



LegalSource™ Audit Report for Carl Ronnow Sdn Bhd

Annual audit 2022

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A. Introduction

The purpose of this report is to document conformance with the requirements of the LegalSource standard by **Carl Ronnow (Malaysia) Sdn Bhd** thereafter referred to as "Organisation". The report presents findings of LegalSource auditors, who have evaluated the Organisation's systems and performance against the applicable requirements. The sections below provide the audit conclusions and follow-up actions required by the Organisation.

Dispute resolution: If stakeholders have concerns or comments about the LegalSource standard or the auditing body, they are encouraged to contact their closest NEPCon regional office. Formal concerns and complaints should be sent in writing.

B. Scope

The LegalSource audit, report and certificate covers the following scope:

| Report Type | |
|--------------|----------------|
| Report type: | Public Summary |

| Organisation Details | |
|---------------------------------------|---|
| Primary contact: | Dick Anning Environmental Manager |
| Address: | Carl Ronnow (Malaysia) Sdn Bhd Locked Bag 20 Kota Kinabalu Sabah 88990 Malaysia |
| Tel/Web/Email: | Tel: +44 7306 169 492 Email: rja@carlronnow.com |
| Jurisdiction of primary legal entity: | Malaysia |
| Primary Activity | Broker/trader with physical storage |
| Description of Organisation: | The Organisation is located in Malaysia and procures and exports sawn timber to Europe. The Organisation's has been LegalSource certified since September 2016. Currently, the company sources MTCS (PEFC)-certified wood-products from Peninsular Malaysia and – in the past – has sourced LegalSource certified product from Gabon. (Note that this latter source of timber remains in scope, although the LegalSource certification of the Organisation's one Gabonese LegalSource-certified supplier was terminated in 2020.) |

| Certificate Scope | | | | | | | | | | | | | | | | | | | | | |
|----------------------|---|--------------|--------------------------------|--------------|--------------|--------|-------------------|--------|--------------------------|--------|---------|--------|--------------------------------|--------|---------------------------|--------|-----------|--------|----------|--------|-------------------------|
| Certificate Type | <input checked="" type="checkbox"/> Single site certificate (with multiple sites) <input type="checkbox"/> Group/ Multi-site certificate | | | | | | | | | | | | | | | | | | | | |
| Standards Evaluated: | <input checked="" type="checkbox"/> LegalSource Standard (LS-02) V2-1 <input checked="" type="checkbox"/> NEPCon Generic Chain of Custody Standard (NC-STD-01) <input type="checkbox"/> NEPCon Generic Group & Multi-Site Standard (NC-STD-02) | | | | | | | | | | | | | | | | | | | | |
| Product scope: | <p>Product types:</p> <p><i>1. Malaysian Timber Certification Scheme (MTCS, as endorsed by PEFC):</i> Sawn Timber, Moulding Products and Plywood as follows:</p> <table border="1"> <thead> <tr> <th>Product code</th> <th>Product name</th> <th>Product code</th> <th>Product name</th> </tr> </thead> <tbody> <tr> <td>050000</td> <td>Wood based panels</td> <td>040000</td> <td>Engineered wood products</td> </tr> <tr> <td>050200</td> <td>Plywood</td> <td>041000</td> <td>Other engineered wood products</td> </tr> <tr> <td>030000</td> <td>Sawnwood and treated wood</td> <td>010000</td> <td>Roundwood</td> </tr> <tr> <td>030100</td> <td>Sawnwood</td> <td>010100</td> <td>Sawlogs and veneer logs</td> </tr> </tbody> </table> <p>Note PEFC product types and codes were updated in 2022. The above table reflects PEFC product types supplied by Carl Ronnow under the MTCS/ PEFC scheme.</p> <p>The Organisation's Management Representative confirmed by interview that – during the audit period – the only product in the above category that was sold was sawn timber into the European Market. Species: various, harvested from native forests in Peninsular Malaysia; with the main species being Meranti or <i>Shorea</i> spp., known as DUC. Minor species are Merbau (<i>Intsia palembanica</i>), and Keruing (<i>Dipterocarpus</i> spp.).</p> <p><i>2. LegalSource certified:</i></p> <p>Doors and door-frames 4409 Mouldings 4407 Sawn timber 4409 Timber decking</p> <p>The Organisation's Management Representative advised the Auditor that, while timber decking has been added to scope, none has been sold to date.</p> <p>Certification schemes:</p> <p>Currently, Organisation includes only certified products within the scope of its DDS, as follows:</p> <ul style="list-style-type: none"> Malaysian Timber Certification System (MTCS) as endorsed by PEFC. Claim: PEFC 100% NEPCon LegalSource Certification System (LS). Claim: LegalSource certified (currently suspended in Gabon and may restart in coming years) <p>Origins (regions or countries of harvest):</p> <ul style="list-style-type: none"> Peninsular Malaysia (Malaysia; PEFC 100%) | Product code | Product name | Product code | Product name | 050000 | Wood based panels | 040000 | Engineered wood products | 050200 | Plywood | 041000 | Other engineered wood products | 030000 | Sawnwood and treated wood | 010000 | Roundwood | 030100 | Sawnwood | 010100 | Sawlogs and veneer logs |
| Product code | Product name | Product code | Product name | | | | | | | | | | | | | | | | | | |
| 050000 | Wood based panels | 040000 | Engineered wood products | | | | | | | | | | | | | | | | | | |
| 050200 | Plywood | 041000 | Other engineered wood products | | | | | | | | | | | | | | | | | | |
| 030000 | Sawnwood and treated wood | 010000 | Roundwood | | | | | | | | | | | | | | | | | | |
| 030100 | Sawnwood | 010100 | Sawlogs and veneer logs | | | | | | | | | | | | | | | | | | |

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| | <ul style="list-style-type: none"> • Gabon (NB: While Gabon remains in scope as a potential country of origin, the LegalSource certification of the Organisation's past supplier there was terminated in 2020.) <p>A feature of Carl Ronnow's stock management system is that the company purchases PEFC-certified sawn timber from several small sawmills in Peninsular Malaysia and sells the timber product into Europe, having assembled bespoke orders for sale and delivery to EU/ UK customers. This usually involves 'unbundling' or separating individual pieces within bundles, to make up 'new' bundles matching the requested order. In this way, the customers receive their specific, 'bespoke' orders (i.e. timber species and sawn timber dimensions) and the small sawmills are able to access European markets, which their relatively limited turnover in general does not allow. A characteristic of the method, however, is that timber purchased many years previously may be part of a contemporary order. Carl Ronnow's systems, however (including the new Timber Chain Platform) were evaluated as being able to manage this commercial system.</p> <p>For a description of the Timber Chain Platform, see section 2.3.2 Timber Chain Blockchain Procedure in the DDS for Carl Ronnow (M) Sdn Bhd, Exhibit 1.</p> |
| Changes to certificate scope since last audit: | <p>N/A</p> <p>Note that suspension of activities in Gabon, as described in the Organisation's previous audit report, continues; with this confirmed by the Management Representative during the Opening Meeting.</p> <p>Note that, in late 2021, the Organisation commenced using the Timber Chain Platform; which utilizes blockchain or distributed ledger technology and was developed collaboratively by IoV42, Carl Ronnow and Preferred by Nature from August 2020. At the time of the 2022 audit, Carl Ronnow's LegalSource certification was being used only to cover Malaysian Timber Certification Scheme (MTCS)/ PEFC-certified shipments from Peninsular Malaysia; with all information relating to these shipments being stored and accessible on the Timber Chain platform. See section 2.3.2 in the DDS (Exhibit 1).</p> <p>In the year or two prior to the 2022 audit, the Organisation's staff with responsibility for certification – including LegalSource – had additional commitments in terms of collaborating with IoV⁴² and Preferred by Nature staff to build and implement the Timber Chain Platform. It was as result of this activity that the 2020 and 2021 LegalSource audits were conflated.</p> |
| Certificate Sites or Group members | |
| <input type="checkbox"/> In place of below table, details are found in Exhibit [N/A] | |
| Site 1: | |
| Site name: | Carl Ronnow (Malaysia) Sdn Bhd |
| Site Address/ Tel/Web/Email: | Locked Bag 20 Kota Kinabalu Sabah 88990 Malaysia +60 88 483 888 +60 88 483 801 http://carlronnow.com/ |
| Site Activity: | Broker/trader with physical storage |
| Product Scope: | See above details |
| Site visited during audit: | <input type="checkbox"/> |
| Site 2 | |
| Site name: | Minho (Syarikat Minho Kilning Sdn Bhd) |

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| Site Address/ Tel/Web/Email: | Lot 6476 Batu 6 Jalan Kapar 42100 Klang Selangor Darul Ehsan Malaysia |
| Site Activity: | Broker/trader with physical storage |
| Product Scope | See above details |
| Site visited during audit: | <input type="checkbox"/> |
| Site 3 | |
| Site name: | Carl Ronnow Limited (legal trading entity) |
| Site Address/ Tel/Web/Email: | Suite No. 02 Office Suites @ Kensington Gardens No. U1317 Jalan Jumidar Buyong 87000 Federal Territory of Labuan Malaysia |
| Site Activity: | Broker/trader with physical storage |
| Product Scope | See above details |
| Site visited during audit: | <input type="checkbox"/> |

| Evaluation Process | |
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| Audit team: | <p>Malory Weston</p> <p>Malory is a Senior Forestry Specialist based in Australia and working in Preferred by Nature's Asia-Pacific region; and a senior FSC Chain of Custody auditor who has been working with NEPCon/ PbN since 2015, undertaking FSC Chain of Custody, Controlled Wood and Forest Management audits – as well as PEFC Chain of Custody and LegalSource audits – in countries including India, Vietnam, Thailand, Papua New Guinea, Philippines, New Zealand, New Caledonia, Australia, Indonesia, Solomon Islands, Czech Republic, Lithuania and Malaysia.</p> <p>For the past few years, she has been actively involved in PbN's FSC Expert training courses, providing training in Asia and Europe in Forest Management, Chain of Custody, Controlled Wood, and Ecosystem Services. She is also a recognised PEFC Chain of Custody Trainer.</p> |
| Description of Audit Process: | <p>The remote audit commenced on Thursday 16 February 2023 at 3PM MYT, by MS Teams; and was attended by the Management Representative/ Environmental Manager (based in the UK), the Environmental Assistant (based in Malaysia), and the Auditor (based in Australia). The Auditor provided a description of the audit by way of Opening Meeting formalities, including the scope and objectives of the audit, methods to be used (e.g. triangulation, sampling), maintenance of confidentiality, access to Preferred by Nature's dispute resolution procedure, etc. Also discussed was the planned agenda, including agreement as to the timing of the second audit session from 3PM MYT on Thursday 23 February 2023.</p> <p>Following the Opening Meeting, the Management Representative provided an overview and historical account of the Timber Chain Platform (TCP), which was being used as an auditing tool by Preferred by Nature for the first time since its development in 2020–21. Subsequently, the Environmental Assistant provided a virtual tour of the TCP, in particular the</p> |

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| | <p>records and data relating to the Organisation's purchase of sawn timbers from sawmills in Peninsular Malaysia (i.e. sourced through Carl Ronnow's PEFC Due Diligence System), and subsequent sale of the timber to customers in the European Union.</p> <p>During the week following the first audit session, the Auditor reviewed material provided by the Organisation, including records lodged within the Timber Chain Platform.</p> <p>The second and final audit session took place on 23 February 2023, also through MS Teams; during which the Auditor sought and received clarification on a number of issues arising during the evaluation. This meeting, as for the first, was attended by the Management Representative/ Environmental Manager, and the Environmental Assistant. Following the approx. 2 hour initial session, the Auditor delivered the Closing Meeting, including a summary of the audit findings and description of the report finalisation process including the report review and approval (RRA).</p> <p>As described in the audit plan – and confirmed during the Opening Meeting – the audit period is 1 August 2021 to 31 January 2023.</p> |
| <p>Actions taken by Organisation prior to report finalisation:</p> | <p>N/A</p> |
| <p>Notes for the next audit:</p> | <p>N/A</p> |

C. Audit Findings

| Audit Conclusion: | |
|---|-------------------------------------|
| Organisation approved: No non-conformances issued | <input checked="" type="checkbox"/> |
| Organisation not approved: Choose an item. | <input type="checkbox"/> |
| Additional comments: Six (6) Observations were identified through the audit process; see below. | |

Non-Conformances

Non-conformance reports (NCRs) describe the non-conformances identified during audits. NCRs include defined timelines for the Organisation to demonstrate conformance. MAJOR non-conformances issued during assessments/reassessments shall be closed prior to issuance of the certificate. MAJOR non-conformances issued during annual audits shall be closed within the timeline specified in the NCR, or result in certificate suspension. Where applicable, all non-conformances against standard requirements are shown below:

N/A (no non-conformities identified)

Observations

Observations (Obs) are issued for the early stages of a problem which does not in and of itself constitute a non-conformance, but which the auditor considers may lead to a future non-conformance if not addressed by the Organisation or where general improvements may be made. Where applicable, all observations are shown below:

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| Observation #: | 01/22 |
| Standard & Requirement: | LegalSource Standard (LS-02) V2.1, Requirement 2.3 |
| Description of Observation: | |
| There is no reference to the 'Access to information' requirement in Table 1; whereas it is stated in section 2.4.1 of the Organisation's DDS (Exhibit 1) that "Environmental Assistantis [sic] responsible for ensuring that the supply chain information is collected from all relevant entities and kept up to date". | |

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| Observation #: | 02/22 |
| Standard & Requirement: | LegalSource Standard (LS-02) V2.1, Requirement 3.1 |
| Description of Observation: | |
| Documents within the Organisation's Due Diligence System (e.g. Document (k) Sample supplier agreement) contain references to the old (and soon to be superseded) version of the PEFC Chain of Custody Standard, i.e. dated 2013 rather than 2020. | |

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| Observation #: | 03/22 |
| Standard & Requirement: | LegalSource Standard (LS-02) V2.1, Requirement 3.2 |
| Description of Observation: | |
| While the documents that Carl Ronnow staff have developed in relation to LegalSource requirements (including the main written procedures as Exhibits 1 and 1A) are in general considered to reflect the Standard requirements and be maintained by the Organisation, the Auditor noted a small number of instances where documents no longer reflected current arrangements. For example, the company is still sourcing from Kedah FMU; however it has been | |

deleted as a supply area in document (e) Carl Ronnow Documents and supply chain flow chart for MTCS PEFC certified product (see Exhibit 5). One of the staff at Minho has retired, and a result details of the Carl Ronnow Supervisor at that location are out-of-date in the Minho SOP (Exhibit 4). As these instances are not considered to be materially impacting on implementation of the Organisation's LegalSource system, this is raised as an Observation.

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| Observation #: | 04/22 |
| Standard & Requirement: | LegalSource Standard (LS-02) V2.1, Requirement 4.1 |
| Description of Observation: | |
| <p>While the Organisation's Environmental Assistant checks each invoice (prior to accepting the supplied timber into stock and, subsequently, approving payment) to ensure that the supplier's PEFC certification is valid – Document r) has not been updated as described in the Organisation's written procedures. While there is no suggestion that Standard requirements are not being met (e.g. the Environmental Assistant follows up with the supplier by telephone if there are any issues; and adds the company 'chop' to the bottom left corner of the invoice to indicate approval before the invoice is paid), the DDS and written procedures should reflect the Organisation's actions to implement the Standard.</p> | |

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| Observation #: | 05/22 |
| Standard & Requirement: | LegalSource Standard (LS-02) V2.1, Requirement 5.1 |
| Description of Observation: | |
| <p>In relation to supply chains, the Timber Chain Platform provides supply chain diagrams with details of the (1) supply FMUs (i.e. MTCS/ PEFC FM-certified Forestry Department of Peninsular Malaysia native forest management units), (2) the primary processors/ sawmills functioning as the direct suppliers to Carl Ronnow, (3) the Minho facility, (4) Carl Ronnow and (5) the customer. However, through review of records lodged in the Timber Chain Platform, the Auditor verified that there appeared to be, recorded in some documents such as the Forest Removal Pass, entities additional to those listed above. During interview, the Environmental Assistant explained that these 'additional' supply chain entities represented errors by forest rangers working with the Forestry Department of Peninsular Malaysia such that an incorrect entity was added as the 'destinasi' or destination for the roundwood logs harvested from the FMUs. According to the Environmental Assistant, she was working with the Forestry Department to ensure that the destination sawmills were the correct entities; and the frequency of this error was gradually decreasing over time.</p> <p>In addition, the Auditor noted the prevalence of an entity, Anson Timber Products Sdn Bhd, as one of two parties in Malaysia Timber Industry standard contracts; with the second parties being the primary processors/ sawmills acting as direct suppliers to Carl Ronnow. The Management Representative confirmed that this company had been working as an agent with Carl Ronnow for about 15 years, and was responsible for setting up the purchase contract on Carl Ronnow's behalf. In relation to this latter issue, an observation is identified, since it appears that Anson Timber Products Sdn Bhd functions as an entity in all Peninsular Malaysia Carl Ronnow LegalSource supply chains.</p> | |

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| Observation #: | 06/22 |
| Standard & Requirement: | LegalSource Standard (LS-02) V2.1, Requirement 7.6 |
| Description of Observation: | |
| <p>The Organisation's current supply DD-04 Supplier Management forms (Exhibits 7A and 7B) do not include clarification relating to the PEFC-certified status of all suppliers; e.g. for two suppliers who appear on the 2021 and 2022 supplier lists, PEFC COC certification had been terminated in 2021 or 2022, and it therefore was not clear if supply was of non-PEFC-certified material. While it was confirmed that purchases occurred prior to certification being lost, and Carl Ronnow staff were aware of this, the records as written do not show up-to-date information.</p> | |

D. Closed Non-Conformances

Closed Non-Conformances

This section indicates where the Organisation has adequately addressed non-conformances issued during or since the last audit.

Any non-conformances which cannot be closed remain open and appear in Section C (above). Failure to comply with a minor non-conformance results in the NCR being upgraded to major; the specified follow-up action is required by the Organisation or involuntary suspension will take place.

N/A (no NCRs)