



The Dedovichi production facility complex for deep wood processing

The logging production facility for deep wood processing and reforestation by the GS Group holding company is located in the village of Dedovichi, Pskov region of the Russian Federation.

The complex is an integrated closed-cycle manufacturer, which uses its own raw materials, and comprises:

- ▶ The Dedovichi Logging Unit;
- ▶ The Reforestation Unit – tree nursery that cultivates seedlings using ball-root system technology;
- ▶ The Sudoma timber mill – deep wood processing facility;
- ▶ The Biotop plant manufacturing fuel granules (pellets) by processing by-products from the timber mill and logging unit.

Unlike many other companies, the Dedovichi complex provides for environmentally friendly waste-free recycling of allocated forest resources with rapid recovery that contributes to its own reproduction base. The project model comes from the intensive forest management model that replaces hardwood with more valuable softwood. This is aimed at improving species and qualitative composition within the Pskov region's forest resources.

The closed-cycle manufacturing of reproductive raw materials base is quite uncommon within Russia. The project was launched in 2012 and all facilities will reach planned capacity output by 2016. The total investment is valued over 87 million USD.

Project Stages

The investment agreement to implement "The Dedovichi production facility complex for deep wood processing" was signed by Pskov region municipal officials and the GS Group holding company on July 18, 2012. The project is being undertaken in three stages:

1. Preparations for industrial logging and reforestation

- ▶ Between 2012–2014
- ▶ Total investment: 11,85 million USD
- ▶ Total forest area: 70,000 hectares
- ▶ Total output volume (yield from the logging site): 300,000 m³ per year

This stage covers developing wood material bases and setting the tree nursery under the ball-root system technology into operation.

Seedling cultivation is one area of the project that aims at providing high-quality raw material for reforestation work. Current capacity for nursery seedling manufacturing output is at 2 million seedlings per year. Part of these seedlings will be used for reforestation purposes within the logging unit's activities where the other part will become available for the market. The nursery will also feature ornamental shrub cultivation with annual output volumes reaching 55,000 – 60,000 units.



Andrey Turchak, governor of Pskov region at the tree nursery inauguration on July 9, 2014. The tree nursery construction is included in the first stage of the project on creating a production facility complex for deep wood processing by the GS Group holding company.

“For the first time in years the own tree nursery is constructed on the Pskov region territory. Owing to its launch, we will cover 20 percent of the total area by own planting stock. Besides that, the facility is important in terms of the social and economic effects. After reaching the full production capacity it will become one of the leading enterprises within taxation base”, — **Andrey Turchak, governor of Pskov region** at the tree nursery inauguration on July 9, 2014.*

2. Construction of the deep wood processing plant, which manufactures substitute import products

- ▶ Between 2013–2014
- ▶ The total investment: 35,6 million USD
- ▶ The facility area will equal: 24,000 m²
- ▶ The manufacturing capacity is estimated to be: 150,000 m³ saw logs annually
- ▶ The output volume by 2015: 61,500 m³ of products annually

The second stage includes construction of deep wood processing plant The Sudoma Timber Mill, LLC. The mill will produce high-quality finishing materials for construction where about 40% of the products supplied will be import substitutions for the domestic market. The remaining 60% will be exported and made available for other markets at affordable rates. Raw base material will use its own material base from the Dedovichi logging unit.

The Russian Sudoma Timber Mill will remain one of the few facilities within Europe that will have such specialization.

TIMBER MILL PRODUCTS:

- ▶ Impregnated board (wood, impregnated with a special composition to prevent decay and other environmentally caused deterioration which is used for external work);
- ▶ Reclaimed wood (wood, subjected to thermal modification to improve its' technical and decorative characteristics which is used for internal and external works);
- ▶ Hewed timber.

“Investment return will be made back in full in 8–10 years and will have profitability around 9 percent. I believe this project will be highly effective and will take over 15–20 percent of the market share in roughly 6–7 years within Russia and about 3–5 percent market share in Europe with proper support from the authorities. The market value of the products in Russia is at 1.5 billion USD and is followed by 12 billion USD in Europe. Current major high-end construction material suppliers in the European market come from China, Finland, and CIS where their market share total is over 60%”, — **Narek Avakyan, AFOREX financial corporation analyst.****

3. Construction for the fuel granules (pellets) production plant

- ▶ Total investment: 44,6 million USD
- ▶ Output volume: 90,000 tons of white pellets annually

The plant will be provided with its own raw material base that is composed from by-products from the Sudoma timber mill and logging unit. Product quality will conform entirely to international standards. Its main exports are planned for Europe amongst other countries.

“After analyzing the market situation, we have decided to develop the deep wood processing business area. As of today, the project uniquely operates within a closed cycle that ranges from logging and reforestation to recycling and recovery. The pellet plant, which is another project that is being constructed here, will allow us for recovering all Sudoma timber mill by-products that are left after logging and processing”, — **Pavel Chumakov, GS Group first Vice-president.*****



The Sudoma timber mill plan

*Comment, published by the “Kommuna” newspaper from 18.07.2014

**Comment, published by the “Kommersant” newspaper within the «GS Group enters the Pskov forests» feature from 12.08.2013

***Comment, published by the “Kommuna” newspaper from 18.07.2014