



FORESTRY CERTIFICATIONS SGS RUSSIA INVESTIGATIONS BM GROUP

The initial PEFC Forest management (FM) certificate for BM Group (SGS-PEFC-Russia-0001) was issued in 2013. The certificate was renewed after three-year-cycles, last time in March 2019 and was subject to annual surveillance audits. The scope of the certificate was updated in November 2019 and June 2020 to remove the forest leases of Asia Les first and then Logistic Les (see also details below). The certificate is still valid for the remaining forest area controlled by the BM Group.

Additional PEFC COC certificates were issued for trading and processing activities to Azia Export Co. Ltd (RU19/818419107), Logistic Les Co. Ltd (RU18/818418683) and "SDS Logistic" Co. LTD (RU19/818419104). Except for the certificate of "SDS Logistic" Co. LTD, the other COC-certificates became obsolete and were withdrawn after the related forest leases had been withdrawn by the authorities.

The SGS investigations did not discover any indication of illegal logging carried out by the BM Group within the scope of the PEFC FM certificates. Loggings were conducted within the long-term lease agreements, the "priority forest development investment project" and forest declarations, that were approved by the regional forestry agency of Khabarovskiy Krai.

SGS was aware of the situation with the leased areas that were part of "priority investment projects". The decision of the authorities to withdraw the leases was unclear and not predictable. SGS cannot remove a lease area from the certificate due to withdrawal by authorities, before such a withdrawal is finally confirmed and communicated by the relevant official authorities. SGS immediately removed the leases of Asia Les first and then Logistic Les from the PEFC FM certificate after the termination of these lease agreements due to exclusion from the list of "priority forest development investment projects" by the Ministry of Industry and Trade of Russia.

Up to December 2020, there was no legal decision reached concerning the accusation against the former director and main owner, Mr. Alexander Pudovkin, that was confirmed by media reports or the audit report of Accounts Chamber of the Russian Federation. Therefore, SGS was not in a position to comment on the outcome in an ongoing court case and how far such a decision would constitute non-conformity with the PEFC standards of the aforementioned companies. On 23. December 2020 the court case was closed on the basis of "active repentance". No further information is available. Therewith, also no conclusion is possible regarding alleged past illegal activities and whether they retrospectively affect the legality of the harvested timber sold by the BM Group or the compliance with the PEFC FM standards.

The traceability of the auditing process and the information available to us are that there are no impartiality nor conflict of interest issues relating to the SGS audit teams as no involvement of Mr. Zakharenkov was found in the certification audit mentioned. All interviews and documentary evidence point towards an administrative oversight where the previous certification document was updated without changing the auditor's name.

Furthermore, the Intact Forest Landscapes (IFLs) is a concept of the FSC certification system. The PEFC System and PEFC FM standard for Russia makes no mention of it. Russian legislation does not prohibit harvesting in IFLs.

According to SGS's investigation, no evidence has been detected that timber sold by the BM Group was not compliant with Russian Legislation or the PEFC Standard. However, SGS would like to highlight that a PEFC Forest Certification sets standards for Sustainable Forest Management considering economic, environmental and social aspects. With the SGS auditing, implementation of these standards is verified by sample audits and at a specific time slot of the audit. Forest Certification may be one of the measures for mitigating the risk of illegal timber. However, forest certification is not a tool designed to confirm the legal compliance of all traded timber at any time.

SGS Société Générale de Surveillance SA

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