



cutting through complexity™

KPMG's True Value Methodology

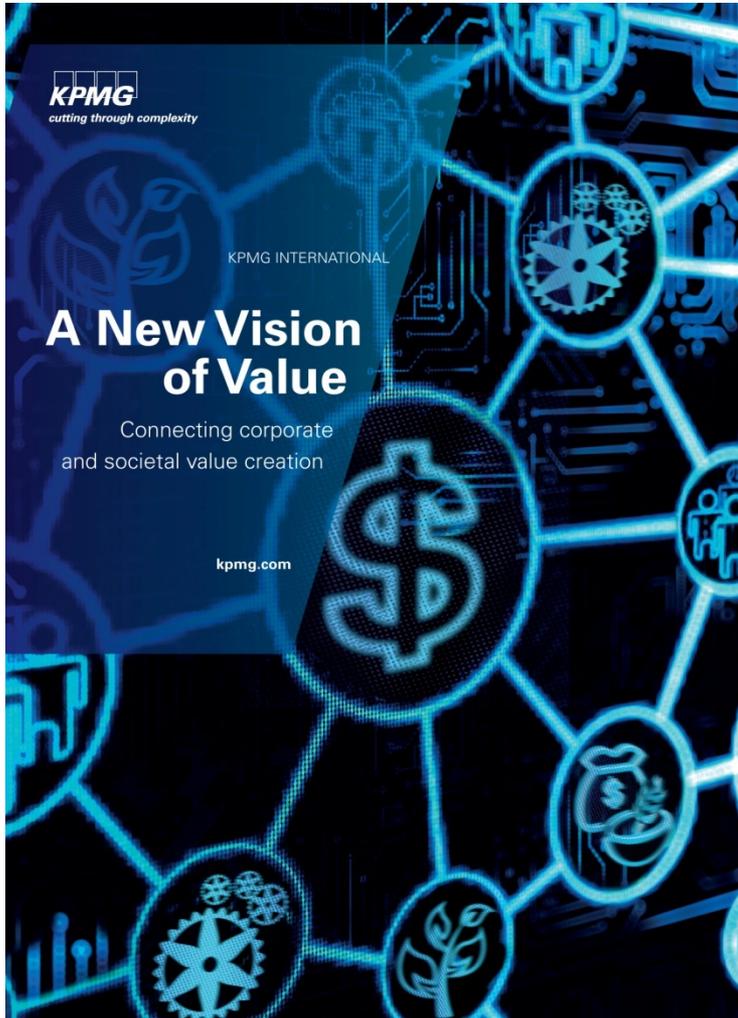
Core business solution for sustainable development

19 May 2016



Building Corporate and Societal Value

KPMG's True Value Methodology



A New Vision of Value (September 2014)

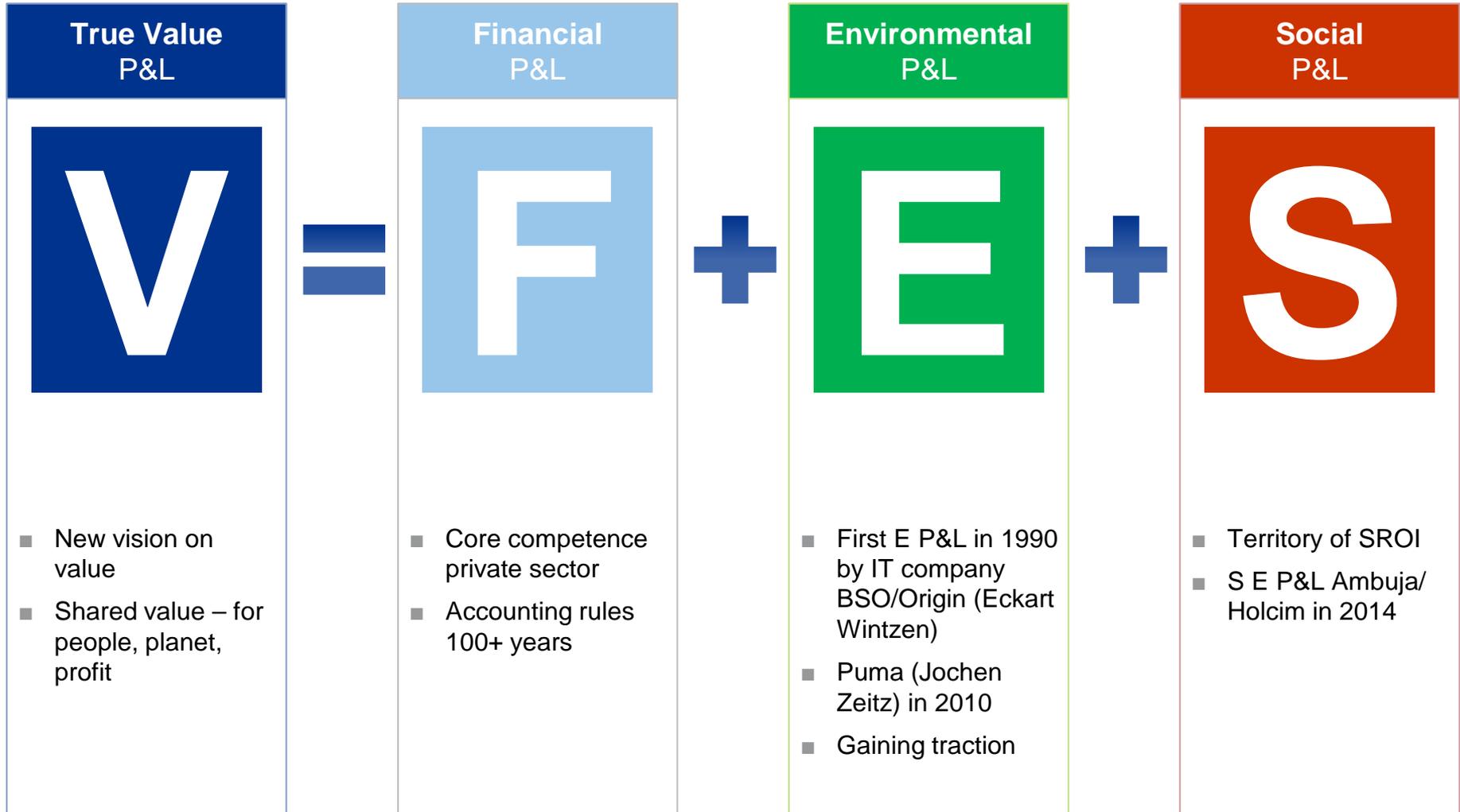
- ✓ Editorial input: KPMG in the UK, US, Australia, India
- ✓ External researchers: Smith School, University of Oxford, UK
- ✓ Interviewees: 50+ senior investors, business leaders, academics, policy experts

Key messages

- ✓ Externalities have historically been largely excluded from the measurement of corporate value
- ✓ But this disconnect between corporate and societal value is disappearing
- ✓ Business leaders and investors need to understand these new dynamics and their consequences in order to unlock value creation opportunities

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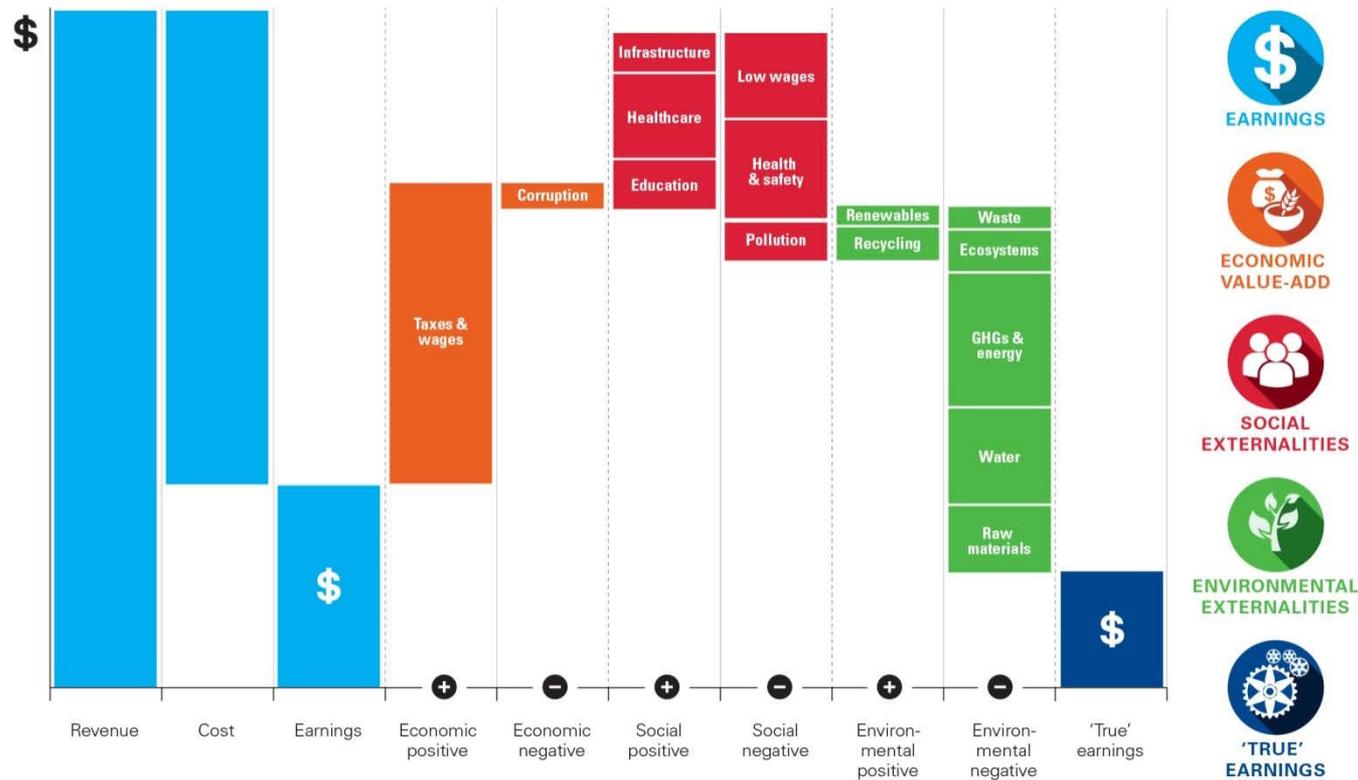
KPMG's True Value Methodology: Step 1

EXTERNALITY TYPE	EXTERNALITY	FURTHER DESCRIPTION
EC+: Positive Economic	Taxes	Contribution to the economy via taxes of all kinds
	Shareholder dividends	Contribution to societal wealth via returns to shareholders
	Interest on loans	Contribution to health of the financial services sector via loan interest
	Wages	Provision of sustainable incomes and quality of life for workers
EC-: Negative Economic	Avoided taxes	Loss to the economy by not paying fair share of taxes
	Corruption	Contribution to inefficiency in economies
S+: Positive Social	Infrastructure	Provision of infrastructure (such as roads, energy generation) that deliver improved quality of life and economic opportunity
	Healthcare	Provision of healthcare, for example to workers or communities, or via health and fitness products and services. Creates value for society through improved health and life quality
	Education	Provision of education, for example to workers or communities, or via educational products and services. Creates value for society through improved earning capacity and life quality
S-: Negative Social	Low wages	Failure to provide workers with a sustainable livelihood and good quality of life through underinvestment in living wages or through poor working conditions. Use of child labor
	Health & safety	Damage to health, injury or death caused by underinvestment in health and safety safeguards
	Pollution	Damage to the health of workers and communities through air, water or noise pollution
E+: Positive Environmental	Renewable energy	Displacement of carbon intensive energy and greenhouse gas (GHG) savings through generating renewable energy (for company operations and/or supplying to the grid)
	Land stewardship	Reforestation and other regenerative practices that improve ecosystems and habitats
	Recycling	Avoidance of waste to landfill or incineration by reusing waste materials (whether produced by the company or sourced from elsewhere)
E-: Negative Environmental	Waste	Environmental damage caused by gaseous, liquid or solid waste. Includes GHG emissions resulting from landfill and incineration of waste
	Ecosystems	Degradation of ecosystem services
	GHGs and energy	Contribution to climate change and the resulting costs for society and the environment through energy use and GHG emissions.
	Water	Damage to ecosystems and communities by withdrawing water in areas of water shortage
	Raw materials	Usage of raw materials for production process resulting in environmental damage and resource scarcity

Building Corporate and Societal Value

KPMG's True Value Methodology: Step 1

Generic 'true' value bridge



Approach

Identify the company's positive and negative externalities and monetize them - i.e. to quantify them in financial terms - based on both internal data of the company and external sources for standardization

Sub-steps

- Establish scope
- Select indicators
- Set prices
- Collect data
- Build 'true' earnings bridge

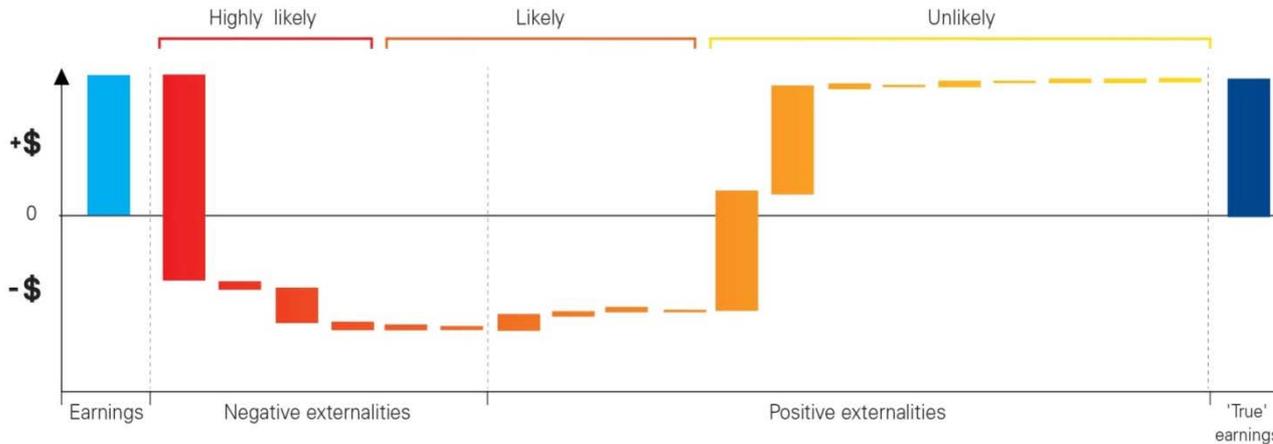
Results

Clear view of the company's externalities and strategic lens for the company's current corporate and societal value creation through a 'true' earnings bridge

Building Corporate and Societal Value

KPMG's True Value Methodology: Step 2

Key externalities prioritized by likelihood of internalization



Approach

Analyze how externalities may be internalized through the three forces of regulations & standards, market dynamics and stakeholder pressure, and the extent to which those forces could affect earnings in short and medium run

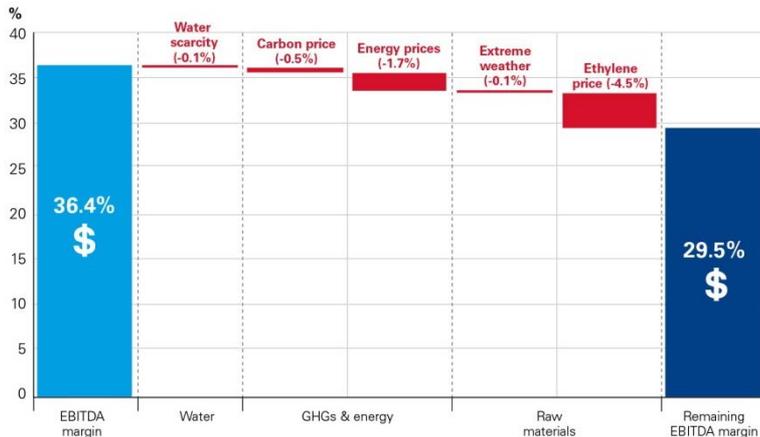
Sub-steps

- Perform risk analysis
- Establish scenarios
- Model earnings and risk over time
- Calculate 'corporate value at risk'

Results

'True' earnings bridge from step 1, prioritized in terms of risk of internalization, clearly indicating how great the corporate value is at risk is over time

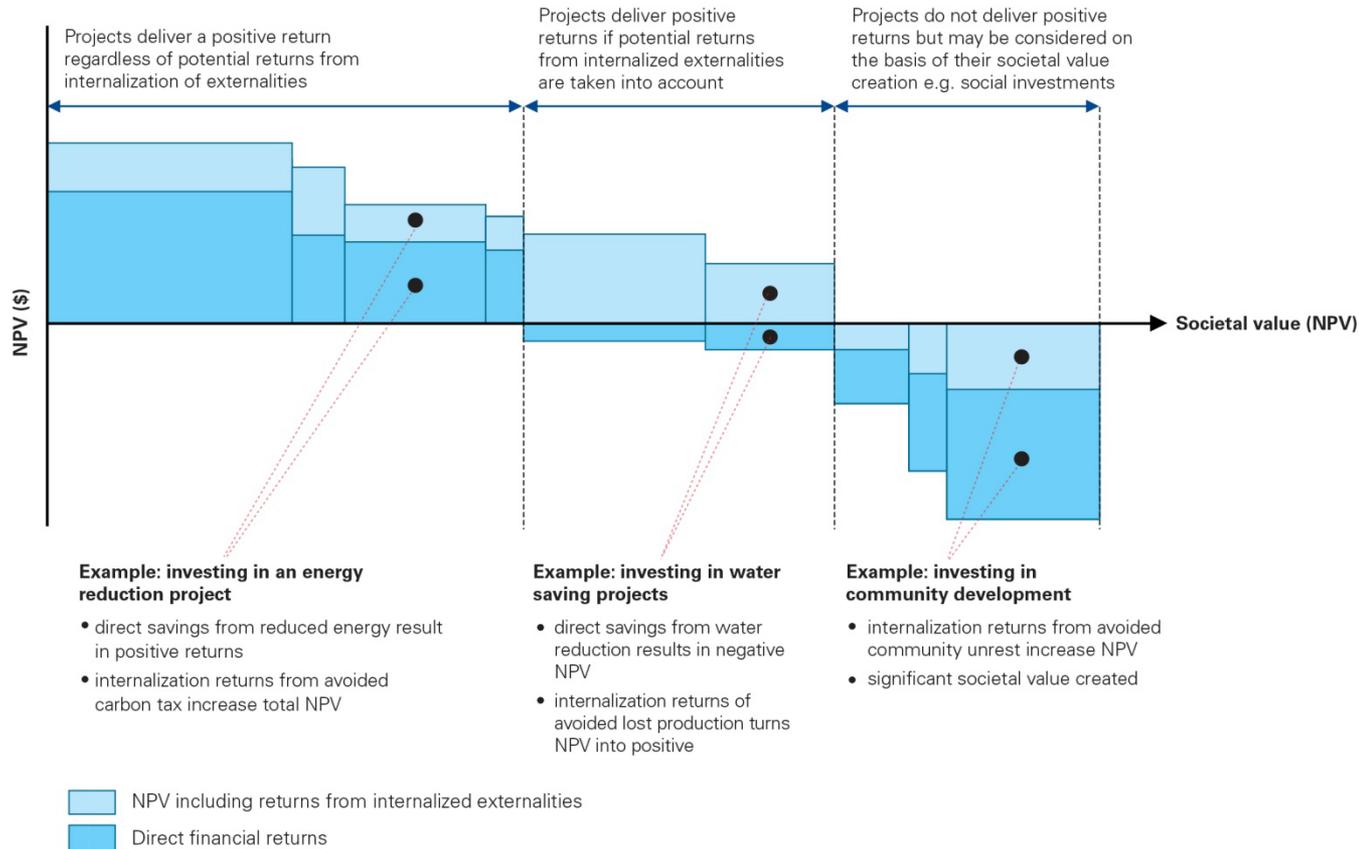
Effects of internalization on EBITDA margin



Building Corporate and Societal Value

KPMG's True Value Methodology: Step 3

Marginal True Value Curve



Approach

Build company business cases for investments that create / manage corporate and societal value in the most (cost) effective way

Sub-steps

- Identify potential investments
- Calculate NPV for each business case (including future earnings and societal value add)
- Compare future value of investment options
- Implement investment decisions

Results

One or more business cases to manage both corporate and societal value in the most cost effectively today and in the medium run

Selected case studies

Examples of True Value engagements across several sectors and geographies

Selected project references



Vodafone NL

KPMG assisted Vodafone NL in calculating and modeling its environmental impact to develop an Environmental Profit & Loss Account.



Large food retailer

KPMG supported this client in developing a 2020 responsible retailing strategy. This included a true value analysis in the area of health care and obesity costs that are incurred on society and developing response strategies.



Volvo

KPMG supported Volvo in calculating the social, environmental and economic value of substituting diesel or biogas buses to fully electric buses. At present, Volvo is involved in a number of trials with electric hybrid vehicles in different cities around the world.



A large pharmaceutical company

KPMG is applying the True Value methodology to quantify social value creation of a program aiming on improving healthcare access in marginalized rural areas.



Holcim

KPMG supported Holcim revise its 2030 Sustainable Development strategy and developed True Value Toolkit which is currently implemented in several OpCo's /countries. KPMG also co-developed the integrated P&L for Holcim Group

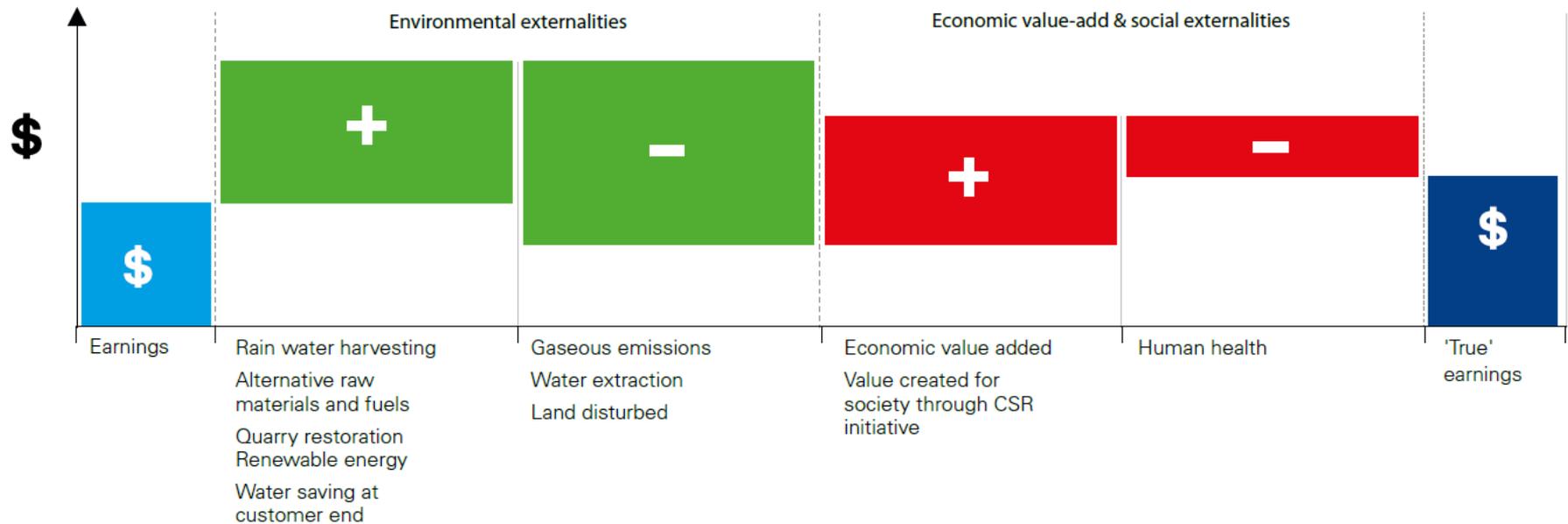


Dutch Railways

KPMG provided assurance on the 2013 true value analysis which is part of the annual sustainability report and supported Dutch Railways in 2014 by enhancing the scope and calculating the True Value of the Dutch Railways.

Selected case studies

Holcim/Ambuja



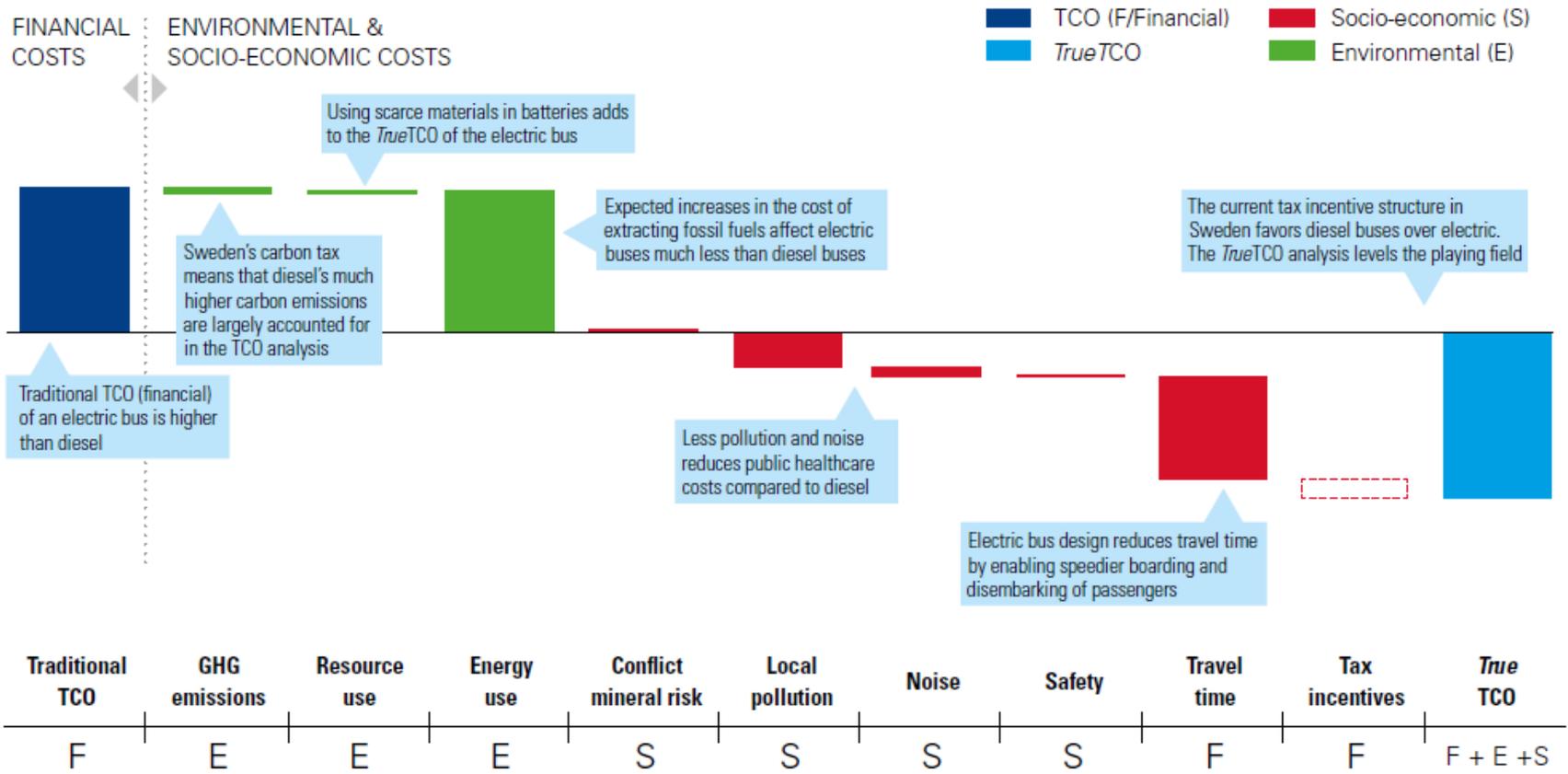
Source: Ambuja Cements Limited (2014). *Sustainable Development Report 2013*.

Selected case studies

Volvo

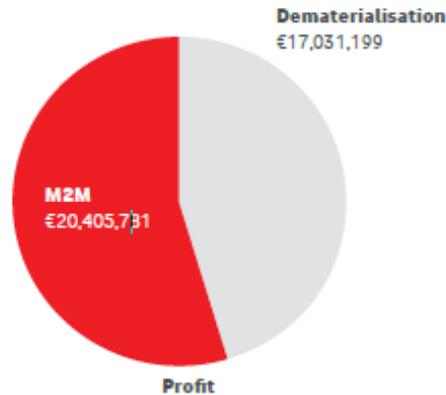
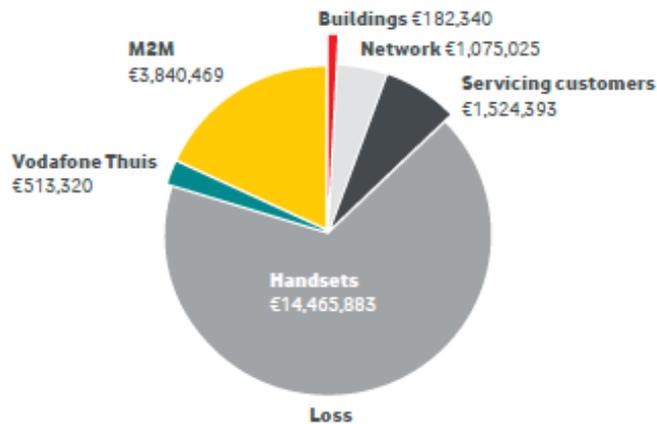
KPMG True Value Analysis Comparison of *True*Total Cost of Ownership of electric bus vs diesel bus

*True*TCO per bus per year

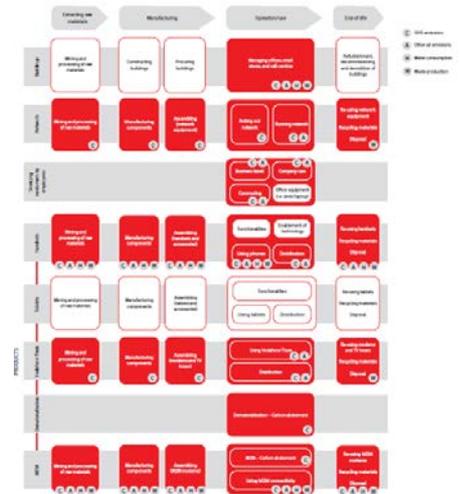


Selected case studies

Vodafone NL



Vodafone Netherlands E P&L 14/15



„Establishing a profit and loss account for environmental issues influenced by Vodafone’s business, is a fine initiative. It will make it possible better to understand the interrelated environmental interests of both company and society and to realize as a company an actual weighting of social costs and benefits. Future business processes and investments can be therefore stimulated in the direction of creating true shared value, both for Vodafone and society as a whole.”

- Karel Zeldenrust, Dutch Ministry of Infrastructure and the Environment



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