



RA-Cert Division Headquarters
65 Millet St. Suite 201
Richmond, VT 05477 USA
Tel: 802-434-5491
Fax: 802-434-3116
www.rainforest-alliance.org

Contact Person: Gweneth Langdon
Email: glangdon@ra.org

CanopyStyle Verification and
Guidelines
Evaluation Report for:

**Sateri Corporate Office and
Manufacturing Mills
In China**

Report Finalized: 16 May 2018
Evaluation Dates: Nov 18th and Nov 21-24th,
2016
Evaluation Team: Xinxin Zhang, Rick Huang

Organization Contact: Poon Wai Yip and Judy Guo

Address: 23rd Floor, East Tower,
Zhongrong Hengrui
International Plaza, No.
620 Zhangyang Road,
Pudong,
Shanghai, China 200122

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1 INTRODUCTION

The purpose of this report is to document performance of **Sateri**, hereafter referred to as “Organization,” against the requirements of the Verification Framework and Guidelines (September 2016 version) developed by Canopy and approved, supported and requested by the Fashion and Textile Leaders for Forest Conservation (Leaders Group)ⁱ and over 100 brands, retailers and designers looking to implement their sourcing policies for man-made cellulosic textiles. The focus of this verification audit is to manage the risk and avoid sourcing from ancient and endangered forests and other controversial sources and implement other sustainable sourcing measures across the supply chain from the point of wood harvesting in forests and/or plantations to the brand and retail customers. Man-made cellulosic fibre (MMCF) producers, such as Sateri, are required to document and provide evidence towards a set of pre-defined social and environmental criteria and key progress indicators as part of the CanopyStyle Initiative.

The report presents the findings of Rainforest Alliance auditors who have evaluated company systems and performance against the applicable standard(s). Section 4 below provides the evaluation conclusions. The auditor reviewed and used Canopy’s map of ancient and endangered forests, which has been overlaid with the sourcing regions and a list of the company’s suppliers to assess the level of risk.

The Rainforest Alliance founded its previous SmartWood program in 1989 to certify responsible forestry practices and has grown to provide a variety of auditing services. Rainforest Alliance certification and auditing services are managed and implemented within its RA-Cert Division. All related personnel responsible for evaluation design, evaluation, and certification/verification/validation decisions are under the purview of the RA-Cert Division, hereafter referred to as Rainforest Alliance or RA.

Dispute resolution: If Rainforest Alliance clients encounter organizations or individuals having concerns or comments about Rainforest Alliance and our services, these parties are strongly encouraged to contact Rainforest Alliance Headquarters directly. Formal complaints or concerns should be sent in writing.

2 GENERAL DESCRIPTION

Corporate General Description

Sateri is one of the largest viscose staple fibre producers in the world and is solely engaged in the manufacture of viscose staple fibre in China. Sateri's suppliers are global and its sourcing of pulp is from inside and outside China. The company is an affiliate of Royal Golden Eagle (RGE) Group managing a group of world-class companies specializing in resource-based manufacturing, including pulp and paper, palm oil, energy resource development, viscose and cellulose.

Sateri's total investment in China to date has reached RMB7.4 billion, and its annual production capacity is 570,000 metric tonnes of viscose staple fiber, covering three operations including Sateri (Fujian) Fibre Co., Ltd (SFJ), Sateri (Jiujiang) Fibre Co., Ltd (SJJ), and Sateri (Jiangxi) Chemical Fibre Co., Ltd (SJJ), which are all PEFC CoC certified and obtained Oeko-tex certification.

Sateri prides itself on its environmental sustainability and corporate social responsibility policies. It established "People, Planet and Profit" and the principle "High quality, energy-efficient operations that remain in harmony with the environment" as the company's vision. Sateri is one of the early pioneers in China to sign the "First Manifesto on Establishing Green Enterprises." The organization is also dedicated to promoting responsible forest management. They are participating in the CanopyStyle Initiative and, in recognition of their environmental and social commitments, are undergoing this evaluation.

Sateri launched the Sustainable Pulp Sourcing Policy in June 2015 and the Sustainability Policy in early 2016, which form part of the commitment to fully implement the Royal Golden Eagle (RGE) Group's Forestry, Fibre, Pulp & Paper Sustainability Framework.

In the Sustainable Pulp Policy, Sateri states to avoid using wood pulp which is:

- illegally harvested or traded;
- from forests of high conservation value (HCV), high carbon stock (HCS), from ancient and endangered forests; or
- from endangered species habitat;
- from natural forests;
- from genetically modified trees;
- obtained in violation of the rights of indigenous peoples and communities to give or withhold their Free, Prior and Informed Consent (FPIC) to operate on lands where they hold legal, communal or customary rights;
- obtained in violation of workers' rights or any of the ILO's Declaration on Fundamental Principles and Rights at Work.

In Sateri, decisions for raw material inputs for the internal dissolved pulp facilities are made at the mill level. Pulp purchases for the viscose mills are made centrally at the Sateri Corporate Office in Shanghai. At the time of the audit, the organization has identified 17 potential pulp suppliers and has assessed a risk level for each of them. The company documented the purchases of pulp from a total of 13 suppliers. The full list of suppliers, and the internal risk self-assessment, is found in annexes. During the audit period, Sateri's main pulp suppliers were BSC, TPL, AE (APRIL), COSMO and FORTRESS, which account for 96% of total pulp procurement during January to October 2016. Supply from TPL had been discontinued in September 2016. The raw material received during this period is a mix of PEFC certified and non-certified dissolving pulp. The auditor confirmed via documented evidence of PEFC claims from suppliers that 58.3% of the received dissolving pulp held PEFC 100% claims. In addition, 5.7% of materials were sourced as PEFC Controlled Sources. Sateri sourced 0.2% of materials as FSC certified. The main tree species are Acacia Mangium, Acacia Caracarpa and Eucalyptus.

Mills General Description

1. SFJ

Sateri (Fujian) Fibre Co., Ltd., established in 2010, is located in Meizhou Bay Economic Development Zone, Dongpu Town, Xiuyu District, Putian City, Fujian Province, China. The organization is owned and managed by the Sateri Group and covers an area of 134 ha. The organization achieved PEFC CoC certification in 2015 and the license number is PEFC/01-31-551. The organization also achieved ISO 9001, ISO 14001 and OEKO-TEX certifications. The facilities are equipped with automated process control systems, consisting of four lines with a total production capacity of 244,950t/a HT fiber and non-woven (NW) fiber.

2. SJX

Sateri (Jiangxi) Fibre Co., Ltd., established in 2002, is located in Gutang Town, Lushan District, Jiujiang City, Jiangxi Province, China. The organization is owned and managed by the Sateri Group and covers an area of 40.5 ha. The organization achieved PEFC CoC certification in 2015 and the license number is PEFC/01-31-557. The organization also achieved ISO 9001, ISO 14001 and OEKO-TEX certifications. The facilities are equipped with automated and process control systems, consisting of four lines with a total production capacity of 200,000t/a HT fiber.

3. SJJ

Sateri (Jiujiang) Fibre Co., Ltd., established in 2015, is located in Gutang Town, Lushan District, Jiujiang City, Jiangxi Province, China. The organization is owned and managed by the Sateri Group and covers an area of 73 ha. The organization achieved PEFC CoC certification (license number PEFC/01-31-552) in 2015. The organization also achieved ISO 9001, ISO 14001 and OEKO-TEX certifications. The facilities are equipped with automated and process control systems, consisting of four lines with a total production capacity of 125,000t/a HT fiber.

3 EVALUATION SCOPE

3.1 Scope

This evaluation of Sateri's raw material sourcing includes an onsite audit of the corporate headquarters office in Shanghai and three manufacturing mills. The audits were evaluated against the requirements of the CanopyStyle Verification Framework and Guidelines (March 2016 version/corporate and September 2016 version/mills).

The objective is to gather appropriate evidence to verify whether ancient and endangered forests and/or controversial sources are potentially in the supply chain. Where risk cannot be considered low, and when documents provided are limited or insufficient to come to such conclusion with certainty, additional onsite audits would be required at any of the dissolving pulp suppliers' mills or forest management units.

Scope of the Evaluation

| Scope Item | Check all that apply to the Certificate Scope | |
|------------------------|--|--|
| Mill Type: | <input type="checkbox"/> Single | <input checked="" type="checkbox"/> Multi-site |
| Input Material Source: | <input checked="" type="checkbox"/> Listed in Supplier COC form | <input type="checkbox"/> Other suppliers |
| Majority Fiber Input: | A total of 17 potential suppliers were identified. The main ones are BSC, APRIL, Cosmo, Fortress. The supplier list provided during this | |

| | | |
|---|---|---|
| | audit goes beyond the list provided to Canopy in May 2016, with additional suppliers identified. | |
| Map of Ancient and Endangered Forests Overlay Completed ⁱⁱ : | <input type="checkbox"/> Yes Comments: | <input checked="" type="checkbox"/> No Comments: Map overlays were not conducted by Sateri as part of the risk assessment, due to the Canopy Maps not yet being publicly available. ⁱⁱ Rainforest Alliance used the Canopy maps of ancient and endangered forests to compare general information on sourcing to identify potential risk. Canopy conducted overlays of shapefiles submitted for one supplier in Brazil. |
| Mill Capacity: | 570,000 tons | |
| Primary Activity: | Viscose production | |
| Outsourcing: | <input type="checkbox"/> FSC-certified Subcontractors <input type="checkbox"/> Non-certified Subcontractors <input type="checkbox"/> Outsourcing of the complete production process <input type="checkbox"/> High risk subcontractor site(s) included <input checked="" type="checkbox"/> No Outsourcing | |
| Workforce: | Number of full-time year-round female workers: Fujian Mill: 280 Jiangxi Mill: 135 Jiujiang Mill: 233 | Number of full-time year-round male workers: Fujian Mill: 545 Jiangxi Mill: 618 Jiujiang Mill: 449 |
| | TOTAL: Fujian Mill: 825 Jiangxi Mill: 753 Jiujiang Mill: 682 | |

Number of sites included in this Evaluation: 4

| Name/Description of sites | Location |
|---|---|
| Sateri Corporate Office | 23F, East Tower, No.620 Zhangyang Road, Pudong New District, Shanghai, China |
| Sateri (Jiangxi) Chemical Fiber Co., Ltd. | Gutang Town, Lushan District, Jiujiang City, Jiangxi Province, China |
| Sateri (Fujian) Fiber Co., Ltd. | Meizhou Bay Economic Development Zone, Dongpu Town, Xiuyu District, Putian City, Fujian Province, China |
| Sateri (Jiujiang) Fiber Co., Ltd | Jinshawan Industrial Zone, Hukou County, Jiujiang |

4 EVALUATION RESULTS

4.1 Evaluation Conclusion

During 18-24 Nov 2016, the Rainforest Alliance conducted an independent third-party verification audit of the progress made by Sateri in implementing the commitment of the **Sateri Pulp Sourcing Policy**, to document their risk of sourcing from the world's ancient and endangered forests and other controversial areas, as well as additional related sustainability solutions and targets of the CanopyStyle Initiativeⁱⁱⁱ.

The Rainforest Alliance verification audit finds that Sateri's progress in meeting these commitments varies. This report documents the progressive and critical indicators (key performance indicators or KPIs) that have been fully met, those that are in partial conformance and those that are not in conformance, and specifies why.

Sateri is expected to immediately address the critical KPIs that have not been met or that are partially met, and make progress on the "progressive" KPIs over time.

| <i>Appendix B Corporate Level</i> | Critical criteria | Progressive criteria |
|---------------------------------------|--|--|
| <i>Commitment met</i> | 1.1, 1.3, 1.5, 1.10, 1.11, 4.1, 4.4 | 1.4 |
| <i>Commitment in Progress</i> | 1.2, 1.6, 2.1, 4.3, 5.1, 5.2, 5.3, 6.1, 7.1, 7.2, 7.5, 8.1, 9.1, 9.2, 10.1, 11.2 | 1.8, 2.2, 2.4, 2.5, 7.3, 7.4, 11.1, 12.1 |
| <i>Commitment not met</i> | 1.7, 1.9, 3.1, 4.2, 4.5, 9.4 | 2.3, 8.2, 9.3 |
| <i>Not Applicable</i> | 1.9 | |

| <i>Appendix C SFJ Mill</i> | Criteria |
|--------------------------------|--------------------------|
| <i>Commitment met</i> | 1.10, 2.9, 4.4 |
| <i>Commitment in Progress</i> | 1.11, 2.6, 2.7, 2.8, 4.5 |
| <i>Commitment not met</i> | 2.10 |
| <i>Not Applicable</i> | 4.6, 4.7, 5.4 |

| <i>Appendix C SJX Mill</i> | Criteria |
|--------------------------------|--------------------------|
| <i>Commitment met</i> | 1.10, 2.9, 4.4 |
| <i>Commitment in Progress</i> | 1.11, 2.6, 2.7, 2.8, 4.5 |
| <i>Commitment not met</i> | 2.10 |
| <i>Not Applicable</i> | 4.6, 4.7, 5.4 |

| <i>Appendix C SJJ Mill</i> | Criteria |
|--------------------------------|--------------------------|
| <i>Commitment met</i> | 1.10, 2.9, 4.4 |
| <i>Commitment in Progress</i> | 1.11, 2.6, 2.7, 2.8, 4.5 |
| <i>Commitment not met</i> | 2.10 |

| | |
|----------------|---------------|
| Not Applicable | 4.6, 4.7, 5.4 |
|----------------|---------------|

The organization has identified 17 possible suppliers of dissolving pulp; of which, they have actively sourced from 13 during the audit period. General forest origin information has been collected on these 13 suppliers. Within these 13 suppliers, 1 has been terminated (TPL) and 8 suppliers hold valid Chain of Custody (CoC) certifications. Only 3 of them are FSC CoC certified, however, at the time of the audit, Sateri was sourcing only a small amount of materials with FSC-certified claims (0.2%). As detailed within the body of this report, the organization does not receive inputs with certification claims from all of the 8 CoC certified suppliers, and has received PEFC 100% claims for 58.3% of the volumes received and PEFC Controlled Sources for 5.1% of the total volumes received (audit period covers January – October 2016).

Sateri sources the majority of their dissolving pulp from two sources, BSC and APRIL, companies that are affiliates, and the origin is known. However, the supplier list also includes dissolving pulp producers which do not identify the forest of origin. Without this information, the raw materials sourced by suppliers such as Phoenix, Juntai, Qingshan, Huatai, Bailu and Sun Paper cannot be determined as low risk of being sourced from ancient and endangered forests and other controversial sources (see overall summary of results for how this can be rectified). It is noted that suppliers Juntai and Huatai were not used during the audit period and are potential suppliers only.

For other suppliers, the information provided is at the country or state/province level, but lacks the level of detail required. These suppliers' mills are located in Northwest United States (coastal temperate rainforests), Canada, Norway and Sweden, jurisdictions that contain ancient and endangered forests. Therefore, materials from these suppliers cannot be considered low risk, and do require the mill to confirm sourcing is not from ancient and endangered forests. The origins of materials sourced from Schweighofer (Hallein) in Austria, as well as Borregaard and Södra, are considered low risk. However, it is required that the mills do confirm sourcing origin to remain low risk. At this scale, it will be important to know the geographic location of the forest source, and Sateri must collect additional information to be provided by their suppliers to show they do not, in fact, source fiber from ancient and endangered forests. It is noted that the supplier Borregaard was not used during the audit period and is a potential supplier only.

There are 2 suppliers, APRIL and BSC, identified as sourcing from PEFC certified plantations in Indonesia, Malaysia and Brazil, where there is a PEFC FM certification code that indicates the location of the forest. After the audit, but prior to report finalization, Sateri also provided shapefiles/maps of the sourcing areas (forest of origin) of these two mills. The fiber sourced from Indonesia and Malaysia is considered high risk of being sourced from ancient and endangered forests and controversial sources. According to Sateri and their suppliers, the fiber from Brazil is from plantations. However, a map spatial overlay of Sateri's sourcing from Brazil shows an intersect with areas of high carbon concentrations (*Global Vegetation biomass carbon stocks - 1km resolution. 2000. Ruesch, Aaron, and Holly K. Gibbs. 2008. New IPCC Tier-1 Global Biomass Carbon Map For the Year 2000.*)ⁱⁱ, which is one of the ecological values that defines Ancient and Endangered forests. Therefore, further analysis will be required to make a final determination on the risk level of the material and compliance with CanopyStyle.'

Of note, the sourcing geography of the certified dissolving pulp of Jari Cellulose is in the Brazilian Amazon region, where concerns of illegal logging activities are prevalent. Interpol released a purple notice for such activities that occurred through 04 December 2015. The risk level of this material cannot currently be confirmed as low risk according to the CanopyStyle Initiative. Materials sourced from TPL are considered high risk of originating from ancient and endangered forests and other controversial sources. It is noted that Sateri did not source materials from Jari or TPL for the last two months of the audit period (September and October).

Sateri makes an effort to understand the origin and certified status of the supply by having the immediate supplier fill out a declaration form. For two suppliers, BCS and APRIL, Sateri has also provided maps of sourcing areas of the mills. However, there are no additional due diligence measures taken to ensure that the information declared is accurate.

Furthermore, the Sateri self-assessment of supplier risk does not align with the criteria of the CanopyStyle audit and the risk associated with sourcing from ancient and endangered forests and controversial sources.

4.2 Overall Summary of Results

In summary, the Rainforest Alliance verification audit provides evidence confirming that Sateri is investing in work and resources to implement the commitments of its policy consistent with the solutions and targets of the CanopyStyle Initiative. The organization has a growing sustainability team and an internal monitoring system for implementing the enforcement of the commitment and prioritizing certified pulp in their sourcing policy.

During the period from Jan to Oct 2016, PEFC 100% certified pulp accounted for 58.3% of the overall total pulp procurement. However, for the two months of Sept and Oct, the total PEFC certified pulp increased to 88%. Sateri is not sourcing any materials with FSC certified claims.

Some challenges remain to fully implement the commitment throughout the company's supply chain. Currently, there is insufficient information on the supply chain and lack of a robust internal verification of information to identify and confirm the forest origins for all suppliers. After the audit, Sateri did provide a significant amount of information on origin for their two biggest suppliers, but origin information for lower volume materials sourced remains unavailable. Based on the information provided, it can be determined that some of the suppliers listed are sourcing from geographic areas that are in proximity to or within ancient and endangered forests, and a small number of suppliers lack the certification needed to track the fiber to ensure avoidance of controversial sources. Further analysis will be required to make a final determination on the risk level of all supplies.

Additional work is required to fully meet all the critical and progressive criteria and to lower the risk of sourcing from ancient and endangered forests and other controversial sources.

4.3 Recommendations

It is an expectation of the CanopyStyle Initiative that Sateri collects forest of origin information including GPS points, GIS coordinates and/or shapefiles from its dissolving pulp suppliers, which will allow for an overlay with the Canopy map of ancient and endangered forests. Based on the information collected, Sateri can then share the forest origin information (i.e., GPS points, GIS coordinates and/or shapefiles) with Rainforest Alliance and Canopy for further desktop risk assessments to complete the requirements of the verification framework and allow for robust analysis and supply chain risk level conclusions. Following this audit, and prior to report finalization, Sateri did submit maps of supply areas for two mills, their two largest suppliers (BSC and APRIL). Similar information is yet to be collected for the remaining suppliers.

Once this follow up desktop risk assessment is complete, Sateri can inform its suppliers of this process and the results, and the audit evaluation can be finalized and the results posted publicly.

In the case that information on the forest of origin cannot confirm a low risk rating or in the case that forest of origin information is not being shared by the dissolving pulp supplier, Sateri will need to take further actions. These actions may include providing additional documentation that verifies full compliance with CanopyStyle policy expectations, and/or exclusion of further sourcing from this/these supplier(s), and/or additional assessment of the dissolving pulp supplier at their corporate office, mills and/or forest harvesting sites.

As mentioned in the CanopyStyle audit framework and based on the current risk level, ongoing regular audits and/or random site visits will be essential to ensure that Sateri continues to implement their policy and meets the expectations of the CanopyStyle Initiative.

In the future, Sateri should consider sharing such forest of origin information and certification information with its customers to help track and trace the fiber assessed as low risk of sourcing from ancient and endangered forests and other controversial sources.

4.4 Performance Measures

To generate a single result for each indicator in the CanopyStyle Verification and Guidelines for Viscose Producers, the findings from the evaluation are measured as follows:

| | | |
|---|------------------------------------|---------------------------------|
| 1 | Not Applicable | Is not applicable to the site |
| 2 | Commitment met | Full conformance with indicator |
| 3 | Commitment in Progress | Partial conformance |
| 4 | Commitment not met | Non-conformance |
| 5 | Insufficient information available | No information during visit |

In addition to giving the result, the evidence used and a narrative description of findings are reported for each indicator (Appendix B and C).

5 EVALUATION PROCESS

5.1 Evaluation Requirements

| | |
|--|---|
| Standard/Guidelines used for the evaluation: | CanopyStyle Verification Framework and Guidelines for Viscose Producers |
| Key Performance Indicators: | Preliminary KPIs for Viscose producer Annex 3. List of KPIs and verifiers for a viscose or dissolving pulp mill level verification audits. |

5.2 Evaluators and Qualifications:

| Name | Qualifications | Role |
|--------------|---|---------|
| Zhang Xinxin | Zhang Xinxin is the China country representative for the Rainforest Alliance. She has more than 10 years working experience in FSC certification. Before working for RA, she was the forest officer with WWF China and has led 10 | Auditor |

| | | |
|-----------|---|---------|
| | FSC certification and HCVF projects in China, including 2 FSC group certifications in Shandong Linyi and Zhejiang Longquan. She has worked as the forest specialist with IKEA, responsible for evaluating IKEA's wood supply chain, and as research assistant in the Forest Certification Center with China Academy of Forestry during 2004-2007. She has attended 8 FSC assessments and audits as an observer and completed FSC FM and CoC lead auditor courses. She is qualified as a FSC FM lead auditor, FSC CoC auditor, and SAN CoC Lead Auditor. | |
| Huang Rui | Huang Rui, Master of Forestry, has 3 years' experience in forest survey and sustainable forestry. Huang Rui is working for China Standard Conformity Assessment Co., Ltd. and Product Certification Co., Ltd as FSC Program manager of the International Cooperation Department. Before that, he worked for Forest Inventory and Planning Institute of Jilin Province between 2013 and 2014. He also was a sustainable development department commissioner of APP (China) Forestry between 2014 and 2015. He has attended the auditor training of CFCC, FSC-COC and ISO9000. He passed all the examinations and became both internal auditor and auditor of CFCC. He has participated in different audits, including CFCC-FM audit (guide), ISO14001 audit (guide), FSC-COC audit auditor and FSC-FM support auditor. | Auditor |

5.3 Evaluation Schedule

| Date | Location /Main sites | Principal Activities |
|--------------|----------------------|----------------------|
| Nov 18, 2016 | Shanghai Office | Opening meeting |
| Nov 18, 2016 | Shanghai Office | Staff interview |
| Nov 18, 2016 | Shanghai Office | Document review |
| Nov 18, 2016 | Shanghai Office | Closing meeting |

| Date | Location /Main sites | Principal Activities |
|--------------|----------------------|-------------------------------------|
| Nov 22, 2016 | SFJ office | Opening meeting |
| Nov 22, 2016 | SFJ office | Document review and staff interview |
| Nov 22, 2016 | SFJ mill | Site inspection |
| Nov 22, 2016 | SFJ office | Closing meeting |

| Date | Location /Main sites | Principal Activities |
|--------------|-------------------------|-------------------------------------|
| Nov 23, 2016 | SJX office | Opening meeting |
| Nov 23, 2016 | SJX office | Document review and staff interview |
| Nov 24, 2016 | SJX mill and SJJ mill | Site inspection and staff interview |
| Nov 24, 2016 | SJX office and SJJ mill | Closing meeting |

5.4 Interviews

Shanghai Office

| Date | Principal Responsibilities |
|--------------|---|
| Nov 18, 2016 | Senior VP- Sateri |
| Nov 18, 2016 | VP- RGE Group |
| Nov 18, 2016 | Head of Corporate Communications & Sustainability- Sateri |
| Nov 18, 2016 | Pulp Procurement- Sateri |
| Nov 18, 2016 | Sustainability Senior Manager, RGE China |
| Nov 18, 2016 | Sustainability Assistant Manager, Sateri |

| | | |
|--------------|--|----------------------|
| Nov 18, 2016 | | VP Assistant- Sateri |
| Nov 18, 2016 | | COO- Sateri |

SFJ

| Date | | Principal Responsibilities |
|--------------|--|-----------------------------|
| Nov 22, 2016 | | Material Controller |
| Nov 22, 2016 | | Director of QC |
| Nov 22, 2016 | | Deputy General Manager |
| Nov 22, 2016 | | General Manager |
| Nov 22, 2016 | | Deputy General Manager |
| Nov 22, 2016 | | Financial Affairs |
| Nov 22, 2016 | | Purchase Department |
| Nov 22, 2016 | | HSE Department |
| Nov 22, 2016 | | Purchase Department |
| Nov 22, 2016 | | Public Relations Department |
| Nov 22, 2016 | | Warehouse Manager |
| Nov 22, 2016 | | Logistics Department |
| Nov 22, 2016 | | Technical Department |
| Nov 22, 2016 | | Marketing Department |

SJX

| Date | | Principal Responsibilities |
|--------------|--|----------------------------|
| Nov 23, 2016 | | General Manager |
| Nov 23, 2016 | | Deputy General Manager |
| Nov 23, 2016 | | Deputy General Manager |
| Nov 23, 2016 | | Chief Financial Officer |
| Nov 23, 2016 | | QC Manager |
| Nov 23, 2016 | | Purchase Manager |
| Nov 23, 2016 | | HSE Manager |
| Nov 23, 2016 | | Purchase Dept. |
| Nov 23, 2016 | | Sales Dept. |
| Nov 23, 2016 | | Accountant |
| Nov 23, 2016 | | Logistics Department |
| Nov 23, 2016 | | Logistics Department |
| Nov 24, 2016 | | Waste Water |
| Nov 24, 2016 | | Waste Gas |
| Nov 24, 2016 | | Warehouse |

SJJ

| Date | Name, Title | Principal Responsibilities |
|--------------|-------------|----------------------------|
| Nov 24, 2016 | | Production Manager |
| Nov 24, 2016 | | Purchase |
| Nov 24, 2016 | | Sales and Marketing |
| Nov 24, 2016 | | Technology Department |
| Nov 24, 2016 | | QC Department |

5.5 Documents and Websites Reviewed

Shanghai Office

| Document Name | Link (if applicable) |
|--|---|
| 2015 Sateri Sustainability Policy | site is no longer active |
| Royal Golden Eagle (RGE) Group's Forestry, Fibre, Pulp & Paper Sustainability Framework | http://www.rgei.com/sustainability/sustainability-framework |
| 2017 Sateri Pulp Sourcing Policy (launched in March 2017 after the audit visit but before report finalization) | http://www.sateri.com/sustainability/pulp-sourcing-policy/ |
| Pulp Policy SOP | |
| Organization Structure of Sateri China | |
| Chain of Custody Form for Dissolving Pulp | |
| Purchase Documents | |
| Training Records | |
| Purchase Summary by Month | |
| Supplier Quality Assessment | |
| Letter of Declaration & Commitment | |

SFJ

| Document Name | Link (if applicable) |
|--|---|
| 2015 Sateri Pulp Sourcing Policy | site is no longer active |
| 2017 Sateri Pulp Sourcing Policy (launched in March 2017 after the audit visit but before report finalization) | http://www.sateri.com/sustainability/pulp-sourcing-policy/ |
| Sateri (Fujian) PEFC CoC Manual | |
| Training Record | |
| Annual volume summary | |
| Material Accounting report | |
| Purchase documents | |
| Sales documents | |

SJX

| Document Name | Link (if applicable) |
|--|---|
| 2015 Sateri Pulp Sourcing Policy | site is no longer active |
| 2017 Sateri Pulp Sourcing Policy (launched in March 2017 after the audit visit but before report finalization) | http://www.sateri.com/sustainability/pulp-sourcing-policy/ |
| Sateri (Jiangxi) PEFC CoC Manual | |
| Training Record | |
| Annual volume summary | |
| Material Accounting report | |
| Purchase documents | |

| | |
|-----------------|--|
| Sales documents | |
|-----------------|--|

SJJ

| Document Name | Link (if applicable) |
|--|---|
| 2015 Sateri Pulp Sourcing Policy | site is no longer active |
| 2017 Sateri Pulp Sourcing Policy (launched in March 2017 after the audit visit but before report finalization) | http://www.sateri.com/sustainability/pulp-sourcing-policy/ |
| Sateri (Jiujiang) PEFC CoC Manual | |
| Training Record | |
| Annual volume summary | |
| Material Accounting report | |
| Purchase documents | |
| Sales documents | |

Appendix A: ORGANIZATION DETAILS

| Organization information | |
|---------------------------------|---|
| Legal name: | Sateri (Jiangxi) Chemical Fiber Co., Ltd. Sateri (Fujian) Fiber Co., Ltd. Sateri (Jiujiang) Fiber Co., Ltd. |
| Legal jurisdiction: | Limited Company |
| Type of legal entity: | China |
| Contact person (public): | Poon Wai Yip |
| Address: | 23F, East Tower, No.620 Zhangyang Road, Pudong New District, Shanghai, China |
| Tel/FAX/email: | Phone: 021-38616888 Email: Ben_Poon@sateri.com |
| Website: | www.sateri.com |

Appendix B: EVALUATION CHECKLIST

Canopy Verification Framework and Guidelines for Viscose producers

Evaluation Checklist for Shanghai Office

| 1. The MMCF producer has publicly communicated and is implementing their Fiber Sourcing/Forest Policy | |
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| Indicators | Findings: |
| 1.1 Senior executive and key managers make a publicly available commitment to full implementation of the forest sourcing policy. ** | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input checked="" type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The organization launched the Pulp Sourcing Policy in June 2015 (effective in Jan 2016) and the Sustainability Policy in Jan 2016. Both policies are published on Sateri's website. As confirmed in the interviews with Sateri senior management team, RGE Group, key staff responsible for CSR and fibre sourcing, all key managers and staff are fully aware and implementing the policy.</p> |
| 1.2 The MMCF producer has developed standard operating procedures (SOP) required to implement the Policy with input from and agreement of civil society stakeholders.** | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The organization developed a SOP (attachment 3) for the pulp sourcing policy, however, it was not available as a publicly available document for civil society/stakeholders consultation.</p> <p>The SOP described the pipeline from receiving the request of pulp from the mills to the signing of a purchase contract with the pulp supplier. In the SOP, the organization requires suppliers to report sourcing information on a COC Form, sign a Letter of Declaration, provide certification information and sustainability report, if any, then the organization reviews documents and determines the risk of materials/suppliers, based on which, the decision of purchase is made.</p> <p>Staff interviews confirmed that the SOP is newly in place, and between the effective date of the policy and implementation date of SOP, there was a period where no measures or procedures to implement the policy were in place.</p> <p>Document reviews showed that the organization kept sourcing from suppliers who source from non-low risk areas in 2016. However, the SOP was actually only</p> |

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| | <p>adopted recently, therefore there were still small amounts in stock sourced from Bailu in Oct, Qingshan in Sep, and Sun Paper in July, which are all considered pending sources at the time of audit.</p> |
| <p>1.3 The MMCF producer has assigned personnel with responsibility for Policy implementation.**</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input checked="" type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The organization has organized two trainings for all relevant staff on the policy. The most recent training was provided by the Sateri sustainability manager on Oct 31st, and it's confirmed by the staff interview that key personnel have read and understood the policy.</p> <p>The staff interview confirms the implementation of the policy is led by a Senior VP with Sateri and collaboration between the sustainability team and commercial team. However, there is no documented procedure for personnel responsibility for the policy implementation.</p> |
| <p>1.4 The MMCF producer has developed capacity and organizational structure to implement the Policy.</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input checked="" type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The same as above</p> |
| <p>1.5 The MMCF producer has communicated its commitment to implement its Policy to all its suppliers. **</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input checked="" type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The organization has communicated its policy to all suppliers and invited them to sign a Letter of Declaration & Commitment and implement a similar policy. Among all 17 active suppliers, since the effective date of the policy, 10 of them have signed the Letter.</p> |
| <p>1.6 The MMCF producer has included requirements to implement the Policy in agreements/contracts with current and future suppliers. **</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: Only the sales agreement with APRIL included the requirement to implement the policy. For all other suppliers and potential new suppliers, there is no explicit text of the implementation of the policy in an</p> |

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| | <p>agreement/contract. After the audit, but prior to report finalization, Sateri provided evidence from 4 suppliers that includes requirements to implement the policy within sales/delivery documentation.</p> |
| <p>1.7 The MMCF producer has developed, and is implementing a system to monitor supplier conformance with the Policy.**</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input checked="" type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The organization has developed an internal supplier monitoring system (attachment 2) and ranked the risk of suppliers according to the following 4 indicators: 1) submit the CoC Form for Dissolving Pulp 2) provide the FSC/PEFC certificate 3) sign the Letter of Declaration and Claim 4) provide extra supporting documents, such as sustainability or CSR report</p> <p>Completing one indicator equals 1 point.</p> <ul style="list-style-type: none"> • ≥3 points, low risk supplier • 1-2 points, medium risk supplier • 0 point, medium-high risk supplier • minus point, high risk supplier <p>Link the internal monitoring system to the SOP:</p> <p>Low risk supplier→ok to source Medium and medium-high risk supplier→suspend purchasing until further improvement High risk supplier→ Review assessment result and make final decision on termination of purchasing</p> <p>This indicator is not met given that although the internal monitoring system is useful to monitor the collection of required documents from the supply chain, it does not evaluate the risk of the forest origin to be within ancient and endangered forests or other controversial sources.</p> <p>Moreover, the supplier monitoring system doesn't include a robust due diligence check of information collected to ensure its accuracy. Interviews with staff also confirmed the team who is responsible for the internal monitoring system only checked the PEFC or FSC certificate's validity time. The organization has simply adopted claimed declaration by suppliers.</p> <p>For example, although APRIL (AE)'s CoC Form states the fibre was from Malaysia and Indonesia, when answering the question on the origin of forest, APRIL (AE) stated it was fibre from converted forests to plantations and no further info about the time the plantation was established (i.e., if it was before 1994). This information was adopted by the organization with no further verification, and APRIL (AE) was then reviewed as complete of the indicator 1, and ranked as low risk supplier. This is not consistent with the CanopyStyle Verification Framework and Guidelines for Viscose Producers.</p> |

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| | <p>After the audit, but prior to the report finalization, Sateri revised their SOPs (March 2017) to include improvements on the types of information they will collect and some steps they will take to monitor their suppliers. However, their risk assessment focuses on low risk being achieved by the supply of information (GIS points, etc.) and certification claims, rather than the risk of origin being from ancient and endangered forests and other controversial sources.</p> |
| <p>1.8 The MMCF producer has put in place a transparent/public grievance procedure with the input and agreement of civil society stakeholders</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: At the time of the audit, there is no clear procedure and channels for civil society stakeholders or other actors to input concerns on forest management and sourcing practices to the organization by the time of audit; therefore, the indicator is not met. However, the organization is now working on updates to the company website, potentially using the website as a window to share management/source practice and collect public input.</p> <p>After the audit, but before finalization of this report, Sateri updated their website to include a mechanism for collecting feedback from stakeholders (http://www.sateri.com/contact/public/). This indicator is being graded as in progress, as a formal procedure to address this feedback has not yet been submitted.</p> |
| <p>1.9 The MMCF producer has developed, and is implementing, an action plan that addresses any identified non-conformance and grievance received. **</p> | <p>Conformance with Indicator:</p> <p><input checked="" type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: No non-conformances or grievances were noted during the audit for such an action plan.</p> |
| <p>1.10 Key managers at each production site are aware of the Policy and demonstrate a similar commitment to implement it.**</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input checked="" type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: See mill findings.</p> |
| <p>1.11 Each production site manager has developed procedures to implement the Policy, when relevant.**</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input checked="" type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met</p> |

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| | <input type="checkbox"/> Insufficient Information Available Description of the finding: See mill findings. |
| <p>Observation: Although the organization has set up the SOP and the internal supplier monitoring system for the implementation of the pulp sourcing policy, there are still gaps between the commitment on the policy and actual sourcing practices:</p> <p>1) Supplier risk ratings are based on the successful collection of documentation, not on the risk of sourcing from ancient and endangered forests or other controversial sources.</p> <p>2) There is no effective internal verification system to confirm supplier declarations of origin.</p> <p>3) Requirements to implement the Policy are not in most agreements/contracts with current and future suppliers.</p> <p>4) Sourcing from non-low risk suppliers was continuing in 2016, and decisions were made recently to re-evaluate the sourcing (they receive a "pending" status in the risk assessment, but there has been limited change in supply to date and there is no timeline for decisions on continuing or withdrawing non-low risk suppliers).</p> <p>Additional implementation measures are needed to meet all the commitments within the policy with regards to not sourcing from ancient and endangered forests. Increasing the amount of raw material from FSC certified forests is recommended. However, in areas with non-low risk rating of sourcing from ancient and endangered forests, controversial sources or other areas of policy commitments, certification may be limited in scope and not sufficient or consistent with the expectations of the CanopyStyle Initiative.</p> <p>The auditor concludes that Sateri's risk analysis is not robust enough to align with the CanopyStyle audit criteria, nor does it identify when sourcing is happening in proximity, or in ancient and endangered forests and other controversial sources.</p> <p>The auditor recommends that agreements and contracts with dissolving pulp producers reflect and align with the policy commitment.</p> | |

| 2. The MMCF producer only sources raw material from suppliers that are transparent, traceable and are in conformance with the policy | |
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| Indicators | Findings: |
| 2.1 An assessment of the MMCF producer supply chain has been completed globally and shared with Leaders Group. This assessment will be updated every year and shared with the Leaders Group.** | <p>Conformance with Indicator:</p> <input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available |
| 2.2 The assessment identifies all suppliers in the chain beginning at the forest or plantation of origin, that supply the MMCF mills | <p>Description of the finding:</p> <p>The organization confirmed that they had shared the supply chain info with Canopy and terminated the purchasing from TPL in September 2016.</p> <p>The organization also had meetings with Canopy and discussed some results of their risk assessments with the group, in addition to overall progress in policy implementation. However, the risk analysis has not been shared transparently with Canopy and the Leaders Group at this stage. There is no sufficient information to demonstrate if it will be shared every year.</p> <p>Conformance with Indicator:</p> <input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available |
| | <p>Description of the finding:</p> <p>During Jan-Oct 2016 (since the effective date of Sateri's</p> |

pulp policy), the organization declared sources from 13 pulp mills, and that 61% of the total dissolving pulp is PEFC 100% certified and less than 1% PEFC Controlled Sources, with no FSC certified dissolving pulp being sourced. The organization did source from mills that hold FSC CoC and/or FSC Control Wood (CW) certification, but there is no FSC certified or CW claim associated with the receiving documents or invoices.

As to CoC documents, there are only sales contracts between the organization and suppliers available in the corporate office. All other documents, such as invoices, delivery notes, country of origin certificates, etc., are kept in the mills' offices.

At the time of the audit, review of sales contracts reveals that there is no FSC code/claim on the sales contract with Fortress, Sodra, Jari, and Huatai, which are FSC certified suppliers. There is also no code/claim on the sales contract with AE (APRIL), Cosmo, Hallein, and Biocell, which are PEFC certified companies. BSC is the only supplier of which the sales contract has the supplier's CoC code on it. However, the document review in mills confirmed there were PEFC certified codes on invoices from APRIL (AE) and Hallein, including an extra statement to prove the pulp sold to Sateri was certified during July to Oct 2016. A statement of certification status was also collected from Cosmo that noted materials sourced during the audit period are PEFC Controlled Sources. After the audit, and prior to report finalization, Sateri provided evidence from more suppliers after the audit that include PEFC certified claims.

The organization is working with the other suppliers to provide extra documents to prove pulp they purchased is from certified sources, but currently lacks PEFC/FSC code on sales documents.

The organization obtained the forest origin information via supplier's CoC form, when provided. 12 out of 17 suppliers completed the CoC Form with the information of tree species, country of origin, land tenure and CoC codes. For all completed ones, 2 (BSC and Phoenix) could trace fibre to the forest of origin that may contain ancient and endangered forests, 2 (Fortress and Cosmo) could trace back to the provincial level that contain ancient and endangered forests, the remaining 8 could only trace to country or regional level. An additional 5 suppliers didn't report the forest origin on the CoC Form. And, as stated above, the organization adopted the declaration of the supplier in CoC form with no further verification or no supporting documents to prove the origins. The audit in mills revealed there were country of origin documents for the pulp being supplied from all non-Chinese suppliers, but no forest origin documents.

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| <p>2.3 A risk assessment has been done with the information and shared with Leaders Group.</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input checked="" type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The organization set up an internal monitoring system to assess the risk of suppliers/sources.</p> <p>Although the company's internal monitoring system is useful to monitor the collection of key documents from the supply chain that are required by the organization, it does not evaluate the risk of the source origin to be within ancient and endangered forests or other controversial sources. In addition, there is no verification or due diligence check to confirm authenticity of the information being declared by the suppliers.</p> <p>The risk analysis has not been shared transparently with Canopy and the Leaders Group at this stage, only supply chain information had been shown to Canopy.</p> <p>After the audit, but prior to the report finalization, Sateri revised their SOPs (March 2017) to include improvements on the types of information they will collect and some steps they will take to monitor their suppliers. However, their risk assessment focuses on low risk being achieved by the supply of information (GIS points, etc.) and certification claims, rather than the risk of origin being from ancient and endangered forests and other controversial sources.</p> |
| <p>2.4 This supply chain assessment has been presented to the Leaders Group and stakeholders, allowing for questions to be answered and information gaps to be highlighted</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The same as 2.1</p> |
| <p>2.5 The MMCF producer publishes its suppliers publicly, or, in the absence of such transparency, is providing its customers with a robust track and trace system that can be used throughout the supply chain up to clothing and textiles retailers.</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: Three mills with the organization are CoC certified, and have been sourcing a majority amount of pulp from FSC/PEFC CoC certified suppliers, and the audits of the mills finds that the mill could trace the inputted pulp to outputted viscose. However, the internal monitoring system the organization adopted is not robust enough to trace the pulp back to forest level.</p> |

Observation: During Jan-Oct 2016 (since the effective date of Sateri’s pulp policy), the organization sourced 61% of the total pulp with PEFC 100% claims, with no FSC-certified dissolving pulp being sourced. Fibre purchased from certified suppliers (except BSC and AE/APRIL) could not be verified as certified pulp on incoming sales documentation. The organization didn’t set up a robust risk assessment system to trace all incoming fiber to forests.

It is an expectation of the CanopyStyle Initiative (communicated to Sateri in June of 2017) that Sateri collects forest of origin information, including GPS points, GIS coordinates and/or shapefiles from its dissolving pulp suppliers, which will allow for an overlay with the Canopy map of ancient and endangered forestsⁱⁱ. Based on the information collected, Sateri can then share the forest origin information (i.e., GPS points, GIS coordinates and/or shapefiles) with Rainforest Alliance and Canopy for further desktop risk assessments to complete the requirements of the verification framework and allow for robust analysis and supply chain risk level conclusions.

Since receipt of the draft report, the company has begun to collect information according to the expectation above.

Once this follow up desktop risk assessment is complete, Sateri can inform its suppliers of this process and the results, and the audit evaluation can be finalized and the results posted publicly.

3. No conversion of natural forest to plantations

| Indicators | Findings: |
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| <p>3.1 The initial date of the plantation development has been documented and sourcing only occurs in areas identified pre 1994, or post 1994 with a supporting FSC certificate.**</p> | <p>Conformance with Indicator:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input checked="" type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available <p>Description of the finding:</p> <p>The initial dates of the plantation are unknown for all suppliers including FSC or PEFC certified suppliers and non-certified suppliers. FSC certified forests can be confirmed as pre-1994 conversion, but PEFC, FSC Controlled Wood and FSC Mix materials cannot. Evidence of conversion dates has not been submitted to date.</p> <p>Note: The organization has committed to avoid sourcing wood pulp from natural forests within their sourcing policy, however, they include suppliers sourcing from natural forests (e.g., Fortress).</p> |

Observation: The organization does not collect sufficient information to determine if conversion of natural forest to plantation has occurred before or after 1994. Also, the organization includes suppliers sourcing wood from natural forests, a source that they commit to avoiding within their sourcing policy.

It is recommended that Sateri requests the plantation date and/or evidence of valid FSC certification for all suppliers and sub-suppliers.

4. Since the signature of the Policy, all sourcing from ancient and endangered forests and other controversial sources have been eliminated

| Indicators | Findings: |
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| <p>4.1 The MMCF producer has adopted clear definitions for the terms included in their Policy, such as “ancient & endangered forests,” “intact forest,” “natural forest,” “endangered species,” “controversial sources,” “high conservation value,” “high carbon area,” “peatlands,” etc. that are consistent with this document and the forest sourcing policy template.**</p> | <p>Conformance with Indicator:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Not Applicable <input checked="" type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available <p>Description of the finding:</p> <p>The organization has adopted the clear definition of “ancient & endangered forests,” “intact forest,” “natural</p> |

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| | <p>forest,” “endangered species,” “controversial sources,” “high conservation value,” “high carbon area,” and “peatlands” in their policies and a letter of declaration for suppliers.</p> |
| <p>4.2 All areas meeting the definition of “ancient and endangered forests” have been identified and mappedⁱⁱ and suppliers and fibre that have a high risk of being considered controversial sources have been identified and shared with Leaders Group.**</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input checked="" type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The organization terminated sourcing from TPL, which was identified as high-risk sources by the organization with the input from Canopy. For other suppliers/sources, as stated above, the internal system is not robust enough to trace all supply chains back to forest origin to identify if the wood pulp is from ancient and endangered forests or controversial sources. Some supply chains have been identified as plantation forests at origin, and others are identified at the state or country level, some that contain ancient and endangered forests (e.g., US PNW, Sweden, Canada, Indonesia, etc.).</p> |
| <p>4.3 Any raw materials in the MMCF producer’s supply chain originating from ancient and endangered forests or other controversial sources, and acquired before the Policy was adopted by the company, such as stocks in log yards, will be documented, identified accordingly and utilized by the mills.**</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: TPL dissolving pulp has been used up in all three mills by the time of the audit, however, the final product with the input of TPL pulp is still in storage. Because there were multi-inputs of raw pulp, it’s impossible to separate the final product with TPL pulp from that without. However, the organization could recognize the product with TPL pulp via their internal booking system.</p> <p>TPL is the only supplier rated as high risk by the organization. For other suppliers, the organization did not identify the risk of sourcing from ancient and endangered forests or controversial sources.</p> <p>Based on the information that was provided and overlays with Canopy’s ancient and endangered forest maps, it can be determined that a number of suppliers listed are sourcing from geographic areas that are in proximity to or within ancient and endangered forests, and lack the certification and/or controls needed to help track the fiber and ensure avoidance of controversial sources.ⁱⁱ</p> |
| <p>4.4 The MMCF producer is aware of all relevant local, national and international laws and there is no evidence of non-compliance with local, national or international laws.**</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input checked="" type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding:</p> |

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| | <p>In the pulp sourcing policy, the organization committed to avoiding illegally harvested and traded pulp. Interviews confirmed the organization is fully aware of the relevant laws and the auditors found no evidence of non-compliance with laws.</p> |
| <p>4.5 The commitment not to source from ancient and endangered forests and other controversial sources is verified.**</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input checked="" type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: As stated in 1.7 and the above indicators under section 4, the organization didn't conduct an effective due diligence check or verification to the pulp's origin and the risk of this origin being from ancient and endangered forests.</p> <p>After the audit, but prior to the report finalization, Sateri revised their SOPs (March 2017) to include improvements on the types of information they will collect and some steps they will take to monitor their suppliers. However, their risk assessment focuses on low risk being achieved by the supply of information (GIS points, etc.) and certification claims, rather than the risk of origin being from ancient and endangered forests and other controversial sources.</p> |
| <p>Observation: The organization has begun collecting information on its supply chain to trace pulp back to the forest of origin to identify areas of risk according to the policy. However, at the time of the audit, the organization had not obtained sufficient information to identify if pulp is from ancient and endangered forests and other controversial sources.</p> <p>Based on the initial review, we recommend that Sateri further request information of their suppliers, such as forest of origin (see Canopy recommendations above), plantation dates and evidence of valid FSC FM and FSC CoC certification.</p> <p>Sateri must share the forest origin information (i.e., GPS points, GIS coordinates and/or shapefiles) with Rainforest Alliance and Canopy for further desktop risk assessments to complete the requirements of the verification framework and allow for robust analysis and supply chain risk level conclusions. Sateri was notified of this expectation via the draft report in June 2017 and has begun collecting information since this notification.</p> <p>Where there is risk, and when documents provided are limited or insufficient to come to a low risk conclusion with certainty, Sateri will need to take further actions. These actions may include providing additional documentation that verifies full conformance with CanopyStyle policy expectations, and/or exclusion of further sourcing from this/these supplier(s), and/or additional assessment of the dissolving pulp suppliers at their corporate office, mills and/or forest management units.</p> <p>As mentioned in the CanopyStyle audit framework, and based on the current risk level, ongoing third party regular audits, and/or random site visits, will be essential to ensure that Sateri continues to implement their policy and meet the expectations of the CanopyStyle Initiative.</p> <p>In the future, Sateri should consider sharing such forest of origin information and certification information with its customers to help track and trace the fiber assessed as low risk of sourcing from ancient and endangered forests and other controversial sources.</p> | |

5. If suppliers contravene these criteria, the MMCF producer will first engage them to change practices and then re-evaluate its relationship with them

| Indicators | Findings: |
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| <p>5.1 All MMCF producers' suppliers are identified and the forest of origin is known.**</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: As stated in 2.2, 2 suppliers (BSC and Phoenix) provided the forest origin info which could trace pulp to the forest management unit level, 2 suppliers (Fortress and Cosmo) could trace back to the provincial/state level, the other 8 suppliers could only trace to country or regional level. There is no info about the forest origin for suppliers who didn't complete the CoC Form and, the organization didn't verify the info claimed by suppliers.</p> <p>After the audit, but before report finalization, Sateri submitted forest of origin information on the two biggest supplies of dissolving pulp. This indicator is therefore being graded as "in progress."</p> |
| <p>5.2 The MMCF producer has developed procedure for engaging with suppliers, up to withdrawing from purchase and other agreements in situations where non-conformance is found.**</p> <p>(Note: This means potential legal and contractual issues associated with withdrawal are identified and addressed.)</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: As stated in 1.3 and 1.7, there are certain actions the organization would take with suppliers identified as non-low risk. However, document review and staff interview also confirmed a "buffer time" has existed and is allowed for suppliers sourcing from non-low risk areas for improvement. This means that even though the organization finds out the supplier is sourcing from high risk areas, they may still continue to source from them for a certain period of time before withdrawing from purchase.</p> <p>This indicator is noted as "in progress" due the procedure not having a defined timeline for making a decision on continuing or terminating purchase agreements.</p> |

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| <p>5.3 The MMCF producer has documented withdrawals from supply agreements where non-conformance has been found.**</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The organization has informed TPL officially to terminate the purchase via a memo.</p> <p>Given that the forest origin for a major portion of the pulp inputs are not known or confirmed, conformance with this indicator is still in progress.</p> |
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Observation: Forest origin is not known for all supply chains, creating gaps in identifying the suppliers sourcing from non-low risk areas. When or if a supplier is found to be sourcing from areas of high risk or not in conformance with the policy, there is a procedure to allow buffer-time to engage with the supplier and investigate, however, there is no defined timeline for making a decision on continuing or terminating purchase agreements.

6. The MMCF producer welcomes interested stakeholders and Leaders Group observers to verify the implementation.

| Indicators | Findings: |
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| <p>6.1 Leaders Group and other stakeholder observers are invited to participate freely and to report observations during this verification process. **</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: Canopy and the Leaders Group will review the audit report before it is made public; however, no additional actions to engage stakeholders have been made (e.g., sharing the risk assessment).</p> |

7. The MMCF producer shall recognize, respect and uphold human rights and the rights of communities and workers affected by the operations of their supply chain and affiliated companies

| Indicators | Findings: |
|---|--|
| <p>7.1 The MMCF producer has developed and requires its suppliers to adopt a similar policy, systems and procedures to implement Free, Prior and Informed Consent of indigenous people and local communities.**</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: An FPIC requirement is included in the company's pulp policy and the letter of declaration to suppliers. Among all 17 active suppliers since the effective date of the policy, there are 10 suppliers that signed the Letter.</p> |
| <p>7.2 Suppliers document how they conform with the MMCF producer's commitment to recognize and respect human rights, community rights, First Nations rights and rights of workers.**</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met</p> |

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| | <input type="checkbox"/> Insufficient Information Available Description of the finding: The organization requires suppliers to provide the sustainability or CSR report and evaluates such reports specifically for recognition of the importance of human rights and community rights. However, not all suppliers provided such report. In other cases, the organization requires suppliers to sign a letter of declaration to demonstrate commitment to this indicator, however not all suppliers have done so to date. |
| 7.3 The MMCF producer and its suppliers show responsible handling of complaints and resolution of conflicts in a transparent and accountable manner that is mutually agreed by the parties and includes relevant stakeholders. | Conformance with Indicator: <input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available Description of the finding: Complaint system is managed at the mill level. The verification of the mills reveals that there is a complaint and conflict resolution management handbook. For any complaint, the company would conduct an onsite investigation and work with local government agencies and communities for a solution. There was 1 complaint case with SFJ mill in 2016 and no complaint cases with SJJ and SJX. Evidence of the handling of the case has not been made available to the auditors due to timing of the audit, therefore this indicator is “in progress.” There is no evidence of mismanagement of complaints by the suppliers at the time of the audit. |
| 7.4 The MMCF producer has developed procedures to ensure its Tier one suppliers uphold the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work and will require the equivalent of their own suppliers. | Conformance with Indicator: <input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available Description of the finding: The organization stated in the pulp sourcing policy that pulp harvested or processed/traded in violation of ILO declaration, human rights and FPIC is not acceptable. Suppliers have been informed and asked to adopt a similar policy. However, not all suppliers have accepted this request. |
| 7.5 Recognition and respect for human rights is demonstrated. There is no evidence of avoiding or failing to resolve social conflicts and remedy past or current human rights violations.** | Conformance with Indicator: <input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available Description of the finding: All three mills are PEFC certified, and PEFC standards include requirements for recognition and respect for human rights. However, not all supply holds PEFC certification to ensure respect for human rights through the entire supply chain back to the forest. For suppliers that are not certified and are not subject to a third-party |

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| | evaluation, there is no guarantee that the supplier is conforming to the ILO declaration or the U.N. Declaration on Human Rights. |
| Observation: No procedure is in place to ensure the implementation of the requirement for recognition and respect of human rights, worker's rights, ILO declaration, and FPIC rights for community at the supplier's level. | |
| If a supplier is not FSC certified supplying FSC certified material, and the country has not ratified the ILO or UN convention, then an evaluation by Sateri (or a third party retained by Sateri) would be best practice on human and community rights. | |

8. Development of Innovative and Alternative Fiber

| Indicators | Findings: |
|---|--|
| 8.1 The MMCF producer has developed and implemented an internal action plan to collaborate with innovative companies and suppliers to explore and encourage the development of new alternative fiber sources that reduce environmental and social impacts, such as agricultural residues and recycled fibers.** | <p>Conformance with Indicator:</p> <input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available |
| | <p>Description of the finding: The organization is cooperating with Fudan University and Donghua University on a marketing analysis study and technical research on alternative fiber. The new pulp sourcing policy commits the organization to working with partners to explore the possibility of alternative fiber.</p> |
| 8.2 The research and development phase for the production of pulp and cellulosic fiber made from alternative fiber sources has been successfully completed and the MMCF producer is entering a commercial scale phase. | <p>Conformance with Indicator:</p> <input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input checked="" type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available |
| | <p>Description of the finding: The alternative fiber is still in the research phase, no production with the organization's mills.</p> |

Observation: The adoption of alternative fiber is still in the research phase.

9. Advocacy for conservation solutions

| Indicators | Findings: |
|---|--|
| 9.1 The MMCF producer has a track record of participating in events and taking actions that support collaborative and visionary system solutions that aim to protect remaining ancient and endangered forests** | <p>Conformance with Indicator:</p> <input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available |
| | <p>Description of the finding: The organization has established a sustainability team responsible for responsible forestry and advocacy for conservation. The head of the sustainability team and a team member were recruited recently. Before setting up the team, all activities to support the nature conservation and community benefit, including participation in regional and national conferences, initiatives and programmes, were carried out by the sustainability team of RGE China on behalf of the organization.</p> <p>For example, RGE China had been actively participating in Canopy Initiative, and Sateri suspended TPL because</p> |

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| | of its impacts as a controversial supplier in Indonesia. |
| 9.2 When prompted, the MMCF producer uses its brand influence or purchasing influence to positively impact conservation and development solutions including Free, Prior and Informed Consent of affected indigenous and local communities.** | <p>Conformance with Indicator:</p> <input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available |
| 9.3 The MMCF producer publicly supports large scale scientifically based conservation solutions, international and national target(s) and programs for preserving designated protected and conservation areas including the Free, Prior and Informed Consent of affected indigenous and local communities. | <p>Conformance with Indicator:</p> <input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input checked="" type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available |
| 9.4 The MMCF producer is developing and implementing specific programs to increase the endangered species population and the maintenance of their habitat through time, with government and/or ENGO programs.** | <p>Conformance with Indicator:</p> <input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input checked="" type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available |
| <p>Observation: The organization has established a new sustainability team which plans to focus on conservation advocacy in the future, therefore, improving performance to the above 4 indicators.</p> <p>The intent of this commitment is for Sateri to advocate for conservation solutions regardless of whether or not the company is directly engaged in forest management. Advocacy can be in conjunction with suppliers, decision makers, NGOs, or stakeholders in the areas where the company is sourcing supply. When prompted, the organization would dedicate resources to help advance the conservation of specific areas. This can be done via attending roundtables, webinars, writing letters of support, making calls to decision makers, etc.</p> | |

| 10. Responsible forest management | |
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| Indicators | Findings: |

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| <p>10.1 The MMCF producer has defined criteria for responsible forest management, gives a preference for FSC certification and has developed and implemented an action plan to increase FSC intake.**</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: There is no preference for FSC certification in the pulp sourcing policy launched in June 2015, however, the organization is now working with Canopy to update the policy, which clearly states "Sateri has a preference for FSC and is striving to increase the amount we use." The organization is expecting to release the updated policy in the next month. However, there is no internal strategic target and measure to increase FSC fiber intake over the next 1-3 years.</p> <p>After the audit, but prior to report finalization (March 2017), Sateri updated its Pulp Sourcing Policy - http://www.sateri.com/sustainability/pulp-sourcing-policy/</p> |
|---|---|

| 11. Reduction of Greenhouse Gas (GHG) Footprint by Recognizing the importance of forests and peatlands as carbon storehouses | |
|--|--|
| Indicators | Findings: |
| <p>11.1 The MMCF producer has developed and implemented procedures to evaluate their suppliers' performance in reducing GHG.</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: Although document reviews and staff interviews confirmed the organization didn't develop and implement a procedure to evaluate supplier's performance on reducing GHG, the organization did show strong preference in sourcing certified pulp according to the review of sourcing data.</p> |
| <p>11.2 The MMCF producer can document giving preference to suppliers that have identified and adopted management measures to protect forests, forested peatland at the concession and landscape level (peat dome) and identify, withdraw from and restore peatlands and their hydrology. **</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: In the pulp sourcing policy, the organization stated suppliers who implemented the relevant national sustainable forest management practices as well as perform landscape level conservation of forests are encouraged. The organization also requests sustainability reports from suppliers and evaluates such reports specifically for recognition of the importance of forests and peatlands as carbon storehouses and actions taken to conserve these areas. However, there is no evidence to demonstrate preference of one supplier over the other due to these management measures.</p> |
| <p>Observation: At this time, there is no evidence of an evaluation to supplier's performance on reducing GHG, nor</p> | |

documented preference or commitment to source from suppliers that have identified and adopted management measures to protect forests and forested peatland at the concession and landscape level. Sateri is encouraged to continue their preference of FSC certified supply and further develop systems for identifying preferred suppliers with respect to their management practices.

12. Pollution Prevention

Indicators

12.1 This verification process will not address the pulp and viscose manufacturing process which can lead to air and water emissions that impact overall environmental quality. However, it will be noted when MMCF producers invest in and use the cleanest dissolving pulp and viscose manufacturing technology (i.e., lyocell process). The indicators will be the number of mills using such cleaner processes and the % of overall volumes produced with such technology. This information will be treated and framed as additional bonus performance by the MMCF producer.

Findings:

Conformance with Indicator:

- Not Applicable
- Commitment Met
- Commitment in Progress
- Commitment Not Met
- Insufficient Information Available

Description of the finding:

The organization has provided evidence that it invests funds into pollution control systems at each of the three facilities. However, evidence of investments in processes such as lyocell have not been provided, nor the relative volumes of material (% of total) that are produced by cleaner production processes.

Observation: The organization is encouraged to continue further investment in pollution control and cleaner production processes, such as lyocell.

** Indicates Critical Indicators

Appendix C: EVALUATION CHECKLIST

Canopy Verification Framework and Guidelines for Viscose producers Annex 3

Evaluation Checklist for SFJ

| 1. Publicly communicating and implementing the Fiber Sourcing/Forest Policy | |
|---|--|
| Indicators | Findings: |
| 1.10 Key managers at each production site/mill are aware of the Policy and demonstrate a similar commitment to implement it. ** | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input checked="" type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The Pulp Sourcing Policy has been posted in each office warehouse and manufacturing shop in the factory. During the audit, the director of QC told the auditor that all the staff attended the training of Wood Fibre Sourcing Policy and Sateri Sustainable Development Policy. The auditor interviewed responsible staff in the financial department, warehouse and at the conference. They demonstrated their understanding on the Pulp Sourcing Policy and the sourcing from a) to f) section 2 of this report shall be forbidden. The general manager and deputy general manager were also interviewed. The auditor confirmed that key managers at each production site/mill are aware of the Policy and demonstrate a similar commitment to implement it.</p> |
| 1.11 Each production site's/mill's managers have developed procedures to implement the Policy, when relevant. ** | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The organization has established, implemented and maintained a PEFC CoC Manual including document and record management procedure, purchase procedure, sales procedure, dispute resolution management procedure, non-conforming production management procedure, warehouse management procedure, processing management procedure, etc. However, these procedures are for the PEFC certified materials only and might not cover all elements of the policy (like collection of forest origin information upon receipt of material). The Wood Fiber Sourcing Policy was also posted in each production site.</p> <p>The QC Manager is responsible for implementing the policy at this site and coordinating with the related departments. The deputy general manager is in charge of trainings on the wood fibre sourcing policy and Sateri's sustainable development policy. The Material Controller is responsible for all 3 factories' material management. He</p> |

told the auditor that he is planning to increase the demand of FSC or PEFC certified material step by step.

Observation: Production mills should support the corporate office in implementing measures to meet the commitment within the policy in regards to not sourcing from ancient and endangered forests.

2. Sourcing from transparent supply chains that are in conformance with the policy.

| Indicators | Findings: |
|---|--|
| <p>2.6 The production site/mill maintains all <u>purchase and sales</u> documentation related to the wood fiber <u>inputs</u>. Such documentation includes an identification of the forest of origin.</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The commercial department of Sateri (Shanghai) is responsible for supplier verification and purchase. The organization just gives the pulp volume demand to the commercial department of Sateri (Shanghai). The pulp is sent from the supplier to the organization directly. The organization kept all the purchase and sales documents including purchase contracts, purchase invoices, sales contracts, sales invoices and certificates of origin. The auditor sampled SO#10000761 and SO#05-05-2016 and checked all the related purchase and sales documents. The organization kept all documents stated above. As well, the auditor sampled product batch no. B-NW-16-10-16206 and B-NW-16-10-16097 when visiting the warehouse. The organization collects all the purchase documents including purchase contacts and invoices.</p> <p>The pulp purchased by the organization comes from 9 suppliers, such as BSC, APRIL and Cosmo. The mill was able to provide the country of origin for the pulp (pulp manufacturing location), but not the forest origin. The auditor sampled the certificate of origin of the pulp. The origin of the pulp is shown below: BSC from Brazil, TPL from Indonesia, APRIL from Indonesia, Cosmo from USA, Fortress from Canada, Hallein from Austria. Biocel is a new supplier of the organization and the organization bought 1,000 t. The origin of the pulp is Czech Republic. Now the pulp is in transit and the organization will get the certificate of origin as soon as the pulp arrives at Chinese ports. The pulp sourcing from Qingshan and Sun Paper is in China but the organization did not retain the certificate of origin.</p> |
| <p>2.7 The mill/production site maintains all <u>delivery</u> documentation received with the wood fiber <u>inputs</u>. Such documentation includes an identification of the forest of origin.</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The organization kept a purchase list. The auditor sampled SO#10000761 and SO#05-05-2016. The organization kept all the purchase delivery documents, including bill of lading, packing list, certificate of country origin and customs declaration. The auditor also reviewed</p> |

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| | <p>all the documents sampled. As well, the auditor sampled product batch no. B-NW-16-10-16206 and B-NW-16-10-16097 when visiting the warehouse. The organization collects all the bills of lading, packing lists, certificates of country origin and customs declarations.</p> <p>The pulp purchased by the organization comes from 9 suppliers, such as BSC, APRIL and Cosmo. The auditor sampled the certificate of origin of the pulp (pulp manufacturing location). The origin of the pulp is shown below: BSC from Brasil, TPL from Indonesia, APRIL from Indonesia, Cosmo from USA, Fortress from Canada, Hallein from Austria. Biocel is a new supplier of the organization and the organization bought 1,000 t. The origin of the pulp is Czech Republic. Now the pulp is in transit and the organization will get the certificate of origin as soon as the pulp arrives at Chinese ports. The pulp sourcing from Qingshan and Sun Paper is China but the organization did not retain the certificate of origin.</p> <p>After the audit, but prior to report finalization, Sateri provided forest of origin information for their two largest suppliers. This supplementary documentation is not collected with each shipment, but rather collected by the corporate office. However, this type of information is not collected for all suppliers, and therefore this indicator is graded as “in progress.”</p> |
| <p>2.8 When sourcing from certified or verified land origin, the supplier code and claim for the applicable third-party verification is included on sales and delivery documentation.</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The organization purchased PEFC certified material used as input. The auditor sampled product batch no. B-NW-16-10-16206 and B-NW-16-10-16097. The product is mixed certified material and non-certified material. The inputs mixed with 3 kinds of pulp include BSC, COSMO and TPL. The auditor checked the related documents that the license code of BSC is BV/CdC/3506629 and CLAIM is 100% PEFC certified, which are noted on the sales invoice and packing list. The director of QC told the auditor that the pulp of COSMO is also PEFC certified and that TPL is not certified. But the license code and certification claim were not found on the sales invoice and packing list for Cosmo. The material controller told the auditor that the commercial dept. of Sateri (Shanghai) didn't require their supplier to note the license code and product claim on the documents and they are not sure whether the material from COSMO is certified. The commercial dept. of Sateri (Shanghai) now contacts the supplier to find out whether the material is certified or not, but evidence has yet to be demonstrated according to certification scheme requirements.</p> |
| <p>2.9 The production site maintains a summary of annual purchases and then sales to the MMCF producer.</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input checked="" type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress</p> |

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| | <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available Description of the finding: The organization has a template of annual volume summaries kept by the logistics manager. The auditor reviewed the annual volume summary of material and products. The template includes inputs received, inputs used for production, inputs still in stock, and outputs still in stock. All the data is also available on the organization's SAP system. |
| 2.10 All suppliers provide <u>outgoing</u> transportation documents that include the forest/plantation of origin and certification status if relevant. | Conformance with Indicator: <input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input checked="" type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available Description of the finding: The organization does not always know the forest origin of the fibre and, therefore, forest of origin is not currently included in the outgoing transportation documents in the organization. Although the organization is PEFC certified, the organization is not making PEFC certified claims. The documents sampled didn't include any certification status. |
| <p>Observation: The organization purchased from 9 suppliers. 7 of the 9 suppliers are certified. The main material comes from BSC, AE (APRIL), COSMO and FORTRESS (all certified dissolving pulp suppliers), which represents more than 90% of the pulp volume. The organization stated that part of the pulp is certified, but without license code and claim on the sales documents and delivery bill. Sateri (Shanghai) is trying to contact suppliers to provide the material info to prove whether their material is certified or not.</p> <p>It is an expectation of the CanopyStyle Initiative that the Sateri corporate office or SFJ request and collect GPS points, GIS coordinates and/or shapefiles from its suppliers of all the dissolving pulp supply areas to identify the forests of origin, which can then be overlaid with the Canopy map of ancient and endangered forestsⁱⁱ. SFJ should be made aware of this process and the results, such that forest origin information and certification information can be passed along to its customers.</p> | |

| 4. Sourcing from ancient and endangered forests and other controversial sources have been eliminated. | |
|--|--|
| Indicators | Findings: |
| 4.4 The production site/mill is aware of all relevant local, national and international laws and there is no evidence of non-compliance with local, national or international laws. ** | Conformance with Indicator: <input type="checkbox"/> Not Applicable <input checked="" type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available Description of the finding: According to an interview with the general manager, the organization obeys all relevant local, national and international laws such as environmental-protection laws, tax code, trade and custom laws, etc. The deputy general manager told the auditor that the waste water and gas emission allowances are real-time networking with a local environmental protection bureau. The local quality supervision department will conduct monthly on-site safety processing inspections. There is no dispute between the organization and local community. |
| 4.5 Production site/mill understands the definitions of ancient and endangered forests and controversial sources. They | Conformance with Indicator: <input type="checkbox"/> Not Applicable |

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| <p>also comply with the commitment to not procure wood from ancient and endangered forests and controversial sources</p> | <p> <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available </p> <p>Description of the finding: From an interview with the General Manager, he stated that this understanding on controversial sources is that there shall not be any illegal harvesting and the wood harvesting shall not be in violation of traditional and civil rights, etc. Key managers also stated their understanding on ancient and endangered forests and controversial sources. The General Manager told the auditor that Ancient and endangered forests cover many kinds of RTE species and HCVF that the organization is devoted to protecting. The Material Controller also said that ancient and endangered forests mean intact forest landscape mosaics, naturally rare forest types, forest types that have been made rare due to human activity, and/or other forests that are ecologically critical for the maintenance of biological diversity and ecological integrity.</p> <p>While the employees understand the definitions, the production site does not fully comply with the commitment as they have not yet demonstrated all supply received to not be from ancient and endangered forests and controversial sources.</p> |
| <p>4.6 Production mills have conducted assessment of presence of ancient and endangered forests and other controversial forests in their wood supply areas.</p> | <p>Conformance with Indicator: <input checked="" type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: Supplier selection and sourcing regions risk assessment is the responsibilities of Sateri (Shanghai) corporate office. The production mill has no responsibility of choosing or assessing suppliers.</p> |
| <p>4.7 The sourcing from regions that contain ancient and endangered forests and other controversial sources is verified to low risk by this CanopyStyle audit.</p> | <p>Conformance with Indicator: <input checked="" type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: Supplier selection and sourcing regions risk assessment is the responsibility of Sateri (Shanghai).</p> |
| <p>Observation: See recommendations from the desktop audit for Sateri (Shanghai).</p> | |

| 5. Actions if suppliers contravene criteria | |
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| Indicators | Findings: |
| <p>5.4 Production sites/mills have a documented program for monitoring performance of suppliers which includes procedures for identifying non-conformances to the CanopyStyle policy and sanctions to suppliers in such cases</p> | <p>Conformance with Indicator: <input checked="" type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress</p> |

where non-conformances are identified.

- Commitment Not Met
- Insufficient Information Available

Description of the finding:

Observation: The organization is a corporate owned mill with no supplier selection responsibilities. The organization just gives the volume of the organization demand to Sateri (Shanghai) and Sateri (Shanghai) purchases the pulp from the suppliers that they have chosen. Therefore, this indicator is not applicable to this specific facility and resides with the central offices.

Evaluation Checklist for SJX

| 1. Publicly communicating and implementing the Fiber Sourcing/Forest Policy | |
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| Indicators | Findings: |
| <p>1.10 Key managers at each production site/mill are aware of the Policy and demonstrate a similar commitment to implement it. **</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input checked="" type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The organization shares the same management level with SJJ. The different depts. between SJX and SJJ are technology department, production department, warehouse and waste disposal department. The QC manager told the auditor that the training on Pulp Sourcing Policy and Sateri Sustainability Policy has been held. Management level staff attended the training and the manager of each department trained the staff of the department. The auditor interviewed the general manager, the deputy general manager, and other responsible personnel at the conference. They relayed to the auditor their understanding of the Pulp Sourcing Policy. As well, the Pulp Sourcing Policy has been posted in each office, warehouse and manufacturing shop in the factory.</p> |
| <p>1.11 Each production site's/mill's managers have developed procedures to implement the Policy, when relevant. **</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The organization has established, implemented and maintained a PEFC CoC Manual including document and record management procedure, purchase procedure, sales procedure, dispute resolution management procedure, non-conforming production management procedure, warehouse management procedure, processing management procedure, etc. However, these procedures are for the PEFC certified materials only and might not cover all elements of the policy (like collection of forest origin information upon receipt of material). The Wood Fiber Sourcing Policy was also posted in each production site.</p> <p>The QC Manager is appointed as the responsible person to implement the policy at this site and takes overall responsibility for coordination. The QC Manager is in charge of trainings on the wood fibre sourcing policy and Sateri's sustainable development policy in the organization. The Material Controller, who is responsible for all 3 factories' material management, indicated to the auditor that he is planning to increase the demand of FSC or PEFC certified material step by step.</p> |
| <p>Observation: Production mills should support the corporate office in implementing measures to meet the commitment within the policy in regards to not sourcing from ancient and endangered forests.</p> | |

| 2. Sourcing from transparent supply chains that are in conformance with the policy. | |
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| Indicators | Findings: |
| <p>2.6 The production site/mill maintains all <u>purchase and sales</u> documentation related to the wood fiber <u>inputs</u>. Such documentation includes an identification of the forest of origin.</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The commercial department of Sateri (Shanghai) is responsible for supplier verification and purchase. The organization submits the needed pulp volumes to the commercial department of Sateri (Shanghai). The pulp is sent from the supplier to the organization directly. The organization kept all the purchase and sales documents including purchase contracts, purchase invoices, sales contracts, sales invoices and certificates of origin. The auditor sampled SO#4900032806 and SO#20000249 and checked all the related purchase and sales documents. The organization kept all documents stated above. In addition, the auditor sampled product batch no. D-HT-16-11-01311 when visiting the warehouse. The organization collects all the purchase documents including purchase contacts and invoices.</p> <p>The pulp purchased by the organization comes from 12 suppliers, such as BSC, APRIL and Cosmo. The mill could provide the country of origin for the pulp (pulp manufacturing location), but not forest origin. The auditor sampled the certificate of origin of the pulp. The origin of the pulp is shown below: BSC from Brazil, TPL from Indonesia, APRIL from Indonesia, Cosmo from USA, Fortress from Canada, Hallein from Austria, Sodra from Sweden, Jari from Brazil. Biocel is a new supplier of the organization and the organization bought 1,000 t. The origin of the pulp is Czech Republic. Now the pulp is in transit and the organization will get the certificate of origin as soon as the pulp arrives at Chinese ports. The pulp sourcing from Qingshan Phoenix and Bailu is China, but the organization didn't keep the certificate of origin.</p> |
| <p>2.7 The mill/production site maintains all <u>delivery</u> <u>documentation</u> received with the wood fiber <u>inputs</u>. Such documentation includes an identification of the forest of origin.</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The organization kept a purchase list. The auditor sampled SO#4900032806 and SO#20000249 for which the organization kept all the purchase delivery documents, including bill of lading, packing list, certificate of country origin and customs declaration. The auditor also reviewed all the documents sampled. The auditor sampled product batch no. D-HT-16-11-01311 when visiting the warehouse. The organization collected all the bills of lading, packing lists, certificates of country origin and customs declarations.</p> |

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| | <p>The pulp purchased by the organization comes from 12 suppliers, such as BSC, APRIL and Cosmo. The auditor sampled the certificate of origin of the pulp (pulp manufacturing location). The origin of the pulp is shown below: BSC from Brazil, TPL from Indonesia, APRIL from Indonesia, Cosmo from USA, Fortress from Canada, Hallein from Austria, Sodra from Sweden, Jari from Brazil. Biocel is a new supplier of the organization and the organization bought 1,000 t. The origin of the pulp is Czech Republic. Now the pulp is in transit and the organization will get the certificate of origin as soon as the pulp arrives at Chinese ports. Pulp is also sourced from Qingshan Phoenix and Bailu in China, but the organization didn't keep the certificate of origin.</p> <p>After the audit, but prior to report finalization, Sateri provided forest of origin information for their two largest suppliers. This supplementary documentation is not collected with each shipment, but rather collected by the corporate office. However, this type of information is not collected for all suppliers, and therefore this indicator is graded as "in progress."</p> |
| <p>2.8 When sourcing from certified or verified land origin, the supplier code and claim for the applicable third-party verification is included on sales and delivery documentation.</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding:</p> <p>The organization purchased some CoC certified material used as input. The auditor sampled product batch no. D-HT-16-11-01311. The product is mixed with certified material and non-certified material. The inputs are mixed with 3 kinds of pulp including from BSC and COSMO. The auditor checked the related documents, the license code of BSC is BV/CdC/3506629 and the CLAIM is 100% PEFC certified which are noted on the sales invoice and packing list. The director of QC told the auditor that the pulp of COSMO is also PEFC certified, but the license code and product claim are not found on the sales invoice and packing list. The material controller told the auditor that the commercial dept. of Sateri (Shanghai) didn't require their supplier to note the license code and product claim on the documents and they are not sure whether the material from COSMO is certified or not. The commercial dept. of Sateri (Shanghai) now contacts the supplier to find out whether the material is certified.</p> <p>From the interview with the QC manager, the auditor knew that the organization purchased PEFC certified material from BSC, APRIL and Hallein. The auditor sampled one copy of a Hallein sales invoice and packing list, the license code was HFA-CoC-0018 and 100% PEFC certified was on the documents.</p> |
| <p>2.9 The production site maintains a summary of annual purchases and then sales to the MMCF producer.</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input checked="" type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress</p> |

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| | <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available Description of the finding: The organization has a template of annual volume summaries kept by the logistics department. The auditor reviewed the annual volume summary of material and products. The template includes inputs received, inputs used for production, inputs still in stock, and outputs still in stock. All the data is also available on the organization's SAP system. |
| 2.10 All suppliers provide <u>outgoing</u> transportation documents that include the forest/plantation of origin and certification status if relevant. | Conformance with Indicator: <input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input checked="" type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available Description of the finding: The organization does not always know the forest origin of the fibre, and therefore forest of origin is not currently included in the outgoing transportation documents in the organization. The documents sampled didn't include any certification status. |
| <p>Observation: The organization purchased from 12 suppliers. 8 of the 9 suppliers are certified. The main material comes from BSC, AE (APRIL), COSMO and FORTRESS (all certified suppliers), which cover more than 90% of the pulp volume. The organization stated that part of the pulp is certified, but without license code and claim on the sales documents and delivery bill. Sateri (Shanghai) is trying to contact the suppliers to provide the material info to prove whether their material is certified or not.</p> <p>It is an expectation of the CanopyStyle Initiative that the Sateri corporate office or SJX request and collect GPS points, GIS coordinates and/or shapefiles from its suppliers of all the dissolving pulp supply areas to identify the forests of origin, which can then be overlaid with the Canopy map of ancient and endangered forestsⁱⁱ. SJX should be made aware of this process and the results, such that forest origin information and certification information can be passed along to its customers.</p> | |

| 4. Sourcing from ancient and endangered forests and other controversial sources have been eliminated. | |
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| Indicators | Findings: |
| 4.4 The production site/mill is aware of all relevant local, national and international laws and there is no evidence of non-compliance with local, national or international laws. ** | Conformance with Indicator: <input type="checkbox"/> Not Applicable <input checked="" type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available Description of the finding: The general manager told the auditor that the organization obeys all relevant local, national and international laws such as environmental-protection laws, safety production regulations, fire control regulation, etc. In addition, the emission allowances of waste gas and water was controlled by the local environmental department via the real-time network monitoring. The deputy general manager told the auditor that the local quality supervision department and fire control department will conduct monthly on-site safety processing inspections. The deputy general manager also told the auditor that there is no dispute between the organization and local community. |

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| | <p>SJJ shares the same situation with the organization as the two organizations that share the same management level.</p> |
| <p>4.5 Production site/mill understands the definitions of ancient and endangered forests and controversial sources. They also comply with the commitment to not procure wood from ancient and endangered forests and controversial sources</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: From the interview with the General Manager, he stated that his understanding on controversial sources is that there shall not be any illegal harvesting and the wood harvesting shall not be in violation of traditional and civil rights, etc. that the organization is devoted to protecting. Key managers stated their understanding on ancient and endangered forests and controversial sources. The deputy General Manager told the auditor that ancient and endangered forests have rare species and HCV that shall be protected. The QC Manager said that the ancient and endangered forests include the forest listed in pulp sourcing policy. SJJ shares the same situation with the organization as the two organizations that share the same management level.</p> <p>While the employees understand the definitions, the production site does not fully comply with the commitment as they have not yet demonstrated all supply received to not be from ancient and endangered forests and controversial sources.</p> |
| <p>4.6 Production mills have conducted assessment of presence of ancient and endangered forests and other controversial forests in their wood supply areas.</p> | <p>Conformance with Indicator:</p> <p><input checked="" type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: Supplier selection and sourcing regions risk assessment is the responsibility of Sateri (Shanghai) Corporate Office.</p> |
| <p>4.7 The sourcing from regions that contain ancient and endangered forests and other controversial sources is verified to low risk by this CanopyStyle audit.</p> | <p>Conformance with Indicator:</p> <p><input checked="" type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: Supplier selection and sourcing regions risk assessment is the responsibility of Sateri (Shanghai) Corporate Office.</p> |
| <p>Observation: See recommendations from the desktop audit for Sateri (Shanghai).</p> | |

| 5. Actions if suppliers contravene criteria | |
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| Indicators | Findings: |
| <p>5.4 Production sites/mills have a documented program for monitoring performance of suppliers which includes</p> | <p>Conformance with Indicator:</p> <p><input checked="" type="checkbox"/> Not Applicable</p> |

procedures for identifying non-conformances to the CanopyStyle policy and sanctions to suppliers in such cases where non-conformances are identified.

- Commitment Met
- Commitment in Progress
- Commitment Not Met
- Insufficient Information Available

Description of the finding:

Observation: The organization is a corporate owned mill with no supplier selection responsibilities. The organization just gives the volume of the organization demand to Sateri (Shanghai) and Sateri (Shanghai) purchases the pulp from the suppliers that they have chosen. Therefore, this indicator is not applicable.

Evaluation Checklist for SJJ

| 1. Publicly communicating and implementing the Fiber Sourcing/Forest Policy | |
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| Indicators | Findings: |
| <p>1.10 Key managers at each production site/mill are aware of the Policy and demonstrate a similar commitment to implement it. **</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input checked="" type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The organization shares the same management level with SJJ. The different departments between SJX and SJJ are technology department, production department, warehouse and waste disposal department. The QC manager told the auditor that the training on the Pulp Sourcing Policy and Sateri Sustainability Policy has been held. Management level staff attended the training and the manager of each department trained the staff of the department. The auditor interviewed the general manager, the deputy general manager, and other responsible personnel in the conference room of SJJ. They demonstrated their understanding on the Pulp Sourcing Policy and the sourcing from a) to f) section 2 of this report shall be forbidden. The Pulp Sourcing Policy has been posted in each office, warehouse and manufacturing shop in the factory.</p> |
| <p>1.11 Each production site's/mill's managers have developed procedures to implement the Policy, when relevant. **</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The organization has established, implemented and maintained a CoC Manual including document and record management procedure, purchase procedure, sales procedure, dispute resolution management procedure, non-conforming production management procedure, warehouse management procedure, processing management procedure, etc. However, these procedures are for the CoC certified materials only and do not cover all elements of the policy (like collection of forest origin information upon receipt of material). The Wood Fiber Sourcing Policy was also posted in each production site.</p> <p>The QC Manager is responsible for implementing the policy at this site and takes overall responsibility for coordination. Wang Xiaotong is in charge of training the staff on the wood fiber sourcing policy. The Material Controller is responsible for material management at all 3 factories. He told the auditor that he is planning to increase the demand of FSC or PEFC certified material step by step.</p> |
| <p>Observation: Production mills should support the corporate office in implementing measures to meet the commitment within the policy in regards to not sourcing from ancient and endangered forests.</p> | |

| 2. Sourcing from transparent supply chains that are in conformance with the policy. | |
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| Indicators | Findings: |
| <p>2.6 The production site/mill maintains all <u>purchase and sales</u> documentation related to the wood fiber <u>inputs</u>. Such documentation includes an identification of the forest of origin.</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The commercial department of Sateri (Shanghai) is responsible for supplier verification and purchasing. The organization provides the pulp volume demand to the commercial department of Sateri (Shanghai). The pulp will then be sent from the supplier to the organization directly. The organization kept all the purchase and sales documents including purchase contracts, purchase invoices, sales contracts, sales invoices and certificates of origin. The auditor sampled SO#10000765 and SO#20000270 and checked all the related purchase and sales documents. The organization kept all documents stated above.</p> <p>The pulp purchased by the organization comes from 9 suppliers, such as BSC, APRIL and Cosmo. The auditor sampled the certificate of origin of the pulp (pulp manufacturing location). The origin of the pulp is shown below: BSC from Brazil, TPL from Indonesia, APRIL from Indonesia, Cosmo from USA, Fortress from Canada, Hallein from Austria, Jari from Brazil. The pulp sourced from Qingshan and Phoenix is in China but the organization did not retain the certificate of origin.</p> |
| <p>2.7 The mill/production site maintains all <u>delivery</u> documentation received with the wood fiber <u>inputs</u>. Such documentation includes an identification of the forest of origin.</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The organization keeps a purchase list. The auditor sampled SO#10000765 and SO#20000270. The organization kept all the purchase delivery documents, including bill of lading, packing list, certificate of country origin and customs declaration. The auditor also reviewed all the documents sampled.</p> <p>The pulp purchased by the organization comes from 9 suppliers, such as BSC, APRIL and Cosmo. The auditor sampled the certificate of origin of the pulp (pulp manufacturing location). The origin of the pulp is shown below: BSC from Brazil, TPL from Indonesia, APRIL from Indonesia, Cosmo from USA, Fortress from Canada, Hallein from Austria, Jari from Brazil. The pulp sourced from Qingshan and Phoenix is in China but the organization did not retain the certificate of origin.</p> <p>After the audit, but prior to report finalization, Sateri provided forest of origin information for their two largest</p> |

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| | <p>suppliers. This supplementary documentation is not collected with each shipment, but rather collected by the corporate office. However, this type of information is not collected for all suppliers, and therefore this indicator is graded as "in progress."</p> |
| <p>2.8 When sourcing from certified or verified land origin, the supplier code and claim for the applicable third-party verification is included on sales and delivery documentation.</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The organization shared the same situation with SJX and SFJ where the product is mixed with certified material and non-certified material. The inputs may be mixed with 3 kinds of pulp including BSC and COSMO. The auditor checked the related documents and found that the license code of BSC is BV/CdC/3506629 and CLAIM is 100% PEFC certified which are noted on the sales invoice and packing list. The director of QC told the auditor that the pulp of COSMO is also certified but the license code and certification claim are not found on the sales invoice and packing list. The material controller told the auditor that the commercial dept. of Sateri (Shanghai) didn't require their supplier to note the license code and product claim on the documents and they are not sure whether the material from COSMO is certified or not. The commercial dept. of Sateri (Shanghai) now contacts the supplier to find out whether the material is certified.</p> <p>The QC Manager told the auditor that the organization purchased certified material from BSC, APRIL and Hallein. The auditor sampled and reviewed one copy of an APRIL sales invoice and packing list, the license code was AJAEU/PEFC/15/00068 and 100% PEFC certified was on the documents.</p> |
| <p>2.9 The production site maintains a summary of annual purchases and then sales to the MMCF producer.</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input checked="" type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The organization has a template of annual volume summaries kept by the logistics department. The auditor reviewed the annual volume summary of material and products. The template includes inputs received, inputs used for production, inputs still in stock, and outputs still in stock. All the data is also available on the organization's SAP system.</p> |
| <p>2.10 All suppliers provide <u>outgoing</u> transportation documents that include the forest/plantation of origin and certification status if relevant.</p> | <p>Conformance with Indicator:</p> <p><input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input checked="" type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: The organization does not always know the forest origin</p> |

of the fibre, and therefore forest of origin is not currently included in the outgoing transportation documents in the organization. Although the organization is PEFC certified, the organization is not making certified claims. The documents sampled didn't include any certification status.

Observation: The organization purchased from 9 suppliers. 7 of the 9 suppliers hold Chain of Custody certification. The main material comes from BSC, AE (APRIL), COSMO and FORTRESS (all CoC certified suppliers), which cover more than 90% of the pulp volume. The organization stated that part of the pulp is certified, but without certificate code and claim on the sales documents and delivery bill. Sateri (Shanghai) is trying to contact the suppliers to provide the material info to prove whether their material is certified or not.

It is an expectation of the CanopyStyle Initiative that the Sateri corporate office or SJJ request and collect GPS points, GIS coordinates and/or shapefiles from its suppliers of all the dissolving pulp supply areas to identify the forests of origin, which can then be overlaid with the Canopy map of ancient and endangered forestsⁱⁱ. SJJ should be made aware of this process and the results, such that forest origin information and certification information can be passed along to its customers.

4. Sourcing from ancient and endangered forests and other controversial sources have been eliminated.

| Indicators | Findings: |
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| <p>4.4 The production site/mill is aware of all relevant local, national and international laws and there is no evidence of non-compliance with local, national or international laws. **</p> | <p>Conformance with Indicator:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Not Applicable <input checked="" type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available <p>Description of the finding:</p> <p>The general manager told the auditor that the organization obeys all relevant local, national and international laws such as environmental-protection laws, safety production regulations, fire control regulation, etc. As well, the emission allowances of waste gas and water was controlled by the local environmental department via real-time network monitoring.</p> <p>The deputy general manager told the auditor that the local quality supervision department and fire control department will conduct monthly on-site safety processing inspections. The deputy general manager also told the auditor that there is no dispute between the organization and local community.</p> <p>SJX shares the same situation with the organization as the two organizations that share the same management level.</p> |
| <p>4.5 Production site/mill understands the definitions of ancient and endangered forests and controversial sources. They also comply with the commitment to not procure wood from ancient and endangered forests and controversial sources</p> | <p>Conformance with Indicator:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input checked="" type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available <p>Description of the finding:</p> <p>From the interview with the General Manager, he stated his understanding on controversial sources that there shall not be any illegal harvesting and the wood harvesting shall not be in violation of traditional and civil rights, etc. that the organization is devoted to protecting. Key managers stated their understanding on ancient and endangered forests and controversial sources. The Deputy General Manager told the auditor that ancient and endangered forests have rare species and HCV that shall</p> |

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| | <p>be protected. The QC Manager said that the ancient and endangered forests include the forest listed in the Pulp Sourcing Policy.</p> <p>SJJ shares the same situation with the organization as the two organizations that share the same management level.</p> <p>The auditor also interviewed the staff from the technology department that were different from SJX. A QC staff person also explained his understanding on the ancient and endangered forests as intact forest landscape mosaics, naturally rare forest types, and forest types that have been made rare due to human activity.</p> <p>While the employees understand the definitions, the production site does not comply fully with the commitment as they have not yet demonstrated all supply received to not be from ancient and endangered forests and controversial sources.</p> |
| <p>4.6 Production mills have conducted assessment of presence of ancient and endangered forests and other controversial forests in their wood supply areas.</p> | <p>Conformance with Indicator:</p> <p><input checked="" type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: Supplier selection and sourcing regions risk assessment is the responsibility of Sateri (Shanghai).</p> |
| <p>4.7 The sourcing from regions that contain ancient and endangered forests and other controversial sources is verified to low risk by this CanopyStyle audit.</p> | <p>Conformance with Indicator:</p> <p><input checked="" type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding: Supplier selection and sourcing regions risk assessment is the responsibility of Sateri (Shanghai) Corporate Office.</p> |
| <p>Observation: See recommendation from the desktop Sateri (Shanghai) audit.</p> | |

| 5. Actions if suppliers contravene criteria | |
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| Indicators | Findings: |
| <p>5.4 Production sites/mills have a documented program for monitoring performance of suppliers which includes procedures for identifying non-conformances to the CanopyStyle policy and sanctions to suppliers in such cases where non-conformances are identified.</p> | <p>Conformance with Indicator:</p> <p><input checked="" type="checkbox"/> Not Applicable <input type="checkbox"/> Commitment Met <input type="checkbox"/> Commitment in Progress <input type="checkbox"/> Commitment Not Met <input type="checkbox"/> Insufficient Information Available</p> <p>Description of the finding:</p> |
| <p>Observation: The organization is a corporate owned mill with no supplier selection responsibilities. The organization just gives the volume of the organization demand to Sateri (Shanghai) and Sateri (Shanghai) purchases the pulp from the suppliers that they have chosen. Therefore, this indicator is not applicable.</p> | |

ⁱ Current members of this group are H&M, M&S, Inditex/Zara, EILEEN FISHER, Stella McCartney and Canopy.

ⁱⁱ Canopy's map of Ancient and Endangered forests is currently undergoing final design and will be made public in upcoming months (2018) as an interactive website. Viscose producers will be expected to use this tool once it is made readily available. The spatial extents of ancient and endangered Forests is additive based on best-available geospatial data, which include large and small intact forest landscapes as the baseline, paired with maps of other key ecological values such as the habitat range of key endangered species and areas containing high concentrations of terrestrial carbon and high carbon stocks, overlaid to create the global map. For more information about the definition of Ancient and Endangered forests: <http://canopyplanet.org/solutions/ancient-forest-friendly/the-science-behind-the-ancient-forest-friendly-brand/>

ⁱⁱⁱ The CanopyStyle Initiative is led by environmental not-for-profit Canopy, which has supported over 100 brands, designers and retailers, as well as 9 of the top 10 largest global viscose producers, on developing sourcing policies for fabrics made from forests.