

# What can Natural Capital Statements tell us beyond ESG data?

Natural capital statements combine **natural capital income statement and balance sheet**, which together can tell us how dependent a company is on natural capital; and whether the company is prepared for *future* risks and opportunities.

To demonstrate this, we have used publicly available reporting by SCA, a forest business. A longer version of the case study is published in "Bigger than Carbon: a systematic review" by Kepler Cheuvreux.

Financial and ESG analysis for forest businesses has largely relied on 'sustainable production and sourcing' metrics. These metrics alone cannot tell us whether a company makes a positive net contribution to natural capital and whether its dependence on natural capital is sustainable.

## Does the company make a positive net contribution to natural capital?

Like its financial counterpart, the natural capital income statement shows a company's positive and negative impacts during the accounting year. A net positive contribution means that a company's operational activities have more positive impacts on natural capital than negative ones. The income statement also shows which segments of the business lead to which impacts.

The natural capital income statement for SCA shows a net societal loss of €190m in 2016. The financial (adjusted operating) profit of the company for the same year was €234 million. What can the company do differently with this information?

- Continue to provide enhancements like using biological material as biofuel to avoid fossil fuel use
- Consider future enhancements: invest more in natural (boreal) forests to compensate for lower biodiversity in its planted forests or investigate beneficial co-use such as woodland grazing and recreational opportunities
- Improve energy use especially in the paper and pulp segment, where production is set to double in 2018
- Learn more about the upstream sources of impact in the supply chain.

### Natural Capital Income Statement – case study: SCA forest business only (% of impact attributable to business segment)

Flow of activity for the year 2016.

		Upstream	Forest	Wood	Biofuel pellet	Pulp	Paper
<b>Sources of enhancement to natural capital</b>							
Net carbon sequestration of productive forestland*	€23m		100%				
Reduced environmental impact from biofuels usage	<€1m			100%			
<b>Total enhancement</b>	<b>€23m</b>						
<b>Sources of deterioration to natural capital</b>							
Air pollution – Nitrogen oxide	€7m			6%		46%	48%
Air pollution – Sulphur dioxide	€1m			3%		51%	46%
Climate change – Fossil fuel	€4m			5%	<1%	32%	62%
Climate change – Grid electricity	€1m			6%	1%	8%	85%
Climate change – Biogenic	€114m			7%	2%	41%	50%
Emissions to water – Phosphorous	<€1m					32%	68%
Water abstraction and use	<€1m			100%			
Loss of wider social benefits from productive forestland**	€55m		100%				
Deterioration from raw materials sourcing	€30m	100%					
<b>Total deterioration</b>	<b>(€213m)</b>						
<b>Net contribution to natural capital</b>	<b>(€190m)</b>						

The numbers are rounded to the nearest million \*: sequestration provided by planted forest (net of what would have been sequestered through natural boreal forestland)  
\*\*: a very rough approximation of conservation value of productive forestland using Chiabai et al 2009 on the value from natural forestland.

SCA is the largest private forest owner in Europe with approximately 2.6m hectares of forestland in Sweden. SCA has already made significant progress towards achieving its 100% sustainable sourcing target. Since 1999, 100% of its own forest assets are certified and in 2016, 100% of timber and pulp sourced externally was either FSC-, PEFC-certified or met FSC controlled wood standards. All analysis presented here is based on publicly available data. SCA was not engaged in this analysis.

## Is the company's dependence on natural capital sustainable?

The natural capital balance sheet shows the value of the natural capital assets and what the company is planning to spend to maintain that value. Asset value could change over time due to the impacts of the company or external factors. All trends over time are reflected in the balance sheet so that the company can take necessary actions to prepare for any exposure (whether risks due to decline or benefit from improvements).

Comparing the natural capital assets and liabilities of SCA reveals that the company is maintaining a positive asset value. Repeating the account over several years will show whether that value is sustained by spending sufficient funds on appropriate actions.

**Assets: fair valuation of an asset as the sum of its services over time – where both the values to the business and to society are included.**

**Liabilities: actual and projected spending on activities that at least maintain natural capital assets. Current spending is captured in financial accounts, but future spending is typically not.**

**1** **Financial value of assets:** The book value of the forestland in SCA's annual accounts is around €3.25bn (2016) (following IAS 41).

**2 3** Biofuel and seedling assets are valued as the savings they facilitate, such as reduction in energy costs and seedling purchase at €1.5bn + €0.25bn, respectively. These do not appear in the financial balance sheet, and only partially in the income statement.

**4 5 6** These are the values SCA's activities generate for society in general. They do not return to the company as financial gain but add to the social capital the company creates, perhaps reflected in its brand value. €7.3bn appears in the natural capital balance sheet but not in the financial reports.

**7 8** The operational costs (as reported in the income statement) are projected over time. Resource provisions relate to natural capital assets that the company doesn't own but must maintain to secure its main dependencies (e.g. investing in additional water resources in times of drought). €3.1bn is not captured in the balance sheet, but current expenses are captured in the income statement.

**9** This simulates the financial retained earnings linking the income statement and balance sheet. It currently shows the loss value from the 2016 natural capital income statement, which is not reflected in the financial reports.

### Natural Capital Balance Sheet – case study: SCA forest business only

Reporting year: 2016, asset and liabilities over 100 years. WACC: 5.25%.

	Value to business	Value to society	Total value	Of which reported in financial accounts
	€'m	€'m	€'m	€'m
<b>Assets</b>				
<b>1</b> Timber	3,250		3,250	3,250
<b>2</b> Biofuels	1,516		1,516	
<b>3</b> Seedlings	257		257	-
<b>4</b> Carbon sequestration		2,728	2,728	-
<b>5</b> Recreational benefits		<1	<1	
<b>6</b> Wider social benefits		4,617	4,617	-
<b>Gross asset value</b>	<b>5,023</b>	<b>7,346</b>	<b>12,369</b>	<b>3,250</b>
<b>Liabilities</b>				
<b>7</b> Maintenance provisions	(3,161)		(3,161)	-
<b>8</b> Resource provisions		0	0	-
<b>Total liabilities</b>	<b>(3,161)</b>	<b>0</b>	<b>(3,161)</b>	<b>-</b>
<b>9</b> Retained earnings to stakeholders		<b>(190)</b>	<b>(190)</b>	
<b>Total Net Natural Capital</b>	<b>1,862</b>	<b>7,156</b>	<b>9,018</b>	<b>3,250</b>