



# Navigating change

**KPMG Sustainability Services**



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# Do you see how environmental and social changes are altering the business landscape?

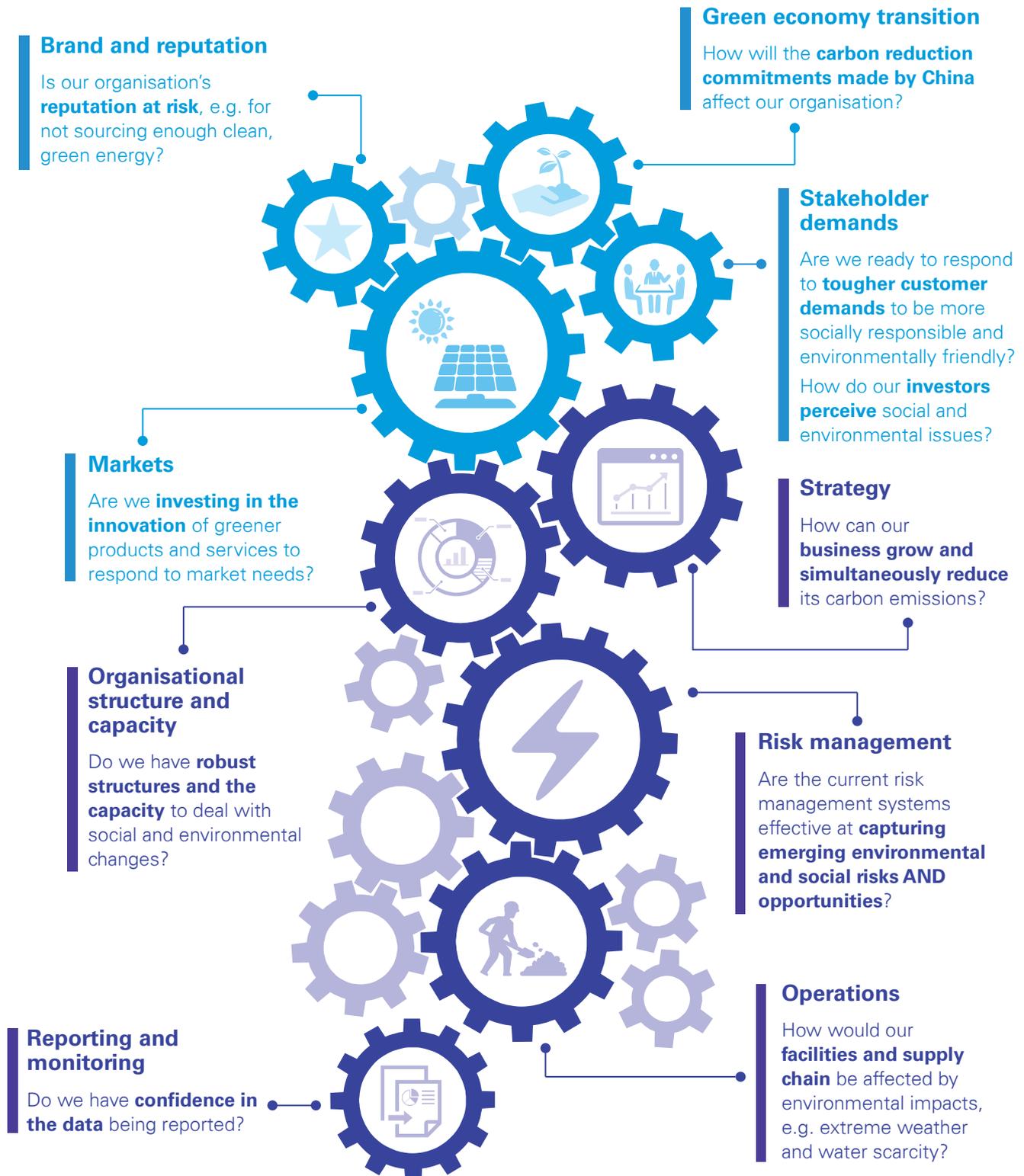


- How are you **understanding** the environmental and social changes in your surroundings and **relating** them to your business?
- How **resilient** is your business to these changes?
- Are you **taking advantage** of these changes to better achieve your business objectives?

<sup>1</sup> 'ADB official: China should play bigger role in unifying global standards for green bonds', Wu Zheyu, China Daily, 17 May 2016, [http://www.chinadaily.com.cn/opinion/2016-05/17/content\\_25327960.htm](http://www.chinadaily.com.cn/opinion/2016-05/17/content_25327960.htm)

# How are you adapting to the fast-changing business landscape?

A number of questions can help you assess how you are adapting to the effects of existing and emerging environmental and social issues and changes, as well as how they are connected to your financial and operational performance, and hence your long-term financial stability.



# KPMG supports you in building a business that is sustainable in the long term

## Turning risks into new opportunities

We can help you understand what environmental and social change means for your business, and work with you to respond to environmental and social issues and trends to manage risk, create value and communicate business performance holistically and effectively.



In the following pages we provide examples of how we can support you in building a sustainable business, organised into the categories below. We aim to provide tailored and integrated solutions based on a thorough understanding of your challenges and needs.



# We can help you to:

Sustainability Risk and Opportunity Assessment

Strategy and Governance

Sustainable Investment

Carbon Management

Sustainable Supply Chain Management

Sustainability Reporting and Assurance



## Sustainability Risk and Opportunity Assessment

- Benchmark environmental and social practices and performance against sector peers
- Pinpoint the environmental and social issues that are most important to your business, value chain and stakeholders for prioritisation (materiality assessment)
- Perform sustainability risk and opportunity analysis
- Conduct stakeholder mapping and engagement
- Monetise the impact on society and the environment to reveal key areas of business risk and potential impacts on future profitability (KPMG True Value analysis)



### Case Study

### Calculating True Value of property



#### The challenge

A real estate investment trust (REIT) in Hong Kong completed a major revitalisation project for a retail property. To better understand the value created, the REIT wanted to quantify the socioeconomic impacts of its operations at the property in order to guide future enhancement of its other properties.

#### How KPMG helped

A team from KPMG in Hong Kong applied the True Value methodology to monetise the social impact of the retail property on the community. Combined with the economic value created, they calculated in financial terms the socioeconomic benefits generated by each dollar of asset enhancement investments in the property. The impact assessment also revealed related social changes as a result of the asset enhancement.

#### Benefits for the client

The True Value analysis enabled the REIT to quantify their social impacts, which were normally unpriced, and understand the overall contribution of their retail properties. The result is the identification of priority areas for improvement in future asset enhancement projects to improve performance and increase influence.

# We can help you to:



## Strategy and Governance

- Develop a sustainability strategy and roadmap to address key environmental and social risks, opportunities and material issues
- Establish key performance indicators and targets
- Develop policies and guidelines (e.g. on diversity and equality)
- Review and design processes and systems for effective strategy implementation
- Review and develop sustainability governance frameworks to ensure engagement and accountability
- Measure the return on investment of initiatives and conduct cost/benefit analyses (e.g. social return on investment (SROI) analysis)
- Prepare for inclusion in sustainability indices

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### Case Study

### Supporting listing on the Dow Jones Sustainability Index



#### The challenge

The Dow Jones Sustainability Index features companies ranked as top sustainability performers. Inclusion in the index is a sign that the company is successfully managing factors that contribute to the company's long-term success. As a telecommunications company envisioned being listed on the index again, it needed support to understand the requirements. Additionally, it sought assistance with the identification of relevant sustainability ratings.

#### How KPMG helped

KPMG in Germany supported the company in the identification of over 400 short-term improvement opportunities and over 130 longer-term measures. In addition, they supported the company with a tailored tool to assess the relevant sustainability ratings and performed the first assessment.

#### Benefits for the client

The company received a good overview of the relevant gaps and what was required in order to get listed again. The company achieved a re-listing in the second year after the assessment, following implementation of the identified improvements.

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## Sustainable Investment

- Assess and manage ESG risk within investment portfolios
- Develop and implement responsible investment strategy and policies (e.g. in accordance with the Equator Principles, the Principles for Responsible Investment, the Principles for Sustainable Insurance, etc.)
- Perform environmental and social due diligence on M&A transactions to assess environmental and social risks, liabilities and opportunities
- Advise on the issuance of green bonds and provide independent assurance



### Case Study

#### Providing independent assurance to enhance the credibility of green bonds



##### The challenge

The China Government promoted green projects and encouraged enterprises and financial institutions to issue green bonds to obtain financing from private capital for green projects. In December 2015, the first official green bond guidelines were released. A leading private alternative energy enterprise in China wanted to raise green finance through a bond. It needed to ensure the related requirements on internal processes and systems were met prior to the bond issuance in the interbank bond market.

##### How KPMG helped

A team comprising sustainability and assurance professionals at KPMG in China developed an independent assurance solution based on the domestic regulatory requirements and the specific circumstances of the company. Having maintained active coordination with the company, they completed the assurance according to the bond issuance timetable and helped the company become the first non-financial enterprise to issue a green bond in China.

##### Benefits for the client

Besides assisting the company in complying with China's regulations, KPMG supported the company in following the requirements of the broadly used Green Bond Principles, further improving the robustness of internal systems and controls on project evaluation, management of proceeds and reporting. Having KPMG provide assurance enhanced the bond's credibility with investors.

# We can help you to:



## Carbon Management

- Review risks and opportunities based on international and domestic developments in low-carbon initiatives
- Formulate a carbon reduction strategy
- Understand carbon taxes and emissions trading schemes, and develop a response
- Implement processes and IT solutions to gather, analyse and report carbon data across your organisation
- Report information on carbon for specific purposes (e.g. regulatory and CDP)
- Provide independent assurance of carbon data
- Account for carbon in financial reporting

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### Case Study

### Assessing the impact of carbon regulation



#### The challenge

Since South Korea launched its nation-wide emissions trading scheme on 1 January 2015, all covered entities have to surrender their carbon allowances to cover the carbon emitted each year, and suffer a penalty for any shortfall in allowances. In considering an acquisition of a cement manufacturing company, one of the largest emitters in South Korea, a private equity fund needed an analysis of the associated carbon risk and cost to determine the price for an M&A deal (a 'carbon due diligence').

#### How KPMG helped

A team comprising experts in sustainability and deal advisory from KPMG in Korea considered four scenarios which reflected the national emission targets and carbon price fluctuation over 10 years. They estimated in each scenario the target cement company's shortage/surplus of allowances given its future carbon emissions, and the medium and long-term cash flow with consideration of the cost of carbon emissions.

#### Benefits for the client

KPMG's analysis enabled the private equity fund to identify the expected amount of financial loss of up to USD 4-30 million under different scenarios in acquiring the target cement company due to the carbon regulations in South Korea. It helped the fund shape a more appropriate M&A strategy, taking into account the carbon-adjusted corporate value of the target company, which is far different from the baseline corporate value before adjusting for the expected carbon costs.

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## Sustainable Supply Chain Management

- Benchmark supply chain management and reporting trends
- Analyse supply chain and assess sustainability risk
- Establish policies (e.g. supplier codes of conduct)
- Develop criteria for supplier selection and qualification
- Develop supplier performance indicators and performance monitoring systems
- Perform supplier assessments and audits



### Case Study

### Monitoring suppliers in the clothing industry



#### The challenge

Prompted by concerns about working conditions in the garment industry, a major fashion group wanted to investigate to what extent its suppliers in India were complying with its code of conduct, and assess its exposure to risk through its suppliers.

#### How KPMG helped

Sustainability professionals at KPMG in India mapped the group's supply chain and identified more than 3,000 subcontractors involved in production in India alone. They also conducted an analysis to identify priorities to reduce risk, complexity and turnover in the supply chain. They developed new performance indicators and a supplier rating system (including social and environmental criteria) to encourage main suppliers to take responsibility.

In addition, they conducted regular audits and site visits to main suppliers and their subcontractors to verify compliance with the code of conduct.

#### Benefits for the client

As a result of the project, suppliers changed their behaviour to limit outsourcing and to build long-term relationships with their subcontractors. The social and environmental performance of the supply chain has moved from mere compliance with the code of conduct to proactive management of issues such as gender diversity and education. Slowly, the sustainability parameters found their way into the group's business considerations. The group is now replicating the model in other manufacturing locations.

# We can help you to:



## Sustainability Reporting and Assurance

- Benchmark reporting quality
- Develop a structured reporting system
- Prepare sustainability reports according to reporting frameworks and standards (e.g. stock exchange guidelines, Global Reporting Initiative (GRI) reporting standards, International Integrated Reporting Framework)
- Provide independent assurance on sustainability reports

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### Case Study

### Providing independent assurance on sustainability reports



#### The challenge

To enhance the credibility and reliability of their sustainability report, a leading hotel owner and operator in Hong Kong sought external independent limited assurance over the economic, environmental and social data and relevant narratives included in the report.

#### How KPMG helped

Professionals from KPMG in Hong Kong and KPMG in Australia with in-depth knowledge of the company and industry, as well as familiarity with the GRI reporting framework, formed a team to execute the engagement. They conducted the work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* and ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements*.

#### Benefits for the client

KPMG identified key areas for improvement in the company's data collection and reporting processes. Leveraging experience and knowledge gained from similar engagements, KPMG provided practical suggestions to improve the way data is collected to enhance reporting and help ensure robustness of the information going out to the public. This enabled the company to adjust their policies and procedures and implement better practices to ensure future reporting is more accurate and robust.

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# Why KPMG

KPMG is one of the pioneers of sustainability consulting, giving KPMG a level of experience few can match.

## Local knowledge, global experience

KPMG's global network means we have in-depth understanding of the economic, political, environmental and social landscapes wherever your organisation may operate. Whatever challenge you may face, we can put together a knowledgeable team with international experience to help you.

## Multidisciplinary team of professionals

We work side by side with KPMG professionals from tax, audit and advisory including sector specialists, management consultants, tax accountants and experts in IT, supply chain, infrastructure, international development and more. You will not receive generic advice and one-size-fits-all solutions from us; instead, you can benefit from a hand-picked multidisciplinary team.

## Industry focus and insights

Our business in China has established industry or sector groups, enabling targeted, industry-specific experience and advice to be delivered where needed. This focus on industry- and country-specific knowledge means we can deliver trained professionals who have an intimate knowledge of your specific business issues, as well as an overriding commitment to strive for the highest quality services.



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