



**HS TIMBER
GROUP**

Supply Chain Report 2020

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1.1 Company policies

HS Timber Group and its subsidiaries (referred to as “HS” in this text) implement a very strong Timber Sourcing Policy. This policy includes a commitment to perform an annual review and to report on its implementation. This third report describes the main achievements in 2020, the current status of supply chain control and intends to serve as a basis for further discussions with stakeholders.

HS has developed and implemented for all its mills an advanced and robust Due Diligence System (DDS), to mitigate risks of purchasing and using illegal or controversial raw material. The different measures within the organisation’s DDS are set up in order to comply with the requirements for:

- National legal framework in all the countries where we operate,
- EUTR – EU Regulation No 995/2010,
- US Lacey Act,
- Japanese Clean Wood Act,
- PEFC STD 2002:2013 for all mills,
- ISO 38200 standard for chain of custody of wood and wood-based products, currently only for Siret.

HS follows not only legal and contractual regulations, but has implemented several organisational measures and binding voluntary commitments:

- The Zero Timber¹ from National Parks (NP) Policy remained in force for Romania in 2020 and will be expanded to Ukraine and Belarus in 2021. This policy requires special attention, as it is legal to harvest in buffer zones of Romanian NPs, therefore wood with such origin may arrive at suppliers’ logyards. The strongest verification measure is the on-site auditing, which provides the possibility to check all of the supplier’s inputs, including their geographical origin (wood location). Also, the state traceability tool www.inspectorulpadurii.ro, reveals the origin of all loaded truck deliveries², and movements of a supplier’s truck can be traced back several years³.
- The certification target that states that all HS input should originate from certified forest by 2025 is continuously monitored.
- The Supplier Code of Conduct⁴ was introduced in 2020 as an additional measure to raise awareness among suppliers, on matters of ethical behaviour and applicable legal provisions. While all wood purchases are regulated by both domestic and EU legislation, HS imposes some additional requirements on suppliers. These are communicated in HS’ Supplier Code of Conduct, which is an annex to all purchase contracts and covers matters related to ethical business behaviour, environmental protection requirements, health and safety requirements, behaviour toward employees, competition compliance etc.
- Public consultation on aspects regarding wood purchasing and risk mitigation measures, held on 30 January, 2020, in Rădăuți, aiming at an open dialogue with business partners, suppliers, NGOs, public authorities’ representatives and any interested third parties. The purpose of the event was to create a consolidated and transparent vision over HS’ business, values, ethics, and professional standards, including measures for legal compliance with the applicable EU and national regulations.

¹ <https://hs.at/en/responsibility/what-we-do/timber-sourcing-policy.html>

² This feature has been limited to 96 hours in 2021 with the introduction of the new version of the wood tracking platform SUMAL.

³ Access is currently limited to 96 hours in the new SUMAL.

⁴ <https://hs.at/en/responsibility/how-we-do-business/supplier-code-of-conduct.html>

- The open-door policy⁵ for NGOs in Romania is maintained – representatives of recognised NGOs can visit our mills unannounced after registering with the company’s Compliance Department and signing a standard non-disclosure agreement. Our goal is to demonstrate with the utmost transparency our efforts to ensure a secure supply chain.
- Reliable third-party verification by KPMG. HS fully supports any third-party/second-party field verification.
- The active stakeholder consultation policy continued in 2020. Because of the pandemic situation, only one stakeholder event was organised in 2020, but HS pays high attention to stakeholder input and maintains daily media monitoring in Romania and Ukraine.
- The high level of transparency achieved starting 2017 was maintained and all of our Romanian roundwood inputs are published online on www.timflow.com. Any interested stakeholder – after a simple registration process – may check any incoming truck’s origin, its documentation and route. The new SUMAL 2.0 traceability solution, which was implemented starting February 2021, is an important step towards transparency. With the new version, SUMAL eliminated the possibility of multiple transports using the same documentation, all documents of origin and their location regardless of property type are visible and the material coming from logyards can be traced back to the forest (basically by using the same features as Timflow is using, such as photo-documentation of loading and GPS surveillance of the route). HS believes that the provision of information in Inspectorul Pădurii for more than four days would increase the public trust in the system. From a supply chain control perspective, it is not necessary, as all information on deliveries later than 96 hours can be requested from the authorities directly.
- The SCCC⁶ department is maintained with 12 employees and it consists of a head of department, a manager, 2 officers per mills, 1 per panel factories, 1 in Kodersdorf, 1 in Ukraine.

1.2 Production facilities

In 2020, HS continued to run four sawmills (Sebeș, Rădăuți, Reci and Kodersdorf) and two panel factories (Comănești, Siret). The overall production capacity of the four sawmills is about 5.3 million m³ of roundwood input. There are no significant changes in the production facilities for 2020, apart from the Kodersdorf mill, where pellet production started.

⁵ <https://hs.at/en/responsibility/stakeholder-involvement.html>

⁶ Supply Chain Control and Certification

2 Raw material procurement

2.1 Roundwood purchases

The trend that all roundwood is purchased only from European Union countries continued in 2020 as well. All HS roundwood purchases originated from six countries⁷. All in all, the HS mills in Germany and Romania processed 3.6 million m³ of roundwood. The group's sawmills in Romania had a utilization rate of 64%. 47.3% of the input⁸ was sourced from Romania, while 52.7% came from four European countries⁹.

The increase in input from the Czech Republic is due to the ongoing bark beetle calamity. The total wood removal in Czech Republic almost doubled in three years, from 17.6 million m³ in 2016, to 32.5 million m³ in 2019¹⁰, while the share of salvage felling has reached 80%¹¹, due to the bark beetle calamity.

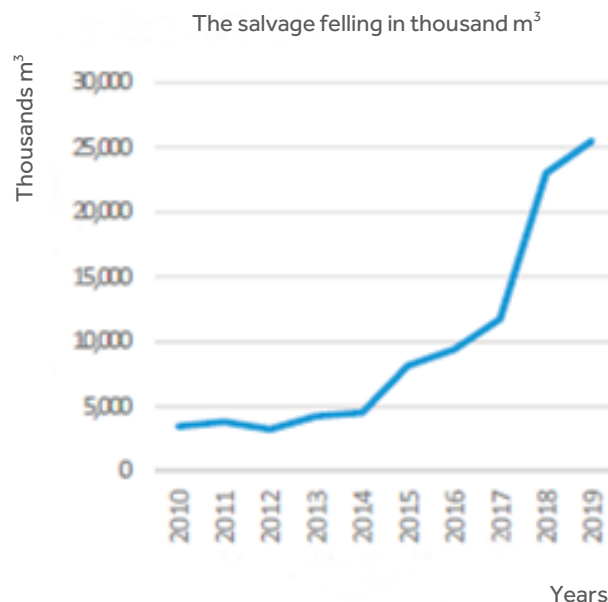


Figure 1. The calamity logging and price of spruce wood. Source: Czech Statistical Agency 2019.

⁷ Romania, Czech Republic, Germany, Poland, Slovakia and Austria.

⁸ Based on volumes in SUMAL.

⁹ Czech Republic, Germany, Slovakia and Austria.

¹⁰ https://ec.europa.eu/eurostat/databrowser/view/for_remov/default/table?lang=en

¹¹ <https://www.mdpi.com/1999-4907/11/3/283h>

2.2 Standing wood purchase in Romania

In 2020, HS purchased 199,000 m³ of standing wood¹², exclusively in Romania, 72% of which was processed in HS' sawmills. In these cases, harvesting operations are conducted by service providers and wood which is not suitable for HS' industrial purpose or technology is sold to third parties. In case of standing wood purchase, the EUTR guideline states that the buyer (e.g. HS) is an operator, therefore the implementation of a Due Diligence System is mandatory.

2.3 Sawn timber purchases

Solid sawn wood purchases from third parties (inter-company deliveries excluded) were below 0.2 million m³ in 2020.

Country	PEFC %	FSC %	Non-certified %
Ukraine	0.0	50.7	49.3
Romania	0.0	0.0	100.0
Belarus	84.0	16.0	0.0
Russia	0.0	0.0	100.0
Austria	100.0	0.0	0.0
Slovakia	100.0	0.0	0.0
Czech Republic	100.0	0.0	0.0

Table 2. Percentage of certified and non-certified sawn wood material input in 2020

HS purchased other material categories in 2020, mostly veneer, but also MDF, HDF, lumber core, etc.

Sourcing countries	Veneer and other wood-based material input (%)
Argentina	0.04
Austria	7.07
Belgium	0.15
Cameroon	2.59
Indonesia	4.97
Hungary	5.30
France	4.03
Germany	0.17
Italy	0.91
Poland	10.35
Ivory Coast	35.65
Romania	19.02
Serbia	7.18
Slovenia	2.55
Slovakia	0.02

Table 3. Origin and volume of veneer and other wood-based material input in 2020.

¹² Of which 143,000 m³ were delivered to HS and 56,000 m³ were sold to third parties.

Wood-based material - such as MDF or HDF - is purchased only from European producers and all input comes with certification, or from publicly declared wood origin controlling programmes, therefore considered low risk. Veneer input is used in Comănești and subject to a complex risk mitigation programme, based on FLEGT licence (Indonesia), third party verification¹³ (Cameroon, Ivory Coast) or contains low risk poplar plantation material.

2.4 Biomass purchase volume

As in 2019, HS purchased biomass (chips, harvesting waste, saw dust and bark) which was exclusively used in the mills' combined heat and power plants. In 2020, 72,770 bdmt¹⁴ were purchased, exclusively from Romania. Biomass is subject to simplified verification as it is mostly a by-product of the sawing process, but also covered by the SUMAL reporting and traceability system starting 2021.

¹³ Audits were completed in December 2019 and January 2021 (because of COVID restrictions), therefore they are not reported in 2020 audit numbers.

¹⁴ bone dry metric tonnes.

3 HS' Due Diligence System

In line with PEFC™, EUTR and the HS Timber Sourcing Policy requirements, HS' DDS distinguishes between low-risk and high-risk supplying countries (Corruption Perception Index, CPI). Based on the assessed risk level of the sourcing country, risk assessment measures are defined and applied at:

- country level (audit intensity, media monitoring, stakeholder input),
- supplier level (legal verification of the supplier, field auditing),
- supply level (Timflow, verification of delivery documents).

3.1 Certification policy

HS maintains its commitment to promote and use certification, to source material only from certified forests by 2025, partly as a risk mitigation tool, as well as an important measure to increase public awareness on sustainable forest management.

HS' approach has not changed in 2020: we acknowledge the credibility of forest management certification, but, in high risk countries, all our suppliers are subject to second-, or third-party verification whether or not they are certified, as the CoC certification has a limited risk mitigation function for legality risks.

3.1.1 PEFC third party audits

HS maintains six single site certificates, five in Romania and one in Germany. PEFC annual surveillance audits were organised in March 2020 (Romania) and in June 2020 (Kodersdorf). The certification body issued four minor corrective action requests and two observations. The audit findings are presented below.

Mill	Findings
Rădăuți	No findings
Comănești	PEFC CoC 9.9.2. Observation. Paths through the production facilities are well marked. However, path was partially blocked with a pallet of veneer, which is not in accordance with Health & Safety procedures. According to an interview with the responsible person, it is only temporarily stored there because of the reorganisation of the storage area.
	PEFC CoC 8.8.5. Minor. There is no record available of the on-site visit of their outsourcer during 2019. The last audit was done more than 17 months ago, on 13 July 2018.
Reci	No findings
Sebeș	PEFC 6.3.4.2.5. Observation. Although the audit covered reporting period for 2019 and all data on the credit account was available, however, the data for January 2020 was not available at the time of the audit.
	PEFC 8.3.1. Minor. List of product group is not maintained. The company sold glued panel which is made in the Siret branch of HS Group. See sampled invoice #5 on 4c Company Sales Docs for more info.

Siret	PEFC CoC 7.1.3 (g) Minor. On one sampled invoice, CoC code and claim were missing and, according to the interview with CoC responsible person and information in their system, it should include the CoC code and PEFC Claim "Controlled Sources"
	PEFC CoC 7.2.2. Minor. During the site visit, a sample of packing of the panel product "Woodwork" for a supplier included a PEFC Logo but without licence number. According to the interview with CoC responsible person, it was a probation of labels sent by client but not yet approved by the company and there were no sales of such products yet.
	PEFC CoC 9.2.2. (e). Observation. One of two workers was not using the ear protection. According to the interview, she had just come back from break and forgot to put them on/in. Ear plugs were available when entering the production area.
Kodersdorf	No findings

HS can sell all products with the minimum claim of PEFC Controlled Sources – as a sign that all input meets PEFC Controlled Sources requirements and no transfer system is applied to separate controlled and non-controlled inputs.

3.1.2 Sustainable Forestry Initiative® Label Recognizing Global Standards

HS is the first solid wood lumber company approved to use the Sustainable Forestry Initiative (SFI®) Label Recognizing Global Standards, which recognizes PEFC Chain of Custody (CoC) certified wood products, outside of North America. A precondition to use the SFI Label Recognizing Global Standards is to have a PEFC Chain of Custody Certification. HS was certified to the PEFC CoC standard in 2014. SFI advances sustainability through forest-focused collaborations. By using the SFI Label, HS helps educate the market about sustainably sourced forest products and provides consumers with information needed to make responsible purchasing decisions.

3.1.3 ISO 38200 certification

ISO 38200:2018 is an international standard that specifies requirements for a controlled chain of custody (CoC) of wood and wood-based products. As an initial test of the standard, HS decided to obtain the ISO 38200 certificate for the Siret panel factory. The ISO standard is recognised worldwide, and the successful audit made by SGS Romania in September 2020 is another piece of evidence on HS' unique security architecture. Practical implementation and buyer demand will determine future steps regarding the application of the ISO claim on invoices.

3.1.4 FSC disassociation status

HS was disassociated from FSC in 2017 and is in a roadmap process towards ending disassociation. A verification of HS' compliance with the Conditions Framework started in December 2020 and a field assessment was performed in February 2021. The results were published on FSC's website¹⁵ in April 2021.

¹⁵ <https://fsc.org/en/unacceptable-activities/cases/holzindustrie-schweighofer>.

3.1.5 Share of certified input

Our target is to source 100% of our timber from forests certified to PEFC™ and/or FSC® forest certification schemes by 2025.

Country	PEFC certified forest area %	FSC certified forest area %	Certified input with claim %	Estimated input from certified forests ¹⁶
Romania	0%	35%	10%	60% ¹⁷
Germany	67%	12%	42%	72%
Austria	83%	0%	100%	100%
Poland	70%	70%	100%	100%
Czech Republic	76%	5%	72%	96%
Slovakia	66%	11%	0%	70%

Table 4. Overview of HS certification policy implementation in 2020.

The table above presents the material received from certified forests, with and without a claim (broken chain of custody). The share of wood originated from certified state forest is significantly higher in the case of Romania and Slovakia, but there is additional room for increasing the area of certified forests in the private sector in these countries. The figures are based on estimates.

3.1.6 EUTR checks in Romania

While HS is an operator only in the case of standing wood purchase and import from non-EU countries, three of the mills were subject to detailed state inspections in 2020:

- 20 February 2020: Comănești,
- 22 April 2020: Sebeș,
- 27 May 2020: Siret.

None of the field verifications revealed non-compliances.

All in all, between 2015 and 2020, HS Timber Group had 20 final successful EUTR checks without any findings.

3.2 Better data handling and active supplier management

3.2.1 DDS HUB – new supplier/DDS management software

The DDS HUB is a tailor-made online platform for handling suppliers and related information (sub-suppliers, supplier declarations, audits, volumes, etc.) through an encrypted database. The data transfer was completed at the end of 2019 and all information is stored in the HUB as of early 2020. The platform became fully operational in 2020 and currently 1890 entities - suppliers and sub-suppliers (active and inactive) - are stored in the system. The HUB is integrated with the internal ERP system, TiCom and auditing tool iAuditor and therefore provides a full overview of the current status of a given supplier. An additional feature of automated email notifications of deadlines (new suppliers, certifications, corrective actions, risk assessments, etc.) was introduced in February 2020. The new HUB also created the

¹⁶ Based on the fact that all non-certified suppliers also source from certified forests.

¹⁷ Based on the fact that more than 65% of the volume in the documents of origin was from certified FMUs.

possibility to handle Romanian origin/harvest documentations (APV) in a more efficient way. Suppliers were always required to present their harvesting documentation, but the new database stores descriptive data, such as volume, harvest start and end date, Forest Management Unit (FMU) ownership (private or state), average diameter and height, harvest area, etc. Digitalised information allows for better statistics on HS' sourcing areas regarding harvest intensity, age of stands and operation types. Based on this information, better risk assessments are made and the SCCC department can locate areas where different risk mitigation levels shall be applied.

3.2.2 More efficient data collection

Having all documents of origin is a minimum requirement of HS' DDS. In case of a missing APV¹⁸, wood cannot enter production and it is stored as "under investigation". Efficient wood processing requires active information channels between HS and its suppliers. A new mobile (Android) application tested at the end of 2020 will make it easier for suppliers to send the required and legal harvest documentation directly into the HUB and therefore additional wood manipulation can be reduced. The application will be implemented starting 2021 and will be available in the Google Play store under the name "DDS Docs".

In any case, the data disclosed to HS by its suppliers is limited to what is strictly necessary for the performance of the contractual relationship with HS, ensuring that the data provided does not constitute commercially sensitive information, pursuant to the EU and national competition standards.

3.2.3 Extensive use of state administration systems for supplier monitoring

The Romanian state wood monitoring system [Inspectorul Pădurii](#) previously offered access to information on wood deliveries only for the previous three days. At the end of 2019, an update of the system eliminated the time restriction and, therefore, all wood transports were accessible back to 2014. HS' DDS uses this information extensively in Romania to monitor supplier deliveries, from harvesting plots to logyards.

3.3 Intensive supplier verification

In high/significant-risk countries, HS' DDS requires intensive field verifications. While usually wood traceability standards apply a square root rule of suppliers to be visited annually, HS' DDS applies a much higher verification intensity.

3.3.1 Supplier field verification

HS' DDS applies the following verification measures:

- The desk-based CoC audit is a standardised document review which is protocolled without a face to face meeting with the supplier, including legal verification, background check, overview of the performance of the previous year, verification of harvesting documentation. The desk-based audit is used to verify traders without possession and in Romania for suppliers that deliver less than 100 m³ annually.
- CoC on-site audits always include a field visit of the supplier's logyard, historical input check, visual assessment of the volume of interest for HS stored at the moment of the audit (in order to ensure that wood species of interest are meeting the technical and quality standards required by HS), verification of physical separation measures in case of possible National Park (buffer zones) deliveries, collection of documents, document check of health and safety administration, and all the elements of desk-based audits.

¹⁸ Act de Punere în Valoare – Document of origin for wood material harvested in Romania

- FM audits are office visits at the forest management unit to verify the status and content of forest management plans and the process of approval of harvest documentation. HS' DDS considers the FM certification as an efficient risk mitigation tool, especially if reports are publicly available.
- Plot visits include checking the harvest documentation, marking of the trees, health and safety measures, and, starting 2020, the verification of low impact forestry features – soil damage, waterway damage, tree damage, skidding intensity, etc.
- Internal audits are performed at HS' own premises, including HS collecting points visits every quarter, internal mill audits twice a year and other necessary verifications.

For the avoidance of any doubt, under the above-mentioned audit proceedings, no exchange of sensitive competition information is performed.

The thresholds for the audit programme are subject to yearly review.

A common feature of the audits above is that all of them are performed by using the iAuditor software and therefore the time, the date and the location are registered automatically – to achieve a higher assurance of the verification process. Most field audits are performed as second-party audits, while in countries where there is no HS staff present, the DDS relies on third-party audits (in Russia, the Czech Republic, Slovakia, Ivory Coast). Concerning third-party audits, HS was collaborating with internationally highly-regarded supply chain and certification expert organisations.

On 21 February, following the COVID-19 outbreak, the Romanian Government announced a 14-day quarantine for citizens returning from the affected regions. On 26 February the first case of infection was confirmed in Romania. By 14 March, 101 cases were confirmed, and, on 16 March, the Romanian President issued the decree establishing the State of Emergency in Romania for a period of 30 days and, according to the order, the implementation of measures included in the decree is done gradually. During the lockdown (March – May 2020), some logyards were covered by remote audits, as a special procedure for this purpose was created by the SCCC management.

Statistical data on 2020 field audits are presented in Table 5:

Country	HS second- and third-party audits					FM certification reports
	CoC DESK	CoC	FMU	PLOT	Total field	
RO	184	307	24	119	450	127
UA	3	42	18	18	78	58
CZ	0	5	8	1	14	0
RU	0	2	1	1	4	1
SK	0	4	0	0	4	0
PL	0	0	0	0	0	20
Total	187	360	51	139	550	206

Table 5. Number of audits performed in HS' DDS

Currently, the following audit types are applied:

- CoC DESK: desk-based audit without field visit, covering media monitoring, harvesting documentation. It is used when field inspections are not possible, or when the delivery is directly coming from the forest and a logyard visit is not necessary.
- CoC: field audit of a supplier's logyard.
- FMU: office visit to verify the administrative requirements of forest management (validity of forest management plan, Natura 2000 and NP exposure, etc.).
- PLOT: field audit of harvesting activity of a Forest Management Unit (FMU), counted as verification measure for both suppliers and FMUs.

In 2020, HS' DDS performed 550 field audit verifications, 187 documented desk verification audits and assessed 206 publicly available certification reports. During the field audits, 73 corrective action requests were issued.

The main detected problem areas were:

- Health and safety,
- Missing plot information board in the primary platforms,
- SUMAL registry errors and missing documentation,
- Waterway protection errors,
- Excessive damage during harvest operations.

3.4 Traceability back to origin

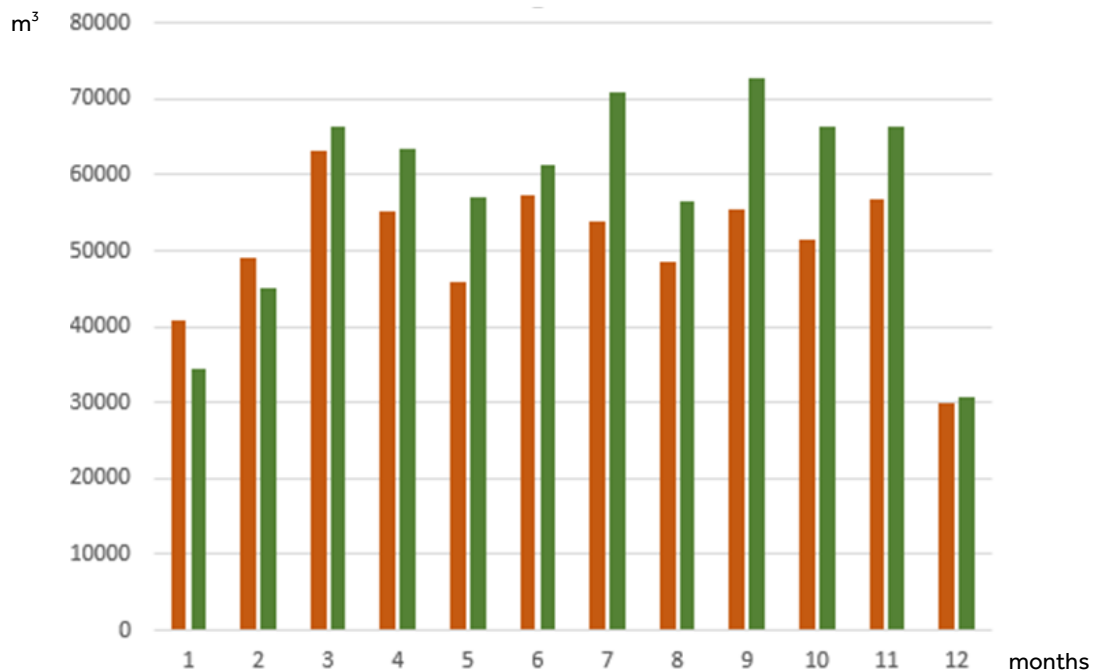
3.4.1 Short supply chains

The most typical wood sale method in Romania is the standing wood sale at auctions, organised by Romsilva, but also by private FMUs. This means that HS purchases material from small harvesting companies which buy standing wood plots from forest management units.

So, HS supply chains are short. More than 90% of HS' suppliers purchase only directly from FMUs. Currently, only 43 of HS' suppliers have one or more sub-suppliers.

3.4.2 Distribution of forest and logyard deliveries in Romania

Logyards – similarly to the practice of most European countries – are and will remain a necessary part of Romania's timber value chain. For HS still, there is a continuous increase of direct deliveries, as it is demonstrated by the graph below.



Graph 2. Monthly logyard (brown) and forest (green) deliveries.

The low input in December is caused by the fact that HS reached 30% of softwood sawlog input. Romania introduced in 2015 a legal provision that an economic operator or group of economic operators cannot acquire or process more than 30% of the volume of an industrial assortment of wood of each species, established as an average of the last three years, on the basis of authorised harvesting documents; HS is therefore limited to buy only 30% of one wood category from the Romanian market.¹⁹ With the introduction of the new compulsory SUMAL 2.0, the Romanian Government closed all potential verification gaps for logyards to the level of direct deliveries. The system is mandatory for all timber transports and integrates features such as GPS tracking and photo-documentation of each delivery, features that Timflow had already covered since 2017. The vast majority of logyards in HS' supply chain belongs to small sawmills.

3.4.3 Timflow – wood tracking system

Timflow is a system to collect, analyse and publish data on truck-based log transports, referring to timber supply chains in Romania. It consists of four key-components:

- a GPS logger installed in the truck's circuitry and equipped with mobile data access,
- a mobile device app for the truck driver,
- an internal portal for the truck reception procedure,
- an external portal for publishing the Timflow datasets.

¹⁹ Law 46/2008. 60§ (f) an economic operator/group of economic operators may not acquire/process more than 30% of the volume of an industrial assortment of timber of each species, established as an average of the last three years on the basis of the development documents authorised for operation and operated at national level, regardless of the form of ownership.

The Timflow system²⁰ has been fully operational since April 2017 and provides unique transparency on all Romanian saw logs deliveries to our mills in Sebeș, Rădăuți and Reci.

In 2020, more than 2,800 transports were further investigated before being released for production and two transports were refused. The main reasons for further investigation were:

- Unconfirmed APVs – the document of origin was not registered and confirmed by SCCC in the system before the transport arrived at the mill gate.
- Different loading point, routes missing or incomplete – any GPS related issue.
- No Timflow²¹ – system or human errors in Timflow registration.
- National Parks – transports which have any of the GPS records located within National Parks.
- Missing audit – transports where on-site audits are incomplete or specific documentation is missing.
- Others – transports with any deficiency in documentation.

Unconfirmed APV	Missing route	Different loading point	Incomplete route	No Timflow	National Parks	Missing audit	Others	Total under investigation	Total transports	Share %
751	488	710	346	109	2	46	409	2,864	32,021	8.94%

Table 6. Timflow statistics of material under investigation.

Two deliveries were refused in 2020, one breaching HS' National Parks policy and one transport with unclear origin, which led to a three-year suspension of the supplier.

3.4.4 Timflow multi-customer

A general claim against HS' DDS is that Timflow does not provide information from the forest to the supplier logyard segment. While HS encourages suppliers to apply direct deliveries whenever it is feasible and possible, there are some practical limitations, such as mixed forests, heavy terrain, limited space and low value assortments, where logyards cannot be eliminated from the supply chain. As of 2020, HS offered all suppliers to introduce Timflow free of charge (with or without the public access) to monitor and trace their inputs from forests to their logyards. Tests were made in spring 2020 and there was a continuous increase in number of suppliers using Timflow to track their input and allowing HS to verify collected data during field audits – 10 suppliers by the end of August 2020. The state announcement²² of the new SUMAL system prevented a further increase in number of suppliers introducing Timflow for their own monitoring purposes, as the new SUMAL system was planned to be very similar to Timflow and mandatory for all wood deliveries²³. With SUMAL 2.0 the security architecture for logyards has dramatically improved.

3.4.5 Timflow Inter Company Deliveries

Timflow ICD (Inter Company Deliveries) is a spin-off of the regular Timflow and the idea was to have a secure way of transferring material between HS' mills, avoiding fraud, as well as any case where a truck

²⁰ www.timflow.com

²¹ All transports without Timflow are registered in Timflow when they arrive at the mills' gates.

²² The original plan was to launch the new SUMAL in October 2020, but it was postponed to 1 February, 2021.

²³ The new SUMAL was launched on 1 February, 2021 and after the difficulties of the first week, the system seems to be reliable and all new functions (GPS route and photo documentations) are working. Detailed data is accessible for the last 96 hours, but this means on average 60,000 delivery notes at a given time.

would be artificially registered as input. As a first step, the decision was that Timflow ICD is used only by the HS staff, within the production unit of each mill.

All transports are initiated in the production unit before the transport permit is issued. The shift leader takes up to six pictures of the truck load and makes sure the GPS on the phone is on. Once the truck arrives at the destination, after SUMAL is checked and confirmed at the gate, it enters the production unit, and the shift leader performs a Timflow ICD reception, which also includes taking photos of the load. As an extra point, at the destination, the shift leader must also take pictures of the transport documents, to make sure they are received. All pictures are shown in the web application.

3.5 Case management

In 2020, the SCCC department registered and investigated a total of 45 cases, most of them from media monitoring, but also internal and external complaints. Of these,

- 17 resulted in the suspension of companies,
- 8 were solved by raising a CAR²⁴,
- 3 are ongoing,
- 1 with a verbal reprimand,
- 16 were unsubstantiated.

3.5.1 Alleged illegal train deliveries

Case Study. On 25 July 2020, Forest Guard²⁵ and Police representatives checked the documentation of a train carrying saw logs coming from the Czech Republic in the Sfântu Gheorghe railway station. The transport company couldn't show printed consignment notes for 27 out of the 41 wagons, only the wagon list could be presented for this in printed form. The transport company could present the consignment notes for the remaining 27 wagons only in digital format. The material was sorted and processed as there was no problem with the legal origin of the material.

Two trains were checked by the Braşov Forest Guard²⁶ on 12 May and 15 May, 2020, both of which had the wrong species in their documentation, pine instead of spruce saw logs. The material was measured, it was seized, and HS' suppliers were fined. The material was given into custody through delivery notes to HS, which proved it is the owner of the wood material with roundwood purchase contracts. The material was sorted and processed as there was no problem with the legal origin of the material.

3.5.2 Multiple deliveries with a single transport permit

Case Study. On the evening of 9 January, 2020²⁷, police officers in Vadu Moldovei, Suceava county, checked a truck transporting coniferous timber, with a delivery note for 44.78 m³ issued on 7 January, 2020²⁸. As there were indications that the timber transport was using that delivery note a second time, the police launched an investigation and evidence was obtained proving that the truck was indeed making a second delivery with the same documentation.

The police fined the company 10,000 lei and the material was confiscated.

²⁴ Corrective Action Requirement.

²⁵ [Forest Guard press release.](#)

²⁶ [Forest Guard press release.](#)

²⁷ Due to the change in the Forest Code, as of September 2020, such a case would lead to the confiscation of both the sawn wood material and the truck.

²⁸ Media report <https://www.ziardesuceava.ro/transport-ilegal-de-cherestea-depistat-de-politistii-din-vadu-moldovei-0?fbclid=IwAR366AJHCS9OTcCHQPzVmJkY-aXpj96pMDcGb2lvZKJIXmKBcEq6jILNj0c>

HS' response was applied in two steps:

- Since the information came from media monitoring, and the company name was not made public, the first task was to identify the supplier.
- HS' decision was to suspend any logyard deliveries immediately, and finally suspend the supplier for three years when the case was finalised.

3.5.3 Overloaded trucks

As in every European country, there are weight limits for trucks in Romania to prevent damages to roads. In the second half of 2020, several trucks delivering wood to HS' sawmills were forced to stop by local activists, on suspicion of overload²⁹. Some of these cases have unfortunately led to violence. HS requested all its suppliers to respect the current legal framework and weight limitations.

3.6 Low impact forestry measures

Romania is facing a significant technological fall-back, as most removals are made using the traditional method of ground level skidding of entire trees. HS plans to support its suppliers in reducing the environmental impact of harvesting operations.

3.6.1 Low impact forestry

In Romania, a typical harvesting team and machinery consist of a single skidder, manual fellers and debranchers. Felled trees are pruned, wood is skidded to the primary platform in full length, where it is sectioned and sorted into different assortments. Because of the low forest road density, the skidding distance is well over 1 km in most cases³⁰.

This situation presents the following problems:

- Significant damage to soil, waterways and standing trees during harvesting and skidding,
- Low productivity because of low speed skidding,
- Lack of traceability because of multiple sorting stages (forest stand, primary platform, logyard),
- High risk of injuries,
- Low efficiency of delivery process.

In other countries, where the forest roads density is significantly higher, harvesters and forwarders are used almost exclusively in forestry operations. The primary benefits are the much better traceability (sorting is made in the forest) and significantly reduced environmental impact.

Following a stakeholder consultation on the HS' social responsibility programme and following field verifications by the Supply Chain Control and Certification department, HS decided to explore support for low impact forestry projects in Romania. One of these projects consists of forwarders leasing, it was initiated in 2020 in the Suceava county and aims to reduce the environmental impact of harvesting operations carried out by our suppliers. The effects pursued include soil protection, protection of standing trees, seedlings and streams and thus a positive change in terms of biodiversity protection.

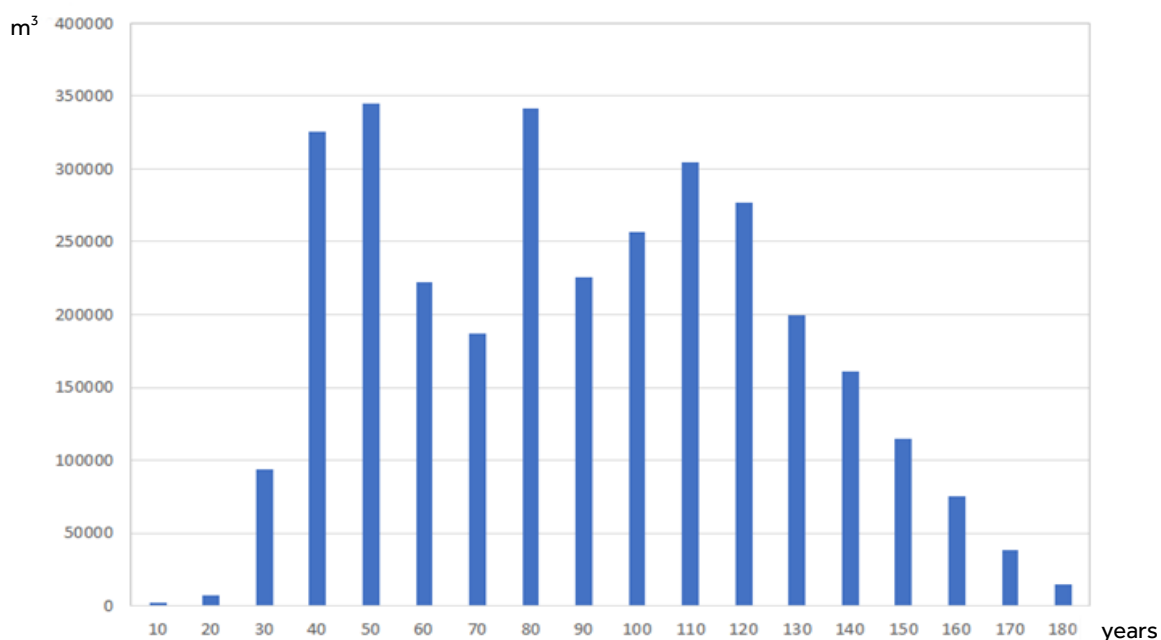
HS also supports a low impact forestry project developed by the Tomorrow's Forest Foundation, which focuses on waterway protection during harvesting operations. The Foundation has commissioned the technical documentation for mobile modular bridges to be used by skidders in stream crossing. The modular bridges will be tested in the field in the second half of 2021.

²⁹ Media report <https://www.monitorulsv.ro/Local/2021-01-04/Camion-indisponibilizat-in-vederea-confiscarii-dupa-o-sesizare-a-activistului-Daniel-Bodnar>

³⁰ http://www.rosilva.ro/articole/catalog_masa_lemnoasa_2021_p_2646.htm

3.6.2 Age distribution in 2020

In 2020, roundwood purchase from Romania was around 1.2³¹ million m³. This input originated from 235 FMUs and SCCC recorded more than 4,500 APVs from all Romanian suppliers which were active in 2020³². These APVs represent a total volume of 3.2 million m³, whose coniferous content was 2.5 million m³. This data shows that HS purchased approximately 50% of the APV on average, since HS purchases only a part of the total harvested volume (the small diameter assortments). APV collection is efficient even in the case of logyard deliveries.



Graph 3. Age classes³³ of APVs from where HS input is originated in 2020.

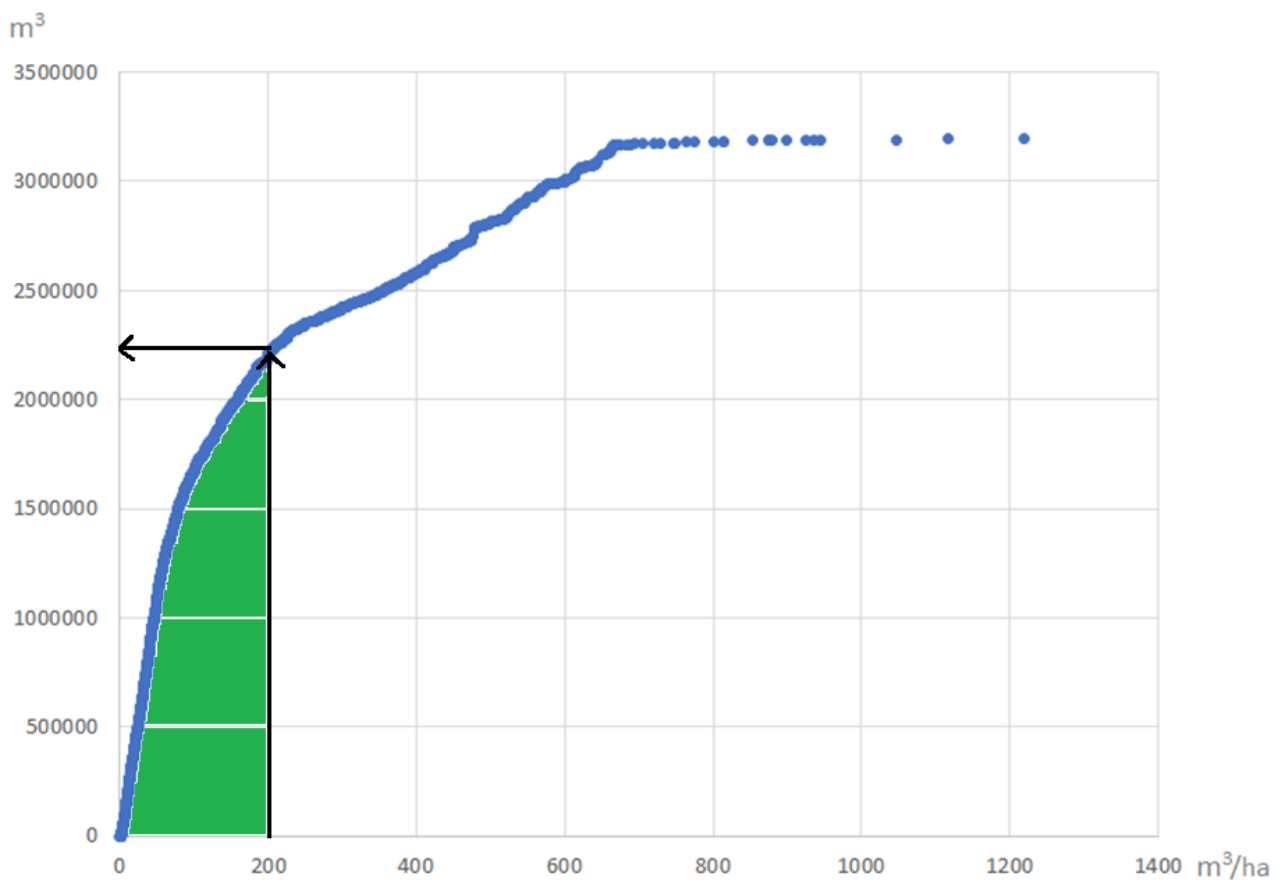
As expected, peaks of first and second commercial thinning are clearly visible in the age distribution of the harvest documents presented by suppliers. APVs also indicate ownership distribution, which was 56% private, 44% state in 2020.

³¹ Figures in this report were converted to HUBER measurement standard using average conversion factor Huber/STAS. STAS NET to Huber NET = Volume *0.93; STAS with bark to Huber NET = Volume*0.86.

³² APVs started in 2019 and APVs which were not closed in 2020 are also included in this number.

³³ In many cases, one APV covers more sub-compartments from different age classes (average is three sub-compartments per APV).

3.6.3 Harvest intensity in Romania



Graph 4. Cumulated volume of APV by harvest intensity

Based on HS' APV data, harvest intensity can be calculated taking the total volume of the APVs – (both coniferous and deciduous trees) divided by the area of the harvest operation. Approximately two thirds of HS' input therefore comes from thinning operations, where the harvesting intensity is usually below 200 m³/hectare – as indicated with green in the graph above – and in line with HS' technological profile of focusing on small diameter class coniferous input.

3.6.4 Natura 2000 monitoring

In 2020, the EU launched three infringement procedures³⁴ against Romania on nature protection. These cases generated significant pressure on the Romanian state and positive impacts are clearly visible (SUMAL improvement, changes in forest legislation), but for the time being it is rather unclear whether an EU Court procedure will be initiated³⁵.

HS actively monitors the EU infringement procedures in Romania, which highlighted that even full compliance with domestic regulations can lead to controversial input. Thus, the sawmilling industry needs to apply additional verification measures to prevent input from forests which did not receive

³⁴ https://ec.europa.eu/atwork/applying-eu-law/infringements-proceedings/infringement_decisions/index.cfm?lang_code=EN&typeOfSearch=true&active_only=1&noncom=0&r_dossier=&decision_date_from=&decision_date_to=&DG=ENV&title=nature&submit=Search.

³⁵ Currently, there are 66 open infringement cases against 23 countries in the EU on Natura 2000 matters, the oldest open case is over 20 years, INFR(1998)2290 against Ireland.

proper protection. As of September 2020, HS' DDS in Romania applies field verification to all forest stands within the Natura 2000 network, for all plots over 160 years old. This is a two-step approach: a document review provides information on the harvesting operation type and then a field assessment confirms the status of the forest plot and appropriateness of the forestry operations.

Case study – Intensive checks in plots over 160 years old resulted from windfalls. In 2020, the Supply Chain Control and Certification staff performed nine targeted on-site audits in the same area (and same FMU) where a massive windfall took place in forests over 160 years old and part of the Natura 2000 network. All the documentation relevant to the approval for harvesting and origin of the material was confirmed, no non-conformities were raised.

Case study - On 18 June, 2020, HS received an external complaint regarding possible breaches of HS' policies because of harvesting activities of the "Purchase on stump (POS)" department at the Sebeş sawmill. The complaint mentioned that harvesting activities were conducted in vast areas with virgin forests, during the mating season for capercaillies. The SCCC department checked whether all measures were taken in line with HS' Sourcing Policy for this standing timber contract. The case introduced an essential change in the POS purchase requirements. All plots are to be contracted if the management plan is approved by Order of the Minister of Environment or if they contain an environmental assessment or Environmental Protection Agency decision which states that an environmental assessment is not required. Also, all new plots which are subject to POS contracts will be assessed using the iAuditor template, especially tailored for the POS department.

3.7 Most advanced scientific solutions for better traceability

HS' supply chain management is strongly committed to use the most advanced technologies for wood traceability.

3.7.1 Laser scanning of standing wood

In July 2020, a pilot project was launched in the Frumoasa forest to verify standing volume using laser scanning. The accuracy of stand volume measurements is constantly under debate in Romania. Laser scanning offers an accurate volume measurement, an assortment distribution and it eliminates the risk of underestimating the allowed harvesting volumes. First tests had an error of less than 2% in the total volume and number of trees, compared with the documentation (APV), therefore, future tests will target not only volume measurement, but also the recognition of each timber piece in the mill, based on the shape characteristics recorded in the forest. The laser scanning project will continue in 2021.

3.7.2 Isotope testing

In 2020, HS performed its first isotope testing of poplar input from Serbia and Italy and for a sample delivery from China. The verification is based on the chemical characteristics of the delivered wood - which provides high assurance - however, isotope testing determines the origin with a margin of 50-100 km.

There are two ways of data validation:

- initial samples are collected directly from the supplier's region and they are used as reference to match with delivered material
- public isotope maps/databases are used as reference.

Starting 2021, HS will use isotope testing as an additional tool to determine the country of origin in case of deliveries from high-risk non-European countries.

3.7.3 'Face' recognition

One possible advanced traceability solution is to recognise timber by analysing photos of log ends. The solution offers limited possibilities in Romania, where sorting is done in primary platforms and, additionally, in logyards, and any modification creates new cut surfaces to register. Still, HS took around 5,000 log end photos, which were sent to a Swedish company to test practical implementation.

3.7.4 Scientific cooperation with spin-off companies

HS strongly believes that further improvement of its DDS requires to use the most advanced technologies. As a member of a research consortium, HS offered its practical knowledge to support the H2020 FTI Project SOURCES³⁶. Unfortunately, in the end the project was rejected by the European Commission. HS will continue to provide support for spin-offs and to join other research proposals to bring science and industry closer together.

³⁶ <https://ec.europa.eu/programmes/horizon2020/en/h2020-section/fast-track-innovation-pilot>.

4 Anti-trust measures

To encourage an ethical behaviour in the business environment and to perform HS activity in a legitimate manner, HS firmly undertakes to maintain its commitment to constantly comply with competition rules applicable at national and EU level.

As part of HS' commitment to prioritise conformity with competition rules (by means of continuous implementation of its internally approved competition compliance programme), in 2020 HS undertook the following activities:

- Implementing the Supplier Code of Conduct³⁷ as a contractual binding document among suppliers (annex to all purchase contracts), which expressly requires suppliers to comply with competition rules;
- Organizing competition seminar/training for all participants at the Public Consultation (including HS' employees) organized by HS on 30 January, 2020, in Rădăuți. The competition training was organised and presented by lawyers specialised in competition law and was tailored for the wood industry activities, considering the specificities of this sector, and aiming to raise awareness among HS' employees and business partners regarding potential competition risks, as well as providing risk mitigation measures;
- Setting up internal measures for HS' employees to verify and assess their knowledge on competition rules acquired under the previous competition training sessions (measures such as quizzes and tests held on e-learning platform).

³⁷ <https://hs.at/en/responsibility/how-we-do-business/supplier-code-of-conduct.html>

5 Plans for 2021

The SCCC department will continue to improve supply chain security. The most important fields for improvement in 2021 are the following:

- In February 2020, PEFC issued a new CoC standard³⁸, which HS will apply at the end of 2021. The most important change is a more elaborate definition of controversial sources, which includes a better description of forest conversion, including ecologically important areas, high carbon stock forests, etc.
- Monitor the implementation of the new SUMAL system and adapt HS' DDS to the new traceability tool. Interconnecting SUMAL with Timflow at the best possible extent in order to eliminate the duplication of tasks.
- Increase the number of field audits, especially plot visits and Natura 2000 forest checks.
- Continue the Timflow system development.
- Continuous exploration of other traceability tools, such as photographic recognition, timber shape recognition, laser scanning and isotope analysis.
- Collect and present in the HUB all coordinates of harvest plots, not just those of primary platforms.
- Promote and offer support in the implementation of certification standards to suppliers and forest owners to achieve the certification target for 2025.
- Strengthen the due diligence in low-risk countries as well and indicate the share of input that comes directly from the forest.
- Develop the existing systems in order to automatize and secure all necessary supply chain data.
- Update the DDS documentation (e.g. integrate Supplier Code of Conduct into a new version of the Supplier Declaration).
- Continue the training sessions for all relevant staff.
- Promote and support the implementation of low impact forestry in Romania.

³⁸ <https://cdn.pefc.org/pefc.org/media/2020-02/66954288-f67f-4297-9912-5a62fcc50ddf/23621b7b-3a5d-55c9-be4d-4e6a5f61c789.pdf>

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