

# Quarterly EHS&S Audit Report:

## Sabah Forest Industries, Malaysia as per IFC Sustainability Framework

NOVEMBER-DECEMBER 2014



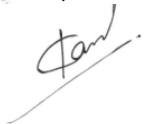
## Quality Control/Quality Assurance

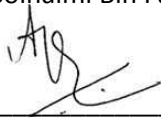
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## 1 Introduction

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 second quarterly report for Sabah Forest Industries (SFI), prior to this report an audit report was submitted in September 2014, also various supplementary studies and assessments have been completed 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 besides the legal requirements and IFC performance standards

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 27<sup>th</sup> and 28<sup>th</sup> 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 25 – 29 November 2014. Discussions and interviews were also carried out with SFI's personnel from various departments.

A closing meeting was held on 29 November 2014, where AECOM provided a verbal indication of the initial findings based on the site visit, interviews and documentation review.

The audit included review of management processes related to Environment, Health & Safety and Social aspects with respect to IFC requirements and legal requirements. The team also undertook site visit of the Pulp and Paper (P&P) mill, one of the logging sites, one of the labour camp, and one of the affected villages. This audit is the second audit in the series of quarterly audit proposed for the next two years.

## 1.4 Project Documents Reviewed

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

- Correspondence between SFI and Majlis Daerah Sipitang on domestic wastes disposal at the Sipitang District Council's waste disposal site at Jalan Pantai Merintaman
- Environmental Monitoring Report for SFI Pulp & Paper Mill – 1<sup>st</sup> Report of 2014 (26 Aug & 8 – 15 Sept 2014)
- Progress Report (Sept 2014) submitted to the DOE Sabah.
- Register of Chemical Hazardous to Health (dated 30 Oct 2014)
- Email notification to stop usage of the Carbofuran pesticides active ingredient based chemical and Acephate based pesticides
- Letter from Department of Industrial Relations Sabah dated 24<sup>th</sup> Oct 2014 on interviews to be conducted for those eligible to vote for employee union establishment
- SFI Letter to the Department of Industrial Relations Sabah dated 29<sup>th</sup> Oct 2014 on staff categories eligible to join employee union
- Memorandum dated 7<sup>th</sup> November 2014 on Recognition of Union
- Calculation of minimum wage arrears from January to June 2013 for foreign workers in plantation



- Circular dated 16<sup>th</sup> Oct 2014 on passport safekeeping
- Summary of passport consent letter as at Oct 2014
- Eye screening program announcement to staff dated 18 Nov 2014
- Safe work practice records
- Job hazard analysis dated 2<sup>nd</sup> Feb 2014
- Toolbox Talk Records
- Purchase Order dated 12<sup>th</sup> June 2014 for CIMAH Consultancy Services to ESQ Consultancy Services Sdn Bhd
- Invoice from ESQ Consultancy Services Sdn Bhd for CIMAH Consultancy Services
- Safety briefing checklist for new employees
- Safety briefing attendance records
- William Eber's Safety Officer Green Book
- Premises and Performance Guarantees
- Reject letter from Fire and Rescue Department of Sabah dated 27 March 2014
- Letter to Fire Safety Division, Fire and Rescue Department of Malaysia dated 4 Aug 2014 regarding fire certificate application for mill expansion
- Letter from Jasa Perunding Sabah dated 19<sup>th</sup> Aug 2014 for submission of document and drawings to the Fire and Rescue Department Putrajaya
- Letter from NOA Consult Sdn Bhd dated 24 Sept 2014 for submission of document and drawings to the Fire and Rescue Department Putrajaya
- Email correspondence dated 15<sup>th</sup> Oct 2014 regarding fire certificate application for mill expansion
- Approved training plan for safety programmes for 2014/ 2015 (July 2014 – June 2015)

### 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,

concurrent, or other negligence and strict liability of AECOM), statute, or otherwise. This information shall not be used or relied upon by a party that does not agree to be bound by the above statement.

## 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

Annexure:  
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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 million tons per annum (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 m<sup>3</sup> 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 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”<sup>1</sup> 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.

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<sup>1</sup> 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' residing in the vicinity of the plant or affected by its activities.

**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 has developed a Corporate Environment and Social Management System including various elements of IFC Performance Standards 2012, which is being integrated into the existing managements system. SFI has recently concluded 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 are 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), it was reported during the first audit that a professional agency was being finalized for exploring further scope of improvement in the operations, for which scope and terms of reference were being prepared.. However, no documentation was available to suggest that any third party has been engaged for the purpose. It is evident that the timelines suggested for the benchmarking study will be missed.

As part of the corporate strategy for stakeholder engagement, SFI has established standard processes and protocols for stakeholder engagement. The revised protocols are discussed in the later sections of this report.

The existing process of Identification mapping and defining appropriate engagement strategy for each of the key stakeholders is 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 to both local and regional channels was also observed. A Grievance Mechanism has been established and disclosed, which will be included to the site level ESMS.

The Phase 2 draft of the SIA has suggested Social Management Plan (SMP) and provides framework for achieving Indigenous Community Plan (ICP).. The SMP and ICP have been documented however, the plan has to be formally adopted by SFI and incorporated into the ESMS.

The existing process for management of Environmental issues at the P&P mill is currently undertaken through an environment officer who reports to the operations, while the Health & Safety officer reports to the Plant head, directly responsible for operations, whereas the social and CSR team is an independent unit. It is observed that a separate vertical under an EHS officer is required to independently handle the EHS requirements independent of constraints of operational requirements.

There are various audits of the mill and plantation undertaken throughout the year including ISO certifications and Forest certifications, which are handled by different teams. It is observed that there are areas of overlap and lack of continuity in the team members who pursue these activities. It is observed that a dedicated team is required to handle EHS function.

### **2.6.2 Recommendations**

- An EHS Manager shall be appointed to independently address all Environment and Health and Safety requirements under an independent vertical and shall manage all existing EHS functions including the Mill and Plantation.
- 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.



- SFI shall ensure that the ESMS of SFI is aligned with the updated Corporate ESMS.

### 2.6.3 Status

The process of incorporation of various elements of IFC performance standards and subsequent studies into site level ESMS is not yet complete. The existing EHS structure is inadequate to comprehensively address the EHS requirements on a regular basis. 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:** The Joint Consultation Committee (JCC) setup to address all type of grievances of the all the employees was deemed unsuccessful as the response from employees was poor. It has now been scrapped. Based on AECOM's recommendations during the last audit, the HR team has revised the grievance form where employees can remain anonymous while airing their grievances. The revised form was sighted to verify the same. The complaints/ grievance boxes were, however, not been fully utilised by the employees since its installation.

The Grievance Manual has been amended where the restrictions on the scope of grievance had been removed and the assurance for confidentiality and non-retribution were included. The revised Manual was available for review and verified.

#### 2.7.5 Recommendations

- The updated grievance form shall be communicated to all employees and subcontractors.
- The HR Department shall look into other alternatives for the employees to air their grievances in addition to the current grievance boxes approach such as hotline, telephone no., email, etc. dedicated for this purpose.
- The grievance boxes shall be placed or displayed at locations that are more prominent and easily accessible.

#### 2.7.6 Status

The status of the requirement is Partially 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:** The minimum wage arrears was approved but has yet to be paid out to all foreign workers as well as those who have completed their contract of service and have returned. The HR Department informed that the payment shall be made on or before the 10<sup>th</sup> of Dec 2014 by the SFI Accounts Department. The confirmation of the payment has not been received till the preparation of this report.

The Contractors of SFI have also been communicated about the need for implementation of minimum wages with effect from 1<sup>st</sup> January 2014. However, documents pertaining to implementation were not available for review.

#### 2.7.8 Recommendations

- The HR team to ensure adequate follow-up and monitoring of implementation. The same shall be documented adequately for the purpose of future audits.
- The arrears in wages to be paid and duly documented.

### 2.7.9 Status

The status of the requirement is Open.

### 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:** The feedback checklist for migrant workers is yet to be implemented, as there will be no new arrival of foreign workers is expected in near future.

The HR Department informed that Induction Booklets were distributed during the recruitment drive in order to inform the potential workers of their wages and benefits. This was confirmed while to workers at campsite and union members.

The exact methodology to supervise and monitor the process of recruiting migrant workers in Nepal and Indonesia to ensure that there is exploitation is yet to be worked out.

### 2.7.11 Recommendations

As there is no new arrival of foreign workers during the audit period, the HR Team was advised to carry out the case study with the existing foreign workers on the Employee's Feedback Form to determine and ascertain whether the employees were charged more than agreed/allowed in the contract/country's laws.

### 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 during the last audit that pending 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.

As per the audit conducted in November 2014, SFI is yet to pay out the balance of the minimum wage arrears to the eligible foreign workers. The General Manager HR, indicated that the payments will be made to those who are still working with SFI by 10<sup>th</sup> Dec 2014.

With regards to the practise of withholding passport of the migrant workers, a follow up memo dated 16<sup>th</sup> October 2014 was circulated to all foreign workers which allows foreign workers to collect their passports at any time for whatsoever reasons. The said announcement was sighted during the November 2014 audit. Following that a total of 70 foreign workers have since collected their passports. This is an indicator that all submission of passport was not voluntary.

The HR team has communicated to the contractors about the grievance mechanism developed 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. The relevant documentation on safety briefing to new employees and daily toolbox talk currently implemented were sighted and verified. The Health and Safety walk through of the site however indicated poor implementation of health and safety procedures.

#### **2.7.14 Recommendations**

- The grievance mechanism developed shall be communicated to the migrant workers.
- The Safety Team to ensure that the OHS procedures are properly implemented.
- The HR team shall keep all records of passports collected and returned for future audits.

#### **2.7.15 Status**

The status of the requirement is Partially Closed

#### **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.

A memorandum dated 7<sup>th</sup> November 2014 has been circulated to all eligible employees that the management of SFI supports the establishment of an in-house union and SFI encouraged those eligible to form and submit the relevant documentation for recognition. Meanwhile the Industrial Relation Department was in the process to interview SFI employees to determine those who are eligible to vote in the secret ballot. During the audit, remaining five employees are yet to be interviewed by the

personnel from Industrial Relation Department. Correspondence between SFI and the Industrial Relation Department on the interviews were sighted.

A discussion was undertaken with the Union members during the audit. The Union has rejected the memorandum dated 7<sup>th</sup> November, which called for an in house Union. The Union has strong objections to management interfering and suggesting employees on what type of Union should be formed in SFI.

The union members involved in the discussions provided the following account of the historic events pertaining to the union issues:

- In 1991, The Sabah Forest Industries Employees' Union was established in-house and requested the management for recognition to represent the employees for collective bargaining. The Management cited lack of majority members to represent the workers.
- In October 2003, SFI Union made a second claim for recognition. The management requested Director General Inland Revenue (DGIR) to ascertain whether the employees in respect of whom recognition was sought were members of SFI Union (as on date of filling of claim for recognition) and to verify whether the Secretary General of the SFI was duly elected with the Rules of SFI Union.
- In October 2006, DGIR informed SFI that verification exercise on SFI Union carried out by Director General of Trade Unions (DGTU) showed that 77.5% of the employees, within the scope of representation of SFI Union were members of SFI Union and advised SFI to accord recognition to the SFI Union.
- The Management went for a Judicial Review on the account that the Ministry has failed to conduct competency assessment on the verification process as the membership included managerial, executive, confidential and security employees. The Judicial Review quashed the order of Minister.
- In 2009, the workers decided to join the state-wide Union Sabah Timber Employees Union (STIEU) leading to the dissolution of SFIEU. A secret ballot was carried out in 2010 wherein 89.5% of the workers voted to be represented by STIEU. The Human Resource Ministry thereafter issued a directive order that SFI must recognise STIEU.
- SFI filed for second Judicial Review claiming that STIEU's competency is limited to timber processing. Herein SFI also argued that STIEU couldn't be recognised because SFIEU was already operating based on the 2010 secret ballot and subsequent order by the Ministry.
- In March 2014 a fresh claim for recognition was filled, which is being processed by the Industrial Relations Department, through secret ballot. The verification of eligibility was delayed by SFI but as of now it is mostly complete. SFI has excluded about 300 workers from Supervisory, Commercial, Sales and Marketing and Administrative Divisions.

The Union members also cited the Industrial Relations Act, 1967 which provides for the Rights of workmen and employers as “No person shall interfere with, restrain or coerce a workman or an employer in the exercise of his rights to form and assist in the formation of and join a trade union and to participate in its lawful activities.”

It was also reported that SFI-STIEU is the branch of STIEU which is focussed on the workers issues pertaining to SFI. Both SFI-STIEU and STIEU are registered with the Ministry of Human Resources.

#### 2.7.17 Recommendations

- SFI will await the verdict from the Department of Industrial Relations before deciding on the next course of actions.
- SFI to clarify on the status of in-house union (SFIEU), whether it was existing till STIEU claimed for recognition as mentioned for Judicial Review or there was no recognised Union at any time

#### 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 undertakes safety awareness campaigns annually and regular training of workers were conducted to improve the safety levels and 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.

The plantation workers and representatives of contractors have reported shortage of personal protection equipment's (PPE) and replacement of protective gears are not immediately attended to. The Management has expressed shortage of fund as one of the key reasons for the same.

The state of safety arrangements as observed during the site walk through is poor. The key observations include:

- Cylinders are stored insecurely, without segregation
- No secondary containment for chemical storage
- Heavy Machineries functioning without reverse siren and assistance
- LOTO process not being followed
- Significant volume of scrap scattered at various locations with the Mill, which is observed potential trip and fall hazard
- Workers are not aware of work permit system

### 2.7.20 Recommendations

- The H&S implementation at the Mill is poor and requires immediate attention, in terms of awareness, availability of PPE, implementation and documentation.
- 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 was reported during the last audit 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 31<sup>st</sup> 2014 to come up with a time bound action plan to implement the identified opportunities. Documents suggesting issue of work order were sighted.

### 2.8.2 Recommendations

- The third party agency identified shall immediately commence the study conducted immediately as the timeline has lapsed.

### 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 SO<sub>2</sub> 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 has added NOx and total reduced Sulphur as part of monitoring done in October.



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 is 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

- The observations of Ambient Air Quality Monitoring undertaken August 2014 was reviewed and it was observed that the Particulate matter monitored were higher than the prescribed standards and the mathematical sum of various types of Particulates monitored exceeded the way beyond the Total Suspended Particulates recorded. The monitoring and data analysis needs to be verified and corrected.

### 2.8.5 Recommendations

- The stack monitoring results from the monitoring conducted by the third party accredited lab in October 2014 will be reviewed in the next audit to determine if the air emission parameters comply with the GIIP Standards.
- SFI to engage authorised and registered CEMS contractor to service and calibrate the CO probe which was suspected faulty.
- The monitoring and data analysis needs to be verified and corrected.
- The analysis report should be accompanied with calibration details of the equipment and site conditions when the monitoring/ sampling were undertaken.
- 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 77m<sup>3</sup>/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:** Based on the effluent monitoring results conducted in August 2014, the final effluent discharge comply with Standard B of the Malaysia Environmental Quality Act 1974, (Industrial Effluent) Regulations 2009 except for iron and the color value. The free-chlorine values remain undetermined,

as the sample color was murky. The monitoring of Total Nitrogen and Total Phosphorus in its treated effluent was, however, not carried out in the August 2014 monitoring event.

Total Nitrogen and Total Phosphorus were only analysed for groundwater and marine water samples and the results showed that Total Nitrogen in groundwater have exceed the baseline data.

SFI informed that the following documentation were prepared as part of the improvement procedures for the treatment of effluent to meet the GIIP:

- EMS-L3-ENV-E1-01-Effluent Treatment Performance Monitoring
- SOP Guidelines for Effective Communication within inter-department for high color, pH and conductivity monitoring.

The COD levels in the ETP discharge were observed to be consistently higher over a period of last 10 months, which needs immediate attention.

### 2.8.8 Recommendations

- SFI to conduct the monitoring of Total Nitrogen and Total Phosphorus in its treated effluent in the next monitoring exercise.
- Total Nitrogen and Total Phosphorus monitoring results are to be compared to the GIIP norms in addition to the Malaysia Standards for marine water, groundwater and effluent discharge.
- Procedure for improvement in effluent treatment and measures to reduce COD to be provided for the next audit with visible evidence.

### 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 raised the Purchase Request to the appoint consultant to undertake the thermal plume dispersion model and to identify sensitive habitats, which may be affected by temperature rise. However, the appointment is pending the approval from the Chief Operating Officer.

### 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.

As per the Environmental Clearance accorded the ETP sludge generated from the plant is to be disposed of into secured landfill. However, it is observed that the ETP sludge is currently disposed of into open landfill. The company has constructed a secured landfill; however it is yet to be operationalised.

It is observed that metal scrap and other waste are piled and kept in small heaps all around the Mill site. This includes discarded metal components, insulation materials, empty drums, wires, packaging materials etc. It is a potential Health and Safety, possible source for contamination and indicates poor house-keeping.

### 2.8.14 Recommendations

- Gaps identified in review of SOP and requirements of GIIP to be documented and an action plan shall be prepared to implement the same.
- SFI shall operationalise the secured landfill within an identified time frame and dispose all hazardous and potentially hazardous waste accordingly.
- SFI shall initiate the process to utilise the ETP sludge in the boilers as fuel within an identified period.
- All scrap/ waste generated from the Mill shall be collected at one designated place and disposed off at regular frequency with records maintained.

### 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 appropriate procedures and facilities are 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 ceased the usage of Carbofuran and Acephate effective 9 October 2014 via an email communication to all plantation and production managers to communicate the decision undertaken by the SFI Management in phasing out of these two chemicals. The register of chemicals hazardous to health dated 30 October 2014 has been updated to reflect the same.

#### 2.8.17 Status

The status of the requirement is Closed

### 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 existing plan is adequate and covers all key risks associated with the mill operation. The plan however has not been disclosed to community, as there is no 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. Although not document there offsite team is aware of the emergency procedure in case of offsite accidents, 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 have been conducted.

#### 2.9.2 Recommendations

- Develop an offsite emergency response plan measures currently being engaged shall be structured and documented into an offsite ERP 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.

#### 2.9.3 Status

The status of the requirement is Partially Closed

## 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:** Retrospective SIA report and associated stakeholder engagement plan has been finalised. However, 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

The audit exercise looked at the 16 cases (land issues) flagged by ERM during the retrospective SIA and the stakeholder consultation under process in addressing grievance claims (particularly, in regards to land). Of these cases, 7 cases can be considered close until further development is made (i.e, where land is left to fallow or where SFI is unable to identify occupants). Other nine cases remains open for SFI to follow-up and identify the necessary mitigation action.

SFI has updated its procedures for stakeholder engagement, the focus of grievance mechanism and mitigation should be on impact on livelihood opportunities rather than over land rights. Land, as mentioned is a state matter. SFI can facilitate in ensuring the claimant understand and gain access to the state to contests land claims.

### 2.10.2 Recommendations

- The SOPs shall be tested through implementation with focus on livelihood loss rather than over land rights.
- All 16 case identified by the SIA shall be addressed as per the procedures established and mitigations provided in the retrospective SIA.

### 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 and Action Plan

**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 specie.

**Observations 16:** A draft Phase 2 Biodiversity Assessment (referred to as “Biodiversity and Critical Habitat Assessment” or “BCHA”) was prepared in August, 2014 – this draft has not progressed materially since the previous audit. 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).

Note: A supplementary action plan (in addition to the ESAP) has been provided by the IFC to assist in more clearly delineating future progression of the PS 6 requirements. Key actions have been incorporated into this section, and will be monitored during forthcoming audits.

#### Specific comments on required items:

##### Phase 2 Biodiversity Assessments –

- Draft document prepared, however locations for proposed offsets are still being determined (mapping of proposed offset locations not yet available). The BCHA 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.
- Offset accounting does not appear to take into account the potential biodiversity gains which may result from avoidance actions or biodiversity enhancement (e.g. possible future weed reduction programs). If more detailed accounting is given, the need for external offset sites may be reduced.
- 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 (program to be developed by SFI).
- Assessment of invasive species is limited (refer additional comments on BAP below).

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 have been included in the BAP, however noted that no new compartments have been opened for logging yet.
- A draft program for opening of new compartments has been provided by SFI (no new compartments have yet been assessed since no new compartments have been opened).
- The IFC has recommended the established of an expert biodiversity steering panel in association with Land Empowerment Animals People (LEAP) to assist in development of protocols for compartment assessment and verification of critical habitat.

#### 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. However the management plans themselves still require development.
- A program will need to be developed by SFI for preparation of the various operational-level management plans.
- BAP management structure has not yet been provided.

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 in the BCHA and BAP, however this has limited detail. Very little information is given on the current status of the concession area, for example 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 genii *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

#### 2.11.2 Recommendations

- BCHA is to be further developed to meet IFC requirements, with a view to finalising the assessment by May 2015. Specifically, this is to include:
  - Screening criteria are to be established for compartment-level assessments, which will aid in assessing which compartments require a detailed assessment. As a minimum, all compartments which are listed in the BCHA as potential critical habitat are to be assessed. Further input will be provided by an expert panel which will be convened by the IFC in consultant with Land Empowerment Animals People (LEAP).
  - Based on the outcomes of the above, a detailed program is to be developed for future compartment assessments including further verification of critical habitat. A first test assessment is to be targeted for April 2015
  - Further development of offsets program is to be undertaken including determining offset locations and governance arrangements.
  - Revision of offset accounting to more clearly account for biodiversity gains as a result of all biodiversity enhancement activities.
  - Provision of a more detailed analysis of the current status of invasive species within the various SFI-managed compartments.
  - Development of a map of compartment areas showing Natural Forest Management (NFM) and Industrial Timber Plantation (ITP) zones overlaid with Natural Habitat and Primary Forest, as well as unopened compartments.

- The BAP is to be further developed, including the following:
  - Development of a compartment-level constraints protocol, to be applied to both open and planned future compartments
  - Provision of management structure
  - Provision of independent review / verification regarding the invasive potential of the plantation species being utilized by SFI in the local environment
  - Establishment of a forest cover and fragmentation monitoring system for all conservation areas, both primary forest and unassessed compartments. Ongoing reporting is to be provided for any areas of Natural Habitat which are being impacted.
- Utilising the outcomes of the BAP as a basis, develop the following management plans:
  - Biodiversity Management and Monitoring Plan which will establish standardised minimum management plan requirements for all compartments
  - Conservation Management and Monitoring Plan for all on-site conservation areas. This is to include provision of a classification for the various conservation areas and associated management requirements.
  - Invasive Species Management Plan.

### 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 31<sup>st</sup> Dec 2014.

### 2.11.5 Status

The status of the requirement is Closed pending provision of certification evidence by SFI.

### 2.11.6 Ecosystem Services and Sustainable Utilisation of Natural Resources

**Requirement 18:** PS 6 requires that ecosystem services be assessed, and consideration be given to the value of these services to Affected Communities. Impacts are to be avoided / minimised / mitigated, and improved resource efficiency utilisation is to be implemented if the project is itself dependent on priority Ecosystem Services.

**Observation 18:** A focused ecosystem services assessment has not been conducted, and this issue has not been specifically addressed in the BCHA /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. The 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. Limited information is also available regarding hunting (and poaching) practices within the plantation.

Additionally, mixed tropical hardwood (MTH) is occasionally sourced from external sources, however an assessment of the supply chain does not appear to have been undertaken, and the level of sustainability of these sources is not known. The SFI-managed forests also provide an important carbon sink (a vital regulating service), however to date this has not been quantified.

#### 2.11.7 Recommendations

- Conduct a more detailed assessment of ecosystem services utilisation by Affected Communities in order to underpin the review of the adequacy of mitigation measures proposed in the EMP. This will commence via a screening study, the outcomes of which will be used to establish future actions. If existing mitigation measures are found to be insufficient, new measures are to be determined.
- Conduct an assessment of hunting practices, trends and practices (both legal hunting and poaching)
- Integrate biodiversity awareness (including poaching) into community engagement program
- Conduct an assessment for the supply chain for externally-sourced MTH
- Undertake a carbon stock assessment to inform the potential development of a Reducing Emissions from Deforestation and Forest Degradation (REDD) opportunity for the plantation.

#### 2.11.8 Status

The status of the requirement is Open.

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

#### 2.12.1 Informed Consultation and Participation

**Requirement 19:** SFI will take the follow up 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 19:** 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. A Sumuku workshop was also conducted in July 2014, where the consultants (ERM) explained the Sumuku accord to participants.

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 plan 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 remaining cases.

SFI needs to involve the indigenous claimant in the investigation of land claim/grievances. The current practice does not include the claimant as an active stakeholder in the investigation. It only requires the FIC to visit the site and report base on their observation. The information is then handed over to the GIS officer for further verification. This practice have given rise to a conflict of interests between the operations division and the claimant as operations have other factors to consider. Ideally, the CSR department should handle investigation and subsequent mitigation measures.

### 2.12.2 Recommendations

- SFI shall develop a time bound plan for implementation of the mitigation measures suggested as suggested in the SIA report
- The community engagements shall be under taken by trained staff with social background to understand the sensitivities
- Pro-active initiative such as being undertaken for Solob shall be continued for greater engagement with community and all new case shall be undertaken as per the Somuku accord.
- It is recommended that SFI take the CSR department request for budget increase to add more staff immediately.
- The CSR department should carry out ground investigation and interact with all parties including the claimant. The need for claimant’s participation in ground truth should be disclosed. The CSR manager or a committee should make the final approval on the outcome of a claim.

### 2.12.3 Status

The status of the requirement is Open

#### 2.12.4 SIA implementation

**Requirement 20:** 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. However the CSR team is receiving fresh grievance for existing operations, where in the new engagement plan is being put to use.

#### 2.12.5 Status

The status of the requirement is Closed

#### 2.12.6 Free Prior Informed Consent

**Requirement 21:** 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 21:** 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).

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 remaining cases.

The Kg. Solob case study comprises:

1. the new Sumuku Accord (as recommended by ERM),
2. a boundary survey and

3. process of identifying and verifying land use by village (Villages in the Solob area, include; Tunas Baru , Pakiak, Solob and Pegarawan Solob).

#### 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)

#### 2.12.8 Status

The status of the requirement is Partially Closed

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

#### 2.13.1 Cultural Heritage

**Requirement 22:** 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 22:** 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 until new site are opened.

**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 provide the summary of gaps and recommendations detailed in the preceding sections of the report.

S. No.	PS	Gaps	Recommendations for Action Plan	Status	Timeline Audit I	AECOM's Observations/ Findings	Updated Action Plan Audit II	Timeline from finalization of this report
1.	1	ESMS upgradation	<ul style="list-style-type: none"> <li>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.</li> <li>These management measures shall be incorporated in the existing ESMS through additional procedures or amendment of existing ones.</li> <li>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.</li> <li>As the Corporate SESMS is being updated, SFI shall ensure that the ESMS of SFI is aligned with the updated Corporate ESMS.</li> </ul>	Open	One Month	<ul style="list-style-type: none"> <li>The CSR team and HR have made changes in the documentations to update their existing processes, however there are observations on the same which is provided in this report.</li> <li>SFI has not made any significant effort in meeting GIIP requirements with respect to energy resources, waste management and H&amp;S practices.</li> <li>SFI is yet to align its ESMS requirement with the corporate ESMS.</li> </ul>	<ul style="list-style-type: none"> <li>An EHS Manager shall be appointed to independently address all Environment and Health and Safety requirements under an independent vertical and shall manage all existing EHS functions including the Mill and Plantation.</li> <li>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.</li> <li>These management measures shall be incorporated in the existing ESMS through additional procedures or amendment of existing ones.</li> <li>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.</li> <li>As the Corporate SESMS is being updated, SFI shall ensure that the ESMS of SFI is aligned with the updated Corporate ESMS.</li> </ul>	Hiring of EHS manager may take 2-3 months for all other activities One month shall be the timeline
2.	2	Child Labour Policy of Contract workers	<ul style="list-style-type: none"> <li>The HR team shall verify compliance to the requirement through frequent surveillance and feedback from other workers and document</li> </ul>	Closed				
3.	2	Upgrade Grievance Mechanism	<ul style="list-style-type: none"> <li>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.</li> <li>It shall be clearly stated that grievance received through complaint boxes can also be anonymous.</li> <li>JCC needs to be propagated as a separate</li> </ul>	Partially Open	1 month	<ul style="list-style-type: none"> <li>The Grievance Manual had been amended where the restrictions on the scope of grievance removed and the assurance for confidentiality and non-retribution were included.</li> <li>The grievance form where employees can remain anonymous while airing their grievances has been prepared</li> </ul>	<ul style="list-style-type: none"> <li>The HR Department shall look into other alternatives for the employees to air their grievances in addition to the current grievance boxes approach such as hotline, telephone no., email, etc. dedicated for this purpose.</li> <li>The grievance boxes should be placed or displayed at locations that are more prominent.</li> </ul>	One Month

S. No.	PS	Gaps	Recommendations for Action Plan	Status	Timeline Audit I	AECOM's Observations/ Findings	Updated Action Plan Audit II	Timeline from finalization of this report
			<p>committee through meetings with smaller group and department level discussions.</p> <ul style="list-style-type: none"> <li>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.</li> </ul>			<ul style="list-style-type: none"> <li>JCC to be scrapped based on poor response from employees</li> </ul>		
4.	2	Revised Minimum Wages	<ul style="list-style-type: none"> <li>The HR team to ensure adequate follow-up and monitoring of implementation</li> </ul>	Partially Open		<ul style="list-style-type: none"> <li>Arears to be paid by 10<sup>th</sup> December</li> </ul>	<ul style="list-style-type: none"> <li>Confirmation of arears to be provided</li> <li>Documents on implementation of same by contractor to be provided</li> </ul>	Immediate
5.	2	Hiring of Foreign worker through agents	<ul style="list-style-type: none"> <li>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.</li> <li>Action to be taken against the agents if violations are made and document the same</li> </ul>	Partially Open	1 month	<ul style="list-style-type: none"> <li>The forms are prepared for collecting feedback from foreign workers as an when they are engaged</li> <li>Exact methodology to monitor hiring of foreign workers is yet to be detailed</li> </ul>	<ul style="list-style-type: none"> <li>The HR Team to carry out the case study with the existing foreign workers on the 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.</li> <li>Detail out a framework to monitor hiring of foreign workers.</li> </ul>	One Month
6.	2	Engagement of Foreign Labour Terms /free movement/OHS	<ul style="list-style-type: none"> <li>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.</li> <li>The details of OHS procedures of SFI being communicated to the contract workers shall be documented.</li> <li>These activities shall be undertaken prior to the next quarterly audit.</li> </ul>	Closed		<ul style="list-style-type: none"> <li>SFI has allowed foreign workers to collect their passports at any time for whatsoever reasons.</li> <li>The relevant documentation on safety briefing to new employees and daily toolbox talk currently implemented were sighted and verified.</li> <li></li> </ul>	<ul style="list-style-type: none"> <li>The Safety Team to ensure that the OHS procedures are properly implemented.</li> <li>Audit the contractors at regular periods</li> </ul>	Continuous process
7.	2	Employee Union Formation	<ul style="list-style-type: none"> <li>SFI will await the verdict from the Department of Industrial Relations before deciding on the next course of actions.</li> </ul>	Open	Depending on legal proceedings	<ul style="list-style-type: none"> <li>SFI has issued a memorandum supporting the establishment of an in-house union and SFI encouraged those eligible to form and submit the relevant documentation for recognition.</li> <li>The Industrial Relation Department was in the process to interview SFI employees to determine those who are eligible to vote in the secret ballot.</li> <li>The Union has rejected the</li> </ul>	<ul style="list-style-type: none"> <li>Await the verdict from Department of Industrial Relations</li> <li>Clarify if an in-house union existed at any point of time in past</li> </ul>	Clarification for audit purpose only in 1 month

S. No.	PS	Gaps	Recommendations for Action Plan	Status	Timeline Audit I	AECOM's Observations/ Findings	Updated Action Plan Audit II	Timeline from finalization of this report
						memorandum and shall await the verdict of Industrial Relation Department		
8.	2	Lost Time Injury Frequency Rates reduction	<ul style="list-style-type: none"> <li>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</li> <li>Workplace safety to be strictly monitored for contract workers at plantations</li> </ul>	Open	Recurring monthly	<ul style="list-style-type: none"> <li>The plantation workers and representatives of contractors have reported shortage of personal protection equipment's (PPE) and replacement of protective gears are not immediately attended to. The Management has expressed shortage of fund as one of the key reasons for the same.</li> <li>The state of safety arrangements as observed during the site walk through is poor. The key observations include:                             <ul style="list-style-type: none"> <li>Cylinders are stored insecurely, without segregation</li> <li>No secondary containment for chemical storage</li> <li>Heavy Machineries functioning without reverse siren and assistance</li> <li>LOTO process not being followed</li> <li>Significant volume of scrap scattered at various locations with the Mill, which is observed potential trip and fall hazard</li> <li>Workers are not aware of work permit system</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>The H&amp;S implementation at the Mill is poor and requires immediate attention, in terms of awareness, availability of PPE, implementation and documentation.</li> <li>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</li> <li>Workplace safety to be strictly monitored for contract workers at plantations</li> </ul>	Immediate attention is required. To be implemented fully in 2 months.
9.	3	Implementing Good International Industry Practice (GIIP)	<ul style="list-style-type: none"> <li>A professional agency is being finalized for exploring further improvement scope in the operations</li> </ul>	Open	6 weeks	<ul style="list-style-type: none"> <li>M/S SPB Projects and Consultancy limited has been as engaged for process improvement.</li> <li>The report and recommendations for further improvement to be provided during the next visit.</li> </ul>	<ul style="list-style-type: none"> <li>The third party agency identified shall immediately commence the study conducted immediately as the timeline has lapsed.</li> </ul>	immediate
10.	3	Air Emissions – GIIP norms	<ul style="list-style-type: none"> <li>The parameters monitored to be compared with GIIP standards besides the Malaysian Standards</li> <li>Continuous emission monitoring system (CEMS) to be installed for the existing boiler – per site personnel, SFI has planned</li> </ul>	Open	4 month CEMS to be implemented as per plan provided	<ul style="list-style-type: none"> <li>The stack monitoring results from the monitoring conducted by the third party accredited lab in October 2014 will be reviewed in the next audit to determine if the air emission</li> </ul>	<ul style="list-style-type: none"> <li>SFI to engage authorised and registered CEMS contractor to service and calibrate the CO probe which was suspected to be faulty.</li> <li>The monitoring and data analysis needs to be verified and corrected.</li> </ul>	1 month CEMS to be implemented as per plan provided

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			<p>for installation of the system.</p> <ul style="list-style-type: none"> <li>High concentration of CO (fluctuating) exceeding limit was noted on CEMS for new boiler, which is also to be focussed upon</li> </ul>			<p>parameters comply with the GIIP Standards.</p> <ul style="list-style-type: none"> <li>The issue of CO probe is unattended</li> <li>The observations of Ambient Air Quality Monitoring undertaken August 2014 was reviewed and it was observed that the Particulate matter monitored were higher than the prescribed standards and the mathematical sum of various types of Particulates monitored exceeded the way beyond the Total Suspended Particulates recorded. The monitoring and data analysis needs to be verified and corrected.</li> </ul>	<ul style="list-style-type: none"> <li>The analysis report should be accompanied with calibration details of the equipment and site conditions when the monitoring/ sampling were undertaken.</li> <li>Continuous emission monitoring system (CEMS) to be installed as proposed.</li> </ul>	
11.	3	Waste Water Discharge – GIIP norms	<ul style="list-style-type: none"> <li>Procedure for improvement in effluent treatment will be prepared prior to next audit</li> </ul>	Open	3 months	<ul style="list-style-type: none"> <li>The monitoring of Total Nitrogen and Total Phosphorus in treated effluent was not carried out in the August 2014 monitoring event.</li> <li>Total Nitrogen and Total Phosphorus were only analysed for groundwater and marine water samples and the results showed that Total Nitrogen in groundwater have exceed the baseline data.</li> <li>COD levels were observed to be high consistently over last 10 months.</li> </ul>	<ul style="list-style-type: none"> <li>SFI to conduct the monitoring of Total Nitrogen and Total Phosphorus in its treated effluent in the next monitoring exercise.</li> <li>Total Nitrogen and Total Phosphorus monitoring results are to be compared to the GIIP norms in addition to the Malaysia Standards for marine water, groundwater and effluent discharge.</li> <li>Procedure for improvement in effluent treatment and measures to reduce COD to be provided for the next audit with visible evidence.</li> </ul>	Immediate
12.	3	Thermal Plume Dispersion –waste disposal	<ul style="list-style-type: none"> <li>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.</li> </ul>	Open	4 months	<ul style="list-style-type: none"> <li>PR was raised pending the approval from the Chief Operating Officer.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>The activity shall be immediately undertaken and report submitted for review.</li> <li>The findings of thermal dispersion plume modeling shall be summarised prior to next quarterly audit, such that any need for mitigation can be verified at site.</li> </ul>	Immediate
13.	3	Waste Management	<ul style="list-style-type: none"> <li>Gap identified in review of SOP and requirements of GIIP to be documented and an action plan shall be prepared to</li> </ul>	Open	4 month	<ul style="list-style-type: none"> <li>A reviewed SOPs and procedures for handling and disposal of hazardous wastes has been undertaken,</li> </ul>	<ul style="list-style-type: none"> <li>Gaps identified in review of SOP and requirements of GIIP to be documented and an action plan shall be prepared to</li> </ul>	<ul style="list-style-type: none"> <li>1 month</li> </ul>



S. No.	PS	Gaps	Recommendations for Action Plan	Status	Timeline Audit I	AECOM's Observations/ Findings	Updated Action Plan Audit II	Timeline from finalization of this report
			implement the same.			<p>however no activity pertaining to implementation of improvement measures pertaining to GIIP have not commenced.</p> <ul style="list-style-type: none"> <li>The ETP sludge is currently disposed of into open landfill. The company has constructed a secured landfill; however it is yet to be operationalised.</li> <li>It is observed that metal scrap and other waste are piled and kept in small heaps all around the Mill site. This includes discarded metal components, insulation materials, empty drums, wires, packaging materials etc. It is a potential Health and Safety, possible source for contamination and indicates poor house-keeping.</li> </ul>	<p>implement the same.</p> <ul style="list-style-type: none"> <li>SFI shall operationalise the secured landfill within an identified time frame and dispose all hazardous and potentially hazardous waste accordingly.</li> <li>SFI shall initiate the process to utilise the ETP sludge in the boilers as fuel within an identified period.</li> <li>All scrap/ waste generated from the Mill shall be collected at one designated place and disposed of at regular frequency with records being maintained.</li> </ul>	
14.	3	Phasing of Pesticide	<ul style="list-style-type: none"> <li>SFI to update its pesticide classification list as per WHO classification 2009 and verify that no other pesticide being used falls in the category.</li> <li>The phasing out of Carbofuran shall be documented and all process document shall be updated accordingly</li> <li>Procedures to handle and store Acephate shall be developed if it is to be continued.</li> </ul>	Closed		<ul style="list-style-type: none"> <li>SFI has ceased the usage of Carbofuran and Acephate.</li> <li>An email communication to all plantation and production managers to communicate the decision undertaken by the SFI Management in phasing out of these two chemicals was sighted.</li> <li>The register of chemicals hazardous to health dated 30 October 2014 has been updated to reflect the same.</li> </ul>		
15.	4	Emergency Response/ Security Risk	<ul style="list-style-type: none"> <li>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.</li> <li>Training of security personnel on company's policy and PS 4 shall be undertaken</li> </ul>	Partially Closed	2 months	<ul style="list-style-type: none"> <li>The Onsite emergency Response Plan is adequate however natural disasters are not covered.</li> <li>Training of security personnel on company's policy have been conducted.</li> </ul>	<ul style="list-style-type: none"> <li>Develop an offsite emergency response plan measures currently being engaged shall be structured and documented into an offsite ERP after assessing all potential risks including natural disaster and social conflicts.</li> <li>Add response to natural disasters in the ERP.</li> <li>The plan shall be disclosed to community members and details of emergency contact shall be made available at all village level.</li> </ul>	1 month

S. No.	PS	Gaps	Recommendations for Action Plan	Status	Timeline Audit I	AECOM's Observations/ Findings	Updated Action Plan Audit II	Timeline from finalization of this report
16.	5	Retrospective SIA	<ul style="list-style-type: none"> <li>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.</li> <li>The procedure for SIA for new area shall be documented and added to the SOPs for implementation prior to opening of new areas.</li> </ul>	Partially Closed	Recurring	<ul style="list-style-type: none"> <li>Retrospective SIA report and associated stakeholder engagement plan has been finalised. However, no new areas have been taken up post the SIA studies</li> <li>The audit exercise looked at the 16 cases (land issues) flagged by ERM during the retrospective SIA. Of these cases, 7 cases can be considered close until further development is made (i.e, where land is left to fallow or where SFI is unable to identify occupants). Other nine cases remains open for SFI to follow-up and identify the necessary mitigation action.</li> </ul>	<ul style="list-style-type: none"> <li>The SOPs shall be tested through implementation with focus on livelihood loss rather than over land rights.</li> <li>All 16 case identified by the SIA shall be addressed as per the procedures established and mitigations provided in the retrospective SIA</li> </ul>	Recurring, however pending case shall be closed prior to next audit.
17.	6	Biodiversity Assessment and Action Plan	<ul style="list-style-type: none"> <li>The Biodiversity assessment needs to be updated as per the observations in this report to meet the IFC requirements.</li> <li>Determining locations for proposed offsets, including external sites for Dipterocarp mixed forest</li> <li>Provide independent review / verification regarding the invasive potential of the plantation species being utilized by SFI in the local environment</li> <li>Provide management structure for BAP</li> </ul>	Open	3 months	<ul style="list-style-type: none"> <li>Further development of Biodiversity and Critical Habitat Assessment (BCHA) and Biodiversity Action Plan (BAP) required in order to meet IFC requirements, including:                             <ul style="list-style-type: none"> <li>Further development of offset program and revision of offset accounting</li> <li>Continued verification of critical habitat and compartment-level assessments</li> <li>Assessment of invasive species</li> <li>Management structure for BAP</li> <li>Development of tactical-level management plans</li> </ul> </li> <li>Supplementary actions provided by the IFC for implementation</li> </ul>	<ul style="list-style-type: none"> <li>BCHA is to be further developed to meet IFC requirements, with a view to finalising the assessment by May 2015. Specifically, this is to include:                             <ul style="list-style-type: none"> <li>Screening criteria are to be established for compartment-level assessments, which will aid in assessing which compartments require a detailed assessment. As a minimum, all compartments which are listed in the BCHA as potential critical habitat are to be assessed. Further input will be provided by an expert panel which will be convened by the IFC in consultant with Land Empowerment Animals People (LEAP).</li> <li>Based on the outcomes of the above, a detailed program is to be developed for future compartment assessments including further verification of critical habitat. A first test assessment is to be targeted for April 2015</li> <li>Further development of offsets program is to be undertaken including determining offset locations and</li> </ul> </li> </ul>	Final BCHA and BAP to be prepared within 5 months  Offsets assessment to be completed within 7 months

S. No.	PS	Gaps	Recommendations for Action Plan	Status	Timeline Audit I	AECOM's Observations/ Findings	Updated Action Plan Audit II	Timeline from finalization of this report
							<p>governance arrangements.</p> <ul style="list-style-type: none"> <li>○ Revision of offset accounting to more clearly account for biodiversity gains as a result of all biodiversity enhancement activities.</li> <li>○ Provision of a more detailed analysis of the current status of invasive species within the various SFI-managed compartments.</li> <li>○ Development of a map of compartment areas showing Natural Forest Management (NFM) and Industrial Timber Plantation (ITP) zones overlaid with Natural Habitat and Primary Forest, as well as unopened compartments.</li> </ul> <ul style="list-style-type: none"> <li>● The BAP is to be further developed, including the following:               <ul style="list-style-type: none"> <li>○ Development of a compartment-level constraints protocol, to be applied to both open and planned future compartments</li> <li>○ Provision of management structure</li> <li>○ Provision of independent review / verification regarding the invasive potential of the plantation species being utilized by SFI in the local environment</li> <li>○ Establishment of a forest cover and fragmentation monitoring system for all conservation areas, both primary forest and unassessed compartments. Ongoing reporting is to be provided for any areas of Natural Habitat which are being impacted.</li> </ul> </li> <li>● Utilising the outcomes of the BAP as a basis, develop the following management plans:               <ul style="list-style-type: none"> <li>○ Biodiversity Management and Monitoring Plan which will establish standardised minimum management plan requirements for all compartments</li> <li>○ Conservation Management and</li> </ul> </li> </ul>	

S. No.	PS	Gaps	Recommendations for Action Plan	Status	Timeline Audit I	AECOM's Observations/ Findings	Updated Action Plan Audit II	Timeline from finalization of this report
							<p>Monitoring Plan for all on-site conservation areas. This is to include provision of a classification for the various conservation areas and associated management requirements.</p> <ul style="list-style-type: none"> <li>○ Invasive Species Management Plan.</li> </ul>	
18.	6	Forest Stewardship Council Certification	-	Closed				
19.	6	Ecosystem Services and Sustainable Utilisation of Living Natural Resources	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	Ongoing	<ul style="list-style-type: none"> <li>• Focused ecosystem services assessment has not yet been conducted</li> <li>• Limited information available regarding hunting / poaching in the plantation</li> <li>• Assessment of sustainability of supply chain for externally-sources MTH has not been undertaken</li> <li>• SFI forests are an important carbon sink, but this has not yet been quantified</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct a more detailed assessment of ecosystem services utilisation by Affected Communities in order to underpin the review of the adequacy of mitigation measures proposed in the EMP. This will commence via a screening study, the outcomes of which will be used to establish future actions. If existing mitigation measures are found to be insufficient, new measures are to be determined.</li> <li>• Conduct an assessment of hunting practices, trends and practices (both legal hunting and poaching)</li> <li>• Integrate biodiversity awareness (including poaching) into community engagement program</li> <li>• Conduct an assessment for the supply chain for externally-sourced MTH</li> <li>• Undertake a carbon stock assessment to inform the potential development of a Reducing Emissions from Deforestation and Forest Degradation (REDD) opportunity for the plantation.</li> </ul>	6 months

S. No.	PS	Gaps	Recommendations for Action Plan	Status	Timeline Audit I	AECOM's Observations/ Findings	Updated Action Plan Audit II	Timeline from finalization of this report
20.	7	Informed Consultation and Participation- SIA Framework	<ul style="list-style-type: none"> <li>SFI shall finalise the SIA and develop a time bound plan for implementation of the mitigation measures suggested</li> <li>Pro-active initiative such as being undertaken for Solob shall be continued for greater engagement with community</li> </ul>	Open	Recurring	<ul style="list-style-type: none"> <li>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</li> <li>SFI needs to involve the indigenous claimant in the investigation of land claim/grievances. The current practice does not include the claimant as an active stakeholder in the investigation. It only requires the FIC to visit the site and report base on their observation.</li> </ul>	<ul style="list-style-type: none"> <li>SFI shall develop a time bound plan for implementation of the mitigation measures suggested as suggested in the SIA report</li> <li>The community engagements shall be under taken by trained staff with social background to understand the sensitivities</li> <li>All new case shall be undertaken as per the Somuku accord.</li> <li>It is recommended to add more staff immediately.</li> <li>The CSR department should carry out ground investigation and interact with all parties including the claimant. The need for claimant's participation in ground truth should be disclosed. The CSR manager or a committee should make the final approval on the outcome of a claim.</li> </ul>	One month
21.	7	SIA implementation	<ul style="list-style-type: none"> <li>No new areas have been opened during the prior to the audit and hence the situation for implementation of SIA framework has not arrived.</li> </ul>	Closed				
21	7	Free Prior Informed Consent	<ul style="list-style-type: none"> <li>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)</li> </ul>	Partially Closed	2 month	Community agreement/acceptance is being sought as part of the consultation and disclosure process. However the process is in progress		Recurring
22	8	Cultural Heritage	<ul style="list-style-type: none"> <li>SFI to comply with the requirements of mapping cultural heritage prior to opening of any new areas</li> </ul>	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	Status
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.	<ul style="list-style-type: none"> <li>SFI to secure fire certificate for the new power plant as soon as possible.</li> </ul>	Nov 30, 2014	Pending BOMBA Putrajaya's review on the additional information
	[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.	<ul style="list-style-type: none"> <li>SFI to ensure that the 3-yearly safety assessment for MHI is completed by September 2014 and submitted to the local department of safety and health</li> </ul>	Nov 30, 2014	CIMAH Report is currently being prepared and it is expected to be completed in December 2014
	Compliance to national legal requirement [Occupational Safety and Health *Use and Standards of Exposure to Chemicals Hazardous	At the time of audit, information was not available with regard to workplace industrial hygiene monitoring	<ul style="list-style-type: none"> <li>SFI to ensure workplace industrial hygiene monitoring, medical / health</li> </ul>	Nov 30, 2014	<ul style="list-style-type: none"> <li>Medical health surveillance will be held but the date is yet to be determined.</li> <li>SFI will relook into the</li> </ul>

Aspect	IFC /Legal Requirements	Observation	Corrective Action	Timeline	Status
	to Health] Regulations 2000, Regulations 9, 26 & 27]	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.	surveillance and chemical health risk assessment are conducted according to regulatory requirements.  <ul style="list-style-type: none"> <li>Relevant reports to be provided for review in next audit.</li> </ul>		training of the Industrial Hygiene Technician which has already expired.  <ul style="list-style-type: none"> <li>SFI will engage the CHRA Consultant in December 2014.</li> </ul>
	[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.	<ul style="list-style-type: none"> <li>SFI to update its existing audiometric testing program and provide test for required workers on yearly basis.</li> </ul>	Nov 30, 2014	<ul style="list-style-type: none"> <li>Audiometric testing program was reported as conducted</li> </ul>
	Occupational Health and Safety	Although OHS processes such as tool box talks, work permit system, safety induction, training, incident and accident	<ul style="list-style-type: none"> <li>SFI to further enhance implementation of safety practices onsite on the areas identified.</li> </ul>	Feb 28, 2015	<ul style="list-style-type: none"> <li>HR Department will instruct the Safety Team to issue memos to all the relevant departments on unsafe</li> </ul>

Aspect	IFC /Legal Requirements	Observation	Corrective Action	Timeline	Status
		<p>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:</p> <ul style="list-style-type: none"> <li>• Cylinder management – compressed gas cylinders were observed not being chained to positions</li> <li>• Housekeeping issues – proper management of materials/ equipment to reduce safety hazards (e.g. trip and fall, blockage to pathway or safety equipment)</li> <li>• 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</li> <li>• Machine guarding – proper</li> </ul>	<ul style="list-style-type: none"> <li>• Specific safe work practice/ guideline could be developed addressing specific hazard/ safety concern.</li> </ul>		<p>practices on site.</p> <ul style="list-style-type: none"> <li>• The following were observed during the site walkover:               <ul style="list-style-type: none"> <li>○ Cylinder management – compressed gas cylinders were not chained and were not segregated according to its respective categories i.e. flammable and non-flammable with safe distance.</li> <li>○ Poor housekeeping on-site with potential safety hazards e.g. trip and fall were observed in several places.</li> <li>○ There was no proper tag on/ tag off.</li> <li>○ Heavy vehicles do not have reversing signal/ alarm.</li> </ul> </li> <li>• Some of the good practices observed onsite were:               <ul style="list-style-type: none"> <li>○ Proper machine guarding was observed.</li> <li>○ Safety harnesses were used by workers working at height.</li> </ul> </li> </ul>



Aspect	IFC /Legal Requirements	Observation	Corrective Action	Timeline	Status
		<p>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.</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>			
	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 MHI Report of an Industrial Activity and was not updated since then.	<ul style="list-style-type: none"> <li>• 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.</li> </ul>	Nov 30, 2014	Not implemented; the status is open
PS-3 Environment	Pollution Prevention – During the design, construction, operation and decommissioning of the	During site visit at the production facilities, potential soil and groundwater	<ul style="list-style-type: none"> <li>• Secondary containment to be provided for all</li> </ul>		Open

Aspect	IFC /Legal Requirements	Observation	Corrective Action	Timeline	Status
	<p>project (project life cycle), the client is to consider ambient conditions and apply pollution prevention and control technologies and techniques.</p>	<p>contamination was observed at the following area:</p> <ul style="list-style-type: none"> <li>• Various chemical storage areas (noted without proper containment)</li> <li>• Wood chip piles (lignin liquid run-off, not treated)</li> <li>• Sulfur storage, melting and burning area</li> </ul>	<p>chemical storage with spill collection pit.</p> <ul style="list-style-type: none"> <li>• 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 ETP.</li> <li>• The residual Sulphur to be cleaned and removed for reuse.</li> <li>• Regular housekeeping is being conducted regularly.</li> <li>• SFI to establish and implement a soil and groundwater pollution prevention procedure.</li> </ul>		

Aspect	IFC /Legal Requirements	Observation	Corrective Action	Timeline	Status
	<p>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.</p>	<p>The storage of fuel at the plantation were observed to be on unpaved surface, which renders the soil and groundwater vulnerable to contamination.</p>	<ul style="list-style-type: none"> <li>SFI to ensure that fuel storage areas are of paved surface, with secondary containment and oil trap.</li> </ul>	<p>Sept 2014</p>	<p>Memo was issued to all contractors but only a few have taken the necessary measures.</p>
	<p>Scheduled waste management</p>	<p>During the November site visit, it was observed sludge from the ETP is currently being disposed at the domestic waste dumping site within SFI while the secure landfill is under construction.</p>	<ul style="list-style-type: none"> <li>SFI to explore ways to reuse the sludge.</li> </ul>		<p>Open</p>

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