

SCA Green Bond Report 2021



MARTIN JOLMER '22

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SCA was established in 1929 through the founding of a holding company for a number of forest industry companies in Northern Sweden. Ten independent forest companies joined together in a group comprising forests, sawmills, pulp mills and power generating companies. Some milestones in SCA's history are the investment in the Östrand pulp mill in 1932, the 1950 listing on the Stockholm Stock Exchange, and the establishment of the Örtviken newsprint mill in 1958. After a period of acquisitions in the 20th century, SCA divested its packaging business in 2012. In 2017, SCA was split into two listed companies; the forest product company SCA and the hygiene company Essity. In 2021, SCA discontinued its publication paper operations. As of today SCA is Europe's largest private forest owner and a leading forest industry company.



Executive summary

In spring, 2021 SCA established a new Green Bond Framework, which received the highest possible rating, “Dark Green” and highest possible governance score “Excellent” by CICERO Shades of Green. SCA aims to further diversify the green financing abilities and utilize debt capital to support SCA’s sustainability efforts and a transition towards a fossil-free and circular society via the funding of material Green Projects in this way. SCA’s projects are not only aimed at reducing negative impact, but also at increasing positive environmental impact.

The Green Project Categories are

- Valuable forests
- Fossil-free world
- Efficient use of resources

In 2021 SCA issued the first bond under the new Green Bond Framework of SEK 1,500 million.

By the end of 2021, SEK 1,104m was allocated to the following Eligible project categories



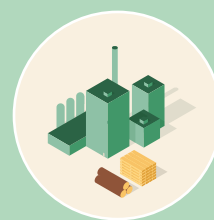
Valuable forests SEK 922m

- 27,350 eligible hectares of forests in Estonia and Latvia, all certified according to FSC.
- 1,100 hectares of forests with High Conservation Values (HCV) voluntarily protected in Estonia and Latvia.
- 111,000 net growth (m³ per annum).
- 153,000 tonnes of carbon sequestration (tonnes CO₂ per annum).
- 19 million seedlings with mechanical protection, eliminating use of insecticides.



Fossil-free world SEK 26m

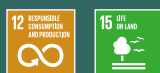
- Fossil free heating at Bogrundet tree nursery: reducing fossil carbon emission by 1,000 tonnes (CO₂ per annum).
- Improved heat recovery at Ortviken plant: avoiding 10,500 tonnes of carbon emissions (tonnes CO₂ per annum).



Efficient use of resources SEK 156m

- 4,600 tonnes reduction of dissolved solids and pollutants (tonnes per annum).

UN Sustainable
Development Goals



UN Sustainable
Development Goals



UN Sustainable
Development Goals

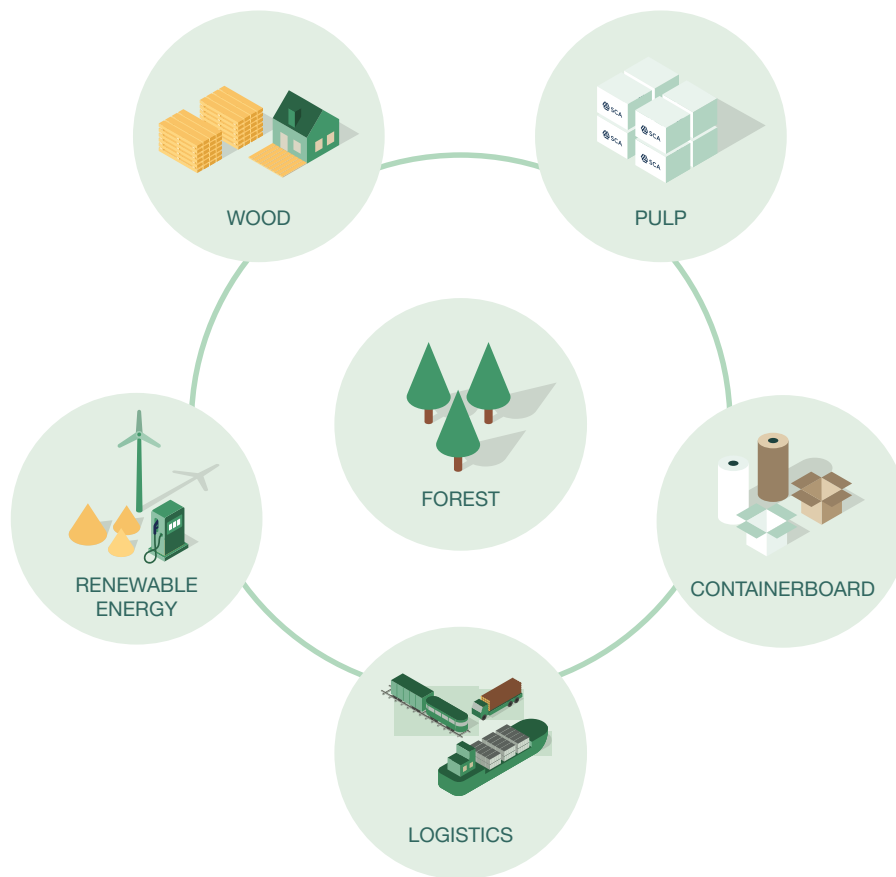


Overall CO₂ removal: 149 tonnes CO₂/MSEK and year

Unallocated amount of the 2021 issue is 396 MSEK, placed in the liquidity reserve and managed accordingly by SCA Treasury.

This is SCA

The forest is at the core of SCA's operations. SCA has built an integrated and well-invested industry around this renewable resource, utilizing and maximizing the value of the entire tree. Utilizing this raw material, SCA develops products for customers all around the world.



Forest

The forest is at the core of SCA's operations. On this base, SCA has built an industrial ecosystem that maximizes value creation in and from the forest.

Wood

Two-thirds of the revenue for forest owners comes from sawmills. A competitive sawmill industry is the economic engine of a forest business and creates the conditions for a competitive fiber-based industry.

Pulp

Any wood unsuitable for use in solid-wood products is used to make pulp. A pulp mill also produces secondary flows in the form of green chemicals, green electricity, heating and raw materials for biofuels.

Containerboard

SCA produces containerboard – paper for transport packaging. In our integrated paper mills we also produce valuable by-products and green energy.

Renewable energy

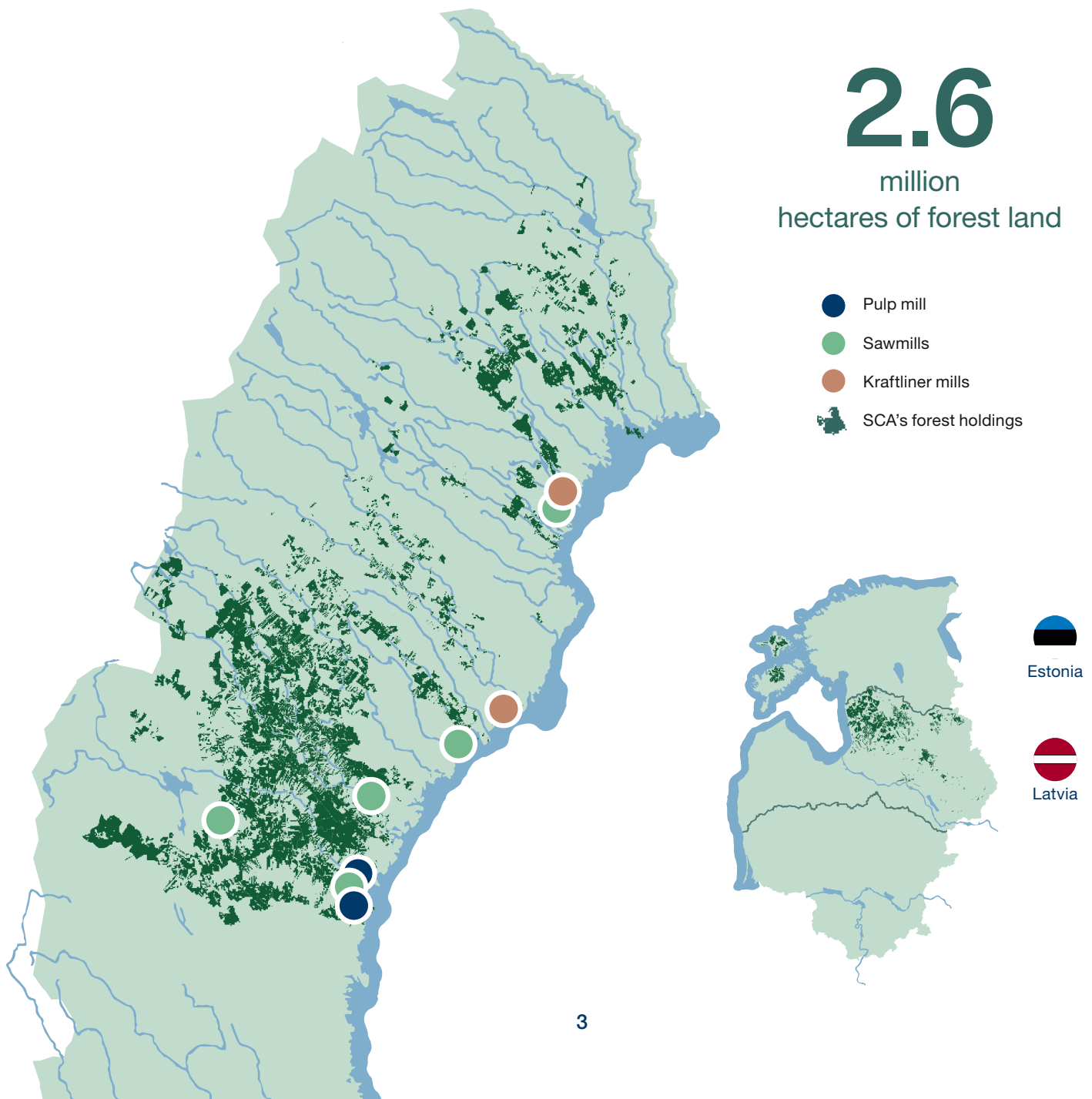
From the raw materials and by-products that are not used for solid-wood products, paper or pulp, SCA produces energy, green electricity, biofuels and green chemicals. SCA's forests offer favorable sites for wind power production.

Logistics

Logistics is a core operation for a forestry company. Raw materials must be cost efficiently shipped to industrial facilities and products delivered to customers worldwide.

Europe's largest private forest owner

SCA is Europe's largest private forest owner with 2.6 million hectares of forest in Northern Sweden and approximately 44,000 hectares in Estonia and Latvia. Based on this unique resource, SCA has developed an industry that generates the maximum possible value in the forest and from the forest.



How SCA protects forest biodiversity

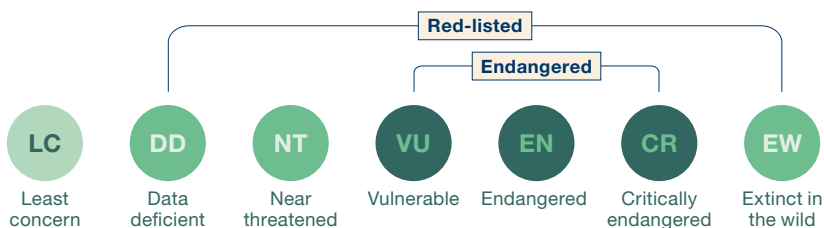
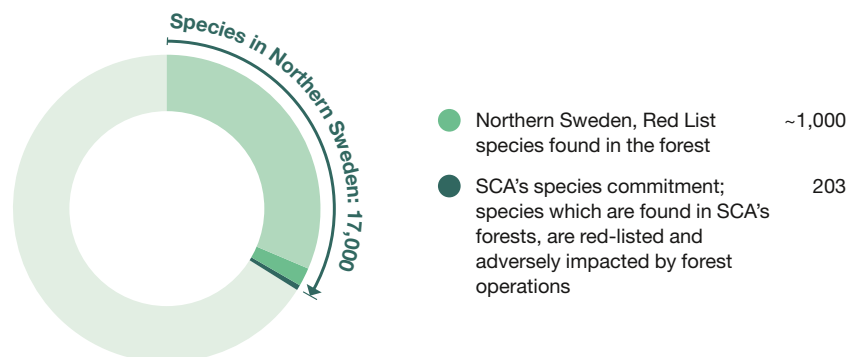
SCA's forest operations seek to reconcile a high level of production of valuable timber with other important forest values, particularly biodiversity. Among the great diversity of flora and fauna, SCA has identified 203 species on the Swedish Red List in its forests that are adversely impacted by forest operations applying general nature conservation measures.

SCA takes particular responsibility to protect these species, predominately fungi, mosses and lichen, as well as insects.

We refer to this as SCA's species commitment.

Flora and fauna in Sweden

Total: 50,000



Red List

In Sweden, the Red List is maintained by the Swedish Species Information Centre at the Swedish University of Agricultural Sciences. Using reports about discoveries of flora and fauna, the List notes declining species. Species on the Red List are divided into categories based on how rare and vulnerable they are. The most recent Red List was published in 2020.

Securing access to habitats for vulnerable species

Vulnerable species need habitats that are becoming less common in an actively managed forest landscape. SCA has identified 12 specific habitats that, based on stand age, tree continuity, availability of dead wood, presence of deciduous trees, fire sites and other factors are characterizing natural ecosystems in the region. These habitats, which are particularly important for the 203 species included in our species commitment, are preserved and enhanced on SCA land.

SCA has created programs and targets to ensure access to all of the habitats that are critical to these 203 species. SCA will report the progress of these programs and whether the established targets are achieved.



Horned powderpost beetle
(*Stephanopachys linearis*)

Habitat: This insect lays eggs in the fire damaged bark on older pine trees following a forest fire. The larvae feed on the layer between living and dead tissue. The species requires forest fires that damage older standing pine trees.



Coral tooth fungus
(*Hericium coralloides*)

Habitat: Grows on old, fallen, heavily decomposed deciduous trees. The species requires a mainly deciduous stand that is left to become very old. Over time, such stands will slowly but surely turn into spruce forests. New deciduous stands must be actively created to form such habitats in a century from now.



Old man's beard
(*Usnea longissima*)

Habitat: Requires old coniferous natural forests with a continuity of trees that is undisturbed by fire.

Green Bond Issue 2021



Photo: Nasdaq

In June 2021 SCA issued the first SEK 1,500 million Green Bond under the Medium Term Note programme. Approximately 75% of the proceeds of the bond are allocated to the three main project categories; Valuable forests, Fossil-free world, and Efficient use of resources.

This will support the progress towards the Paris Agreement and contribute to UN Sustainability goals 7, 12, 14 and 15. The financing part is approximately 20% and the remaining part is refinancing with a lookback of 1–2 years.

Allocated Proceeds and Impact: SEK 1.5 billion Dual Tranche

Issuer	Svenska Cellulosa Aktiebolaget SCA (publ)	
Bond Rating	BBB- (Standard & Poor's)	
Listing	Nasdaq Stockholm Sustainable Bonds	
Bond type	Senior Unsecured	
Issue Date	21 June 2021	
Maturity Date	21 June 2028	
Tranch	7 Year (FRN)	7 Year (FXD)
Nominal value	SEK 1,100m	SEK 400m
Coupon	3M STIBOR + 90 bps	1.375%
ISIN	SE0013102373	SE0013102381
Use of proceeds	Eligible Green Projects in accordance with SCA's Green Bond Framework	
Second opinion	CICERO Shades of Green, Dark Green rating	

Green Project categories

SCA Green Bond Framework states that an amount equal to the net proceeds of the Green Bonds will finance or refinance, in whole or in part, investments undertaken by SCA or its subsidiaries that promote the transition towards a low-carbon and environmentally sustainable society ("Green Projects"), in each case as determined by SCA in accordance with the Green Project categories defined in the Framework. On the following pages the allocation in each project will be presented together with impact assessments.

Green Project categories

1

Valuable forests

Forest land, Tree nurseries, Responsible forest management, and Research and development

[→ page 8–9](#)**2**

Fossil-free world

Renewable products, Renewable energy, Energy efficiency, and Clean transportation

[→ page 10–11](#)**3**

Efficient use of resources

Circularity and Wastewater management

[→ page 12–13](#)

1

Valuable forests



Use of proceeds

Valuable forests include financing or refinancing of the ownership, acquisition, tree nurseries and responsible forest management, as well as related research and development programs, all of which must provide impactful climate and environmental benefits. The total amount used for this category was SEK 922 million of which SEK 915 million was invested in sub category Forest land and SEK 7 million was invested in sub category Tree nurseries.

Our impacts

Apart from Sweden, the Baltic is the second most important region for SCA's wood sourcing. Since 2019 SCA has invested in 44,000 hectares and allocated green bond proceeds to 27,350

eligible hectares of forest holdings. All holdings have been FSC or PEFC certified since acquired. The financed part of these forests are adding approximately 111,000 m³ in net growth per annum, which corresponds to 153,000 tonnes of carbon dioxide sequestered and stored. This supports the progress towards the Paris Agreement and contribute to UN Sustainability goals 12 and 15.

The investment in SCA's nursery Bogrundet, to produce seedlings with mechanical protection (Hylosafe®) against damage caused by pine weevils, has eliminated the use of chemical protection for this purpose. 19 million such seedlings were produced in Bogrundet in 2021. Furthermore, as a result of this investment, insecticides are no longer used in SCA nursery operations. This contributes primarily to the UN Sustainability goal 12.

Allocated		
Forest land	SEK 915m	Increasing forest holdings in order to manage it responsibly. Securing carbon sequestration through net growth of the forest, preserving the biodiversity and availability to renewable raw material that can contribute to a fossil-free society.
Tree nurseries	SEK 7m	Mechanical protection of seedlings against pine weevil is applied to increase the survival rate and resilience of planted pine seedlings. This will contribute towards securing high growth in the forest, which in turn will increase the capture of carbon dioxide from the atmosphere and also increase future access to renewable raw material. By replacing chemical protection, SCA has eliminated the use of insecticides in the entire process of growing and planting seedlings.

Forest land

SCA certifies all its own forests. Since 2019, SCA has acquired approximately 44,000 hectares of forest land in Latvia and Estonia. State forestry regulations in Estonia and Latvia are strict and detailed, but SCA sets the bar even higher and certifies all forest land according to FSC and PEFC.

In addition to SCA having a large forest holding in Sweden, SCA also owns forest land in the Baltics, particularly in Latvia. The first land purchase in the Baltics was made in 2019 and more is being purchased on an on-going basis. The goal of SCA's forestry activities is the same wherever its forests are located: forests must be at least as rich in biodiversity, nature experiences and raw materials in the future as they are today. The majority of the forest that SCA has purchased were not FSC- or PEFC-certified at the time they were acquired. The certifications represent a marked improvement in terms of nature conservation and social values. This means, for example, that SCA voluntarily undertakes to protect forests with high environmental or social conservation values (HCV). In forests covered by the financing, approximately 1,100 hectares have been identified and managed so that these values are maintained or enhanced. This is a significant contribution to the network of protected forests in Estonia and Latvia.

SCA actively manages forests, for example, by planting and clearing, which results in forests that grow extremely well, bind large amounts of carbon dioxide and secure future access to sustainable raw materials. SCA also contributes to increased carbon storage by converting unused agricultural land into forest land. SCA does not convert agricultural land that is in active use; rather, we convert former grazing land that is no longer used and has become overgrown with shrubs and undergrowth.



SCA's forests in the Baltics are certified by the FSC®, (the Forest Stewardship Council®), and the PEFC, (Programme for the Endorsement of Forest Certification schemes).

In the forests covered by the financing, covering a total area of 27,350 hectares, 1,100 hectares have been defined as having High Conservation Value (HCV) and managed so that these values are maintained or enhanced.

Active forest management and high growth rates result in a high level of carbon dioxide storage. The financed forests in Estonia and Latvia grow by approximately 111,000 m³ annually, which corresponds to an annual uptake of 153,000 tonnes of carbon dioxide (CO₂).

Tree nurseries

Every year, the pine weevil (*Hylobius abietis*) damage or kill millions of seedlings in Sweden's forests worth hundreds of millions of kronor. This is why SCA has developed Hylosafe®, a long-acting and environmentally safe protection against pine weevils, ensuring that many seedlings survive. This enables forests to bind even more carbon dioxide and provide even more sustainable raw materials.

At SCA's nurseries, we are laying the foundations for the forests of the future. More than 110 million seedlings are grown in our nurseries per year, enough to cover about 50,000 hectares, or 100,000 football pitches. About half of the seedlings are planted on SCA's own land, while half are sold to other forest owners. Seedlings face several threats to their survival in their first few years of life, the greatest of which is the pine weevil, a pest that eats their bark. Many seedlings die, while others are damaged and have their growth affected as a result. The protection that Hylosafe® provides is vital – for forestry and the climate.

In the past, chemicals were used to protect seedlings from pine weevil infestation, but in 2017, SCA completely stopped using chemicals on its own land. And since 2020, SCA does not offer chemically treated seedlings for sale. With the introduction of Hylosafe®, SCA has completely eliminated the use of insecticides in our nurseries. This in turn means that people are not exposed to dangerous chemicals when working with plants in the nursery or when planting seedlings.



Hylosafe® consists of a mixture of sand and a binding agent, i.e., substances that do not harm the environment. Spraying Hylosafe® on the lower parts of seedlings, where pine weevils typically gnaw, gives plants good protection. Pine weevils dislike the texture of Hylosafe® and therefore avoid seedlings treated with it. Protection lasts for up to two seasons. Hylosafe® is thoroughly tested by SCA and the Swedish University of Agricultural Sciences (SLU). Tests show that it provides some of the most effective protection on the market.

SCA has built a facility capable of treating 300,000 seedlings a day with Hylosafe®. In 2021, about 19 million seedlings were treated, which corresponds to about 17% of SCA's total production. This number of seedlings is sufficient to plant just over 8,000 hectares of forest.

2

Fossil-free world



Use of proceeds

The financing or refinancing of projects that utilize renewable energy to significantly reduce or eliminate the use of fossil fuels, and project that increase substitution from fossil alternatives. Including the establishment, acquisition, expansion and upgrades/modifications of facilities, associated infrastructure and the production technologies related to the production of renewable products and renewable energy, as well as the financing or refinancing of investments into energy efficiency measures in relation to an existing asset or as a stand-alone investment and investments into zero emission vehicles and machinery. The total amount used for this category was SEK 26m invested in sub project category Renewable energy.

Our impacts

SCA has in 2021 and 2022 replaced oil heating with renewable energy in Bogrundet, one of SCA's two tree nurseries. With this investment, SCA now has fossil-free heating in both nurseries, as the other location has been using district heating from SCA's pulp mill in Östrand for the past 10 years. The investment means that SCA reduces oil use by 430 cubic meters per year and that carbon dioxide emissions are reduced by approximately 1,000 tonnes per year.

During 2021, SCA redesigned the system for heat recovery at the Ortviken industrial site, adjusting for new operating conditions following the discontinuation of publication paper operations. These improvements are expected to increase the supply of renewable energy to the district heating system in the local municipality of Sundsvall by approximately 29 GWh per annum. This corresponds to 10,500 tonnes of carbon dioxide equivalents (CO₂). These investments contribute to the UN Sustainability goal 7.

Allocated		
Renewable energy	SEK 26m	Reducing fossil emissions in own operations by replacing oil heating with renewable energy in the tree nursery. Achieving fossil-free production of seedlings. Improve the infrastructure in order to recover more heat in the exhaust gases at Ortviken industrial site and use for district heating of the local municipality.

Fossil free world

Today, SCA's seedlings get an even greener start. The Bogrundet nursery, which is the world's largest forest nursery, is now equipped with a completely fossil-free heating system that runs on pellets.

SCA already contributes in many ways today to limiting global warming. In addition to our growing area of forests that absorbs carbon dioxide from the atmosphere and renewable products that replace products made from fossil-based materials, SCA also continuously focuses on reducing greenhouse gas emissions from its own operations. We are striving to make our value chain fossil-free and the new heating system at the Bogrundet nursery is yet another step in the right direction.

The Bogrundet nursery is located in Timrå, just north of Sundsvall, and is where SCA grows about 95 million seedlings each year. Previously, its 14 greenhouses were heated with oil, but now our dependence on oil has been phased out in favour of pellet heating. The pellets are made from sawdust, which is a by-product from our nearby sawmill, thereby making full use of SCA's circularity loop. The investment reduces SCA's oil use by 430 cubic meters a year and carbon dioxide emissions by about 1,000 tonnes a year.

Pellets are climate neutral and do not contribute to the greenhouse effect. It is true that carbon dioxide is emitted when the pellets are burned, but this amounts to no more carbon dioxide than the trees used to make the pellets absorbed during their lifetime. And the uptake of carbon dioxide in SCA's forests is increasing, as the net growth of the standing forest is increasing. When trees are felled to become sustainable products such as sawn wood products, pulp and bioenergy, new trees are already standing and binding even more carbon dioxide.

The heating system at Bogrundet is specially manufactured to be as efficient and environmentally friendly as possible. The pellet boilers are equipped with flue gas filters that reduce dust emissions to a minimum.



SCA strives to make use of the entire tree and all parts of our waste streams. The most valuable parts of trees are processed in sawmills into wood products. More than half is used for wood products such as window components, painted cladding or shelves. The remainder becomes woodchip for pulp production or sawdust which is processed into pellets. Bark is used in energy production.

In 2021, SCA produced 11.7 TWh of bioenergy. Of which, 9.2 TWh was used in SCA's own plants and 2.5 TWh was delivered to external customers. SCA's production capacity at fully or partially owned plants amounts to 300,000 tonnes of pellets per year.

3

Efficient use of resources



Use of proceeds

The financing or refinancing of solutions contributing to the reduction and reuse of waste, in addition to management and improvement of wastewater treatment facilities, associated infrastructure, and water efficiency measures. This financing can take place in the form of expansion or upgrades of existing solutions, or in new process development if a material increase in resource circularity is ensured. The total amount used for this category was SEK 156 million which was invested in a wastewater treatment in the Munksund paper mill.

Our impacts

SCA has invested in the wastewater treatment facility at the Munksund paper mill. This will reduce the emissions to water of dissolved solids and pollutants that affect chemical oxygen demand (COD) by approximately 70% (4,600 tonnes). This contributes to the UN Sustainability goal 14.

Allocated		
Wastewater management	SEK 156m	Rebuilding of wastewater treatment facility in order to secure a good and efficient cleaning of the wastewater from the Munksund paper mill.

Wastewater treatment in Munksund

SCA has invested SEK 156 million in a new aeration pool for biological water treatment at the Munksund paper mill. The facility, which is equipped with cutting-edge process water purification technologies, entered service in 2021 and calibration is now underway.

Wastewater from pulp and paper production contains organic material in the form of wood fibres. It is important to remove as much of these materials as possible before wastewater is discharged into the sea. Large particles are relatively easy to remove; however, the amount of organic material dissolved in process water also needs to be reduced. All decomposition of organic material consumes oxygen and if decomposition occurs at sea, this reduces the amount of oxygen available to fish and other organisms in the vicinity. It is therefore important that as much decomposition as possible takes place in treatment plants.

The purification process at the Munksund paper mill takes place in three steps, in three different pools. In the first step – pre-sedimentation – solid particles sink to the bottom and are “scraped” off. Step two involves the aeration pool where bacteria get to work, hence the term biological purification.

Organic material that has dissolved in water cannot be filtered out because these particles are far too small. Instead, bacteria break down the material and when the bacteria die, they sink to the bottom and can be separated as sludge in a third purification step.

Purified water is analysed continuously before it is released. A key parameter is the amount of oxygen-consuming substances present in water. We measure this using Chemical Oxygen Demand, (COD), which indicates the amount of oxygen consumed in the decomposition of organic substances. The new aeration pool will substantially reduce COD.



At the Munksund mill, SCA produces white or brown packaging paper (kraftliner) for consumer and transport packaging, largely based on fresh wood fibre. The slow growth of the forests results in exceptionally long, strong and high-quality fiber, which lends our products unique qualities.

Production capacity: 415,000 tonnes/year.

Product range: Brown and white-top kraftliner, for consumer and transport packaging. Specialized in heavy-duty, wet-strength and white-top grades.

Governance

SCA strives to follow best practices and the new Green Bond Framework from 2021 is aligned with the Green Bond Principles published in June 2018 by the International Capital Market Association (ICMA). It defines the investments eligible for financing by green bonds issued by SCA. Moreover, it outlines governance such as the process used to identify, select and report on eligible projects and the set-up for managing the Green Bond proceeds.

CICERO Shades of Green has provided a second party opinion confirming the alignment with ICMA's Green Bond Principles and received the highest possible rating "Dark green". The second opinion also included an assessment of governance aspects and the chosen set-up received highest possible rating "Excellent". To further add transparency, SCA has also assigned an independent verifier to provide an annual statement confirming that the proceeds from the Green Bond issuance have been allocated to projects in line with the Green Bond Framework.

SCA has implemented a process to ensure that only eligible projects according to the green bond framework can receive allocation. One of the key governance bodies is SCAs Sustainability Council, which now also decides on green financing issues. The CFO chairs the Council and members are managerial positions within Sustainability, Finance, and Communication. The sustainability Council was convened on two occasions during 2021 and approved allocation of proceeds to eligible projects in the three main categories, covering four sub categories – with a total amount of SEK 1,104 million.

Following the approval, this Green Bond Report is published containing also the external assurance report of the assigned independent auditor, EY.



Auditor's Limited Assurance Report

To Svenska Cellulosa Aktiebolaget SCA, corporate identity number 556012-6293

Introduction

We have been engaged by the Board of Directors of Svenska Cellulosa Aktiebolaget SCA (SCA) to undertake a limited assurance engagement of selected information in SCA's Green Bond Report 2021 for the period 01 01 2021 – 31 12 2021 concerning the Green Bond issued in June 2021.

Assurance scope

The scope of our work was limited to assurance over the processes and systems for financing of eligible assets and allocating proceeds from the Green Bond to such assets, as described in the Green Bond Report (the "selected information"). The reporting criteria against which this information was assessed are relevant parts of the SCA Green Bond Framework per May 2021, available on the SCA website. Our assurance does not extend to any other information in the Green Bond Report. We have not reviewed and do not provide any assurance over any individual project information reported, including estimates of sustainability impacts.

Responsibilities of the Board of Directors and the Executive Management for the Sustainability Report

The Board of Directors and the Executive Management are responsible for evaluating and selecting eligible assets, for the use and management of bond proceeds, and for preparing a Green Bond Report that is free of material misstatements, whether due to fraud or error, in accordance with the SCA Green Bond Framework.

Responsibilities of the Auditor

Our responsibility is to express a limited assurance conclusion on the selected information specified above based on the procedures we have performed and the evidence we have obtained.

We conducted our limited assurance engagement in accordance with ISAE 3000 Assurance engagements other than audits or reviews of historical financial information issued by IAASB. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the management of bond proceeds and the process for selection of eligible assets, and applying analytical and other limited assurance procedures, including inspection of documentation, and limited sample testing of the selected information.

The procedures performed in a limited assurance engagement vary in nature from, and are less in scope than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards. The procedures performed, consequently, do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

Our independence and quality control

Ernst & Young AB applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of SCA in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

Conclusion

Based on the limited assurance procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the selected information disclosed in the SCA Green Bond Report has not been prepared, in all material respects, in accordance with the reporting criteria.

Stockholm, April 5, 2022
Ernst & Young AB

Fredrik Norrman
Authorized Public Accountant

Charlotte Söderlund
Authorized Public Accountant

