KPMG True Value webinar

The Sustainability P&L

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Speakers: Arjan de Draaijer and Santhosh Jayaram

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A short history of KPMG’s True Value

- 2014: KPMG publishes *A New Vision of Value*
- 2015: Holcim publishes first ever integrated P&L statement
- 2015: True Value of Mitsubishi Elevators
- 2015: KPMG (with WBCSD) publishes Social Capital in decision making
- 2016: True Value of Safaricom M-PESA payment system
- 2016: True Value of Volvo electric buses
- 2016: KPMG supports launch of Natural Capital Protocol

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The why and how of True Value

**Why?**

**DRIVE STRATEGY**
- Provide fact-based quantitative analysis to build next generation strategies
- Increase future revenues
- Reduce and/or avoid future costs
- Identify risks to future earnings
- Improve internal decision-making

**INCREASE INFLUENCE**
- Build objective base for advocacy with policy makers and stakeholders
- Improve investor relations by describing integrated costs and benefits in financial terms

**How?**

1. Quantify positive and negative externalities in financial terms
2. Assess rates of internalization and the likely impact on future earnings
3. Develop business cases that drive strategy by capturing value, creating opportunities and reducing risks
Case studies
“Such a 360-degree strategy to drive sustainability can enable us to maximize future profitability along with inclusive growth” – Ajay Kapur, CEO
Figure 23 / Ambuja’s 2012 ‘true’ earnings exceeded its financial earnings alone

Environmental externalities
- Rain water harvesting
- Alternative raw materials and fuels
- Quarry restoration
- Renewable energy
- Water saving at customer end

Economic value-add & social externalities
+ Economic value added
  - Value created for society through CSR initiative
+ Human health

Gaseous emissions
- Water extraction
- Land disturbed

‘True’ earnings
- $
Figure 24 / Key externalities prioritized by likelihood of internalization

Earnings | Negative externalities | Positive externalities | ‘True’ earnings

Highly likely | Likely | Unlikely

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STEP 3 / Prioritize future investments to create societal as well as corporate value.
Volvo Buses

INCREASE INFLUENCE

DRIVE STRATEGY

Ambition
To become the world leader in sustainable transportation

Targets for sustainable transportation, shared values and responsible behavior

Business impact
Shifting to fully electric buses in cities, starting in Gothenburg

True total cost of ownership
True total cost of ownership (True TCO)

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

**True TCO per bus per year**

<table>
<thead>
<tr>
<th><strong>KPMG True Value Analysis</strong></th>
<th><strong>Comparison of True Total Cost of Ownership of electric bus vs diesel bus</strong></th>
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<tbody>
<tr>
<td><strong>FINANCIAL COSTS</strong></td>
<td><strong>ENVIROMENTAL &amp; SOCIO-ECONOMIC COSTS</strong></td>
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<td><strong>True TCO</strong></td>
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<td><strong>Environmental (E)</strong></td>
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<td><strong>TCO (F/Financial)</strong></td>
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- Using scarce materials in batteries adds to the True TCO of the electric bus
- Sweden’s carbon tax means that diesel’s much higher carbon emissions are largely accounted for in the TCO analysis
- Traditional TCO (financial) of an electric bus is higher than diesel
- Expected increase in the cost of extracting fossil fuels affects electric buses much less than diesel buses
- The current tax incentive structure in Sweden favors diesel buses over electric. The True TCO analysis levels the playing field
- Less pollution and noise reduces public healthcare costs compared to diesel
- Electric bus design reduces travel time by enabling speedier boarding and disembarking of passengers
- Noise
- Safety
- Travel time
- Tax incentives
- True TCO

<table>
<thead>
<tr>
<th>Traditional TCO</th>
<th>GHG emissions</th>
<th>Resource use</th>
<th>Energy use</th>
<th>Conflict risk</th>
<th>Local pollution</th>
<th>Noise</th>
<th>Safety</th>
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<td>F + E + S</td>
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"If we are to be a leader in our sector, we need to assess our company not only on the traditional financial ratios, but on the value we create for society at large." Rob Shuter, CEO Vodafone NL

**Ambition**

- To be a leader in transparency
- Started measuring True Value in 2013

By 2018, NS wants to source all electricity from wind farms and cut energy use by a third

**Business impact**

First company in Netherlands to publish monetized information in its annual report in 2014

Use True Value to inform investment decisions
Some NS statistics

https://home.kpmg.com/content/dam/kpmg/pdf/2015/06/ns-dutch-railways.pdf
Thank you

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