

Quarterly EHS&S Audit Report:

Sabah Forest Industries, Malaysia as per IFC Sustainability Framework

AUGUST-SEPTEMBER 2014

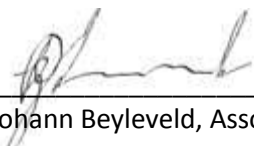


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1 Introduction

Ballarpur Industries Limited (BILT) is India's largest manufacturer of writing and printing (W&P) paper. BILT's subsidiaries include Ballarpur International Graphic Paper Holdings B.V. (BIGPH); BILT Graphic Paper Products Limited (BGPPL); Sabah Forest Industries (SFI), Malaysia's largest pulp and paper company; and Bilt Tree Tech Limited (BTTL), which runs BILT's farm forestry programme in several states in India.

In India, the company has six manufacturing units, giving it geographic coverage over most of the domestic market. The company has a dominant share of the high-end coated paper segment in India. It accounts for over 53% of the coated wood-free paper market, an impressive 80% of the bond paper market and nearly 35% of the hi-bright Maplitho market, besides being India's largest exporter of coated and uncoated paper.

BILT's acquisition of SFI, Malaysia, in 2007 was the first overseas acquisition by an Indian paper company, it transformed BILT into a major regional player, and elevated BILT's ranking among the global top 100. SFI is one of Malaysia's largest timber growers and wood processors. It manages a forest estate totaling 288,000 hectares, pulp and paper manufacturing facilities, and an integrated timber complex consisting of a saw mill and a veneer and plywood factory.

International Finance Corporation is considering a corporate investment consisting of debt and equity in Ballarpur International Graphic Paper Holdings (BIGPH) which is a subsidiary of Ballarpur Industries Limited. IFC is also considering a loan to the Group, with use of proceeds partially directed at Sabah Forest Industries (SFI), whose operations are located in Sabah state of Malaysia. The proposed investment is for refinancing of existing debt, routine capital expenditure at BIGPH's plants and plantation expansion at SFI.

As part of investment process IFC has undertaken an Environmental and Social Review (ESRS) of BILT's operations and provided BILT with a time bound Environmental and Social Action Plan (ESAP). The elements suggested as part of ESRS report and ESAP are to be implemented by BILT at corporate and company level. The compliance to the same has to be monitored by a third party consultant, through regular audits across various facilities of BILT. This report pertains to the third party audit of Sabah Forest Industries (SFI) under taken by AECOM.

1.1 Purpose

The purpose of the audit was to obtain assurance on status of implementation of the Environmental and Social Action Plan, elements of ESRS and compliance to requirements of the IFC Performance Standards (1-8).

This is the first quarterly report for Sabah Forest Industries (SFI), prior to this report various supplementary studies and assessments have been undertaken by BILT through external consultants to comply with the requirements of IFC. This audit also focuses on the compliance to various mitigation measures and mitigation frameworks provided under these reports.

AECOM was engaged by BILT to audit the compliance of SFI to the ESRS, ESAP and IFC Performance Standards (hereinafter referred to as reference framework). A team of five professionals from AECOM Malaysia and AECOM India undertook the site visit on the 27th and 28th of August 2014 as part of the Audit.

1.2 Scope of Work

The scope of work entails the independent verification of environmental and social aspects associated with SFI's operations as per the requirements of the reference framework. This includes the following:

- Review the status of various mitigation plans, management plans, procedures, and facilities as described in the ESRS and ESAP to meet the requirements of IFC Performance Standards;
- Assess compliance with respect to various requirements under IFC Sustainability Framework, 2012 and regulatory compliance as applicable; and
- Identify non-compliance or deviation, if any and suggest corrective measures

1.3 Methodology

The site visit was conducted over the period 27 -28 August 2014. A five-member AECOM team visited SFI facilities. Discussions and interviews were also carried out with SFI's personnel from various departments.

A closing meeting was held on 28 August 2014, where AECOM provided a verbal indication of the initial findings based on the site visit, interviews and documentation review.

1.4 Project documents reviewed

The list of documents made available for the audit is provided below:

- Final ESAP status of SFI as on 25 August 2014
- Draft Final Biodiversity and Critical Habitat Assessment Report (June 2014)
- Biodiversity and Critical Habitat Assessment, Revision 8 Draft Report (August, 2014)
- Draft Final Labour and Working Conditions Audit (June 2014)
- Draft Final Social Impact Assessment for Developed Areas (June 2014)
- Social Impact Assessment for Developed Areas, Phase 2 Draft (August, 2014)
- DEIA Approval Letter and Approval Conditions
- DOE Written Approvals
 - Acknowledgement of ETP Upgrade
 - Effluent Treatment Plant
 - Power Boiler
 - Recovery Boiler
 - 1 unit Genset for Raw Water Intake
 - 2 units of Genset
 - 4 units of Genset
 - Lime Kiln ESP
 - Power Boiler 2 and Recovery Boiler 2
 - Secure Landfill Construction
- Updated Human Resources Policy and Procedures of SFI and its appendices

- Orientation Package for Foreign Workers (English and Bahasa Malaysia)
- Contractors/ Suppliers Management System
- Sexual Harassment Policy
- SOPs
 - Salary Administration (Payroll Processing)
 - Grievances and Complaint
- Policies and Guidelines
 - Attendance Policy
 - New Retirement Age Guidelines (effective 1st July 2013)
 - Handphone and Telephone Facilities
 - Conveyance Allowance for Deputy and Assistant Managers
- Employee's Feedback Form
- Grievance Mechanism Card for employees
- Minutes of Meeting on Workers Representative Meeting
- Internal Circular on Salary Increment for the year 2014
- Letter of Transfer for Staff to Different Department
- Email on Overtime Report
- Letter from the Department of Industrial Relations Malaysia concerning Recognition of the Workers Union
- Employment Contract (English and Bahasa Malaysia)
- Passport Retention Consent Form (English, Bahasa Malaysia and Nepalese)
- Contractors' Declaration of Legal Compliance
- Legal Registers
 - Human Resource and Administration
 - Talent Development Department
 - Department of Medical Services
 - Residence Department
- Pulp and Paper Mill Plant Layout
- Attendance Certificate for Certified Environmental Professional in Scheduled Waste Management (CePSWaM)
- Standard Forestry Practice for Waste Management (Plantation)
- Training Module for Safe Working Practice in Waste Management (Plantation)
- Operational Control Procedures for Waste Management (Plantation)
- Scheduled Waste Inventory (as of 28 August 2014)
- Consignment Notes for Scheduled Wastes
- Annual Work Plan 2014
- Planting Development Plan (2011 – 2020)
- Forest Management Plan (2011 – 2020)
- Plantation Development Plan for SFI Titled Land (2011 – 2020)
- Register of Chemicals Hazardous to Health (Plantation)
- Summary Report of a Chemical Health Risk Assessment (CHRA) (Plantation Operations)
- SFI Forest Fire Action Plan
- Fire Fighting Manual
- Fire Certificate for the old building expiring 16 Sept 2014
- Safety Program 2014 – Safety Marshal Course
- Building Inspection Checklist
- General Services Authorities Emergency Contact
- Emergency Response Plan for SFI Housing Complex

- Emergency Response Plan for ITC Housing Complex
- Health and Safety Policy
- SFI Safety and Health Management System – OSH Level Documents and Records
- Report of an Industrial Activity for Major Hazard Installation under the Occupational Safety and Health (Control of Industrial Major Accident Hazards) Regulations
- SFI Monthly Safety and Health Bulletin, Vol. 04, 2014
- Accident Statistic FY July 2013-FY June 2014 (Log Production & Plantation Division)
- Summary of Findings – 2nd Surveillance Audit MS 1722:2011-OHSAS 18001:2007, Bureau Veritas (16 June – 27 June 2014)
- EHS Organization Charts: Central/ Steering Safety and Health Committee; SFI Safety Department
- Environmental Audit Summary Sheet by Third Party Auditor (5 – 6 August 2014)
- Stack Emission Monitoring Report for Lime Kiln, Power Boiler, Recovery Boiler, and New Power and Recovery Boiler (December 2013)
- Environmental Monitoring Report for SFI Pulp and Paper Mill (December 2013)
 - River water quality
 - Marine water quality
 - Groundwater quality
 - Effluent quality
 - STP sludge
 - Boiler ash
 - Ambient air quality
 - Ambient noise levels
- Purchase order for environmental monitoring dated 10 July 2014 to Chemsian Konsultant Sdn Bhd

1.5 Limitations and data gaps

This report describes the results of AECOM's Environmental and Social Due Diligence conducted to assess the adherence of the activities of SFI with the reference framework suggested

As with any assessment/due diligence study, there is a certain degree of dependence upon verbal information provided by the BILT/SFI's representatives, which is not readily verifiable or supported by any available written documentation. AECOM shall not be held responsible for conditions or consequences arising from relevant facts that were concealed, withheld, or not fully disclosed by BILT/SFI's representatives at the time this assessment was performed.

This report was prepared by AECOM in accordance with the agreed scope of work and generally accepted scientific practice in effect at the time of AECOM's assessment of the SFI. The statements, conclusions, and opinions contained in this report are only intended to give approximations of the Environmental and Social standing of the BILT/SFI.

This report was prepared by AECOM for the benefit of its client, BILT. AECOM's client may release the information to third parties, who may use and rely upon the information at their discretion. However, any use of or reliance upon the information by a party other than specifically named above shall be solely at the risk of such third party and without legal recourse against AECOM, its parent, its subsidiaries and affiliates; or their respective employees, officers, or directors; regardless of whether the action in which recovery of damages is sought is based upon contract, (including the sole,

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1.6 Layout of the Report

The remaining sections of the report include the following:

- **Section 2:** provides description of SFI, its operation and procedures, review of compliance status to reference frame work
- **Section 3:** provides an Corrective Action Plan (CAP) based on the gaps identified along with timeline for completion

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2 Sabah Forest Industry

2.1 Background

SFI is located in Sipitang, the closest town in Sabah to the Sarawak border, 44 km south of Beaufort and about 144 km south of Kota Kinabalu. SFI was set up as a government owned and managed integrated pulp and paper (P&P) unit in 1982. In addition it had a saw mill and a ply mill established in 1996 and 1999 respectively. To ensure sustainability of raw material supply, a captive forest cum plantation concession was leased to the SFI plant. SFI was sold by the government to Lion Group in 1994. The forest concession along with two timber License Agreements were leased to the Lion Group in 1996. BILT acquired SFI in 2007 from the Lion Group including the forest cum plantation concession lease.

SFI is an integrated pulp and paper manufacturing unit with a 243,033 mtpa of pulp and 144,210 mtpa paper manufacturing capacity. The forest cum plantation concession is a lease on 287,000 ha of forest land, from which it sources the timber for pulp manufacture. The forest concession is comprised of: approximately 104,000 ha zoned as of Natural Forest Management (NFM); approximately 171,000 ha zoned as Industrial Tree Plantation (ITP) area, which can be converted to plantation for feeding raw material to the pulp mill and approximately 12,000 ha of land on which SFI has a title. SFI currently has a eucalyptus and acacia plantation spread over about 54,000 ha within ITP area and titled land. SFI, at present, plans to add about 30,000ha of plantation to the ITP area.

It has rights to log within approximately 17 percent of the NFM area before 2020 using Responsible Low Impact (RLI) techniques. This right will be exercised subject to their ability to expand plantation area within the ITP area. Aside from pulp and paper, SFI also has an associated operation, integrated timber complex (ITC), where it manufactures 8,000 m3 of ply board and sawn timber every year. SFI also operates a berthing facility for ships to export the pulp to BILT's India operations.

SFI has obtained Forest Stewardship Council (FSC) - Controlled Wood (CW) certification for its Natural Forest Management License Area (Certification Registration Code: SW-CW/FM-004018 valid until Feb-2015). The Company has also met the Rainforest Alliance Verified Legal Compliance (VLC) standard and holds Verification Statement RA-VLC-005726, valid until 9th September 2015 for its NFM area area and established Plantations. The company is ISO 9000, 14000 and OSHAS1 8000 certified

As on the 30th of April 2014, the Company had 2542 person employed across its three division and other support functions. These include local Malaysian staff, expats and foreign workers (which predominantly consist of Indonesian and Nepalese workers engaged in plantation or ITC operations). Apart from these, approximately 27 contractors work over 1218 workers are engaged to support activities such as timber harvesting, plantation activities, log yard transportation, waste disposal, material loading/unloading etc.

2.2 Organisation Structure

SFI as a subsidiary of BILT comprises of three main divisions. The Pulp & Paper, Plantation and the Integrated Timber Complex (ITC) divisions report functionally through to their respective heads in BILT.

A Support Services Unit provides operational support to the three divisions while the Unit Head provides corporate and administrative leadership on site

2.2.1 Plantation division

The General Manager for Plantations is the overall in-charge. The GM oversees various aspects related to integrated tree plantation (ITP) operations including forest operations, nursery, conservation, planning survey and mapping, quality control as well as general administration. Managers or deputy managers who report to general manager operations independently manage each of these aspects and the activities covered within it.

2.2.2 Pulp and Paper Mill

The Senior Production Manager supported by the Chief Engineer is the overall in-charge for the PnP operations. The Production Manager oversees various aspects of the PnP facility which includes chemical preparation, chip mill, pulp, recovery, paper machine finishing etc. Each of these aspects and the activities covered within it are independently managed by an Assistant Manager or a Deputy Manager who report to the Production Manager.

The Assistant or Deputy Managers are followed by Executives, Supervisors and general workers respectively. The production unit is supported by the engineering department under the Chief Engineer that manages mechanical, electrical, instrumentation, utilities, and security maintenance.

2.2.3 Integrated Timber Complex

The Senior Manager for operations is the overall in-charge for the ITC complex. The individual sawmill and respective unit managers who administer the shop floor and the working staff and directly report to the senior manager further manage plywood units.

2.2.4 Support Services

The support services unit includes eight departments that are Accounts & Finance, CSR, Commercial, Management Information Systems, Sales & Marketing and Human Resources & Administration. The HR & Admin Department is headed by a General Manager and includes sub-sections on: (a) Human Resources & Industrial Relations; (b) Administration and Accommodation Services; (c) Security and Fire Department; and (e) Medical Department. The Occupational health and safety department is directly reports to Unit Head.

2.3 SFI : Current Environment Health, Safety and Social Scenario

2.3.1 Environment

The SFI facility has obtained all requisite environmental permits from the Department of Environment for operation of the plant. The plant submits Environmental Monitoring Report to Department of Environment Sabah on a half yearly basis. SFI is the holder of the Sipitang concession rights with the

Sabah Forest Department (SFD). This area as designated by SFD includes 275,626 ha. of forest reserves. Wood for SFI's manufacturing processes comes mainly from wood harvested from the forests which it manages. These consist of two areas of Government owned Forest Reserve for which SFI holds licences valid until 2095 and two parcels of land which it owns.

SFI has a policy to obtain forest certification, in accordance with an internationally recognised scheme, before the end of 2014. Currently SFI has FSC-CW certification for its Natural Forest Management Licence Area (Certification Registration Code: SW-CW/FM-004018 valid until 22 Feb 2015) and has met the Rainforest Alliance Verified Legal Compliance (VLC) standard and holds Verification Statement RA-VLC-005726, valid until 9 September 2015 for its NFM Area and established plantations.

SFI has undertaken a Biodiversity and Critical Habitat Assessment study in June 2014, through a third party to identify impact on Mixed Tropical Hardwood, modification of Habitat and presence of critical habitat or species.

2.3.2 Health & Safety

The Safety Department is the overall responsible authority for the management of health and safety across the three operations of SFI. SFI has in place standalone Management Systems certified to ISO 9001, ISO 14001:2004, OHSAS 18001:2007 standards for plant operations. The safety department is responsible for implementation of the OHSAS 18000:2007 and MS1722:2011 system in SFI operations. As part of the ISO and OHSAS certified management system, SFI imparts EHS training to employees and contract workers; monitors EHS performance of the plant and reports performance internally and to regulators; monitors, investigates accidents/EHS/fire safety incidents and implements corrective action; internal and external audits, and management review. While SFI manages its plant operations in accordance with ISO and OHSAS certified standards described above, it has plans in place to manage, monitor and report internally as well as to regulators on its forestry operations also.

2.3.3 Social

Stakeholder engagement activities in the company is carried out by the corporate community relations and corporate social responsibility (CSR) team (for community development, grievance collection and handling) and by the forestry team (for farm forestry purposes). Engagement activities include community meetings, consultations with village/community representatives, and district officials (from administration and line departments), NGOs, community based organizations and are carried out on an ongoing basis. The company's community development plan typically focuses on areas of health, education, skill building, livelihood promotion and gender issues.

CSR team of SFI has identified local volunteers from different villages as local mobilisers who are acting as regular interface between CSR team and communities. These community mobilisers enable CSR team to maintain good flow of the communication with communities surrounding SFI areas and to seek community feedback for continuous improvement over CSR interventions made. The community mobilisers submit a monthly report to CSR team.

SFI has been practicing a fairly consultative form of Informed Consent Process since 2008, which has proven the effectiveness of “Sumuku”¹ as a means to find mutually acceptable accord between SFI and directly affected indigenous people.

A Retrospective Social Impact Assessment (SIA) has been conducted through a third party in June 2014 to understand the social impacts of the community, customary rights, Informed Consultation and Participation, and to provide a framework for Free Prior Informed Consent.

2.4 IFC’s Environmental and Social Review Summary (ESRS)

IFC’s appraisal focused on effectiveness and performance of environment, health, safety, labour working condition and social management systems in place at BILT. Further, since part of the use of proceeds of the debt is for SFI, IFC’s review has also focused on a detailed due diligence of the SFI operations including the forest and plantation concession, which is leased to SFI.

IFC’s review included appraisal of technical, environmental and social information made available by BILT. This included SFI’s EHS management procedures and plans; Human Resource (HR) policy; environment impact assessments ; additional assessments undertaken including labour audit, biodiversity assessment, and social impact assessment for converted areas in SFI concession; monitoring data and regulatory submissions for SFI.

2.4.1 E&S Categorization

The investment has been categorized as A according to IFC’s environment and social review procedure as SFI’s operations and plantation expansion plans may result in significant adverse environmental and social risks and impacts that are diverse and irreversible, and which are associated with various applicable Performance Standards.

More specifically, the most significant risks and impacts relate to:

- i) Potential biodiversity impacts due to ongoing and/or expansion of plantation operations in natural habitat, and in areas that are classified as critical habitat as per PS6 Biodiversity Conservation and Sustainable Management of Living Natural Resource Management;
- ii) livelihood impact due to conversion of forest to plantations resulting in economic displacement of communities of Indigenous People (IP) as per PS 5 & 7; and
- iii) potential impacts on cultural heritage of importance to indigenous peoples as per PS8.

IFC has there forth as part of review suggested an Environmental and Social Action Plan as way forward for the operations of SFI. SFI has accepted certain timelines for implementation of various elements as provided under the ESAP/ESRS. AECOM has made an assessment to verify the status of compliance as on the date of audit towards the ESAP/ESRS in the subsequent sections.

¹ Sumuku signify a customary mode for attaining permission through consultation and it can be enacted prior to an action or in retrospect. The process of attaining accord is embedded within a broader conceptual framework called rumomut (in Kadazandusun), which means to connect through communication (to commune with nature and others).

2.5 Compliance to Requirements under the ESRS/ESAP

The requirements of these ESRS/ESAP and the observations made during the audit are discussed in the following sections of the report.

2.6 Performance Standard (PS) -1 Assessment and Management of Social & Environmental Risks and Impacts

2.6.1 Environment and Social Management System

Requirement -1: The Company will upgrade the respective ESMSs to:

- appropriately incorporate and embed IFC Performance Standards 2012;
- incorporate Good International Industry Practice (GIIP) as described in the applicable provisions of the WBG General and sector specific (Pulp & Paper, and Forestry) Environment, Health and Safety (EHS) Guidelines; and
- identify, map and define an appropriate engagement strategy for each of the key stakeholders in a structured manner both at corporate and plant level;

The company will, as a part of the ESMS, assess its ongoing stakeholder engagement activities and refine it to the needs of each operating units (like implementing the SEP developed as an outcome of the SIA for SFI). Further, the company will implement a program to share social and EHS performance information with communities' resident in the vicinity of the plant.

Observation-1: SFI has in place a standalone Management Systems certified to ISO 9001, ISO 14001:2004, OHSAS 18001:2007 standards for plant operations. As part of the IFC investment SFI is the process of including various elements of IFC Performance standards 2012 into its managements system. SFIC has ha recently concluded (in final stages of conclusion) the following Assessments:

- Labour Assessment as per Performance Standard 2
- Social Impact Assessment for Developed Area as per requirements of PS 5, 7 & 8
- Biodiversity and Critical Habitat Assessment as per PS 6

The observation and recommendations from all the studies in form of mitigation plans and frameworks will be included in the existing Management system. Many elements of observations from the Labour Assessment have been incorporated in the HR policy, which is detailed in the subsequent sections.

As part of incorporating the Good International Industry Practice (GIIP), SFI has undertaken a benchmarking study conducted for paper machine processes, energy conservation areas, operational parameters etc. to identify opportunities for improvements. However, it is reported that a professional agency is being finalized for exploring further improvement scope in the operations by Oct'14, for which scope and terms of reference are being prepared. The ESAP has provided a timeline October 31st 2014 to come up with a time bound action plan to implement the identified opportunities. Once these elements are identified, these will be added to the ESMS.

As part of the corporate strategy for stakeholder engagement, SFI has established standard processes and protocols for stakeholder engagement.

The existing process of Identification mapping and defining appropriate engagement strategy for each of the key stakeholders is being reviewed and updated as part of the Retrospective SIA study undertaken through a third party. As part of the SIA the baseline (developed by PACOS in 2008 and 2012) for the converted area has been reviewed and supplemented with detailed village consultations and meetings with different stakeholder groups and communities as well as a household survey (54 households) targeted at people who had staked claims on land in the SFI concession.

As a part of the retrospective SIA, the third party has also reviewed the existing stakeholder engagement mechanism that is in place at SFI and the way stakeholder engagement was done since inception and in due course of time when privatisation happened and ownership passed on to Lion's group and subsequently to BILT.

Records of stakeholder engagement provided in SIA, as well as separate reports such as the Community Engagement Summary Report were verified and confirmed during the audit. Evidence of SIA report being disclosed both local and regional channels was also observed. A Grievance Mechanism has been established and disclosed, which will be included to the ESMS.

The Phase 2 draft of the SIA has suggested Social Management Plan (SMP) and provides framework for achieving ICP. The document was not yet finalized during the day of audit and the CSR team of SFI had queries on the same with the consultant engaged. The SMP and ICP have been documented however, the plan has to be formally adopted by SFI and incorporated into the ESMS. As no new compartments (forest area) were opened up after preparation of these plans, the implementation practise was not evidenced.

2.6.2 Recommendations

- SFI shall review all the process and procedures required for the implementation of recommendations made in the various assessment studies undertaken as part of compliance to IFC requirements.
- These management measures shall be incorporated in the existing ESMS through additional procedures or amendment of existing ones.
- SFI shall discuss and finalise all mitigation and management strategies prior to opening of any new compartment and evidence of the same shall be provided during the next audit.
- As the Corporate SEMS is being updated, SFI shall ensure that the ESMS of SFI is aligned with the updated Corporate ESMS.

2.6.3 Status

The status of the requirement is Open.

2.7 Requirements of Performance Standard (PS) -2: Labour and Working Conditions

2.7.1 Human Resource Management Policy

SFI's Human Resource policies and procedures are defined in a manual which covers general terms and conditions of service (amongst other aspects it covers employment terms, allowances and claims, benefits, working hours; leave, employee conduct and disciplinary regulations). In addition, there are also defined policies and procedures (e.g. grievance management, security and an induction kit for foreign workers).

Requirement 2: SFI has implemented screening procedures to prevent child labour in its direct operations and the same need to be replicated for contract workmen.

Observation 2: SFI has put in place screening mechanism for prevention of child labour for the contractors. The requirements have been communicated to contractors who engage these workers. Documents showing communications pertaining to the same has been verified.

2.7.2 Recommendations

- The HR team shall verify compliance to the requirement through frequent surveillance and feedback from other workers

2.7.3 Status

The status of the requirement is closed

2.7.4 Grievance Mechanism

Requirement 2: The grievance mechanism of SFI, needs to be upgraded to include

- removing restrictions on the scope of grievances that can be raised,
- including provisions to file grievances anonymously or confidentially or to a grievance committee;
- provisions for confidentiality protection and non-retribution and
- Documentation of grievance redress process, analysis of grievances received, redressed, and reporting to senior management on grievances received. SFI will ensure that the grievance redress process is available to all categories of workers, including foreign workers.

Observation 2: SFI has put in place a Joint Consultation Committee (JCC) to address all type of grievances of the all the employees. SFI has also put in place mechanism to obtain grievances anonymously through installation of complaint/ grievance boxes at various places. SFI has communicated the provision of such boxes. All written documents still requires the name, ID, designation etc.

However, the HR head has reported that not a single complaint has been obtained through the complaint boxes and workers have not responded positively to the last two meetings of JCC. The

workers see the JCC as an alternate to the Union, although it has communicated in writing by SFI management.

The existing grievance mechanism document still has restrictions to the scope of grievances that can be raised. The company has not amended the same and not included any terms for confidentiality or non-retribution. SFI does maintain

Although during the discussion with HR team and other workers, it is understood that confidentiality is maintained whenever grievances of such nature are raised. It was also reported that the grievance manual has been revised to include assurance for confidentiality and non-retribution awaiting approval from management.

2.7.5 Recommendations

- The HR team shall implement the proposed new grievance manual to remove restrictions on the scope of grievance and include assurance for confidentiality and non-retribution.
- It shall be clearly stated that grievance received through complaint boxes can also be anonymous.
- JCC needs to be propagated as a separate committee through meetings with smaller group and department level discussions.
- It is suggested that a grievance committee shall be set up at department level as first level of grievance such that JCC does not appear as an umbrella committee, which can replace the Unions. SFI shall call for a meeting to form departmental grievance committee as well as JCC committee.

2.7.6 Status

The status of the requirement is Open.

2.7.7 Revised Minimum Wages

Requirement 3: While SFI has documented policies/provisions to ensure compliance to statutory requirements, for full compliance it is committed to pay the pending arrears for revised minimum wages from January 2013 (for workers who have to be paid retrospectively to comply with the revised minimum wage directive of the government). Also, to check overtime eligibility and payment status to ensure this meets statutory requirements.

Observation 3: Payment of arrears for minimum wage took into consideration the entire period of January 1st to December 31st 2013 for local workers; however, for foreign workers payment of arrears was considered only from July 1st to December 31st 2013.

The HR team has now communicated that minimum wage arrears will be paid to all foreign workers as well as those who have completed their contract of service and have returned. The case of those who have left will be referred to the National Minimum Wage Consultative Council for further directive.

The Contractors are also communicated about the need for implementation of minimum wages effect from 1st January 2014. However, documents pertaining to implementation were not available for review.

To ensure overtime eligibility and payment status HR Department has been deployed one of its staffs to oversee the wage and overtime calculation for the Plantation Division. This is also to monitor the workers overtime do not exceed the monthly limit of 104 hours. A letter of transfer for the said HR staff was sighted to verify the same.

2.7.8 Recommendations

- The HR team to ensure adequate follow-up and monitoring of implementation

2.7.9 Status

The status of the requirement is closed

2.7.10 Hiring of Foreign Workers

Requirement 4: In hiring foreign workers, though SFI uses government approved local agents (particularly in Indonesia), its personnel travel to Nepal and Indonesia to oversee the recruitment process (meet workers and communicate to them the employment terms, nature of work, living and working conditions). SFI needs to further strengthen procedures to prevent agents/sub-agents charging additional amounts to facilitate employment in SFI.

Observation 4: SFI has put in place a feedback checklist for migrant workers, so that information any additional amount being charged by agents/sub agents could be collected and the trend can be reviewed for further action.

It was also communicated that SFI intends to involve active participation of NGOs in Nepal and Indonesia to supervise and monitor the process of recruiting workers through periodic audits and checks. The exact methodology is yet to be worked out.

2.7.11 Recommendations

The HR Team has prepared an Employee's Feedback Form to determine and ascertain whether or not the employees were charged more than agreed/allowed in the contract/country's laws. Action will be taken against the agents if violations are made in that respect, including the termination of contract.

2.7.12 Status

The status of the requirement is Open

2.7.13 Engagement of Foreign Labour

Requirement 5: SFI will put in place appropriate procedures to ensure that labours including foreign labour engaged through contractors are:

- paid the minimum wage,

- not exposed to restrictive practices like withholding passports and there are no restrictions on free movement;;
- have access to an effective grievance mechanism;
- ensure OHS policies of SFI are applicable to contractors as well; and
- Contractors are periodically audited for compliance with relevant provisions of PS2 including that related to OHS.

Observation 5: The HR team has communicated that minimum wage arrears will be paid to all foreign workers as well as those who have completed their contract of service and have returned. The case of those who have left will be referred to the National Minimum Wage Consultative Council for further directive.

The practise of withholding Passport of the migrant workers is followed by SFI. It is reported that workers working in Plantation and Forest voluntarily submit their passport to ensure the safety of passport, which they fear, may be lost or stolen. SFI provides a written letter of consent to all the foreign workers who submit their passport, which states that "I do hereby voluntarily consent to give full responsibility to the employer to keep my passport for safe custody and I shall be able to obtain my passport at any time if needed during the duration of my employment with the employer." It is stated that the employee has every right to request for his/her passport, at any time during their tenure with SFI.

AECOM, based on its global experience on dealing with migrant workers believe that withholding passport is a practise used for restricting the free movement of the worker or prevent switching of jobs. It amounts to forced labour as the employee has limited leverage with the employer in a foreign land. The written understanding does not assure that the worker will get his/her passport at the instant of requirement.

The fact that the workers fear loss or theft indicates inadequate facility at the workers accommodation provided. SFI shall not be involved as the keeper of the passport.

The HR team has communicated to the contractors about the grievance mechanism and the same will be applicable for the migrant workers.

OHS procedures of SFI are currently communicated to the contract workers upon the start of employment. Daily safety toolbox briefings which stress on workplace safety is currently carried out for the contract workers.

2.7.14 Recommendations

- The HR team shall look at a secure third party option (bank etc.) for securely holding the passport of workers, where the workers can directly deal with the agency without any involvement of SFI.
- The details of OHS procedures of SFI being communicated to the contract workers shall be documented..
- These activities shall be undertaken prior to the next quarterly audit

2.7.15 Status

The status of the requirement is Open

2.7.16 Employee Union

Requirement 6: There is ongoing litigation since 1998 in relation to formation of a union at SFI, which remains a key concern of the workers. In the interim a joint consultative committee has been set up, SFI has committed to not opposing formation of a union and will undertake steps to facilitate union formation.

Observation 6:

- In 1990, SFI employees totalling approximately 1238 in number from the PnP, ITP and ITC formed the Sabah Forests Industries Employees Union (SFIEU). In 1998, SFIEU requested the company to recognize the union and submitted the list of prospective union members. However, SFI rejected the request and did not entertain the recognition of the union on this basis that the documentation for forming the union was not in order and a large number of employees wanted to join from the administrative, security and managerial departments that was against the stipulations of the Trade Unions Act (1955).
- In 2003, SFIEU took the matter to the Department of Industrial Relations under the Ministry of Human Resources. After BILT took over, in 2009, the ministry forwarded a directive to SFI to recognize the union. However, SFI disagreed with the ministerial decision and filed a judicial review in this matter in the high court. On 10/06/2009, the high court suppressed the decision that SFI has to recognize the union in favour of the Company.
- After the ministerial order was dissolved, SFI employees had reportedly merged with an external union in Sabah province, namely Sabah Timber Industries Employees Union (STIEU).
- The objective was for STIEU to negotiate a collective bargaining agreement on their behalf with the company for the employees. However, the request was rejected by the company citing this reason that the union was primarily for timber industries employees and the employees from the PnP were not under the same sector of work and thus, the STIEU would not be able to represent them.
- The employees took the matter to the Director of Industrial Relations and a ministerial decision was issued on which supported the employees position for joining STIEU and sent forwarded a notice to SFI in this regards as on 26.01.2011. A second judicial review on this matter was filed by SFI. On 10.08.11, High Court dismissed SFI's Judicial Review Application to quash Minister's decision that SFI do accord recognition to Sabah Timber Industries Employees Union from 24.10.09.
- On 17.08.11, SFI's lawyer filed Notice of Appeal to court of appeal. On 19.09.11, High Court has granted an order in terms of SFI's application to stay the decision of High Court. The effect of

the said order is that STIEU would not be able to commence any negotiation with SFI's Management for a collective agreement-pending disposal of appeal by Court of Appeal.

- On 12.03.12, Court of Appeal has granted SFI's application to include certified true copy of the order dated 10.08.11 in the supplementary record of appeal. SFI's lawyer shall extract the order and file the supplementary record of appeal to court of appeal in due course.
- On 27.11.2012, Court of Appeal ruled in favour of SFI in that the Honourable Minister's decision dated 26.01.2011 that SFI do accord recognition to STIEU from 24.10.2009 was set aside. Court of Appeal also directed the Honourable Minister to review his decision on the scope of membership of STIEU. from 24.10.2009 was set aside.
- Court of Appeal also directed the Honourable Minister to review his decision on the scope of membership of STIEU. The official of STIEU would, in the circumstance have no right to commence any negotiation on collective bargaining with SFI.

As on date the SFI has not recognised STIEU, as it does not represent Pulp and Paper industry. Department of Industrial Relations has asked to initiate a secret ballot election. The Department ordered SFI to submit the list of employees to be screened as eligible voters.

The company has attempted to form an alternative worker's association called the Joint Consultative Committee (JCC), which will be an internal platform from the company to address the grievances of the employees. However, there is little cooperation from the workers to take it forward.

AECOM understands that the SFI do not want interference from the STIEU, which represent Timber industries and not the Pulp and Paper Industry. AECOM also understand that SFI is open to have a union represented by only the employees of SFI or affiliated to Pulp and Paper Union.

2.7.17 Recommendations

- SFI will await the verdict from the Department of Industrial Relations before deciding on the next course of actions.

2.7.18 Status

The status of the requirement is Open

2.7.19 Lost Time Injury Frequency Rates

Requirement 7: Lost Time Injury Frequency Rates observed needs to be reduced for Paper and Pulp and Saw mill operations to meet corresponding OSHA benchmarks

Observation 7: SFI intends to undertake awareness and training of workers to improve the safety levels and on the improve the LTIFR. Safety toolbox briefings are carried out every morning to contract workers in the plantation, which emphasizes safety in the workplace. As of now, no new initiatives were observed to achieve the OSHA benchmark; however, the safety team follows requirements of OSHA.

2.7.20 Recommendations

- The Safety team shall put into place an enhanced training on OSHA requirement for all the workers. The same shall be documented for future audits
- Workplace safety to be strictly monitored for contract workers at plantations

2.7.21 Status

The status of the requirement is Open

2.8 Requirements of Performance Standard (PS) -3: Resource Efficiency and Pollution Prevention

2.8.1 Good International Industry Practice (GIIP)

Requirement 8: SFI will undertake an assessment to identify opportunities for reducing water, heat and energy consumption, and implement measures to harness those opportunities under a time bound action plan as per GIIP.

Observation 8: SFI has undertaken a benchmarking study conducted for paper machine processes, energy conservation areas, operational parameters etc. to identify opportunities for improvements. However, it is reported that a professional agency is being finalized for exploring further improvement scope in the operations by Oct'14, for which scope and terms of reference are being prepared. The ESAP has provided a timeline October 31st 2014 to come up with a time bound action plan to implement the identified opportunities.

2.8.2 Recommendations

- As discussed under PS-1

2.8.3 Status

The status of the requirement is Open

2.8.4 Air Emissions

Requirement 9: SFI has a biomass fired boiler and Power plant. The particulate load and SO₂ load emitted to air at 1.4 and 0.9 kg/ADt are both above GIIP norms. SFI needs to commence monitoring NOx and total reduced sulphur load emitted to air as well.

Observations 9: SFI undertakes stack monitoring on quarterly basis as per the requirements of DoE. SFI intends to add NOx and total reduced Sulphur as part of monitoring due in October. SFI intends to monitor and compare parameters as per the GIIP and Malaysian standards by 1st September 2014.

Continuous emission monitoring system (CEMS) needs to be installed as per the newly amended Environmental Quality Act 1974 (clean air) Regulation 2014 which came into effect on 6 June 2014. A grace period of 5 years is given to Industries in Malaysia. SFI proposes implementation plan under CAPEX as follow.

Implementation Plan

Stack	CAPEX	Date of Implementation
Lime Kiln	FY2015-2016	Jun 2016
Recovery Boiler 1	FY2016-2017	Jun 2017
Power Boiler 1	FY2017-2018	Jun 2018

FY=Financial Year

2.8.5 Recommendations

- The parameters to be compared with GIIP standards besides the Malaysian Standards as reported.
- Continuous emission monitoring system (CEMS) to be installed as proposed.
- High concentration of CO (fluctuating) exceeding limit was noted on CEMS for new boiler, which is also to be focussed upon

2.8.6 Status

The status of the requirement is Open

2.8.7 Waste Water Discharge

Requirement 10: SFI's treated effluent is discharged 0.5 km out to sea and at 77m³/ADt, exceeds GIIP norms. The TSS, COD and BOD loads discharged with treated effluent are all within the GIIP norms but the plant does not monitor Total N and Total P in its treated effluent.

Observation 10: SFI has already commenced monitoring of Total Nitrogen and Total Phosphorus in its treated effluent. Based on ESAP, it is observed that monitoring for Total N and Total P started in July 2014 at all units.

SFI Effluent Treatment plant has undergone upgradation in 2011 as part of the Mill Expansion project to comply with Malaysia Environmental Quality Act 1974, (Industrial Effluent) Regulations 2009.

The following has been installed in addition of the existing equipment:.

- 1 unit of auto bucket screen
- 1 new cooling tower cell capacity 800 m3/h
- 1 unit of Primary Clarifier basin
- units of MBBRs (Moving bed bio-film reactor)
- 1 unit of Return Sludge Aeration Tank
- units of Air Blowers
- Up gradation of secondary clarifier siphoning system
- Nutrient dosing plant and pH dosing plant

There is no documentation suggesting any further improvement proposed for the treatment of effluent to meet the GIIP. The activities are proposed to commence prior to October 31st.

2.8.8 Recommendations

- Procedure for improvement in effluent treatment will be prepared prior to next audit. The procedures shall be prepared considering the GIIP.

2.8.9 Status

The status of the requirement is Open

2.8.10 Thermal Plume Dispersion

Requirement 11: SFI will, within a timeframe agreed with IFC and as part of the marine water quality-monitoring program:

- model/map the thermal dispersion plume to identify the areas where marine temperature elevation is 3 degree Celsius or more;
- identify sensitive habitat (coral, spawning, breeding or feeding areas or other such areas), if any, that falls within the area where marine water temperature elevation is more than three degree Celsius; and
- as required, develop appropriate measures to mitigate or offset or compensate for impact on any identified sensitive habitat.

Observation 11: SFI has already initiated the process and has requested for cost proposal from consultants to undertake the thermal plume dispersion model and to identify sensitive habitats, which may be affected by temperature rise.

2.8.11 Recommendations

- The findings of thermal dispersion plume shall be summarised prior to next quarterly audit, such that any need for mitigation can be verified at site.

2.8.12 Status

The status of the requirement is Open

2.8.13 Waste Management

Requirement 12: SFI will implement measures, within a timeframe agreed with IFC, to implement GIIP related to waste management. Segregation, labelling and containment of hazardous materials and wastes needs to be improved.

Observation 12: A reviewed SOPs and procedures for handling and disposal of hazardous wastes has been undertaken, however no activity pertaining to implementation of improvement measures pertaining to GIIP have not commenced.

2.8.14 Recommendations

- Gap identified in review of SOP and requirements of GIIP to be documented and an action plan shall be prepared to implement the same.

2.8.15 Status

The status of the requirement is Open

2.8.16 Pesticides

Requirement 13: SFI will ensure that any WHO class II pesticide used is accessible only to personnel with proper training and equipment, and that are appropriate procedures and facilities in place to handle, store, apply, and dispose of these pesticides.

The company uses pesticides in its forestry operations, some that are WHO Hazard class IB (e.g. Carbofuran) and II (e.g. Acephate). The company will undertake a review of all the pesticides it uses against WHO hazard classification and prepare a plan to phase-out class IA and IB pesticides that it uses.

Observation 13: SFI has reported that use of Carbofuran has been stopped; however, there is no communication documented which suggest such a decision has been taken. Chemical health risk assessment (CHRA) report for logging and plantation activities, which provided for review, has not been updated for the change of pesticide.

The list of pesticides maintained by SFI is as per the WHO classification 2004, therefore Acephate is not reflected in class II but in class III. SFI has not initiated procedures to handle, store, apply, and dispose of the pesticides. The pesticide was classified as class II in the WHO classification issued in 2009.

2.8.17 Recommendations

- SFI to update its pesticide classification list as per WHO classification 2009 and verify that no other pesticide being used falls in the category.
- The phasing out of Carbofuran shall be documented and all process document shall be updated accordingly
- Procedures to handle and store Acephate shall be developed if it is to be continued.

2.8.18 Status

The status of the requirement is Open

2.9 Requirements of Performance Standard (PS) -4: Community Health Safety and Security

2.9.1 Emergency Response/ Security Risk

Requirement 14: The Company will

- complete a security risk assessment and strengthen its onsite and offsite emergency management plan to cover aspects like natural hazards, chemical leak, arson and other security risks,
- engage with communities including providing training and building awareness with off-site emergencies/risks,

- strengthen its compliant/grievance management system by ensuring feedback from communities and stakeholders (like truck drivers, workers etc.) and
- Ensure adequate training to staff and security personnel on company's policies and PS 4 requirements.

Observations 14: SFI has an onsite emergency response plan, the workers and staff is aware about the plan. The plan however has not been disclosed to community, as there is not community in close vicinity of the plant. An offsite emergency is being considered by the management to address issues such as traffic, road accidents, plantation issues, wild animals etc.

The emergency numbers or details of contact person we not displayed anywhere for the community, the community members are not involved for mock drills and training on emergency response. Training of security personnel on company's policy and PS 4 has not been initiated.

2.9.2 Recommendations

- Develop an offsite emergency response plan after assessing all potential risks including natural disaster and social conflicts. The plan shall be disclosed to community members and details of emergency contact shall be made available at all village level.
- Training of security personnel on company's policy and PS 4 shall be undertaken

2.9.3 Status

The status of the requirement is Open

2.10 Requirements of Performance Standard (PS) -5:Land Acquisition and Involuntary Resettlement

2.10.1 Retrospective SIA

Requirement 15: SFI will a) implement the mitigation measures recommended in the retrospective SIA and b) undertake an SIA and implement mitigation/management plans in accordance with the agreed framework for New Areas.

SFI will establish an implementation escrow fund, and ensure that monetary, human and other resources needed to effectively implement all SIA corrective actions and plans are available.

SFI will, based on the concerns and grievances raised by the communities develop and implement environmental mitigation aligned to good industry practices.

Observation 15: As on the date of Audit, the finalization of retrospective SIA report and associated stakeholder engagement plan has not occurred. Also no new areas have been taken up post the SIA studies. An observation on implementation status can only be provided after the plans under retrospective SIA are formally accepted and adopted by SFI. Also no escrow fund has been constituted as on date of audit

2.10.2 Recommendations

- Once the retrospective SIA is formally accepted and adopted, the management plan shall be detailed into implementable actions, with defined resources, timeline and budget. The same shall be incorporated into the ESMS.
- The procedure for SIA for new area shall be documented and added to the SOPs for implementation prior to opening of new areas.

2.10.3 Status

The status of the requirement is Open

2.11 Requirements of Performance Standard (PS) -6: Biodiversity Conservation and Sustainable Management of Living Natural Resources

2.11.1 Biodiversity Assessment

Requirement 16: On completion of: Phase 2 Biodiversity Assessment; a detailed schedule and assessment protocol for field-based biodiversity assessments, aligned with PS6 and HCV toolkit, prior to any clearing or logging of any new compartments; a Biodiversity Action Plan; and assessment of invasive aliens/species and, if applicable, proposed management strategies. This will include assessment of the invasiveness of proposed plantation species;

Observations 16: Draft of Phase 2 Biodiversity Assessment has been prepared. Overall, the document has met the requirements of the ESAP; however, some elements are still under development, including determination of suitable offset locations, and tactical management plans (protocols for development of these management plans are provided in the Biodiversity Action Plan)

Specific comments:

Phase 2 Biodiversity Assessments –

- Draft document prepared, however locations for proposed offsets are still being determined (mapping of proposed offset locations not yet available). Offset assessment notes that there is insufficient offset habitat for Dipterocarp Mixed Forest available within SFI's concession, so external offset sites may need to be considered.
- Critical Habitat has been confirmed for Banteng (*Bos javanicus*) through field survey and consultation with experts. Verification / confirmation of other candidate species will be undertaken on an ongoing basis

A detailed schedule and assessment protocol for field-based biodiversity assessments, aligned with PS6 and HCV toolkit prior to any clearing or logging of any new compartments –

- Required protocols included in document, however noted that no new compartments have been opened for logging yet (further detail regarding compartment opening schedule to be provided in final report)

Biodiversity Action Plan

- A Biodiversity Action Plan (BAP) is provided in the document. The BAP is largely strategic (rather than tactical) and provides recommendations for the development of operational-level

management plans to address issues such as soil erosion, habitat fragmentation and invasive species.

- It is assumed that a program will be developed by SFI for preparation of the various operational-level management plans.

Assessment of invasive aliens/species and, if applicable, proposed management strategies. This will include assessment of the invasiveness of proposed plantation species –

- A preliminary analysis of potential invasive species is provided, however this has limited detail. Very little information is given on the current status of the concession area with regard to presence of invasive species, and density of populations.
- No verification has yet been conducted regarding the potential invasiveness of plantation species (various Eucalyptus and Acacia species), apart from citing comment on this issue given by SFI. This is of concern since numerous species within the genus Acacia and Eucalyptus have established themselves as weeds in many countries. A more detailed analysis of the potential for invasion by the species used by SFI within the concession is strongly recommended in order to be consistent with IFC requirements
- The BAP specifies the need for a Pest and Weed Management Plan to be prepared – it is assumed that this document will have a more in-depth analysis than what is presented in the current report

A standalone ecosystem services assessment has not been conducted, and this issue has not been specifically addressed in the P2-Biodiversity Conservation Habitat Assessment/BAP. Utilisation of ecosystem services (specifically provisioning services) by Affected Communities (including Indigenous Peoples) has been highlighted in the SIA, and mitigation is reliant on measures proposed in previous regulatory EIA studies and associated EMPs. SIA report has noted the need to review adequacy of mitigation measures proposed in the EMP, however this should be supported by a more focused ecosystems services analysis, potentially including an economic analysis.

2.11.2 Recommendations

- The Biodiversity assessment needs to be updated as per the observations to meet the IFC requirements.
- Determining locations for proposed offsets, including external sites for Dipterocarp mixed forest
- Provide independent review / verification regarding the invasive potential of the plantation species being utilized by SFI in the local environment
- Provide management structure for BAP
- SFI plantation lies within the internationally-recognised “Heart of Borneo” conservation area. It also has several protected areas adjoining or within it. Information presented in P2BA and BAP indicate general compliance with these requirements (however ongoing compliance will need to be benchmarked based on implementation of the recommendations within these reports).
- A more detailed assessment of ecosystem services utilisation by Affected Communities is recommended in order to underpin the review of the adequacy of mitigation measures proposed in the EMP.

2.11.3 Status

The status of the requirement is Open

2.11.4 Forest Stewardship Council Certification

Requirement 17: Two previous audits indicate potential for compliance with the Forest Stewardship Council (FSC) principles with the exception of non-clearance post 1994 (FSC Principle 6.10). As a result, FSC certification is limited to Controlled Wood for the NFM area and no clarity exists on potential of FSC certification for the full concession. IFC recommends compliance with all FSC principles, with the exception of Principle 6.10.

Observation 17: Accreditation process is underway. SFI has informed that MTCC audit has been completed, and they are awaiting certification. Document pertaining to the same and subsequent communication was verified. The certification is expected to be obtained before 31st Dec 2014.

2.11.5 Status

The status of the requirement is closed

2.12 Requirements of Performance Standard (PS) -7: Indigenous People

2.12.1 Informed Consultation and Participation

Requirement 18: SFI will take the follow approach in areas already converted to plantations:

- Undertake extensive consultations with identified stakeholder groups on in accordance with the principles of Informed Consultation and Participation (ICP) with IP communities. The consultation will use culturally appropriate strategies to ensure participation of all stakeholder groups/communities;
- Based on these consultations, detail and assess retrospectively impacts on IP communities and agree with affected communities and implement mitigation measures to address the impacts in line with the principles delineated in the entitlement matrix developed as a part of the SIA. With an aim to mitigate impacts, the SIA will also developed an Indigenous People Plan (IPP) or a broader Community Development Plan (CDP) with separate component for Indigenous People. SFI will ensure that the impact mitigation measures defined in the SIA and CDP/IPP will be implemented in a time bound manner with adequate budget and resources.

Observation 18: Baseline study of communities in affected areas has been completed. Household survey provided in SIA, as well as a summary of engagement with 34 communities as part of the report "Community Engagement Summary Report" prepared by SFI's Corporate Social Responsibility (CSR) department was reviewed.

Verification of claims is still underway, SFI's limitations in managing the claims process was also noted, since SFI is a concessionaire not the landowner. SFI can gather information, however cannot comment on the veracity of the claims.

Requirement for a separate Indigenous development is not envisaged as it is consolidated under the community development and all target groups are 100% indigenous communities of Sabah, Murut, Lundayeh, Bisaya, Kadazandusun, Kedayan and Brunei.

The SFI CSR department has initiated a Sumuku case study in the Solob area. Based on the Minutes of the Certification Committee (22/8/2014), the case study will be a pro-active position taken by SFI to collate land claims base on selected cases to be decided prior to the execution of the case.

The retrospective SIA is yet to be finalised, following which SFI will implement mitigation measures to address the impacts in line with the principles delineated in the entitlement matrix developed as a part of the SIA

2.12.2 Recommendations

- SFI shall finalise the SIA and develop a time bound plan for implementation of the mitigation measures suggested
- Pro-active initiative such as being undertaken for Solob shall be continued for greater engagement with community

2.12.3 Status

The status of the requirement is Open

2.12.4 SIA implementation

Requirement 19: SFI will, prior to commencing work in any new compartment, undertake a Social Impact Assessment, in accordance with the Social Impact Assessment and Mitigation Framework, which has been developed as part of the SIA completed to date.

The impact mitigation measures that emerge as an outcome of the SIA will be appropriately built into the compartment working plan, and will be implemented by SFI in a time bound manner. SFI will undertake this SIA sufficiently in advance of commencing any work in the compartment so that communities get adequate time for their decision processes and also such that the outcome is appropriately incorporated in the compartment working plan.

Observation 19 : No new areas have been opened during the prior to the audit and hence the situation for implementation of SIA framework has not arrived.

2.12.5 Status

The status of the requirement is Closed

2.12.6 Free Prior Informed Consent

Requirement 20: SFI will use the SIA and FPIC framework developed to obtain consent prior to opening up of any new areas where triggers for FPIC exist. Six monthly audits by qualified and

independent consultants have been proposed in the ESAP to assess compliance (process and outcomes) to the SIA and FPIC requirements.

Observation 20: FPIC framework dubbed the “Sumuku Accord” has been developed, and is clearly detailed in the SIA. This process seeks to mirror customary practices for engagement and dispute resolution. Review of available records indicates that Sumuku accord has been disclosed to Affected Communities. No new compartments have been opened since the draft SIA report has been prepared.

During the social baseline surveys and the third party assessment, women were also included and in all the CSR community engagement process and Community development programmes women, the elderly and the young participated. It is also unclear if there is a gender assessment and specifically inclusion of women’s role in the management and use of land and natural resources.

Information reviewed does not necessarily demonstrate the agreement / formal acceptance of the Sumuku Accord by Affected Communities (though it does demonstrate disclosure).

2.12.7 Recommendations

- SFI to ensure that community agreement/acceptance is sought as part of the consultation and disclosure process. (note: IFC requirements do not expect that 100% agreement will be reached)
- There is a gap in gender inclusion and specifically on recognizing the role of women in decision making pertaining to management and use of land and natural resources, SFI to include a gender inclusion approach.

2.12.8 Status

The status of the requirement is Open

2.13 Requirements of Performance Standard (PS) -8: Cultural Heritage

2.13.1 Cultural Heritage

Requirement 21: SFI will, as a part of its compartment assessment framework and prior to opening of any new compartment, undertake assessment and mapping of all culturally important sites in that compartment in consultation with relevant stakeholders/communities.

Further, SFI will continue to adhere to the principle of avoidance and ensuring continued access and where removal is unavoidable, it will be undertaken in consultation with the affected communities, its functionality shall be restored including where required, maintaining or restoring ecosystem processes needed to support it. If impacts on Critical Cultural heritage are unavoidable, SFI will consult with affected communities and key stakeholders, and obtain FPI Consent with documented outcomes, before commencing any activity that has an impact on the critical cultural heritage.

Observation 21: SFI has initiated the process of mapping culturally important sites in plantation area on GIS platform. However, many of these cultural sites are relatively unknown. SFI intends to comply with the requirements prior to opening of any new areas.

2.13.2 Status

The status of the requirement is closed till new site are opened.

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3 Corrective Action Plan

The Audit has identified issues which are open, in some cases where some action has begun it is given a Yellow flag, where action is totally pending it is given as Red and closed matters are given in Green. The table details provides the summary of gaps and recommendations detailed in the preceding sections of the report

S. No.	PS	Gaps	Recommendations for Action Plan	Status	Timeline from finalization of this report
1	1	ESMS upgradation	- SFI shall review all the process and procedures required for the implementation of recommendations made in the various assessment studies undertaken as part of compliance to IFC requirements. - These management measures shall be incorporated in the existing ESMS through additional procedures or amendment of existing ones. - SFI shall discuss and finalise all mitigation and management strategies prior to opening of any new compartment and evidence of the same shall be provided during the next audit. - As the Corporate SEMS is being updated, SFI shall ensure that the ESMS of SFI is aligned with the updated Corporate ESMS.	Open	One month
2	2	Child Labour Policy of Contract workers	The HR team shall verify compliance to the requirement through frequent surveillance and feedback from other workers and document	Closed	
3	2	Upgrade Grievance mechanism	- The HR team shall implement the proposed new grievance manual to remove restrictions on the scope of grievance and include assurance for confidentiality and non-retribution. - It shall be clearly stated that grievance received through complaint boxes can also be anonymous. - JCC needs to be propagated as a separate committee through meetings with smaller group and department level discussions. - It is suggested that a grievance committee shall be set up at department level as first level of grievance such that JCC does not appear as an umbrella committee, which can replace the Unions. SFI shall call for a	Open	1 month

S. No.	PS	Gaps	Recommendations for Action Plan	Status	Timeline from finalization of this report
			meeting to form departmental grievance committee as well as JCC committee.		
4	2	Revised Minimum Wages	The HR team to ensure adequate follow-up and monitoring of implementation	Closed	
5	2	Hiring of Foreign worker through agents	- The HR Team to review Employee's Feedback Form and ascertain whether or not the employees were charged more than agreed/allowed in the contract/country's laws. - Action to be taken against the agents if violations are made and document the same	Open	1 month
6	2	Engagement of Foreign Labour Terms /free movement/OHS	- The HR team shall look at a secure third party option (bank etc.) for securely holding the passport of workers, where the workers can directly deal with the agency without any involvement of SFI. - The details of OHS procedures of SFI being communicated to the contract workers shall be documented.. - These activities shall be undertaken prior to the next quarterly audit.	Open	2 months
7	2	Employee Union Formation	SFI will await the verdict from the Department of Industrial Relations before deciding on the next course of actions.	Open	Depending on legal proceedings
8	2	Lost Time Injury Frequency Rates reduction	- The Safety team shall put into place an enhanced training on OSHA requirement for all the workers. The same shall be documented for future audits - Workplace safety to be strictly monitored for contract workers at plantations	Open	Recurring monthly
9	3	Implementing Good International Industry Practice (GIIP)	A professional agency is being finalized for exploring further improvement scope in the operations	Open	6 weeks
10	3	Air Emissions – GIIP	The parameters monitored to be compared with GIIP standards besides	Open	4 month

S. No.	PS	Gaps	Recommendations for Action Plan	Status	Timeline from finalization of this report
		norms	- the Malaysian Standards - Continuous emission monitoring system (CEMS) to be installed for the existing boiler – per site personnel, SFI has planned for installation of the system. - High concentration of CO (fluctuating) exceeding limit was noted on CEMS for new boiler, which is also to be focussed upon		CEMS to be implemented as per plan provided
11	3	Waste Water Discharge – GIIP norms	Procedure for improvement in effluent treatment will be prepared prior to next audit	Open	3 months
12	3	Thermal Plume Dispersion –waste disposal	The findings of thermal dispersion plume shall be summarised prior to next quarterly audit, such that any need for mitigation can be verified at site.	Open	4 months
13	3	Waste Management	Gap identified in review of SOP and requirements of GIIP to be documented and an action plan shall be prepared to implement the same.	Open	4 month
14	3	Phasing of Pesticide	- SFI to update its pesticide classification list as per WHO classification 2009 and verify that no other pesticide being used falls in the category. - The phasing out of Carbofuran shall be documented and all process document shall be updated accordingly - Procedures to handle and store Acephate shall be developed if it is to be continued.	Open	1 month
15	4	Emergency Response/ Security Risk	- Develop an offsite emergency response plan after assessing all potential risks including natural disaster and social conflicts. The plan shall be disclosed to community members and details of emergency contact shall be made available at all village level. - Training of security personnel on company's policy and PS 4 shall be undertaken	Open	2 months
16	5	Retrospective SIA	Once the retrospective SIA is formally accepted and adopted, the	Open	Recurring

S. No.	PS	Gaps	Recommendations for Action Plan	Status	Timeline from finalization of this report
			management plan shall be detailed into implementable actions, with defined resources, timeline and budget. The same shall be incorporated into the ESMS. The procedure for SIA for new area shall be documented and added to the SOPs for implementation prior to opening of new areas.		
17	6	Biodiversity Assessment	- The Biodiversity assessment needs to be updated as per the observations in this report to meet the IFC requirements. - Determining locations for proposed offsets, including external sites for Dipterocarp mixed forest - Provide independent review / verification regarding the invasive potential of the plantation species being utilized by SFI in the local environment - Provide management structure for BAP - A more detailed assessment of ecosystem services utilisation by Affected Communities is recommended in order to underpin the review of the adequacy of mitigation measures proposed in the EMP.	Open	1 month
18	6	Forest Stewardship Council Certification	-	Closed	
19	7	Informed Consultation and Participation- SIA Framework	- SFI shall finalise the SIA and develop a time bound plan for implementation of the mitigation measures suggested - Pro-active initiative such as being undertaken for Solob shall be continued for greater engagement with community	Open	Recurring
20	7	SIA implementation	No new areas have been opened during the prior to the audit and hence the situation for implementation of SIA framework has not arrived.	Closed	
21	7	Free Prior Informed Consent	SFI to ensure that community agreement/acceptance is sought as part of the consultation and disclosure process. (note: IFC requirements do not expect that 100% agreement will be reached)	Open	2 month

S. No.	PS	Gaps	Recommendations for Action Plan	Status	Timeline from finalization of this report
			SFI to explore a gender inclusion approach, in decision making pertaining to management and use of land and natural resources		
22	8	Cultural Heritage	SFI to comply with the requirements of mapping cultural heritage prior to opening of any new areas	Closed	

4 Other EHS &S Observations

Besides the observations made against the requirements of ESRS and ESAP, the audit team observed some non-compliances/ delay in compliances at the plant facility. The issues identified are primarily Health and Safety issues falling under PS-2, PS-3 and PS-4. These activities need to be complied with along with the Corrective Action Plan to ensure compliance to IFC sustainability framework.

Aspect	IFC /Legal Requirements	Observation	Corrective Action	Timeline
PS- 2 Health and Safety	Compliance to national legal requirement [Fire Services Act, 1988, Section 28 and Fire Services (Fire Certificate) Regulations, 2001, Regulation 6]	At the time of audit, fire certificate for the expansion of new power plant had not been obtained.	SFI to secure fire certificate for the new power plant as soon as possible.	Nov 30, 2014
	[Occupational Safety and Health (Control of Industrial Major Accident Hazards) Regulations, 1996, Regulation 16]	Due to the use of chlorine (in liquid form, maximum quantity of 70 tons onsite), the facility is classified as a Major Hazard Installation (MHI) under the CIMAH Regulations. The “report of an industrial activity” which shall be updated at least every 3 years, was last updated in July 2011.	SFI to ensure that the 3-yearly safety assessment for MIH is completed by September 2014 and submitted to the local department of safety and health	Nov 30, 2014
	Compliance to national legal requirement [Occupational Safety and Health *Use and Standards of Exposure to Chemicals Hazardous to Health] Regulations 2000, Regulations 9, 26 & 27]	At the time of audit, information was not available with regard to workplace industrial hygiene monitoring and worker medical surveillance program at SFI. Chemical health risk assessment (CHRA) report for logging and plantation activities was provided for review. However similar reports for the pulp and paper mill, integrated timber complex were not available.	- SFI to ensure workplace industrial hygiene monitoring, medical / health surveillance and chemical health risk assessment are conducted according to regulatory requirements. - Relevant reports to be provided for review in next audit.	Nov 30, 2014

Aspect	IFC /Legal Requirements	Observation	Corrective Action	Timeline
	[Factories and Machinery (Noise Exposure) Regulations, 1989, Regulation 22]	The facility conducts audiometric test for workers approximately once every two years. Based on the testing results, there were workers observed having baseline audiogram showing hearing impairment, or the annual audiogram showed a standard threshold shift. Audiometric test was not conducted on yearly basis for these workers with hearing loss concern.	SFI to update its existing audiometric testing program and provide test for required workers on yearly basis.	Nov 30, 2014
	Occupational Health and Safety	Although OHS processes such as tool box talks, work permit system, safety induction, training, incident and accident monitoring, investigation, corrective action and reporting are being implemented, and there are OSH Level 2 procedures for various topics; implementation of the following shall be enhanced based on the site visit: - Cylinder management – compressed gas cylinders were observed not being chained to positions - Housekeeping issues – proper management of materials/ equipment to reduce safety hazards (e.g. trip and fall, blockage to pathway or safety equipment) - Safety at the loading dock and shipping container yard – proper management of loading/ unloading activities at the warehouse dock; management of the lifting equipment (crane, forklift) at the container yard - Machine guarding – proper	- SFI to further enhance implementation of safety practices onsite on the areas identified. - Specific safe work practice/ guideline could be developed addressing specific hazard/ safety concern.	Feb 28, 2015

Aspect	IFC /Legal Requirements	Observation	Corrective Action	Timeline
		guarding to exposed rotating parts of equipment; e.g. damaged cover observed at the pumps in wastewater treatment plant; operation control of the paper cutter. Work at height – use of scaffold appeared not properly constructed was observed in the new power plant building; fall protection in the wastewater treatment ponds area.		
	Emergency preparedness and response [Occupational Safety and Health (Control of Industrial Major Accident Hazards) Regulations, 1996, Regulation 22]	As a major hazard installation, an information package for the public was developed and last revised in Oct 2011. The Offsite emergency response plan was part of the previous MIH Report of an Industrial Activity and was not updated since then.	SFI to ensure that the information package for the public (including offsite emergency response plan) to be regularly updated and distributed to the surrounding community.	Nov 30, 2014
PS-3 Environment	Pollution Prevention – During the design, construction, operation and decommissioning of the project (project life cycle), the client is to consider ambient conditions and apply pollution prevention and control technologies and techniques.	During site visit at the production facilities, potential soil and groundwater contamination was observed at the following area: - Various chemical storage areas (noted without proper containment) - Wood chip piles (lignin liquid run-off, not treated) - Sulfur storage, melting and burning area	- Secondary containment to be provided for all chemical storage with spill collection pit. - Leachate collection pit to be constructed to contain the lignin from wood chip piles. A Submersible pump to be placed in the pit to pump out the liquid back to	

Aspect	IFC /Legal Requirements	Observation	Corrective Action	Timeline
			ETP. • The residual Sulphur to be cleaned and removed for reuse. • Regular housekeeping is being conducted regularly. • SFI to establish and implement a soil and groundwater pollution prevention procedure.	
	Be prepared to respond to process upset, accidental and emergency situations in a manner appropriate to the operational risks and the need to prevent their potential negative consequences. This preparation will include a plan that addresses the training, resources, responsibilities, communication, procedures and other aspects.	The storage of fuel at the plantation were observed to be on unpaved surface, which renders the soil and groundwater vulnerable to contamination.	• SFI to ensure that fuel storage areas are of paved surface, with secondary containment and oil trap.	Sept 2014

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