

SUSTAINABLE
FORESTRY
INITIATIVE

A STRONGER, INDEPENDENT SFI



This past year we have seen a new urgency in both people and their governments to address the issue of global warming. No where has this been felt more than in the marketplace where people are buying, driving and building green. Consumers are demanding products produced in balance with the environment.

Times have changed. And the SFI program has changed with them.

In 2006 the Sustainable Forestry Board announced that the SFI program would become fully independent in January 2007. This new independence is the foundation on which we continue to build a certification program that our members and customers can have confidence in.

2006 also represented our outgoing president Bill Banzhaf's last full year with the SFI program. Under Bill's leadership, the SFI program grew in acres and participants, but also grew in recognition as nations like the United Kingdom confirmed that the SFI program continues to meet their enhanced criteria for the legal and sustainable procurement of forest products.

As the stewards of forests across North America, SFI participants and certificate holders know that our forests are part of the environmental solution, and by buying forest products from SFI certified lands, our customers know they are doing their part for the environment too.

We look forward to the future. The SFI program is now fully independent and its standard is under continuous review and improvement so we can change as times change. We are strengthening our position in the marketplace. And it's all to ensure that we have forests for today and tomorrow and that our customers have choice.

Kathy Abusow

President & CEO
Sustainable Forestry Initiative

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2006 QUICK FACTS

Largest certification program in the US and Canada.

- 212 Program Participants
- 135 million acres (54.6 million hectares) independently 3rd party certified to the SFI Standard
- 37 State Regional and Provincial SFI Implementation Committees

Improving practices on all forestlands.

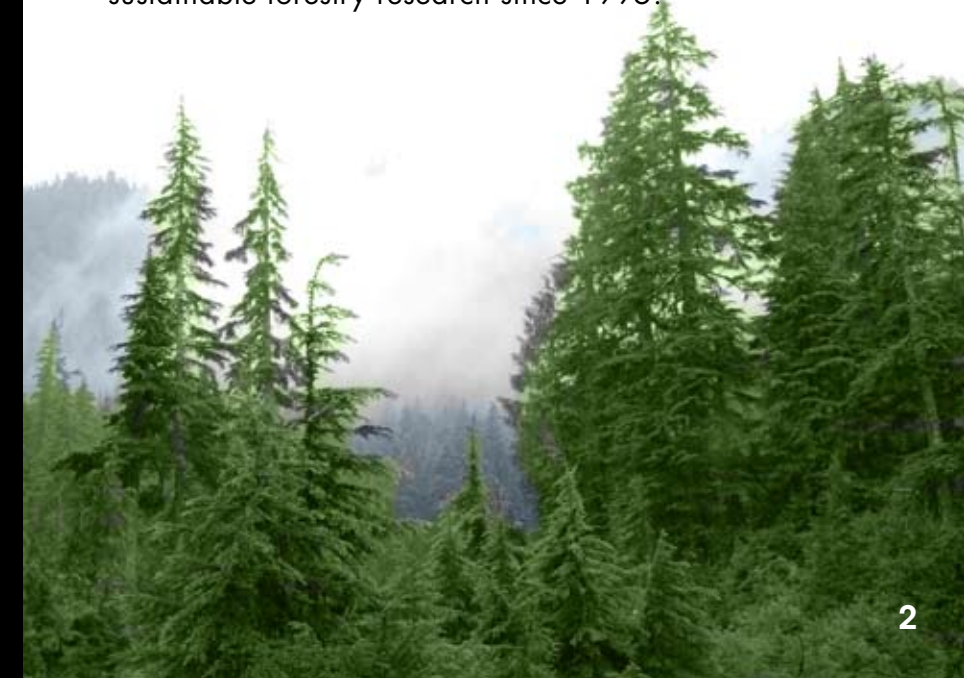
- 7,028 Loggers and foresters trained in sustainable forestry in 2006; 104,202 since 1995
- 96 percent of raw material used by SFI program participants was provided by trained loggers

Prompt reforestation to ensure long-term productivity.

- 1.2 million acres of SFI program participants' forests reforested in 2006 through planting or natural regeneration

Continual improvement in standards and practices.

- \$885.5 million invested by SFI program participants in sustainable forestry research since 1995.



ERP COMMENTS

The External Review Panel has reviewed the data for this report and offers these comments on the program's credibility, results and relevance.

CREDIBILITY

The credibility of the SFI program was strengthened this year with the transition to fully independent governance of the program. SFI, Inc. remains unique in forest certification schemes with 37 regional, provincial or state committees, involving over 900 people, engaged in making the program more effective and investigating complaints of poor forest practices.

RESULTS

Rigorous audits of planning and forest practices by independent certification bodies, coupled with continued environmental training of the nation's loggers and foresters, are resulting in improved forest practices on over 135 million acres (54.6 million hectares) of forest land. In addition, program participants invested over 77 million dollars in research to foster continuous improvement in forest management. New marketing efforts by SFI, Inc. will enable consumers to purchase more labeled products coming from these sustainably managed forests – a win for consumers and the forest.

RELEVANCE

Major shifts in land ownership in the U.S. challenge SFI, Inc. to sustain and build enrollment in the program. This was not a problem this year as certified acreage increased to over 133 million acres and new forest landowners generally retained their SFI certification.

The number of landowners assisted by SFI program participants declined 1/3 from 2005, largely, it appears, as the result of industry re-structuring. In recognition of the importance of fostering good management on family owned forests SFI, Inc. will need to expand its efforts to work with organizations that encourage sustainable management of these lands. Landowner outreach programs have significantly contributed to the sustainability of forests throughout the United States, and distinguish SFI certification from other programs.

In order to ensure the relevance of the program to current forest conditions, and fulfill its commitment to continuous improvement, the SFI standard is updated every five years. Pilot projects are underway now to evaluate how issues such as landscape scale management should be reflected in the 2010 standards. Challenges like climate change, carbon trading, and the role of forests in providing renewable energy will all be considered in the 2010 revision process. The Panel will continue to be involved in a review of the program as these and other issues are considered in the years ahead.

ERP MEMBERS

A distinguished group of 18 independent experts representing conservation, environmental, professional, academic, and public organizations comprise the independent External Review Panel (ERP). The mission of the External Review Panel is to provide a framework to conduct an independent review of the SFI® program and to ensure the SFI Annual Report fairly states the status of SFI program implementation. The volunteer Panel provides external oversight with their independent review of the current SFI program while seeking steady improvements in sustainable forestry practices.

- Richard W. Brinker**, Dean, School of Forestry and Wildlife, Auburn University
Craig Cox, Executive Director, Soil and Water Conservation Society
Frederick W. Cubbage, Professor, Department of Forestry, North Carolina State University
Peter deMarsh, President, Canadian Federation of Woodlot Owners
Fred Deneke, Forestry Projects Coordinator, National Association of Conservation Districts
Michael T. Goergen, Jr., Executive Vice President, Society of American Foresters
James R. Grace, Deputy Secretary, Pennsylvania State Parks and Forestry
Daniel B. Hayes, Professor, Department of Fisheries and Wildlife, Michigan State University
H. Theodore Heintz, Jr., Indicators Coordinator, Council of Environmental Quality
Winifred B. Kessler, Director, Wildlife, Fisheries, Ecology and Watershed, USDA Forest Service, Alaska
David L. Ledford, Director, Appalachian Wildlife Initiative, Rocky Mountain Elk Foundation
Dennis C. Le Master, Professor Emeritus, Purdue University
Kathy Lewis, Chair, Ecosystem Science and Management Program, University of British Columbia
Pat McElroy, Washington State Forester (Retired)
Corbin Newman, Jr., Director of Forest Management, USDA Forest Service
Tammara Van Ryn, Executive Director, Land Trust Accreditation Commission
W. Alan Wentz, Senior Group Manager, Ducks Unlimited
R. Neil Sampson, President, The Sampson Group



JANUARY 2006

Minnesota State Forestlands Certified

Nearly 4.8 million acres of state forestland managed by the Minnesota Department of Natural Resources were certified to the SFI standard. This created the largest block of publicly owned land to be SFI certified in the United States.

FEBRUARY 2006

New Fiber Sourcing and Chain of Custody Document

The SFI releases "Requirements for Fiber Sourcing, Chain of Custody and Product Labels". This document provides guidance to SFI program participants who use SFI on-product labeling. It is also in full conformance with PEFC requirements and legal guidelines.

MARCH 2006

SFI Named Governing Body for PEFC in the US.

The Programme for Endorsement of Forest Certification Schemes (PEFC) endorses the SFI standard and names the SFI the United States PEFC Governing Body. This endorsement by the PEFC will mean increased acceptance of SFI certified products worldwide.

SFI Ad Campaign Wins Award

The Advertising Research Foundations (ARF) honored the SFI with the prestigious Ogilvy Award for excellence in advertising in the business-to-business category.

APRIL 2006

Banzhaf Delivers Solutions at Paper Week 2006

Bill Banzhaf, SFI President, took the stage at the Paper Week 2006 to explain how SFI Chain of Custody certification is the perfect solution for merchants, printers and retailers to meet their customer's demand for certified paper products.

MAY 2006

SFI at Forest Leadership Forum

A number of SFI program participants and SFI staff attended the Forest Leadership Forum in Portland, Oregon hosted by Metafore. The forum brought together hundreds of people from around the world to discuss corporate responsibility as it pertains to the forest products industry.

JUNE 2006

PEFC Labeling Authorized

In an agreement between the SFI and PEFC, all certified SFI Program Participants with forest management operations may license to use the PEFC forest management logo with no additional audits. Program Participants can license to use PEFC on-product labeling by completing an audit to the PEFC Chain of Custody standard. There are no PEFC label licensing fees.

JULY 2006

Transition Plan to Full SFI Independence Announced

A plan to provide complete independence of the SFI from the American Forestry and Paper Association (AF&PA) was jointly approved by the boards of both organizations. Under the plan a new entity, The Sustainable Forestry Initiative Incorporated will be created to govern all aspects of the SFI program. The date for full independence is set for January 1, 2007.

AUGUST 2006

Pictorial Offset is First SFI CoC Certified Printer

Pictorial Offset Corporation, the largest privately held commercial printer in the United States, is the first printer in the world to earn SFI Chain of Custody Certification. This trailblazing New Jersey Corporation has long been recognized as a leader among socially responsible companies.

SEPTEMBER 2006

Parlez-vous SFI?

The Quebec SFI Implementation Committee announced that it has translated the SFI Standard to French. Très bien!

OCTOBER 2006

Speakers Highlight SFI Annual Conference

A diverse set of speakers on a wide range of topics highlighted the 11th Annual SFI Conference in Toronto. Over 160 program participants, customers, ENGO's and others attended.

SFI Program Celebrates 6 Billion Trees Planted

The SFI program planted its 6 billionth tree this month and celebrated by creating www.sixbilliontrees.org and with a full page ad in the Wall Street Journal. Green Diamond also provided seedlings that were distributed in front of NBC's Chicago studio to commemorate the milestone.

NOVEMBER 2006

SFI On Display at Greenbuild Expo

The SFI program booth was displayed prominently at the USGBC Greenbuild Conference and Expo in Denver, CO. Over 12,000 people attended the conference.

DECEMBER 2006

Delegation from China Visits SFI

Key members of the Chinese State Forestry Administration (SFA) and the China Academy of Forestry spent a week meeting with SFI program staff. The Chinese SFA is in the process of developing a National Forest Certification Standard in China with an expected release sometime in 2007.

The United Kingdom Government reconfirmed that the SFI program meets all their requirements for providing legal and sustainable products.



SFI® PROGRAM CONTIUNES STRONG GROWTH:
NEW PARTICIPANTS & CHAIN OF CUSTODY (COC) CERTIFICATIONS

APRIL

North Star Forestry Ltd.
AT Limited Partnerships
Revelstoke Community Forest Corporation (RCFC)
Kimberly-Clark (KC) Corporation

JULY

Pictorial Offset Corporation – CoC

AUGUST

Atco Lumber Ltd.
North Star Forestry Ltd.
Scioto Land Company, LLC
Springer Creek Forest Products
Wynndel Box & Lumber Co. Ltd.
Yankee Forest, LLC

SEPTEMBER

Lyme Adirondack Timber Sales, Inc.
Bowne of South Bend – CoC
Green Depot – CoC
National Envelope – CoC
New Era Custom Design – CoC
Quebecor Augusta – CoC

OCTOBER

Graphic Communications – CoC

NOVEMBER

British Columbia Timber Sales (BCTS)
Kalesnikoff Lumber Co., Inc.
TC&I Tomber Company, LLC
Terrace Bay Pulp Inc.

DECEMBER

Boise Cascade, LLC – CoC
Capital Printing Corporation – CoC
Supremex Inc – CoC
The Nature Conservancy
TimberStar Southwest Manager, LLC

PILOT PROJECTS

SFI, Inc. has partnered with several organizations (such as Lowes, The Nature Conservancy, Staples and American Bird Conservancy) to establish pilot projects on conservation planning, landscape assessments, the Alliance for Zero Extinction, SFI Standard procurement, invasive species, and the economics of certification standards. All of these pilots will develop new information that may lead to enhancements to the SFI Standard during the 2010-2014 SFI Standard review.

SFI® IMPLEMENTATION COMMITTEES (SICs)
2006 REPORT SUMMARY

North America's forests are as diverse as those dedicated to managing them. The SFI program is the only forest certification program to bring together local resource leaders for an internationally-recognized standard that works in both production forests and family forests in North America. This means there are more people working locally to ensure sustainable forestry practices are being applied on the ground.

Thirty-seven state and provincial SFI Implementation Committees (SICs) are the local resource leaders that make the SFI Standard work on the ground.

All SICs are required to have processes in place to address any concerns about SFI implementation. This means that in addition to independent audits, there are 37 organizations that also address any concerns about implementation of SFI practices.

In 2006, SICs strengthened SFI Standard compliance by training and educating those with immediate direct impact on forest conservation efforts: landowners, loggers, and foresters. For the first time, two Canadian provinces (New Brunswick and Quebec) reported province-wide SFI training accomplishments in an annual survey conducted by the Forest Resources Association. In 2006, 7,858 loggers completed a SIC-approved training program in the U.S. and Canada; more than 28,000 loggers received partial training.

This logger training helps ensure clean water, better wildlife habitat, and better managed forests.

2006 SIC Highlights

- The Virginia SIC won the 8th Annual SIC Achievement Award for their work on national biodiversity outreach with family forest owners. They

created a web-accessible, one-stop shop for biodiversity education information for eight (8) SICs. Through the American Forest Foundation (AFF) Forests for Watersheds and Wildlife website, family forest owners and SFI participants can access state-specific biodiversity profiles to meet conservation objectives and SFI Standard requirements.

- The MD/DE SIC partnered with state agencies to produce a landowner outreach toolkit specific to SFI Standard requirements.
- The judges for the 2006 SIC Achievement Award nominations also noted Oregon's SIC for publishing a 100-page guidebook of 80 priority plant and animal species. The South Carolina SIC published and distributed 10,000 copies of a 24-page color landowner guide. They also partnered with a state agency to establish online biodiversity resources specific to SFI Standard requirements.
- The Quebec SIC translated the SFI Standard, a tri-fold brochure, a trade-show display, a new website, and a water-resistant field guide into French. The Washington SIC established a comprehensive new SFI-specific website in 2006. And throughout North America, more than 900 diverse SIC members provided a strong grassroots foundation for the SFI program.



Virginia SIC Chair Brad Fulle (above), Wood Procurement Manager for Huber Engineered Woods, LLC accepts the Eighth Annual SIC Achievement Award from William H. Banzhaf (left), President of the Sustainable Forestry Board, Inc.

SFI INC. MEMBERSHIP ROSTER

- | | |
|---|---|
| Abitibi-Consolidated Corporation (North America) | Franklin Timber Company |
| Ainsworth Engineered USA, LLC | Fraser Papers Inc. (North America) |
| Alaska Department of Natural Resources | Georgia-Pacific LLC |
| Allegheny Wood Products, Inc. | Gilman Building Products, LLC |
| American Forest Management, Inc. | Giustina Land & Timber Co. |
| Ames Plantation | Glatfelter |
| Anthony Forest Products Company | Global Forest Partners LP |
| AT Limited Partnerships | GMO Threshold Timber Corporation |
| Atco Wood Products, Ltd. | GMO Threshold Timber Corporation - Michigan |
| Atikokan Forest Products Inc. | Gottsaul Tennessee Forest, LLC |
| Auburn University | Granite Hardwoods, Inc. |
| Augusta Lumber, LLC | Graphic Packaging Corporation |
| AV Nackawic, Inc. | Great West Timber Limited |
| Bayroot, LLC | Green Bay Packaging Inc. |
| Beltrami County Natural Resource Mgt | Green Diamond Resource Co. Greif Inc. |
| Bennett Forest Industries | Greif Inc. |
| Bennett Lumber Company | Groupe Savoie, Inc |
| Bibler Bros. Lumber Company | Gulf Lumber Company, Inc. |
| Black Bear Forest, Inc. | H.W. Culp Lumber Company |
| Bluefield Timber, LLC | Hampton Resources, Inc. |
| Boise Cascade, LLC | Hancock Land Company |
| Bowater Incorporated (North America) | Hancock Lumber Company, Inc. |
| British Columbia Timber Sales | Hancock Timber Resource Group |
| Buckeye Technologies Inc. | Hankins, Inc |
| Carlton County Land Department | Harden Furniture, Inc. |
| Chaleur Sawmills | Hedstrom Lumber Company, Inc. |
| Chilco Lake Lumber Company | HHP, Inc. |
| Claremont Forest Inc. | Huber Engineered Woods, LLC |
| Claude Howard Lumber Company, Inc. | Hull Forest Products, Inc. |
| Clemson University | Hull-Oakes Lumber Co. |
| Conservation Forestry Partners, LLC The Conservation Fund | Husby Forest Products, Ltd. |
| Deltic Timber Corporation | Ida Cason Callaway Foundation |
| Devereaux Sawmill, Inc. | Idaho Cedar Sales |
| Domtar Inc. | Idaho Timber Corporation of Idaho |
| Dubreuil Forest Products Limited | Idaho Timber Corporation of Montana |
| Dunkley Lumber, Ltd. | Indiana Department of Natural Resources |
| Durango-McKinley Paper Company | International Forest Products LTD. (Cedarprime) |
| Finch Paper, LLC | International Paper Company |
| Fitzpatrick & Weller, Inc. | Interstate Resources, Inc. |
| Forest Capital Partners, LLC | Island Timberlands LP |
| Forest Investment Associates | J. D. Irving, Limited (North America) |
| Forest Systems, Inc. | J. G. Gray Estate - Stream Co. |
| Fox River Paper Company | J. M. Jones Lumber Company, Inc. |



Leading conservationists recognize the unique contribution of SICs.

“SFI has truly helped raise the forestry bar across the continent – by training thousands of loggers, by raising the profile of BMP’s, and by making BMP implementation the norm.” April 9, 2007

Steven J. McCormick
President and Chief Executive Officer
THE NATURE CONSERVANCY

*To see the entire letter from Mr. McCormick, go to www.SFIprogram.org.

PROOF OF PERFORMANCE

Independent scientific studies show the SFI program is improving on-the-ground forestry practices.

“Implementation with [Best Management Practices] was statistically significantly higher when the timber was delivered to a Sustainable Forestry Initiative (SFI) mill.” September 2005

TEXAS FOREST SERVICE

“Voluntary Implementation of Best Management Practices in East Texas”

SFI INC. MEMBERSHIP ROSTER CONTINUED

J. W. Jones Lumber Company, Inc.
 Jasper Lumber Company, Inc.
 Johnson Timber Corporation
 Jordan Timberlands, Inc.
 Kalesnikoff Lumber Co, Ltd.
 Kapstone Paper & Packaging Corp
 Kimberly-Clark
 Konkolville Lumber Company
 Koochiching County Land & Forestry
 Lake County Forestry
 Lampe & Malphrus Lumber Company
 Litchfield Park Corporation
 Long Lake Forest Products
 Longview Timberlands, LLC
 Louisiana-Pacific Corporation (North America)
 Lyme Adirondack Forest Company, LLC
 Maine Department of Conservation
 Marvin International
 Maryland DNR - Forest Service
 Masonite Corporation
 Massachusetts Depart. of Envir. Management
 McKenzie Forest Products Inc.
 McShan Lumber Company
 MeadWestvaco Corporation
 Merriweather LLC
 Miami Tree Farm Corporation
 Michigan Department of Natural Resources
 Michigan Technological University
 Minnesota Department of Natural Resources
 Missouri Department of Conservation
 Monadnock Paper Mills, Inc.
 Moyie Springs Lumber Company
 Myllykoski-North America
 The Nature Conservancy
 Neenah Paper Inc. (North America)
 Neiman Sawmills, Inc. (Devils Tower and Rushmore Forest Products)
 New Castle Lumber Company
 New South Lumber Company
 NewPage Corporation
 Nicolet Hardwoods Corporation
 Norbord Inc. (North America)
 North American Forest Products, Ltd.

North Cal Wood Products
 North Carolina Division of Forest Resources
 (Bladen Lakes States Forest)
 North Carolina State University (Dept. of
 Forestry)
 North Pacific Group, Inc.
 North Star Forestry Ltd
 Northern Sawmills Inc.
 Olympic Resource Management
 The Pacific Lumber Company
 Pacific West Timber Company
 Packaging Corporation of America
 Parsons & Whittemore, Inc. (Includes Alabama
 River Pulp Co. & Alabama River Woodlands, Inc.)
 Paul Smith's College
 PB Lumber, LLC
 Penguin Forest
 Pennsylvania Department of Conservation &
 Natural Resources
 Philmont Scout Ranch
 Pingree Associates, Inc.
 Plum Creek Timber Company, Inc.
 Pollard Lumber Company, Inc.
 Ponderay Newsprint Company
 Pope & Talbot, Inc. (North America)
 Port Blakely Companies
 The Price Companies Inc.
 Rayonier
 Red Rock Enterprises, LLC
 Resource Management Service, LLC
 Revelstoke Community Forest Corporation
 Riley Creek Lumber Company
 Robbins Lumber Company, Inc.
 Rock-Tenn Company
 Rosboro Lumber Company
 Rutland Lumber Company, Inc.
 Sappi Fine Paper--North America
 Scioto Land Company, LLC
 Seefeld Corporation
 Seneca Jones Timber Company
 Shuqualak Lumber Company, Inc.
 Sierra Forest Products

Sierra Pacific Industries
 Simpson Investment Company
 Smurfit-Stone Container Corporation (North America)
 Society for the Protection of New Hampshire Forests
 Sonoco Products Company
 Southern Lumber Company
 Southern Veneer Products
 Springer Creek Forest Products
 St. Louis County Land Department
 Starker Forests, Inc.
 Stimson Lumber Company
 Stora Enso (North America)
 Sundance Forest Industries
 Sustainable Forest Products of Michigan
 Suwannee River Water Management District
 T & S Hardwoods, Inc.
 TC&I Timber Company, LLC

Temple-Inland Inc.
 Tennessee Division of Forestry
 Terminal Forest Products
 Terrace Bay Pulp, Inc.
 Thompson Tree Farm/Gates Tree Farm
 Three Rivers Timber, Inc.
 Timber Products Company
 TimberStar Southwest Manager, LLC
 TimberWest
 Typhoon, LLC
 University of Florida
 University of Idaho
 University of MN College of Natural Resources
 University of Washington
 UPM, Blandin (Includes UPM, Miramichi)
 Washington Alder, LLC
 Washington DNR

Weaber, Inc.
 Webster Hardwoods
 West Fork Timber Company, LLC
 West Fraser, Inc.
 The Westervelt Company
 Weyerhaeuser Company (North America)
 Wisconsin Department of Natural Resources
 Wrenn Brothers, Inc.
 Wynndel Box & Lumber Co. Ltd.
 Yale University
 Yankee Forest LLC