



Value beyond compliance

**A new value creation approach for
mining companies, government, and
communities in Brazil**



Introduction to the idea of value beyond compliance

The mining industry has an extremely relevant role in society. Minerals are present in everyone's life, providing comfort, well-being and quality of life. There are no buildings, bridges, energy, or toothpaste – let alone electric cars – without minerals. Despite this, there is a growing feeling that what the industry delivers to society falls short compared to what it takes in the form of profits for its shareholders.

The notion that mining companies enrich themselves at the expense of society is highly widespread, while their economic and social contribution is questioned in the same proportion. This movement has been growing even though companies in the sector invest significant amounts of money in policies aimed at preserving the environment and developing local communities.

In fact, this is a global trend that does not only affect mining companies. Society is demanding that organizations from all size and sectors take a clear stand on matters that go far beyond their products or services. Ensuring that the entire chain of business respects society's values is just as important as presenting high-quality products or services. Issues such as transparency, purpose, and trust are increasingly present in the stakeholders' agendas. Profits are fundamental and will continue to be so.

But the financial return will increasingly depend on the response of organizations to issues that were seen as profit inhibitors until recently, but which are now known to potentialize tangible and intangible aspects for organizations, by reducing

fines, litigation, improving reputation and attracting investments. Companies that do not know how to adapt to these new times put their own survival at risk.

The mining sector, however, has some characteristics that make it more vulnerable to society's demands. There is an idea that mining companies make huge profits by exploiting resources that are "for everyone" in a way that harms the environment and, to make the situation even more complex, they do not return a fair share of that wealth to society.

Governments in several countries have tightened regulations for the sector, requiring a greater distribution of this wealth, whether in the form of projects for local communities or higher taxes. The sector has responded with social and environmental impact actions. However, these initiatives do not seem to have generated the desired effect and the "social license" of several companies for them to continue operating is at risk.

The sector's prospects tend to exert even higher pressure on this equation. As technology advances and operations are automated or performed remotely, the need for local labor is dramatically reduced. Considering that many social and operational licenses have the creation of jobs for local communities as a counterpart, mining companies will need to renegotiate their value to society.

In order to be successful in the future and fit into the logic of a sustainable and responsive market, mining companies need to deal with this scenario. On the one hand,

they continue to face a volatile market that requires operational efficiency and precise investments from organizations. On the other hand, they need to respond satisfactorily to questions from different stakeholders.

The mining industry still is quite conservative, sometimes averse to exposure and dialog. The main challenge is to gain visibility and establish a true connection with society, accepting a certain social control. The sector needs to adopt transparency, without which there is no way to thrive, neither in the present nor in the future.

Under this new paradigm, mining companies need to find ways to guarantee the continuity of business success not only from a financial point of view, but from the point of view of the “social license.” They must embrace the opportunity to lead this value beyond compliance agenda.

Achieving the common goals of social development and measuring actual socioeconomic impact depends on the approximation of these three players – governments, society, and companies.

In this report, we point out ways for mining organizations to deliver value beyond compliance. We suggest actions on the following topics:



Human rights



Relationship with communities



Diversity and inclusion



Taxation



Regulatory changes



Transparency

More than challenges, these themes present, above all, important opportunities for mining companies to promote closer ties between the sector and the society. In addition to being more profitable, they will become more responsible.



The value generated by going beyond compliance

It is not uncommon to see compliance as an obstacle to companies' businesses because it inhibits actions that generate revenue. This is, however, an outdated conception, as compliance leads to profit by guaranteeing credibility, reliability, security, and continuity of operations. By placing immediate profit as the only objective to be achieved, companies, in fact, distance themselves from it and risk the very survival of their businesses.

Generating positive impacts – and reducing negative impacts – on society is not just a social function for companies, it is a key element for the success of business. Mining companies that believe in value beyond compliance have a lot to gain:



+ Access to capital: large investors give preference to companies that adopt better governance and sustainable practices.



+ Reputation: companies with good sustainable development practices enjoy greater prestige with stakeholders.



+ Productivity: mining companies with good community relations face lower risk of stoppages due to protests. This has a positive impact on reducing costs and increasing hours worked.



+ Talent attraction: companies with a good reputation and that invest in diversity and innovation policies have an easier time in attracting and retaining talent, generating a direct impact on productivity and quality of results.



+ Market value: mining companies experiencing difficulties in obtaining licenses and that receive fines for failures in complying with regulations suffer from the loss of market value.



+ Agility in obtaining licenses and permits: when society trusts the sector, it creates fewer obstacles to its operation. In a sensitive industry such as mining, whose operation depends on obtaining several government licenses, conveying and honoring an image of credibility makes the process more agile.

The mining industry in Brazil

US\$ 38 billion
revenue in 2018

16.8% of industrial GDP

175 thousand
direct jobs and over 2 million indirect jobs

More than 2 billion
tons per year

Exports of
US\$33 billion

53% of Brazil's trade balance

Sources: Brazilian General Register of Employed and Unemployed (CAGED) / Brazilian Ministry of Industry, Foreign Trade and Services / Brazilian Institute of Geography and Statistics (IBGE) / Brazilian Mining Institute (IBRAM)



Respect and guarantee of human rights

The discussion of human rights is a relatively recent breakthrough in our society – and the demand for respect of them is even more recent. The adoption of the Universal Declaration of Human Rights by the United Nations (UN) took place on 10 December 1948. Initially, it was believed that guaranteeing the rights considered fundamental – namely housing, security and freedom – was the sole responsibility of governments.

Today, there is a consensus that companies share this responsibility. This stems from the increasing importance of the role of organizations, and their size, in society. One example of this is the fact that large companies represent 157 of the 200 largest economies in the world. Only 43 of the components on this list come from countries' GDP, according to [Global Justice Now](#).

In 2011, the UN published the [Guiding Principles on Business and Human Rights](#). The document states that companies – regardless of location, area of activity, and size – must respect human rights at all stages of their operations. This includes facing the negative impacts for which they are responsible. This occurs through the adoption of measures to mitigate and remedy the damages caused. The document states that it is up to companies to create or participate in reporting mechanisms that can be used by employees or the affected communities.

In this mission, companies must express their public commitment in a statement endorsed by their leaders. Also, in order to identify, prevent, mitigate, and remedy possible human rights violations caused in their activity, they must carry out due diligence processes in their operations and supply chain.

Following in this line, in late 2018, Brazil created the [National Guidelines on Business and Human Rights](#) (Decree 9,571/2018). It is legislation for voluntary implementation by companies and that establishes the obligations of government and companies in connection with business activities. The decree establishes that it is up to companies to monitor respect for human rights throughout the production chain, open a dialog channel with communities impacted by their business activities, respect sexual orientation and equal rights of the LGBT population, and respect the environment, among other points.

It is important to highlight that human rights do not translate as philanthropy and social projects. While such actions are commendable, this is not what is expected of organizations in dealing with human rights. This is a point that needs to be better understood. Respect for human rights must focus on the primary activity of companies, that is, their core business.

Mining companies have significant challenges in relation to this topic. They need to create safety policies for employees and the local population affected by production – and ensure quality of life for everyone who is affected by their activities.

Open and proactive relationship with communities

Good relationships with communities help to avoid socio-environmental conflicts – and this has a direct impact on results.

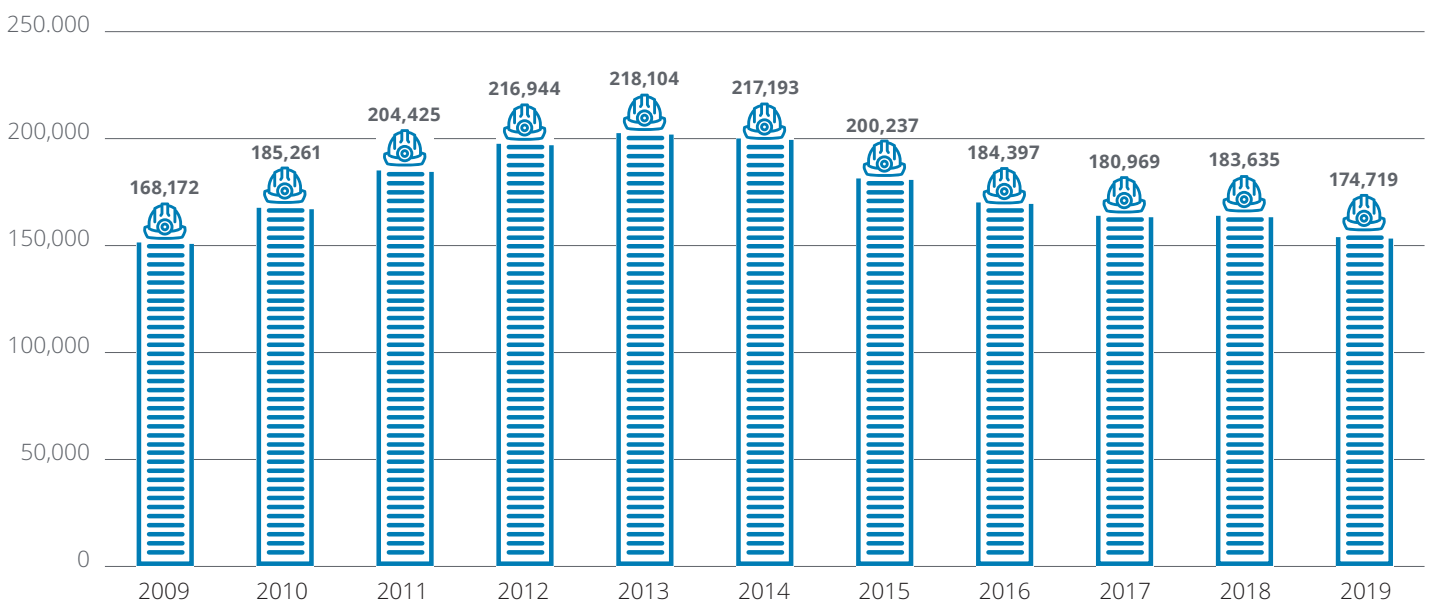
It is common for mining companies to operate in isolated areas, with little or no infrastructure, where populations live with reduced access to basic services such as health, education, sanitation, and jobs. Nevertheless, the arrival of a mining company is often subject to criticism and protests, despite the positive aspects it may bring to the local community, such as generation of jobs and wealth.

This situation stems in large part from a bad relationship with the local communities – or lack of any relationship at all. In general, in order to go beyond compliance, companies in the sector must proactively engage with communities,

working collaboratively with them and with governments, NGOs, among other stakeholders.

The sensitive point here is that a mining company, by developing an extractive activity, causes impacts on the environment – soil, water, and forests. There is also the risk of visual, noise, and environmental pollution. The situation becomes more sensitive when it occurs in the midst of traditional communities, such as riverside, quilombolas, and indigenous people – populations that identify themselves in the way they interact with the place where they live. The impact of mining activity on these communities cannot be ignored.

Jobs generated by the mining industry in Brazil



Sources: Ministry of Labor - CAGED Establishment, IBRAM 2020

Opening the dialog channel

Mining companies can minimize impacts to the local population by adopting a collaborative stance. The most basic and efficient way to do this is by establishing a direct communication channel. Through dialog and reporting, you can explain in a transparent way what impacts the extraction activity involves and that they will be addressed and mitigated responsibly. This is essential for miners to be accepted and to demonstrate their responsible actions before society, investors, and consumers, adding value for all stakeholders.

The second way to achieve this goal is showing that impacts are inevitable effects from an activity that brings significant benefits to society overall. The presence of a mining company is a driver of investments in infrastructure and quality of life, in addition to being a hub for generating jobs and progress.

The issue of job creation will continue to be crucial: companies should strive to, as far as possible, create job opportunities for the local community that can go beyond the mine's life cycle. Recruiting workers from other regions should be avoided as much as possible even if they have previous experience in the activity. When considering the value that mining companies can produce for communities, it makes more sense to train the local population so that its members participate not only in the operation but also develop skills aligned with the region's vocation.

Collaboration can also occur through the development and hiring of local suppliers. In addition to the positive effect on the region's economy, shortening the chain generates positive impacts on the environment by reducing carbon emissions from cargo transportation. If well planned, it can leave a long-lasting legacy for the community. They can take advantage of the installed infrastructure, such as ports, railways, and quality internet access, to bring new vocations to the local economy and bring education and health care, even if remotely, to areas where there is a huge shortage of physicians and teachers.

The investment of a large mining company in an isolated municipality, for example, can transform the region's reality. The company hires hundreds of workers, as well as suppliers, who will hire thousands of local workers. Each direct job in the sector generates another 13 in the production chain, according to the Brazilian Mining Institute. Therefore, once a mining company settles in an isolated area, the local labor force may benefit in a large scale by this job creation.

Good relationships with communities help to avoid socio-environmental conflicts – and this has a direct impact on results.

Integration with local communities is crucial; without their support there are no projects. The resources generated need to benefit future generations, but there is potential for much more. With creativity and joint planning, it is possible to permanently and

definitively transform the future of these communities. An example: 100 years ago, Sweden was one of the largest mining countries in the world. The country lived on mining, just as Minas Gerais does today. The main product of the economy was iron ore. Today the ore has run out, but Sweden remains one of the countries with the greatest mining technology capacity in the world. The country trains engineers, geologists and the technology equipment industry because it knew how to use the resources to transform itself and benefit future generations.

There are several approaches being discussed for regional development and they all involve the empowerment of society and the alignment of public policies. The challenge for organizations in the sector is to operate in such a way so to be recognized by society as a sustainable industry.



Defending and promoting diversity and inclusion

One of the behaviors most demanded by society is the promotion of diversity and inclusion. Mining companies are still struggling to create a more inclusive and diverse workforce. They face the challenge of overcoming consolidated biases from a period when the sector depended on physical work. Technological breakthroughs, such as the use of robots, machines and conveyors, have created conditions that allow the integration of the most qualified professionals, regardless of gender, ethnicity, age, or physical limitations.

Companies need to create programs to establish a truly inclusive work environment. The first bottleneck requires eliminating barriers in the hiring process for new professionals and reviewing outdated concepts and ways of working to allow diversity. Recruiters must be attentive in composing heterogeneous teams, leaving unconscious bias behind, which may lead professionals to choosing someone with characteristics similar to their own.

Another relevant challenge is in the promotion processes. Companies must adopt criteria that support equality and encourage the participation of professionals with different profiles.

In addition to hiring and promoting, mining companies need to promote a work environment that allows the participation of diverse professionals. Take the physical obstacles, for instance, which prevent the work of professionals with any kind of limited dexterity. Another is inflexible working hours, which make it difficult, for example, to retain working mothers. These and other obstacles can be eliminated when there is openness to challenge old concepts and structures to promote open dialog with employees. Listening and being open to changes and paradigm shifts can bring extraordinary results.

In this context, doing nothing is not an option. For policies to promote diversity to be effective, full executive engagement is required. Good examples show that companies whose leaders actively participate in equality and anti-discrimination initiatives are successful in creating environments with diversity.

Advantages of diversity

Mining company leaders need to recognize the value of diversity. Studies show that creating a diverse environment has numerous advantages. In a world that envisages this behavior as increasingly important, investing in diversity improves brand perception by different audiences. But the advantages are not limited to improved reputation.

The increase in diversity contributes to a more fluid organizational culture, with better business results. Companies that invest in diversity enhance the chances of making more assertive decisions, in addition to driving innovation.

A [Deloitte survey](#) with 245 global companies¹ showed that more inclusive companies are six times more likely to be innovative than less diverse ones. These organizations are also six times more likely to accelerate changes and twice as likely to meet or exceed financial goals.

Promoting diversity enables an income increase for groups that were disadvantaged until recently. Another advantage: the increase in diversity is directly linked to increased safety in operations and operational efficiency. Many mining companies report having reduced maintenance and fuel costs after women started operating heavy machinery and off-road trucks, for example.

Using taxes to generate – and distribute – wealth

The purpose of any tax system is collecting taxes. However, the big question here is how can a tax policy assist in the development of the country's mineral resources and in generating wealth for society?

The mining activity generates billions of reais in taxes. In 2018, the tax collection through Financial Compensation for the Exploration of Mineral Resources (CFEM), one of the taxes levied on mining activity, better known as royalties, totaled R\$3 billion, an increase of 65% in comparison with the amount collected in the previous year. They are an important resource for the development of various activities essential to citizens.

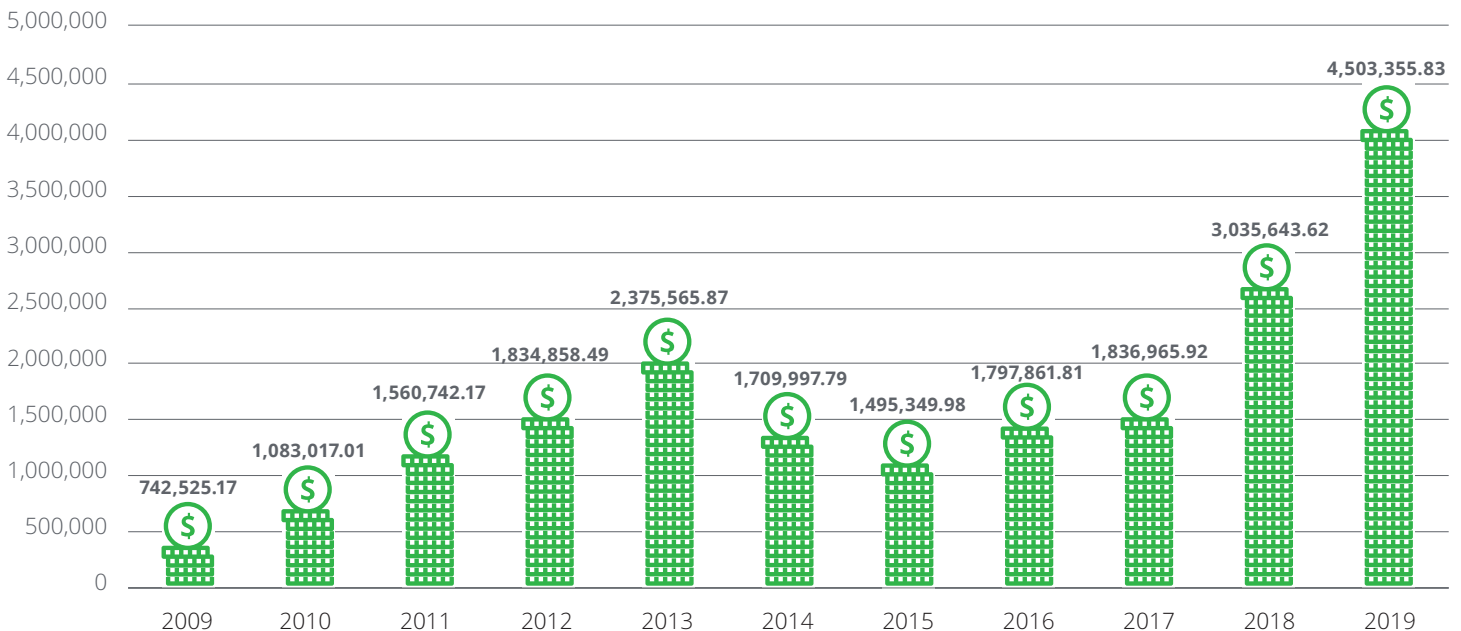
The mining activity has its peculiarities that need to be taken into account when analyzing a tax policy for the sector. Mining projects require quite high initial investments with expected long-term returns, given the entire mine exploration and development process. Moreover, many projects are not carried out for technical or economic reasons, thus decreasing the sector's success rate.

The development of a tax policy for mining activity requires cooperation between government and companies in the sector. The government, holder of these natural resources, expects to receive financial

compensation for the exploitation of these non-renewable resources. On the other hand, mining companies seek an economic return that is compatible with the investments and technical knowledge applied in the ore extraction. In short, the tax system needs to strike a balance among these interests and needs.

Countries that are rich in mineral resources compete with each other to attract investments and develop their natural resources. In this competition for capital, mining companies evaluate the viability of several mineral projects, taking into account, among others, geological, political and

Collection of CFEM¹ in Brazil (In billions of reais)



¹Financial Compensation for the Exploration of Mineral Resources

Sources: Brazilian National mining Agency (ANM), Brazilian Mining Institute (IBRAM)

economic factors, including taxation on the operation. In this sense, a poorly designed tax system can significantly reduce the attractiveness of a country's mineral sector.

Some important aspects must be considered when developing a tax policy capable of attracting investments to the mineral sector and, at the same time, generating wealth for society:



Competitiveness: The tax burden on mineral activity must be compatible with the technical, economic and political risks

and challenges existing in the country, also taking into account the global competition for investments. In this sense, one should evaluate the tax burden in its entirety, that is, all taxes to be paid on mining activity as well as other financial contributions required from mining companies, such as investments in infrastructure in communities impacted by the sector.

The timing of tax levy during the various phases of the mineral activity should also be considered, aiming at a balance between the immediate government's need for cash for use in infrastructure, health, and other priority projects, and the economic viability of the project that is negatively impacted when taxes are required before mining companies recover their investments.



Clear rules, stability: being an activity that requires significant investments and has long-term return on investments, it is necessary to create an environment of stability with clear rules for the calculation and payment of taxes. Countries with complex tax systems and uncertainties regarding construction of laws have a harder time attracting investments. Moreover, it is expected that any changes in tax burden will not be made unilaterally; the debate between government, mining companies and other agents in the sector about changes in the tax system is extremely important.



Compensate the future generations: mining activity consists of exploiting a non-renewable natural resource. Thus, the collection of taxes on mineral activity should be used for investments that lead to improvement in the quality of life of those living nearby producing regions as well as future generations. This can be done through investments in infrastructure and social spending, such as on health and education. There must also be long-term planning in the management of these resources in order to structure municipalities for the future without mining – something that is not always respected by public administrators due to the immediate demands or a lack of long-term vision.



Regional development: mining activity occurs, almost always, in regions far from large urban centers, lacking infrastructure and with reduced economic activity. The arrival of a mining company creates jobs and promotes investments with the potential to transform the reality of thousands of people. In this way, the use of tax exemptions and incentives or requirements in the hiring of local labor can be a tool to facilitate regional development. An alternative is conditioning potential tax benefits in exchange for investments in local infrastructure, job creation and professional training for communities.



Environmental impact: the tax system can also play an important role in preserving the environment. In this sense, tax policies can be developed in order to encourage mining companies to invest in technologies capable of reducing the impacts of mining activity on the environment as well as allocating resources for the activities of remedying the affected regions.

Thus, the tax system can and should be seen as an important instrument for the development of a country's mineral resources and the distribution of its wealth to society. Consideration should be given to a careful analysis of the role of taxes in mineral activity as well as a broad debate among the various agents of the sector (government, mining companies and society) in order to offer an environment of stability and stimulate a sustainable mining activity.



Transparency – measuring and communicating impacts and social responsibility

Minerals are present in everyone’s daily lives and are fundamental to their well-being and quality of life. The trend is for their presence to increase with the adoption of new technologies. Efforts towards a more sustainable lifestyle will inexorably lead to a rise in the use of minerals. The development of electric and autonomous vehicles, for example, depends on this use, in a movement that receives support from citizens around the world. To meet this demand for clean, renewable energy, more minerals will be needed.

However, this is a paradoxical situation: the use of minerals is supported by the population, but the negative impacts of their exploration are subject to criticism and attacks. How can one change this situation? Adopting an open and broad dialog with society.

The mining industry needs to become more transparent. Submitting itself to society’s controls is beneficial. This can be done via forums on transparency, access to information, or independent audits. In return, industries gain the trust of the population and regulators.

Companies can also communicate better on how they deliver value to society. Showing the importance of minerals in people’s lives is one way of doing this. Another alternative is to present the amount of paid taxes. Finally, and most importantly, it is necessary to highlight the success stories of the industry transforming a region by generating jobs and development.

Fine-tuning

It is necessary to set the right tone for this dialog. Companies are structured to talk mainly with a single stakeholder: the shareholder. For an audience used to focusing on profits, the value can be perceived in monetary terms. Measures such as social return on investment are useful in communicating with shareholders, as they are made in financial terms.

Other audiences of interest perceive the value differently. For them, the expected return on a given project is less important. It is necessary to identify an effective way to communicate with communities or non-governmental organizations, as they perceive the value generated by a company in a different way. It is important to note that each place has its own characteristics – and the needs of the communities are not always the same. To generate value, it is necessary to understand the demands and expectations of each of them.

Impacts and objectives per stakeholder

Stakeholder	Desired objectives	Impact examples
Shareholders	Maximize profit Maintain operating license	Profit margin Present net value Intellectual property rights Return on investment
Governments (local, state and federal)	Maximize government return Provide infrastructure and services	Transformation and industrialization Job creation Political stability
Community members and staff	Share in the wealth generated by the mine Growth and social development	Financial security Physical security Personal satisfaction Social work networks

Anticipating regulatory changes

One of the biggest challenges faced by companies operating in Brazil is the regulatory environment. Instead of seeing regulation as a burden, however, mining companies can minimize negative impacts and even create an opportunity to generate value. This can be achieved on several fronts.

In a scenario where mining companies, in Brazil and other countries, are under pressure from different stakeholders to adopt best practices and generate value, it is not enough that they comply with ruling regulations. More and more companies in the sector are being scrutinized by the population, including when pressure is exerted in the form of protests that may temporarily paralyze activities. The situation becomes more evident after accidents, when governments often respond by enacting more stringent regulations in an effort to prevent future disasters.

In various situations, companies can anticipate regulations and incorporate best practices on their own. An example is the adoption by Brazilian companies of the “Towards Sustainable Mining” program, developed by the Mining Association of Canada. TSM is a protocol that helps and encourages Canadian companies to adopt good practices regarding various issues particular to the mining industry, such as relationships with local communities, safety practices for employees, energy management, and environmental conservation, among others.

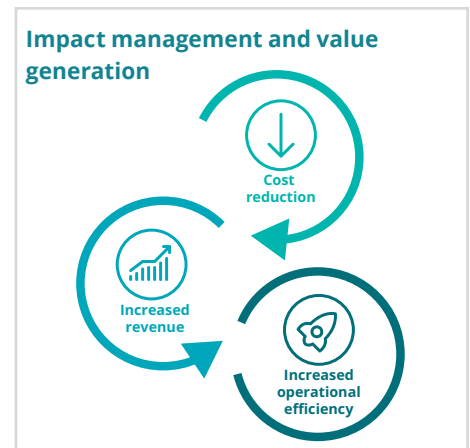
The initiative is supported by the Brazilian Mining Institute (IBRAM), which signed a protocol with Canadians in September 2019 to implement the program in Brazil within two years.

It is important to note that the adherence by companies could occur based on public legislation. When it is done voluntarily by companies, the value generated is greater. The adoption of good practices is fundamental for the consolidation of a good reputation for organizations in the sector.

Governance and transparency forums and independent and public external audits are other possible practices in the search for transparency and better management of regulatory demand.

The environmental area is another one that demands increasing attention, especially in the waste treatment and disposal and reduction of carbon emissions. Global companies are starting to do this and there are economic gains in these investments. In July 2019, BHP announced that it intends to become the first global mining company to set public targets for the reduction of greenhouse gas emissions by BHP itself and its customers.

If Brazilian mining companies are genuinely concerned with the issues, they need to publicly commit themselves, which, in turn, affects the lives of the entire population. The industry has recently experienced serious accidents that have affected the sector’s reputation and is now under pressure to take a qualitative leap to increase the safety of its operations, be more transparent, and interact with society. This is necessary to build a new future.



Collaboration to create new rules

The mining sector has been under scrutiny by lawmakers, who are discussing the creation of new sector rules. The discussion should continue throughout 2020 in the Brazilian Congress, with several projects affecting mining activity. The main risks are:

Environmental licensing for mining:

there are two bills in the House of Representatives to create new environmental licensing rules for mining activities. In the Senate, there is a proposed bill that, among other things, prohibits environmental licensing for tailings dams.

National dam safety policy: a bill that imposes tougher rules for dam safety and modifies the Mining Code.

Responsibility for natural disasters:

there are several proposals in the House of Representatives and Senate to change accountability for environmental crimes.

Adjustment of tax rates: a proposal is being considered by the Senate to create a new special participation tax levied at the rate of 40%. The House of Representatives in turn is considering a bill that alters CFEM rates and creates an emergency fund to support actions upon environmental disasters caused by mining activities.

Revocation of tax exemptions: proposal to revoke the tax exemption applicable to mining activity for export purposes.

Disaster prevention and emergency actions: creates the National Policy for the Rights of Populations Affected by Dams.

The mining companies, through trade associations, cannot abstain from this debate. The laws must be beneficial to all stakeholders and also to organizations. Rules that support fair competition and guarantee the preservation of rights and the environment are beneficial to the sector. Since the adoption of best practices involves investments in several areas, companies that comply with the rules, whether labor, tax, or environmental, suffer from unfair competition from those that operate not subject to any regulation.

Proactive action in collaboration with governments and legislators, if done in a harmonious manner, will bring benefits to all involved.

A holistic approach

In the end, issues such as work safety, care for the environment, and relations with communities must be addressed as multiple dimensions of the same challenge:

sustainability in its broadest sense. It is about leaving a reactive approach regarding regulatory management behind in order to adopt a more proactive line of action. The ultimate purpose is to create a “regulatory dividend” that can be calculated and demonstrated to increase the company’s value.

Companies that prove themselves to be early adopters when it comes to regulations – and that anticipate the compliance to many requirements – show their preoccupation in establishing good corporate management while answering an increasingly stronger social demand. This positioning also results in a significant reduction of expenses related to production interruptions, license delays, regulatory questioning, and security issues.

To achieve this goal, companies must create a holistic strategy, considering different rules and laws to guide their activities, and with multidisciplinary teams that meet periodically to outline necessary plans and actions. This strategy streamlines compliance with rules and attainment of goals, reducing costs and increasing efficiency.

Besides addressing regulatory matters, this approach brings extremely important benefits to organizations, for it strengthens the relationship with communities, protects their reputation and image, and guarantees business continuity itself. It also represents a huge opportunity for mining companies to take control of the social narrative and demonstrate their importance to all stakeholders.

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