## Corrective Action Request Verification Report

<table>
<thead>
<tr>
<th>Organization Name:</th>
<th>PT Sari Bumi Kusuma</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificate Code:</td>
<td>SW-FM/COC-002645</td>
</tr>
<tr>
<td>Location:</td>
<td>Central Kalimantan, Indonesia</td>
</tr>
<tr>
<td>Report Date:</td>
<td>May 14, 2008</td>
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</tbody>
</table>

### I. AUDIT PROCESS

**Auditor, qualifications:** Iwan Kurniawan, FM Specialist Asia Pacific Regional office

**Audit date:** Desk Audit on May 8, 2008

**Review process:**
Documents reviewed, persons interviewed, etc.)

Auditor reviewed document which has been provided by company on April 2008 consist of company written procedures, Company statement letter, training report on social impact assessment, Social impact assessment report, acknowledgement letters, documentation for FSC trademark approval.

**Audit overview:**

The CAR verification is carried out as desk audit based on the review of documents and discussion with PT. Sari Bumi Kusuma on the meeting of 7 CARs (which came from the original assessment 2007) with timeline for compliance will due sixth month after the certificate are granted, and 4 CARs with timeline for compliance before certified logs are sold. This desk audit will be followed up by a field inspection which will be carried out along with the next annual audit in July 2008.

**Changes to procedures since last audit:**

There have been no changes in procedures.
II. CAR REVIEW

<table>
<thead>
<tr>
<th>CAR #: 01/07</th>
<th>Reference Standard #: 1.1.1 and 6.5.1</th>
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<tbody>
<tr>
<td>Non-compliance: Major ☐ Minor ☒</td>
<td>The company’s procedures on intensive silvicultural system (TPTII) does not define the maximum steepness for timber harvesting as the Department of Forestry’s appointment letter does not cover such information. In the absence of such information, harvesting is permitted by management on land with steepness of more than 40%.</td>
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Corrective Action Request:
The company shall consult with the Department of Forestry to review the appointment letter and develop and start to implement procedures to ensure that harvesting procedures does not conflict with active legal regulations.

In terms of harvesting on sloping land Company shall develop and start to implement procedures for assessing/measuring the impact on ecological functions of harvesting activities on sloping land and based on this assessment, implement procedures for adjusting harvest intensity to minimize negative impacts of these activities.

Timeline for Compliance: six months after the certificate is awarded

Audit findings:
There is no evidence of the consultation process between the company and the Forestry Department has taken place within the document provided by the company. TPTII activities are directed by the Forestry Department as stipulated within the decree letter of Director General of Bina Produksi Kehutanan Number SK.194/V1-BPHA/2005, so that the procedures are referred to the Technical Guidance provided by the Ministry of Forestry.

TPTII technical guidance does not specifically regulate the maximum measure of sloped land for harvesting activities. Company’s harvesting procedures (SOP Prc-009) has now stated that the areas with steepness over 40% are considered as protected forest so that the harvesting activities procedures on such area are specifically measured.

Considering that the implementation of TPTII is a newly developed system and still being carried out under the surveillance of experts appointed by the Ministry of Forestry, the company shall carry out a consultation with appointed experts regarding the relevant technical aspects and procedures in accordance with its land condition and to support the implementation of its silviculture system.

However, the auditor does not find any documents which specifically analyze the ecological impact of harvesting activities on sloping land. The procedures for implementation of reducing the harvesting activities to minimize the impact of this activity have also not being provided to the auditor. Thus this CAR kept open and upgraded to Major CAR 01/07 with 3 month timeline.

Status: OPEN

Follow-up Action (if applicable): Major CAR 01/07

<table>
<thead>
<tr>
<th>CAR #: 03/07</th>
<th>Reference Standard #: 1.6.1</th>
</tr>
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<tbody>
<tr>
<td>Non-compliance: Major ☐ Minor ☒</td>
<td>The company’s commitment to adhere to the FSC P&amp;C is only announced internally. There is no public document available to demonstrate company commitment to FSC principles in managing the assessed unit.</td>
</tr>
</tbody>
</table>

Corrective Action Request:
The company shall make a publicly available written statement which indicates its commitment to the FSC principles.

Timeline for Compliance: six months after certificate is awarded

Audit findings:
Written commitment and information of the company has been published through its official websites http://pt-sbk.com.
This website will also be used to publicize news or information regarding the company’s certification program in the future.

Status: CLOSED

Follow-up Action (if applicable): The company is expected to submit any FSC/RA trademarks prior to use within this websites to SmartWood’s Trademark Service Provider.
**CAR #: 04/07**  
**Reference Standard #: 1.6.2**

<table>
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One of the companies under Alas Kusuma holding in Ketapang regency has a serious problem with illegal logging. Even if it is not proven that the company is involved in this illegal logging, the condition of this unit is much different from the unit that is being assessed now.

**Corrective Action Request:**

The company shall make a written commitment to resolve illegal logging at this site by working together with stakeholders in Ketapang for achieving compliance with FSC principles in managing other FMUs. This written statement shall include a general commitment of Company to adhere to the FSC requirements for partial certification. Company shall also develop and start implementing a procedure for informing SmartWood on management regimes and changes to these in all other FMUs under the management of the Alas Kusuma Group.

**Timeline for Compliance:** six months after certificate is awarded

**Audit findings:**

One of the FMU within Alas Kusuma Group located within an area where the illegal logging activities are high is PT Suka Jaya Makmur (SJM) in Ketapang, West Kalimantan. Alas Kusuma Group has prepared SJM towards the FSC certification to demonstrate the commitment. The company has presented WWF GFTN Baseline Appraisal Report to the auditor of PT SJM which was conducted by TFF on February 25th – March 1st, 2008.

Neither the company nor the Alas Kusuma Group has the authority to take action against the illegal logger. Instead the company has been assigning a security patrol upon its concession area since 2003 as an effort to reduce the illegal logging activities. The company reports any indication of illegal activities within its area to the local police and to the forestry department. Alas Kusuma Group has also been socializing with the local community to prevent any illegal logging activities.

Archive of correspondences between Alas Kusuma Group and the police department, local forestry agency, Bupati Ketapang, and the governor including with the Ministry of Forest are included within the documentation submitted by the company.

**Status:** CLOSED

**Follow-up Action (if applicable):**

**CAR #: 05/07**  
**Reference Standard #: 2.2.2**

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The company cannot provide evidence that it informs all the communities potentially impacted by the management activities before such activities take place. The communities interviewed confirmed that they are not informed by the company’s activities on the forests.

**Corrective Action Request:**

The company shall develop and start to implement a procedure to provide relevant information to potentially impacted local communities and consult with them regarding forest management activities prior to their implementation.

**Timeline for Compliance:** six months after certificate is granted.

**Audit findings:**

The company has developed procedures to socialize the management activities with the community (PRC.077). This is carried out by establishing communication points in every company’s DESA BINAAN to convey direct communication with the local community for any of the company’s management activities.

Apart from that, considering that the company has been operating since 1978 at current areas, the workers of the company has been assimilated with the local people and thus the process of communicating and consultation with local community is easier.

**Status:** CLOSED

**Follow-up Action (if applicable):**
<table>
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<th>Non-compliance:</th>
<th>The company cannot provide documentation of communication with local communities on disputes or their resolutions and their procedures for dispute resolutions seems not to be consistently applied.</th>
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<td>Major ☑ Minor ☒</td>
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**Corrective Action Request:**
The company shall document all communication related to any dispute involving the company and other parties. This shall be mentioned in the company’s procedures for handling conflicts or other disputes and there shall be documentation of how these procedures are applied.

**Timeline for Compliance:** Six months after certificate is granted.

**Audit findings:**
The company has revised the current procedures of dispute resolutions (PRC.087), previously it is PRC.086. Basically, any disputes will be handled to several steps and documented separately on each step by general department, PMDH section, and any other related department.

There are three ways of resolving a conflict; through informal discussion for a win-win solution, by traditional custome laws (“hukum adat”), and by the legal court of law as the last alternative to find resolution.

However, this CAR required Company to provide disputes/conflicts resolution. It is the auditor’s opinion that this CAR was partially met, thus the CAR were kept open and upgraded become Major CAR 07/07 with 3 month timeline.

**Status:** OPEN

**Follow-up Action (if applicable):** See Major CAR 07/07

<table>
<thead>
<tr>
<th>CAR #: 09/07</th>
<th>Reference Standard #: 3.3.2</th>
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<tr>
<td>Non-compliance:</td>
<td>The company has worked together with local people to identify special sites important to the local people’s cultural life. However, operating procedures to protect these sites are not mentioned in company documents.</td>
</tr>
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<td>Major ☑ Minor ☒</td>
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**Corrective Action Request:**
The company shall develop a procedure to ensure that logging or other forest degradation activities do not take place in or near these special sites and these procedures shall include stipulations to ensure involvement of indigenous people.

**Timeline for Compliance:** six months after the certificate is granted.

**Audit findings:**
The company has implemented the procedure to monitor local cultural sites (PRC.088) as a preventive action to avoid special sites important to the people’s cultural life being disrupted by the logging activities or any other management activities.

The company has also recruited local people to join its participatory mapping program for the development of working area planning and inventory as regulated within its procedure of PENATAAN AREAL KERJA (PRC.001).

This is expected to better facilitate the local community identifying sites which culturally is important to them.

**Status:** CLOSED

**Follow-up Action (if applicable):**

<table>
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<tr>
<th>CAR #: 14/07</th>
<th>Reference Standard #: 6.1.3, 6.7.1</th>
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<td>Non-compliance:</td>
<td>The excellent waste-disposal and environmental impact standards of the Workshop and fuel depot at Camp 54, and the diesel generator at Nursery is not found to be implemented at other facilities in the FMU.</td>
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<tr>
<td>Major ☑ Minor ☒</td>
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**Corrective Action Request:**
The company shall reinforce policy (and provide documentation thereof) on chemical storage, handling and waste disposal done by the employees to ensure that the disposal does not have negative impacts to the environment. Company shall also ensure that an up-dated list of chemicals used in the nursery is available on site and is sent to SmartWood prior to audits.

**Timeline for Compliance:** six months after the certificate is granted.

**Audit findings:**
The company has developed and implemented waste management procedure (PRC.052) which is a
A comprehensive system to manage different types of waste at every location and/or activities. The Camp Manager has also issued a decree number AE-02/I/KPTS/SBK-NN/2008 regarding the procedure of waste management.

The auditor does not find any documents updated list of chemicals used in nursery. However, this CAR required the Company to submit an up-dated list of chemicals used in nursery, it is the auditor's opinion that this CAR was partially met, thus the CAR were kept open.

Within 3 months after finalization of this report, the company shall submit an up-dated list of chemicals used to SmartWood.

| Status: | OPEN |
| Follow-up Action (if applicable): | Major CAR 14/07 |

**CAR #: 18/07 Reference Standard #: 6.2.6**

**Non-compliance:**

Major ☑ Minor ☒

Dayak communities have a long tradition and ingrained cultural reliance on hunting of wildlife, fishing, trapping and NTFP collection. As such it remains a challenge to facilitate any substantial coordination of NTFP collection by these communities, but company could improve the cooperation with local communities in relation to control of hunting and trapping. Also, policy with regards to employees, particularly those living in company accommodation and complexes, can be further improved through direct intervention.

It is found that some employees have ownership of captured wild occurring species (e.g. long-tailed and pig-tailed macaque)

**Corrective Action Request:**

The company shall develop and immediately enforce a policy forbidding the ownership of native wildlife species by employees and develop a procedure for working with local communities in controlling hunting and trapping. This policy must be publicized and strictly implemented across the concession area.

**Timeline for Compliance:** six months after certificate is granted.

**Audit findings:**

The Camp Manager issued an announcement letter to all employees strictly prohibited any wildlife hunting by the employee and the employee’s family including but not limited to possession and trading of native wildlife species within the area of the company and/or outside.

This announcement letter is stipulated under the decree of Camp Manager number AE-01/I/KPTS/SBK-NN/2008 about prohibition on hunting, possession and native wildlife species trading within the concession area of the company.

<p>| Status: | CLOSED |
| Follow-up Action (if applicable): |</p>
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<tr>
<th>CAR #: 25/07</th>
<th>Reference Standard #: COC 1</th>
</tr>
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<tr>
<td>Non-compliance: Major ☑ Minor ☒</td>
<td>It was found, when visiting the log yard in block II (km 54), that the system of cross checking documents for log tracking was not well functioning. It was not possible for the auditor to compare the DAKB from logs delivered with the Buku-Ukur transcripts of the Production reports, as there were no complete sets of documents found in the log yard office. Additionally logs had been moved from the log yard to the log pond before the Buku-Ukur had been received from the base camp office. In addition it was found, that the log yard was using the DUKB (list used for bonus system) as log list instead of the Buku-Ukur. This is not consistent with the system described to the auditor and that is supposed to be implemented, and additionally does not allow direct cross checking of the origin of the log as no Petak and log cruising number is found on the DUKB. In addition to this, it was found that the papers accompanying logs (tally sheets and production reports) lacked reference to the original cruising tree number and Petak number.</td>
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</table>

**Corrective Action Request:**
Company shall make sure that the correct forms are used at all phases of log transport and that all documents are kept up to date and that it is possible to track the logs through their transport from Block, via landing and log yard to log pond.

**Timeline for Compliance:** before certified logs are sold

**Audit findings:**
The company has revised the procedure of “Tata Usaha Kayu” (log administration procedure) within Block, TPn, TPK, Log Pond, and Intermediary Log Pond (PRC.PRD Ver-03) which clarifies the log traceability from the cutting block until the log pond through log transit locations.

**Status:** CLOSED

**Follow-up Action**
(if applicable):

<table>
<thead>
<tr>
<th>CAR #: 26/07</th>
<th>Reference Standard #: COC 4 and COC 5</th>
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<tbody>
<tr>
<td>Non-compliance: Major ☑ Minor ☒</td>
<td>If certified, all wood handled by the FMU will be certified, however Company has not developed a procedure for marking logs with a distinguishing mark to make it possible to identify certified and non-certified logs that could be mixed after the logs leave the log pond at km 0 and is transported down river to industry Company only ships their logs to companies within the Alas Kusuma Group factories down stream and will only produce certified logs. However, as the logs will be sold to different legal entities within the group and the possibility exist that Company will sell certified logs to other companies, SBK have to have a procedure in place for applying the description of the product and the FSC certification code on the sales and shipping documents.</td>
</tr>
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**Corrective Action Request:**
Company shall develop and implement a procedure for applying the product description and FSC certification code to all sales and shipping documents as well as applying a distinguishing mark to all logs leaving the FMU with a mark that can be used to identify the logs as FSC certified for outsiders.

**Timeline for Compliance:** before certified logs are sold

**Audit findings:**
The use of FSC trademark as segregation mark and within the transporting documents has been approved by SW on November 8, 2007.
The email approval was provided by the company.

**Status:** CLOSED

**Follow-up Action**
(if applicable):
Use of FSC trademark should be inspected in the next field audit
CAR #: 27/07  
Reference Standard #: COC 9  

Non-compliance: Major ☐ Minor ☒  
As Company has not yet been certified, there has been no basis for using the SW/FSC trademark and no public statements from Company have been issued.

Corrective Action Request:  
The company shall have a policy to use the SW/FSC trademark. All trademarks shall be approved by SmartWood prior to use.

Timeline for Compliance: before certified logs are sold  

Audit findings:  
The use of FSC trademark as segregation mark and within the transporting documents has been approved by SW on November 8, 2007. The email approval was provided by the company. Procedures of FSC trademark use has been incorporated within the “Tata Usaha Kayu Procedure” (Log Administration Procedure) within the cutting block, TPn, TPK, Log Pond and Intermediary Log Pond.

Status: CLOSED  
Follow-up Action (if applicable): Company policy on the use of FSC trademark should be inspected in the next field audit

CAR #: 28/07  
Reference Standard #: COC 10  

Non-compliance: Major ☐ Minor ☒  
As Company has not yet been certified, there have been no necessary reports on sales, but company has not yet established a procedure for doing so.

Corrective Action Request:  
The company shall develop and implement a procedure for reporting all sales of FSC certified products to SmartWood after getting certified.

Timeline for Compliance: before certified logs are sold  

Audit findings:  
Certified products sales report is submitted to SW every year prior to the annual surveillance audit.

Status: CLOSED  
Follow-up Action (if applicable):

III. CONCLUSIONS

Audit Conclusions:
☐ CAR(s) closed  
☐ No follow-up required  
☐ New CAR issued (document new noncompliance in CAR table below)

☒ CAR(s) open  
☐ Company shall be suspended (Major CAR is not met)  
☒ Minor non-conformance has become a major non-conformance (see CAR tables below)

Comments/ Follow-up actions at next audit: Observation on the use of FSC trademark as segregation mark, within the transporting documents, and in the company website.
Corrective Action Requests (CARs):

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<td>Company has revised their harvesting procedures, but assessment on the ecological impact of harvesting activities and adjustment of their harvest intensity has not been done.</td>
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Corrective Action Request:
The company shall consult with the Department of Forestry to review the appointment letter and develop and start to implement procedures to ensure that harvesting procedures does not conflict with active legal regulations.

In terms of harvesting on sloping land Company shall develop and start to implement procedures for assessing/measuring the impact on ecological functions of harvesting activities on sloping land and based on this assessment, implement procedures for adjusting harvest intensity to minimize negative impacts of these activities.

Timeline for Compliance: 3 months after the finalization of this report

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<th>Major CAR #: 07/07</th>
<th>Reference Standard #: 2.3.4</th>
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<td>Non-compliance:</td>
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<td>Company has revised their procedures for dispute resolution, but documentation in handling conflicts or other disputes are required to demonstrate the consistent application of these procedures.</td>
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The company shall document all communication related to any dispute involving the company and other parties. This shall be mentioned in the company’s procedures for handling conflicts or other disputes and there shall be documentation of how these procedures are applied.

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<td>Company has issued policies on the application of an integrated waste management procedure within the concession area, but an up-dated list of chemicals used in the nursery shall be available on site and sent to SmartWood.</td>
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Corrective Action Request:
The company shall reinforce policy (and provide documentation thereof) on chemical storage, handling and waste disposal done by the employees to ensure that the disposal does not have negative impacts to the environment. Company shall also ensure that an up-dated list of chemicals used in the nursery is available on site and is sent to SmartWood prior to audits.

Timeline for Compliance: 3 months after the finalization of this report
Report Approved by: Christian Sloth

Date: 03 December 2008

NOTE: Report approval is required when auditor is not an authorized to approve SW reports or when the audit conclusion is suspension of the certificate.