

NEPCon Evaluation of ULK Group 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: 18/Apr/2019

Report authors: : Nikolai Tochilov

Name of the Company: ULK Group LLC. Legal address: office 1, 17 Zavodskaya street, Oktybrskiy settlement 165210, Ustyanskiy area, Arkhangelsk region, Russian Federation. Production site address: Kostylevo, 165210, Ustyanskiy area, Arkhangelsk region, Russian Federation - East Europe

Company contact for SBP: Ekaterina Krivosheeva, deputy director of certification department, +7 921 294 92 67, e.krivosheeva@ulkust.ru

Certified Supply Base: Arkhangelsk and Vologda region, Russia

SBP Certificate Code: SBP-01-99

Date of certificate issue: 18/Jun/2018

Date of certificate expiry: 17/Jun/2023

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 ULK Group LLC (Kostylevo, Arkhangelsk region, 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 Arkhangelsk region, Russia. Total annual production capacity of pellet plant is 150 000 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 in dryer.

The round wood used at lumber production line (logs for primary production) originates from the Arkhangelsk and Vologda regions 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 is transported by railway to S.Peterburg and Ust-Luga harbours and then by vessels to different harbors all over the world (CFR, Incoterms).

Pellet plant was commissioned in July 2018.

5.2 Description of Company's Supply Base

The Supply base of ULK Group LLC is the forest fund area of its own leased base in the Arkhangelsk and Vologda regions and the leased area of three FSC certified suppliers, who is located in the Arkhangelsk and Vologda regions. The company ULK GROUP LLC has an FSC forest management certificate (NC-FM / COC-014108).

ULK GROUP LLC is one of the largest logging and timber processing enterprises in the Arkhangelsk region. The group includes 4 sawmills (3 in the Arkhangelsk region and 1 in the Novgorod region) and two pellet plants in the Arkhangelsk region, the village of Oktyabrsky and the city of Velsk.

The SBP-certified biomass producer is located in the south of the Arkhangelsk region in the middle taiga zone, in close proximity to Oktyabrsky and the Northern Railway. The main activities are lumbering and lumber production. The company processes about 1,400 thousand m³ of roundwood per year. For the production of pellets, ULK GROUP LLC uses only SBP-compliant secondary feedstock (sawdust, waste of its own sawn timber production).

The Supply Base is located in the North-West Federal District of the Russian Federation, in one of the most forested 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. Softwood 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 Arkhangelsk and Vologda regions 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 ULK GROUP 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 entrence in the supply chain, ULK GROUP 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. ULK GROUP LLC processes only Siberian spruce (*Picea obovata*), European spruce (*Picea abies*) and Scotch pine (*Pinus sylvestris*). The tree species listed in CITES and IUCN are not procured.

The forest complex of the Russian Federation, which includes forestry and timber industries for the harvesting and processing of wood, occupies an important place in the country's economy. The development of the social sphere (health, education, culture) largely depends on the success of forestry. In many cases, the presence of a woodworking enterprise is critical for the existence of settlements.

ULK GROUP LLC is of great socio-economic importance in the Ustyansky District and the Arkhangelsk Region. The company provides financial and material support to social and cultural facilities and organizations, sports facilities and healthcare facilities, is engaged in repair and construction of roads in the district.

For more details please see the Supply Base Report available in Internet at BP's homepage:
<http://ulkust.ru/info/public/>.

5.3 Detailed description of Supply Base

Total Supply Base area (ha): 4 450 603 ha
Tenure by type (ha): 4 450 603 ha state ownership
Forest by type (ha): 4 450 603 ha boreal forests
Forest by management type (ha): 4 450 603 ha managed natural
Certified forest by scheme (ha): 4 450 603 ha FSC certified forests

5.4 Chain of Custody system

The BP is holding valid FSC Chain of certificate

<https://info.fsc.org/details.php?id=a0240000008nKWaAM&type=certificate>

BP is implementing FSC transfer system and all wood material is received as FSC certified (FSC 100%).

After the reception, incoming volume of the primary feedstock (saw logs) is registered in Organisation's database and processed at sawmilling facilities. Conversion factors are established and regularly revised based on actual production data. Pellets are produced of the FSC 100% secondary feedstock (sawdust) only, originating from own sawmill. Non-certified wood material is not accepted by Organisation

6 Evaluation process

6.1 Timing of evaluation activities

Activity	Location	Date/time
Opening meeting	Office in Kostylevo	08/04/2019 14.00-14.20
Documents and procedures review (FSC CoC documented procedures, feedstock inputs and biomass sales registration), staff interviews.	Office in Kostylevo	08/04/2019 14.20-17.00
Documents and procedures review (SBP documented procedure; staff training records; origin of the feedstock, including Supply Base Report; H&S requirements), staff interviews.	Office in Kostylevo	09/04/2019 09.00-13.00
Lunch		09/04/2019 13.00-14.00
Chain of custody review (site tour); documents review and staff interview	Pellet production site in Kostylevo	09/04/2019 14.00-15.00
Documents and procedures review (SAR; energy use data obtaining and registration system); staff interview.	Office in Kostylevo	09/04/2019 15.00-17.00
Documents and procedures review (SAR; energy use data obtaining and registration system, procedure covering the requirements of ID 5D), staff interviews.	Office in Kostylevo	10/04/2019 08.00-11.00
Closing meeting	Office in Kostylevo	10/04/2019 11.00-11.30

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 submitted in the beginning of the audit.

Auditor was welcomed in the company. Audit started with an opening meeting.

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 through all applicable requirements of the SBP standards nr.2, 4, 5 and 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.

Roundtrip around BP's pellet production was undertaken. During the site tour reception process were observed, applicable records were reviewed, pellet factory staff was interviewed and FSC system critical control points were analysed.

At the end of the audit findings were summarised and audit 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. Robust recordkeeping system. Good awareness of certification requirements by involved staff.

Weaknesses: please see minor NCR 01/19.

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.

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 SBP responsible, pellet production chief, chief power engineer and sales manager responsible for entering data to DTS and preparing SREG documents. During the audit, BP team was supported by external 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.

NC number 01/19	NC Grading: Minor
Standard & Requirement:	SBP Instruction Document 5B, requirement 3.2:9 The Legal Owner shall record the most operationally specific and detailed data that is practically available. The methodology used and the justification for the data recorded shall be recorded in the SAR. Note: The efforts for the evaluation of specific and detailed data should be proportionate to the relative magnitude of that specific data item to the Energy and GHG balance. Where the BP and the CB consider that a data item is too difficult to record, given the relative significance of that specific data item to the Energy and GHG balance, the BP may request that their CB contact SBP on their behalf. The CB will submit a proposed solution to SBP. In this case, SBP will review the proposed solution and communicate a determination to the CB.
Description of Non-conformance and Related Evidence:	
In the reporting period BP has prepared several SREG documents covering the biomass transportation by vessel to customer. BP could not provide justification, how the type of the fuel used by vessel, as well as daily fuel consumption rate have been determined. В отчетном периоде Организация подготовила несколько документов SREG, касающихся транспортировки пеллет судном до места назначения. Организация не предоставила никаких подтверждений того, как был определен суточный расход топлива судном, а также вид использованного им топлива.	
Timeline for Conformance:	By the next surveillance audit, but no later than 12 months from report finalisation date
Evidence Provided by Company to close NC:	New SREG documents (Exh 4), email communication with transport company. Новые документы SREG, электронная переписка с транспортной компанией.

Findings for Evaluation of Evidence:	Submitted email communication contains information from transport company about the type of fuel used by vessel, as well as the fuel consumption rates. В предоставленной электронной переписке содержится информация от транспортной компании о виде используемого судном топлива и его суточном расходе. Организация подтвердила, что будет собирать и сохранять такую информацию для других документов SREG в будущем.
NC Status:	CLOSED / ЗАКРЫТО

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:	18.4.2019
Other comments:	N/A