



**BUREAU
VERITAS**

**Bureau Veritas Certification
North America, Inc.
SFI Audit Report**

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| | |
|----------------|---|
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| | | | | | | | | |
|------------------|-----------|----------------------|--|-------------------------|--|---|---|--|
| Contract Number: | US1499149 | Certification Audit: | | Re-Certification Audit: | | X | Surveillance: (Indicate visit # or Pre-Assessment) | |
|------------------|-----------|----------------------|--|-------------------------|--|---|---|--|

| Audit Summary | |
|---|--|
| Introduction | |
| <p>This report summarizes the results of the renewal audit conducted on Deltic Timber Corporation’s SFI program for forest management and wood procurement operations. Richard Boitnott, Bureau Veritas Certification Lead Auditor, conducted the document review on September 9, 2013, and the field audit September 23rd through the 27th.</p> | |
| Audit Scope, Objectives and Process | |
| <p>The scope of the audit is “forest Management and Procurement Operations in Arkansas and Louisiana”. The audit was conducted against the SFI 2010-2014 Standard. SFIS Objectives 1 through 10, 14 through 17, 19 and 20 were covered during the audit. There was no substitution or modification of indicators. Specifically, two objectives of the SFI audit were to verify that the Program Participant’s SFI Program is in conformance with the SFI Objectives, Performance Measures, and Indicators, and any additional indicators that the Program Participant chooses, and verify whether the Program Participant has effectively implemented its SFI Standard program requirements on the ground. Standard Bureau Veritas Certification protocols and forms were applied throughout the audit as provided by the most recent version of the Bureau Veritas Certification SFI Auditor Handbook available on the auditor access website.</p> | |
| Audit Plan | |
| <p>A document review was conducted on September 9 in the El Dorado Arkansas central office. The field audit began with an opening meeting at 8:00 Monday morning September 23. Field audits were conducted on fee and procurement tracts in the Waldo region the 23rd, 24th, and the morning of the 25th. Field audits in the Ola region were conducted the afternoon of the 25th, and all day the 26th and 27th. A closing meeting was held at the end of the day on the 27st. An audit plan was developed and maintained on file by Bureau Veritas Certification.</p> | |
| Company Information | |
| <p>Deltic Timber Company manages approximately 450,000 acres of timber land in Arkansas, and operates sawmills in Ola and Waldo Arkansas. Sawtimber from company land is used to furnish the two sawmills. In addition, the company sources wood using both purchased stumpage and open market procurement systems. A considerable portion of the non-fee wood comes from its purchased</p> | |

stumpage program. Much of this purchased stumpage is from the U.S. Forest Service in the Ola region.

There are considerable differences in the character of the company land associated with each mill. Land in the Ola region is in the Ouachita mountains and foothills of the Ozarks. The property is generally steep and rocky, with considerable inoperable areas that provide residual native habitat. Artificial regeneration is practiced on this portion of company land, through clearcutting, followed by chemical and mechanical site preparation. Land around the Waldo area is gently rolling to flat, consisting primarily of loblolly pine and hardwood streamside zones. Artificial regeneration is also practiced on this portion of the landbase, although some stands are still managed naturally.

Multi-Site Requirements

Company land is divided into seven districts. Fiber sourcing procedures are in place at sawmills located in Waldo and Ola. Deltic has a centrally managed SFI program, with one SFI manager responsible for management of the system. The SFI manager reviews a number of activities on fee and procurement tracts across all districts. However, documentation of these reviews is scant, making it difficult to evaluate the effectiveness of its internal audit program. Regardless of multi-site requirements, all sites are audited during each audit event at the request of company management.

| Sites | Sites Audited During this Event |
|---------------|--|
| El Dorado, AR | X |
| Heber | X |
| Nimrod | X |
| Perryville | X |
| Hope | X |
| Magnolia | X |
| Union | X |
| Bradley | X |

Audit Results

The document review was conducted to determine if Deltic's system documentation continues to meet the requirements of the SFI 2010-2014 Standard. The field audit consisted of a review of eight harvesting operations, 10 regeneration/site preparation tracts, three purchased stumpage tracts, and four reviews of open market tracts.

Objective 1: Deltic has a stand-level periodic inventory system. Land is classed by forest type (pine, hardwood, non-productive, natural stands, plantations). Soil inventory and underlying data is in the GIS. Recommended harvest levels are projected each year. The company does not have a sophisticated harvest modeling program. Its philosophy is to harvest no more than annual growth. Evidence was presented it is meeting this goal. Stands are grown using a proprietary growth-and-yield model. Non-timber issues include an analysis of lands that have greater value for biological diversity, and designation of such as special sites.

Objective 2: Regeneration was well done on all sites observed during the audit. Top management requires the company to regenerate clearcut stands as quickly as possible. Therefore, no stands are regenerated more than two years following harvest. In fact, most stands are within one year. Further evidence was the fact that all clearcut harvests reviewed during the audit had been chemically site prepared in order to regenerate during the coming planting season.

Chemical applications are very well done, with minimal drift into off-target areas. Herbicide applications demonstrated minimization of chemical use. All applications were within the norms of rates for most forestry applications in the southeast. Rates were less than the maximum allowed by the label.

Deltic has an excellent soil mapping program that provides useful information to field foresters. The company has access to soil data. It incorporates soil mapping data into a tool that identifies susceptibility to erosion and compaction. Severity rating maps are included in all harvest packages, including purchased stumpage. Deltic has been recognized in the past for the use of this tool, particularly by procurement foresters who purchase stumpage.

Objective 3: Harvest and mechanical site preparation activities demonstrated implementation of plans to protect water quality. Temporary stream crossings were removed and approaches stabilized. However, there were three instances where it appeared mechanical site preparation equipment used stream crossings remediated by the logger without properly removing all fill material and without adequately re-stabilizing the approaches. No BMP violations were found, but there is a high possibility one could occur if this situation is not remedied.

Objective 4: Deltic has a program to gather information on the potential presence of T&E species and FECVs that could occur on company land, or be impacted by the company's operations. The company uses this information on both fee and purchased stumpage tracts. The company wildlife biologist is in charge of reviewing fee timber sales for the presence of T&E species or FECVs, and providing management recommendations should a species be in the vicinity of a planned activity. The primary T&E species that impacts the company is the red-cockaded woodpecker. There are a number of active and inactive RCW clusters on company land. These sites are monitored for activity. The company has a program to provide for habitat for each cluster site, but has not analyzed the amount of habitat associated with each cluster to ensure it is meeting its own requirements. An opportunity for improvement was issued to encourage the company to gather this data.

Clearcuts reviewed during the audit demonstrated an adequate amount of retention on most harvest units. Many of the harvest sites in the Ola area are on historic shortleaf pine stands that were managed to remove all hardwood competition. The result is that many of the harvested areas have little opportunity for retention other than live pine trees. Foresters leave ephemeral drains intact where possible to provide some retention. This continues to be an area that bears watching.

Deltic has developed a formal landscape assessment on its larger blocks of timberlands. Foresters use the assessment to plan harvests in a manner that provides habitat diversity. The company has a number of acres of inoperable land, particularly in the Ola region. These sites are not harvestable, primarily due to steep topography, and will eventually provide some old-growth characteristics across the landscape.

Foresters have been trained in the identification of non-native invasive species that could occur in the area. This region of Arkansas does not have extensive occurrences of invasive species.

Objective 5: The company has an aesthetic management program. However, most sites in Arkansas are in very rural areas out of view of the general public. However, there is a major scenic highway that goes through the Ola region. Deltic considers the visual impact of harvest on this travel corridor.

Average clearcut size so far for 2013 is 88 acres. Compliance with the company's green-up policy was observed on all clearcuts. The GIS forester has an adjacency tool that evaluates green-up compliance.

Objective 6: Deltic has a special sites program to protect sites on its property with cultural, historical, geological, or ecological uniqueness. These sites are identified on the GIS, which is used during the planning process to determine if any of these sites are located within harvest unit boundaries.

Objective 7: Utilization was acceptable on all harvest units observed during the audit.

Objective 8: Deltic has developed a landowner information brochure that either covers or provides access to all the requirements of this objective. It distributes this brochure to private landowners from whom it purchases timber. Deltic has a landowner assistance program. The LAP forester is a certified tree farm inspector, and has enrolled a number of the LAP landowners in the tree farm program.

Deltic has a program in place to ensure potential FECVs that could occur on a purchased stumpage tract are identified. Procurement personnel have access to NatureServe, and review the list for G1/G2 species and communities that are known to occur in the county in which they are purchasing wood. They are also trained to review the habitat associations for each G1/G2 identified in the county so they can determine if a species is likely to occur on a specific tract. They use the services of the company wildlife biologist in case there are any questions.

Objective 9: Deltic requires all loggers operating on purchased stumpage to complete logger training. The company maintains a list of trained loggers.

Objective 10: Deltic has a program to ensure purchased stumpage tracts comply with state BMPs. The company treats purchased stumpage in the same manner as fee, with the same pre-harvest plans developed, including soil sensitivity maps, same monitoring procedure, and same FECV procedure. Deltic has been recognized in the past for using the same soil sensitivity and FECV procedures for its purchased stumpage program as it does on fee land. Deltic's plan to address adverse weather consists of the identification of wet-weather logging tracts and definition of acceptable operating conditions.

Deltic has a program to monitor BMP compliance of its wood suppliers by conducting audits of selected open market tracts. Gatewood tracts reviewed during the audit demonstrated the company is conducting its monitoring effectively. One gatewood tract had a number of significant BMP violations. These deficiencies were identified on the gatewood inspection form, providing evidence the company is conducting its monitoring program effectively. The company had not yet contacted the supplier, but Deltic was admonished to consider the fact that its contract with the supplier required BMP compliance. This will be watched in the future to see if improvement actions are taken and monitored.

Objective 14: Access to applicable legal requirements is in place. No adverse regulatory action information was evident.

The company has received no information from interested parties relative to its or any of its contractor's conformance with ILO core conventions.

Objective 15: Deltic makes considerable contributions towards forest productivity and wildlife-related research. The company has developed a landowner information brochure that provided biodiversity conservation information. The company also uses BMP compliance data from the state forestry commission to compare its monitoring results with those of the state. Deltic has access to information on the potential impacts of climate change on forest health and productivity, and wildlife and wildlife habitat.

Objective 16: Employees receive ample training. Deltic requires all harvesting contractors to be qualified according to the requirements of the Arkansas SIC. All contractors harvesting tracts reviewed during the audit were properly trained. The company is a member of the Arkansas SIC. There is no evidence the Arkansas SIC is overseeing the delivery of logger training in the state to ensure the program provides all the items required by 16.2.1. As a member of the SIC, Deltic was issued an opportunity for improvement to work with the SIC to make sure the state's logger training program covers all requirements of the standard.

Objective 17: Deltic participates in the Arkansas SIC and is a member of the Arkansas Forestry Association. The Arkansas SIC does not have a defined inconsistent practices program. The SIC relies on the Arkansas Forestry Commission to investigate reports of BMP violations as its inconsistent practices program. However, this is only limited to reports of BMP violation. There is no defined process to receive and respond to reports of inconsistent practices related to the rest of the SFI Standard. In addition, the reports received from the forestry commission do not provide any information on reports of BMP violations received against SFI certified companies in the state. An opportunity for improvement was issued to encourage the SIC to develop a defined, functioning inconsistent practices program.

The company's participation in regional conservation planning efforts is done by downloading the Arkansas Natural Heritage Program's biodiversity hotspot data, using this information to plan conservation efforts. Deltic provided evidence it is involved in a number of educational efforts.

Objective 19: The company had posted its 2012 renewal audit report on the SFI, Inc. website as required for public review. The SFI annual progress report had been submitted on the March 15 deadline.

Objective 20: Deltic has a management review process in place. Management review minutes verified the meeting is held annually as required by the SFI Standard.

Findings

Previous non-conformances:

No non-conformances were issued during the previous audit.

Non-conformances:

One non-conformance was issued during this audit against improper logo use on the Deltic company website. The SF02 nonconformity report is shown below.

Opportunities for Improvement: Three opportunities for improvement were issued. These need to be considered in light of how they may affect conformance in the future.

1. PM 3.1 Ind. 4; PM 3.2 Ind. 3: Deltic should review its monitoring system for mechanical site preparation to ensure BMPs to protect water quality are in place once activities are completed.
2. PM 4.1 Ind. 2: Consider conducting an analysis of stand conditions within the vicinity of RCW clusters to verify that the company's own internal requirements for habitat are being met.
3. PM 16.2 Ind 1; PM 17.3 Ind. 1: As a member of the Arkansas SIC, Deltic should consider working with the SIC to ensure there is adequate evidence the state's logger training program

includes all the requirements of PM 16.2, Ind. 1, and to ensure the SIC has a functioning inconsistent practices policy that is specific to SFI Program Participants, and includes reporting for all areas of the SFI Standard, beyond BMP compliance alone.

Notable Practices: No notable practices were identified.

Logo/label use:

Deltic does not use the Bureau Veritas Certification logo. It uses the SFI certified sourcing label with the approval of SFI, Inc. An obsolete on-product label used for promotional purposes was observed on the company's website, resulting in the issuance of a non-conformance.

SFI reporting:

The 2012 surveillance audit report for Deltic was found on the SFI, Inc. website as required for public review.

Conclusions

Results of the audit indicate Deltic continues to operate an effective SFI program that meets the requirements of the SFI 2010-2014 Standard, with the exception of a minor non-conformance issued due to improper logo use. Deltic developed corrective actions on 10/4/2013, at which time the lead auditor issued a recommendation for re-certification.

Surveillance Audit Schedule

The document review of the first surveillance audit should begin prior to September 27, 2014. The field audit should be scheduled the week of October 13, 2014.

SEE SF61 FOR AUDIT NOTES

| Summary of Audit Findings: | | | | | | |
|---|---|----|----|--|-----------|--|
| Audit Date(s): | From: 9/9/2013 (Doc review) 9/23/2013 (Field) | | | To: 9/9/2013 (Doc review) 9/27/2013 (Field) | | |
| Number of SF02's Raised: | Major: | | 0 | Minor: | 1 | |
| Is a follow up visit required: | Yes | No | X | Date(s) of follow up visit: | | |
| Follow-up visit remarks: | | | | | | |
| | | | | | | |
| Team Leader Recommendation: | | | | | | |
| Corrective Action Plan (s) Accepted | Yes | X | No | Date: | 10/4/2013 | |
| Proceed to/Continue Certification | Yes | X | No | Date: | 10/4/2013 | |
| All NCR's Cleared | Yes | X | No | Date: | 10/4/2013 | |
| Standard audit conducted against: | | | | | | |
| 1) | SFIS 2010-2014 | 3) | | | | |
| 2) | | 4) | | | | |
| Team Leader (1): | Team Members (2,3,4...) | | | | | |
| Richard Boitnott; CF, RF, EMS(LA) | 2) | | | | | |
| | 3) | | | | | |
| | 4) | | | | | |
| | 5) | | | | | |
| Scope of Supply: (scope statement must be verified and appear in the space below) | | | | | | |
| Forest Management and Procurement Operations in Arkansas and Louisiana | | | | | | |
| Accreditation's | ANAB | | | | | |
| Number of Certificates | 1 | | | | | |
| Proposed Date for Next Audit Event | | | | | | |
| Date | The document review of the first surveillance audit should begin prior to September 27, 2014. The field audit should be scheduled the week of October 13, 2014. | | | | | |
| Audit Report Distribution | | | | | | |
| Bureau Veritas Certification : Melani Potts-melani.potts@us.bureauveritas.com | | | | | | |
| Deltic Timber: Jeff High-jeff_high@deltic.com | | | | | | |
| | | | | | | |

| Clause | Audit Report |
|-----------------|---|
| Opening Meeting | Participants: Jeff High, Leonard Hicks, Skip Tomlinson, Mark Johnson, Robert Nimmo Discussions: <ul style="list-style-type: none"> ➤ Introductions ➤ Scope of the audit ➤ Audit schedule/plan ➤ Nonconformance types – Major / Minor ➤ Review of previous nonconformances - 0. ➤ Process approach to auditing and audit sampling ➤ Confidentiality agreement ➤ Termination of the audit ➤ Appeals process ➤ Closing meeting timing |
| Closing Meeting | Participants: Bill Whiting, Scott Milburn, Jeff High, Brandon Tallent, Patrick Rawls, Mitchell Deal, Kent Streeter, Leonard Hicks Discussions: <ul style="list-style-type: none"> ➤ Introductions and appreciation for selecting Bureau Veritas Certification. ➤ Review of audit process - process approach and sampling. ➤ Review of OFIs and System Strengths ➤ Nonconformances - 1 ➤ Date for next audit. ➤ Reporting protocol and timing |



SF02/NA NONCONFORMITY REPORT

| | | | |
|--|---|----------------------------------|-------------------------------|
| Company Name and Site: | | <u>SF02#:</u> | |
| Deltic Timber Company | | 01 | |
| Contract #: | Type of audit (e.g., initial, surveillance): | Team Leader: | |
| US1499149 | Renewal | Richard Boitnott | |
| Date: | Standard and Clause #: | Team Member: | |
| 9/27/2013 | SFIS 2010-2015 Section 5-Rules for Use of SFI Off-Product Marks | | |
| Major | Minor | Other Documents (if applicable): | |
| | X | | |
| Company Representative: | | | |
| Jeff High | | | |
| REQUIREMENT OF AUDITED STANDARD: | | | |
| Section 5 of the SFI 2010-2014 Standard concerning rules for use of SFI off-product marks specifies acceptable logo use. | | | |
| OBSERVED NONCONFORMITY AND: | | | |
| A review of the timber management section of Deltic's corporate website provided evidence of improper logo use. The logo found on the website is actually an obsolete on-product label used for certified sourcing. | | | |
| ROOT CAUSE ANALYSIS AND CORRECTIVE ACTION PLAN (To be completed by the Company. Plan to be submitted in 30 days) | | | |
| Corrective Action Plan Date: | 9/30/2013 | Company Representative: | Jeff High |
| Root Cause Analysis and Corrective Action | | | |
| Root Cause: Improper logo use on Deltic's website was a result of miscommunication with SFI, Inc. and incomplete understanding of the label/logo approval process. The on-product label was approved several years ago and inappropriately applied to off-product use on the website. | | | |
| Corrective Action Plan: The correct off-product logo has been obtained, approved and documented using the SFI database system. Both off-product and on-product labels will be submitted for approval at the same time as the annual report to ensure compliance. The correct logo will replace the obsolete on-product label by Friday, 10/4/2013. | | | |
| ROOT CAUSE AND CORRECTIVE ACTION PLAN ACCEPTANCE REPORT (To be completed by Bureau Veritas Certification – Verify effective identification of Root Cause and acceptance of Corrective Action Plan) | | | |
| Root Cause: Acceptable | | | |
| Corrective Action Plan: Acceptable. Website reviewed on 10/4 and found to have been corrected | | | |
| Plan Accepted: | Yes | X | No |
| Comments: | | | |
| Auditor: | Richard Boitnott | | Date: 10/4/2013 |
| CORRECTIVE ACTION IMPLEMENTATION | | | |
| To be completed by Company – Provide objective evidence. Not to exceed: 90 Days <input type="checkbox"/> ; 1 year FSC <input type="checkbox"/> ; other <input checked="" type="checkbox"/> X Days | | | |
| Corrective Action Completion Date: | | Company Representative: | |
| Corrective Action Implementation: Method used to verify effectiveness of action taken: | | | |
| CORRECTIVE ACTION IMPLEMENTATION ACCEPTANCE REPORT (To be completed by Bureau Veritas Certification – Acceptance of Corrective Action taken) | | | |
| Accepted: | Yes | No | Nonconformance Closed: Yes No |
| Follow Up Comments: | | | |
| Auditor: | | | Date: |