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**LegalSource™**  
**Certification Assessment**  
**Report for:**  
**Interholco AG**  
**in**  
**Baar, Switzerland**

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**Audit Team:** Christian Sloth

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## **1. INTRODUCTION**

The purpose of this report is to document conformance with the requirements of the LegalSource standard by Interholco (a Danzer Company), hereafter referred to as "Organisation". The report presents findings of NEPCon auditors who have evaluated organisation systems and performance against the applicable requirements. Section below provides the audit conclusions and any necessary follow-up actions by the organisation.

Dispute resolution: If NEPCon clients encounter organisations or individuals having concerns or comments about NEPCon and our services, these parties are strongly encouraged to contact relevant NEPCon regional office. Formal complaints and concerns should be sent in writing.

## 2. EVALUATION FINDINGS

### Key findings and recommendations

Generally it was found that Interholco has carried out some significant changes to the practical sourcing strategy as a result of the pre-assessment findings and the results of the suppliers verification audits that was carried out in December 2013 in Cameroon with participation of NEPCo auditors.

Key changes that have significantly improved the Interholco DDS includes:

1. Implementation of a more stringent system, to approve suppliers based on risk assessment and results of supplier verification audits
2. A clear requirement that suppliers that are identified to source from non-certified sources in high risk areas shall be approved through Interholco on-site verification audits prior to sourcing.
3. Implementation of procedures assuring that non-certified material from certified suppliers is not automatically accepted as low risk.

Though these changes has created a much more stringent system, it was found that some details closely related to these changes needs to be addressed. In the below section three non-conformances has been outlined that identifies these areas.

Note: subsequent to the finalisation of the draft assessment report, Interholco provided additional information and revisions to their procedures to close some of these non-conformances.

### Audit Recommendation

**Based on Organisation's conformance with LegalSource requirements, the auditor makes the following recommendation:**



Certification approved:  
Upon acceptance of NCR(s) issued below



Certification not approved:  
Conformance with MAJOR NCR(s) required

Additional comments: N/A

### Non-conformity Reports (NCRs)

*Note: NCRs describe evidences of Organisation non-conformances identified during audits. NCRs include defined timelines for the Organisation to demonstrate conformance. MAJOR NCRs issued during assessments/reassessments shall be closed prior to issuance of certificate. MAJOR NCRs issued during surveillance audits shall be closed within timeline or result in suspension.*

No NCR(s)

**Issued for: Interholco**

<b>NCR: 01/14</b>	<b>NC Classification:</b>	<b>MAJOR</b> <input checked="" type="checkbox"/>	<b>Minor</b> <input type="checkbox"/>
<b>Standard &amp; Requirement:</b>	4.5 Organisation shall not place forest products on the market when internal or external audits indicate they do not fulfil the legal requirements specified in this standard.		
<b>Report Section:</b>	Appendix B		
<b>Description of Non-conformance and Related Evidence:</b>			
<p>In the procedure 46-01 DGProc_Danzer Procurement Rules-Due Diligence System V.3, 15 Jan. 2014 (EXHIBIT 6) in section 8.1 "Non-conformities, corrective actions and preventive actions", it is stated that "Non-compliances issued during surveillance audits shall be closed in a timely manner or may result in suspension of supply".</p> <p>It is found that this definition does not provide a clear and replicable threshold for defining under which circumstances a suppliers shall be suspended or supplies stopped. Also the timelines for Major NCR's is set to 3-6 months and while it may be acceptable to allow continues improvement in some instances it was clear from the supplier audits in Cameroon that there is a need to procedures to identify instances where immediate stop for supply shall be effectuated.</p>			
<b>Corrective action request:</b>	Interholco shall define and implement a clear threshold for when suppliers shall be suspended, when trade shall be stopped and for when suppliers can be re-instated as approved.		
<b>Timeline for Conformance:</b>	Prior to Certification		
<b>Evidence Provided by Organisation:</b>	<p>Subsequent to the finalisation of the final draft of this report Interholco provided the following revision of their due diligence procedures (EXHIBIT 6b):</p> <p>Non conformities, observations and request corrective action The audit aims to identify the compliance requirements of this standard and to also identify:</p> <ol style="list-style-type: none"> <li>1. Major Nonconformity: should by default be resolved before approval. For certain major non conformities that are not critical legal requirements, a supplier can be approved under condition of solving the issue within a short time (maximum 3 months).</li> <li>2. Minor Nonconformity: Asking to be resolved, a priori, in one year, but for certain non-conformities, it can be requested to solve within shorter time;</li> <li>3. Observations: observations that can become a corrective action request in the future.</li> </ol> <p>The Corrective Action Requests (CARs) describe evidence of non-compliance identified during supplier audits. CARs include deadlines set for the supplier to demonstrate compliance. By default, major non-compliances issued during the evaluation / re-evaluation must be closed before the inclusion in the scope of the supply of Danzer. Non-compliances issued during surveillance audits shall be closed in a timely manner. In case of non-closure of a major non-compliance, the supply is suspended until resolution.</p>		

Generally, a minor non-compliance with the legislation is:

- a) temporary failure;
- b) little / no systematic or
- c) limited in their temporal and spatial impact...

Conversely, a major non-compliance with the law is a non-compliance:

- a) continuously over a long period of time;
- b) affects a large area and / or causes significant damage;
- c) indicates an absence or failure of the implementation of legal compliance,
- d) is not corrected or adequately addressed when identified, or
- e) has a significant negative impact on society, the production of forest products and other services, the forest ecosystem and the people affected by forestry operations.

Following are examples of critical Major non conformities that do not allow approval and purchase:

- Unknown source: Wood in the supply chain that cannot be traced back to a valid logging permit and is potentially mixed with other wood (unknown source wood in the supply chain);
- Supplier has not informed Danzer about other sources of wood;
- Logging without the legal right to harvest or outside de validity of the logging title (logging permit, concession license);
- Forest management plan has not been finalised and submitted to the local administration, within the legal prescribed timeframe;
- Logging outside the borders of the logging permit;
- Significant non-compliance with timber harvesting regulations (significant logging beyond the maximum harvest volume, harvest of a significant amount of trees below prescribed minimum diameter, harvesting of species that are not foreseen by the logging permit, harvesting of protected species and in protected sites where harvest is forbidden...)
- Non-payment of taxes and fees for which the government authorities have issued a repeated request;
- Significant non-compliance with Health and Safety requirements or Workers' rights (dangerous working conditions without any precaution, forced labour, child labour, workers express they do not have the right for collective bargaining, ...);

	<ul style="list-style-type: none"> <li>Third party rights are infringed and open conflict exists with local communities or indigenous people exist for which no resolution process is ongoing;</li> <li>Non-compliant transport documents;</li> <li>Use of official transport documents or logging permits which are not related to the forest origin (in order to launder wood felled without or outside a logging permit);</li> <li>Logging of CITES species without CITES permit;</li> <li>False declarations at export (for example false classification of species or volumes to avoid tax payment or for other reasons)</li> </ul>
<b>Findings for Evaluation of Evidence:</b>	It is found that Interholco has sufficiently revised their system to reflect the changes needed in their procedures.
<b>NCR Status:</b>	<b>CLOSED</b>
<b>Comments (optional):</b>	N/A

<b>Issued for: Interholco</b>			
<b>NCR: 02/14</b>	<b>NC Classification:</b>	<b>MAJOR</b> <input checked="" type="checkbox"/>	<b>Minor</b> <input type="checkbox"/>
<b>Standard &amp; Requirement:</b>	7.1	The organisation shall assess and specify the level of risk of illegal forest products entering the supply chain, including for the following areas:	
	7.1.1	the risk of legal violations related to forest management activities;	
	7.1.2	the risk of legal violations within the supply chains in relation to trade and transport of the products, including declaration and classification of the material for customs; and,	
	7.1.3	risk that the material is mixed with other material of illegal or unknown origin somewhere in the supply chain during transport, processing or storage.	
<b>Report Section:</b>	Appendix B		
<b>Description of Non-conformance and Related Evidence:</b>			
<p>7.1.1: The Interholco risk assessment does not take into account all applicable laws and regulations that is covered under the EUTR or LegalSource definition of legality. The risk assessment seems mainly to be based on CPI. While this may be appropriate for a general risk assessment, the supply chain risk assessments as developed in DGProc 46_05a, also mainly refer to CPI. It is therefore not clear how the risk assessment of Interholco takes into consideration all applicable legal issues covered by applicable legislation in each country and in specific supply chains.</p> <p>By relying on the value of the CPI Interholco will automatically exclude risk assessment from countries with a CPI above 50 from the further analysis. It is not considered that relying so much on the CPI for risk assessment is appropriate and ensures a sufficient level of detail related to the different types of risk that can be present.</p> <p>7.1.3: Interholco includes supply chain complexity in the revised DGProc_46-05a_Due Diligence-Risk and measures countries. However, this assessment is limited to a supply</p>			

<p>chain complexity and CPI evaluation. It is found that the use of these as the only parameter does not fully capture the risk that material is mixed into the supply chain. It was obvious from the supplier audits in Cameroon that, even if supply chains were simple on paper and even partly legality verified, the risk of mixing of uncertified and unknown material in these supply chains persisted. It is found that the risk assessment lack the necessary detail to be able to capture this important risk aspect.</p>	
<p><b>Corrective action request:</b></p>	<p>Interholco shall develop and implement risk assessment measures that captures a complete range of potential risks from their supply chains, including forest level legality risks, supply chain legality as well as risk of mixing and contamination in the supply chain.</p>
<p><b>Timeline for Conformance:</b></p>	<p>Prior to Certification</p>
<p><b>Evidence Provided by Organisation:</b></p>	<p>Subsequent to the submission of the final report, Interholco provided NEPCon with the following clarification in the risk assessment methodology:</p> <p>The risk assessment is based on clear references for risk evaluation such as the Global forest registry  In the excel sheet 46_05a (EXHIBIT 11), details of the risk conclusion are given. If an FSC approved FSC CW Risk assessment is available, this is used as well. DanzerProc_46-04_Species and Spatial Risk Rating procurement is also used</p> <p>Supply chain evaluation is part of the audits and reports. For all suppliers where non-certified wood is purchased, the risk is evaluated. All new suppliers of non-certified wood are audited and it is clearly indicated in the new report that they have to report to Interholco if they source from other forests.</p>
<p><b>Findings for Evaluation of Evidence:</b></p>	<p>It is found that Interholco meets the LegalSource requirements:</p> <p>Re. 7.1.1: Interholco uses the FSC CW risk assessment procedure, which is recognised by NEPCon as meeting evaluation of applicable legislation.</p> <p>Re. 7.1.3: it is acknowledged that Interholco includes the risk of mixing in their evaluation of non-certified suppliers. Therefore the risk is mitigated.</p> <p>The NCR is closed.</p>
<p><b>NCR Status:</b></p>	<p><b>CLOSED</b></p>
<p><b>Comments (optional):</b></p>	<p>N/A</p>

<b>Issued for: Interholco</b>			
<b>NCR: 03/14</b>	<b>NC Classification:</b>	<b>MAJOR</b> <input type="checkbox"/>	<b>Minor</b> <input checked="" type="checkbox"/>
<b>Standard &amp; Requirement:</b>	LS Standard 8.2 The organisation shall document and justify the effectiveness of risk mitigation measures.		
<b>Report Section:</b>	Appendix B		
<b>Description of Non-conformance and Related Evidence:</b>			
<p>In relation to the use of 3<sup>rd</sup> party verification and certification it is considered that certification/verification schemes in general are seen as strong means of risk mitigation. However it must be underlined that these systems should not be used without further due diligence to ensure that they cover all applicable requirements and that the requirement are observed by the supply chains. Most certification schemes have weaknesses that should be considered. Interholco has developed procedure to evaluate 3<sup>rd</sup> party verification and certification schemes (</p> <p>DGProc_32-05_Evaluation of certification schemes- EXHIBIT 12 and</p> <p>DGProc_32-05b_Evaluation of certification schemes SGS TLTV - EXHIBIT 13)</p> <p>In the case of TLTV programme several areas of partial compliance was identified.</p>			
<b>Corrective action request:</b>	Interholco shall ensure that all 3 <sup>rd</sup> party certification and verification systems are evaluated against all applicable legality categories.		
<b>Timeline for Conformance:</b>	By the time of the next annual audit		
<b>Evidence Provided by Organisation:</b>	<p>Subsequent to the finalisation of the certification report, Interholco provided the following revisions to close this NCR:</p> <p>Danzer: Update of the evaluation of certification schemes done and actions will be implemented.</p> <p>TLTV verification only concerns at the moment only two concessions where Interholco have audits reports and confirmed legal compliance. The two concessions are not providing other wood than TLTV. IF there would be other suppliers, TLTV does not allow a claim on the invoice and Interholco are informed by suppliers if they would buy from another supplier.</p>		
<b>Findings for Evaluation of Evidence:</b>	<p>It is considered that Interholco have sufficiently revised their certification system evaluation details and have also included follow up on the identified areas where there could be partial compliance of these systems.</p> <p>It was found that Interholco has partly corrected the non-compliance, however there is yet to be evidence of any follow up on the partial compliance areas of the TLTV standard. The NCR is therefore downgraded to Minor and</p>		

	provided with a timeline until the next annual audit to provide objective evidence of compliance.
<b>NCR Status:</b>	<b>OPEN</b>
<b>Comments (optional):</b>	N/A

## Observations

*Note: Observations are issued for the early stages of a problem which does not of itself constitute a non-conformance, but which the auditor considers may lead to a future non-conformance if not addressed by the organization; observations may lead to direct non-conformances if not addressed.*

<b>OBS: 01/14</b>	<b>Standard &amp; Requirement:</b>	LegalSource Standard  5.1 The organisation shall clearly define and document the scope of their due diligence system in terms of supply chains, products and species covered.
	<b>Report Section</b>	Appendix B
<b>Description of findings leading to observation:</b>	<p>Interholco has chosen to limit the scope of the LegalSource certification to:  “Wood products <u>procured</u> by Interholco outside EU and placed on the EU market”.</p> <p>This limitation to the scope of the Interholco DDS is seen by NEPCon as an added risk to the company’s brand. Even if Interholco may not place it-self in a situation where it will assume legal liability against the EUTR, it is still considered a major risk to reputation and brand name of any illegal material should be identified in material sourced outside the scope of the DDS.</p>	
<b>Observation:</b>	Interholco should include all their suppliers and supply chains in the scope of their LegalSource certified due diligence system in order to assure that their legality requirements are applied to all supply chains of the organisation.	

<b>OBS: 02/14</b>	<b>Standard &amp; Requirement:</b>	LegalSource Standard  6.3 The organisation shall ensure that suppliers notify the organisation if they plan to change supply chains.
	<b>Report Section</b>	Appendix B
<b>Description of findings leading to observation:</b>	The assurance that suppliers provide Danzer with the necessary information about changes in sources is an important issue, and one that has been identified during on-site supplier verification to contain	

	risks that in-complete information is provided by suppliers. At the time of the assessment the new system of excluding suppliers that are not approved have only recently been implemented, and it is considered an issue that warrants additional future attention from the Organisation.
	Interholco audits non-certified suppliers in high risk supply chains and have included a requirement to inform Interholco if changes are made to the sources of material in the Supplier Declaration (DProc_46-02b_Declaration of Legality-Responsible Procurement)
<b>Observation:</b>	Interholco should take steps to continuously ascertain that suppliers are not expanding or changes sources in order to avoid any accidental mixing of timber from non-verified, illegal or un-known sources.

### 3. COMPANY DETAILS

#### Contacts

##### Primary contact for Coordination with NEPCon

Primary Contact, Position:	Tom Van Loon
Address:	Schutzengelstrasse 36, 6342 Baar, Switzerland
Tel/Fax/Web/Email:	
Jurisdiction of primary legal entity:	Switzerland

##### Billing Contact

Same as shown for "primary contact"

Contact, Position:	
Address:	
Tel/Fax/Email:	

#### Scope

Scope item	Check all that apply to the certificate scope			Change in scope (N/A for assessments)
<b>Certificate type:</b>	<input type="checkbox"/> Single	<input type="checkbox"/> Group	<input checked="" type="checkbox"/> Multi-site	<input type="checkbox"/>
<b>Activity:</b>	Primary: Primary manufacturer	Additional: Broker/trader with physical possessor		<input type="checkbox"/>
<b>Description of scope:</b> Interholco AG				

*(note: outsource sites Belgium (Willebroek/Antwerp))*

The due diligence system cover the following product scope, compliant with the EU Timber Regulation obligations: wood products procured by Interholco outside EU and placed on the EU market-

**As part of this assessment NEPCon carried out supplier verification auditing with two of Interholco suppliers in Cameroon. The findings of this audit is found in a separate supplier verification report.**

### **Danzer companies Assessment Scope**

Danzer has chosen not to include all material sourced by the whole organisation in the scope of the LegalSource assessment of Interholco.

Interholco has chosen to include in the scope of the assessment, at least all material where Danzer or its clients have an obligation by the EU Timber Regulation, as an operator.

The scope of the overall Danzer assessment include three separate entities, covering three separate legal entities under the Danzer Companies:

Certificate 1: Danzer Veneer Europe

Certificate 2: Interholco

Certificate 3: Danzer UK

The following outlines the scope definition under each certificate:

#### 1. Danzer veneer Europe

\* Danzer Europe Veneer (DEV) (CH), including processing at Jura Placages (FR) and Danzer Bohemia Dyharna (CZ);

\* Vinterio AG (CH), including processing at Danzer Bohemia Dyharna (CZ)

\* Sydfané AB (SE)

The due diligence system cover the following product scope, compliant with the EU Timber Regulation obligations:

a. wood products procured by Danzer outside the EU and placed on the EU market

b. logs harvested or procured inside the EU.

#### 2. Interholco AG (CH)

*(note: outsource sites Belgium (Willebroek/Antwerp))*

The due diligence system cover the following product scope, compliant with the EU Timber Regulation obligations: wood products procured by Danzer outside the EU and placed on the EU market

#### 3. Danzer UK

*(note: outsource sites Liverpool and The Netherlands)*

The due diligence system cover the following product scope, compliant with the EU

Timber Regulation obligations: all wood products procured by Danzer UK outside the EU and placed on the EU market.  
Process

#### Site details

Organisation Site(s)	Address Tel/Fax/Email	Type of operation	Product groups placed on the market (include brief description)	Visited during this audit (mark the length in hours and auditor if applicable)
Interholco AG	Schutzengelstrasse 36, CH-6430 Baar; Postfach 1356, CH-6341 Baar, Switzerland	Trading	Logs, lumber veneer	YES, during pre- assessment - 6 hours
Interholco	Villalaan 16, 9320 Erembodegem, BE.	Admin office	Logs, lumber veneer	YES - 4 hours
FORLOG NV	Victor Dumonlaan 11, 2830 Willebroek (BE)	Storage (outsourced by Interholco to FORLOG NV)	Logs, lumber veneer	YES - 2 hours
Interholco	MAGAZIJN CEDER OULAND 22, HAVEN 73 2030 Antwerpen (BE)rp	Storage Outsourced by Interholco to CARGO AGENCY NV	Logs, lumber veneer	NO

## 4. EVALUATION PROCESS

### Evaluation Team

Auditor(s)	Qualifications
Christian Sloth	NEPCon Forest legality programme manager. MSc forestry, FSC lead auditor.

### Description of Evaluation Process

Interholco has engaged with NEPCon in order for NEPCon to evaluate the due diligence system that Danzer is implementing in order to evaluate and minimise the risk of sourcing illegally harvested, transported or traded timber products. NEPCon has used the LegalSource standard to evaluate the due diligence system of Interholco.

The LegalSource evaluation process has included the following activities:

1. A pre-assessment at the Danzer HQ in Baar Switzerland in August 2013.
2. Interholco Supplier verification audits in Cameroon in December 2013
3. Desk evaluation of procedures in January 2014
5. Onsite evaluation at Interholco sourcing office in Belgium in February 2014.

The assessment evaluation of Interholco was carried out as a combination of desk audits and onsite evaluation.

Prior to the audit Interholco had submitted most of the sections of its environmental management system handbook that describes the Due Diligence system for sourcing of timber products.

The assessment has been carried out as a combination of desk based evaluation of procedures, records and data, as well as onsite visit to outsourced storage facilities in Willebroek in Belgium:

The audit followed the below general outline:

1. Opening meeting, presentation of participants, audit program and scope
2. Introduction by Interholco to the organization of the Due Diligence system
3. Evaluation of the documented procedures, including responsibilities, commitments made by the organization, procedures for internal monitoring and definition of product scope
4. Evaluation of the general procedures for access to information, risk assessments and risk mitigation procedures adopted by Interholco
5. Evaluation of operational implementation of the DD system, including:
  - a. Interview with staff involved in the operational implementation of the DD system
  - b. Evaluation of a sample of supply chains and the implementation of the Due Diligence on the selected samples (access to information, risk assessment and risk mitigation)
  - c. Evaluation of supplier audit program and record
6. Closing meeting: presentation of LegalSource audit conclusions.
7. Onsite visit to FORLOG NV

During the audit a sample of concrete supply chains were selected for which Interholco presented how their Due Diligence system had been implemented.

