Sierra Pacific Industries
Washington and California Woodland Operations
2019 SFI Surveillance Audit

Between June and July, 2019 an audit team from KPMG Performance Registrar Inc. (PRI) carried out a surveillance audit of Sierra Pacific Industries (SPI) forestry and procurement operations under the Sustainable Forestry Initiative® (SFI) Program. This Summary Report provides an overview of the process and KPMG’s findings.

Description of Sierra Pacific Industries Operations

SPI owns private forest land in and carries out fiber sourcing in both California and Washington State.

California

1. Forest Management Operations:

SPI is the largest private forest land owner in California, with operations currently encompassing almost 1.65 million acres of timberland throughout northern California. The land ownership pattern consists of both large contiguous tracts of land and a significant number of smaller non-contiguous tracts. The private timberland operations are managed by the Company through eleven separate field operations. Planning and research staff are located at the main office in Anderson, California.
SPI’s land holdings in California reside in the Klamath Mountains, Southern Cascades and Sierra Nevada ecological subregions. Dominant forest types under SPI management in these subregions include Ponderosa Pine, Douglas-fir, Klamath and Sierra Mixed Conifer (Ponderosa Pine, Sugar Pine, White Fir, Douglas Fir, Incense Cedar), Mixed Hardwood-Conifer, Black Oak, Red Fir, White Fir and Jeffrey Pine. SPI carries out even aged, uneven aged, shelterwood and seed tree silviculture regeneration systems, along with pre-commercial thinning and commercial thinning. All clearcut stands are planted with trees grown from the corresponding specific seed zones stratified by 500 foot elevation bands.

Three Option A demonstrations of Maximum Sustained Production (MSP) have been prepared and submitted for SPI’s California operations—one each for the northern, southern and coastal State Forest Districts. Each Option A establishes long-term goals and objectives for key timber and non-timber values consistent with the requirements of the California Forest Practices Rules and SPI’s voluntary practices and commitments. They also establish the associated forest management approaches, standing inventory and growth and yield modeling scenarios, assumptions and timber production constraints to address these goals and objectives, as well as to model growth, harvest and long term sustained yield (LTSY) levels over a 100 year strategic planning horizon.

In order to ensure that the harvest is sustainable over time, existing annual harvest levels have been established at levels well below the long term sustained yield. SPI’s tracked actual harvest level over the 1999—2018 period averaged well below the calculated allowed annual harvest level for its California operations.

Short-term (7-year), sub-district level Timber Harvesting Plans (THPs) are established to guide specific harvesting, road development and silviculture scheduling/strategies on a sub-basin or larger basis. THPs incorporate specific operational approaches for addressing MSP goals and objectives, Forest Practices Rules and Company practices and commitments for identifying and protecting timber and non-timber resource values (wildlife and habitat features, aesthetic, recreation, range/forage, riparian, watersheds, fisheries, etc.).

2. Fiber Sourcing Operations:

SPI fiber sourcing operations in California are carried out by procurement foresters associated with sawmills located in Anderson (where there is also a pole plant), Burney, Shasta Lake, Oroville, Quincy, Chinese Camp, Sonora and Lincoln. A substantial proportion of the Company’s California mills’ fiber supply is obtained through SPI’s procurement program.

Logs are received at the sawmills from a number of sources, including SPI’s own fee lands, stumpage sales on private or federal land and direct log purchases from land managed or owned by Timber Investment Management Organizations, Real Estate Investment Trusts, family forest owners, tribal lands, private landowners and other US public lands. The majority of the incoming logs originate from California, with very small proportions of the total supply coming from Oregon and Nevada.

The log supply monitoring system in place for SPI’s California mills includes a combination of establishing log purchase contracts with suppliers prior to acceptance of logs at the mills, Best Management Practices monitoring carried out by each mill’s procurement forester on a sample of its suppliers and rule enforcement data received from the California Department of Forestry.
Washington State

1. Forest Management Operations:

SPI manages 142,145 acres (Burlington District) and 149,134 acres (Centralia District) of private timberlands in the northwest and southwest portions of the State respectively, managed from district woodlands offices located in Burlington and Centralia. The Company’s Washington holdings also include a conifer seed orchard situated on Whidbey Island.

SPI’s land holdings in Washington reside in the Cascade Mixed Coniferous Forest ecological subregion. Dominant forest types under SPI management in this subregion include Douglas-fir, Western Hemlock, Western Red Cedar, Sitka Spruce, Grand Fir, Red Alder and Broadleaf Maple at lower elevations and Pacific Silver Fir, Mountain Hemlock and Subalpine Fir at higher elevations. SPI carries out even aged management on its Washington holdings, along with pre-commercial thinning and commercial thinning. All clear cut stands are planted with trees grown from specific seed zones and elevation bands corresponding to the area of harvest.

Long term resource analyses, based on SPI’s inventory program and growth and yield model functions, and associated harvest plans have been established for both the Burlington and Centralia Forest Districts. The analyses and plans reflect the requirements of the Washington Forest Practice Rules, which establish the overall legal requirements respecting long term management planning, harvest scheduling and the identification and protection of non-timber resource values. The operable, forested landbase was arrived at in the analyses following reductions for riparian, non-forest, unstable slopes, unproductive land, etc. Mid-term harvest levels have been developed for the two Forest Districts based on the calculated long term sustained yield levels established for the two Forest Districts. Shorter term harvest scheduling (3 years) refines the delineation of the block boundaries by incorporating other spatially explicit considerations (riparian, heritage, roads, etc.). Forest Practice Applications (FPAs) submitted for approval to the Department of Natural Resources (DNR) establish the stand-level operational plan covering timber and non-timber values (which link to Washington’s Forest Practice Rule requirements). Detailed annual harvest plans (with block-specific inventory and scheduled cut volumes) are also prepared specifying proposed layout and development and FPA approval status. All harvesting on SPI managed land in Washington also addresses the retention standards of the State of Washington Aquatic Species Habitat Conservation Plan.

In order to ensure that the harvest is sustainable over time, existing annual harvest levels have been established at levels well below the long term sustained yield. SPI’s tracked actual harvest level over the 2009—2018 period at the two Forest Districts averaged below the calculated allowed annual harvest level for its Washington operations.

2. Fiber Sourcing Operations:

SPI fiber sourcing operations in Washington State are carried out by procurement foresters associated with sawmills located in Aberdeen, Burlington, Centralia and Shelton. A substantial proportion of the Company’s Washington mills’ fiber supply is obtained through SPI’s procurement program.

For SPI’s Washington sawmills, the majority of the incoming logs originate from Washington State with small proportions of the total supply coming from British Columbia and Oregon.

The log supply monitoring system in place for SPI’s Washington sawmills includes a combination of establishing log purchase contracts with suppliers prior to acceptance of logs at the mills, Best Management Practices monitoring carried out by its procurement foresters on a sample of its suppliers and rule enforcement data received from the Department of Natural Resources.
Audit Scope

The audit was conducted against the requirements of the 2015-2019 edition of the SFI forest management and fiber sourcing standards and incorporated an assessment of selected applicable SFI program objectives for SPI operations in Washington and California as noted under “Evidence of Conformity with SFI 2015-2019” below.

In addition to time spent off-site conducting a document review and following the audit preparing the reports and files, the scope of the 2018 SFI surveillance audit included approximately 13 person days field work at the following SPI California and Washington operations:

- Land management operations at the Centralia District in Washington.
- Washington procurement operations for the Aberdeen and Centralia sawmills.
- Land management operations in California conducted by the Almanor, Burney, Martell and Camino Districts.
- California procurement operations for the Shasta sawmill and Lincoln sawmill.
- Visit to SPI’s head office located in Anderson, CA.

The Audit

- **Audit Team** – The surveillance audit was conducted by Craig Roessler, RPF(BC), EP (EMSLA), CF(SIF) and Branden Beatty, RPBio(BC). Both Craig, who was the lead auditor, and Branden are employees of KPMG PRI and have conducted numerous forest management audits under a variety of standards including SFI, CSA Z809, FSC and ISO 14001.

- **SFI Surveillance Audit** – The audit involved an on-site assessment of selected applicable elements of the Company’s sustainable forest and fiber sourcing management system and SFI program, and included visits to field sites in both Washington and California to evaluate conformance with the requirements of the current version of the SFI standard.

- **SPI SFI Program Representative** – Mr. Cedric Twight served as the SPI SFI program representative during the audit.

- **Multi-site Sampling Approach** – The sites audited this year were selected on the basis of the multi-site sampling approach consistent with the requirements of IAF MD-1, with the specific sites selected based on addressing a combination of geographic distribution, the results of previous audits and the period of time elapsed since the last audit of each operation.

- **Field Audit Sample** – The sites sampled during the audit involved document and record reviews, interviews and inspection of roads (29 sites), harvesting practices (44), silviculture activities (30) and procurement sites (7). The sites selected for field review were based on a risk based sampling approach, which considers the need to assess a range of resource issues and management strategies that correlate to the SFI objectives included in the scope of the audit as well as the need to see a geographic distribution of activities, to include active sites and to enable an assessment of actions to address previously identified audit findings.

Use of Substitute Indicators

The following supplemental indicator 4.1.9 was added and assessed against during the 2019 surveillance audit:

*Retention and recruitment of Pacific Fisher habitat elements on SPI California lands through the implementation of the specific conservation measures established in section 7.3.4 of the “Candidate Conservation Agreement with Assurances for Fishers on the SPI...*
ownership in the Klamath, Cascade, and Sierra Nevada Mountains” between Sierra Pacific Industries and the U.S Fish and Wildlife Service (signed agreement dated October 2016).

No other indicators in the SFI standard were added, modified or substituted for the purpose of this audit.

Audit Objectives

The objectives of the 2019 SFI surveillance audit were to evaluate the Sustainable Forest Management (SFM) and Fiber Sourcing (FS) system at Sierra Pacific Industries to:

- Determine its conformance with the requirements of SFI 2015-2019 Forest Management and Fiber Sourcing standards within the scope of the audit.
- Evaluate the ability of the SFM and FS system to ensure that the Company meets applicable regulatory requirements.
- Evaluate the effectiveness of the system in ensuring that Sierra Pacific Industries meets its specified objectives.
- Where applicable, identify opportunities for improvement.

Evidence of Conformity with SFI 2015-2019

Primary sources of evidence assessed to determine conformity with the SFI 2015-2019 standard are presented in the table on the next page.

Good Practices

A number of good practices were identified during the course of the 2019 surveillance audit, including the following examples:

- SFI FM Objective 2 (Forest Health and Productivity): A mix of tree species is being planted and good retention of naturals (particularly Incense Cedar) was observed to be occurring during the field audit, which is providing excellent post-harvest representation of a diversity of tree species mixes in the plantations (observed in all California Forest Management Districts visited).

- SFI FM Objective 2 (Forest Health and Productivity): The field audit observed a number of examples of effectively implemented fuel break prescriptions to promote fire protection in high risk tracts (identified in all California Forest Management Districts visited). Correspondingly, SPI has entered into a multi-stakeholder Memorandum of Understanding in an effort to support a coordinated approach to fuel reduction (and associated forest resource protection and species conservation) across the land base.

- SFI FM Objective 3 (Protection and Maintenance of Water Resources): The field audit observed noteworthy examples of meadow complex restoration projects undertaken by the district in collaboration with a number of key partners (Almanor District).

- SFI FM Objectives 9 (Legal and Regulatory Compliance): A detailed documented Licensed Timber Operator (LTO) Timber Harvest Plan (THP) checklist specifying key resource protection, management practice and other operational highlights specific to the THP was being used to communicate in a focused manner the key THP-specific operational issues of relevance to the LTO (observed at the Almanor District, but also known to be used at other Districts).

The audit in the California Forest Districts included a focused field assessment of the Company’s performance in addressing the conservation measures established in the Candidate Conservation Agreement with Assurances (CCAA) for Pacific Fisher. The field audit confirmed that the Company was effectively implementing its conservation plans to promote fisher habitat.
**SFI Forest Management Objective** | **Sources of Key Evidence of Conformity**
--- | ---
2. Forest Health and Productivity | Timber Harvesting Plans (THP - CA) & Forest Practice Applications (FPA - WA); Regeneration plans; Unit Completion data spreadsheets; Regeneration and stocking survey results; SPI pesticide policy; Pesticide use records; SPI fire policy and fire weather forecast system; District Fire Plans; SPI supporting records for SFI annual progress report; Latest (2018) annual SFI progress report; Field inspections and interviews.
4. Conservation of Biological Diversity | Fisher Candidate Conservation Agreement with Assurances (CCAA in CA); District lists and maps depicting Fisher CCAA protected features; Staff training records; Field inspections and interviews.
5. Management of Visual Quality and Recreational Benefits | THPs (CA) and FPAs (WA); Digital terrain modeling; GIS topographic map layers; SPI Public access policy; SPI supporting records for SFI annual progress report; Latest (2018) annual SFI progress report; Staff and contractor training records; Field inspections and interviews.
6. Protection of Special Sites | NA — not in the 2019 audit scope.
9. Legal and Regulatory Compliance | THPs (CA) and FPAs & Hydraulic Permits (WA); SPI landowner information package; SPI log purchase contracts; WA Dept of Natural Resources & CA Dept of Forestry notices; SPI employee manual; Field inspections and interviews.
10. Forestry Research, Science & Technology | SPI research projects’ documentation and lists; SIC meeting minutes; SPI membership and participation records; Interviews.
11. Training and Education | NA — not in the 2019 audit scope.
12. Community Involvement and Landowner Outreach | SIC meeting minutes; SPI public and stakeholder outreach, involvement & communication records; SPI public website; State forestry / contractor association and SIC websites; SPI staff and contractor logger training materials; Interviews.
13. Public Land Management Responsibilities | NA – SPI does not have forest management responsibilities on public lands.
14. Communications and Public Reporting | SPI website; SPI supporting records for SFI annual progress report; Latest (2018) and previous years’ annual SFI progress reports.
15. Management Review and Continual Improvement | SPI annual management review meeting and input records; Corporate and District field audit results; Annual Chairman/CFO letter confirming SFI performance review.

Part of the field sample included visits to active harvest units in order to assess loggers’ performance and awareness of operational issues, fire preparedness and protection requirements, management and control of fuel and spills and efficient utilization of harvested timber.
Addressing Fisher Candidate Conservation Agreement with Assurances

The audit in the California Districts included a focused field assessment of the fulfillment of the CCAA requirements respecting the conservation and improvement of Pacific Fisher habitat. The field audit of recently harvested blocks found that SPI was effectively implementing its conservation plans to promote fisher habitat by retaining the required CCAA habitat elements. Consequently, SPI was found to be in full conformance with supplemental SFI habitat elements.

Follow-up on Nonconformities from Previous Audits

At the time of the 2019 surveillance audit there were no open nonconformities from previous audits requiring follow up on.

---

The Company has worked with key partners to restore meadow complexes (including in the Almanor District, where these pictures were taken).
New Areas of Nonconformity
No new areas of nonconformity were identified during the 2019 surveillance audit with respect to the SFI 2015-2019 forest management and fiber sourcing standards.

Opportunities for Improvement
The following opportunities for improvement were identified during the 2019 surveillance audit with respect to the SFI 2015-2019 forest management standard:

- SFI FM Objective 4 (Conservation of Biological Diversity): The audit noted that there are currently no practical field guides or other like documentation that would better support forestry staff and layout crew efforts in identifying species at risk (flora and fauna), rare ecological communities (FECV) and invasive species and which would moreover provide documented instructions on the recommended management strategies to be employed when encountering species at risk, FECV and invasive species in the field (Centralia District).

- SFI FM Objective 15 & SFI FS Objective 10 (Management Review and Continual Improvement): While the annual internal SFI FM and FS audit of all Forest Districts was completed by the SPI Main Office at the time of the KPMG PRI audit, the final audit report was not fully written and available for review (although the results were). An opportunity exists to better time the internal audit to facilitate a full review of the final audit report during the KPMG PRI audit.

Audit Conclusions
The audit found that Sierra Pacific Industries’ SFM and FS system:

- Was in full conformance with the SFI 2015-2019 requirements included in the scope of the audit;
- Continues to be effectively implemented; and
- Is sufficient to systematically meet the commitments included in SPI’s SFI Policy provided that the system continues to be implemented and maintained as required.

As no major (or minor) nonconformities were identified during the audit, a decision has been made to grant continued SPI certification to the 2015-2019 versions of the Forest Management and Fiber Sourcing standards. SPI’s Forest Management and Fiber Sourcing certificates are valid until August 22, 2021.

Corrective Action Plans
No nonconformities were identified during the audit. As a result, there was no requirement for Sierra Pacific Industries to develop and submit corrective action plans to address the findings of the audit.