

**HOLCIM INNOVATES WITH 'TRUE VALUE' SE P&L ANALYSIS**  
**JANUARY 2015**



# HOLCIM INNOVATES WITH 'TRUE VALUE' SE P&L ANALYSIS

January 2015

Licensed Content

## EXECUTIVE SUMMARY

This report provides heads of sustainability, EH&S directors and finance officers with an independent analysis of Holcim's strategic thinking around Social and Environmental Profit and Loss accounting (SE P&L), as a tool to enhance sustainability decision-making. Headquartered in Switzerland, Holcim is a global building materials conglomerate with revenues of CHF 19.7 billion (\$20.3 billion). In 2014, Holcim's Indian subsidiary Ambuja Cements (which accounted for 7% of 2013 revenues) pioneered and published the first SE P&L analysis using KPMG's True Value methodology. To better understand Holcim's use of the SE P&L analysis, Verdantix spoke with Pier Mario Gribaudo, Holcim's Global Head of Sustainability Projects; Rashila Kerai, Holcim's Global Sustainable Development Project Manager; and Barend van Bergen, Partner at KPMG in the Netherlands and Global Head of Sustainability Advisory Services. Verdantix found that the SE P&L increases visibility into sustainability risks and opportunities, complements existing sustainability valuation frameworks, and provides an opportunity for mature sustainability leaders to further innovate on sustainability practices.

## TABLE OF CONTENTS

### HOLCIM INNOVATES WITH 'TRUE VALUE' SE P&L ANALYSIS

**Holcim Aims To Engage And Improve Internal Sustainability Decision-Making**

**SE P&L Increases Visibility Into Sustainability Risks And Opportunities**

## FIGURES & REFERENCES

**Figure 1.** Holcim's 2030 Targets Emphasize Climate, Resources And Communities

**Figure 2.** Ambuja Cements' 'True Value' Earnings Bridge

**Figure 3.** 'True Value' Analysis Externalities Prioritized By Likelihood Of Internalization

## ORGANIZATIONS MENTIONED

Ambuja Cements, BP, European Commission, Global Reporting Initiative (GRI), Holcim, International Integrated Reporting Council (IIRC), KPMG, PUMA, PwC, Social Return On Investment (SROI) Network, Sustainability Accounting Standards Board (SASB), The Economics of Ecosystems and Biodiversity (TEEB), True Price Foundation, World Business Council for Sustainable Development (WBCSD)

© 2015 Verdantix Ltd. All Rights Reserved. Verdantix, Green Quadrant, Total Portfolio and Critical Moments are trademarks of Verdantix Ltd. All other trademarks are the property of their respective companies. Verdantix clients may make one attributed copy of each figure or paragraph contained herein. Additional reproduction is strictly prohibited.

## HOLCIM INNOVATES WITH ‘TRUE VALUE’ SE P&L ANALYSIS

This report provides heads of sustainability, EH&S directors and finance officers with an independent analysis of Holcim’s strategic thinking around Social and Environmental Profit and Loss accounting (SE P&L), as a tool to enhance sustainability decision-making. Headquartered in Switzerland, Holcim is a global building materials conglomerate with revenues of CHF 19.7 billion (\$20.3 billion). In 2014, Holcim announced an ambitious sustainable development strategy which aims to balance action on three pillars: climate, resources and communities. This is reflected in the firm-wide tiered 2015, 2020 and 2030 targets, as well as in commitments to generate one-third of revenues from its portfolio of sustainability-enhanced solutions (see Figure 1).

One of Holcim’s key sustainability challenges, as the world’s second largest producer of cement by revenue in 2013, is that the resource intensive nature of cement manufacturing is not fully factored into production costs. To enhance its understanding of this problem, Holcim estimated the financial value of environmental and social impacts to examine risks (such as managing environmental footprints) and opportunities. To better understand the firm’s development and use of SE P&L analysis, Verdantix spoke with Pier Mario Gribaudo, Holcim’s Global Head of Sustainability Projects; Rashila Kerai, Holcim’s Global Sustainable Development Project Manager; and Barend van Bergen, Partner at KPMG in the Netherlands and Global Head of Sustainability Advisory Services.

### Holcim Aims To Engage And Improve Internal Sustainability Decision-Making

To help it achieve the ambitious 2030 targets, Holcim’s Indian subsidiary Ambuja Cements (which accounted for 7% of 2013 revenues), pioneered the use of the SE P&L analysis using the KPMG True Value methodology. The concept of ‘True Value’ is also used more broadly, for instance by the World Business Council for Sustainable Development (WBCSD) in its Redefining Value Programme and the True Price Foundation. The analysis, published in the Ambuja Cements 2013 Sustainable Development Report, has helped Holcim to:

- **Account for the value of social and environmental impacts and opportunities.** In 2011, PUMA attracted significant attention for its Environmental P&L analysis (EP&L) by putting a monetary value on the firm’s environmental impacts in its supply chain (see Verdantix PUMA Pioneers Environmental Profit & Loss Statement). In this case, the SE P&L analysis pilot-tested by Ambuja identified and estimated an economic value for its material environmental and social externalities (positive and negative impacts on people and the environment). Quantification methods used by KPMG include a variety of sources, such as The Economics of Ecosystems and Biodiversity (TEEB) for natural capital accounting and the Social Return On Investment (SROI) Network for social impact analysis (see Verdantix Why CSOs Can’t Escape Action On Natural Capital).
- **Develop a social and environmental profit and loss account.** After material externalities are identified and quantified, the data can be mapped in a ‘True Value’ earnings bridge (see Figure 2). The SE P&L analysis allows firms to quantify their triple bottom line performance and identify the largest positive and negative externalities. In

Figure 1-1. Holcim’s 2030 Targets Emphasize Climate, Resources And Communities

	Baseline	Target Year	Metric	Target	Progress (2013)
<b>Energy</b>				None	Absolute energy use increased 45% in 2013 compared to 1990. Annual energy intensity (per volume of cement produced) has improved by 34% over the same period
<b>GHG Emissions</b>	2004	2013	Emissions per tonne of cement produced	-20% Nitrous oxide (NOx)	-22% NOx
	2004	2013		-20% dust	-55% dust
	2004	2013		-20% sulphur dioxide (SO <sub>2</sub> )	-66% SO <sub>2</sub>
	1990	2015		-25% CO <sub>2</sub> emissions	-24% CO <sub>2</sub> (net emissions of 572kg of CO <sub>2</sub> per tonne of cement)
	1990	2020		-30% CO <sub>2</sub> emissions	
	2013	2030		No net increase in CO <sub>2</sub> emissions	
<b>Renewable Energy</b>					
<b>Water</b>	2012	2020	Per tonne of product	-20%	-8% aggregate (+6% for the cement segment)
	2013	2030	Water index in water scarce regions	>0 index score	
<b>Waste and Recycling</b>	2013	2030	Tonnes	Valorize 1 billion tonnes of secondary materials	Not disclosed
	2013	2020	Thermal substitution rate (% thermal energy from alternative fuels)	Reach 20% thermal substitution rate	14%
	2013	2020	Tonnes	Valorize 10 million tonnes of construction demolition waste	Not disclosed
<b>Biodiversity</b>	2013	2013	% of sites having a Biodiversity Action Plan	80% or higher	Surpassed 90%
	2020	2030	Biodiversity condition index	2030 index score higher than 2020	n/a

Source: Verdantix, Holcim

Figure 1-2. Holcim’s 2030 Targets Emphasize Climate, Resources And Communities

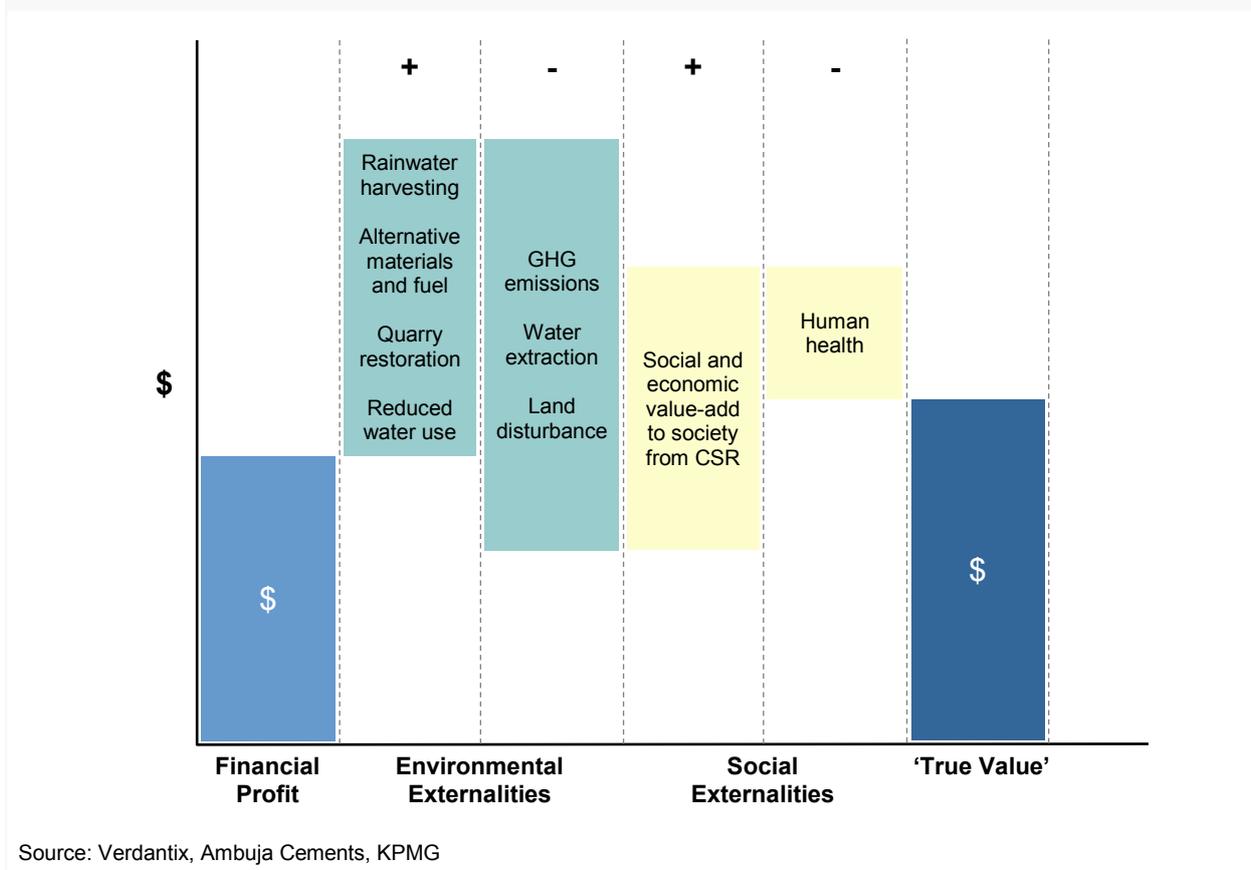
	Baseline	Target Year	Metric	Target	Results (2013)
<b>Health &amp; Safety</b>	2013	2013	Lost-time Injury Frequency Rate (LTIFR)	Below 1	1.3
			Total Injury Frequency Rate (TIFR)	Below 5	5.8
<b>Community</b>	2013	2015	% of CSR spend	75%+ on strategic social and collaborative projects	Not disclosed. Total Holcim 2013 spend on community engagement is CHF 38 million (\$39 million) which is equivalent to 2.4% of 2013 net income
	2013	2020	No. of people positively impacted from Holcim CSR initiatives	Directly impact 40 million people	Over 3.5 million people currently benefit directly from Holcim CSR initiatives
	2013	2030	No. of people positively impacted from Holcim CSR initiatives	Directly impact 100 million people	

Source: Verdantix, Holcim

Ambuja’s case, the calculations reveal a net-positive social value-add and a negative overall environmental impact. The three major sources of environmental costs identified were GHGs, water extraction and land disturbances. KPMG found that for every rupee invested by Ambuja Cement Foundation (the corporate social responsibility arm of Ambuja Cements) in 2012, 8.5 rupees were generated in socio-environmental benefits.

- Prioritize initiatives tackling externalities with a higher likelihood of internalization.** Ambuja’s SE P&L analysis has helped it to prioritize initiatives which tackle externalities with a higher likelihood of becoming internalized (see Figure 3). In KPMG’s analysis, the main drivers of internalization are new regulations (such as laws, subsidies or taxes), changing market dynamics (such as extreme weather affecting scarcity and prices) and stakeholder action (such as by the media, NGOs or worker communities). Top drivers for Ambuja in India include stakeholder concerns on water scarcity and regulations to increase industrial energy efficiency. Other firms have tried to anticipate internalization of externalities. Witness BP adopting an internal carbon price to lower the risk posed by stranded assets (see Verdantix BP Hedges Against An Uncertain Future Climate).
- Engage employees and management on the perception of sustainability.** Ambuja has found that the SE P&L analysis is best leveraged internally to improve sustainability understanding. Traditional management decisions were made based mostly on the financial criteria. The SE P&L data was adopted by Ambuja to augment decision-making processes, change perspectives on what sustainability means and also to support advocacy, such as explaining the role and contributions of Ambuja in the wider societal

Figure 2. Ambuja Cements’ ‘True Value’ Earnings Bridge



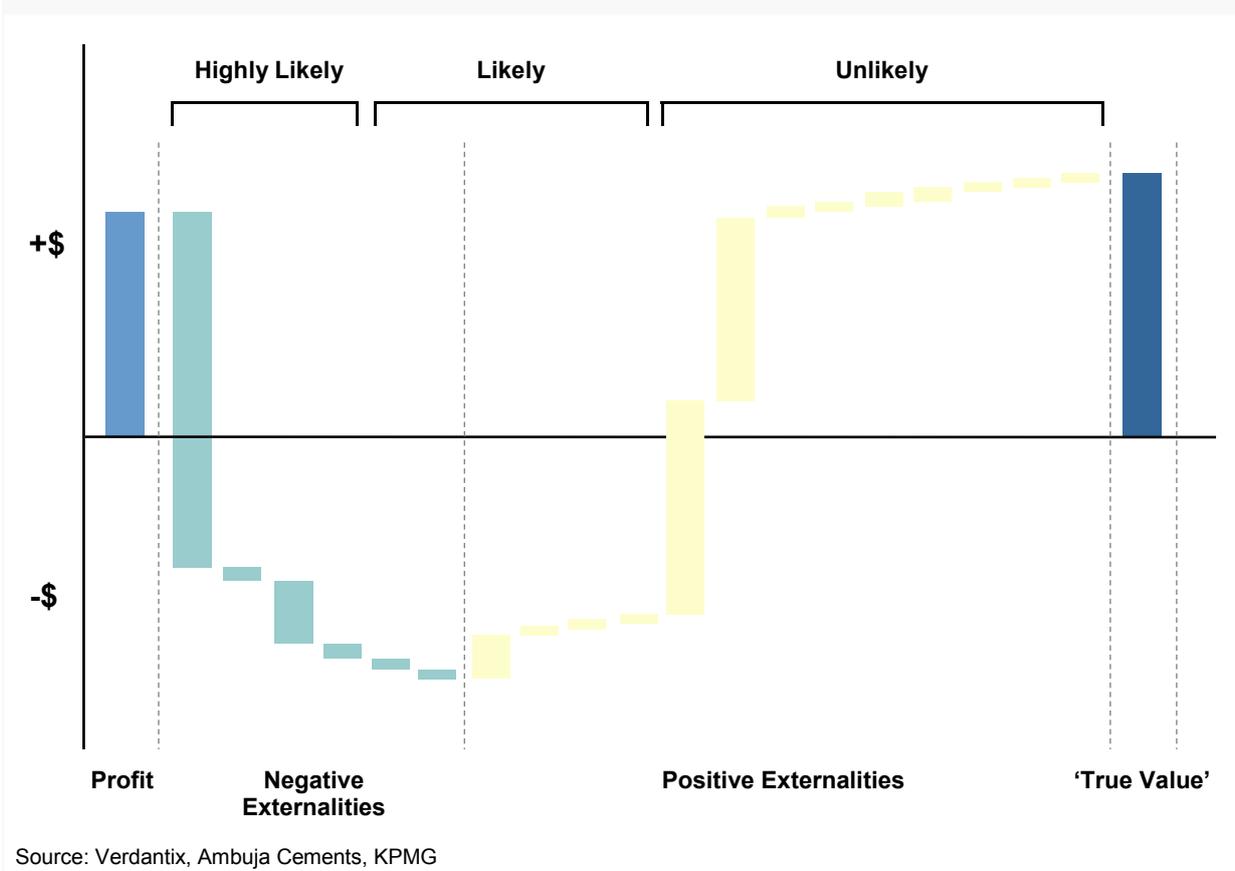
context. The influence on employee and management perception is most notable in Ambuja’s water management strategy. In anticipation of rising water costs, Ambuja is investing to replenish five times its annual water footprint by 2017, by phasing out groundwater consumption and increasing reliance on rainwater harvesting.

### SE P&L Increases Visibility Into Sustainability Risks And Opportunities

Holcim’s and KPMG’s analysis allowed Holcim’s subsidiary, Ambuja Cements, to identify and quantify the complete social and environmental impacts of its cement manufacturing operations. Ambuja’s experience demonstrates that sustainability leaders should consider SE P&Ls to:

- Improve visibility into quantified social and environmental impacts.** All firms seeking to gain a quantified view of their material socio-environmental externalities can benefit from an SE P&L analysis. The scope of the methodology can be applied to firm-wide operations or specific operating units, such as a regional subsidiary in the case of Ambuja. Holcim has since expanded its application of the SE P&L analysis from India to its subsidiaries in Costa Rica, Indonesia and the United Kingdom.
- Identify risks through scenario planning.** Through conducting an SE P&L analysis, firms will assess and understand the likelihood of internalization for each socio-environmental externality investigated, as well as the impact on earnings if this were to occur. By adjusting the model assumptions, firms can conduct scenario-planning analysis to quantify the risks to earnings and inform activities, such as sustainability

Figure 3. ‘True Value’ Analysis Externalities Prioritized By Likelihood Of Internalization



goal-setting. Similarly, firms can evaluate potential investments through net present value to identify and prioritize initiatives that are expected to create the most socio-environmental value.

- Complement existing sustainability valuation frameworks.** The SE P&L approach complements existing frameworks, such as the Redefining Value Programme by the WBCSD, the Total Impact Measurement and Management approach by PwC, the Natural Capital Accounting Workstream by the European Commission Business and Biodiversity Platform, and the work being conducted at the True Price Foundation. The landscape of accounting internally and reporting externally on social and environmental impacts is currently fragmented and diverse. The SE P&L analysis is a broad tool that quantifies both positive and negative non-financial data to inform sustainability decisions and complements existing reporting frameworks, such as the Global Reporting Initiative (GRI).
- Shift sustainability perception from ‘social responsibility’ to ‘performance’.** Many employees and managers still perceive sustainability as an elusive concept, centered around corporate ethics and social responsibility. The GRI G4 standards, for example, offer over 150 metrics that cover all stakeholder issues, such as the number of national conservation list species habitats affected by firm operations. The SE P&L analysis is intended to examine only material socio-environmental issues, thereby shifting the conversation towards materiality and the performance of non-financial metrics, as part of goal-setting, decision-making and evaluating triple bottom line performance. While

firms can use the SE P&L approach for reporting alongside the GRI, it is intended as a decision-making analysis tool for goal-setting and implementation.

- **Demonstrate innovation among mature sustainability leaders.** As the current landscape for sustainability accounting and integrated reporting is very fragmented, the SE P&L provides a prime opportunity for sustainability leaders to innovate. The Verdantix 2014 Global Sustainability Leaders Survey reveals that reporting remains a top priority, with 45% of respondents citing it as “very important” (see Verdantix Global Survey 2014: Sustainability Budgets And Priorities). Firms that have already invested in integrated reporting, conducted a materiality assessment, or are engaged with the Sustainability Accounting Standards Board on metrics for material issues, should consider investing in an SE P&L analysis to broaden their insights (see Verdantix IIRC Framework Is Only Relevant For A Select Few Leaders).

## About Us

---

Verdantix is an independent analyst firm. We provide authoritative data, analysis and advice to help our clients succeed in the world of sustainable business. Through our global primary research and deep domain expertise we provide our clients with strategic advice, revenue generating services, best practice frameworks, industry connections and competitive advantage.

## Our Research Coverage

---

### ENERGY

Building Energy Efficiency  
Energy Management Software  
Energy Policy  
Energy Services  
Energy Strategy  
Energy Technologies  
Industrial Energy  
Management  
Renewable Energy  
Smart Grid  
Utilities & Infrastructure

### EH&S

Arctic Economy  
Carbon Management  
Climate Change  
EH&S Software  
Environmental Risk  
Management  
Environmental Services  
Product Life Cycle  
Assessment  
Resource Scarcity  
Sustainable Cities  
Water Management

### SUSTAINABILITY

Employee Engagement  
Social Responsibility  
Sustainability Assurance  
Sustainability  
Communications  
Sustainability Consulting  
Sustainability Innovation  
Sustainability Reporting  
Sustainability Software  
Sustainability Strategy  
Sustainable Supply Chain

## How Our Clients Benefit

---

Through annual access to Verdantix reports, data and webinars as well as drawing on the expertise of the analyst team, our clients achieve the following:

- Faster internal sign-off for project funding and annual budgets
- Improved strategic decision-making on energy and sustainability
- Enhanced understanding of competitive position
- Accelerated revenue growth for energy and sustainability offerings
- Reduced risk in supplier selection
- Increased brand profile in the energy/sustainability ecosystem

## Contact Us

---

[www.verdantix.com](http://www.verdantix.com)

[info@verdantix.com](mailto:info@verdantix.com)