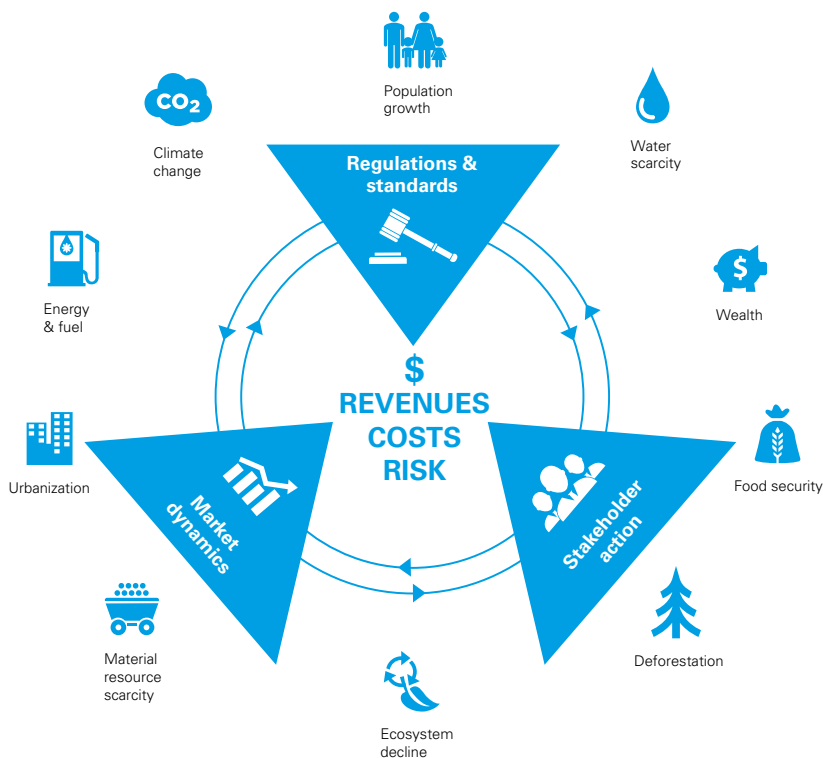


INTRODUCING KPMG TRUE VALUE

A tool to connect corporate and societal value creation

Companies today are increasingly expected to make a net positive contribution to society. Simply making a profit is no longer enough.

Figure 1 / Three drivers of internalization



The pressure to create value for society as well as for shareholders is growing as the impacts of climate change, population growth, water scarcity and other megafactors become ever more apparent.

It is not only an expectation from customers, employees, local communities, campaigners and the general public. Governments and regulators are introducing incentives to make it happen. Think carbon pricing, taxes on unhealthy products, green product standards, clean energy tax breaks, non-financial reporting rules and mandatory investment in social programs.

At the same time, the nature of markets is transforming. There is vast profit potential in new industries that create value for society by addressing social and environmental problems, for example smart city technology, circular supply chains and clean energy.

The value your company creates, and reduces, for society directly affects your earnings and your risk profile. In short, societal value is now inextricably linked with shareholder value. You need to understand what this means for your company. KPMG True Value can help.

WHAT IS KPMG TRUE VALUE?

KPMG True Value is a tool to understand how the value a business creates and reduces for society is likely to affect the value it creates for shareholders. This knowledge provides a new lens for decision-making to improve performance, inform strategy and increase influence. KPMG True Value is a 3-step process that can be applied across sectors and geographies. It is scalable and can be applied to a whole company, a division or a specific project.

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- STEP 1:** Identify the value a company creates and reduces for society through its externalities and express this in financial terms
- STEP 2:** Assess how the internalization of externalities is likely to affect future earnings (through regulation, stakeholder action and market dynamics)
- STEP 3:** Develop business cases that build and protect future value for shareholders by increasing the value created for society
-

What benefits can KPMG True Value offer my company?

Improve performance

- Reduce existing and avoid future costs
- Increase revenues
- Engage and mobilize employees
- Improve collaboration across functions
- Inspire innovation

Inform strategy

- Challenge existing strategies (both corporate and sustainability)
- Identify risks to future earnings
- Provide fact-based, quantitative analysis for building next generation strategies
- Build and analyze broader business cases for investments
- Improve internal decision-making
- Improve sustainability performance of products and services

Increase influence

- Improve the sustainability conversation with investors by talking in financial terms
- Enhance collaboration with suppliers and customers
- Demonstrate leadership and action in the value creation debate
- Enable a fact-based and balanced value creation dialogue with stakeholders
- Build an objective base for advocacy and policy dialogue

WHERE HAS KPMG TRUE VALUE BEEN APPLIED?



Cement: **Holcim/Ambuja Cement** (India)

Holcim subsidiary Ambuja Cement used KPMG's True Value methodology to quantify risks to its future profitability. As a result, Ambuja has identified projects that will benefit society and boost future profitability. Holcim has also applied the KPMG True Value methodology at other subsidiaries and at corporate level.

"True Value has a place in today's corporate world and it is right at the top. Times have changed but most companies haven't. In the modern world, it is important that a company broadens its view on the value it brings to the world."

Ajay Kapur, CEO, Ambuja Cement



Finance: **private equity** (Europe)

KPMG True Value has been used at the private equity arm of a global financial institution to quantify social and environmental risks and opportunities at a number of portfolio companies. The analysis has helped the firm identify strategies to reduce risk and build long-term value within its portfolio.



Retail: **Kingfisher** (Europe and Asia)

Kingfisher is a leading home improvement retailer with 1176 stores in 11 countries. KPMG member firms have provided assurance on Kingfisher's reporting of its Net Positive initiative which aims to make a positive contribution to people and the environment, while growing a stronger, more profitable business.



Food production and retailing: **major food retailer**

KPMG member firms worked with an international food retailer to quantify the societal value the company creates and reduces through its food products. This analysis has helped the company to develop its corporate responsibility strategy.



Transport: **Railway operator** (Netherlands)

KPMG in the Netherlands has provided True Value analysis of environmental, social and economic impacts for Dutch railway operator NS.

FREQUENTLY ASKED QUESTIONS

How can KPMG True Value help my company?

Applying KPMG True Value can help to improve financial performance, inform strategy planning and increase influence with investors and other stakeholders. See Page 2 for a more detailed summary of the benefits.

What does KPMG True Value offer that other methodologies do not?

KPMG True Value focuses on linking societal value with corporate value – i.e. the financial value created for shareholders and the value of companies. It is not only a means to measure and manage the value a company creates for society, but also a tool to understand what that means for its future profit potential. In this way, KPMG True Value provides companies with a value-based decision-making tool.

I am confused by the different initiatives around value and impact. Are they all related?

There are a number of methodologies that seek to reach a better understanding of business value. They include, for example, Integrated Reporting, Shared Value and the Natural Capital Coalition. KPMG member firms have developed KPMG True Value to contribute to this ongoing debate. We fully support the various initiatives to reach a standardized methodology over time and are actively involved in many of them, such as the Redefining Value program run by the World Business Council for Sustainable Development.

How do you put a monetary value on externalities?

We use a variety of financial modelling tools and techniques combined with data sources such as economic impact analysis, and environmental and healthcare economics. KPMG True Value has been developed by corporate finance professionals at KPMG member firms, alongside professionals from sustainability services, to help ensure that the data provided is robust and credible for finance professionals.

Is the purpose of KPMG True Value to generate information for public reporting?

No, KPMG True Value is intended primarily as an internal risk assessment and decision-making tool. It helps companies to understand the value they create and reduce for society and how that may affect their future profit potential. Some companies may choose to make some of the information public. In this respect KPMG True Value can provide a new approach to corporate reporting and material for communications and stakeholder engagement, but this is not its sole or primary application.

Can the data provided by the KPMG True Value methodology be assured to ensure credibility?

Yes, KPMG member firms have already provided third party assurance on True Value data that our clients have produced.

KPMG'S TRUE VALUE METHODOLOGY: HOW IT WORKS

STEP 1: Identify the value a company creates and reduces for society

We calculate value created for society by identifying an organization's most significant externalities and expressing them in financial terms. KPMG True Value uses a framework which classifies externalities as economic, social or environmental and as either positive (bringing benefits to society) or negative (imposing costs on society).

To express externalities in financial terms, we use a range of financial modeling tools, techniques and data sources.

We build this information into a 'true' earnings bridge which combines the company's financial earnings with the monetized value of its externalities.

The 'true' earnings bridge illustrates what the company's 'true' earnings would be if all its significant externalities were internalized. By visualizing the company's externalities in a 'true' earnings bridge, you can see where the company is creating, and reducing, the most value for society and where future value creation initiatives may be directed.

KPMG framework to identify externalities

Economic positive +

Taxes; wages paid to workers; shareholder dividends; loan interest

Economic negative -

Avoided taxes; corruption

Social positive +

Provision of infrastructure; healthcare or educational benefits to society

Social negative -

Low wages; negative health and safety effects; damage to societal health through pollution

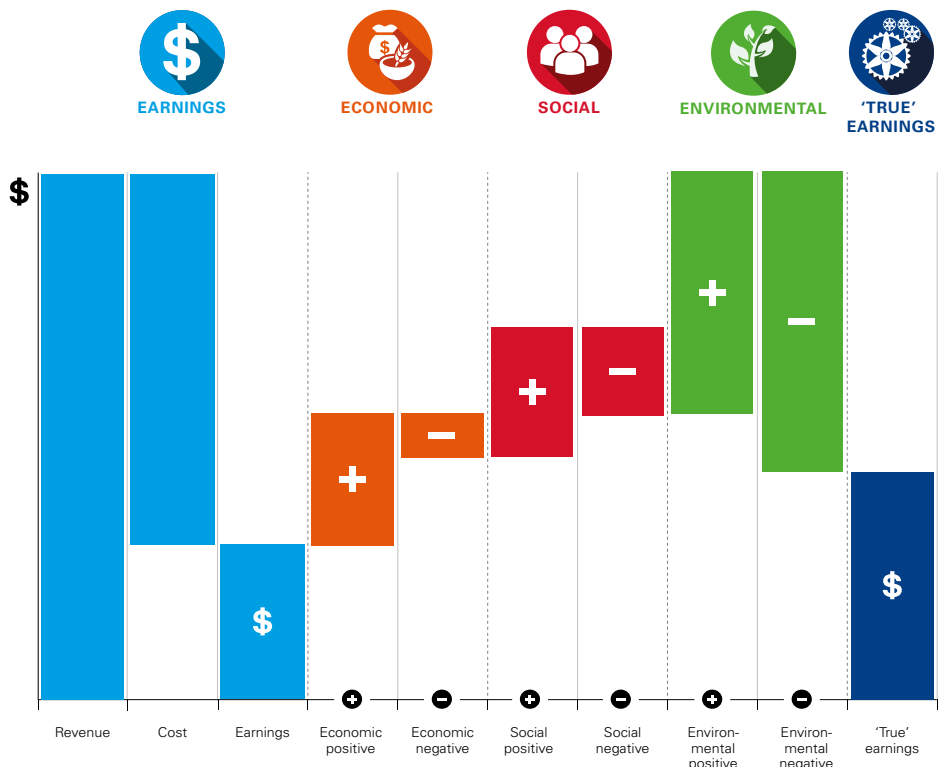
Environmental positive +

Renewable energy; land stewardship; recycling

Environmental negative -

Greenhouse gases and energy use; waste; ecosystem damage; use of water and raw materials

Figure 2 / A generic 'true' earnings bridge



Source: KPMG (2014). A New Vision of Value: Connecting corporate and societal value creation.

STEP 2: Understand future earnings risks and opportunities

The next step is to understand how a company’s externalities – both positive and negative - might be internalized in the future and what impact that would have on profitability.

For example, regulation can increase costs through new taxes, fines or pricing systems or reward companies for their positive impacts.

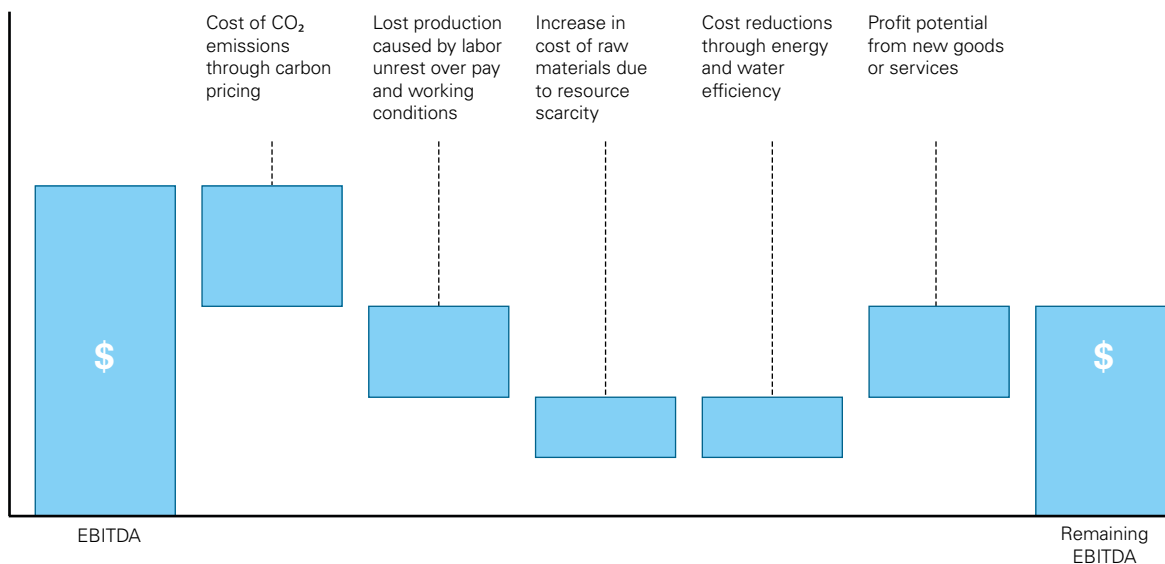
Stakeholder action, such as worker or community protests, can halt or increase the cost of production.



Market dynamics, such as new markets for products and services that create value for society and the environment, can significantly boost profit potential.

In Step 2 of the KPMG True Value methodology, we analyze the company’s most significant externalities. Where the risk of internalization is high, we use financial modeling techniques to assess the potential impact on future earnings.

Figure 3 / Example analysis of internalized externalities



Source: KPMG (2014). *Introducing KPMG True Value*.

STEP 3: Develop business cases to build and protect future value

In Step 3, we use a Marginal True Value Curve to build and analyze business cases for potential investments.

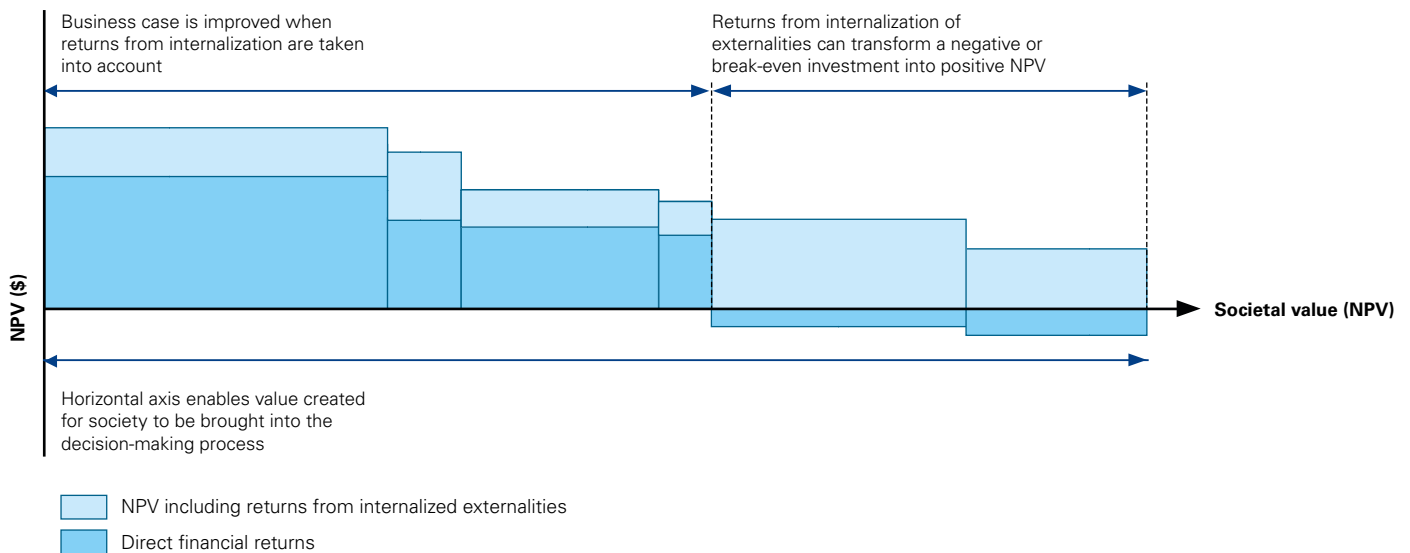
The Marginal True Value Curve shows not only the direct financial returns from an investment but also the likely additional returns from internalized externalities and the value the investment will create for society. This provides a broader, more holistic basis on which to analyze potential investments.

For example, projects which are not viable when assessed on direct financial returns alone, may deliver attractive returns when the likely internalization of externalities is factored in.

The societal value axis of the curve helps companies to prioritize projects that deliver similar financial returns according to the value they create for society, thereby enhancing the company's own 'true' earnings.

N.B. Some companies may have already integrated some form of internalization into their investment decisions, such as factoring in future costs of carbon, landfill taxes or the changing expectations of society. KPMG True Value builds on this and aims to provide a more complete approach to help companies prepare for the future.

Figure 4 / Marginal True Value Curve



Source: KPMG (2014). *A New Vision of Value: Connecting corporate and societal value creation.*

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