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**Bureau Veritas Certification  
North America, Inc.  
SFI 2010:2014 Audit Report**

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Contract Number:	US1685563	Certification Audit:	stage 2	Re-Certification Audit:		Surveillance: (Indicate visit # or Pre-Assessment)	
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**Audit Summary**

**Introduction**

This report summarizes the results of a certification (stage 2) audit against SFI 2010-2014 Objectives conducted for Potlatch Forest Holdings (PFH), headquartered in Spokane, WA. Prior to this audit, a stage 1 audit was completed on March 21, 2014. Jim Colla, Bureau Veritas Certification Lead Auditor, with assistance from Carey Potter, Julie Stangell and Matt Tormohlen; conducted the audit over a total of 28 days from April 8 through April 25, 2014.

**Audit Scope, Objectives and Process**

The scope of the group certificate is "Management of Forest Lands". This includes three separate forest management units (AR, ID, MN) totaling approximately 1,410,000 acres. The purpose of this certification audit was to review documentation and sample field operations in order to assess conformance of PFH's SFI program against applicable indicators of Objectives 1-7; 14-20 of the 2010-2014 Standard. Specifically, two objectives of the SFI audit were to:

1. 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
2. Verify whether the Program Participant has effectively implemented its SFI Standard program requirements on the ground.

The opening meeting occurred on April 8, 2014 and took place at the Arkansas Region headquarters in Warren, AR. During the opening meeting the objectives for the audit were outlined and the audit process for collecting evidence and making audit findings was explained. Findings of non-conformance, opportunities for improvement, and appeals were also explained. The audit plan was discussed and agreed to, and the time and date of the closing meeting were also confirmed. There were no substitutions or edifications of SFI indicators. Standard Bureau Veritas Certification protocols and forms were applied throughout the audit as provided by the current version of the Bureau Veritas Certification SFI Auditor Handbook. Field notes and an SFI indicator checklist were completed in each region. Terry Cundy; Manager Silviculture, Wildlife & Environment; and Mike Houser, Manager Environment & Public Policy, were present throughout all portions of the audit. PFH was concurrently audited to the FSC US Forest Management Standard.

**Audit Plan**

The audit was conducted over a total of 28 days from April 8 through April 25, 2014. A total of nine days

were spent in Arkansas, four days in Minnesota, and 15 days in Idaho. The detailed daily audit plan is on file with Bureau Veritas Certification.

### **Company Information**

Potlatch Forest Holdings, Inc. (PFH) is a Real Estate Investment Trust (REIT) which owns approximately 1,410,000 acres of forest in Minnesota, Idaho, and Arkansas. The company manages its lands directly to maximize shareholder return over the long term. Potlatch is a publicly traded company with an independent board and a full suite of corporate positions. The CEO and President are supported by seven Vice Presidents – Finance, Real Estate, General Counsel, Public Affairs, Human Resources, Wood Products, and Resource Management. Land and forest management are directed through the Resource Management Division. Forest certification is coordinated by the Director of Science & Technology with the assistance of the Manager of Silviculture, Wildlife and Environment and Manager of Environment & Public Policy. Each of the three forests (Idaho, Minnesota, and Arkansas) is under the direction of a regional manager who is supported by district managers and field foresters.

### **Multi-Site Requirements**

The company qualifies for multi-site certification since they have three distinct forest management units. As each region is unique from a physical and forest management perspective, each unit is to be audited annually. The Manager of Silviculture, Wildlife and Environment is the certification contact and is responsible for conducting internal audits and management reviews.

### **Audit Results**

The audit consisted of document and record reviews and interviews. In addition, a total of 77 field sites (AR-31; MN-14; ID-32) were visited that represented a broad spectrum of activities PFH undertakes. Objectives 8-13 and 18 are not applicable.

**Objective 1, Forest Management Planning:** Potlatch Forest Holdings has management plans in place for each of its three FMUs. These plans are contained within the EMS for each forest and are updated annually to reflect past activities and every three years the Annual Allowable Cut (AAC) is recalculated. PFH has a robust assessment process in place for determining the AAC. Planning procedures and work instructions are in place to ensure that all applicable criteria and indicators are addressed. Consultation is undertaken annually with mailings to identified stakeholders; additionally depending upon the type of activity and the foresters discretion, neighbouring landowners may be contacted directly prior to or during individual forest operations. Typically PFH receives very little input from the stakeholder outreach effort. Management plan public summaries for all three FMU were reviewed. These are directly available to the public upon written requests.

**Objective 2, Forest Productivity:** Reforestation is always planned to occur within two years of final harvest. PFH only plants or reseeds with native species from local sources and does not use GMOs or exotic species. PFH collects seed from their lands and utilizes their own seed orchard. Seed is then provided to contract nurseries to grow seedlings. Practices are designed to minimize site impacts and mimic natural reforestation regimes. PFH's policy is to use the minimum amount of chemical necessary to accomplish control objectives. Spray work is conducted by contractors under the supervision of PFH foresters. All chemicals applied are registered and labeled for use in ID and AR. Contractor and PFH spray records and reports provide evidence application was done in compliance with label and legal requirements. No overspray observed. PFH is continually seeking to implement IPM strategies. Multiple erosion control methods used including timing of operations (use restrictions), location of roads and trails, rocking roads, cross-drainage, and filter strips. Guidelines are readily available for field foresters on company intranet. Field activities are carried out in accordance with Site Activity Plans (SAP). Contractors are well versed in erosion control measures, no evidence of accelerated erosion observed. Excellent protection of residual trees noted throughout. PFH strives to maintain healthy forest by active management; insect and diseases are at endemic levels.

**Objective 3, Protection of Water Resources:** Procedures are in place to ensure stream management zones (SMZs) and other aquatic areas are managed to protect water quality and wildlife habitat features. Excellent SMZ establishment was observed on harvest units during the audit in all three FMUs. Potlatch employs local state Best Management Practices as the minimum standard for their operations. Company personnel routinely

consult with state agency personnel on matters related to water quality and fish habitat. Potlatch continues to participate in adaptive management studies related to SMZ. Post-harvest tree retention (the leaving of single or groups of trees on clear cut harvests) met and exceeded SFI guidelines and state BMPs in all three FMU. Transportation systems are well established and managed as a comprehensive system to avoid erosion and water quality impacts. Contactors interviewed had excellent BMP knowledge. Sites are monitored at least weekly during active operations to ensure compliance. No evidence observed of any BMP infraction or excess sediment delivery to streams.

Objective 4, Conservation of Biological Diversity: Potlatch has re-examined its current land base in each FMU to discern if there were any additional areas which should be designated as Forest of Exceptional Conservation Value. Annual monitoring has occurred on existing FECV. In each FMU Potlatch has contacted the State Natural Heritage Commission and the Archaeological Society regarding known occurrences of ecologically and culturally significant sites. They have also valued their lands in terms of unique flora and fauna. Potlatch has a Habitat Conservation Plan that covers red-cockaded woodpeckers in Arkansas. Potlatch manages approximately 45 active and inactive RCW sites and has sold conservation easements on the Moro Big Pine area. In Idaho, PFH has entered into the Forest Legacy Program with the State of Idaho, protecting approximately 55,000 acres in the St Joe drainage from development. PFH manages a number of sites to protect the North Idaho Ground Squirrel and Idaho Phlox, both TES. In Minnesota, while no endangered species are presently known to exist on PFH lands, the Brainerd Lakes Conservation Easement protects about 5,000 acres.

Objective 5, Management of Visual Quality and Recreational Benefits: The EMS and operating guides contain written direction to manage the size, shape and placement of clearcut units. This starts with the strategic planning process, with implementation occurring at the stand level. While some larger units are present in ID, clear-cuts in all jurisdictions average less than 120 acres. All are mapped in the GIS and accurate acreages are readily known. PFH promptly reforests all clear cut units and addresses biological, cultural and physical characteristic across the landscape. The pre-audit identified clear-cut harvest has occurred on adjacent units not in compliance with 'green-up' requirements. PFH has submitted an "alternative method" that is documented in the visual quality SOP and meets the intent of the indicator. The company has a robust hunting lease program on most of their MN and AR lands. ID Lands are open to traditional recreational uses and are managed under a permit system.

Objective 6, Protection of Special Sites: Archeological/cultural/other sites are identified in the specific GIS layer which is queried on a job specific basis, prior to sale set-up. The planned activity is then modified as needed to mitigate for any deleterious impacts. Potlatch actively reaches out to stakeholders to help identify special sites or other areas of concern. The company's communications SOP is to send a letter each year to receive input from stakeholders. Stakeholders include Tribes, loggers, sportsmen, local government officials, state agency and conservation organizations, and leaseholders. Stakeholder feedback is evaluated and included into subsequent management planning activities.

Objective 7, Efficient Use of Forest Resources: A number of log sorts may be produced on each job. Utilization is an inspected item on each job at regular intervals. PFH diligently regulates harvest level to maximize both short and long term return. Guidelines are in place requiring high levels of harvest utilization. Each region has specific product standards tailored to local markets. The company is constantly striving to maximize in woods efficiencies and utilization and has been at the forefront of utilizing new harvesting for decades.

Objective 14, Legal Compliance: PFH operates under a rigorous Corporate Conduct and Ethics code that requires compliance with all laws. The code covers employment standards, conflict of interest, safety, and public reporting. All contracts the company enters into require legal compliance on the part of the contractor. Standard operating procedures require legal compliance to federal and state laws and regulations. The company has a robust inspection program that documents compliance with applicable regulations and policies. PFH has a formal H&S program designed to ensure applicable federal and state H&S requirements are met. H&S requirements are posted in various locations as prescribed by law.

Objective 15, Forestry Research: PFH has long demonstrated their commitments to research on a myriad of topics. The list of current projects is extensive. Partners include federal, state and Tribal organizations; industry organizations; and NGOs. This may involve collecting data, baseline direct funding, direct technical

support covering research related to fish, wildlife and forest management. PFH has recently become an active member on the AR, ID and MN SICs.

**Objective 16, Training and Education:** A commitment statement has been developed that meets SFI requirements and will be made available to the public upon request. PFH currently uses SFI trained contractors and has a formal internal training program for employees designed to maintain and improve required levels of education needed to perform various tasks.

**Objective 17, Community Involvement:** PFH generally supports and promotes community outreach efforts. The routinely host tours and provide environmental education opportunities and participates in cooperative management efforts in all FMU. The company also has a long-standing philanthropic program. PFH gives to education, community programs, natural resource conservation programs and contributions to health care and other social initiatives. The majority of contributions are to local organisations in the communities in which they operate. PFH has a formal and rigorous ECAR system developed under their ISO14001 program. These address positive and negative feedback or respond to inquiries. Potlatch actively reaches out to stakeholders to help identify special sites or other areas of concern. The company's communications SOP is to send a letter twice a year to receive input from stakeholders. Stakeholders include Tribes, loggers, sportsmen, local government officials, state agency and conservation organizations, and leaseholders. PFH has recently become an active member on the AR, ID and MN SICs.

**Objective 19, Communications and Public reporting:** As PFH is not yet certified this objective is presently not applicable. All records necessary for reporting to SFI will be maintained electronically and made available for audit review.

**Objective 20, Management Review and Continuous Improvement:** PFH has a formal and rigorous management review program in place developed under their ISO14001 program. The initial review focused on the process of evaluating their ability to meet the SFI standard. Because of PFH long standing history with certification, the internal audit and management review system is mature, fully functioning and effective.

### **Findings**

**Previous non-conformances:** A pre-audit conducted on January 6, 2014 identified five indicators that did not fully meet standard requirements:

PM 5.3 (3) Green Up Indicators

PM 16.1 (1) - Training & Education.

PM 16.2 (2) - Professionalism of Wood Producers

PM 17.1 (1) - Community Outreach.

PM 17.3 (1) Inconsistent Practices.

These were all effectively addressed by the time the Stage 1 audit was conducted on March 21, 2014. No additional non-conformities were identified during the Stage 1 audit, allowing for procession to the full certification (Stage 2) audit.

**Non-conformances noted:** Two minor non-conformities were identified during the certification audit. In both cases an effective root cause analysis and corrective action plan has been developed and is in the process of being implemented.

PM 2.1 (3) - Regeneration Criteria - PFH has robust criteria and procedures to evaluate and document regeneration success and post-harvest stocking levels, captured in SOP-009 Guide 07. These procedures are not being implemented at one ID FMU field office. Foresters assess reforestation by ocular estimate only.

PM 5.3 (1) – Green-up Requirements – PFH has developed an alternative method, captured in SOP-19, for addressing visual quality during harvest operations but has not effectively implemented this program at one ID FMU field office. Interviewed foresters could not provide evidence they were aware of SOP-19.

**Opportunities for Improvement:**

PM 2.3 (7) – Road Construction –Excellent soil protection during road construction and skidding observed in nearly all cases. In MN a harvesting contractor had constructed snow-bridges and whole tree skidded significant volume across the snowbridge, leading to mild sediment introduction into an ephemeral stream. In AR an SMZ crossing was not documented in the SAP. This crossing was located in close proximity to another crossing, which was not approved by the PFH forester. As these were isolated events and BMPs were followed, an NC is not warranted. PFH needs to remain diligent during winter operations to ensure BMPs are followed and sediment delivery is minimized.

**Notable Practices:** None issued.

**SFI reporting:** Not applicable, PFH is not yet certified.

**Conclusions**

The closing meeting was held on April 25, 2015 in Moscow, ID. In the opinion of the lead auditor, results of this certification audit conclude that the SFI 2010-2014 forest land management system of Potlatch Forest Holdings complies with the SFI 2010:2014 standard. Two minor non-conformities were issued, and with the acceptance of the root cause analysis and corrective action plans, effectively cleared. Certification is recommended.

**Surveillance Audit Schedule**

Surveillance audits should be conducted over the next two years, 2015-2016, commencing in late April in Arkansas, then moving to Minnesota and Idaho when logging commences.

**SEE SF61 FOR AUDIT NOTES**

Summary of Audit Findings:						
Audit Date(s):	From: April 8, 2014			To: April 25, 2014		
Number of SF02's Raised:	Major:		0		Minor:	2
Is a follow up visit required:	Yes	No	X	Date(s) of follow up visit:		
Follow-up visit remarks:						
Stage 2 audit is scheduled for April, 2014						
Team Leader Recommendation:						
Corrective Action Plans Accepted	Yes	X	No	Date:	April 29, 2014	
Proceed to/Continue Certification	Yes	X	No	Date:	April 29, 2014	
All NCR's Cleared	Yes	No	X	Date:	verify 2015	
Standard audit conducted against:						
1)	SFIS 2010-2014 Forest Management		2)			
Team Leader (1):		Team Members (2,3,4...) – N/A				
Jim Colla		2) Matt Tormohlen				
		3) Carey Potter				
		4) Julie Stangell				
Scope of Supply: (scope statement must be verified and appear in the space below)						
Management of Forest Lands						
Accreditation's	ANAB					
Number of Certificates	1					
Proposed Date for Next Audit Event						
Date	April, 2015					
Audit Report Distribution						
PFH: Terry Cundy; terry.cundy@potlatchcorp.com						
Bureau Veritas Certification: melani.potts@us.bureauveritas.com						

Clause	Audit Report
Opening Meeting	<p>Participants: Terry Cundy, Manager Silviculture, Wildlife &amp; Environment; and Jim Colla,</p> <p>Discussions: Lead Auditor</p> <p>See attendance list for additional participants</p> <ul style="list-style-type: none"> <li>➤ Introductions</li> <li>➤ Scope of the audit</li> <li>➤ Audit schedule/plan</li> <li>➤ Nonconformance types – Major / Minor</li> <li>➤ Review of previous non-conformances – 5 (pre-audit)</li> <li>➤ Process approach to auditing and audit sampling</li> <li>➤ Confidentiality agreement</li> <li>➤ Termination of the audit</li> <li>➤ Appeals process</li> <li>➤ Closing meeting timing</li> </ul>
Closing Meeting	<p>Participants: Terry Cundy, Manager Silviculture, Wildlife &amp; Environment; and Jim Colla,</p> <p>Discussions: Lead Auditor</p> <p>See attendance list for additional participants</p> <ul style="list-style-type: none"> <li>➤ Introductions and appreciation for selecting Bureau Veritas Certification.</li> <li>➤ Review of audit process - process approach and sampling.</li> <li>➤ Review of OFIs and System Strengths (1)</li> <li>➤ Non-conformances - 2</li> <li>➤ Date for next audit.</li> </ul>

