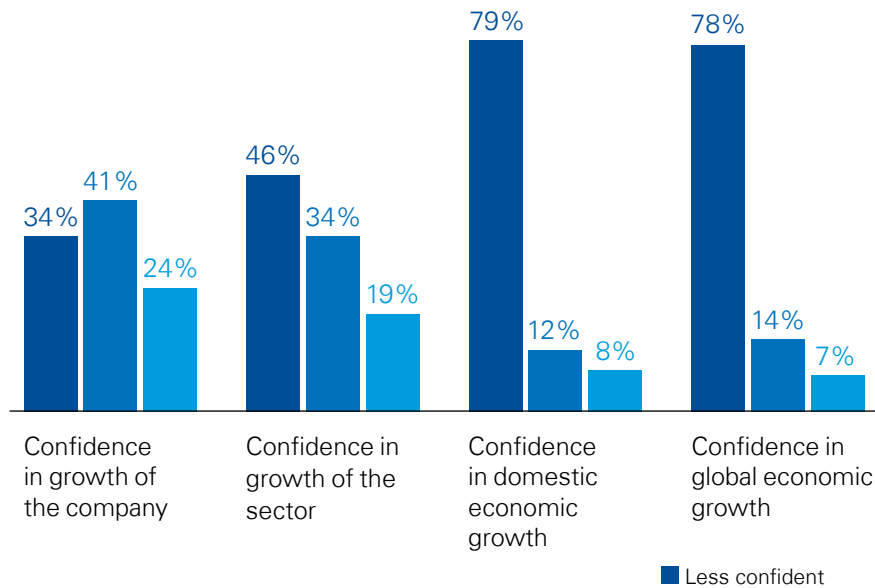
39 percent of business leaders in Ukraine, and 81 percent worldwide, believe that the pandemic has accelerated digitalisation of operations and the creation of a next-generation operating model

Prosperity under adverse circumstances

The survey shows that the COVID-19 crisis has shaken managers' confidence in the growth of the world economy. Today, the majority of business leaders in Ukraine (78 percent) and about one third of respondents around the world (32 percent) say that they are less confident in the prospects for global growth in the next three years. Similarly, 79 percent of Ukrainian business leaders are less confident in the prospects of long-term growth in the national economy than at the beginning of the year.

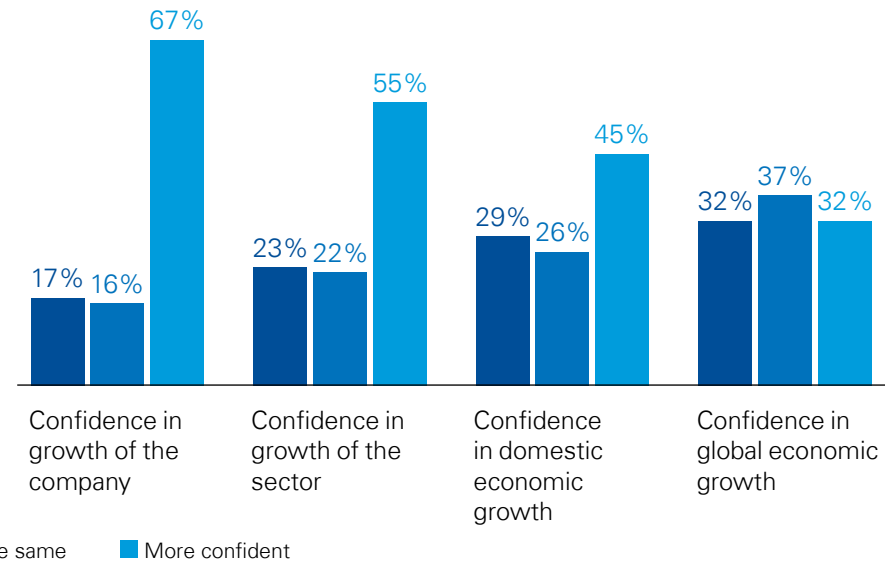
However, both in Ukraine and around the world, business leaders show more confidence in the future of their own companies: **just 34 percent of Ukrainian business leaders, and 17 percent around the world, say that they are less confident about the future of growth in their own business.** Business leaders are undoubtedly more confident about the prosperity of their companies as they have more control and access to the levers of influence in this area. In Ukraine, 72 percent of respondents expect their organisation's profits to grow to some extent over the next three years.

Chart 3: Confidence of business leaders in Ukraine in economic growth over the next 3-years



Source: Ukraine's 2020 CEO Outlook: COVID-19 Special Edition

Chart 4: Confidence of business leaders around the world in economic growth over the next 3-years



Source: KPMG 2020 CEO Outlook: COVID-19 Special Edition

Accelerating digital growth

Interestingly, business leaders are more confident in their own businesses' growth prospects over the coming 3 years. In part, this is because they have greater control over the levers that will determine this growth. One of the most critical levers they can control here, and a major growth driver, is digital acceleration. With commerce increasingly taking place online because of factors such as physical distancing, companies are having to rethink what customers want and how to deliver it. In Ukraine, over a third of respondents said that the pandemic had accelerated digital transformation with **the best results achieved in the area of operational digitalisation (39 percent), and design of new digital business models and revenue flows (36 percent)**. Respondents acknowledged that progress had accelerated during the pandemic.

“ Business leaders are more confident in the prosperity of their own companies as they have more control and access to the levers of influence ”

**Viktoria Mykhailo**

Chairman of the
Management Board
Alfa-Bank Ukraine

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I really like the quote from Lewis Carroll's Alice in Wonderland: “My dear, here we must run as fast as we can, just to stay in place. And if you wish to go anywhere you must run twice as fast as that.”

The pandemic has demonstrated to us how fragile our world is, for all its structured nature, and the seriousness of the decisions that are made every day by the heads of countries, businesses, heads of families and by each of us. Of course, the coronavirus has changed the priorities and behaviour of our customers as well. Along with the demand for easy-to-use technological solutions, our customers are increasingly demonstrating the need for empathy, an individual approach, and high-quality personal communication. The desire to anticipate and meet customer needs, as well as leaving a good impression — these are our competitive advantages in the banking sector, where it is difficult to stand out with a unique product these days. However, it is really important and necessary to be unique in our approach to working with clients”

Chart 5: Accelerated progress on digital customer experience in Ukraine



■ Progress has sharply accelerated, putting us years ahead of where we expected to be

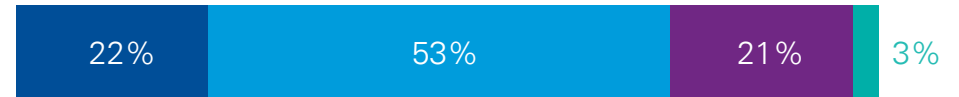
■ Progress has accelerated by a matter of months

■ Progress is the same as before the pandemic

■ Progress has lapsed

Source: Ukraine's CEO Outlook 2020: COVID-19 Special Edition

Chart 6: Accelerated progress on digital customer experience worldwide



Source: KPMG 2020 CEO Outlook: COVID-19 Special Edition

“ Companies need to understand whether COVID-19-related changes are simply the result of a temporary pandemic effect ”

We have found that 36 percent of managers in Ukraine, and 75 percent of managers worldwide, believe that the pandemic has accelerated the creation of uninterrupted digital customer service. Charts 5 and 6 illustrate the dynamics affecting digital technologies in all areas. Worldwide, progress has been even more intense: 80 percent of respondents report that the pandemic has accelerated digital transformation, the most successful of which has been the digitalisation of operations. 75 percent of respondents acknowledge that progress in this area has accelerated, with 22 percent going so far as to say that this progress has sharply accelerated putting them years ahead of where they expected to be.

When we asked leaders in Ukraine to name the biggest problem they faced amidst increasing digital transformation, it turned out to be a "lack of capital to accelerate progress" — with 22 percent of Ukrainian leaders reporting this to be an issue (compared with only 7 percent of respondents from elsewhere in the world). According to leaders around the world, the biggest challenge is to focus efforts and investment in areas that will become promising in the future, while avoiding areas that may only be experiencing a short-term positive response to the pandemic.

Therefore, the **biggest challenge in accelerating digital transformation, according to 33 percent of company executives around the world, is the "lack of understanding of future operational processes."** Companies need to understand whether COVID-19-related changes (such as changes in consumer behaviour) imply a continuing trend or if they are simply the result of a temporary pandemic effect. In Ukraine, 14 percent of managers acknowledged the "lack of understanding of future operational processes" as their main challenge.



Shifting risks

According to the respondents of our survey, the biggest threat to business in Ukraine in 2020 is regulatory risk. Last year, managers considered talent risk a priority. This risk remains on their radar but has shifted to fourth place.

As business leaders plan their path to long-term growth, they recognise that there have been new challenges to contend with during lockdown. A potential second wave of COVID-19 in their key markets would likely deepen these concerns, with further adverse consequences in terms of retaining key employees, hiring talent, and keeping their workforces productive.

Since the beginning of the pandemic, talent risk around the world has risen in the rankings and is now recognised as the greatest threat to business; overtaking disruption to the supply chain, the threat of a return to territorialism, and environmental climate change risk. In terms of major strategic threats, supply chain risk ranks second around the world and fifth in Ukraine. Leaders agree that building resilient, flexible supply chains — ones that can withstand shocks and offer the agility to pivot to new opportunities — will be critical for organisations to drive growth and build a competitive advantage post-COVID. Leaders are aware that increasing territorialism — which now ranks third in terms of risk — could make the transfer of goods both more difficult and more costly.

Chart 7: Changing threats to growth in Ukraine



Source: Ukraine's 2020 CEO Outlook: COVID-19 Special Edition

Chart 8: Changing threats to growth around the world



Source: KPMG 2020 CEO Outlook: COVID-19 Special Edition



Ievgen Osypov
CEO
Kernel

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Timely response and systematic work on risk management guarantee any company's financial stability, liquidity, and sustainable development in the face of any external conditions. All possible risks to any company can be identified and placed into 5 categories: strategic, operational, financial, regulatory, and risks in the area of sustainable development. We consider the reduced harvest in Ukraine in 2020 and low world prices for agricultural products to be major risks this financial year. We also see key operational risks in issues related to the management of our trading position and investment projects, fraud, and information security. And this is not an exhaustive list.

Nobody foresaw the coronavirus pandemic. Despite all the potential risks associated with it, our entities have implemented a set of preventative measures and kept working on a full-time basis without any staff reductions, salary cuts or placing our employees on unpaid leave. We were among the first businesses in the country to introduce a work-from-home model for employees not involved in continuous production. In addition, our company allocated UAH150 million for the emergency purchase of medical equipment, medicines, personal protective equipment and disinfectants for hospitals in the regions of Poltava and Kirovograd.

The company's management determines and evaluates the potential impact of risks and develops risk management measures to minimise them, which are then implemented systematically. For example, to neutralise the impact of low world prices for agricultural products, we hedge our grain prices. The sale of the new harvest begins only after a preliminary analysis of production costs, taking into account the margin in the entire value chain. No less important here is a detailed analysis of the world market for agricultural products.

A similar integrated approach is applied to each identified risk. We monitor and assess the situation on a regular basis, thus keeping the impact of risks to a minimum and ensure we meet the company's strategic goals ”



Human capital will be the key to both long-term growth and the development of an organisation capable of prospering in the new post-COVID reality.

Managing talent risk requires managers to focus on both their urgent needs and long-term perspectives. Business leaders around the world today are aware that human capital will be the key to both long-term growth and the development of an organisation capable of prospering in the new post-COVID reality.

A new digital generation of employees will be needed to meet the changing needs and behaviours of customers. As a result of increasingly automated production processes, advanced training and retraining will be crucial for continued employment and employee efficiency. People's willingness to constantly learn and their ability to adapt will become increasingly important. An extremely important step will be the development of new curricula and their virtual presentation.

The pandemic and the transition to remote working have demonstrated the efficiency of virtual interaction between people. Managers will have to make complex personnel decisions and prioritise their investments in either technology or talent.

With the development of analytics, artificial intelligence, process automation, and the Internet of Things, the companies of the future will be completely different: simplified, digital, and with a completely different workforce. There will be fewer employees but they will have new skills needed for this new working environment.

We found that today's business leaders are taking bold and ambitious steps towards digital transformation. **When we asked business leaders around the world which area they invest in more — technology or talent — 67 percent said they were investing more in new technologies, while only 33 percent said they were investing more in the further development of staff skills and capabilities.** In Ukraine, the distribution of this investment differs: 59 percent of business leaders surveyed said that they prefer to invest in the development of human capital rather than in the acquisition of new technologies.

“ A new digital generation of employees will be needed to meet the changing needs and behaviours of customers ”



Priorities

Commitment to ESG (environmental, social and governance issues)

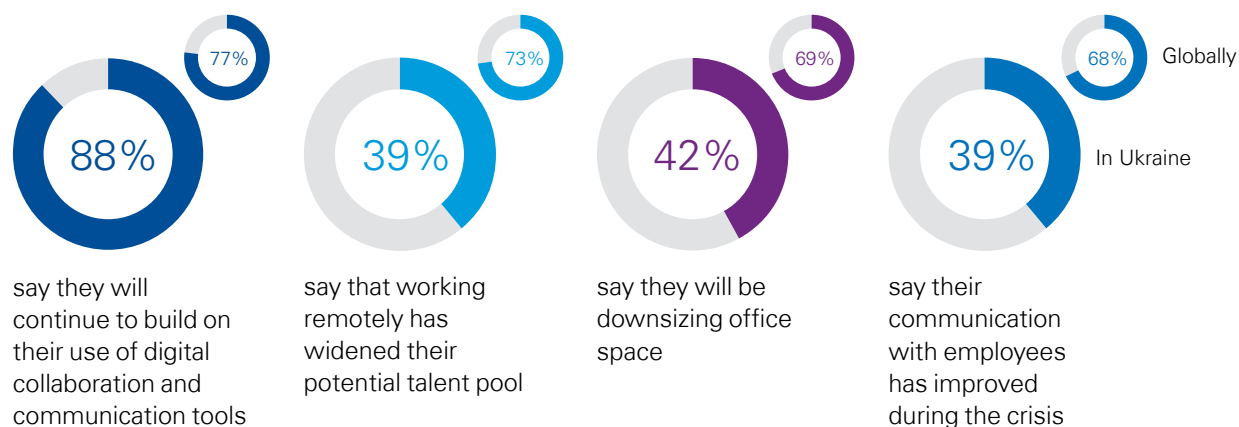
In Ukraine, 38 percent of respondents said that they wanted to continue to move towards combatting climate change and 26 percent of respondents said that the pandemic had shifted their focus to the social component of their ESG programme. Elsewhere in the world, these percentages were much higher: 71 percent of respondents said they want to consolidate progress in the fight against climate change and 63 percent said they were changing their focus to the social component of their ESG programme.

Work in the future

COVID-19 has effectively forced many organisations to radically experiment with how work is done. For many organisations, virtual working kicked in literally overnight.

Given how the pandemic is transforming the labour market, 88 percent of respondents in Ukraine and 77 percent of respondents from elsewhere in the world acknowledged that they would have to continue to develop the tools for digital cooperation and communication that they use today. Worldwide, 73 percent of respondents said that they were convinced that remote work had broadened their access to the talent pool. In Ukraine, just 39 percent of respondents agreed.

Chart 9: Business leaders see the pandemic as an opportunity to rethink the way they work and communicate



Sources Ukraine's 2020 CEO Outlook: COVID-19 Special Edition
KPMG 2020 CEO Outlook: COVID-19 Special Edition



Oleksandr Komarov

President
Kyivstar

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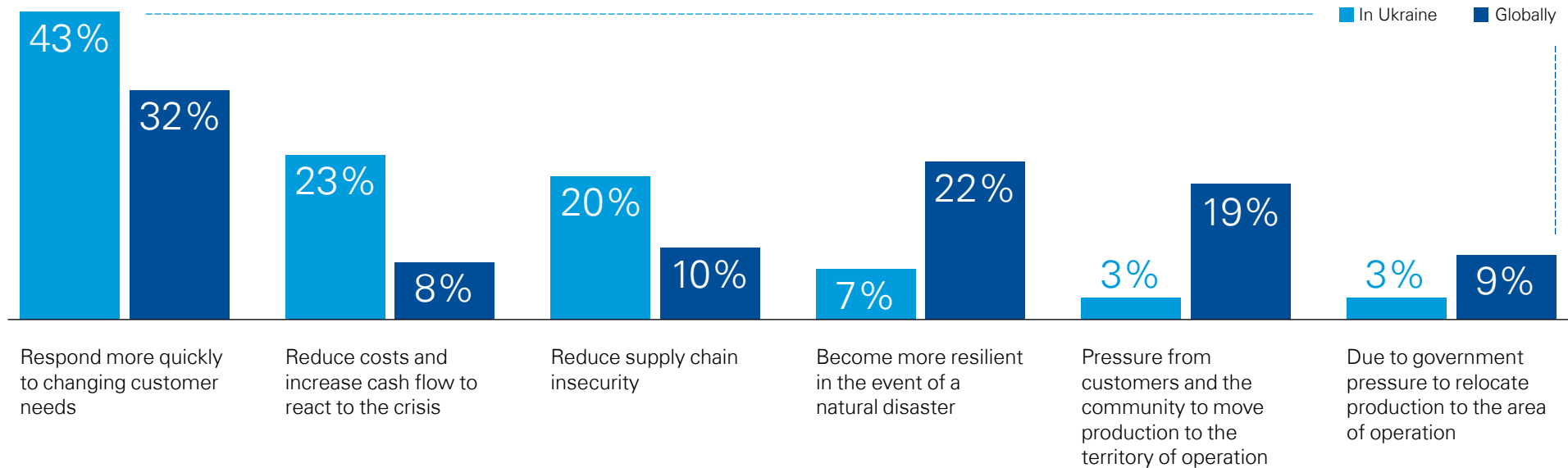
Business has not been quarantined. Especially when it comes to communication: not only have people and companies not stopped using our services but, on the contrary, the need for communication increases significantly in times of self-isolation and remote work. Whatever the circumstances, clients must be provided with first-class service because they are counting on us. This is our basic principle. Therefore, now more than ever, our company needs to remain super-fast, flexible, and resilient, and we must trust and support our team.

For us, this remains the number one task. Today, when more than 80 percent of our employees are working remotely, you value your team as never before; our shared values, support and trust. Therefore, the ability to listen to your employees as you would a client, to adapt to their needs and the requirements of this new reality — this is what helps companies to move forward.

Of course, no one was ready for the changes we have faced this year. What our company had managed to build in advance of this crisis, the way we set up processes and the speed with which we have been able to respond to challenges and adapt to these new conditions; all of this demonstrates our capacity to react to new challenges, the ongoing viability of our business and confidence in the future ”



Chart 10: Reasons why managers are rethinking supply chains



Sources: Ukraine's 2020 CEO Outlook: COVID-19 Special Edition
KPMG 2020 CEO Outlook: COVID-19 Special Edition

Note: Due to rounding, the total amount is 99 percent.

A customer-oriented supply chain

It is clear that supply chains have been severely affected, causing businesses to rethink their operating models: 43 percent of respondents in Ukraine, and 67 percent of respondents around the world, admit that they have had to rethink their supply chains. However, managers are using this opportunity to think about how to turn their supply chain into a competitive advantage in the conditions of our new reality. When managers in Ukraine and around the world were asked what prompted them to reassess their supply chain, they named the need to become more flexible in response to changing customer needs as the main reason.

“ The main reason to rethink supply chains is the need to become more flexible in response to changing customer needs ”



Conclusions

Business leaders in Ukraine named regulatory risk the biggest threat to company growth. In Ukraine, regulatory and operational risks have always been seen as one of the biggest threats to business. However, this is the first year that they have overtaken talent risk for the number one spot. The risk of a return to territorialism, which now ranks third, will also affect supply chains if the situation worsens.



In Ukraine, more than a third of respondents report that the pandemic had accelerated digital transformation. Managers are aware that increasing digitalisation is one of the main factors in the development of their organisations. Companies have had to rethink what customers want and how to implement it. However, a lack of capital and the lack of a coherent view of key technological trends are the biggest challenges when accelerating digital transformation.



The majority of company executives in Ukraine (78 percent) were less confident in the long-term growth prospects of the world economy than at the beginning of the year. A similar number (79 percent) were less confident in the long-term domestic growth prospects. However, this loss of confidence was not as dramatic when it comes to business leaders' views on the future of their own companies: only 34 percent of respondents in Ukraine said there is a decrease in confidence. Managers are undoubtedly more confident in the well-being of their companies because they now have more control and leverage. In Ukraine, 72 percent of respondents said they expected some increase in profits at their organisations over the next 3 years.



For business leaders, the pandemic has been the most serious test of their leadership skills this year, forcing them to reconsider their companies' strategic goals. Executives noted that a company's purpose served as a guide for quick and effective decision making and as a guarantee of trust for all stakeholders. Human capital will be the key to long-term growth. A new generation of employees will be needed to meet the changing needs and behaviours of customers. 59 percent of managers in Ukraine said that they preferred to invest in the development of human capital than in the acquisition of new technologies.





Methodology and acknowledgments

This report, Ukraine's 2020 CEO Outlook: COVID-19 Special Edition, presents the views of business leaders on entrepreneurship and economic growth in Ukraine. The survey offers an insight into how business leaders' thinking has changed as a result of the global pandemic.

The survey involved **74 managers working in various sectors of the economy**.

This survey was conducted in Ukraine from 15 July to 31 August, 2020. The structure of the survey was based on 16 questions adapted from the international survey, KPMG 2020 CEO Outlook. The above executives work across more than 10 key areas, including agriculture, asset management, the automotive industry, banking, retail, energy, transport, insurance, pharmaceuticals, manufacturing, and technology.

Of the 74 organisations' managers, 34 business leaders represent companies with revenues of up to EUR 8 million; 18 represent companies with revenues from 8 million to 40 million; and 22 represent companies with revenues of over EUR 40 million. We compared the data published in this report with the results of the KPMG 2020 CEO Outlook global report.

KPMG Ukraine would like to thank the leaders who took part in the survey, and particularly all those who shared their views with us:

Oleh Popov, CEO, JSC SCM

Petro Mykhailyshyn, CEO, Epicentr K

Viktoriya Mykhailo, Chairman of the Management Board, Alfa-Bank Ukraine

Ievgen Osypov, CEO, Kernel

Oleksandr Komarov, President, Kyivstar

Note: Due to rounding of numbers, in some cases the amount will not be 100 percent.

If you would like to talk to our experts about the opportunities and problems that have been addressed in this survey, we would be happy to discuss this in more detail.

Contact us: markets@kpmg.ua



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