

NEPCon Evaluation of Luzales LLC Compliance with the SBP Framework: Public Summary Report

First Surveillance Audit

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Completed in accordance with the CB Public Summary Report Template Version 1.4

*For further information on the SBP Framework and to view the full set of documentation see
www.sbp-cert.org*

Document history

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1 Overview

CB Name and contact: NEPCon OÜ, Filosoofi 31, 50108 Tartu, Estonia

Primary contact for SBP: Ondrej Tarabus ot@nepcon.org, +420 606 730 382

Current report completion date: 10/May/2019

Report authors: : Nikolai Tochilov

Name of the Company: Luzales LLC. Legal address Luzales LLC, 8, 1-ya Promyshlennaya str., Syktyvkar, Komi Republic, 167981 Russian Federation. Production site address: 1a Lesnaya str., 168132, stlm. Kyzdyavidz', Priluzskij district, Komi Republic, Russian Federation

Company contact for SBP: Elena Khozyainova, deputy director general, +79128641643, ekhozyainova@luzales.ru

Certified Supply Base: Komi Republic and Arkhangelsk region, Russia

SBP Certificate Code: SBP-01-98

Date of certificate issue: 05/Jun/2018

Date of certificate expiry: 04/Jun/2018

This report relates to the First Surveillance Audit

2 Scope of the evaluation and SBP certificate

The certificate scope: Production of wood pellets, for use in energy production, at Luzales LLC (Kyddzyavidz settlement, Republic of Komi, Russia), and biomass transportation to different end points all over the world. The scope of the certificate does not include Supply Base Evaluation. The scope includes communication of Dynamic Batch Sustainability Data.

3 Specific objective

The specific objective of this evaluation was to confirm that the Biomass Producer's management system is capable of ensuring that all requirements of specified SBP Standards are implemented across the entire scope of certification.

The scope of the evaluation covered:

- Review of the BP's management procedures;
- Review of the production processes, production site visit;
- Review of FSC system control points, analysis of the existing FSC CoC system;
- Interviews with responsible staff;
- Review of the records, calculations and conversion coefficients;
- GHG data collection analysis
- Assess compliance against Instruction Document 5D: Dynamic Batch Sustainability Data v1.1

4 SBP Standards utilised

4.1 SBP Standards utilised

Please select all SBP Standards used during this evaluation. All Standards can be accessed and downloaded from <https://sbp-cert.org/documents/standards-documents/standards>

- ☐ SBP Framework Standard 1: Feedstock Compliance Standard (Version 1.0, 26 March 2015)
- ☒ SBP Framework Standard 2: Verification of SBP-compliant Feedstock (Version 1.0, 26 March 2015)
- ☒ SBP Framework Standard 4: Chain of Custody (Version 1.0, 26 March 2015)
- ☒ SBP Framework Standard 5: Collection and Communication of Data (Version 1.0, 26 March 2015)

4.2 SBP-endorsed Regional Risk Assessment

N/A

5 Description of Company, Supply Base and Forest Management

5.1 Description of Company

BP is a wood processing (primary and secondary) company located in Komi Republic, Russia. Total annual production capacity of pellet plant is 18 000 tones.

Company runs both pellet and lumber production, which supplies secondary feedstock with FSC 100% claim to the pellet plant. Sawdust is used in pellet production; bark and wood chips are used for heating in boiler.

The round wood used at lumber production line (logs for primary production) originates from the Arkhangelsk region and Komi Republic and has FSC 100% claim.

The BP has implemented FSC transfer system and all amount of produced biomass is sold with FSC 100% (SBP-compliant biomass) claim.

The biomass leaving the pellet plant may be transported to customer by different routes and different means of transport. This will be covered by separate SREG documents, created when applicable.

Pellet plant was commissioned in January 2018.

5.2 Description of Company's Supply Base

The Supply Base of Luzales LLC is the forest fund area of its own leased area in the Komi Republic and two suppliers: from the Komi Republic and the Arkhangelsk region. In the own leased area of "Luzales" LLC the area of the forest fund is 697289 ha, the area of the forest fund of suppliers is 2582837 ha. The company and its suppliers have FSC forest management certificates and are responsible forest users.

LLC Luzales is a logging and wood-processing enterprise of a closed cycle. Sawmill residues (sawdust) is processed into pellets, thus the production is waste-free. Luzales LLC is one of the largest wood logging and processing companies in the Komi Republic. The annual volume of incoming raw materials (sawn timber) at the plant of Luzales LLC is 464,8 thousand m³.

Luzales LLC produces only SBP-certified biomass from Scots pine (*Pinus sylvestris*), Norway spruce (*Picea abies*).

Luzales LLC is located in the south of the Komi Republic, in the middle taiga zone, in close proximity to the village of Kyzdyavidz.

The Supply Base is located in the North-West Federal District of the Russian Federation, in one of the most forest regions of the country. Officially, the forest territory of the Russian Federation (forest fund) accounts for about 21% of the global stock of standing timber. Coniferous species constitute 78%, hardwood - 22%.

In accordance with the legislation of the Russian Federation, all lands of the forest fund are in state ownership. Legal entities receive forest plots for use for a period of 10 to 49 years on loan (with the possibility of their prolongation). Long-term rental relations are the dominant legal form for obtaining the right to harvest timber on stem. The conclusion of lease agreements for forest plots or purchase and sale agreements for forest stands is carried out at auctions for the sale of the right to conclude such agreements. Land leased, must pass a state cadastral registration.

The Forest Code of the Russian Federation obliges each tenant to develop a forest development project for 10 years (based on taxation and forest management), implement measures for the conservation, protection and reproduction of forests, and each year submit a forest declaration containing a report on the implemented measures and logging volumes.

Ensuring high-quality reproduction of forest resources and protective afforestation is a prerequisite for forest use. All reforestation work on leased forest areas is planned and carried out by forest users at their own expense in accordance with forest managements projects.

The Komi Republic and the Arkhangelsk Region are among the leading forest regions of Russia. The share of mature and overmature forest stands is about 3/4 of the timber stock. In protective forests located along lakes, swamps and other environmentally sensitive objects, a more strict control regime is applied. Within the Supply Base, the calculated cutting area is not fully developed. Underdeveloped infrastructure does not allow full use of available timber stocks.

Within the Supply Base, forests of high conservation value (HCVF) have been identified. FSC-certified enterprises, incl. and Luzales LLC, observe a moratorium on timber harvesting in these forest areas. On the territory of the Supply Base there are intact forests and wetlands of international importance. Therefore, in order to minimize the risk of conflict wood entrance in the supply chain, Luzales LLC uses wood only from FSC certified forests in the pellets production.

Within the Supply Base, forest management practices are based on the achievement of renewable sustainable forest management in accordance with the requirements of forest legislation and the principles of forest certification. The rotation period is 60-120 years. Only clear cuts are used as a method of wood harvesting. The maximum area of clear cuts is limited by 50 ha. Reforestation can be done with planting seedlings or the promotion of natural regeneration.

When harvesting wood, according to the forest legislation, species listed in the Red Book, as well as their habitats, are subject to conservation. Harvesting of valuable, endangered and specially protected species of trees is prohibited. Luzales LLC processes only Norway spruce (*Picea abies*) and Scotch pine (*Pinus sylvestris*). The tree species listed in CITES and IUCN are not procured.

Luzales LLC has a great socio-economic importance in the Priluzsky region of the Komi Republic. Annually agreements on social and economic partnership are concluded, within the framework of which there is financial aid to the district administration. In public settlements, stakeholder consultation are held with local residents, according to the results of which, decisions are taken to provide financial assistance in carrying out various public events, both regional and local, providing construction material for repair of socially significant facilities, allocation of places for picking mushrooms and berries, hunting grounds and other important forest areas for the local population. Individual assistance is also provided to local residents on

applications received, public organizations (community organizations, charities, veterans' societies, etc.). The local population has priority when applying for a job in Luzales LLC.

For more details please see the Supply Base Report available in Internet at BP's homepage: <http://www.luzales.ru/?id=334>.

5.3 Detailed description of Supply Base

Total Supply Base area (ha): 3280125,92 ha

Tenure by type (ha): 3280125,92 ha state ownership

Forest by type (ha): 3280125,92 ha boreal forests

Forest by management type (ha): 3280125,92 ha managed natural

Certified forest by scheme (ha): 3280125,92 ha FSC certified forests

5.4 Chain of Custody system

BP is a pellet producer situated in Kyddyavidz, Republic of Komi, Russia. BP holds valid FSC CoC certificate <https://info.fsc.org/details.php?id=a0240000005sTseAAE&type=certificate> covering both sawmill and pellet production. Only secondary feedstock (sawdust) with FSC 100% claim from Organisation's sawmill located at the same production site is used for pellet production and FSC transfer system of claims is implemented (all pellets have FSC 100% claim). Non-certified feedstock is not accepted

6 Evaluation process

6.1 Timing of evaluation activities

Activity	Location	Date/time
Opening meeting	Office in Syktyvkar	11/04/2019 10.00-10.30
Site tour, energy use data verification, FSC CoC verification, staff interview	Pellet production site in Kyddzyavidz settlement	11/04/2019 12.00-15.00
Evaluation of conformance against SBP standards 2 and 4. Supply Base Report review; FSC CoC records review, staff interview.	Office in Syktyvkar	12/04/2019 10.00-12.00
Evaluation of conformance against SBP standard 5 and Instruction Documents accompanying the Standard. Energy use data review.	Office in Syktyvkar	12/04/2019 12.00-15.00
Closing meeting.	Office in Syktyvkar	12/04/2019 15.00-15.30

6.2 Description of evaluation activities

The audit visit was focused on management system evaluation: division of the responsibilities, document and system, input material classification (reception and registration), analysis of the existing FSC system and FSC system control points as well as the collection of the energy and emission data.

Description of the audit evaluation:

All SBP related documentation connected to the SBP as well as FSC system of the organisation, including SBP Procedures, GHG related data, Supply Base Reports, were evaluated during the audit.

Auditor was welcomed in the company. Audit started with an opening meeting at company's office in Syktyvkar.

Auditor introduced himself, provided information about audit plan, methodology, auditor qualification, confidentiality issues, and assessment methodology and clarified verification scope. During the opening meeting the auditor explained CB's approval related issues.

After that, auditor went by car to production site, which is located in 170 km to the south from Syktyvkar. Roundtrip around BP's pellet production was undertaken. During the site tour reception process were observed, vehicles used at pellet production were checked, applicable records were reviewed, pellet factory staff was interviewed and FSC system critical control points were analysed

After that auditor returned back to Syktyvkar. The second day at company's office in Syktyvkar, auditor went through all applicable requirements of the SBP Standards nr.2, 4, 5 and SBP Instruction Documents 5a, 5b, 5c, 5d covering input clarification, existing chain of custody system, management system, CoC, recordkeeping/mass balance requirements, emission and energy data and categorisation of input and verification of SBP compliant feedstock/ biomass. During the process, overall responsible person for SBP system and as well as other persons having key responsibilities within the system were interviewed.

At the end of the audit findings were summarised and assessment conclusion based on use of 3 angle evaluation method were provided to the representatives of the company.

Composition of audit team:

Auditor(s), roles	Qualifications
Nikolai Tochilov	Audit team leader. NEPCon SBP lead auditor. He has successfully passed SBP auditor training in Tallinn in January 2015; previous experience with more than 30 SBP assessments and annual audits in Russia and Europe.

Impartiality commitment: NEPCon commits to using impartial auditors and our clients are encouraged to inform NEPCon management if violations of this are noted. Please see our Impartiality Policy here: <http://www.nepcon.org/impartiality-policy>

6.3 Process for consultation with stakeholders

No stakeholder consultation conducted prior, during or after this annual audit.

7 Results

7.1 Main strengths and weaknesses

Strengths: use of FSC transfer system (all inputs are FSC 100% certified; non-certified inputs are not accepted). Robust recordkeeping system. Good awareness of certification requirements by involved staff.

Weaknesses: no weaknesses identified during this annual audit.

7.2 Rigour of Supply Base Evaluation

N/A

7.3 Collection and Communication of Data

BP has robust system of measuring and recordkeeping of energy use data related to biomass production, handling and transport. During the assessment in 2018, BP has prepared SAR document covering the possible route of biomass transportation to customer. In the reporting period BP has sold a certain number of batches of SBP-certified biomass, but the route and mean of transport were different from information specified in SAR. Therefore, BP has created SREG documents accompanying the batches– energy use data in SREG was verified and confirmed by auditor.

7.4 Competency of involved personnel

Responsible staff showed good awareness of requirements of applicable SBP standards and Instruction Documents. The key staff involved to SBP certification includes director general, deputy director general responsible for certification, staff from accountancy department and pellet plant staff. During the audit, BP staff was supported by independent consultant.

7.5 Stakeholder feedback

No feedback received from stakeholders prior, during or after this audit.

7.6 Preconditions

None.

8 Review of Company's Risk Assessments

N/A

9 Review of Company's mitigation measures

N/A

10 Non-conformities and observations

Identify all non-conformities and observations raised/closed during the evaluation (a tabular format below may be used here). Please use as many copies of the table as needed. For each, give details to include at least the following:

- *applicable requirement(s)*
- *grading of the non-conformity (major or minor) or observation with supporting rationale*
- *timeframe for resolution of the non-conformity*
- *a statement as to whether the non-conformity is likely to impact upon the integrity of the affected SBP-certified products and the credibility of the SBP trademarks.*

No non-conformities identified during this audit.

11 Certification decision

Based on the auditor's recommendation and the Certification Body's quality review, the following certification decision is taken:	
Certification decision:	Certification approved
Certification decision by (name of the person):	Ondrej Tarabus
Date of decision:	10.06.2019
Other comments:	N/A