

Supply Base Report: Derussa Factory LLC

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Completed in accordance with the Supply Base Report Template Version 1.2

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

Producer name: Derussa Factory LLC

Producer location: 162532, Vologodskaya obl, Hohlovo, Stroiteley st, 23

Geographic position: 59°8'59" 'N, 37°23'16" E

Primary contact: Alexander Lesnikov, 162532, Vologodskaya obl, Hohlovo, Stroiteley st, 23, aleksandr.lesnikov@derussa.ru, +79212521593, +7 81742 42 263.

Company website: www.derussa.ru

Date report finalised: 15/Jan/2018

Close of last CB audit: 02/Feb/2018

Name of CB: NEPCon

Translations from English: Yes

SBP Standard(s) used: Standard 2 version 1.0, Standard 4 version 1.0, Standard 5 version 1.0

Weblink to Standard(s) used: <https://sbp-cert.org/documents/standards-documents/templates>

SBP Endorsed Regional Risk Assessment: not applicable

Weblink to SBE on Company website: not applicable

| Indicate how the current evaluation fits within the cycle of Supply Base Evaluations | | | | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| Main (Initial) Evaluation | First Surveillance | Second Surveillance | Third Surveillance | Fourth Surveillance |
| X | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

2 Description of the Supply Base

2.1 General description

The supply base of the Derussa Factory is represented mainly by mixed forests. The factory doesn't have its own harvesting of wood. The work of the enterprise is conducted with the use of purchased raw materials. At the this moment, the region of origin of raw materials is the Vologda region only, Derussa doesn't have deliveries from other regions. The main areas of origin raw materials are Kaduysky, Cherepovetsky, Belozersky, Babaevsky, Vashkinsky, and Kirillovsky district.

The forests of Vologda region.

Vegetation is typical for the middle and southern taiga. Our region have mainly the podzolic soils in the northern part and the sod-podzolic soils in the south, in places there are bog soils. Forests occupy about 75% of the region (in the north-west and south-east 80%, in the central part up to 50%). More than half of the forests are coniferous, mostly spruce forests. The most common species of forests are European spruce and Siberian spruce, also their hybrid - spruce Finnish. Second place have the Pinus sylvestris.

Siberian fir occurs in the eastern part of the region, and the larch of Sukachev (Russian, a subspecies of Siberian larch) is predominantly in the eastern and northern parts. Warty birch, pubescent birch and aspen are often distributed. It often forming secondary forests. Somewhat less common are alder gray and alder black.

In areas with benign soils, mainly in the undergrowth, rarely - in the second and first layers of the forest stand, sometimes grow a small-leaved linden, an European white elm, an witch elm, in the west of the region a norway maple is added, and in the south-west – English oak, European ash, European hazel.

Nature is protected in the Russian North National Park, the Darwin Reserve and other 198 specially protected natural areas.

In accordance with the legislation of the Russian Federation, all lands of the forest fund are in state ownership. Legal entities receive forest plots in use on the lease trams and short-term use. Lease relations are the dominant way of using forests. The lease term can be from 10 to 49 years.

The forestry complex of the Russian Federation, which includes forestry and timber industry in timber harvesting and processing, occupies an important place in the country's economy. In the forestry complex of the Russian Federation, about 60 000 large, medium and small enterprises are employed in all regions of the country. The total number of employees in the forestry complex is about 1 million people. North-West of Russia is the leader in the level of development of sawmills, woodworking, pulp and paper industries.

The Derussa Factory is one of the biggest plant in the Kaduy district. The factory employs about 250 people. Director of the factory is a member of the Board of Directors of the enterprises of the district. This council is engaged in solving social and economic problems of the region.

The practice of forest management in Russia is based on the achievement of sustainable forest management in accordance with the requirements of forest legislation, and, if applicable, the principles of forest certification. The rotation period is 60-120 years. During the rotation period, thinnings and clear cuttings in the stage of maturity are carried out and reforestation is ensured. Planting of seedlings or natural regeneration can be used

for reforestation. The practice of continuous forest management is also used. Continuous forest harvesting is based on a 15-20-year cycle of logging with selective harvesting and retention of a viable undergrowth.

Derussa does not purchase tree species on the CITES and IUCN list.

The factory is average in the volume of processing of raw materials by the enterprise. Every month Derussa processing, on average about 5000 m3 of coniferous forest. The closest enterprises to the Factory and competing in the purchase of forest enterprises are ChFMK 7000 m3 Cherepovetsles 15000 m3 of coniferous forest at the entrance to the month.

For the production of fuel pellets at the factory are used only sawdust and chips, which is formed during own sawing. The Derussa factory is FSC certified, therefore the company purchases both FSC certified and FSC controlled wood. The quantity of main suppliers of raw materials is about 20 companies. The main and largest suppliers are the Kaduysky, Belozersky, Kirillovsky, Vashkinsky, Cherepovets leshozes - having 100% FSC.

From October 2016 to September 2017 the company processed 51,000 m3 of roundwood. Ratio by breed composition - 46% pine, 54% spruce. The ratio of certified and controlled raw materials is 18% and 82% respectively. The company has developed procedures for controlling the origin of incoming timber in accordance with the standard FSC-STD-40-005, the company has a policy of responsible forestry.

| <i>SBP product Group</i> | <i>Percentage of content in total supplies for the reporting period</i> | <i>Quantity of suppliers</i> | <i>Species composition</i> |
|--|---|------------------------------|-----------------------------|
| <i>Controlled Feedstock</i> | 82% | 20 | <i>Spruce 54%, Pine 46%</i> |
| <i>SBP-compliant Primary Feedstock</i> | 0% | 0 | - |
| <i>SBP-compliant Secondary Feedstock</i> | 18% | 20 | <i>Spruce 54%, Pine 46%</i> |
| <i>SBP-compliant Tertiary Feedstock</i> | 0% | 0 | - |
| <i>SBP non-compliant Feedstock</i> | 0% | 0 | - |

2.2 Actions taken to promote certification amongst feedstock supplier

The Derussa Factory passed a control audit of the FSC in 2017. Our company is the only one in the region to audit the new FSC standard.

The organization buys certified and controlled raw materials only. Raw materials, with unconfirmed origin is not procured.

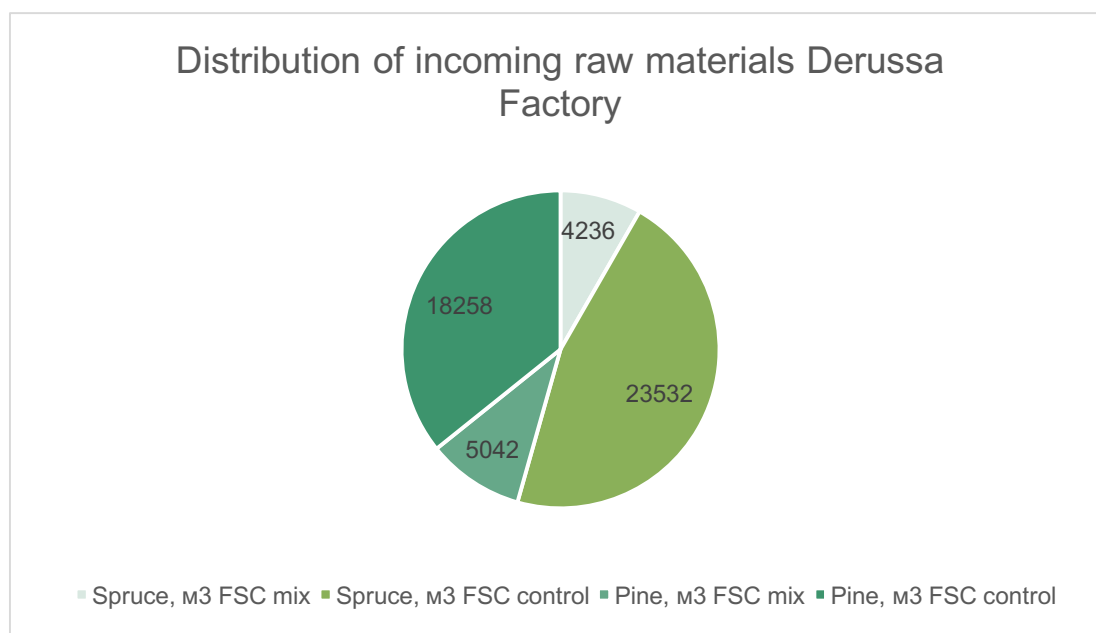
The enterprise sells its products both for export and for the domestic market. Big part of its volume is shipped with a FSC statement.

The availability of a FSC certificate from a supplier is a priority when concluding contracts for the supply of raw materials. Wood from certified suppliers is usually purchased at a higher price. It allows to motivate the supplier for certification.

2.3 Final harvest sampling programme

Not applicable, because The Derussa Factory does not produce logging.

2.4 Flow diagram of feedstock inputs showing feedstock type [optional]



| Spruce, m3 | | Pine, m3 | |
|------------|-------------|----------|-------------|
| FSC mix | FSC control | FSC mix | FSC control |
| 4236 | 23532 | 5042 | 18258 |

2.5 Quantification of the Supply Base

Supply Base

- Total Supply Base area (ha): 11,7 million hectares.
- Tenure by type (ha): 11,7 million hectares, state property.
- Forest by type (ha): 11,7 million hectares, boreal
- Forest by management type (ha): 11,7 million hectares managed natural
- Certified forest by scheme (ha): 3,57 million hectares of FSC or PEFC-certified forest

Feedstock

- Total volume of Feedstock: 35 600 m3
- Volume of primary feedstock: 0 m3

- h. List percentage of primary feedstock (g), by the following categories. Subdivide by SBP-approved Forest Management Schemes:
 - Certified to an SBP-approved Forest Management Scheme – 0%.
 - Not certified to an SBP-approved Forest Management Scheme – 0%.
- i. List all species in primary feedstock, including scientific name. Primary raw materials are not used.
- j. Volume of primary feedstock from primary forest. Primary raw materials are not used.
- k. List percentage of primary feedstock from primary forest (j), by the following categories. Subdivide by SBP-approved Forest Management Schemes:
 - Primary feedstock from primary forest certified to an SBP-approved Forest Management Scheme
 - Primary feedstock from primary forest not certified to an SBP-approved Forest Management SchemePrimary raw materials are not used.
- l. Volume of secondary feedstock: 35600 m3 per year (100% of the total volume of raw materials), sawdust and shavings.
- m. Volume of tertiary feedstock: Tertiary raw materials are not used.

- * Compelling justification would be specific evidence that, for example, disclosure of the exact figure would reveal commercially sensitive information that could be used by competitors to gain competitive advantage. State the reasons why the information is commercially sensitive, for example, what competitors would be able to do or determine with knowledge of the information.

3 Requirement for a Supply Base Evaluation

| SBE completed | SBE not completed |
|--------------------------|-------------------|
| <input type="checkbox"/> | X |

Due to the use of FSC certified or FSC controlled wood for the production of SBP pellets, which means that 100% of the total pellet production will have a FSC Mix or FSC Controlled Wood application in a percentage of approximately 18% and 82% respectively. Assessment of the resource base was not required.

4 Supply Base Evaluation

4.1 Scope

Not conducted.

4.2 Justification

Not conducted.

4.3 Results of Risk Assessment

Not conducted.

4.4 Results of Supplier Verification Programme

Not conducted.

4.5 Conclusion

Not conducted.

5 Supply Base Evaluation Process

Not applicable.

6 Stakeholder Consultation

Not applicable.

6.1 Response to stakeholder comments

Not applicable.

7 Overview of Initial Assessment of Risk

Not applicable.

8 Supplier Verification Programme

8.1 Description of the Supplier Verification Programme

Not applicable.

8.2 Site visits

Not applicable.

8.3 Conclusions from the Supplier Verification Programme

Not applicable.

9 Mitigation Measures

9.1 Mitigation measures

Not applicable.

9.2 Monitoring and outcomes

Not applicable.

10 Detailed Findings for Indicators

Not applicable.

11 Review of Report

11.1 Peer review

Expert assessment of the report on the resource base was not conducted this year.

11.2 Public or additional reviews

For stakeholders, a report on the resource base is available on the company's website – www.derussa.ru , any comments may be sent to info@derussa.ru, aal@derussa.ru

12 Approval of Report

| Approval of Supply Base Report by senior management | | | |
|--|------------------------------|---------------------------------|-------------------|
| Report Prepared by: | <i>Alexander Lesnikov</i> | <i>Head of sales department</i> | <i>15.01.2018</i> |
| | Name | Title | Date |
| The undersigned persons confirm that I/we are members of the organisation's senior management and do hereby affirm that the contents of this evaluation report were duly acknowledged by senior management as being accurate prior to approval and finalisation of the report. | | | |
| Report approved by: | <i>Alexander Ovchinnikov</i> | <i>General director</i> | <i>15.01.2018</i> |
| | Name | Title | Date |

13 Updates

Not applicable.

13.1 Significant changes in the Supply Base.

Not applicable.

13.2 Effectiveness of previous mitigation measures

Not applicable.

13.3 New risk ratings and mitigation measures.

Not applicable.

13.4 Actual figures for feedstock over the previous 12 months

35 600 m3

13.5 Projected figures for feedstock over the next 12 months

40 000 m3