



REPORT Forest Certification



Sierra Pacific Industries Washington and California Woodland Operations

2017 SFI Surveillance Audit

January 2018

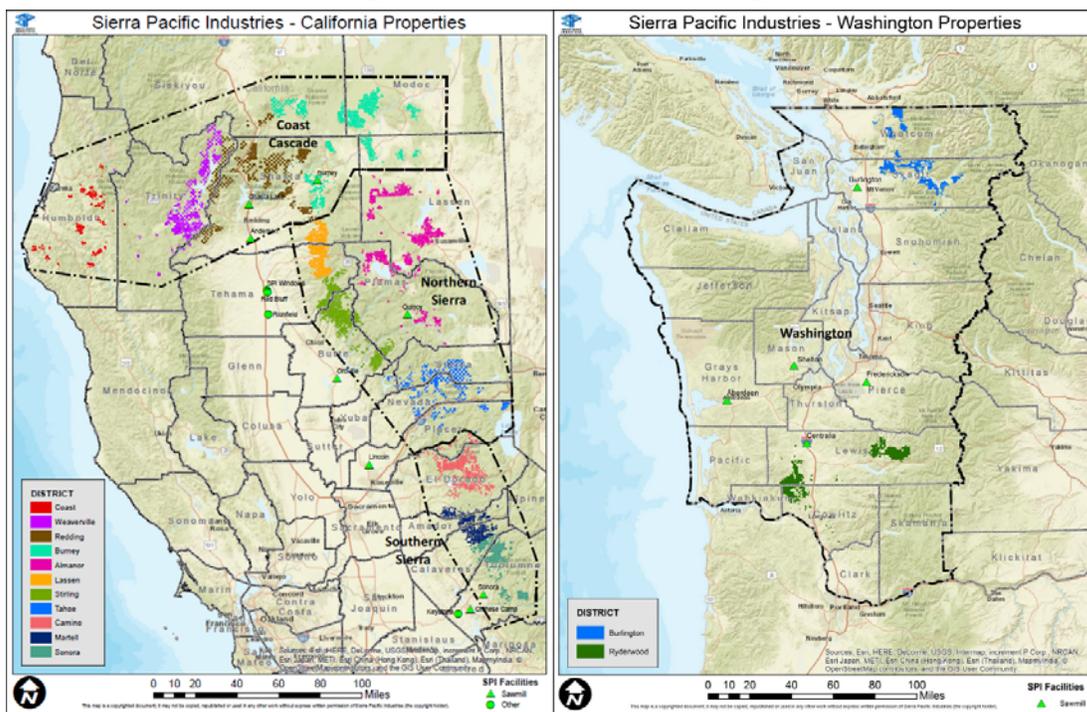
Between February and July 2017, an audit team from KPMG Performance Registrar Inc. (PRI) carried out a surveillance audit of Sierra Pacific Industries (SPI) forestry and procurement operations under the Sustainable Forestry Initiative® (SFI) Program. This Summary Report provides an overview of the process and KPMG’s findings.

Description of Sierra Pacific Industries Operations

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

Sierra Pacific Industries

California and Washington Timberlands and Manufacturing Facilities



#0746



California

1. Forest Management Operations:

SPI is the largest private forest land owner in California, with operations currently encompassing approximately 1.64 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 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 establish 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—2016 period averaged approximately 20% 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 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.

Sierra Pacific Industries SFI 2015-2019 Surveillance Audit Findings for 2017

Minor nonconformities from previous audits that remain open	0
New major nonconformities	0
New minor nonconformities	0
New opportunities for improvement	0

Types of audit findings

Major nonconformities:

Are pervasive or critical to the achievement of the SFM Objectives.

Minor nonconformities:

Are isolated incidents that are non-critical to the achievement of SFM Objectives.

All nonconformities require the development of a corrective action plan within 30 days of the audit. Corrective action plans to address major non-conformities must be fully implemented by the operation within 3 months or certification cannot be maintained. Corrective action plans to address minor nonconformities must be fully implemented within 12 months.

Opportunities for Improvement:

Are not nonconformities but are comments on specific areas of the SFM System where improvements can be made.

Washington State

1. Forest Management Operations:

SPI manages 130,310 acres (Burlington Tree Farm) and 149,292 acres (Ryderwood Tree Farm) 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 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 clearcut stands are planted with trees grown from specific seed zones and elevation bands.

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 Ryderwood Tree Farms. 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 net downs for riparian, non-forest, unstable slopes, unproductive land, etc. Mid-term harvest levels have been developed for the two tree farms based on the calculated long term sustained yield levels established for the two tree farms. 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—2016 period at the two Tree Farms averaged approximately 30% 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.



The field audit observed numerous examples of effective measures being implemented to protect water resources (including in this case in the Centralia District where a bridge was removed on a stream and slopes pulled back to the appropriate angle of repose and effectively stabilized with rip rap and mulch/grass seed to prevent sediment movement and maintain the natural channel).

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 0.5 days spent off-site conducting a document review prior to the on-site audit and 2.5 days following the audit preparing the reports and files, the scope of the 2017 SFI surveillance audit included visits to the following SPI California and Washington operations (days spent at each site are noted in parenthesis):

- Land management operations at the Centralia District in Washington conducted from the Centralia, WA District office (3.0 days).
- Washington procurement operations for the Shelton and Aberdeen sawmills (1.0 day each).
- Land management operations in California conducted by the Sonora (1.0), Coast (1.5) and Weaverville (1.5) Districts.
- California procurement operations for the Sonora sawmill (0.5), Oroville sawmill (0.5) and Shasta Lake sawmill (0.5).
- Visits to SPI’s head office located in Anderson, CA (1.5).

The Audit

- **Audit Team** – The surveillance audit was conducted by Craig Roessler, RPF(BC), EP (EMSLA), CF(SIF) and William Kleiner, RPF(CA), CF(SIF). Craig, who was the lead auditor, is an employee of KPMG PRI and has conducted numerous forest management audits under a variety of standards including SFI, CSA Z809, FSC and ISO 14001. William Kleiner, an independent consultant, also has considerable experience conducting SFM audits against the SFI standard.
- **SFI Surveillance Audit** – The audit involved an on-site assessment of selected applicable elements of the Company’s sustainable forest 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. Field visits were made to 5 of the Company’s land management and procurement operations during the course of the audit.
- **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 as noted above were selected on the basis of the multi-site sampling approach consistent with the requirements of IAF MD-1 (3 of 8 California procurement operations, 3 of 11 California land management/procurement operations, 1 of 2 Washington land management operations and 2 of 4 Washington procurement operations), 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** – Each site sampled during the audit involved document and record reviews, interviews and inspection of roads (22 sites), harvesting practices (17), silviculture activities (12) and procurement sites (8). 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 on previously identified audit findings.



This recently harvested unit in the Sonora District is an example of effectively planning for and managing multiple resource values while advancing stand improvement objectives. In this case, a seed tree retention harvest prescription (combined with sanitation salvage logging of dying trees impacted by drought and bark beetle infestation) was implemented to promote a healthy, diverse future stand.

Use of Substitute Indicators

No substitute indicators were applicable to the audit

Audit Objectives

The objectives of the 2017 SFI surveillance audit were to evaluate the Sustainable Forest Management (SFM) system at Sierra Pacific Industries to:

- Determine its conformance with the requirements of SFI 2015-2019.
- Evaluate the ability of the SFM 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 2017 surveillance audit, including the following examples:

- SFI FM Objective 3 (Protection and Maintenance of Water Resources): Numerous examples were noted during the field audit of effective sediment control measures being implemented to protect water resources (e.g., a bridge removal in the Centralia District, where slopes were pulled back to the appropriate angle of repose and effectively stabilized with rip rap and mulch/grass seed to prevent sediment movement).
- SFI FM Objectives' 3 (Protection and Maintenance of Water Resources) and 4 (Conservation of Biological Diversity): The field audit in California observed examples of well-placed CCAA (Candidate Conservation Agreement with Assurances) elements which, along with other stand-level wildlife habitat elements (e.g., Habitat Retention Areas, wildlife and legacy trees, black oak regen, adjacency strips, etc.), collectively promoted biodiversity, provided for wildlife habitat (including, with respect to CCAA, enhanced fisher habitat) and corridors along with well protected water resources.
- SFI FM Objective 5 (Management of Visual Quality and Recreational Benefits): Visual quality was found to be effectively managed in the vicinity of visually sensitive areas (e.g., an alternative partial harvest prescription was implemented on a harvest block in the Coast District to buffer a public road as well as to separate even aged harvest units).



The Company has entered into a voluntary Candidate Conservation Agreement with Assurances (CCAA) with the US Fish and Wildlife Services to proactively manage for fisher habitat. The associated habitat constraints reflected in the CCAA are being incorporated into all new SPI THPs. The field audit in the California Districts observed examples of Habitat Retention Areas, individual trees and hardwood regeneration being retained to address the CCAA and associated fisher habitat requirements.

SFI Forest Management Objective	Sources of Key Evidence of Conformity
1. Forest Management Planning	NA — not in the 2017 audit scope.
2. Forest Health and Productivity	NA — not in the 2017 audit scope.
3. Protection and Maintenance of Water Resources	THPs (CA), FPAs (WA) and Hydraulic Permits (WA); Road Maintenance and Abandonment Plans (RMAPs) (WA); Timber Harvesting and Road Construction contracts; SPI road inspection policy; Road inspection/maintenance records; Water quality monitoring reports / records (CA); GIS topographic map layers; Field inspections and interviews.
4. Conservation of Biological Diversity	NA — not in the 2017 audit scope.
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 (2015) annual SFI progress report; Staff and contractor training records; Field inspections and interviews.
6. Protection of Special Sites	NA — not in the 2017 audit scope.
7. Efficient Use of Fiber Resources	THPs (CA) and FPAs (WA); USFS Stewardship Contracts (CA); SPI log sort and bucking specifications; Logger training records; Field inspections and interviews.
8. Recognize and Respect Indigenous Peoples' Rights	NA — not in the 2017 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	NA — not in the 2017 audit scope.
11. Training and Education	NA — not in the 2017 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.
13. Public Land Management Responsibilities	NA – SPI does not have forest management responsibilities on public lands.
14. Communications and Public Reporting	NA — not in the 2017 audit scope.
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.



In addition to visiting completed harvest units in order to assess full site plan implementation (including block completion activities, such as fire hazard abatement, road and exposed slope stabilization, etc.), the field audit also focuses on active harvest units in order to assess Licensed Timber Operator (LTO) performance respecting awareness of operational issues and training and competency, including compliance with fire preparedness and protection requirements, management and control of fuel and spills and efficient utilization of harvested timber.

SFI Fiber Sourcing Objective	Sources of Key Evidence of Conformity
1. Biodiversity in Fiber Sourcing	SPI log purchase policy; SPI log purchase contracts; SPI landowner information package; SPI website; SFI landowner outreach tri-fold; WA and CA SIC meeting minutes; WA and CA SIC websites; SPI controlled wood risk assessments and due diligence analyses; Habitat Form Modeling; THPs (CA); FPAs and Hydraulic Permits (WA); Habitat Conservation Plan (WA); SPI plant and wildlife (PWWild) database and sample of botany scoping reports and planning watersheds wildlife reports respecting THPs reviewed during the CA audit; California Natural Diversity Database; Candidate Conservation Agreement with Assurances (CCAA in CA); SPI research projects' documentation; Staff training records; Field inspections and interviews.
2. Adherence to Best Management Practices	THPs (CA) and FPAs (WA); SPI landowner information package; SPI log purchase contracts; SPI website; SIC meeting minutes; State forestry/logging contractor association and SIC websites; SPI BMP field inspections; SPI logger training materials; Field inspections and interviews.
3. Use of Qualified Resource and Logging Professionals	NA — not in the 2017 audit scope.
4. Legal and Regulatory Compliance	THPs (CA) and FPAs & Hydraulic Permits (WA); SPI landowner information package; SPI landowner information package; SPI log purchase contracts; SPI log purchase records/database; WA Dept of Natural Resources & CA Dept of Forestry rule enforcement reports; SPI employee manual; SPI controlled wood risk assessments and due diligence analyses.
5. Forestry Research, Science & Technology	NA — not in the 2017 audit scope.
6. Training and Education	NA — not in the 2017 audit scope.
7. Community Involvement and Landowner Outreach	SIC meeting minutes; SPI public and stakeholder outreach, involvement & communication records; SPI landowner information package; SPI public website; State forestry / contractor association and SIC websites, SPI staff and contractor logger training materials.
8. Public Land Management Responsibilities	NA – SPI does not have forest management responsibilities on public lands.
9. Communications and Public Reporting	NA — not in the 2017 audit scope.
10. 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.
11. Promote Conservation of Biological Diversity, Biodiversity Hotspots and High-Biodiversity Wilderness Areas	NA – SPI does not source fiber from outside North America.
12. Avoidance of Controversial Sources including Illegal Logging	NA – SPI does not source fiber from outside North America.
13. Avoidance of Controversial Sources including Fiber Sourced from Areas without Effective Social Laws	NA – SPI does not source fiber from outside North America.



The field audit confirmed that SPI is implementing efficient utilization practices on the ground.

Follow-up on Nonconformities from Previous Audits:

At the time of the 2017 surveillance audit there were a total of 4 open nonconformities from previous audits. The audit team reviewed the implementation of the action plans developed by Sierra Pacific Industries to address these issues, and found that they had been fully implemented to address the issues. Consequently all previously identified nonconformities were closed.

New Areas of Nonconformity

No new areas of conformity were identified during the 2017 surveillance audit with respect to the SFI 2015-2019 standard.

Opportunities for Improvement

No new opportunities for improvement were identified during the 2017 surveillance audit with respect to the SFI 2015-2019 standard.

Audit Conclusions

The audit found that Sierra Pacific Industries' SFM system:

- Was in full conformance with the SFI 2015-2019 requirements included in the scope of the audit except as described in the nonconformities above;
- 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.



The field audit found that SPI continues to implement effective sediment and erosion control measures in the vicinity of streams during road construction and maintenance (including bridge and culvert installations).

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