

 <b>Timber Legality &amp; Traceability Verification (TLTV)</b>	Doc. Number:	<b>AD-TLTV-36-A-02</b>
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	Page:	<b>1 of 10</b>

## TLTV- LP (Legality of Production) - VERIFICATION REPORT - PUBLIC SUMMARY -

<b>Project No.:</b>	PNG 001	
<b>Company:</b>	SABAN ENTERPRISES LIMITED	
<b>Web Page:</b>	N.A.	
<b>Address:</b>	Lot 1, Section 479, Kennedy Road, Gordons, Port Moresby, PNG	
<b>Country:</b>	PAPUA NEW GUINEA	
<b>Statement No.</b>	<b>SGS-TLTV/LP-0010</b>	
<b>Date of Issue</b>	27 October 2008	<b>Date of expiry:</b> 26 October 2013
<b>Forest Zone:</b>	Tropical	
<b>Total Verified Area</b>	61,558 Ha	
<b>Scope:</b>	<p><b>Production, transport and domestic sales of logs</b></p> <p>Saban Enterprises Ltd. (SABAN) has been evaluated against agreed principles under the SGS 'Timber Legality &amp; Traceability Verification' (TLTV) Programme for the following productions: Round logs and sawn timber at Milne Bay Timber Authority Area Tagwa-Tagwai TA 04-30 (3,715 ha) and Sagarai-Gadaisu Timber Permit Area Tandragee Limited Reg No FI 01225 (61,058 ha) and Saban Sawmill demonstrating compliance with the following principles related to specified laws and regulations applicable in the country of origin and with requirements related to the Company's internal traceability system: Applied Standard: SGS TLTV v 14.11.2007 with PNG Verifiers v 18.08.08 Authorization to exercise an economic activity; Authorization to exercise forest activity Rights of workers and local communities; Environmental regulations; Regulation in terms of forest declaration and taxation; Forest harvesting regulations; Marketing and timber processing regulations; Registrations maintained by the company; Management and Chain-of-Custody monitoring systems.</p>	
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**Evaluation dates:**

<b>Main Evaluation</b>	18 -23 August 2008
<b>Surveillance Visit 1</b>	
<b>Surveillance Visit 2</b>	
<b>Surveillance Visit 3</b>	
<b>Surveillance Visit 4</b>	

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## ASSOCIATED DOCUMENTS (not included in this Public Summary)

<b>AD-TLTV-20:</b>	<b>Evaluation Itinerary</b>
<b>AD-TLTV-21:</b>	<b>Attendance Record</b>
<b>AD-TLTV-36-B:</b>	<b>Evaluation – Checklist and Results</b>
	<b>Evaluation Team CV's</b>
	<b>List of stakeholders consulted</b>

## INTRODUCTION

The purpose of the evaluation was to assess the operations of Saban Enterprises Ltd (SABAN) against the requirements of the PNG TLTV Standard for Legal Production (LP). LP is the component of the SGS Timber Legality & Traceability Verification (TLTV) service that examines the production source of timber, usually a forest. TLTV also includes a Chain-of-Custody Verification component – in this case, from the forest to the sawmill yard, after which a separate CoC evaluation was conducted.

### 1. SCOPE OF VERIFICATION

The scope of verification falls within the Tropical Forest Zone and includes Milne Bay permit areas/authorisations (TRP & TA) as described below.

Description of forests/concessions/FMUs:				
Description	Ownership	Area (ha)	Longitude E/W	Latitude N/S
<b>Milne Bay:</b> Timber authority:	(Tagwa-Tagwai Timber Authority area TA 04-30)	3,715	150 degrees, 4 minutes, 43 seconds	10 degrees, 17 minutes, 26 seconds
<i>Sagarai-Gadaisu</i> Timber Rights Purchase (TRP):	Tandragee Limited (Reg No FI 01225)	61,058	149 degrees, 54 minutes, 25 seconds	10 degrees, 19 minutes, 20 seconds

Annual Log/ Round Wood Production (Year 2007)			
Species (botanical name)	Species (common name)	Annual Production	
		Allowable Cut (m <sup>3</sup> )	Actual (m <sup>3</sup> )
Mixed PNG Hardwoods		60,000	42,853.223
<b>Totals</b>		60,000	42,853.223

Description of timber processing sites:				
Description	Type of production	Location	Longitude E/W	Latitude N/S
SABAN Mill	Saw timber	Milne Bay	150 degrees, 22 minutes, 41 seconds	10 degrees, 24 minutes, 34 seconds

Annual Processed Wood Production (Year 2007)					
Supplies (inputs)			Products (outputs)*		
Own log supplies	40,000 m3	%		15,004 m3	%
<b>Third party supply Categories<sup>1</sup> no.:</b>					
1. legal sources certified under an internationally recognized <sup>2</sup> forest certification scheme	NA	NA		NA	NA
2. legal sources verified under SGS TLTV Programme	NA	NA		NA	NA
3. legal sources under internal procurement policies	NA	NA		NA	NA
4. identified sources not verified	NA	NA		NA	NA
5. other sources	NA	NA		NA	NA
<b>Total</b>	<b>42,853 m3</b>	<b>100 %</b>		<b>15,004 m3</b>	<b>100 %</b>

(\* Use product Categories as per the scope of the LP statement (e.g. shipping-dry timber, kiln-dry timber, veneer, plywood, chips, poles, etc.). Do not include intermediate products such as, for example, sawn timber further processed into flooring.

## 2. COMPANY BACKGROUND

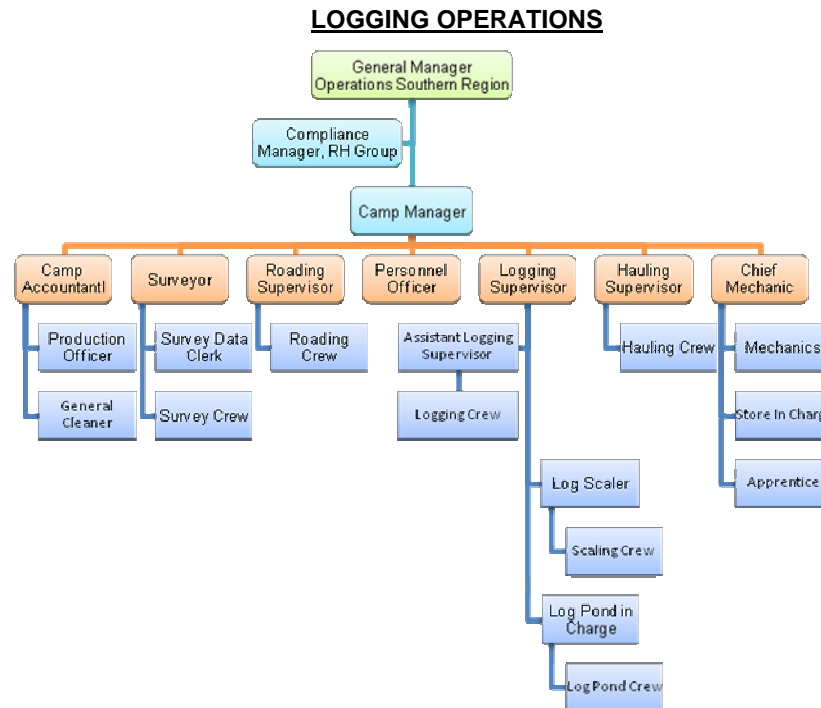
### 2.1 Ownership

The company has access to the land through agreements with land owners and through forestry authorisations granted to them by the Forestry Authority. Forest authorisation includes permits awarded under Timber Rights Purchase (TRP) and Timber Authorities (TA). The company is formally registered as a Forestry Industry Participant with the PNG Forest Authority. The authorisations are situated in the 'Sagarai-Gadaisu' Timber Permit Area which covers 61,058 hectares.

<sup>1</sup> Definition of categories according to document 'RD-TLTV-10 Third Party Supply Regulation'

<sup>2</sup> SGS currently follows the recommendations of the UK Central Point of Expertise for Timber (CPET) for the recognition of forest certification schemes as Category A evidence of legal compliance.

## 2.2 Organisational Structure



## 2.3 Company History

SABAN is a subsidiary of the Rimbunan Hijau (RH) Group, is constituted and duly incorporated under the Laws of the Papua New Guinea (PNG). The SGS TLTV Programme, at the request of the RH Group, conducted a TLTV main-assessment during August 2008 on SABAN for the timber produced in both the Sagarai-Gadaisu TRP area and the Tagwa-Tagwai TA area. So the Scope of the verification included both TRP and TA areas.

## 2.4 Non-Verified Forests

All the areas of operation that currently fall within SABAN scope of operations were subjected to the TLTV assessment. No areas (TRP and/or TA) were left outside the scope of assessment. Note: TA areas that were currently the subject of applications pending were not considered during the assessment.

## 3. EVALUATION

### 3.1 Schedule

The evaluation was carried out over a period of 6 days between 18 to 23 of August by the team described below.

### 3.2 Team

The table below shows the team that conducted the evaluation.

Evaluation Team	Notes
Team Leader	<i>Morne van der Linde</i> : Has a BLC.LLB. LL.M degrees in Law. He also holds a higher Dip. ADR. He has approximately 10 years experience in environmental law with a specific

	focus on forestry operations and sustainable forest management. He also has 5 years experience in forestry and forest certification internationally, regionally and nationally and currently serves as the operations manager of the TLTV Programme.
<b>Local Specialist / Auditor</b>	<i>Bruce Telfer:</i> Has a degree in Forestry Science and approximately 30 years experience in forestry internationally, regionally and nationally. He is currently the Managing Director of SGS PNG Ltd.

#### 4. EVALUATION RESULTS

Detailed evaluation findings are included in the full Evaluation Report (AD-TLTV-36B).

##### 4.1 Compliance with the TLTV PNG Standard requirements

Compliance by the Company with the [9] Principles of the TLTV PNG Standard<sup>3</sup>, within the scope of the verification, is summarized below.

<b>PRINCIPLE 1: The Company is authorised to conduct business in accordance with company laws and other legal requirements of the country within which it operates</b>	
<b>Compliance</b>	<p>Saban Enterprises Ltd is legally constituted as a corporate entity and entitled to operate legitimately within Papua New Guinea (PNG). The audit evaluated various registrations (including Investment Promotion Authority (IPA), NASFUND (compulsory workers superannuation), Worker's Compensation Insurance, Forest Industries Association (FIA) membership and the submission of required annual returns e.g. IPA and Tax Office); the legal right to use the land where operations are situated (or proposed); and whether the company was the subject of litigation by national or local authorities that could suspend the company's activities temporarily or indefinitely.</p> <p>Saban Enterprises Ltd performed well against the requirements of the Criteria and Indicators contained in Principle 1.</p>
<b>PRINCIPLE 2: The company has the necessary approvals or authorizations to conduct the relevant forestry and related activities at the locations under verification</b>	
<b>Compliance</b>	<p>Consideration was given as to whether SABAN has the necessary approval(s) for its forest operations. Consideration was given to whether the company holds the right to access and/or undertake operations in a particular area and whether valid authorisations exist for prescribed activities are in place. Aspects verified included registration of the Company as a Forest Industries Participant (with the PNG Forest Authority), the Timber Rights Purchase (TRP)<sup>4</sup>, the Logging and Marketing Agreement, Timber Authorities (TA's) as well as other agreements with landowners and other parties relevant to operations. Consideration was further given to the relevant authorisations and their validity in relation to SABAN's processing activities.</p> <p>In addition, forest inventories and management plans were considered and consultations were undertaken with the provincial forestry office. The positioning of company operations was also cross-checked in the field. Finally, the evaluation considered authorisations/ approvals required for activities related to the operations.</p> <p>Saban Enterprises Ltd performed well against the requirements of the Criteria and Indicators contained in Principle 2.</p>

<sup>3</sup> Full document available at [www.sgs.com/forestry](http://www.sgs.com/forestry)

<sup>4</sup> Sagarai and Gadaisu are actually 2 separate TRPs over which SABAN holds a single Timber Permit. As the Sagarai TRP has now expired, harvesting operations are confined to the still current Gadaisu TRP area.

<b>PRINCIPLE 3: The Company respects its social obligations towards local communities, workers, and contractors</b>	
<b>Compliance</b>	<p>This principle contains a strong social component and considers a company's social responsibility and legal obligations towards local communities, workers, and contractors. SABAN was aware of its obligations towards the local communities. Workers aspects verified included the existence of a work relationship and the formalisation of the same (contractual relationship). Various aspects and obligations in terms of the Employment Act of 1978 and Employment Regulations of 1980 were considered during the assessment including notifications, taxable income, wages, minimum working age, safety and other basic conditions of employment. Work permits of all foreign staff were verified during the audit. Consultations were conducted with both workers and the Department of Labour.</p> <p>Saban Enterprises Ltd can improve on the actual implementation of its community obligations. Notwithstanding, the company respects the rights of workers and is engaged in corporate social projects additional to its legal obligations.</p>
<b>PRINCIPLE 4: The Company complies with its environmental obligations imposed by laws, regulations and other relevant national and international environmental requirements</b>	
<b>Compliance</b>	<p>The audit evaluated a range of environmental compliances at company level. It considered aspects such as environmental permitting and a company's compliance across various environmental media including Biodiversity, Air Pollution, Water Pollution, Chemical Usage and Waste Management. Specific aspects verified included Dept. of Environment and Conservation (DEC) codes, waste permits, water permits, adherence to the approved environmental plan, etc.</p> <p>Particular consideration was given to the adherence to the PNG Logging Code of Practice. Concerns were raised as to SABAN adherence to the Code with specific reference to buffer zones or the protection thereof (although significantly improved since the pre-assessment) as well as fuel storage within the workshop area. SABAN has taken proactive measures to deal with potential illegal activities by third parties in the areas where it operates and have also engaged with the authorities on this issue.</p>
<b>PRINCIPLE 5: The Company adheres to regulations of forest declarations and taxes</b>	
<b>Compliance</b>	<p>A range of payments, declarations and taxes as well as appropriate record keeping, submission to appropriate authorities in prescribed time period and manner were considered. These included: approved management plan, annual logging plan, set-up plans, production declarations (compliance with the PNG Identification, Scaling &amp; Reporting requirements – including the monthly production reports), export permits, levies, taxes and royalties, etc. The company accounts are audited by an external accounting firm as required by the IPA.</p> <p>Saban Enterprises Ltd performed well against the requirements of the Criteria and Indicators contained in Principle 5.</p>
<b>PRINCIPLE 6: The Company complies with forest harvesting regulations</b>	
<b>Compliance</b>	<p>The Audit evaluated aspects such as whether authorised harvesting areas are clearly identified in accordance with current (applicable) regulations and whether harvesting activities are strictly limited to authorised areas. Consideration was further given to species felled, authorised amounts, markings (identification) and control mechanisms in place. Initial concerns raised during the pre-assessment were addressed and operations were in line with the relevant requirements of the PNG Logging Code of Practice.</p> <p>Saban Enterprises Ltd performed relatively well against the requirements of the Criteria and Indicators contained in Principle 6. Concerns were, however, raised as in relation to tree-marking requirements.</p>
<b>PRINCIPLE 7: The Company complies with processing, transport and trade regulations</b>	
<b>Compliance</b>	<p>The company ensures that the delivery of products to the customer complies with relevant legal requirements. Consideration was given to a range of aspects including export restrictions; log</p>



	<p>deliveries to the local market (legal requirements, relevant documentation, wood transformation rates); purchasing/ supply procedures and transportation. Specific aspects verified included factory registration/equipment licensing, roadworthy condition of vehicles, export permit &amp; license, as well as the phytosanitary certificates needed for timber export.</p> <p>Saban Enterprises Ltd performed well against the requirements of the Criteria and Indicators contained in Principle 7.</p>
<b>PRINCIPLE 8: The Company maintains the necessary registers</b>	
<b>Compliance</b>	<p>The company has a register of relevant acts, regulations and codes of practice that is updated, maintained and communicated within the company. It also subscribes to the National Gazette.</p> <p>Concerns were raised as to the effectiveness of identifying, monitoring and controlling stakeholder complaints.</p>
<b>PRINCIPLE 9: The company has management and chain-of-custody monitoring systems in place which ensure adequate control and traceability of its productions</b>	
<b>Compliance</b>	<p>SABAN has an internal traceability system identifying critical control points and a range of procedures and resource exist pertinent for the maintenance of such a system.</p> <p>Concerns were raised on the adequateness of existing training and it was recommended during the audit that some of the system procedures be further developed.</p>

#### 4.2 Verification decision

SGS has issued a TLTV-LP Statement and has released an Evaluation Report, as well as this Public Summary, on the basis of the following findings:

- i. There are no outstanding Major Corrective Action Requests
- ii. The outstanding Minor Corrective Action Requests do not preclude the issue of a verification statement, but SABAN will have to take the requested corrective actions within the timeframe specified for each Minor CAR.

#### 5. MAINTENANCE OF VERIFICATION

During the surveillance evaluation, it is assessed whether there is continuing compliance with the requirements of the TLTV PNG Standard. Any area of non-conformance is raised, corresponding to one of the two following types of Corrective Action Requests (CARs):

- .01 **Major CAR** - a CAR that must be addressed and closed out urgently (with an agreed short timeframe) since the organisation is already verified by SGS under TLTV. Failure to close out a Major CAR within the agreed timeframe can lead to a suspension of the statement.
- .02 **Minor CAR** - a CAR that must be addressed within an agreed timeframe, and will normally be checked at the next surveillance visit.

The table below provides a historical summary of findings for each surveillance visit. The complete record of findings reflecting compliance or non-compliance with each criterion of the relevant TLTV PNG Standard is included in the full Evaluation Report AD-TLTV-36-B.

MAIN ASSESSMENT	
<b>Issues that were difficult to assess</b>	NA
<b>CARs raised</b>	8 Minor CAR(s) were raised
<b>Verification Decision</b>	Within the agreed verification scope, SABAN has been verified as being compliant with the requirements of the applicable standard and a TLTV-LP Statement has been issued.

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The first Surveillance Audit is due in August 2009.

**End of Public Summary**