



DRIVING VALUE CREATION
THROUGH INTEGRATED
THINKING AND REPORTING

A JOURNEY GUIDE

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WHAT IS INTEGRATED THINKING AND REPORTING?

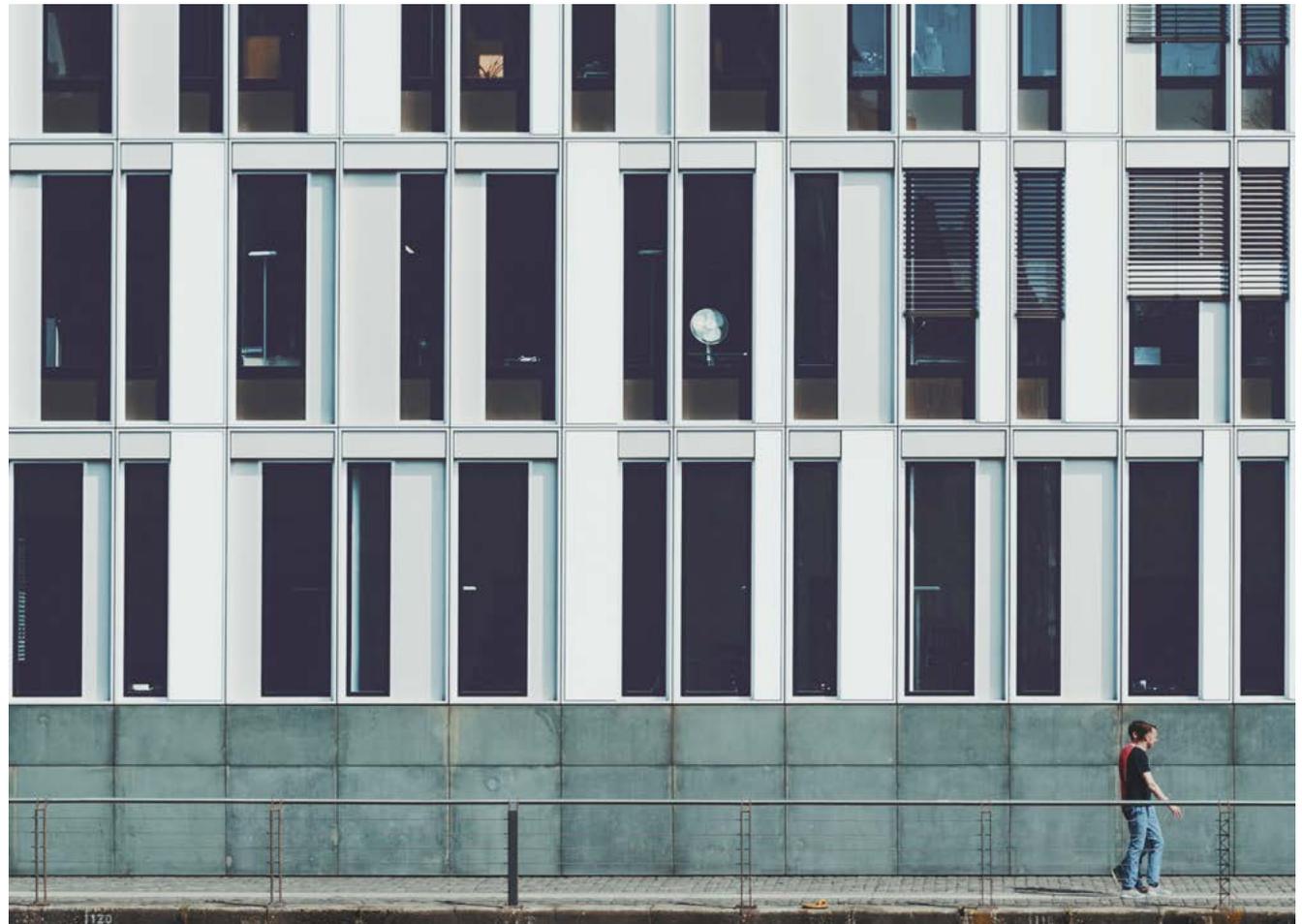
Stakeholders including clients, employees and regulators are increasingly expecting organisations to demonstrate value creation beyond traditional financial metrics and outputs. These expectations are supported by an increasing amount of research and market evidence arguing that organisations which incorporate Environmental, Social and Governance (ESG) data and narratives into annual financial disclosures are able to realise additional benefits.

Some of the benefits identified include increased employee engagement, heightened trust of stakeholder community partners and better investor visibility of future prospects and governance (For more detailed benefits see page 7).

Explaining how financial and non-financial performance factors are connected as well as measuring the impact they have on strategy, resource allocation and stakeholder communities is gaining momentum across the world.

Greater integrated thinking and decision making taking into account a wider array of issues, risks and opportunities is resulting in the creation of an integrated report.

Integrated Reporting (<IR>) supports organisations in telling a more meaningful story about how they define, create and maintain/increase/decrease value for themselves and key stakeholders now and in the short, medium and longer-term future. The integration of material financial and ESG information is allowing more informed decision making and development of smarter KPIs and KRIs.



INTEGRATED REPORTING BUILDING BLOCKS

<IR> has a number of key features which differentiate it from mainstream financial and ESG reporting practice, including:

CAPITAL EXPANSION

The 6 capitals (financial, manufactured, social and relationship, human, intellectual and natural) are stocks of value that are increased or decreased through the activities and outputs of the organisation. <IR> requires a wider organisational focus on the key resources and relationships in addition to how traditional financial and manufactured capitals are managed and optimised.

DEFINING VALUE CREATION

<IR> challenges organisations to better define value creation as a result of their activities. Is the focus on profitability, positive supplier relationships, happy employees, lower environmental impact or satisfied regulators? Perhaps its a combination of the above factors? Starting to identify, measure, integrate and communicate key financial and ESG value drivers increase the chances for seeing positive impacts on organisational performance and stakeholder reputation.

LOOK TO THE FUTURE

Integrated thinking and <IR> require a forward-looking mindset where all material financial and ESG performance drivers factors along with changing market conditions are considered at a strategic level.



The development and clear articulation of short, medium and longer-term targets alongside associated management/governance responsibilities are clearly communicated in the integrated report.

The challenge for organisations is clear. Communicating how to successfully navigate a wide variety of often unknown future market conditions and forces is difficult to impossible. <IR>'s future focus is an attempt to strengthen stakeholder trust in the direction of travel while also supporting better horizon scanning and information sharing systems.

“Integrated Reporting gives an opportunity to clearly communicate our strategic message – what is our business model? How do we create value? What is our relationship with a broad view of stakeholders? And critically why is our business model sustainable in the long term? These are questions that a number of users are challenging corporates to be able to answer”

RUSSEL PICOT, CHIEF ACCOUNTING OFFICER, HSBC

<IR> USER EXPERIENCES

“Integrated Reporting at AkzoNobel is not a goal in and of itself, but rather the result of enhanced integrated thinking following a clear sequence: Integrated thinking > Integrated strategy > Integrated management > Integrated reporting. Integrated thinking and reporting taken together allow us to measure and drive our business performance.”

MARK DIDDEN, SUSTAINABILITY DIRECTOR, AKZO NOBEL N.V.

“Integrated Reporting provides a real opportunity for organisations to develop and share a deeper understanding of how they create value for themselves, their investors and for the communities in which they operate”

TOM ROUNDELL, GLOBAL SUSTAINABILITY LEAD, JLL INC.

THE HISTORY OF INTEGRATED REPORTING

The Integrated Reporting Framework was launched in 2013 by The International Integrated Reporting Council (IIRC) - a global coalition of global regulators, investors, companies, standard setters, the accounting profession (including BDO) and NGOs.

The coalition is promoting more meaningful, connected communication about organisational value creation as the next step in the evolution of corporate reporting.

The <IR> framework remains the starting point for preparing integrated reports and drives better decision making through integrated thinking. To learn more, visit <http://integratedreporting.org/resource/international-ir-framework/>

“We think Integrated Reporting can enhance the approach that portfolio managers take. The key benefit is the way companies articulate their business models and link the inputs and outputs. The best integrated reports focus on the specifics.”

CHRISTIAN SPRENGER, BOARD MEMBER, DEUTSCHE ASSET MANAGEMENT (DWS)

“Integrated reporting is leading to a greater confidence in the long-term viability of Enagás’ business model.”

JOSE MIGUEL TUDELA, CR DIRECTOR, ENAGÁS

“Working with the <IR> Framework has helped us move in the right direction to embed sustainability and move towards integrated thinking. Sustainability goals are now integrated into one corporate strategy, which has helped streamline processes as there are no longer overlapping conversations tying goals to multiple strategies. Another internal benefit is that <IR> has improved communication and collaboration between departments.”

AES BRAZIL – IIRC NETWORK MEMBER

WHY INTEGRATED REPORTING MATTERS NOW?

CONNECTING FINANCIAL AND NON-FINANCIAL PERFORMANCE DRIVERS

There is mounting evidence to suggest a positive link between the management and reporting of financial and non-financial performance metrics such as profitability, customer data protection, carbon emissions risks in the supply chain, diversity, equal opportunities and inclusion practices. Company boards are increasingly coming under pressure from stakeholders including regulators, investors and civil society groups to explain in their corporate reporting how they are developing sustainable and resilient business models which can continue to deliver financial returns as well as meeting longer-term environmental, social and governance (ESG) commitments such as the UN Sustainable Development Goals (SDGs). Progressive organisations respond to these changing stakeholder expectations by developing and recruiting ESG expertise from board to report preparer level and look at reporting frameworks like <IR> to communicate their targets and progress.

90% of research studies indicate positive link between ESG and financial performance*

79% of board members agree that a longer-term perspective on strategic planning incorporating ESG factors would improve their organisations' value creation potential**

84% of board members agree that strategic ESG information is critical to future performance***

TRUST REQUIRES CONSISTENT VALUE CREATION AND STAKEHOLDER INCLUSION

Longer-term value creation and resilience is impossible if an organisation does not take into account the interests of key stakeholders. Consistently demonstrating transparency and accountability for your strategy, ESG policies and activities build trust which stakeholders including clients, investors and employees reward by increased interaction and satisfaction. Trust is forward looking and focuses on alignment of interest – <IR> can support organisations in charting their future course and take key stakeholders with them by communicating key value creation opportunities and potential risks ahead.

“Organisations of all sizes can use to build understanding and trust in their business. Using <IR>, trust in the business is built by succinctly highlighting what drives value.”

IFAC: Creating Value for SMEs through Integrated Thinking

92% of executives agree that integration of financial and ESG information builds stakeholder trust and confidence***

96% of executives agree that integration of financial and ESG information improves organisational decision making***

Sources:

* Deutsche Bank (2017): ESG and financial performance: aggregated evidence from more than 2000 empirical studies

** Ceres (2018): How board governance can drive sustainability performance

*** AICPA (2018): Purpose beyond profit "The value of value – board-level insights"

BETTER DECISION MAKING AND COLLECTIVE UNDERSTANDING

Increasingly organisations are responding through <IR> to not only communicate business performance to stakeholders, but also to create more internal connectivity across different departments and business units. Breaking down established perception barriers and reporting silos through a fresh integrated thinking and reporting approach would for example allow cross departmental discussions on how material ESG factors can be build into the existing risk-management process and then collectively understand how that carries through into organisational strategy-setting.

“Integrated Reporting is far more than just the process of publishing better annual reports. Besides being a powerful communication tool, integrated reporting and thinking can be used as an effective governance tool for performance-oriented management.”

THOMAS KUSTERER, CFO, ENBW

STAKEHOLDER BENEFITS

Growing evidence suggests that <IR> can help organisations achieve a better dialogue with stakeholders by demonstrating how future value creation risks and opportunities are managed. In addition, <IR> has the potential to drive organisational intelligence for more connected internal decision making.

ORGANISATIONAL BENEFITS OF ADOPTING <IR> INCLUDE

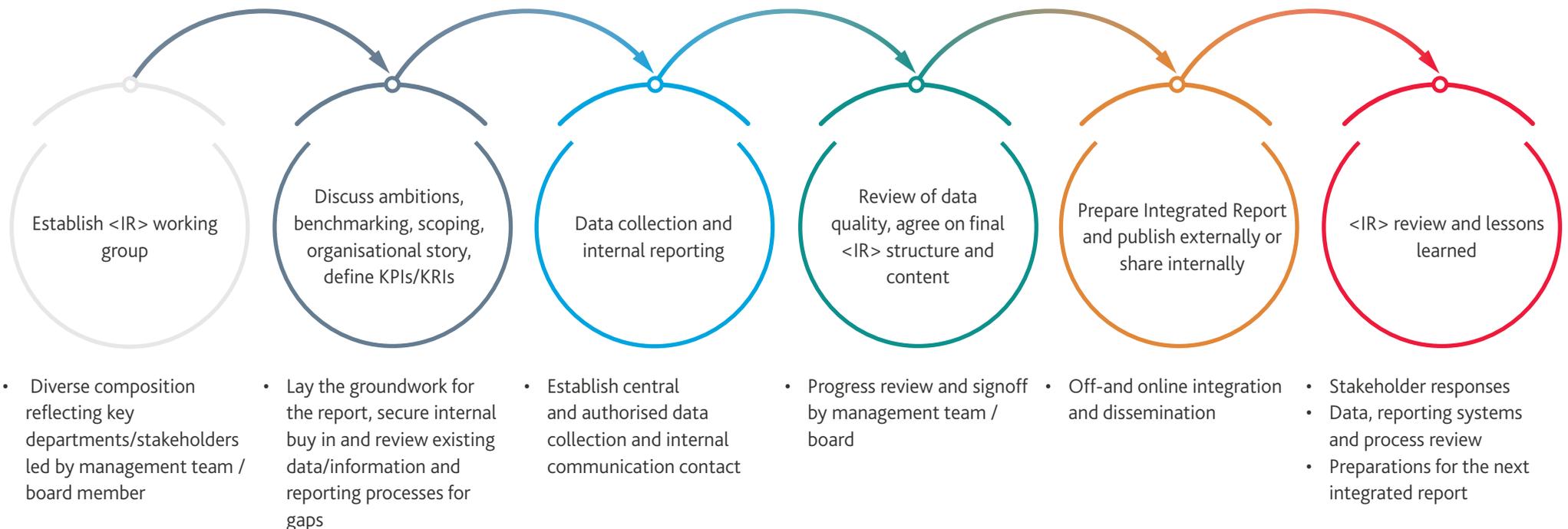
Stakeholders	Information needs	<IR> value creation opportunities
Employees	<ul style="list-style-type: none"> Competitive remuneration and benefits. Career development opportunities and investment. Plans to create an empowering, diverse, inclusive and enabling working environment. Evidence of Corporate Responsibility, ethical behaviour and stakeholder community engagement. 	<ul style="list-style-type: none"> Feedback about the employees' experience and how culture supports strategic priorities. Feedback to support identification and prioritisation of employee engagement improvements linked to organisational performance. Feedback to support strategic workforce planning defining critical capabilities for organisations future direction, assessing competencies and building appropriate learning solutions across the organisation.
Investors	<ul style="list-style-type: none"> Financial performance metrics / information about future strategy and performance outlook. Dividend and share buyback information. Increasingly how material ESG issues and performance potentially impact strategy, guidance and future results. 	<ul style="list-style-type: none"> Demonstrating more transparent and meaningful disclosure by connecting financial and extra-financial risks, opportunities and performance. Potentially achieving a lower cost of capital through providing e.g. investors and/or insurance partners an extended overview of anticipated future risks and planned mitigation measures. Demonstrating how future R&D investment and innovation efforts based on multiple, integrated resources can translate into financial capital appreciation.
Regulators	<ul style="list-style-type: none"> Governance, management and performance information (financial and increasingly ESG). Public interest and verification of trust information (financial and increasingly ESG). 	<ul style="list-style-type: none"> Demonstrating how regulatory requirements are met (and potentially exceeded) by disclosing a wider set of integrated financial and ESG data and information. Quantifying increasingly important ESG investments and their positive and/or negative impacts on the public sphere. Increasing public trust and strengthening the organisational license to operate through greater transparency about financial and ESG performance, outputs and outcomes.

Stakeholders	Information needs	<IR> value creation opportunities
Suppliers and vendors	<ul style="list-style-type: none"> • Clarity about organisational goals, vision, risk management and expectations reflected in the supplier code of conduct (financial and increasingly ESG based requirements). • Impact of increasingly ESG based procurement practices, audits and development programmes. • Financial stability of relationships and contractual arrangements. 	<ul style="list-style-type: none"> • Better supply chain risk visibility including the financial implications of weaker ESG performance management. • Potential to create more sustainable and value creating relationships with vendors based on financial and ESG based contracts and performance evaluation. • Joint learning opportunities to improve delivery of value adding products and services based on clear financial and ESG based targets.
Society	<ul style="list-style-type: none"> • Community project support/philanthropic investments. • Disclosing relevant ESG performance and impacts (positive and negative). • Employee volunteering, pro-bono support, product donations. • Political and lobbying activity. • Tax affairs disclosure. • Executive remuneration. • Human rights, labour practices including supply chain. • Ethical and fair business practices. 	<ul style="list-style-type: none"> • Improved societal transparency and trust through more meaningful and connected reporting across key financial and ESG issues and impacts. • Ability to demonstrate financial and ESG value creation and risk mitigation efforts over the short, medium and longer-term. • Demonstrating organisational "multi-capitalism" by connecting traditional financial performance metrics and capital use with ESG based capitals and impacts on societal stakeholders.



THE INTEGRATED REPORTING JOURNEY

The graph below shows what a high level roadmap towards publishing an integrated report may look like based on the experience of International Integrated Reporting Council's (IIRC) business network of reporting companies and our market observations. Regardless of your current reporting maturity, data availability, size, industry, available resources and/or ambition we believe that engaging with <IR> is likely to generate valuable insights into your organisational resources, relationships, decision making processes, data quality and reporting capabilities – even if the outcome is not a publicly available integrated report.



THE INTEGRATED REPORTING JOURNEY

TO STRENGTHEN YOUR <IR> ROADMAP AND STIMULATE DISCUSSIONS AROUND THE BENEFITS AND PURPOSE, CONSIDER THESE QUESTIONS:

- Do our key stakeholders know what our company is about and how we create value? Can they access relevant information easily or is there an information gap we need to fill?
- What materials/capitals/resources/relationships affect our long term success in the market?
- Is our current management thinking and decision making integrated and fully understood by the board?
- What information is available/not available to start building an integrated report reflecting our core value creation activities?
- Do we have meaningful KPIs and KRIs for the broader resources and capitals upon which our organisation depends?
- Can we explain our longer term strategy and value proposition to stakeholders?
- Do we track the longer term outcomes/impacts of our products and services?
- Do our current report and other disclosures answer the above questions?



<IR> IN ACTION – CASE STUDY

STORA ENSO'S VALUE CREATION PROCESS

HOW WE CREATE VALUE AS A RENEWABLE MATERIALS COMPANY

Replacing the use of fossil-based resources with renewable raw materials is the foundation for a sustainable bioeconomy. Stora Enso's products contribute to a low-carbon circular economy, in which materials are reused and recycled, while waste is minimised, to maximise environmental, social, and financial added value.

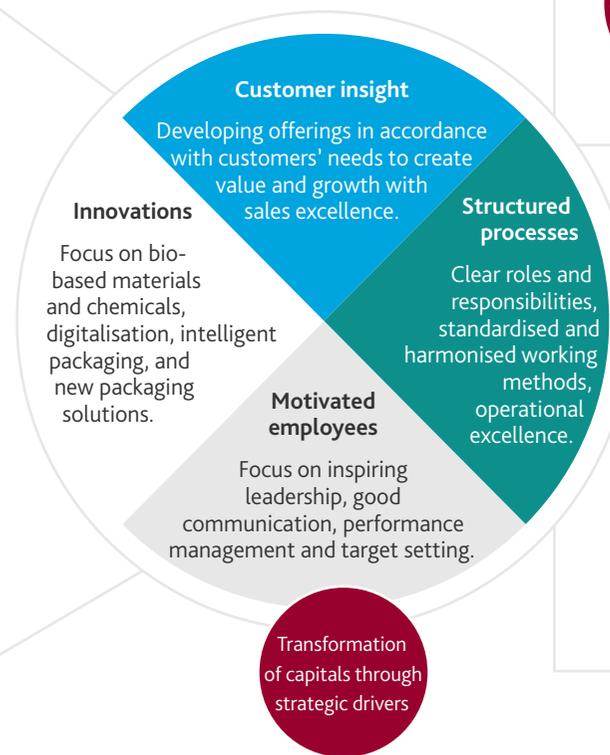
INPUTS

<p>NATURAL</p> <ul style="list-style-type: none"> Fibre from forests and plantations 37.5 million m³ of wood Pulp and Paper for Recycling Fuels 151 000 TJ (82% biomass) Electricity 12.9 TWh (42% generated internally) Water withdrawal 595 million m³ (process and cooling) <p>HUMAN</p> <ul style="list-style-type: none"> 26 000 employees Personnel turnover 14.6% <p>FINANCIAL</p> <ul style="list-style-type: none"> Debt/equity ratio 0.38 Capital employed EUR 8 308 million Capital expenditure EUR 640 million 	<p>MANUFACTURED</p> <ul style="list-style-type: none"> More than 60 production units in nearly 20 countries Over 20 000 suppliers <p>INTELLECTUAL</p> <ul style="list-style-type: none"> Patents, brand, competence Service concepts Partnerships with Aalto University, Chalmers, KTH Leadership development Collaboration with startups through Accelerator Programme <p>SOCIAL/RELATIONSHIP</p> <ul style="list-style-type: none"> Safety of employees and wider workforce Health and well-being Human rights work Community and stakeholder relations Collaboration with partners
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6 capitals/
resources needed
to create business
and stakeholder
value

STRATEGY

Sustainable profitable growth



Transformation
of capitals through
strategic drivers

OUTPUTS

<p>Value creation outputs (financial and non-financial)</p> <p>PRODUCTS</p> <ul style="list-style-type: none"> Renewable packaging materials and solutions Biomaterials, incl. lignin Wooden construction materials Paper 	<p>BY-PRODUCTS AND RESIDUALS</p> <ul style="list-style-type: none"> Electricity, heat, steam Turpentine, tall oil, sawdust, ash Energy from harvesting residuals Other residuals for beneficial use
<p>SERVICES</p> <ul style="list-style-type: none"> Innovation and R&D centres Design Studios Support for design and building planning Technical customer service Forest management 	<p>EMISSIONS AND DISCHARGES</p> <ul style="list-style-type: none"> Air emissions CO₂, NO₂, SO₂ Waste Process water discharges

<IR> IN ACTION – CASE STUDY

STORA ENSO'S VALUE CREATION PROCESS

IMPACTS

Stakeholders	Economic value (EUR million)	2017	2016
Customers	Sales	10,045	9,802
Suppliers	Payments to suppliers	6,913	6,753
	Capital expenditure	640	729
Employees	Wages, benefits, and pensions	1,331	1,334
Creditors	Interest	143	151
Public sector	Taxes borne and collected ¹	1,236	1,241
Shareholders	Dividends	292	260

SOCIAL

- Indirect and direct employment
- Human rights impacts
- Value creation with local communities
- Total recordable incident rate (TRI) 7.7
- Employee development
- 95% of supplier spend covered by Supplier Code of Conduct
- Renewable energy for surrounding communities

ENVIRONMENTAL

- Replacing non-renewable materials with renewable alternatives
- Bioenergy helps reducing fossil CO₂ emissions
- Substitution effect: avoided emissions through use of renewable products instead of fossil-fuel based materials
- Trees absorb and products store carbon
- Enhancing recycling (26% utilisation rate for Paper for Recycling)
- Utilisation rate for process residuals and waste 98%
- Promoting sustainable forestry - 92% of lands owned and managed covered by certification



1. For more information on Stora Enso's tax footprint, read more in the Financial Report.

<IR> IN ACTION – CASE STUDY

STORA ENSO'S VALUE CREATION PROCESS



- Short term
- Medium term
- Long term

OUR SUSTAINABILITY TARGETS AND KPIS

KPIs	2017	2016	Targets	Progress	
Human rights	Implementation of Human Rights Action Plan ¹	88% of the actions completed ² and 100% concluded	86% of the actions completed and 96% concluded	To complete all remaining actions not involving regular review by the end of 2017	Achieved
			4.0 by the end of 2017	Achieved	
Employees and wider workforce	Lost-time accident (LTA) rate ³	5.3	4.4	In 2018, the TRI rate will be the new group-level KPI, which we will start reporting on in the Q1/2018	
	Leadership Index ⁴	81	80	80 by the end of 2018	Achieved
Community	Total community investment ⁵	Reporting to start for 2018	n/a	To establish a group-wide KPI during 2017	Achieved
Business ethics	Code of Conduct Index ⁴	83	81	Positive trend	Achieved
	Number of significant environmental incidents ⁶	10	n/a	Zero significant incidents ⁶	Not achieved
	Materials: Process residuals utilisation rate (%) ⁷	98%	98%	To establish a group-wide KPI during 2017	Achieved
Materials, water, and energy	Water: Total water withdrawal per saleable tonne of pulp, paper, and board (m ³ /tonne)	56	57	Decreasing trend	Achieved
	Water: Process water discharge per saleable tonne of pulp, paper, and board (m ³ /tonne)	26	27	Decreasing trend	Achieved
	Energy: Reduction in electricity and heat consumption per saleable tonne of pulp, paper, and board (kWh/tonne)	-4.2%	-4.0% ⁸	-15% by the end of 2020 from a 2010 base-year	In progress

<IR> IN ACTION – CASE STUDY

STORA ENSO'S VALUE CREATION PROCESS

— Short term
— Medium term
— Long term

OUR SUSTAINABILITY TARGETS AND KPIS

KPIs	2017	2016	Targets	Progress	
Carbon dioxide	Reduction in CO ₂ emissions per saleable tonne of pulp, paper, and board (kg/tonne)	-40%	-40%	-35% by the end of 2025 from a 2006 base-year	Achieved
	Fossil CO ₂ emissions per total energy consumed (kg of CO ₂ /MWh)	64	63	Will be reviewed by the end of 2017.	
Forests, plantations, and land use	% of the lands owned and managed by the company covered by forest certification schemes	92%	90%	96% by the end of 2017	Not achieved
				The KPI will be redefined and a new target set during 2018	In progress
Suppliers	% of supplier spend covered by our Supplier Code of Conduct	95%	92%	95% of total supplier spend covered by the end of 2017	Achieved
				New target is planned to be communicated in the Interim Report for Q1/2018	

1. Stora Enso carried out a group-wide Human Rights Assessment during 2014. Action plans to address the findings were defined during the first half of 2015.
2. Process for completion is in place for three group-level actions, but the completion is carried forward into 2018.
3. Number of lost-time accidents among our own employees per one million hours worked.
4. Measured in the annual employee survey.

5. Total community investments covering cash, employee voluntary working hours, and in-kind. A new KPI established in 2017.
6. Environmental incidents involving a non-compliance with local environmental legislation or permits. For more details, see page 39.
7. Utilisation rate for process residuals excluding, for example, tall oil, turpentine, and wood chips. 2017 and 2016 figures not fully comparable due to data scope changes.
8. Historical figures recalculated due to accuracy improvements.

HERE TO HELP

THE BDO DIFFERENCE

Understanding, managing and communicating your value creation activities is relevant to all organisations and not just the often perceived domain of mature, internationally focused and well resourced companies.

Small and medium sized, public sector and family owned entities are often underserved by <IR> experts and solution providers – we believe this is not acceptable as integrated thinking and reporting approaches tailored to your specific organisation, industry and ambition has the potential to unlock significant value for your organisation and your stakeholders.

BDO has extensive experience in building trust in the information reported across a wide organisational spectrum. Our <IR> solutions aim to enhance your organisation's integrated thinking processes, measuring and integrating material ESG factors into existing business and reporting systems and deliver impactful disclosure of your performance data and narrative.

“Organisational reporting will evolve into a more advanced form: Integrated”.

HENNING DRÄGER, GLOBAL LEAD INTEGRATED REPORTING & SUSTAINABILITY, BDO

<IR> CONSIDERATIONS AND SOLUTIONS

- BDO tools and techniques for analysing your <IR> readiness.
Can your current systems and decision making generate insights in real time? Are they linked to performance dashboards? Do you have clear mechanisms for governing and managing <IR> data? If you answered 'no' to any of these questions, it might be time for an upgrade.
- A greater variety of factors that can affect <IR> performance are increasingly being incorporated. These factors include operational data such as employee diversity, supply chain carbon risk, facility efficiency and governance practices. BDO offers comprehensive <IR> advice and analysis to enable more relevant and accurate assessments of your current information state.
- Your organisation and your market environment is constantly in flux. BDO will help you adopt your <IR> approach to boost your resilience and stakeholder approval or risk being left behind.
- BDO's <IR> awareness and training programs help encourage employees to become part of the solution.





To learn more about BDO's integrated reporting solutions for your organisation please contact us:

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and/or possibility for local firm contacts to be inserted

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