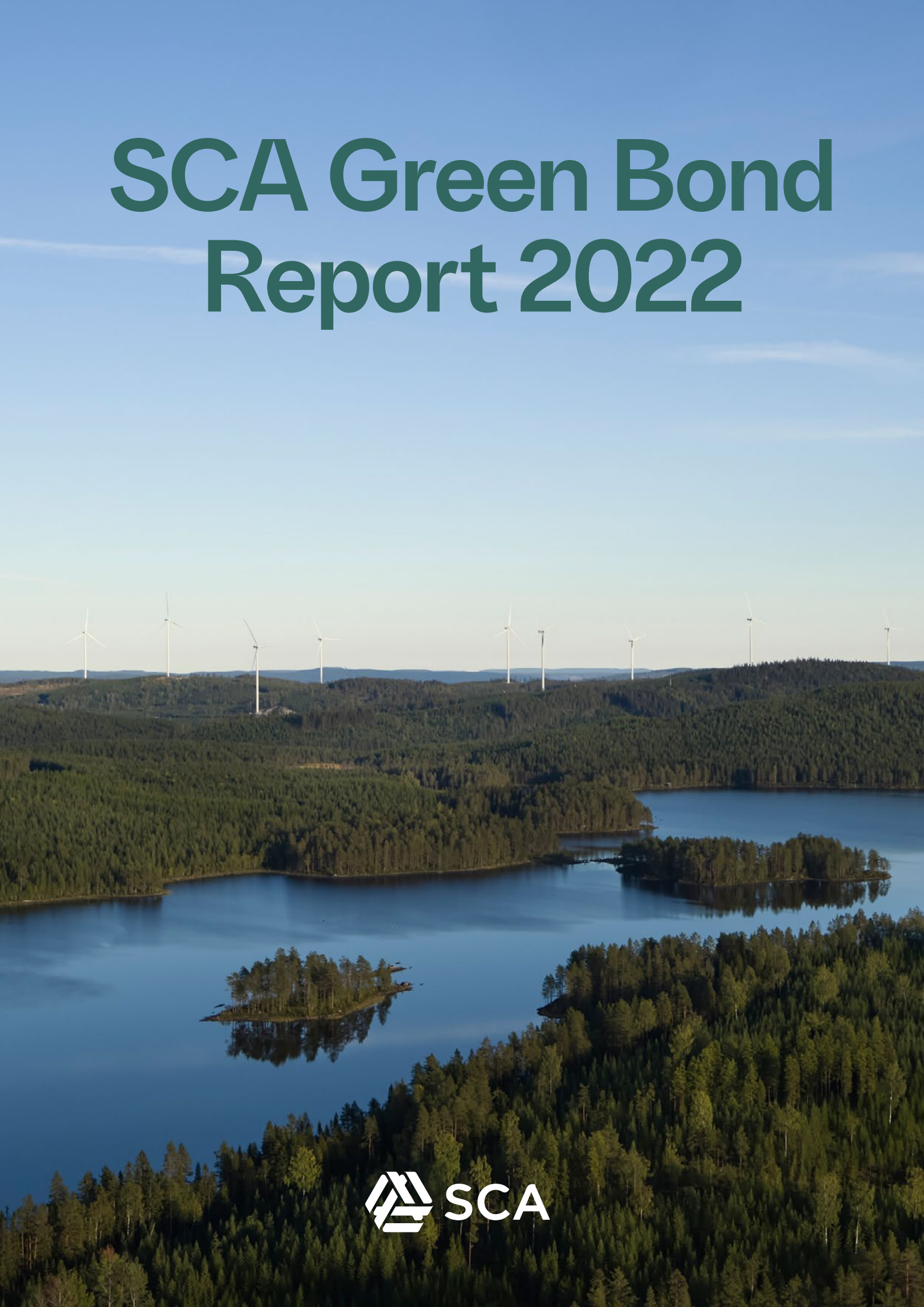
SCA Green Bond Report 2022



Contents

Table of contents is clickable

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 Ortviken 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. During 2022, all remaining proceeds were allocated.

By the end of 2022, all proceeds were allocated to the following Eligible project categories

Valuable forests

SEK 1,213m

- 33,700 eligible hectares of forests in Estonia and Latvia, all certified according to FSC.
- 2,700 hectares of forests with High Conservation Values (HCV) voluntarily protected in Estonia and Latvia.
- 204 000 net growth (m^3 per annum).
- 281 000 tonnes of carbon sequestration (CO_2 per annum).
- 19 million seedlings with mechanical protection, eliminating use of insecticides.

UN Sustainable Development Goals

Fossil-free world

SEK 126m

- Fossile free heating at Bogrundet tree nursery: reducing fossil carbon emission by 1,000 tonnes (CO_2 per annum).
- Improved heat recovery at Ortviken plant: avoiding 10,500 tonnes of carbon emissions (CO_2 per annum).
- Share of land based wind farm annual production of ~200-GWh with an annual CO_2 impact of 43,400 tonnes (CO_2 per annum) of which allocated share accounts for ~5,300 tonnes.

UN Sustainable Development Goals

Efficient use of resources

SEK 156m

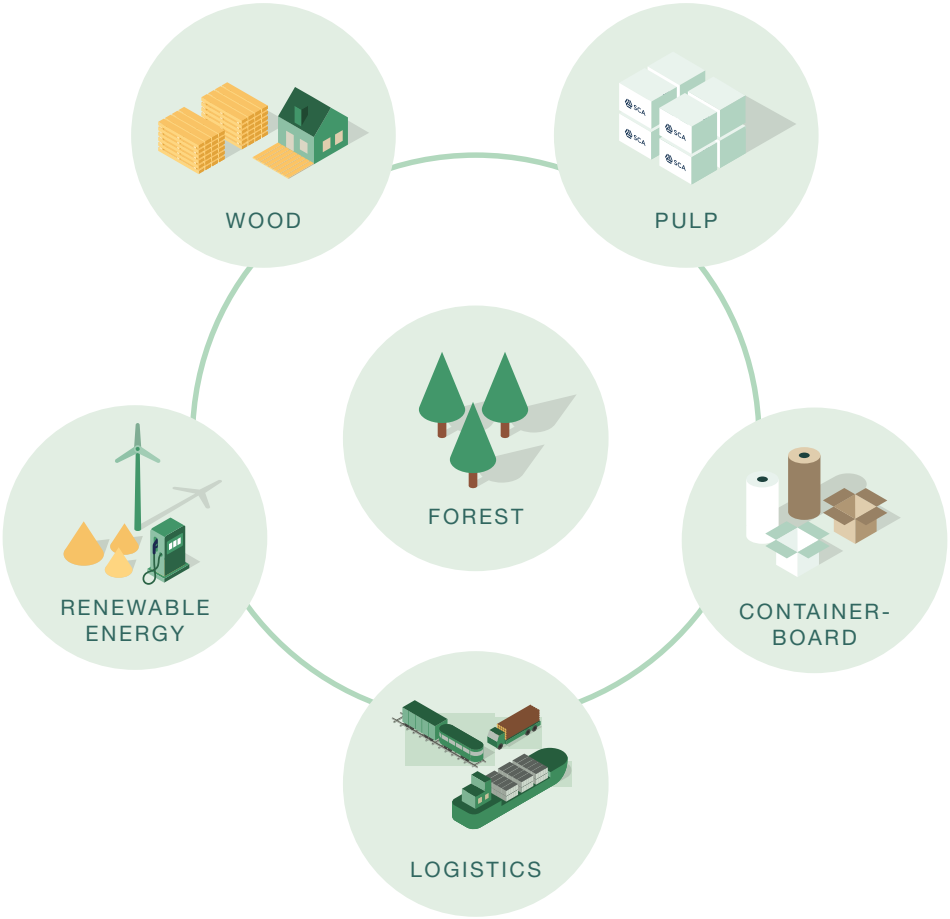
- 4,600 tonnes reduction of dissolved solids and pollutants (tonnes per annum).

UN Sustainable Development Goals

Overall CO_2 removal: 199 tonnes CO_2/MSEK and year

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. Using this raw material, SCA develops products for customers all around the world.



Forest
The forest is at the core of SCA's operations. With the forest as a foundation, SCA has built an industrial ecosystem that maximizes value creation in and from the forest.

Wood
Two thirds of the revenue for forest owners come 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, for example, green chemicals, green electricity, heating and raw materials for biofuels.

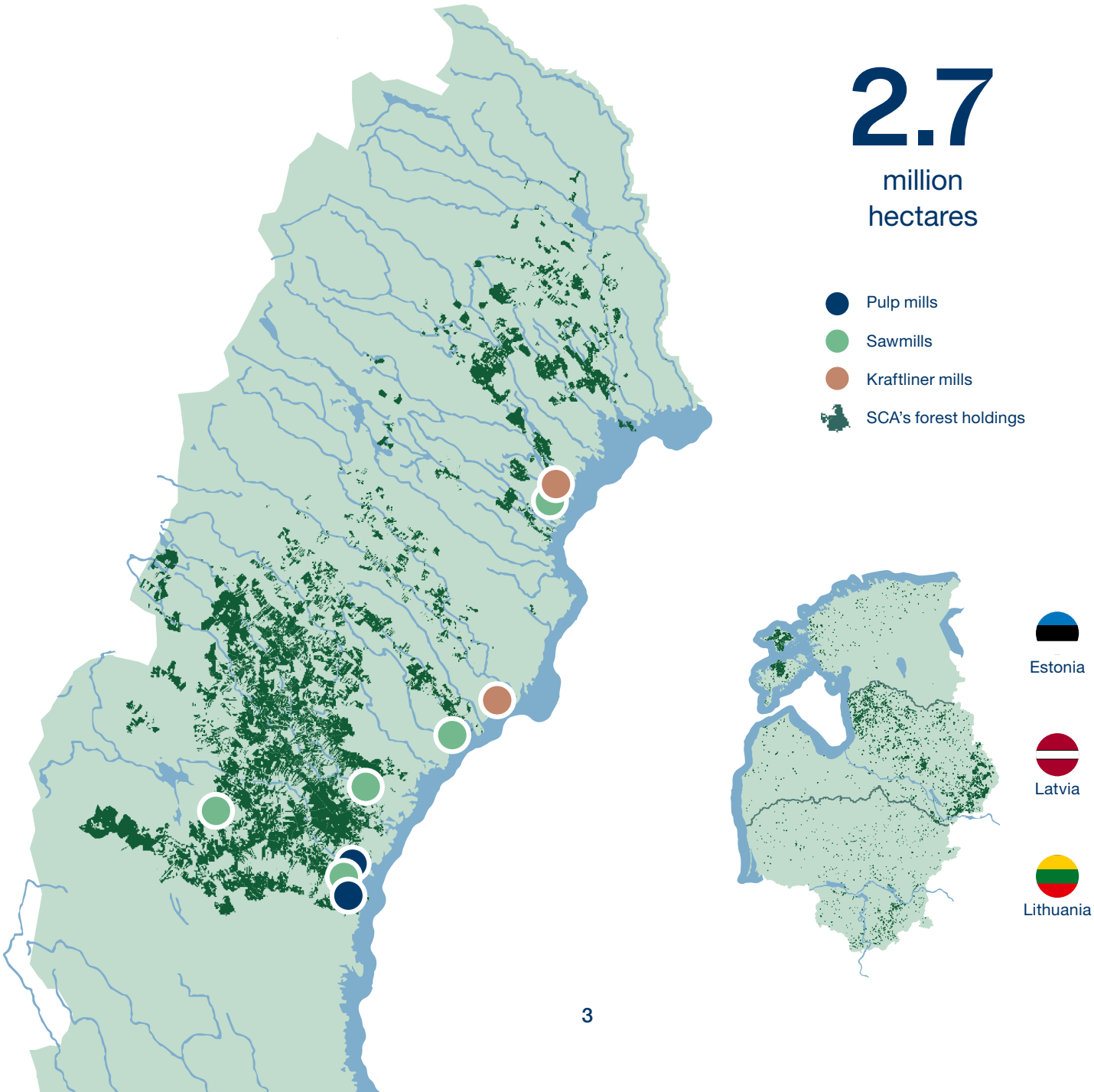
Containerboard
SCA produces containerboard – paper for transport packaging. An integrated paper mill produces, for example, green chemicals, green electricity, heating and raw materials for biofuels.

Renewable Energy
From the raw materials 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
Efficient logistics are crucial for a forestry company. Raw materials must be shipped cost-efficiently to industrial facilities and products must be delivered to customers worldwide.

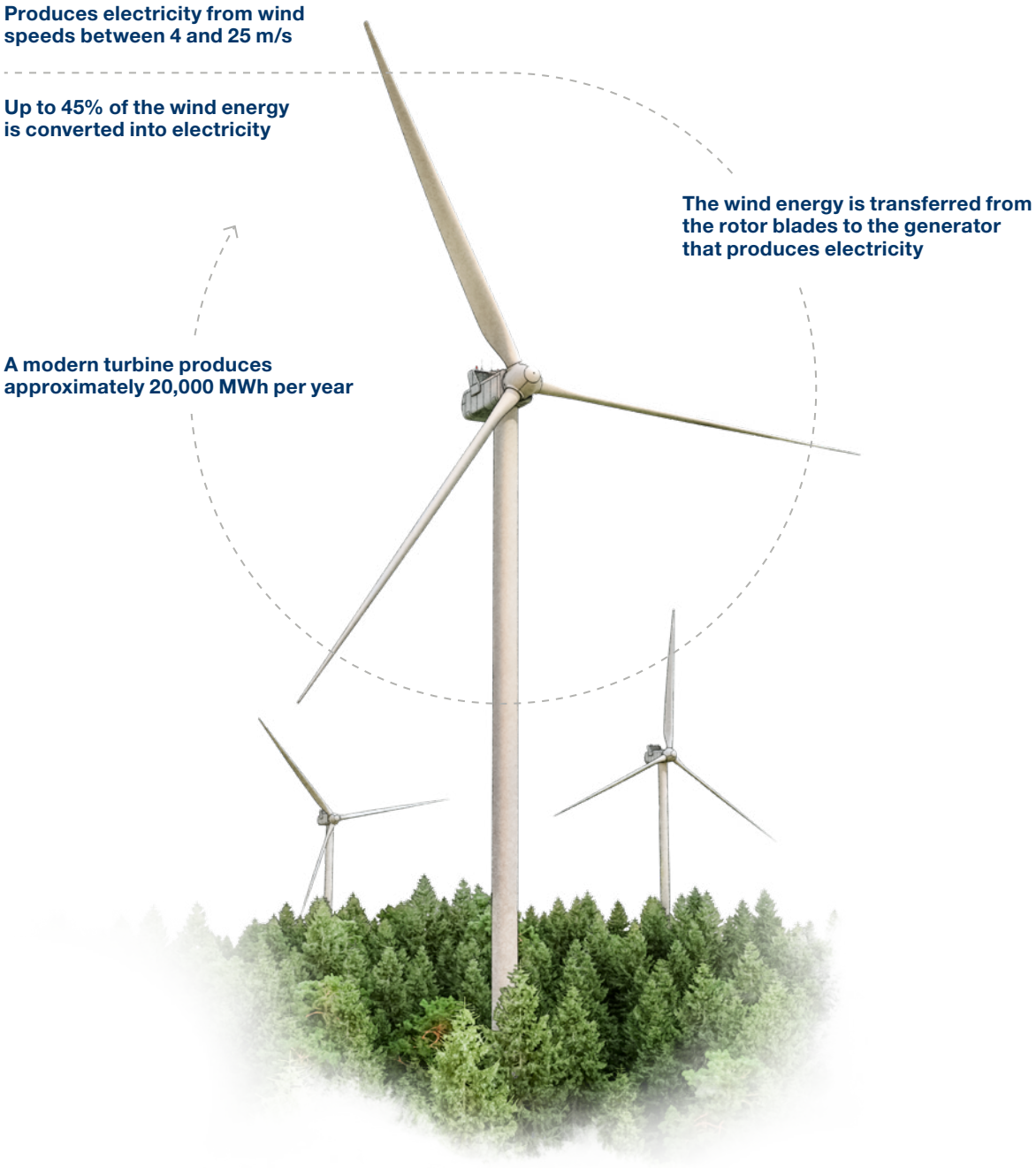
Europe’s largest private forest owner

SCA is Europe’s largest private forest owner with 2.7 million hectares of land in northern Sweden and the Baltic region. Based on this unique resource, SCA generates the maximum possible value in the forest and from the forest.



How a wind energy system works

Wind power is renewable. Onshore wind is the cheapest method of producing electricity on a large scale. The renewable electricity produced quickly compensates for the fossil emissions caused in connection with its construction.



A wind turbine
Up to 250 meters tall – the higher a wind turbine is, the greater the production of renewable electricity. Partly because there is more wind at higher altitudes, and also because larger blades with greater blade diameters can then be installed that catch more wind. A 250-meter wind turbine produces four times the electricity of a 150-meter wind turbine.

Production is generally higher during the winter months compared with the summer, as wind conditions are more favorable during the winter months.

A 250-meter-high wind turbine has an output of 6.5 MW and normally produces about 20,000 MWh of renewable electricity per year, sufficient to heat approximately 1,000 homes.

A wind farm
Comprises a number of wind turbines placed in a landscape to make the best possible use of the prevailing winds.

Forest between the wind turbines can be used for forestry, recreation such as hunting or nature conservation purposes.

One connection point
A wind farm must be joined to the national grid where electricity from the wind farm can be effectively distributed.

A wind energy system
Electricity production in a wind farm must be supplemented by other dispatchable sources of electricity.

Since electricity must be produced when it is used, other electricity production or some form of electricity storage must be used when there is no wind.

Electricity production can also be connected to some form of electricity-intensive use that can vary depending on wind energy production, such as hydrogen production. Hydrogen can then be considered a method to store wind power.

At the end of 2022, Sweden had wind power production capacity of 33 TWh, approximately 20% of Sweden's total capacity for electric power generation.

Even if Sweden's electricity production is largely fossil-free, Sweden delivers electricity to neighboring countries where electricity is produced from gas, oil and coal. 1 TWh of renewable wind power electricity replaces fossil-based electricity equivalent to 241,000 tonnes of CO_2 (European average).

SCA and wind power

Large areas of SCA's forest land in northern Sweden are very suitable for wind turbines. SCA's large land holdings mean the company is well positioned for the rapid expansion of wind power on the company's land. At the end of 2022, 685 wind turbines were operating on SCA's land with total annual production of 7.2 TWh, approximately 20% of Sweden's total wind power production.

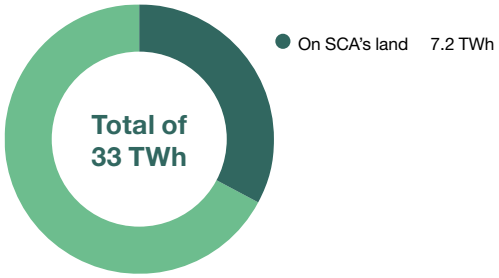
Since 1997, SCA has leased land for wind power projects and is now developing the wind power business through its own projects, projects to upgrade existing wind farms (repowering) and acquisition of existing wind farms.

SCA is working with partners to develop wind power production, from preparations and the permit process to managing wind farms in operation. SCA intends to invest in its own wind power portfolio and acquired its first wind farm in 2022 in Markbygden, Piteå Municipality, consisting of a total of 36 turbines.

Wind power technology has evolved substantially over the past ten years – with better turbines, larger generators and larger blade diameters – which means more installed power. Consequently, there is considerable potential in existing farms to replace old turbines with fewer, modern turbines with a greatly enhanced capacity. SCA can see significant opportunities in repowering, which means replacing older wind turbines in existing wind farms with modern wind turbines with a significantly higher production capacity.

In northern Sweden, new facilities are being planned and commissioned to manufacture fossil-free steel, batteries and other energy-intensive operations. Through new wind power initiatives and repowering projects, SCA can help to secure the supply of renewable electricity in the region and also help to ensure competitiveness and jobs.

Production capacity for wind power in Sweden:



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. 100% 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 at the time of allocation.

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

2 Fossil-free world

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

→ page 9–11

3 Efficient use of resources

Circularity and Wastewater management

→ page 12

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 1,213 million of which SEK 1,206 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 approximately 69,000 hectares and allocated green bond proceeds to 33,700 eligible hectares of forest holdings. All holdings have been FSC or PEFC certified since acquired. The financed part of these forests are adding approximately 204,000 m^3 in net growth per annum, which corresponds to approximately 281,000 tonnes of carbon dioxide sequestrated 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 1,206m	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.

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 126m 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. 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. Also in 2021, SCA redesigned the system for heat recovery at the Ortviken industrial site, which has increased 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 (CO_2).

During 2022, SCA made the first direct investment in a wind farm. The farm is located outside Piteå, in northern Sweden and consists of a total of 36 turbines. Annual production of approximately 200 GWh, corresponding to carbon dioxide emissions reductions by approximately 43,400 tonnes per year. These investments contribute to the UN Sustainability goal 7.

Allocated		
Renewable energy	SEK 126m	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. Investing in fossil free electricity production, a wind farm in the northern parts of Sweden.

Acquisition of the Skogberget wind park

In December 2022, SCA acquired its first wind farm - Skogberget - through the purchase of 36 wind turbines in Markbygden, Piteå municipality. SCA aims to become one of Sweden's leading suppliers of fossil-free electricity from wind power, and the acquisition is an important step towards achieving that goal.

To achieve the transition to a more sustainable future, society needs to reduce its dependence on energy produced from fossil fuels and increase the share of renewable energy. Wind power is one of the keys to achieving this. Wind power has the lowest carbon footprint and the most limited environmental impact of all energy sources.

As Europe's largest private forest owner, SCA has vast areas of land with favourable wind conditions. Since 1997, SCA has leased land for wind power establishments, and now SCA is expanding its commitment by acquiring and building wind farms on its own land. The acquisition of Skogberget was the first in what will become SCA's own wind power portfolio.

The Skogberget wind farm consists of 36 turbines, with a total installed capacity of approximately 85 MW. 15 of the wind turbines are located on SCA's land, and there are agreements with landowners for the remaining 21 wind turbines until 2062. The park is located in an area designated by the Swedish Energy Agency as of national interest for wind power. The annual electricity production from the facility is estimated to be close to 200 GWh. Each TWh of renewable wind power electricity replaces fossil-based electricity equivalent to 241,000 tonnes of carbon dioxide compared to the European average.[1]

SCA sees significant opportunities in repowering, i.e., replacing outdated wind turbines in older wind parks with new and modern wind turbines. Wind power technology has developed considerably over the past decade, with better turbines that have larger generators and larger rotor diameters, which means significantly higher production capacity. At the same time, much of the infrastructure is still in use, such as roads, cables, and connection points. The wind farm was commissioned in 2014 and has excellent conditions for repowering.

In northern Sweden, new establishments to produce fossil-free steel, batteries, and other energy-intensive activities are planned and underway. Through new wind power establishments and repowering projects, SCA can contribute to securing the supply of renewable electricity in the region and thereby further contribute to the energy transition. The investments in wind power also mean that SCA contributes to securing competitiveness and jobs in northern Sweden.

In addition to its own wind power parks, SCA leases land to a large number of other wind power operators. At the end of 2022, there were 685 wind turbines in operation on SCA's land, with a total annual production of 7.2 TWh, approximately 20 percent of Sweden's total wind power production. SCA's long-term goal is to have a wind power production on its own land of 11 TWh, equivalent to the electrification of all passenger cars in Sweden.

1) For the northern part of Sweden the corresponding figure is 80,000 tonnes of carbon dioxide.

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 in 2021 and 2022 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.

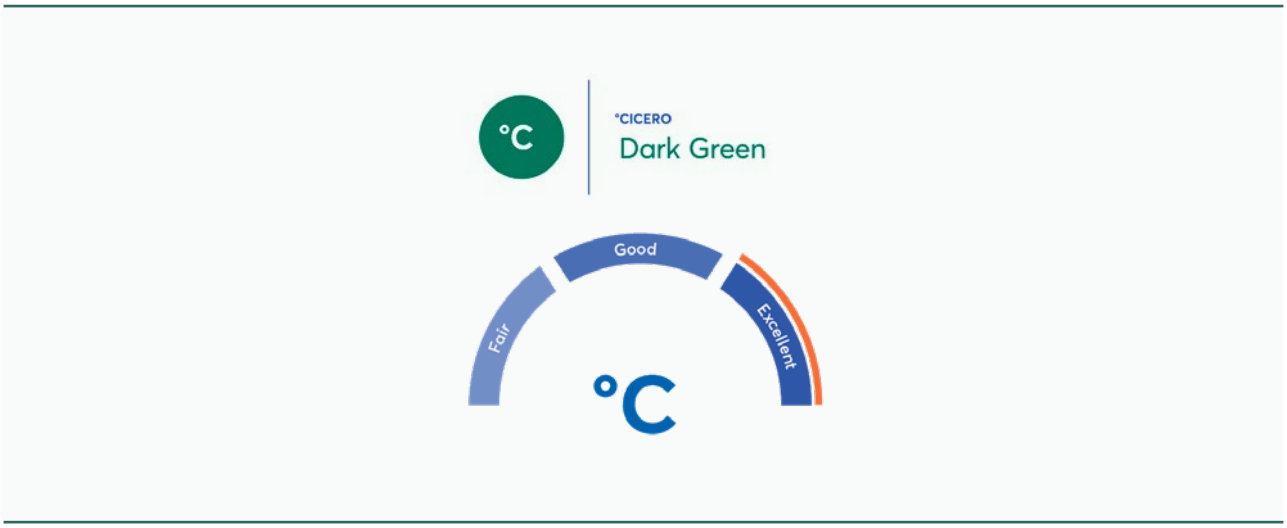
Governance

SCA strives to follow best practices and the 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 four occasions during 2022 and approved allocation of proceeds to eligible projects in two main categories – with a total amount of SEK 391 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 2022 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 June 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 (revised) 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 ISQM 1 (International Standard on Quality Management 1) 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 25, 2023
Ernst & Young AB

Fredrik Norrman
Authorized Public Accountant