



## SECOND ANNUAL SURVEILLANCE ASSESSMENT

# SIME DARBY PLANTATION Sdn Bhd

## Management Unit SOU26

### Sandakan Sabah Malaysia

*Report Author*

**Charlie Ross –Revised November 2010**

EmandM@bigpond.net.au

Tel: +61 417609026

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BSi Group Singapore Pte Ltd (Co. Reg. 1995 02096-N)  
3 Lim Teck Kim Road #10-02  
Singapore Technologies Building  
SINGAPORE 088934  
Tel +65 6270 0777  
Fax +65 6270 2777  
www.bsi-asia.com  
Soon Leong Chia: SoonLeong.Chia@bsigroup.com

BSi Management Systems Malaysia Sdn Bhd (Co.Reg. 804473 A)  
Suite 19.05 Level 19 Wisma Goldhill  
65, Jalan Raja Chulan  
50200 Kuala Lumpur  
MALAYSIA  
Tel +03 2032 2252 (Hunting Line)  
Fax +03 2032 2253

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## SUMMARY

BSi Group Singapore Pte Ltd (BSi) has conducted the Second Annual Surveillance Assessment of Sime Darby Plantation Sdn Bhd Management Unit SOU26 operations comprising a Mill, four (4) oil palm Estates, support services and infrastructure. BSi concludes that SOU26 operations have maintained compliance with the requirements of RSPO Principles & Criteria: 2007 and MY-NI Indicators and Guidance 2008.

The Second Annual Surveillance Assessment of SOU26 was carried out between 21 and 24 September 2010.

BSi recommends the continuation of the SOU26 approval as a producer of RSPO Certified Sustainable Palm Oil.

## ABBREVIATIONS USED

BOD	Biological Oxygen Demand
CHRA	Chemical Health Risk Assessment
CPO	Crude Palm Oil
CSPO	Certified Sustainable Palm Oil
DOE	Department of Environment
DOSH	Department of Occupational Safety & Health
EFB	Empty Fruit Bunch
ESH	Environment Safety and Health
FFB	Fresh Fruit Bunch
HIRAC	Hazard Identification Risk Assessment Control
HCV	High Conservation Value
JCC	Joint Consultative Committee
LTA	Lost Time Accident
MPOB	Malaysian Palm Oil Board
OSH	Occupational Safety and Health
PK	Palm Kernel
PPE	Personal Protective Equipment
SIA	Social Impact Assessment
SOP	Standard Operating Procedure
SPIEU	Sabah Plantation Industry Employee Union
TQEM	Total Quality Environmental Management

### 1.0 SCOPE OF CERTIFICATION ASSESSMENT

#### 1.1 Identity of Certification Unit

The Certification Unit is the Sime Darby Plantation Sdn Bhd Management Unit SOU26 that consists of the Sandakan Bay Palm Oil Mill and four Estates. The SOU26 Mill and Estates are located in Daerah Suanlamba District of Sandakan, Sabah, East Malaysia (Figures 1 and 2). The Mill and Estates are situated immediately south-east of Sandakan Bay. The GPS location of the Mill is shown in Table 1.

**Table 1: Mill GPS Location**

MILL	LONGITUDE	LATITUDE
Sandakan Bay	E 118° 10' 20"	N 5° 45' 20"

### 1.2 Production Volume

The production tonnages for CPO and PK for the period of the Certificate (01/10/2009 – 30/09/2010) and projected for the next twelve months are listed in Table 2.

**Table 2: Production Tonnages**

Sandakan Bay Palm Oil Mill	Projected At Initial Certification	Actual 01/10/09 – 30/09/10	Projected 01/10/10 – 30/09/11
CPO	56,372	47,591	55,379
PK	15,369	11,366	12,145

### 1.3 Certification Details

Sime Darby RSPO Membership No: 035-04(O)  
BSi CSPO Certificate No: SPO 537872  
First Annual Surveillance Assessment: 17/09/2009  
Date of Certification: 01/10/2008

### 1.4 Description of Fruit Supply Base

The supply base is four (4) company owned Estates and two (2) independent Smallholders and four (4) Small-growers. The FFB production from company owned Estates, Smallholders and Small-growers is listed in Table 3. The company owned Estates were developed in the mid 1990s and the palms are in the first cycle. The age profile of the palms is shown in Table 4.

**Table 3: FFB Production**

Source	Actual 01/10/08 – 30/09/09	Actual 01/10/09 – 30/09/10	Projected 01/10/10 – 30/09/11
Sentosa Estate	54,322	54,621	59,800
Tun Tan Estate	54,265	54,969	62,209
Tigowis Estate	40,865	42,767	42,684
Tunku Estate	56,354	59,137	64,039
<u>Smallholders</u>			
Banco Bin Jansie	716	943	720
Novel Borneo	883	1,185	960
<u>Small-growers</u>			
Golden Forefront	1,845	2,087	2,400
Maishang Holding	2,981	2,748	4,200
Corporate Spirit	4,612	3,043	1,560
Maju Jaya	1,975	2,748	1,080
<b>Sub-total Smallholders &amp; Small-growers</b>	<b>13,012</b>	<b>12,754</b>	<b>10,920</b>
<b>TOTAL</b>	<b>218,814</b>	<b>224,248</b>	<b>239,652</b>

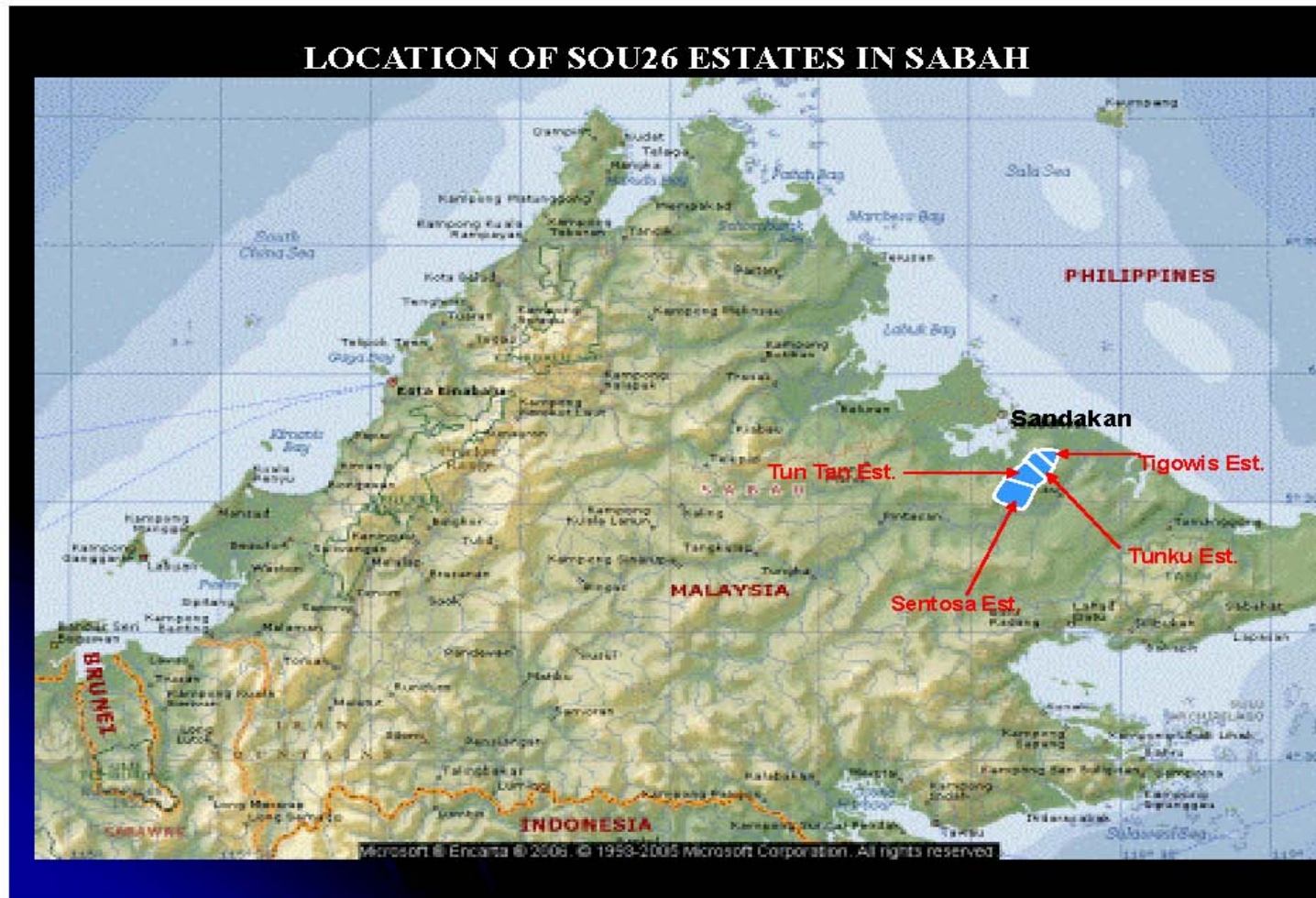


Figure 1: SOU26 Location Map

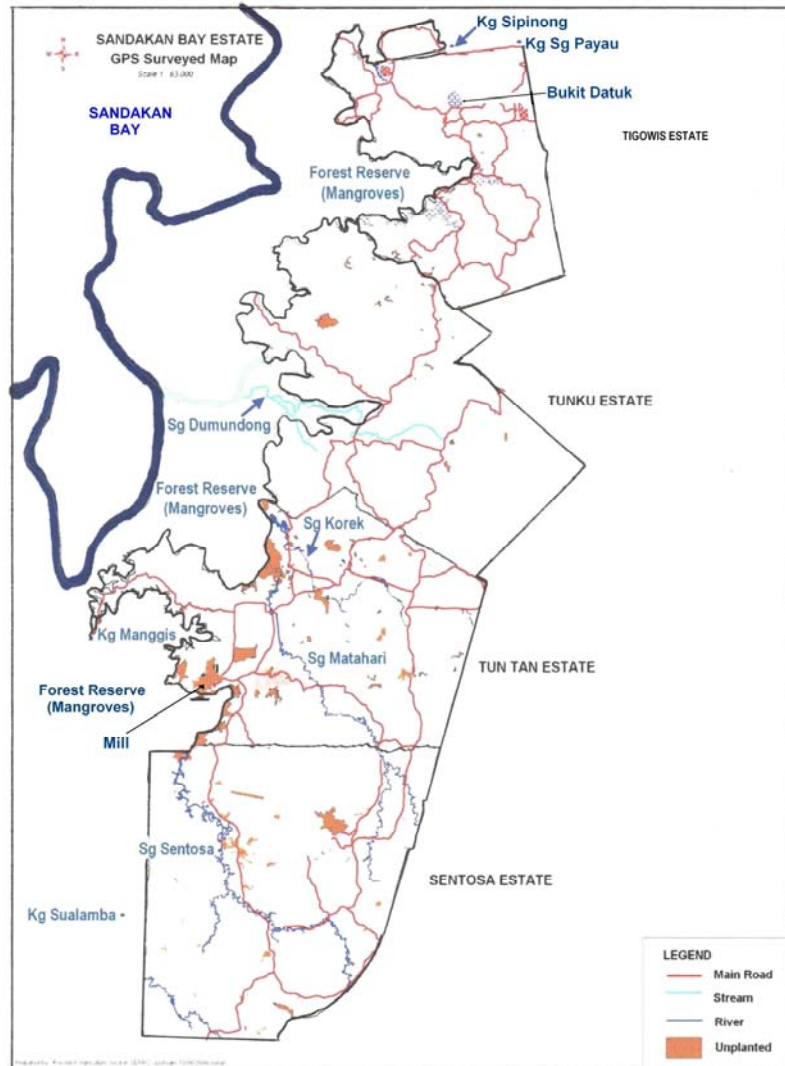


Figure 2: Layout of Estates

**Table 4: Age Profile of Estate Palms**

AGE (years)	% of Planted Area
16	34.9
17	42.4
18	19.8
19	2.9

The areas of mature palms for the Estates, Smallholders and Small-growers are shown in (Table 5).

**Table 5: Areas of Mature Palms**

LOCATION	AREA (ha)
<b>SOU26 Estates</b>	
Sentosa	3,546
Tun Tan	3,143
Tigowis	2,074
Tunku	3,203
<b>Smallholders</b>	
Banco Bin Jansie	32.9
Novel Borneo	37.9
<b>Small-growers</b>	
Golden Forefront	168.8
Maishang Holding	244.6
Corporate Spirit	200.0
Maju Jaya	165.0

### 1.5 Progress against Time Bound Plan

Sime Darby Time Bound Plan (updated November 2009) is included as Appendix A. During the year, Sime Darby realigned three of the Management Units in Malaysia for strategic operating reasons. This reduced the total number of management units from 61 to 58.

In August 2009, Sime Darby and Kulim (Malaysia) Berhad reached agreement on the acquisition and disposal of one estate. Sime Darby acquired Sungai Simpang Kiri Estate from Kulim and at the same time disposed of Sungai Tawing Estate to Kulim. The Sungai Simpang Kiri Estate was certified by BSi in January 2009 when it was part of the Kulim Group.

In August 2009, Sime Darby disbanded SOU24a after the transfer of Sungai Tawing Estate to Kulim, re-alignment of Cenaz Estate with SOU24 and closure of Sungai Tawing Mill. Sime Darby also disbanded SOU30a in September 2009 after re-alignment of Jeleta Bumi Estate with SOU28 and closure of Jeleta Bumi Mill.

Sime Darby has varied the previous Time Bound Plan by concentrating initially on achieving certification for all of the management units in Malaysia, followed by those in Indonesia. This enabled Sime Darby to bring forward the certifications of Management Units. By 30 June 2009, certification assessments had been completed for 67% of the Management Units, compared to the projected 45% in the 2008 Time Bound Plan.

BSi considers that the variation of the Time Bound Plan was reasonable to focus the training and implementation resources on the operations within a single jurisdiction. BSi recommends acceptance of the Time Bound Plan variation.

Sime Darby has advised BSi that no new land tenure issues have surfaced at any of its properties since the Initial Certification Assessment of SOU26. During 2009 progress was made on dialogue between Sime Darby's Management Unit PT MAS in West Kalimantan and the organisation SPKS that represents schemed smallholder interests. Sime Darby has agreed with SPKS for the local Dayak Leader (Adat Regional Head) to participate in meetings as mediator. Sime Darby met with Sawit Watch representatives at RT7 for discussions on land issues localised to one estate in West Kalimantan.

Sime Darby has advised BSi that there are no labour conflicts at any of its oil palm operations.

Sime Darby notified BSi that during 2009 it had engaged consultants who completed HCV Assessments at all of its operations in Indonesia that it acquired in November 2007 and where new development had been carried out since November 2005. The assessment indicated that land with HCV present had been cleared and developed to oil palm at Sukamandang and Pemanting SOUs in West Kalimantan. In May 2010, the RSPO notified Sime Darby that the RSPO Executive Board had reached agreement on Sime Darby's HCV offset for the affected area.

BSi considers that Sime Darby meets the RSPO requirements for Partial Certification.

### 1.6 Progress of Associated Smallholders/ Outgrowers towards RSPO Compliance

SOU26 has nominated one of the Sentosa Estate Assistant Managers for being responsible for implementing the RSPO P&C with the Smallholders and Small-growers who supply FFB to the Mill.

A BSi Assessor visited one of the Smallholders, Novel Borneo, and inspected the oil palm block. The Smallholder's progress with implementation of the RSPO P&C was assessed against the "Specific National Guidance for Smallholders and Small-growers" published in the MY-NI: March, 2008.

Interview of the Mandor who manages the upkeep and harvesting of the smallholding, found the level of awareness of RSPO had not increased during the previous 12 months, but remained at the "initial awareness level". Inspection of the oil palm and facilities at the smallholding showed the palms were well maintained and the block was free of weeds. However, a number of the RSPO requirements relating to OHS and the management of pesticides had not yet been adequately addressed.

The Assessment Team concluded that SOU26 needs to allocate an appropriate level of resources for training and assistance to the Smallholders and Small-growers in order to meet the target of achieving compliance with the RSPO requirements at the Third Annual Surveillance Assessment in 2011.

### 1.7 Organisational Information / Contact Person

Sime Darby Plantation Sdn Bhd  
Management Unit SOU26  
Locked Bag 39  
SANDAKAN SABAH 90009  
MALAYSIA

Contact Person: Mr Mohamed Azhaza Abdul Aziz  
General Manager SOU26  
Phone: +6089 6222766  
Email: mohamed.azhaza.abdul.aziz@simedarby.com

## 2.0 ASSESSMENT PROCESS

### 2.1 Assessment Team Members

**Charlie Ross** – Lead Assessor

**Iman Nawireja** – Social Assessor

**Robyn Ross** – Social Assessor Women and Families

**Norielyn Panes** – Facilitator Women and Families

A CV for the new Assessment Team Member, Mrs Panes, is included at Appendix B.

### 2.2 Assessment Programme

The Assessment was carried out between 21 and 24 September 2010 and the Programme is included as Appendix C.

The Assessment Programme included physical inspections of the Mill, Sentosa Estate and Tigowis Estate and associated facilities and infrastructure. Observations were made of tasks at each work station in the Mill, as well as harvesting, fertiliser application and the handling and application of herbicide at the two Estates. Checklists and questionnaires were used to guide the collection of information. Targeted visits were made to Tun Tan and Tunku Estates for following up issues identified during the 2009 Surveillance Assessment.

Internal and external stakeholders were contacted and interviewed. The Social Assessor visited each of the three local villages and met with village representatives and residents. A list of stakeholders contacted is included as Appendix D.

Stakeholders were interviewed in private and company officers were not present at any of the stakeholder interviews.

A visit was made to the Smallholder Novel Borneo to assess progress with implementation of the applicable RSPO P&C.

## 3.0 ASSESSMENT FINDINGS

### 3.1 Summary of Findings (by each Principle and some example Criteria)

During this Second Annual Surveillance Assessment, the Assessment Team did not identify any nonconformities against Major or Minor Compliance Indicators. Ten (10) Observations/Opportunities for Improvement were identified.

Review of the nonconformities assigned during the First Annual Surveillance Assessment to major compliance indicator 2.1.1 and minor compliance indicators 2.1.3, 4.3.2 and 5.3.2 found that implementation of corrective actions have been maintained. In addition, the seven observations identified during the First Annual Surveillance Assessment had been actioned and the improvements were considered to be effective for addressing the issues.

This section of the Surveillance Report provides a summary for each Principle together with details for a sample of the Criteria and Indicators. *Where an observation is assigned, reference is made at the end of the text of the Criterion to which it refers.* Details of the Observations are given in Section 3.2 (Page 10)

#### PRINCIPLE 1: Commitment to Transparency

SOU26 has maintained up to date policies, procedures and management plans and has provided information to the public on request, in accordance with Sime Darby Group Policy. Managers of SOU26 made a number of informal visits to local communities during the year and this was constructive in improving the relationship with the company and for information sharing.

**Criterion 1.1: Oil palm growers and millers provide adequate information to other stakeholders on environmental, social and legal issues relevant to RSPO Criteria, in appropriate languages & forms to allow for effective participation in decision making.**

The Mill and Estates operate a filing system for receiving and responding to requests for information relating to the oil palm operations. Inspection of the files showed that during the past year, requests for information were received only from Government Departments and the Malaysian Palm Oil Board. SOU26 responded appropriately with the requested information. For example, SOU26 received a letter on 22 May 2010 from the MPOB requesting information for the “Foreign Workers and Dependant Survey”, and replied to this request on 11 June 2010.

**PRINCIPLE 2: Compliance with Applicable Laws and Regulations**

SOU26 maintained the systems for documentation, checking and assessment of legal compliance with applicable laws and regulations. Inspection of a sample of boundary stones at Sentosa and Tigowis Estates confirmed these were clearly marked and visibly maintained. During the visit to local communities, representatives did not raise any issues in relation to land tenure and confirmed they were aware that the boundary stones had been surveyed and located to demarcate the SOU26 land.

**Criterion 2.1: There is compliance with all applicable local, national and ratified international laws and regulations**

Inspection of records confirmed that the Mill has maintained legal compliance with statutory requirements such as the Factories & Machinery Act 1967, the OSH Act 1994 and the Environmental Quality (Clean Air Regulation) 1978. The Mill maintains a list of licences and expiry dates and a copy of each licence is displayed in the Mill Office foyer. All of the licences were current, for example MPOB Licence No 508777804000 current to 30 November 2010.

Records were available confirming the mill boiler smoke density meter was calibrated by STS Instruments on 15 September 2010 (Work Report No 1363). Uniqejaya Environmental Services carried out boiler emission testing (Report 12 March 2010) and confirmed the measurements were well below the required limit. Inspection of smoke density records confirmed compliance with regulatory requirements. Review of mill effluent treatment monitoring results showed that measurements during the preceding 12 months did not exceed 400 mg/L which was well below the limit of 1,000 mg/L for land application.

The treated water supplies to housing were tested by Spectrum Laboratories Sdn Bhd on 07 July 2010 and all parameters were within the Malaysian Drinking Water Quality Standard. SOU26 is implementing a Programme to replace the original timber houses with 3 bedroom houses. Inspection confirmed 15 new houses at Tun Tan Estate and 12 new houses at Tigowis Estate were completed and occupied. Construction of an additional 15 new houses is in progress at Tun Tan Estate and 10 new houses are planned at Sentosa Estate in the 2010/11 year.

Inspection of records found that the Mill has a Department of Labour approval for extension of the monthly overtime limit, current to 21 December 2010. The Mill Manager assigned to Supervisors the responsibility for checking overtime and reporting it as a KPI. Inspection of pay records showed that monthly overtime for mill workers was within the approved limit. The Mill and Estates had maintained the Legal Register that lists the applicable laws and contains information on legal requirements and updates. Sime Darby Group TQEM Department carried out a legal compliance assessment 20-21 May 2010 and identified actions required to update documentation. The Legal

Requirements Register was reviewed on 10 June 2010 and updated in relation to Sime Darby Group Policies and Operating Procedures relating to Monitoring ESH Activities and Performance.

**PRINCIPLE 3: Commitment to Long Term Economic and Financial Viability**

The SOU26 management unit operated within the budget parameters set by Sime Darby Management and achieved or exceeded performance targets. FFB production was slightly below target due to the medium-term effect of the exceptionally high rainfall 5,314 mm in 2008, compared to the long-term average of 3,433 mm. Sime Darby's commitment to long term economic and financial viability was demonstrated by considerable investment in upgrading infrastructure, such as the Programme to replace the original timber housing with larger permanent dwellings.

**Criterion 3.1: There is an implemented management plan that aims to achieve long term economic and financial viability**

The SOU26 Business Plan was reviewed at the time of the annual budget preparation in May 2010 and updated with revised production forecasts to take into account the replanting Programme. SOU26 has prepared a 5 year replanting Programme and will commence replanting of the older palms in the 2010/11 year.

**PRINCIPLE 4: Use of Appropriate Best Practices by Growers and Millers**

Sime Darby has well established management systems for monitoring and control of best practice implementation at its mills and estates. This includes a Programme of regular internal audits by Mill and Plantation Advisors and Agronomists for maintaining a balance between production and protection of soil and water resources.

The boundaries of stream buffer zones that will be reinstated at future replanting were maintained and inspection showed that herbicides had not been applied to these areas. The monitoring of water quality of Sg Matahari that receives drainage from the mill showed no significant difference in Water Quality Index between the upstream and downstream sampling locations. The palm oil mill effluent was consistently treated to between 100 and 400 mg/L BOD and the treated effluent disposed by land application in a system of flatbeds in Tun Tan Estate.

SOU26 has continued to control the storage and use of chemicals. Herbicide is pre-mixed at the pesticide store and the pre-mixed chemical is transported in 20 litre containers to the field together with spray equipment. Review of records confirmed sprayers had received training and Medical Surveillance had been carried out in accordance with CHRA requirements. Inspection of the application of herbicide showed that workers were following safe work practices and were aware of the hazards associated with the herbicides being used.



**Criterion 4.1: Operating procedures are appropriately documented and consistently implemented and monitored.**

The SOPs for the Mill and Estate operations were available at the offices and Work Instructions were displayed at work stations in the Mill and at the Estates. Sime Darby monitors the implementation of SOPs by periodic visits by a Mill Advisor, a Plantation Advisor and an Agronomist. Copies of the Mill Advisor's reports for previous 12 months and the Mill Manager's reply were examined during the site visit. The Mill Advisor's Update 28-30 July 2010 did not identify any legal non-compliance, but noted the mill water usage had exceeded the target of 1.35 t/t FFB. The increased water usage was explained by extended operation of the mill boiler outside of processing hours to generate electricity. The Mill Engineer developed an Action Plan for addressing the issues raised by the Mill Advisor.

The Plantation Advisor visited Sentosa Estate 9–12 March 2010 and raised issues related to crop recovery that were due to the difficult terrain and high rainfall of the area. The Plantation Advisor made recommendations for improvement that are being implemented by the Estate management. Issues raised by the Plantation Advisor were addressed in an Action Plan prepared by the Assistant Manager for each of the Estates.

**Criterion 4.2: Practices maintain soil fertility at, or where possible improve soil fertility to, a level that ensures optimal and sustained yield.**

Sime Darby Agronomists make periodic visits to the Estates and inspect field conditions and the visual appearance of the palms.

Param Agricultural Surveys Sdn Bhd carried out a soil survey of the SOU26 Estates in August 2008 to produce a semi-detailed soil map (scale 1:25,000). All of the soils are moderate to low fertility as a result of the high temperature and rainfall resulting in intensive weathering and leaching. The soil survey concluded that with an appropriate fertiliser Programme, good yields are achievable. The Agronomist visited Sentosa Estate 13 July 2010 and inspected palms and field conditions. The Agronomist prepared an annual fertiliser Programme based on the results of leaf samples, palm yields and soil sampling.

**Criterion 4.6: Agrochemicals are used in a way that does not endanger health or the environment. There is no prophylactic use of pesticides, except in specific situations identified in national Best Practice guidelines. Where agrochemicals are used that are categorised as World Health Organisation Type 1A or 1B, or are listed by the Stockholm or Rotterdam Conventions, growers are actively seeking to identify alternatives, and this is documented.**

Inspection of the Pesticides Stores and records confirmed only pesticides are used that are registered by the Pesticides Board. The Estates did not hold any stock

of World Health Organisation Type 1A or 1B chemicals or paraquat.

Inspection of the Pesticide Stores confirmed the storage has been maintained to meet regulatory requirements, for example, security, ventilation, signage, lighting, spill containment, separation and labeling of chemicals. Labelling of all chemicals and Work Instructions is in Bahasa Malaysia. Work Instructions are displayed at the pesticide storage and mixing areas. The estates pre-mix herbicide concentrate with water and transport the spraymix to the field in 20 litre containers.

The sprayers undergo monthly medical checks at the Estates clinic. CHRA medical surveillance was carried out by a DOSH registered doctor from Klinik Mansor Sdn Bhd on 18 August 2010 for a total of 21 workers and sprayers.

Interview of female pesticide operators confirmed they were aware that once they fell pregnant and wished to continue working they would be transferred to other duties. Upon return to work they are not permitted to commence spraying duties until they have ceased breastfeeding. Aerial spraying is not carried out at SOU26. No buyer has yet requested CPO testing for chemical residues.

The Estates have continued to maintain records in the Daily Issues Book of the quantities of chemicals used. Copies of Stores Issues records are held at the Estates for 5 years.

**Criterion 4.7: An occupational health and safety plan is documented, effectively communicated and implemented**

SOU26 has implemented an ESH Management Plan for improvement of safety of employees. Risk Assessments (HIRAC) have been updated for the main tasks in the Mill (11 March 2010) and the Estates (11 January 2010). Records were available confirming that quarterly OSH meetings had been held at the Mill and the Estates for review of safety performance and discussion of workplace health and safety issues. Safety briefings are given at muster to reinforce awareness and specific training is carried out for workers related to their work, including correct wearing of PPE.

The Emergency Response Plans had been reviewed and updated where necessary, such as for changed phone numbers. The local Fire Brigade had carried out Emergency Response training for staff and workers and a mock drill to test the emergency evacuation on 10 May 2010. All accidents are investigated and reported to Sime Darby Head Office. Examination of the accident records showed that only one LTA occurred at the Mill during the previous 12 months (June 2010) and that was a minor injury. The Estate records showed that minor injuries had occurred, such as palm thorn pricks.

**Observations 01 – 05 were assigned to Indicator 4.7.1 – refer Section 3.2 Page 10 for details**

**PRINCIPLE 5: Environmental Responsibility and Conservation of Natural Resources and Biodiversity**

The Mill and Estates reviewed and updated the Environmental Aspects and Impacts Registers and the Environmental Improvement Plans. For example the Estates included information on the impacts associated with the replanting Programme. The Environment Protection Department, Kota Kinabalu, Sabah approved the replanting of land to oil palm, for example, 267.10 ha at Sentosa Estate in 2010/11, Reference JPAS/PP/17/600-1/11/1/107 (14) dated 29 June 2010.

**Observation 06 was assigned to Indicator 5.1.1 – refer Section 3.2 Page 10 for details**

Inspections confirmed that conservation set-asides, such as the Sentosa Estate bird sanctuary, were being maintained and protected from disturbance. The Mill and Estates carried out awareness to staff and workers to reinforce the need to protect flora and fauna.

The Estates continued to operate small landfills for the disposal of non-recyclable materials. Inspections confirmed the small landfills were being maintained in accordance with local government regulations. The Estates have commenced a Programme to separate recyclable materials from refuse.

The Mill and Estates continued to maintain pollution prevention measures, such as the sediment and oil traps on drains at the Mill and workshops, to prevent the discharge of oil and sediment off-site.

Inspections showed that fire has not been used for waste disposal and the operations were consistent with Sime Darby's zero-burning policy.

**Criterion 5.3: Waste is reduced, recycled, reused and disposed of in an environmentally and socially responsible manner.**

The Mill and Estates have revised the Waste Management Plan to include information on the bio-composting plant. The plant produces organic fertiliser from the composting of palm by-products (EFB, excess fibre, nut shell, boiler ash and mill effluent). Inspections of the Mill and the Estates confirmed the solid and liquid wastes were consistently controlled in accordance with the Waste Management Plan. Boiler ash and fly ash were stored in bunkers at the Mill to prevent material from entering the stormwater drain system. Recyclables such as scrap metal from the workshops were stored in a designated area for sale to a recycler. Non-recyclables and domestic refuse were disposed in a small landfill located at each Estate.

Scheduled wastes such as spent lubricating oil and used chemical containers are stored in secure purpose-built stores at each Estate and the Mill. Inspection of the scheduled waste stores and associated records confirmed the scheduled wastes were well controlled and were collected by DOE Licensed contractors. Records were available such as a copy of manifest, for example, Consignment No: CSB:0352 for collection of 3,220 Litres of waste oil by Hiap Huat Chemicals Sdn Bhd

on 13 August 2010. Medical wastes are transported to Kinabangan Hospital for collection by DOE Licensed Contractor Faber Medi-Serve Sdn Bhd.

**Observations 07 & 08 were assigned to Indicator 5.3.2 – refer Section 3.2 Page 10 for details**

**Criterion 5.5: Use of fire for waste disposal and for preparing land for replanting is avoided except in specific situations, as identified in the ASEAN Guidance or other regional best practice.**

Inspections of the Mill and the Estates did not identify any location where fire had been used for waste disposal. By conducting awareness to residents about the company policy prohibiting the use of fire, SOU26 has eliminated the use of fire for disposal of gardening waste. SOU26 plans to chip the felled palms at replanting for use as mulch.

**Criterion 5.6: Plans to reduce pollution and emissions, including greenhouse gases, are developed, implemented and monitored.**

The Pollution Prevention Plan was updated in June 2010 with information on the bio-compost plant. The bio-compost plant will utilise approximately 30% of the mill effluent and will result in reduction of methane emissions. The Mill installed an oil trap for treatment of runoff and drainage from the FFB ramp. The mill is implementing a system for recycling of steriliser condensate for use as dilution water, which will improve oil recovery and utilise waste water.

**PRINCIPLE 6: Responsible Consideration of Employees and of Individuals and Communities by Growers and Millers**

SOU26 reviewed and updated the SIA and Social Action Plan in July 2010. Major improvements were the construction of fifteen new 3 bedroom houses at Tun Tan Estate and twelve new houses at Tigowis Estate during the year.

Interviews of local community representatives found there was a good relationship with the company that was maintained through regular informal meetings. Communication between company management and workers was maintained through quarterly JCC meetings at the Mill and each Estate.

Sime Darby signed a collective agreement with Sabah Plantation Industry Employees Union (SPIEU) on 22 October 2009 for the formation of Workers Union at SOU26. In relation to the agreement, the SPIEU representative visited SOU26 to initiate the formation of Workers Union in May 2010. Interviews of workers and their families indicated there were no issues related to discrimination. The Gender Committees continued to operate and there was good participation by female staff and workers.

The company continued to maintain a good relationship with Contractors and Smallholders.

**Criterion 6.1: Aspects of plantation and mill management, including replanting, that have social impacts are identified in a participatory way, and plans to mitigate the negative impacts and promote the positive ones are made, implemented and monitored, to demonstrate continuous improvement.**

SOU26 updated the SIA and the Social Action Plan in July 2010 and took into account input from internal and external stakeholders. The improvement of worker housing and worker amenities continued as the priority issues to be addressed in the Social Action Plan. The Social Action Plan was updated with the following items:

Continued operation of JCC;  
Operation of Gender Committee;  
Humana School construction (foundations stage); and  
Construction of new 3 bedroom houses

**Observation 09 was assigned to Indicator 6.1.2 – refer Section 3.2 Page 10 for details**

**Criterion 6.2: There are open and transparent methods for communication and consultation between growers and/or millers, local communities and other affected or interested parties.**

SOU26 has carried out informal visits to local communities to provide information on the company's operations and to receive feedback on any issues. Interview of representatives at each of the three local villages confirmed that SOU26 staff had visited and there was improved communication with the company. SOU26 has reviewed and updated the list of stakeholders, for example at Tigowis Estate in July 2010. **Observation 10 was assigned to Indicator 6.2.3 – refer Section 3.2 Page 10 for details**

**Criterion 6.5: Pay and conditions for employees and for employees of contractors always meet at least legal or industry minimum standards and are sufficient to provide decent living wages.**

The majority of labourers are recruited from Indonesia on 5 year contracts. The sample of workers interviewed found that they understood their employment terms and conditions and pay rates. Checks of samples of pay records at the Mill and Sentosa Estate confirmed workers and staff were paid in accordance with their contracts. The current daily rate and the piece rate for harvesters were displayed on notice boards at muster areas.

Interviews of workers and their families who were now residing in the new houses at Tigowis and Tun Tan Estates found a very high level of satisfaction. An issue raised by residents was the time taken to build the new Humana School.

**Criterion 6.7: Children are not employed or exploited. Work by children is acceptable on family farms, under adult supervision, and when not interfering with education Programmes. Children are not exposed to hazardous working conditions.**

Inspection of records found that checks of age were made consistently for all new hires and details were

available of the foreign workers passports. During site visits, children were not found at any of the work places at the mill or the estates.

**Criterion 6.9: A policy to prevent sexual harassment and all other forms of violence against women and to protect their reproductive rights is developed and applied**

SOU26 has continued to maintain awareness of the company policies through muster briefings and the display of information on noticeboards. Gender Committees continued to be supported by management and quarterly meetings were held at the mill and the estates and meeting minutes were available.

**Criterion 6.10: Growers and mills deal fairly and transparently with smallholders and other local businesses.**

SOU26 purchases FFB from 2 smallholders and 4 small growers and although their FFB represents only a small proportion of the mill throughput, the company has maintained a good relationship with them. Interview of the small growers confirmed they understood their contracts and they stated they had been supplying FFB to SOU26 for several years. The growers understood the Mill FFB grading system and the penalties applied for poor fruit quality.

The contractors interviewed had worked with SOU26 for a number of years and understood the contracts, which had been explained to them. The FFB transport contractor had worked with SOU26 for 14 years and had not experienced problems with payments, which were made on time.

**PRINCIPLE 7 IS NOT APPLICABLE AS THERE ARE NO NEW DEVELOPMENTS**

**PRINCIPLE 8: Commitment to Continuous Improvement in Key Areas of Activity**

SOU26 did not purchase or use any WHO Type 1A or Type 1B chemicals during the year and these have not been used since 2000. Paraquat also had not been purchased during the year and has not been used at the Estates since 2004.

The Mill and Estates reviewed and updated the Environmental Aspects and Impacts Register and Improvement Plans. Inspections confirmed previous improvements had been implemented, such as the installation of rainwater tanks at Tunku Estate housing for collecting rainwater.

In 2009/10 the Mill is implemented a system for the re-use of steriliser condensate as dilution water in processing. This will reduce water usage, improve oil recovery and utilise waste heat.

The Mill commissioned the bio-composting plant for palm by-products (EFB, fibre, nut-shell and boiler ash) and approximately 30% of the mill effluent. Inspection

confirmed the bio-compost plant was operating and producing organic fertiliser for application to the palms.

The major item of the Social Action Plan was the construction of a new Humana school at Tun Tan Estate. SOU26 has awarded a contract for building the school and inspection confirmed that the preparation of the foundations was in progress. Construction of the school is expected to be completed by the end of 2010.

The Mill and Estates have captured information on expenditure for environmental and social improvements in the accounting system.

### **3.2 Identified Nonconformities and Noteworthy Positive and Negative Observations**

The assessment team did not identify any nonconformities during this Second Annual Surveillance Assessment.

#### **Noteworthy Negative Observations**

The assessment team identified Ten (10) Observations/Opportunities for Improvement. The progress with the Observations/Opportunities for Improvement will be checked at the Surveillance Assessment visit scheduled for August 2011.

- 01 (4.7.1)** The Mill has implemented safety requirements consistently for employees and contractors who work within the Mill compound. Inspection of the recently commissioned bio-composting plant that is operated by a third party Contractor and located adjacent to the Mill, found that although the Mill supervises the composting contract, the same standard of Mill OHS has not been applied consistently to the contractor's workers.
- 02 (4.7.1)** Inspection of the Tigowis Workshop found that the "Inspection Checklist" had not been followed to identify a potential hazard associated with welding equipment.
- 03 (4.7.1)** At Tigowis Estate, an oil leak from the diesel genset had not been controlled and had formed a slip hazard on the concrete floor.
- 04 (4.7.1)** The individual Mill Plans for each of the potential emergencies had been reviewed, but the overall Emergency Response Procedure had not been updated to include the associated site plan and emergency contact numbers.
- 05 (4.7.1)** The Tigowis Emergency Response Procedure is overdue for review and update.
- 06 (5.1.1)** Sentosa Estate Environmental Aspects and Impacts register has been updated to include potential impacts from replanting that is planned to commence in 2011, but did not assign "soil disturbance and soil erosion" in the significant impacts category. In consideration of the hilly terrain at parts of SOU26, it is appropriate that the

land disturbance at replanting be recognised as a significant impact.

- 07 (5.3.2)** Crop residues and other wastes continued to be well managed at the Mill, however, there was inadequate control of used packaging materials and workshop wastes at the recently commissioned third party Contractor's compost site.
- 08 (5.3.2)** At Tigowis Estate, used pesticide containers and other scheduled wastes had filled the scheduled waste store to capacity and arrangement needs to be made for collection by the licensed contractor.
- 09 (6.1.2)** The Mill and Estates have reviewed the Social Action Plan prepared by Wild Asia, and follow-up meetings have been held with external stakeholders, but the issues raised have not been included in the SIA Action Plan.
- 10 (6.2.3)** A number of Stakeholders were not included in the 2010 updated Mill Stakeholder List, for example the SPIEU Official

#### **Noteworthy Positive Observations**

SOU26 Operations have maintained continuous implementation of RSPO P&C with zero nonconformities assigned during the Second Annual Surveillance Assessment visit.

Construction to replace housing has continued with fifteen units completed at Tun Tan Estate and twelve units at Tigowis Estate now occupied.

The Mill and Estates have made more frequent visits to the local kampongs and there was a noticeable improvement in the relationship with the local communities

The commissioning of the bio-composting plant will utilise up to 30% of the raw effluent from the mill and reduce the BOD loading on the effluent treatment ponds

### **3.3 Status of Nonconformities (Major and Minor) Previously Identified**

#### **CR03: 2.1.1 Evidence of compliance with relevant legal requirements.**

**First Annual Surveillance Assessment Findings:** The Labour Department approved extension to the monthly overtime limit had not been renewed and excess overtime continued to be worked. An Observation (09) was issued for this issue during the Initial Certification Assessment.

**NB: Mill Manager met with Assistant Director Human Resources, Department of Labour on 17 September and received verbal approval of extension of the overtime limit for SOU26. Written approval from the Department is required to close the nonconformity.**

The BSi Lead Assessor requested the Mill Manager to provide reports on the overtime worked following the Initial Surveillance Assessment Visit. On 16 November 2009, the Labour Department still had not approved the extension of overtime. The Mill Manager provided BSi with details of overtime worked for October 2009 and the month to date (November 2009). The records confirmed that the monthly overtime limit had not been exceeded.

*The Nonconformity (CR03) was closed on the basis that the Mill had provided sufficient evidence of adherence to the overtime limit.*

**Second Annual Surveillance Assessment Findings:** Review of records during the Second Annual Surveillance Assessment confirmed that Sandakan Bay Palm Oil Mill has a letter from Labour Department dated 22 December 2009 for extension of overtime hours current until 21 December 2010 and that overtime hours had not been exceeded since the "First" Annual Surveillance Assessment.

**The Nonconformity remained closed**

**CR04: 2.1.3 A mechanism for ensuring that these (legal requirements) are implemented.**

**First Annual Surveillance Assessment Findings:** The system for controlling legal compliance failed to ensure the legal requirements relating to Labour Laws were implemented at the Mill.

**Second Annual Surveillance Assessment Findings:** Review of the Mill systems during the Second Annual Surveillance visit found that checks for compliance with labour laws had been implemented. In addition, the Mill had implemented a Key Performance Indicator for Supervisors to ensure overtime did not exceed the permitted hours.

**The Nonconformity was closed.**

**CR05: 4.3.2 Avoid or minimise bare or exposed soils within estates**

**First Annual Surveillance Assessment Findings:** Inspections showed that over-spraying of harvesting paths is occurring, which exposes soil to erosion, especially on sloping areas. The Observation No 2 assigned at the Initial Certification Assessment was upgraded to a Nonconformity for inadequate control of spraying to prevent loss of groundcover vegetation.

**Second Annual Surveillance Assessment Findings:** Inspection of field conditions, observation of spraying and interviews of sprayers found that the Estates had implemented improved control of the application of herbicide and maintenance of groundcover vegetation. Inspection of field conditions showed that groundcover vegetation had improved since the previous assessment.

**The Nonconformity was closed**

**CR06: 5.3.2 Having identified wastes and pollutants, an operational plan should be developed and implemented, to avoid or reduce pollution.**

**First Annual Surveillance Assessment Findings:** At Tun Tan Estate there was inadequate planning and implementation of a landfill for safe disposal of non-recyclable domestic refuse.

**Second Annual Surveillance Assessment Findings:** Inspection of the Tun Tan Estate landfill during the Second Annual Surveillance Visit found that the Estate had established a Recycling Station for separation of recyclables from non-recyclable materials. A small landfill trench had been excavated at the palm inter-row and the area was well managed with no evidence of litter.

**The Nonconformity was closed**

**Review of Progress with Observations/Opportunities for Improvement Previously Identified**

1. **(2.1.1)** Boiler Stack Emissions were tested 24/07/2009 but the results were not available at the time of the Initial Surveillance Assessment.

**Second Annual Surveillance Assessment Findings:** Boiler stack emission test results for 2009 and 2010 complied with the Environmental Quality Clean Air Regulation (1978).

2. **(2.1.1)** Treated water supplies to Tunku and Tun Tan housing were sampled by Millivest 10/09/09, but laboratory results were not available at the time of the Initial Surveillance Assessment.

**Second Annual Surveillance Assessment Findings:** The laboratory tests confirmed compliance with the Malaysian Standard for Drinking Water Quality.

3. **(2.1.1)** There is an approved budget (2009/10) for constructing new 3 bedroom houses to replace original timber houses at Tunku Estate (24 houses) and at Tun Tan Estate (18 houses scheduled to be completed Dec 2009 and 15 in June 2010).

**Second Annual Surveillance Assessment Findings:** At Tun Tan Estate, 15 houses were completed and 15 are currently under construction.

4. **(3.1.2)** An Environmental Assessment has not yet been carried out to obtain approval from the Environmental Protection Department Sabah for the SOU26 replanting Programme. Failure to obtain EPD approval prior to replanting would trigger a legal noncompliance.

**Second Annual Surveillance Assessment Findings:** Each Estate has received Environment Protection Department approval for the area of land scheduled to be replanted in 2010/11, for example Sentosa Estate 267.10 ha.

5. **(4.1.1)** The document control information for the recently revised Work Instructions at the Mill Boiler and at the Tun Tan Estate Chemical Mixing Area was incomplete as it did not include the issue date.

**Second Annual Surveillance Assessment Findings:** Inspection confirmed these had been revised to include the issue date, for example the Mill Boiler Work Instruction issued 10 February 2009.

6. **(4.6.3)** Although the chemicals at Tunku Estate were stored within trays, there was insufficient capacity for containment if a 20 Litre container leaked. The spill containment was incomplete at the doorway of the store, but this was corrected during the Assessment by concreting a strip.

**Second Annual Surveillance Assessment Findings:** Photographic evidence is available to confirm the spill containment strip is still in place.

7. **(5.2.3)** A man was observed using a fishing net just before dusk at a small inlet to the Tun Tan Estate water supply pond. Action was taken immediately by security who confiscated the net and an incident report was prepared. This indicates additional measures are needed to ensure implementation of the company policy that prohibits fishing in the domestic water supply pond.

**Second Annual Surveillance Assessment Findings:** The Mill and Tun Tan Estate have carried out briefings to workers prohibiting fishing in the water supply catchment. At time of Surveillance Visit no worker was observed near the water supply pond.

### 3.4 Issues Raised by Stakeholders

#### Issues Raised by Internal Stakeholders

During the 2008 Assessment it was stated by management “the company is commencing construction of a Primary School at Tun Tan Estate in July 2008”. During the 2009 Assessment management stated “Budget approved and school will be constructed 2009/10”. Inspection during the Second Annual Surveillance Assessment showed the foundations had been excavated and construction has begun, with expected completion by the end of 2010. Foreign female workers and housing residents at all locations visited asked when the “Humana” School would be completed as they are concerned their children are missing out on the opportunity to receive a proper education.

**Company Response:** School is scheduled for completion 31 March 2011.

Sentosa female field workers asked if the company could provide “cotton” gloves to wear inside the rubber gloves to reduce the amount of perspiration accumulating in the rubber gloves, which make them uncomfortable to wear and causes the skin on their hands to peel. They

are currently purchasing these gloves themselves at cost RM2.20.

**Company Response:** SOU26 will issue inner cotton gloves to those workers whose task requires them to wear rubber gloves.

At Sentosa Estate worker housing, requests for repairs are given verbally to the resident/worker respective field mandor but the requested repairs are not being recorded or carried out, for example at Sentosa Estate: House 21 Leaking roof; House 14 broken door. Residents stated that a number of houses have leaking roofs and broken windows and requests for repairs have not been actioned.

**Company Response:** Residents have been advised to report requests for repairs to the Stores Clerk.

The three Crèche Attendants at Sentosa stated that they are each paid up to 2pm to care for the 30+ children. They then take it in turn each day with one Attendant remaining until 5pm when the Crèche closes (3 hours overtime for which they are paid). However, the Attendant is sometimes still at the Crèche after 6pm waiting for families to collect their children and stated she is not paid for this additional time.

**Company Response:** The Estate will emphasise to workers Crèche closure time is 5pm but will allow for unexpected emergencies.

Sentosa Estate residents stated that electricity previously was supplied to the houses between 2pm and 6am the next day, but was recently changed to 6pm - 6am. Residents request that electricity supply be returned to 2pm – 6am so that they can prepare meals and use their electric fans when they return from the field.

**Company Response:** Estate will discuss hours of operation of the genset and are awaiting repair of one genset.

Mill workers requested an additional teacher to assist with Quran teachings and recitals for children.

**Company Response:** The Mill will liaise with the Surau Imam to arrange the classes.

## 4.0 CERTIFIED ORGANISATION'S ACKNOWLEDGEMENT OF INTERNAL RESPONSIBILITY

### 4.1 Date of Next Surveillance Visit

The next surveillance visit is planned for August 2011.

#### 4.2 Date of Closing Nonconformities (Major and Minor)

**Table 6: Status of Nonconformities**

Reference	CLASS	ISSUED	CLOSED
CR01	Minor	02/06/2008	17/09/2009
CR02	Minor	02/06/2008	17/09/2009
CR03	Major	17/09/2009	16/11/2009
CR04	Minor	17/09/2009	24/09/2010
CR05	Minor	17/09/2009	24/09/2010
CR06	Minor	17/09/2009	24/09/2010

#### 4.3 Sign-off of Surveillance Assessment Findings

Please sign below to acknowledge receipt of the assessment visit described in this report and confirm the acceptance of the assessment report contents including assessment findings.

Signed for on behalf of

SIME DARBY PLANTATION Sdn Bhd

Management Unit SOU26

**SIME DARBY PLANTATION (SABAH) SDN BHD**  
(COMPANY NO. 29959-V)  
**ZONE OFFICE NORTH SABAH**



.....  
**MOHAMED AZHAZA ABDUL AZIZ**  
.....  
**HEAD, NORTH SABAH ZONE**

Mr Mohamed Azhaza Abdul Aziz

General Manager SOU26

Date: 20 October 2010

Signed for on behalf of

BSi Group Singapore Pte Ltd



.....  
**Mr Charlie Ross**  
**Lead Auditor**

Date: 22 October 2010

# ***Appendix “A”***

## ***Sime Darby Time Bound Plan***



### Sime Darby Plantation RSPO Certification Status

Financial year (July – June)	Status
June 2008	5 SOUs undergoing RSPO Main Assessment
2008/2009	<p><b>Malaysia</b>            a. RSPO certified : 5 SOUs            b. Awaiting RSPO Board: 13 SOUs            c. Audited: 21 SOUs            (3 SOU have been realigned due to strategic/business development)</p> <p><b>Indonesia</b>            a. RSPO certified : 0 SOUs            b. Awaiting RSPO Board: 2 SOUs            c. Audited: 1 SOU</p>
2009/2010	<p><b>Malaysia</b>            Currently undergoing RSPO audit assessment: 1 SOU</p> <p><b>Indonesia</b>            Currently undergoing RSPO audit assessment: 10 SOU</p>
2010/2011	<p><b>Indonesia</b>            To complete RSPO Certification for Indonesia Operation for 8 SOU</p>
TOTAL SOU (Todate)	MALAYSIA: 37 SOU (38 OIL MILLS) INDONESIA: 21 SOU (23 OIL MILLS) <b>TOTAL: 58 SOU (61 OIL MILLS)</b>

Updated: 13 Nov 2009

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## ***Appendix “B”***

### ***CV for New Assessment Team Member***

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## ***Norielyn Panes – Curriculum Vitae***

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Year of Birth:	1966
Nationality:	Filipino
Sex and Status:	Female and Married
Present Status:	Teacher, Humana Primary School Humana Borneo Child Aid Society
Office Address:	Humana Borneo Child Aid Society PO Box 61850 91127 Lahad Datu Sabah East Malaysia

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### **Educational Qualifications**

Norielyn Panes attended Kulaman Academy High School, Philippines between 1980 and 1984. After completing senior high school, she studied at Central Mindanao Colleges, Kidapawan Cotabato, Philippines, 1988 to 1992 and graduated with a Bachelor of Elementary Education

### **Work Experience**

Norielyn was appointed as a primary school teacher at the Humana School, 15<sup>th</sup> June 1995, Sabah, East Malaysia, where she has worked since. In this role, she has responsibility for teaching children between Kindergarten 1 to Standard 6 and is a Local Coordinator under Kinabatangan District.

Having lived on a plantation for 15 years, she has first-hand knowledge of the issues facing families working and living in remote locations. She is fluent in Bahasa Malaysia, Sabahan, Filipino and English, which is a key asset for effective communication with local as well as foreign workers recruited from Indonesia and the Philippines.

## ***Appendix “C”***

### ***Annual Surveillance Assessment Programme***

**SOU26 ASSESSMENT PROGRAMME**

<b>TEAM: CR: Charlie Ross; IN: Iman Nawireja; RR: Robyn Ross; NP: Norielyn Panes</b>				
<b>DATE</b>	<b>ACTIVITY</b>	<b>CR</b>	<b>IN</b>	<b>RR/ NP</b>
Tuesday September 21 SANDAKAN BAY PALM OIL MILL	Opening Meeting Commence Document Review Review Pay Documentation Visit Kg Manggis Baru Local Community Review SIA/Environment Action Plans	√ √  √	√  √ √	√  √  
Wednesday September 22 SANDAKAN BAY PALM OIL MILL	Physical Inspection Mill, Effluent Ponds, Stores, Workshop Land Application, Compost Site and Landfill Visit Smallholder Novel Borneo to assess progress on implementation of RSPO P&C Interview Female Mill Staff/Workers Document Review Mill/Smallholders Inspect Mill Clinic and Interview Staff Inspect Housing and Interview Residents Interview Mill Workers Interviews (Contractors/External Stakeholders/Government Departments)	√  √	√  √ √ √	√   √   
Thursday September 23 SENTOSA ESTATE	Physical Inspection Estate Physical Inspection Stores, Landfill Interview Female Fieldworkers Interview Female Office Staff/Workers Review Pay Documentation Document Review Review HCV Assessment and Monitoring Plans Inspect Clinic and Interview Staff Inspect Housing and Interview Residents	√ √  √ √	       	√ √  √ √   
Thursday September 23 TIGOWIS ESTATE	Physical Inspection Estate/Interview Male Fieldworkers Physical Inspection Stores and Landfill Visit Kg Sg Sipinong and Kg Sg Payau Local Communities Estate Documentation	    	√ √ √ √	    
Friday September 24	Follow up any outstanding issues/data collection Prepare Closing Report Prepare Closing Presentation Closing Meeting	√ √	√ √	√ √

## ***Appendix “D”***

### ***List of Stakeholders Contacted***

**Stakeholders Contacted and Interviewed for SOU 26  
Sandakan Bay Palm Oil Mill, Sentosa and Tigowis Estates  
Sandakan, Sabah, Malaysia**

<p><b>Mill</b> 1 Male Filipino workers 1 Male Malaysian workers 1 Male Indonesian workers 2 Male Staff 3 Female Staff 3 Female Workers Family Groups at Housing</p>	<p><b>Sentosa Estate</b> 4 Female Staff 3 Female Workers 6 Female Fertiliser Applicators 6 Female Sprayers 2 Female Crèche Workers 1 Female Clinic Aider Family Groups at Housing</p>
<p><b>Tigowis Estate</b> 3 Indonesian Harvesters</p>	<p><b>External Stakeholders</b> Borneo Engineering Service Sdn Bhd Euro Elite Engineering Sdn Bhd Sentosa Estate Shop Owner Smallholders – Novel Borneo Sdn Bhd</p>
<p><b>Local Communities</b> Kampung Sungai Sipinong – Head plus residents Kampung Sungai Payu – Imam plus residents Kampung Manggis Baru – Head plus residents</p>	<p><b>Government Departments</b> Department of Labour Sandakan Immigration Department Sandakan Land and Survey Department Sandakan Department of Environment Protection Department of Forestry</p>
<p><b>NGOs and Others</b> Sabah Plantation Industry Employee Union (SPIEU) WWF Malaysia, Kota Kinabalu Office Tenaganita</p>	