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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number 1-6780**

**RAYONIER INC.**

Incorporated in the State of North Carolina

**I.R.S. Employer Identification No. 13-2607329**

**225 WATER STREET, SUITE 1400**

**JACKSONVILLE, FL 32202**

**(Principal Executive Office)**

**Telephone Number: (904) 357-9100**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

As of July 31, 2014, there were outstanding 126,542,602 Common Shares of the registrant.

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**TABLE OF CONTENTS**

| <b><u>Item</u></b> |  | <b><u>Page</u></b> |
|--------------------|--|--------------------|
|                    | <b>PART I - FINANCIAL INFORMATION</b>  |                    |
| 1.                 | <a href="#">Financial Statements (unaudited)</a>   | <a href="#">1</a>  |
|                    | <a href="#">Consolidated Statements of Income and Comprehensive Income for the Three and Six Months Ended June 30, 2014 and 2013</a> | <a href="#">1</a>  |
|                    | <a href="#">Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013</a>  | <a href="#">2</a>  |
|                    | <a href="#">Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and 2013</a>                                | <a href="#">3</a>  |
|                    | <a href="#">Notes to Consolidated Financial Statements</a>   | <a href="#">4</a>  |
| 2.                 | <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>                                | <a href="#">43</a> |
| 3.                 | <a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>   | <a href="#">53</a> |
| 4.                 | <a href="#">Controls and Procedures</a>  | <a href="#">54</a> |
|                    | <b>PART II - OTHER INFORMATION</b>   |                    |
| 1.                 | <a href="#">Legal Proceedings</a>  | <a href="#">55</a> |
| 6.                 | <a href="#">Exhibits</a>   | <a href="#">56</a> |
|                    | <a href="#">Signature</a>  | <a href="#">57</a> |

**PART I. FINANCIAL INFORMATION**
**Item 1. Financial Statements**

**RAYONIER INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**AND COMPREHENSIVE INCOME**  
(Unaudited)

(Dollars in thousands, except per share amounts)

|  | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  | 2014                           | 2013       | 2014                         | 2013       |
| <b>SALES</b>   | \$ 163,145                     | \$ 154,889 | \$ 306,332                   | \$ 261,942 |
| Costs and Expenses   |                                |            |                              |            |
| Cost of sales  | 121,105                        | 127,861    | 235,036                      | 204,520    |
| Selling and general expenses   | 13,861                         | 14,703     | 27,098                       | 28,100     |
| Other operating income, net (Note 19)  | (11,389)                       | (3,624)    | (11,764)                     | (7,772)    |
|  | 123,577                        | 138,940    | 250,370                      | 224,848    |
| Equity in income of New Zealand joint venture  | —                              | 304        | —                            | 562        |
| <b>OPERATING INCOME BEFORE GAIN ON CONSOLIDATION OF NEW ZEALAND JOINT VENTURE</b>                                    | 39,568                         | 16,253     | 55,962                       | 37,656     |
| Gain related to consolidation of New Zealand joint venture (Note 6)  | —                              | 16,098     | —                            | 16,098     |
| <b>OPERATING INCOME</b>  | 39,568                         | 32,351     | 55,962                       | 53,754     |
| Interest expense   | (15,612)                       | (11,351)   | (26,286)                     | (19,803)   |
| Interest and miscellaneous (expense) income, net   | (4,385)                        | 2,684      | (5,397)                      | 2,766      |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>   | 19,571                         | 23,684     | 24,279                       | 36,717     |
| Income tax (expense) benefit   | (13,515)                       | 15,947     | (5,939)                      | 21,942     |
| <b>INCOME FROM CONTINUING OPERATIONS</b>   | 6,056                          | 39,631     | 18,340                       | 58,659     |
| <b>DISCONTINUED OPERATIONS, NET (Note 2)</b>   |                                |            |                              |            |
| Income from discontinued operations, net of income tax expense of \$5,966, \$31,177, \$21,231 and \$63,868           | 12,084                         | 48,260     | 43,092                       | 176,967    |
| <b>NET INCOME</b>  | 18,140                         | 87,891     | 61,432                       | 235,626    |
| Less: Net (loss) income attributable to noncontrolling interest  | (245)                          | 727        | (328)                        | 727        |
| <b>NET INCOME ATTRIBUTABLE TO RAYONIER INC.</b>  | 18,385                         | 87,164     | 61,760                       | 234,899    |
| <b>OTHER COMPREHENSIVE INCOME</b>  |                                |            |                              |            |
| Foreign currency translation adjustment  | 3,517                          | (28,201)   | 21,320                       | (27,226)   |
| New Zealand joint venture cash flow hedges, net of income tax (benefit) expense of (\$401), \$0, \$100 and \$0       | (920)                          | 222        | 791                          | 775        |
| Net gain from pension and postretirement plans, net of income tax expense of \$35,944, \$1,620, \$36,875 and \$3,824 | 58,873                         | 3,717      | 60,970                       | 8,687      |
| Total other comprehensive income (loss)  | 61,470                         | (24,262)   | 83,081                       | (17,764)   |
| <b>COMPREHENSIVE INCOME</b>  | 79,610                         | 63,629     | 144,513                      | 217,862    |
| Less: Comprehensive income (loss) attributable to noncontrolling interest  | 297                            | (9,505)    | 5,722                        | (9,505)    |
| <b>COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.</b>  | \$ 79,313                      | \$ 73,134  | \$ 138,791                   | \$ 227,367 |
| <b>EARNINGS PER COMMON SHARE (Note 3)</b>  |                                |            |                              |            |
| <b>BASIC EARNINGS PER SHARE ATTRIBUTABLE TO RAYONIER INC.</b>  |                                |            |                              |            |
| Continuing Operations  | \$ 0.05                        | \$ 0.31    | \$ 0.15                      | \$ 0.46    |
| Discontinued Operations  | 0.10                           | 0.38       | 0.34                         | 1.42       |
| Net Income   | \$ 0.15                        | \$ 0.69    | \$ 0.49                      | \$ 1.88    |
| <b>DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO RAYONIER INC.</b>  |                                |            |                              |            |
| Continuing Operations  | \$ 0.05                        | \$ 0.30    | \$ 0.14                      | \$ 0.44    |
| Discontinued Operations  | 0.09                           | 0.37       | 0.33                         | 1.36       |
| Net Income   | \$ 0.14                        | \$ 0.67    | \$ 0.47                      | \$ 1.80    |

See Notes to Consolidated Financial Statements.

**RAYONIER INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)  
(Dollars in thousands)

|   | June 30, 2014       | December 31, 2013   |
|---|---------------------|---------------------|
| <b>ASSETS</b>   |                     |                     |
| <b>CURRENT ASSETS</b>   |                     |                     |
| Cash and cash equivalents   | \$ 222,061          | \$ 199,644          |
| Restricted cash   | 75,000              | —                   |
| Accounts receivable, less allowance for doubtful accounts of \$622 and \$673                            | 19,765              | 94,956              |
| Inventory   |                     |                     |
| Finished goods  | 17,622              | 115,270             |
| Work in progress  | —                   | 3,555               |
| Raw materials   | 862                 | 17,661              |
| Manufacturing and maintenance supplies  | —                   | 2,332               |
| Total inventory   | 18,484              | 138,818             |
| Deferred tax assets   | 3,221               | 39,100              |
| Prepaid and other current assets  | 21,565              | 46,576              |
| Total current assets  | 360,096             | 519,094             |
| <b>TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION</b>  | 2,121,614           | 2,049,378           |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>  |                     |                     |
| Land  | 1,833               | 20,138              |
| Buildings   | 8,468               | 180,573             |
| Machinery and equipment   | 3,333               | 1,760,641           |
| Construction in progress  | 274                 | 19,795              |
| Total property, plant and equipment, gross  | 13,908              | 1,981,147           |
| Less — accumulated depreciation   | (7,765)             | (1,120,326)         |
| Total property, plant and equipment, net  | 6,143               | 860,821             |
| <b>OTHER ASSETS</b>   | 148,104             | 256,208             |
| <b>TOTAL ASSETS</b>   | <b>\$ 2,635,957</b> | <b>\$ 3,685,501</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                     |                     |
| <b>CURRENT LIABILITIES</b>  |                     |                     |
| Accounts payable  | \$ 27,871           | \$ 69,293           |
| Current maturities of long-term debt  | —                   | 112,500             |
| Accrued taxes   | 13,834              | 8,551               |
| Uncertain tax positions   | 5,780               | 10,547              |
| Accrued payroll and benefits  | 5,316               | 24,948              |
| Accrued interest  | 9,743               | 9,531               |
| Accrued customer incentives   | —                   | 9,580               |
| Other current liabilities   | 28,865              | 24,327              |
| Current liabilities for dispositions and discontinued operations (Note 13)                              | —                   | 6,835               |
| Total current liabilities   | 91,409              | 276,112             |
| <b>LONG-TERM DEBT</b>   | 770,086             | 1,461,724           |
| <b>NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS (Note 13)</b>                   | —                   | 69,543              |
| <b>PENSION AND OTHER POSTRETIREMENT BENEFITS (Note 16)</b>  | 24,014              | 95,654              |
| <b>OTHER NON-CURRENT LIABILITIES</b>  | 30,600              | 27,225              |
| <b>COMMITMENTS AND CONTINGENCIES (Notes 12 and 14)</b>  |                     |                     |
| <b>SHAREHOLDERS' EQUITY</b>   |                     |                     |
| Common Shares, 480,000,000 shares authorized, 126,529,693 and 126,257,870 shares issued and outstanding | 698,462             | 692,100             |
| Retained earnings   | 891,629             | 1,015,209           |
| Accumulated other comprehensive income (loss)   | 30,891              | (46,139)            |
| <b>TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY</b>   | 1,620,982           | 1,661,170           |
| Noncontrolling interest   | 98,866              | 94,073              |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>   | 1,719,848           | 1,755,243           |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>   | <b>\$ 2,635,957</b> | <b>\$ 3,685,501</b> |

See Notes to Consolidated Financial Statements.

**RAYONIER INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(Dollars in thousands)

|  | Six Months Ended June 30, |                  |
|--|---------------------------|------------------|
|  | 2014                      | 2013             |
| <b>OPERATING ACTIVITIES</b>  |                           |                  |
| Net income   | \$ 61,432                 | \$ 235,626       |
| Adjustments to reconcile net income to cash provided by operating activities:  |                           |                  |
| Depreciation, depletion and amortization   | 54,452                    | 50,857           |
| Non-cash cost of real estate sold  | 3,302                     | 2,593            |
| Stock-based incentive compensation expense   | 5,980                     | 6,226            |
| Deferred income taxes  | 10,103                    | 38,107           |
| Tax benefit of AFMC for CBPC exchange  | —                         | (18,761)         |
| Depreciation and amortization from discontinued operations   | 37,985                    | 29,356           |
| Amortization of losses from pension and postretirement plans   | 5,896                     | 11,617           |
| Gain on sale of discontinued operations, net   | —                         | (42,670)         |
| Gain related to consolidation of New Zealand joint venture   | —                         | (16,098)         |
| Other  | (43)                      | (8,653)          |
| Changes in operating assets and liabilities:   |                           |                  |
| Receivables  | 9,988                     | (11,782)         |
| Inventories  | 4,765                     | 27,325           |
| Accounts payable   | 27,307                    | 19,535           |
| Income tax receivable/payable  | 5,195                     | (5,626)          |
| All other operating activities   | 5,130                     | (7,654)          |
| Payment to exchange AFMC for CBPC  | —                         | (70,311)         |
| Expenditures for dispositions and discontinued operations  | (5,096)                   | (4,015)          |
| <b>CASH PROVIDED BY OPERATING ACTIVITIES</b>   | <b>226,396</b>            | <b>235,672</b>   |
| <b>INVESTING ACTIVITIES</b>  |                           |                  |
| Capital expenditures   | (80,494)                  | (74,587)         |
| Purchase of additional interest in New Zealand joint venture   | —                         | (139,879)        |
| Purchase of timberlands  | (74,817)                  | (10,447)         |
| Jesup mill cellulose specialties expansion (gross purchases of \$0 and \$114,449, net of purchases on account of \$0 and \$14,264) | —                         | (100,185)        |
| Proceeds from disposition of Wood Products business  | —                         | 72,953           |
| Change in restricted cash  | 63,128                    | 7,603            |
| Other  | (478)                     | 537              |
| <b>CASH USED FOR INVESTING ACTIVITIES</b>  | <b>(92,661)</b>           | <b>(244,005)</b> |
| <b>FINANCING ACTIVITIES</b>  |                           |                  |
| Issuance of debt   | 1,238,389                 | 455,000          |
| Repayment of debt  | (1,107,062)               | (273,087)        |
| Dividends paid   | (124,628)                 | (113,222)        |
| Proceeds from the issuance of common shares  | 3,347                     | 6,643            |
| Excess tax benefits on stock-based compensation  | —                         | 7,399            |
| Repurchase of common shares  | (1,834)                   | (11,241)         |
| Debt issuance costs  | (12,380)                  | —                |
| Purchase of timberland deeds for Rayonier Advanced Materials   | (12,677)                  | —                |
| Debt issuance funds distributed to Rayonier Advanced Materials   | (924,943)                 | —                |
| Proceeds from spin-off of Rayonier Advanced Materials  | 906,200                   | —                |
| Change in restricted cash reserved for dividends   | (75,000)                  | —                |
| Other  | (680)                     | —                |
| <b>CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES</b>  | <b>(111,268)</b>          | <b>71,492</b>    |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>   | <b>(50)</b>               | <b>(174)</b>     |
| <b>CASH AND CASH EQUIVALENTS</b>   |                           |                  |
| Change in cash and cash equivalents  | 22,417                    | 62,985           |
| Balance, beginning of year   | 199,644                   | 280,596          |
| Balance, end of period   | \$ 222,061                | \$ 343,581       |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>   |                           |                  |
| Cash paid during the period:   |                           |                  |
| Interest   | \$ 26,980                 | \$ 16,754        |
| Income taxes   | 10,417                    | 84,508           |

|  |        |          |
|--|--------|----------|
| Non-cash investing activity:   |        |          |
| Capital assets purchased on account                                  | 11,547 | 59,729   |
| Non-cash financing activity:   |        |          |
| Shareholder debt assumed in acquisition of New Zealand joint venture | —      | 125,532  |
| Conversion of shareholder debt to equity noncontrolling interest     | —      | (95,961) |

See Notes to Consolidated Financial Statements.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**1. BASIS OF PRESENTATION**

*Basis of Presentation*

The unaudited consolidated financial statements and notes thereto of Rayonier Inc. and its subsidiaries (“Rayonier” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, these financial statements and notes reflect all adjustments (all of which are normal recurring adjustments) necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented. These statements and notes should be read in conjunction with the financial statements and supplementary data included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the SEC.

*Reclassifications*

Certain 2013 amounts and amounts previously reported in 2014 have been reclassified to agree with the current presentation, including reclassifications for discontinued operations. Rayonier completed the spin-off of its Performance Fibers business on June 27, 2014 and completed the sale of its Wood Products business on March 1, 2013. Accordingly, the operating results of these businesses are reported as discontinued operations in the Company’s Consolidated Statements of Income and Comprehensive Income for all periods presented. Certain administrative and general costs historically allocated to the segments, which remained with Rayonier, are reported in continuing operations.

The December 31, 2013 Consolidated Balance Sheet reports historical information and includes balances for all businesses as reported in the prior year. The June 30, 2014 Consolidated Balance Sheet reports continuing operations only and reflects the contribution of \$1.2 billion of assets, net, and corresponding liabilities and equity to Rayonier Advanced Materials in connection with the spin-off of the Performance Fibers business.

The Consolidated Statements of Cash Flows for both 2014 and 2013 have not been restated to exclude Performance Fibers or Wood Products cash flows. Cash flows for the six months ended June 30, 2014 also reflect transactions related to the Performance Fibers spin-off, including borrowings to arrange the capital structure prior to the separation, proceeds received upon the spin-off and the use of proceeds to pay down debt and reserve cash for a special dividend payment during the third quarter of 2014.

See Note 2 — *Discontinued Operations* for additional information regarding the spin-off of the Performance Fibers business and sale of the Wood Products business.

*New Accounting Standards*

In May 2014, the Financial Accounting Standards Board (“FASB”) and International Accounting Standards Board (“IASB”) jointly issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*, a comprehensive new revenue recognition standard which will supersede current revenue recognition guidance. The core principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to receive in exchange for those goods or services. The guidance provides a unified model to determine when and how revenue is recognized and will require enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. This standard will be effective for Rayonier beginning January 1, 2017 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The standard requires a disposal of a component of an entity to be reported in discontinued operations if it represents a strategic shift with a major effect on an entity’s operations and financial results. It also removes requirements related to the evaluation of the component’s effect on ongoing operations and the entity’s continuing involvement with the component. Additional disclosures about discontinued operations are also required under this standard. ASU No. 2014-08 is required to be applied prospectively for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning December 15, 2014. As the Company has not elected early adoption, this standard will be effective for Rayonier’s first quarter 2015 Form 10-Q filing. It is not expected that the standard will have any impact on the Company’s consolidated financial statements.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

### *Subsequent Events*

The Company evaluated events and transactions that occurred after the balance sheet date but before financial statements were issued, and three subsequent events were identified that warranted disclosure. On July 21, 2014, the Board of Directors approved a third quarter cash dividend of 30 cents per common share. The dividend is payable on September 30, 2014 to shareholders of record on September 16, 2014. In addition to the regular third quarter cash dividend, the Board of Directors approved a special cash dividend of 50 cents per common share payable on August 15, 2014 to shareholders of record on July 31, 2014. Additionally, amendments to the Company's revolving credit facility and term credit agreement became effective in July 2014, as discussed in Note 17 — *Debt*.

## **2. DISCONTINUED OPERATIONS**

### ***Spin-Off of the Performance Fibers Business***

On June 27, 2014, Rayonier completed its previously announced tax-free spin-off of its Performance Fibers business from its Forest Resources and Real Estate segments. The spin-off resulted in two independent, publicly-traded companies, with the Performance Fibers business being spun-off to Rayonier shareholders as a newly formed public company named Rayonier Advanced Materials. On June 27, 2014, the shareholders of record received one share of Rayonier Advanced Materials common stock for every three common shares of Rayonier held as of the close of business on the record date of June 18, 2014.

In connection with the spin-off, Rayonier Advanced Materials distributed \$906.2 million in cash to Rayonier from \$550 million in Senior Notes issued by Rayonier A.M. Products (a wholly-owned subsidiary of Rayonier Advanced Materials), \$325 million in term loans, and \$75 million from a revolving credit facility Rayonier Advanced Materials entered into prior to the spin-off. Under the terms of the Internal Revenue Service spin-off ruling, \$75 million of these funds is restricted to pay dividends or repurchase common stock within eighteen months following the distribution of the shares of Rayonier Advanced Materials common stock to Rayonier shareholders. At June 30, 2014, \$75 million was included in the "Restricted cash" line in the Consolidated Balance Sheets.

In order to effect the spin-off and govern our relationship with Rayonier Advanced Materials after the spin-off, Rayonier entered into a Separation and Distribution Agreement, an Intellectual Property Agreement, a Tax Sharing Agreement, an Employee Matters Agreement and a Transition Services Agreement.

The Separation and Distribution Agreement governs the spin-off of the Performance Fibers business and the transfer of assets and other matters related to our relationship with Rayonier Advanced Materials. The Separation and Distribution Agreement provides for cross-indemnities between Rayonier and Rayonier Advanced Materials and established procedures for handling claims subject to indemnification and related matters.

The Intellectual Property Agreement governs the allocation of intellectual property rights and assets between Rayonier and Rayonier Advanced Materials.

The Tax Sharing Agreement governs the respective rights, responsibilities and obligations of Rayonier and Rayonier Advanced Materials with respect to taxes, tax attributes, tax returns, tax proceedings and certain other tax matters including assistance and cooperation on tax matters.

The Employee Matters Agreement governs the compensation and employee benefit obligations with respect to the current and former employees and non-employee directors of Rayonier and Rayonier Advanced Materials, and generally allocates liabilities and responsibilities relating to employee compensation, benefit plans and programs. The Employee Matters Agreement provides that employees of Rayonier Advanced Materials will no longer participate in benefit plans sponsored or maintained by Rayonier. In addition, the Employee Matters Agreement provides that each of the parties will be responsible for their respective current employees and compensation plans for such current employees. The Employee Matters Agreement further provides that Rayonier Advanced Materials will be responsible for liabilities associated with former employees whose last employment was with the businesses that are to be operated by Rayonier Advanced Materials after the spin-off, including the Performance Fibers business, as well as certain specified former corporate employees, and Rayonier will remain responsible for former employees whose last employment was with the businesses retained by Rayonier following the spin-off and certain specified corporate employees.



**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

The Transition Services Agreement sets forth the terms on which Rayonier will provide to Rayonier Advanced Materials, and Rayonier Advanced Materials will provide to Rayonier, certain services or functions that were shared prior to the spin-off. Transition services include administrative, payroll, human resources, data processing, environmental health and safety, financial audit support, financial transaction support, and other support services, information technology systems and various other corporate services. The agreement provides for the provision of specified transition services, generally for a period of up to 18 months, on a cost basis.

Rayonier will not have significant continuing involvement in the operations of the Performance Fibers business going forward. Accordingly, the operating results of the Performance Fibers business, formerly reported as a separate operating segment, are classified as discontinued operations in the Company's Consolidated Statements of Income and Comprehensive Income for all periods presented. Certain administrative and general costs historically allocated to the Performance Fibers segment, which will remain with the Company after the sale, are reported in continuing operations.

The following table summarizes the operating results of the Company's discontinued operations related to the Performance Fibers spin-off for the three and six months ended June 30, 2014 and 2013, as presented in "Income from discontinued operations, net" in the Consolidated Statements of Income and Comprehensive Income:

|   | Three Months Ended June 30, |                  | Six Months Ended June 30, |                   |
|---|-----------------------------|------------------|---------------------------|-------------------|
|   | 2014                        | 2013             | 2014                      | 2013              |
| Sales   | \$ 212,680                  | \$ 254,189       | \$ 456,180                | \$ 540,855        |
| Cost of sales and other                                 | (174,961)                   | (174,650)        | (368,868)                 | (366,584)         |
| Transaction expenses                                    | (19,669)                    | (102)            | (22,989)                  | (186)             |
| Income from discontinued operations before income taxes | 18,050                      | 79,437           | 64,323                    | 174,085           |
| Income tax expense                                      | (5,966)                     | (31,177)         | (21,231)                  | (41,595)          |
| Income from discontinued operations, net                | <u>\$ 12,084</u>            | <u>\$ 48,260</u> | <u>\$ 43,092</u>          | <u>\$ 132,490</u> |

In accordance with ASC 205-20-S99-3, *Allocation of Interest to Discontinued Operations*, the Company elected to allocate interest expense to discontinued operations where the debt is not directly attributed to the Performance Fibers business. Interest expense has been allocated based on a ratio of net assets to be discontinued to the sum of consolidated net assets plus consolidated debt (other than debt directly attributable to the Forest Resources and Real Estate operations). The following table summarizes the interest expense allocated to discontinued operations for the three and six months ended June 30, 2014 and 2013:

|   | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|---|-----------------------------|------------|---------------------------|------------|
|   | 2014                        | 2013       | 2014                      | 2013       |
| Interest allocated to the Performance Fibers business | \$ (1,910)                  | \$ (1,851) | \$ (4,205)                | \$ (3,797) |

The following table summarizes the depreciation, amortization and capital expenditures of the Company's discontinued operations related to the Performance Fibers business:

|  | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|--|-----------------------------|-----------|---------------------------|-----------|
|  | 2014                        | 2013      | 2014                      | 2013      |
| Depreciation and amortization              | \$ 17,336                   | \$ 13,649 | \$ 37,985                 | \$ 28,802 |
| Capital expenditures                       | 24,621                      | 48,817    | 46,336                    | 70,182    |
| Jesup mill cellulose specialties expansion | —                           | 63,451    | —                         | 100,185   |

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

The major classes of Performance Fibers assets and liabilities included in the spin-off are as follows:

|   | <b>June 27, 2014</b> |
|---|----------------------|
| Accounts receivable, net                  | \$ 66,050            |
| Inventory                                 | 121,705              |
| Prepaid and other current assets          | 70,092               |
| Property, plant and equipment, net        | 862,487              |
| Other assets                              | 103,400              |
| <b>Total assets</b>                       | <b>\$ 1,223,734</b>  |
| Accounts payable                          | 65,522               |
| Other current liabilities                 | 51,006               |
| Long-Term debt                            | 950,000              |
| Non-current environmental liabilities     | 66,434               |
| Pension and other postretirement benefits | 102,633              |
| Other non-current liabilities             | 7,269                |
| Deficit                                   | (19,130)             |
| <b>Total liabilities and equity</b>       | <b>\$ 1,223,734</b>  |

Pursuant to a Memorandum of Understanding agreement, Rayonier may provide Rayonier Advanced Materials with up to 120,000 tons of hardwood annually through July 30, 2017. Prior to the spin-off, hardwood purchases were intercompany transactions eliminated in consolidation as follows:

|                    | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             |
|--------------------|------------------------------------|-------------|----------------------------------|-------------|
|                    | <b>2014</b>                        | <b>2013</b> | <b>2014</b>                      | <b>2013</b> |
| Hardwood purchases | \$ 1,190                           | \$ 350      | \$ 3,935                         | \$ 259      |

***Sale of Wood Products Business***

On March 1, 2013, Rayonier completed the sale of its Wood Products business (consisting of three lumber mills in Baxley, Swainsboro and Eatonton, Georgia) to International Forest Products Limited (“Interfor”) for \$80 million plus a working capital adjustment. Accordingly, the operating results of the Wood Products business, formerly reported as a separate operating segment, are classified as discontinued operations in the Company’s Consolidated Statements of Income and Comprehensive Income for the six months ended June 30, 2013.

Rayonier recognized an after-tax gain of \$42.7 million on the sale. The gain is included in “Income from discontinued operations, net” on the Consolidated Statements of Income and Comprehensive Income for the six months ended June 30, 2013.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

The following table summarizes the operating results of the Company's Wood Products discontinued operations and the related gain for the six months ended June 30, 2013, as presented in "Income from discontinued operations, net" on the Consolidated Statements of Income and Comprehensive Income:

|   | <b>Six Months Ended<br/>June 30, 2013</b> |          |
|---|---|----------|
| Sales   | \$  | 16,968   |
| Cost of sales and other                                 |   | (14,258) |
| Gain on sale of discontinued operations                 |   | 64,040   |
| Income from discontinued operations before income taxes | \$  | 66,750   |
| Income tax expense                                      |   | (22,273) |
| Income from discontinued operations, net                | \$  | 44,477   |

Cash flows from the Wood Products business are immaterial in the aggregate. As such, they are included with cash flows from continuing operations in the Consolidated Statements of Cash Flows.

The following table reconciles the operating results of both the Performance Fibers and Wood Products discontinued operations, as presented in "Income from discontinued operations, net" on the Consolidated Statements of Income and Comprehensive Income:

|   | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             |
|---|------------------------------------|-------------|----------------------------------|-------------|
|   | <b>2014</b>                        | <b>2013</b> | <b>2014</b>                      | <b>2013</b> |
| Performance Fibers income from discontinued operations, net | \$ 12,084                          | \$ 48,260   | \$ 43,092                        | \$ 132,490  |
| Wood Products income from discontinued operations, net      | —                                  | —           | —                                | 44,477      |
| Income from discontinued operations, net                    | \$ 12,084                          | \$ 48,260   | \$ 43,092                        | \$ 176,967  |

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**3. EARNINGS PER COMMON SHARE**

The following table provides details of the calculations of basic and diluted earnings per common share:

|  | <b>Three Months Ended June 30,</b> |                    | <b>Six Months Ended June 30,</b> |                    |
|--|------------------------------------|--------------------|----------------------------------|--------------------|
|  | <b>2014</b>                        | <b>2013</b>        | <b>2014</b>                      | <b>2013</b>        |
| Income from continuing operations  | \$ 6,056                           | \$ 39,631          | \$ 18,340                        | \$ 58,659          |
| Less: Net (loss) income from continuing operations attributable to noncontrolling interest | (245)                              | 727                | (328)                            | 727                |
| Income from continuing operations attributable to Rayonier Inc.                            | <u>\$ 6,301</u>                    | <u>\$ 38,904</u>   | <u>\$ 18,668</u>                 | <u>\$ 57,932</u>   |
| Income from discontinued operations, net, attributable to Rayonier Inc.                    | <u>\$ 12,084</u>                   | <u>\$ 48,260</u>   | <u>\$ 43,092</u>                 | <u>\$ 176,967</u>  |
| Net income attributable to Rayonier Inc.   | <u>\$ 18,385</u>                   | <u>\$ 87,164</u>   | <u>\$ 61,760</u>                 | <u>\$ 234,899</u>  |
| Shares used for determining basic earnings per common share                                | 126,434,376                        | 126,027,297        | 126,390,891                      | 125,257,876        |
| Dilutive effect of:  |                                    |                    |                                  |                    |
| Stock options  | 293,213                            | 504,321            | 296,768                          | 519,014            |
| Performance and restricted shares  | 201,956                            | 386,228            | 194,995                          | 384,910            |
| Assumed conversion of Senior Exchangeable Notes (a)  | 2,631,514                          | 2,217,058          | 2,579,402                        | 2,173,658          |
| Assumed conversion of warrants (a) (b)   | 2,738,606                          | 1,632,345          | 2,656,633                        | 2,250,361          |
| Shares used for determining diluted earnings per common share                              | <u>132,299,665</u>                 | <u>130,767,249</u> | <u>132,118,689</u>               | <u>130,585,819</u> |
| Basic earnings per common share attributable to Rayonier Inc.:                             |                                    |                    |                                  |                    |
| Continuing operations  | \$ 0.05                            | \$ 0.31            | \$ 0.15                          | \$ 0.46            |
| Discontinued operations  | 0.10                               | 0.38               | 0.34                             | 1.42               |
| Net income   | <u>\$ 0.15</u>                     | <u>\$ 0.69</u>     | <u>\$ 0.49</u>                   | <u>\$ 1.88</u>     |
| Diluted earnings per common share attributable to Rayonier Inc.:                           |                                    |                    |                                  |                    |
| Continuing operations  | \$ 0.05                            | \$ 0.30            | \$ 0.14                          | \$ 0.44            |
| Discontinued operations  | 0.09                               | 0.37               | 0.33                             | 1.36               |
| Net income   | <u>\$ 0.14</u>                     | <u>\$ 0.67</u>     | <u>\$ 0.47</u>                   | <u>\$ 1.80</u>     |
|  |                                    |                    |                                  |                    |
|  | <b>Three Months Ended June 30,</b> |                    | <b>Six Months Ended June 30,</b> |                    |
|  | <b>2014</b>                        | <b>2013</b>        | <b>2014</b>                      | <b>2013</b>        |
| Anti-dilutive shares excluded from the computations of diluted earnings per share:         |                                    |                    |                                  |                    |
| Stock options, performance and restricted shares   | 507,044                            | 199,245            | 499,193                          | 207,097            |
| Assumed conversion of exchangeable note hedges (a)   | 2,631,514                          | 2,217,058          | 2,579,402                        | 2,173,658          |
| Total  | <u>3,138,558</u>                   | <u>2,416,303</u>   | <u>3,078,595</u>                 | <u>2,380,755</u>   |

(a) Rayonier will not issue additional shares upon future exchange or maturity of the Senior Exchangeable Notes due 2015 (the "2015 Notes") due to offsetting hedges. Accounting Standards Codification 260, *Earnings Per Share* requires the assumed conversion of the 2015 Notes to be included in dilutive shares if the average stock price for the period exceeds the strike price, while the assumed conversion of the hedges is excluded since they are anti-dilutive. As such, the full dilutive effect of the 2015 Notes was included for all periods presented.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

The Senior Exchangeable Notes due 2012 (the “2012 Notes”) matured in October 2012; however, no additional shares were issued due to offsetting exchangeable note hedges. The warrants sold in conjunction with the 2012 Notes began maturing on January 15, 2013 and matured ratably through March 27, 2013. As a result, 2,037,303 shares were issued through the end of the first quarter of 2013 and 97,918 shares were issued in the first week of April 2013. The dilutive impact of these warrants was calculated based on the length of time they were outstanding before settlement. Rayonier will distribute additional shares upon maturity of the warrants associated with the 2015 Notes if the stock price exceeds \$28.58 per share. The exchange price on the warrants is lower than prior periods as it has been adjusted to reflect the spin-off of the Performance Fibers business. For further information, see Note 13 — *Debt* in the 2013 Annual Report on Form 10-K and Note 17 — *Debt* of this Form 10-Q.

(b) The shares used for the assumed conversion of the warrants increased for the current quarter and year-to-date periods due to a lower adjusted exchange price as a result of the spin-off.

#### **4. INCOME TAXES**

Rayonier is a real estate investment trust (“REIT”). In general, only its taxable REIT subsidiaries, whose businesses include the Company’s non-REIT qualifying activities, and foreign operations, are subject to corporate income taxes. Accordingly, the provision for corporate income taxes relates principally to current and deferred taxes on taxable REIT subsidiaries’ income and foreign operations.

##### ***Alternative Fuel Mixture Credit (“AFMC”) and Cellulosic Biofuel Producer Credit (“CBPC”)***

The U.S. Internal Revenue Code allowed two credits for taxpayers that produced and used an alternative fuel in the operation of their business through December 31, 2009. The AFMC is a \$.50 per gallon refundable tax credit (which is not taxable), while the CBPC is a \$1.01 per gallon credit that is nonrefundable, taxable and has limitations based on an entity’s tax liability. Prior to the spin-off (See Note 2 — *Discontinued Operations* for additional information), Rayonier produced and used an alternative fuel (“black liquor”) at its Performance Fibers mills, which qualified for both credits. The Company claimed the AFMC on its original 2009 tax return. In the first quarter of 2013, management approved a \$70 million tax payment to exchange approximately 120 million gallons of black liquor previously claimed for the AFMC for the CBPC, resulting in an expected net \$19 million tax benefit, which was recorded in discontinued operations. As a result of the spin-off of the Performance Fibers business in second quarter 2014, the Company recorded a \$16 million valuation allowance related to its limited potential use of the CBPC prior to its expiration on December 31, 2016.

##### ***Provision for Income Taxes from Continuing Operations***

The Company’s effective tax rate before discrete items is below the 35 percent U.S. statutory rate due to tax benefits associated with being a REIT and tax benefits from losses at Rayonier’s taxable operations from interest and general administrative expenses not allowed to be allocated to the discontinued operations of the Performance Fibers business. Despite the tax benefits associated with being a REIT and losses at Rayonier’s taxable operations, the increase in the effective tax rates as reported for the quarter and year-to-date periods is primarily attributable to the CBPC valuation allowance recorded in second quarter 2014.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

The tables below reconcile the U.S. statutory rate to the Company's effective tax rate for each period presented:

|  | <b>Three Months Ended June 30,</b> |               |                    |                |
|--|------------------------------------|---------------|--------------------|----------------|
|  | <b>2014</b>                        |               | <b>2013</b>        |                |
| Income tax expense at federal statutory rate                       | \$ 6,850                           | 35.0 %        | \$ 8,289           | 35.0 %         |
| REIT income and taxable losses                                     | (7,382)                            | (37.7)        | (20,001)           | (84.4)         |
| Reverse loss on FMV of exchangeable notes                          | —                                  | —             | 828                | 3.5            |
| Foreign operations   | (688)                              | (3.5)         | 458                | 1.9            |
| Non-deductible real estate losses                                  | 558                                | 2.8           | —                  | —              |
| Other  | 112                                | 0.6           | 115                | 0.5            |
| Income tax benefit before discrete items                           | (550)                              | (2.8)%        | (10,311)           | (43.5)%        |
| CBPC valuation allowance   | 15,574                             | 79.7          | —                  | —              |
| Spin-off related costs   | 797                                | 4.1           | —                  | —              |
| Deferred tax inventory valuations                                  | (3,293)                            | (16.8)        | —                  | —              |
| Gain related to consolidation of New Zealand joint venture         | —                                  | —             | (5,636)            | (23.8)         |
| Other  | 987                                | 4.9           | —                  | —              |
| Income tax expense (benefit) as reported for continuing operations | <u>\$ 13,515</u>                   | <u>69.1 %</u> | <u>\$ (15,947)</u> | <u>(67.3)%</u> |

|  | <b>Six Months Ended June 30,</b> |               |                    |                |
|--|----------------------------------|---------------|--------------------|----------------|
|  | <b>2014</b>                      |               | <b>2013</b>        |                |
| Income tax expense at federal statutory rate                       | \$ 8,498                         | 35.0 %        | \$ 12,851          | 35.0 %         |
| REIT income and taxable losses                                     | (15,230)                         | (62.7)        | (31,324)           | (85.3)         |
| Foreign operations   | (854)                            | (3.5)         | 1,517              | 4.1            |
| Non-deductible real estate losses                                  | 692                              | 2.8           | —                  | —              |
| Reverse loss on FMV of exchangeable notes                          | —                                | —             | 1,284              | 3.5            |
| Other  | 139                              | 0.6           | (151)              | (0.4)          |
| Income tax benefit before discrete items                           | (6,755)                          | (27.8)%       | (15,823)           | (43.1)%        |
| CBPC valuation allowance   | 15,574                           | 64.1          | —                  | —              |
| Spin-off related costs   | 797                              | 3.3           | —                  | —              |
| Deferred tax inventory valuations                                  | (3,293)                          | (13.6)        | —                  | —              |
| Gain related to consolidation of New Zealand joint venture         | —                                | —             | (5,636)            | (15.3)         |
| Other  | (384)                            | (1.5)         | (483)              | (1.4)          |
| Income tax expense (benefit) as reported for continuing operations | <u>\$ 5,939</u>                  | <u>24.5 %</u> | <u>\$ (21,942)</u> | <u>(59.8)%</u> |

**Provision for Income Taxes from Discontinued Operations**

In second quarter 2014, Rayonier completed the spin-off of its Performance Fibers business. For the three and six months ended June 30, 2014, income tax expense related to Performance Fibers discontinued operations was \$6.0 million and \$21.2 million, respectively. For the three and six months ended June 30, 2013, income tax expense related to Performance Fibers discontinued operations was \$31.2 million and \$41.6 million, respectively.

In first quarter 2013, Rayonier completed the sale of its Wood Products business for \$80 million plus a working capital adjustment. For the six months ended June 30, 2013, income tax expense related to Wood Products discontinued operations was \$22.3 million (\$21.4 million from the gain on sale).

See Note 2 — *Discontinued Operations* for additional information on the spin-off of the Performance Fibers business and sale of the Wood Products business.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**Unrecognized Tax Benefits**

During second quarter 2014, the Company received a refund from the IRS related to its amended 2009 TRS tax return. As a result, Rayonier reversed the \$4.8 million reserve related to the increased domestic production deduction due to the inclusion of CBPC income. The reserve was comprised of a \$3.9 million reduction of current deferred tax assets and a \$0.9 million unrecognized tax benefit, which was recorded in discontinued operations.

During the first quarter of 2013, the Company implemented ASU 2013-11, which requires, in certain instances, an unrecognized tax benefit (or portion of an unrecognized tax benefit) to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. As a result, the Company reclassified \$3.9 million from an unrecognized tax benefit liability to a reduction to current deferred tax assets at March 31, 2014.

**Deferred Taxes**

The spin-off of the Performance Fibers business resulted in the contribution of deferred tax assets and deferred tax liabilities to Rayonier Advanced Materials and impacted the Company's expected future use of remaining deferred tax assets. The Company's current portion of deferred tax assets decreased from \$39.1 million at December 31, 2013 to \$3.2 million as of June 30, 2014. The remaining balance reflects the \$15.6 million valuation allowance related to Rayonier's limited potential use of the CBPC credit. In addition, the Company's non-current deferred tax asset decreased \$3.0 million from year-end while the non-current deferred tax liability increased \$8.7 million.

**5. RESTRICTED CASH AND DEPOSITS**

Pursuant to the Internal Revenue Service spin-off ruling, \$75 million of the proceeds received from Rayonier Advanced Materials are restricted to pay dividends or repurchase common stock within eighteen months following the spin-off. These funds are included within the "Restricted cash" line of the Consolidated Balance Sheet and will be used to pay a special dividend of \$0.50 per share in third quarter 2014.

In order to qualify for like-kind exchange ("LKE") treatment, the proceeds from real estate sales must be deposited with a third-party intermediary. These proceeds are accounted for as restricted cash until a suitable replacement property is acquired. In the event LKE purchases are not completed, the proceeds are returned to the Company after 180 days and reclassified as available cash. As of June 30, 2014 and December 31, 2013, the Company had \$5.8 million and \$68.9 million, respectively, of proceeds from real estate sales classified as restricted cash within Other Assets, which were deposited with an LKE intermediary.

**6. JOINT VENTURE INVESTMENT**

On April 4, 2013 (the "acquisition date"), the Company acquired an additional 39 percent ownership interest in Matariki Forestry Group, a joint venture ("New Zealand JV") that owns or leases approximately 0.3 million acres of New Zealand timberlands. As a result of the acquisition, Rayonier is a 65 percent owner of the New Zealand JV and 100 percent of the results of its operations subsequent to April 4, 2013 have been included in the Company's consolidated financial statements, along with 100 percent of the JV's assets and liabilities at June 30, 2014 and December 31, 2013. The portions of the consolidated financial position and results of operations attributable to the New Zealand JV's 35 percent noncontrolling interest are also shown separately. Rayonier New Zealand Limited ("RNZ"), a wholly-owned subsidiary of Rayonier Inc., continues to serve as the manager of the New Zealand JV forests.

Prior to the acquisition date, the Company accounted for its 26 percent interest in the New Zealand JV as an equity method investment. The additional 39 percent interest was acquired for \$139.9 million and resulted in the Company obtaining a controlling financial interest in the New Zealand JV and accordingly, the purchase was accounted for as a step-acquisition. Upon consolidation, the Company recognized a \$10.1 million deferred gain, which resulted from the original sale of its New Zealand operations to the joint venture in 2005 and a \$6 million benefit due to the required fair market value remeasurement of the Company's equity interest in the New Zealand JV held before the purchase of the additional interest. The acquisition-date fair value of the previous equity interest was \$93.3 million.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

The Company's operating results for the three and six months ended June 30, 2013 reflect 26 percent of the New Zealand JV's income prior to the acquisition date, as reported in "Equity in income of New Zealand joint venture" in the Consolidated Statements of Income and Comprehensive Income. The following represents the pro forma Rayonier consolidated sales and net income for the three and six months ended June 30, 2013 as if the additional interest in the New Zealand JV had been acquired on January 1, 2013.

|            | <b>Three Months Ended June<br/>30, 2013</b> | <b>Six Months Ended June 30,<br/>2013</b> |
|------------|---|---|
| Sales      | \$ 409,077                                  | \$ 837,322                                |
| Net Income | \$ 87,891                                   | \$ 233,867                                |



**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**7. SHAREHOLDERS' EQUITY**

An analysis of shareholders' equity for the six months ended June 30, 2014 and the year ended December 31, 2013 is shown below (share amounts not in thousands):

|  | Rayonier Inc. Shareholders Equity |            |                   |   |                          |                            |
|--|-----------------------------------|------------|-------------------|---|--------------------------|----------------------------|
|  | Common Shares                     |            | Retained Earnings | Accumulated Other Comprehensive Income/(Loss) | Non-controlling Interest | Total Shareholders' Equity |
|  | Shares                            | Amount     |                   |   |                          |                            |
| <b>Balance, December 31, 2012</b>                  | 123,332,444                       | \$ 670,749 | \$ 876,634        | \$ (109,379)                                  | \$ —                     | \$ 1,438,004               |
| Net income   | —                                 | —          | 371,896           | —   | 1,902                    | 373,798                    |
| Dividends (\$1.86 per share)                       | —                                 | —          | (233,321)         | —   | —                        | (233,321)                  |
| Issuance of shares under incentive stock plans     | 1,001,426                         | 10,101     | —                 | —   | —                        | 10,101                     |
| Stock-based compensation                           | —                                 | 11,710     | —                 | —   | —                        | 11,710                     |
| Excess tax benefit on stock-based compensation     | —                                 | 8,413      | —                 | —   | —                        | 8,413                      |
| Repurchase of common shares                        | (211,221)                         | (11,326)   | —                 | —   | —                        | (11,326)                   |
| Equity portion of convertible debt upon redemption | —                                 | 2,453      | —                 | —   | —                        | 2,453                      |
| Settlement of warrants                             | 2,135,221                         | —          | —                 | —   | —                        | —                          |
| Net gain from pension and postretirement plans     | —                                 | —          | —                 | 61,869  | —                        | 61,869                     |
| Acquisition of noncontrolling interest             | —                                 | —          | —                 | —   | 96,336                   | 96,336                     |
| Noncontrolling interest redemption of shares       | —                                 | —          | —                 | —   | (713)                    | (713)                      |
| Foreign currency translation adjustment            | —                                 | —          | —                 | (1,915)                                       | (3,795)                  | (5,710)                    |
| Joint venture cash flow hedges                     | —                                 | —          | —                 | 3,286   | 343                      | 3,629                      |
| <b>Balance, December 31, 2013</b>                  | 126,257,870                       | \$ 692,100 | \$ 1,015,209      | \$ (46,139)                                   | \$ 94,073                | \$ 1,755,243               |
| Net income (loss)                                  | —                                 | —          | 61,760            | —   | (328)                    | 61,432                     |
| Dividends (\$0.98 per share)                       | —                                 | —          | (123,947)         | —   | —                        | (123,947)                  |
| Contribution to Rayonier Advanced Materials        | —                                 | (301)      | (61,393)          | 80,749  | —                        | 19,055                     |
| Issuance of shares under incentive stock plans     | 315,739                           | 3,347      | —                 | —   | —                        | 3,347                      |
| Stock-based compensation                           | —                                 | 5,980      | —                 | —   | —                        | 5,980                      |
| Excess tax deficiency on stock-based compensation  | —                                 | (830)      | —                 | —   | —                        | (830)                      |
| Repurchase of common shares                        | (43,916)                          | (1,834)    | —                 | —   | —                        | (1,834)                    |
| Net losses from pension and postretirement plans   | —                                 | —          | —                 | (19,779)                                      | —                        | (19,779)                   |
| Noncontrolling interest redemption of shares       | —                                 | —          | —                 | —   | (930)                    | (930)                      |
| Foreign currency translation adjustment            | —                                 | —          | —                 | 15,546  | 5,774                    | 21,320                     |
| Joint venture cash flow hedges                     | —                                 | —          | —                 | 514   | 277                      | 791                        |
| <b>Balance, June 30, 2014</b>                      | 126,529,693                       | \$ 698,462 | \$ 891,629        | \$ 30,891                                     | \$ 98,866                | \$ 1,719,848               |

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**8. SEGMENT AND GEOGRAPHICAL INFORMATION**

Rayonier operates in two reportable business segments: Forest Resources and Real Estate. Prior to the second quarter of 2014, the Company operated in three reportable business segments, which included Performance Fibers. On June 27, 2014, the Company spun-off its Performance Fibers business and its operations are shown as discontinued operations for all periods presented. See Note 2 — *Discontinued Operations* for additional information.

Forest Resources sales include all activities related to the harvesting of timber. Real Estate sales include all property sales, including those designated for higher and better use (“HBU”). The assets of the Real Estate segment include HBU property held by the Company’s real estate subsidiary, TerraPointe LLC. The Company’s remaining operations include harvesting and selling timber acquired from third parties (log trading). These operations are reported in “Other Operations.” Sales between operating segments are made based on estimated fair market value, and intercompany sales, purchases and profits (losses) are eliminated in consolidation. The Company evaluates financial performance based on the operating income of the segments.

Operating income (loss) as presented in the Consolidated Statements of Income and Comprehensive Income is equal to segment income (loss). Certain income (loss) items in the Consolidated Statements of Income and Comprehensive Income are not allocated to segments. These items, which include gains (losses) from certain asset dispositions, interest income (expense), miscellaneous income (expense) and income tax (expense) benefit, are not considered by management to be part of segment operations.

Total assets, sales, operating income (loss) and depreciation, depletion and amortization by segment including Corporate were as follows:

| <b>ASSETS</b>       | <b>June 30,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|---------------------|--------------------------|------------------------------|
| Forest Resources    | \$ 2,288,157             | \$ 2,162,913                 |
| Real Estate         | 96,277                   | 149,001                      |
| Other Operations    | 24,860                   | 37,334                       |
| Corporate and other | 226,663                  | 257,608                      |
| Performance Fibers  | —                        | 1,078,645                    |
| Total               | <u>\$ 2,635,957</u>      | <u>\$ 3,685,501</u>          |

| <b>SALES</b>              | <b>Three Months Ended June 30,</b> |                   | <b>Six Months Ended June 30,</b> |                   |
|---------------------------|------------------------------------|-------------------|----------------------------------|-------------------|
|                           | <b>2014</b>                        | <b>2013</b>       | <b>2014</b>                      | <b>2013</b>       |
| Forest Resources          | \$ 101,120                         | \$ 109,060        | \$ 205,799                       | \$ 166,162        |
| Real Estate               | 34,017                             | 13,376            | 39,547                           | 37,673            |
| Other Operations          | 29,224                             | 32,709            | 64,910                           | 58,458            |
| Intersegment Eliminations | (1,216)                            | (256)             | (3,924)                          | (351)             |
| Total                     | <u>\$ 163,145</u>                  | <u>\$ 154,889</u> | <u>\$ 306,332</u>                | <u>\$ 261,942</u> |

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

| OPERATING INCOME        | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|-------------------------|-----------------------------|-----------|---------------------------|-----------|
|                         | 2014                        | 2013      | 2014                      | 2013      |
| Forest Resources        | \$ 21,578                   | \$ 20,890 | \$ 49,079                 | \$ 34,145 |
| Real Estate             | 28,096                      | 6,105     | 28,836                    | 22,947    |
| Other Operations        | (132)                       | 1,621     | (544)                     | 1,719     |
| Corporate and other (a) | (9,974)                     | 3,735     | (21,409)                  | (5,057)   |
| Total                   | \$ 39,568                   | \$ 32,351 | \$ 55,962                 | \$ 53,754 |

(a) The three and six months ended June 30, 2013 included a \$16.1 million gain related to the consolidation of the New Zealand JV.

| DEPRECIATION, DEPLETION AND AMORTIZATION | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|--|-----------------------------|-----------|---------------------------|-----------|
|  | 2014                        | 2013      | 2014                      | 2013      |
| Forest Resources                         | \$ 21,911                   | \$ 27,291 | \$ 46,843                 | \$ 43,735 |
| Real Estate                              | 6,090                       | 2,469     | 6,986                     | 6,646     |
| Corporate                                | 341                         | 293       | 623                       | 476       |
| Total                                    | \$ 28,342                   | \$ 30,053 | \$ 54,452                 | \$ 50,857 |

## 9. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to market risk related to potential fluctuations in foreign currency exchange rates, interest rates and fuel prices. The Company's New Zealand JV uses derivative financial instruments to mitigate the financial impact of exposure to these risks.

Accounting for derivative financial instruments is governed by Accounting Standards Codification Topic 815, *Derivatives and Hedging*, ("ASC 815"). In accordance with ASC 815, the Company records its derivative instruments at fair value as either assets or liabilities in the Consolidated Balance Sheets. Changes in the instruments' fair value are accounted for based on their intended use. Gains and losses on derivatives that are designated and qualify for cash flow hedge accounting are recorded as a component of accumulated other comprehensive income ("AOCI") and reclassified into earnings when the hedged transaction materializes. The ineffective portion of any hedge as well as changes in the fair value of derivatives not designated as hedging instruments and those which are no longer effective as hedging instruments, are recognized immediately in earnings. The Company's hedge ineffectiveness was immaterial for all periods presented.

### *Foreign Currency Exchange and Option Contracts*

The functional currency of the New Zealand JV is the New Zealand dollar. These operations are exposed to foreign currency risk on export sales and ocean freight payments which are predominately denominated in US dollars. The New Zealand JV typically hedges at least 70 percent of its estimated foreign currency exposure with respect to the following three months forecasted sales and purchases and 50 percent of the forward 12 months.

The fair value of foreign currency exchange contracts is determined by a mark-to-market valuation which estimates fair value by discounting the difference between the contracted forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate. The fair value of foreign currency option contracts is based on a mark-to-market calculation using the Black Scholes option pricing model.

### *Interest Rate Swaps*

The Company uses interest rate swaps to manage the New Zealand JV's exposure to interest rate movements on its variable rate debt attributable to changes in the New Zealand Bank bill rate. By converting a portion of these borrowings from floating rates to fixed rates the Company has reduced the impact of interest rate changes on its expected future cash outflows. As of June 30, 2014, the Company's interest rate contracts hedged 88 percent of the New Zealand JV's variable rate debt and had maturity dates through January 2020.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

*Fuel Hedge Contracts*

The Company uses fuel swap contracts to manage its New Zealand JV's exposure to changes in New Zealand's domestic diesel prices. The fuel swaps are quoted by domestic banks in New Zealand dollar price terms. As of June 30, 2014 all of the contracts had maturities of less than one year. The fair value of the fuel swap contracts is determined by a mark-to-market valuation which estimates fair value by discounting the difference between the contracted forward price and the current forward price for the residual maturity of the contract. Effective November 2013, the New Zealand JV has not entered into any new fuel swaps.

The following tables demonstrate the impact of the Company's derivatives on the Consolidated Statements of Income and Comprehensive Income for the three and six months ended June 30, 2014 and 2013.

|   | <b>Income Statement Location</b>                 | <b>Three Months Ended June 30,</b> |             |
|---|--|------------------------------------|-------------|
|   |  | <b>2014</b>                        | <b>2013</b> |
| <b>Derivatives designated as cash flow hedges:</b>        |  |                                    |             |
| Foreign currency exchange contracts                       | Other comprehensive income (loss)                | \$ (818)                           | \$ (1,509)  |
| Foreign currency option contracts                         | Other comprehensive income (loss)                | (504)                              | (363)       |
| <b>Derivatives not designated as hedging instruments:</b> |  |                                    |             |
| Foreign currency exchange contracts                       | Other operating expense (income)                 | \$ —                               | \$ 456      |
| Foreign currency option contracts                         | Other operating expense (income)                 | —                                  | 1,491       |
| Interest rate swaps                                       | Interest and miscellaneous (expense) income, net | (729)                              | 2,650       |
| Fuel hedge contracts                                      | Cost of sales (benefit)                          | (92)                               | (148)       |
| <b>Six Months Ended June 30,</b>                          |  |                                    |             |
|   | <b>Income Statement Location</b>                 | <b>2014</b>                        | <b>2013</b> |
| <b>Derivatives designated as cash flow hedges:</b>        |  |                                    |             |
| Foreign currency exchange contracts                       | Other comprehensive income (loss)                | \$ 669                             | \$ (1,509)  |
| Foreign currency option contracts                         | Other comprehensive income (loss)                | 221                                | (363)       |
| <b>Derivatives not designated as hedging instruments:</b> |  |                                    |             |
| Foreign currency exchange contracts                       | Other operating expense (income)                 | \$ 25                              | \$ (1,426)  |
| Foreign currency option contracts                         | Other operating expense (income)                 | 7                                  | 1,491       |
| Interest rate swaps                                       | Interest and miscellaneous (expense) income, net | (1,862)                            | 2,650       |
| Fuel hedge contracts                                      | Cost of sales (benefit)                          | 225                                | (148)       |

During the next 12 months, the amount of the June 30, 2014 AOCI balance, net of tax, expected to be reclassified into earnings as a result of the maturation of the Company's derivative instruments is a gain of approximately \$1.8 million.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

The following table contains the notional amounts of the derivative financial instruments recorded in the Consolidated Balance Sheets:

|   | Notional Amount (a) |                   |
|---|---------------------|-------------------|
|   | June 30, 2014       | December 31, 2013 |
| <b>Derivatives designated as cash flow hedges:</b>        |                     |                   |
| Foreign currency exchange contracts                       | \$ 19,625           | \$ 32,300         |
| Foreign currency option contracts                         | 46,000              | 38,000            |
| <b>Derivatives not designated as hedging instruments:</b> |                     |                   |
| Foreign currency exchange contracts                       | \$ —                | \$ 1,950          |
| Foreign currency option contracts                         | —                   | 4,000             |
| Interest rate swaps                                       | 180,658             | 183,851           |
| Fuel hedge contracts                                      | 13                  | 38                |

(a) All notional amounts are stated in thousands of dollars except fuel contracts which are denominated in thousands of barrels.

The following table contains the fair values of the derivative financial instruments recorded in the Consolidated Balance Sheets:

|   | Location on Balance Sheet        | Fair Value Assets (Liabilities) (a) |                   |
|---|----------------------------------|-------------------------------------|-------------------|
|   |                                  | June 30, 2014                       | December 31, 2013 |
| <b>Derivatives designated as cash flow hedges:</b>        |                                  |                                     |                   |
| Foreign currency exchange contracts                       | Prepaid and other current assets | \$ 1,726                            | \$ 915            |
| Foreign currency option contracts                         | Prepaid and other current assets | 846                                 | 673               |
|   | Other current liabilities        | (100)                               | (214)             |
| <b>Derivatives not designated as hedging instruments:</b> |                                  |                                     |                   |
| Foreign currency exchange contracts                       | Prepaid and other current assets | \$ —                                | \$ 25             |
| Foreign currency option contracts                         | Prepaid and other current assets | —                                   | 8                 |
| Interest rate swaps                                       | Other non-current liabilities    | (5,051)                             | (4,659)           |
| Fuel hedge contracts                                      | Prepaid and other current assets | —                                   | 160               |
|   | Other current liabilities        | (67)                                | —                 |
| <b>Total derivative contracts:</b>                        |                                  |                                     |                   |
| Prepaid and other current assets                          |                                  | \$ 2,572                            | \$ 1,781          |
| Other current liabilities                                 |                                  | (167)                               | (214)             |
| Other non-current liabilities                             |                                  | (5,051)                             | (4,659)           |
| Total derivative liabilities                              |                                  | \$ (5,218)                          | \$ (4,873)        |

(a) See Note 10 — *Fair Value Measurements* for further information on the fair value of our derivatives including their classification within the fair value hierarchy.

*Offsetting Derivatives*

Derivative financial instruments are presented at their gross fair values in the Consolidated Balance Sheets. The Company's derivative financial instruments are not subject to master netting arrangements which would allow the right of offset.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**10. FAIR VALUE MEASUREMENTS**

*Fair Value of Financial Instruments*

The Accounting Standards Codification established a three-level hierarchy that prioritizes the inputs used to measure fair value as follows:

*Level 1* — Quoted prices in active markets for identical assets or liabilities.

*Level 2* — Observable inputs other than quoted prices included in Level 1.

*Level 3* — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents the carrying amount, estimated fair values and categorization under the fair value hierarchy of financial instruments held by the Company at June 30, 2014 and December 31, 2013, using market information and what management believes to be appropriate valuation methodologies under generally accepted accounting principles:

| <b>Asset (liability)</b>                | <b>June 30, 2014</b>   |                   |                | <b>December 31, 2013</b> |                   |                |
|---|------------------------|-------------------|----------------|--------------------------|-------------------|----------------|
|   | <b>Carrying Amount</b> | <b>Fair Value</b> |                | <b>Carrying Amount</b>   | <b>Fair Value</b> |                |
|   |                        | <b>Level 1</b>    | <b>Level 2</b> |                          | <b>Level 1</b>    | <b>Level 2</b> |
| Cash and cash equivalents               | \$ 222,061             | \$ 222,061        | \$ —           | \$ 199,644               | \$ 199,644        | \$ —           |
| Restricted cash (a)                     | 80,817                 | 80,817            | —              | 68,944                   | 68,944            | —              |
| Current maturities of long-term debt    | —                      | —                 | —              | (112,500)                | —                 | (119,614)      |
| Long-term debt                          | (770,086)              | —                 | (840,129)      | (1,461,724)              | —                 | (1,489,810)    |
| Interest rate swaps (b)                 | (5,051)                | —                 | (5,051)        | (4,659)                  | —                 | (4,659)        |
| Foreign currency exchange contracts (b) | 1,726                  | —                 | 1,726          | 940                      | —                 | 940            |
| Foreign currency option contracts (b)   | 746                    | —                 | 746            | 467                      | —                 | 467            |
| Fuel contracts (b)                      | (67)                   | —                 | (67)           | 160                      | —                 | 160            |

(a) Restricted cash of \$6 million and \$69 million, as of June 30, 2014 and December 31, 2013, respectively, is recorded in “Other Assets” and represents the proceeds from LKE sales deposited with a third-party intermediary. Restricted cash of \$75 million as of June 30, 2014 is recorded in “Restricted cash” and represents the funds restricted to pay dividends or repurchase common stock within eighteen months following the spin-off.

(b) See Note 9 — *Derivative Financial Instruments and Hedging Activities* for information regarding the Balance Sheet classification of the Company’s derivative financial instruments.

Rayonier uses the following methods and assumptions in estimating the fair value of its financial instruments:

*Cash and cash equivalents and Restricted cash* — The carrying amount is equal to fair market value.

*Debt* — The fair value of fixed rate debt is based upon quoted market prices for debt with similar terms and maturities. The variable rate debt adjusts with changes in the market rate, therefore the carrying value approximates fair value.

*Interest rate swap agreements* — The fair value of interest rate contracts is determined by discounting the expected future cash flows, for each instrument, at prevailing interest rates.

*Foreign currency exchange contracts* — The fair value of foreign currency exchange contracts is determined by a mark-to-market valuation which estimates fair value by discounting the difference between the contracted forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

*Foreign currency option contracts* — The fair value of foreign currency option contracts is based on a mark-to-market calculation using the Black-Scholes option pricing model.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**11. GUARANTEES**

The Company provides financial guarantees as required by creditors, insurance programs, and various governmental agencies. As of June 30, 2014, the following financial guarantees were outstanding:

| Financial Commitments         | Maximum Potential<br>Payment | Carrying Amount<br>of Associated Liability |
|-------------------------------|------------------------------|--|
| Standby letters of credit (a) | \$ 17,355                    | \$ 15,000                                  |
| Guarantees (b)                | 2,254                        | 43   |
| Surety bonds (c)              | 1,877                        | —  |
| Total financial commitments   | <u>\$ 21,486</u>             | <u>\$ 15,043</u>                           |

(a) Approximately \$15 million of the standby letters of credit serve as credit support for industrial revenue bonds. The remaining letters of credit support various insurance related agreements, primarily workers' compensation, auto liability, and general liability policy requirements. These letters of credit will expire at various dates during 2014 and 2015 and will be renewed as required.

(b) In conjunction with a timberland sale and note monetization in the first quarter of 2004, the Company issued a make-whole agreement pursuant to which it guaranteed \$2.3 million of obligations of a special-purpose entity that was established to complete the monetization. At June 30, 2014, the Company has a de minimis liability to reflect the fair market value of its obligation to perform under the make-whole agreement.

(c) Rayonier issues surety bonds primarily to secure timber harvesting obligations in the State of Washington. These surety bonds expire at various dates during 2014 and 2015 and are expected to be renewed as required.

**12. COMMITMENTS**

The Company leases certain buildings, machinery, and equipment under various operating leases. The Company also has long-term lease agreements on certain timberlands in the Southern U.S. and New Zealand. U.S. leases typically have initial terms of approximately 30 to 65 years, with renewal provisions in some cases. New Zealand timberland lease terms range between 30 and 99 years. Such leases are generally non-cancellable and require minimum annual rental payments.

At June 30, 2014, the future minimum payments under non-cancellable operating and timberland leases were as follows:

|            | Operating<br>Leases | Timberland<br>Leases (a) | Purchase<br>Obligations (b) | Total             |
|------------|---------------------|--------------------------|-----------------------------|-------------------|
| 2014       | \$ 1,118            | \$ 4,361                 | \$ 189                      | \$ 5,668          |
| 2015       | 1,763               | 10,064                   | 188                         | 12,015            |
| 2016       | 1,285               | 9,709                    | 638                         | 11,632            |
| 2017       | 646                 | 9,520                    | 188                         | 10,354            |
| 2018       | 400                 | 7,910                    | 2,005                       | 10,315            |
| Thereafter | 1,684               | 142,424                  | 3,110                       | 147,218           |
|            | <u>\$ 6,896</u>     | <u>\$ 183,988</u>        | <u>\$ 6,318</u>             | <u>\$ 197,202</u> |

(a) The majority of timberland leases are subject to increases or decreases based on either the Consumer Price Index, Producer Price Index or market rates.

(b) Purchase obligations include payments expected to be made on derivative financial instruments held in New Zealand.

The New Zealand JV has a number of Crown Forest Licenses ("CFL") with the New Zealand government, which are excluded from the table above. A CFL consists of a license to use public or government owned land to operate a commercial forest. The CFL's extend indefinitely and may only be terminated upon a 35 year termination notice from the government. If no termination notice is given, the CFLs renew automatically each year for a one year term. As of June 30, 2014, the New Zealand JV has two CFL's under termination notice, terminating in 2034 and 2046, and two fixed term CFL's expiring in 2062. The annual license fee is determined based on current market value, with triennial rent reviews. The total annual license fee on the CFL's is \$2.7 million per year with CFL's terminating or expiring of \$0.2 million.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**13. LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS**

An analysis of the liabilities for dispositions and discontinued operations follows:

|   | June 30,<br>2014 | December 31,<br>2013 |
|---|------------------|----------------------|
| Balance, beginning of period                | \$ 76,378        | \$ 81,695            |
| Expenditures charged to liabilities         | (5,096)          | (8,570)              |
| Increase to liabilities                     | 2,558            | 3,253                |
| Contribution to Rayonier Advanced Materials | (73,840)         | —                    |
| Balance, end of period                      | —                | 76,378               |
| Less: Current portion                       | —                | (6,835)              |
| Non-current portion                         | \$ —             | \$ 69,543            |

In connection with the spin-off of the Performance Fibers business, all prior dispositions and discontinued operations were contributed to Rayonier Advanced Materials. As part of the separation agreement, Rayonier has been indemnified, released and discharged from any liability related to these sites. For additional information on the Performance Fibers spin-off, see Note 2 — *Discontinued Operations*.

**14. CONTINGENCIES**

Rayonier is engaged in various legal actions and has been named as a defendant in various other lawsuits and claims arising in the normal course of business. While the Company has procured reasonable and customary insurance covering risks normally occurring in connection with its businesses, it has in certain cases retained some risk through the operation of self-insurance, primarily in the areas of workers' compensation, property insurance and general liability. These other lawsuits and claims, either individually or in the aggregate, are not expected to have a material adverse effect on the Company's financial position, results of operations, or cash flow.

**15. INCENTIVE STOCK PLANS**

As a result of the spin-off and pursuant to the Employee Matters Agreement, the Company made certain adjustments to the exercise price and number of Rayonier stock-based compensation awards. The adjusted awards are generally subject to the same vesting conditions and other terms that applied to the original Rayonier award immediately before the spin-off, except as otherwise described below.

***Stock Option Awards***

Each Rayonier stock option was converted into an adjusted Rayonier stock option and a Rayonier Advanced Material stock option. The exercise price and number of shares subject to each stock option were adjusted in order to preserve the aggregate value of the original Rayonier stock option as measured immediately before and immediately after the spin-off, subject to rounding.

***Restricted Stock Awards***

Holders of Rayonier restricted stock, including Rayonier non-employee directors, retained those awards and also received restricted stock of Rayonier Advanced Materials, in an amount that reflects the distribution to Rayonier stockholders, by applying the distribution ratio (one share of Rayonier Advanced Materials for every three shares of Rayonier stock held) to Rayonier restricted stock awards as though they were unrestricted Rayonier common shares.



**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

***Performance Share Awards***

Performance share awards outstanding as of the spin-off were treated as follows:

- Performance share awards granted in 2012 (with a 2012-2014 performance period) continue to be subject to the same performance criteria as applied immediately prior to the spin-off, except that total shareholder return at the end of the performance period will be based on the combined stock prices of Rayonier and Rayonier Advanced Materials and any payment earned will be made in shares of Rayonier common stock and shares of Rayonier Advanced Materials common stock.
- Performance share awards granted in 2013 (with a 2013-2015 performance period) were cancelled as of the distribution date and will be replaced with time-vested restricted stock of the post-separation employer of each holder (Rayonier or Rayonier Advanced Materials, as the case may be) that will vest 24 months after the distribution date, generally subject to the holder's continued employment. The number of shares of time-vested restricted stock granted will be determined in a manner intended to preserve the original value of the performance share award, subject to rounding.
- Performance share awards granted in 2014 (with a 2014-2016 performance period) were cancelled and will be replaced with performance share awards of the post-separation employer of each holder (Rayonier or Rayonier Advanced Materials, as the case may be), and will be subject to the achievement of performance criteria that relate to the post-separation business of the applicable employer during a performance period ending December 31, 2016. The number of shares underlying each such performance share award will be determined in a manner intended to preserve the original value of the award, subject to rounding.

Adjustments to Rayonier's stock-based compensation awards did not have a material impact on compensation expense for the three and six months ended June 30, 2014.

**16. EMPLOYEE BENEFIT PLANS**

In connection with the spin-off of the Performance Fibers business, Rayonier entered into an Employee Matters Agreement with Rayonier Advanced Materials, see Note 2 — *Discontinued Operations*, which provides that employees of Rayonier Advanced Materials will no longer participate in benefit plans sponsored or maintained by Rayonier. Upon separation, the Rayonier Pension Plans transferred assets and obligations to the Rayonier Advanced Materials Pension Plans resulting in a net decrease in sponsored pension plan obligations of \$103 million after a revaluation of plan obligations using a 4.0 percent discount rate versus 4.6 percent at December 31, 2013. In addition, \$81 million of other comprehensive losses were transferred to Rayonier Advanced Materials Pension Plans after revaluation, net of taxes of \$46 million. Additional spin-off related adjustments to shareholders' equity could be recognized in the future as the split of the pension and postretirement plans is finalized.

The Company has one qualified non-contributory defined benefit pension plan covering a portion of its employees and an unfunded plan that provides benefits in excess of amounts allowable under current tax law in the qualified plan. Currently, the qualified plan is closed to new participants. Employee benefit plan liabilities are calculated using actuarial estimates and management assumptions. These estimates are based on historical information, along with certain assumptions about future events. Changes in assumptions, as well as changes in actual experience, could cause the estimates to change.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

The net pension and postretirement benefit costs that have been recorded are shown in the following tables:

|  | <b>Pension</b>                         |                 | <b>Postretirement</b>                  |               |
|--|--|-----------------|--|---------------|
|  | <b>Three Months Ended<br/>June 30,</b> |                 | <b>Three Months Ended<br/>June 30,</b> |               |
|  | <b>2014</b>                            | <b>2013</b>     | <b>2014</b>                            | <b>2013</b>   |
| <b>Components of Net Periodic Benefit Cost</b> |  |                 |  |               |
| Service cost                                   | \$ 1,544                               | \$ 2,011        | \$ 147                                 | \$ 249        |
| Interest cost                                  | 4,452                                  | 3,953           | 199                                    | 240           |
| Expected return on plan assets                 | (6,330)                                | (5,966)         | —                                      | —             |
| Amortization of prior service cost             | 277                                    | 322             | 4                                      | 6             |
| Amortization of losses                         | 2,603                                  | 4,791           | 116                                    | 218           |
| Amortization of negative plan amendment        | —                                      | —               | (133)                                  | —             |
| Net periodic benefit cost                      | <u>\$ 2,546</u>                        | <u>\$ 5,111</u> | <u>\$ 333</u>                          | <u>\$ 713</u> |

|  | <b>Pension</b>                       |                  | <b>Postretirement</b>                |                 |
|--|--------------------------------------|------------------|--------------------------------------|-----------------|
|  | <b>Six Months Ended<br/>June 30,</b> |                  | <b>Six Months Ended<br/>June 30,</b> |                 |
|  | <b>2014</b>                          | <b>2013</b>      | <b>2014</b>                          | <b>2013</b>     |
| <b>Components of Net Periodic Benefit Cost</b> |                                      |                  |                                      |                 |
| Service cost                                   | \$ 3,168                             | \$ 4,430         | \$ 326                               | \$ 498          |
| Interest cost                                  | 9,135                                | 8,787            | 405                                  | 480             |
| Expected return on plan assets                 | (12,988)                             | (13,390)         | —                                    | —               |
| Amortization of prior service cost             | 569                                  | 710              | 8                                    | 13              |
| Amortization of losses                         | 5,340                                | 10,516           | 245                                  | 436             |
| Amortization of negative plan amendment        | —                                    | —                | (267)                                | —               |
| Net periodic benefit cost                      | <u>\$ 5,224</u>                      | <u>\$ 11,053</u> | <u>\$ 717</u>                        | <u>\$ 1,427</u> |

In 2014, the Company has no mandatory pension contribution requirement.

## 17. DEBT

As of March 31, 2014, the 2015 Notes were exchangeable at the option of the holders for the calendar quarter ended June 30, 2014. According to the indenture, in order for the notes to become exchangeable, the Company's stock price must exceed 130 percent of the exchange price for 20 trading days during a period of 30 consecutive trading days as of the last day of the quarter. During the six months ended June 30, 2014, the note holders did not elect to exercise the exchange option. Based upon the average stock price for the 30 trading days ended June 30, 2014, these notes again became exchangeable at the option of the holder for the calendar quarter ending September 30, 2014. The entire balance of the notes is classified as long-term debt at June 30, 2014 due to the ability and intent of the Company to refinance them on a long-term basis.

As part of the spin-off of the Performance Fibers business, Rayonier Advanced Materials, while a subsidiary of Rayonier, issued \$950 million of new debt. Rayonier Advanced Materials distributed \$906 million from the proceeds of this new debt to the Company prior to the spin-off, including \$75 million restricted to shareholder dividend payments. Rayonier used the remainder of the distribution, as well as available cash, to make repayments of \$280 million on its unsecured revolving credit facility, \$500 million on its term credit agreement and \$112.5 million on its installment note due 2014.

Net repayments of \$80 million were made in the first quarter on the revolving facility. At June 30, 2014, the Company had available borrowings of \$448 million under the credit facility and additional draws available of \$640 million under the term credit agreement. The Company's borrowing capacity on these instruments was reduced in July 2014, as discussed below.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

In addition, the New Zealand JV paid \$1.2 million during the second quarter on its shareholder loan held with the non-controlling interest party, partially offset by a \$0.2 million unfavorable change in exchange rates. There were no other significant changes to the Company's outstanding debt as reported in Note 13 — *Debt* in the Company's 2013 Annual Report on Form 10-K.

Rayonier's debt consisted of the following at June 30, 2014:

|   | <b>June 30, 2014</b> |
|---|----------------------|
| Senior Notes due 2022 at a fixed interest rate of 3.75%   | \$ 325,000           |
| Senior Exchangeable Notes due 2015 at a fixed interest rate of 4.50% (a)                                | 128,706              |
| Mortgage notes due 2017 at fixed interest rates of 4.35% (b)  | 64,863               |
| Solid waste bond due 2020 at a variable interest rate of 1.5% at June 30, 2014                          | 15,000               |
| New Zealand JV Revolving Credit Facility due 2016 at a variable interest rate of 3.61% at June 30, 2014 | 205,343              |
| New Zealand JV noncontrolling interest shareholder loan at 0% interest rate                             | 31,174               |
| <b>Total Long-term debt</b>   | <b>\$ 770,086</b>    |

(a) The Senior Exchangeable Notes maturing in 2015 were discounted by \$2.3 million as of June 30, 2014. Upon maturity the liability will be \$131 million.

(b) The mortgage notes due in 2017 were recorded at a premium of \$1.9 million as of June 30, 2014. Upon maturity, the liability will be \$63 million.

*Subsequent Event*

In connection with the spin-off of the Performance Fibers business, the revolving credit facility and term credit agreement were amended to reduce the Company's borrowing capacity and related commitment fees. The revolving credit facility was reduced from \$450 million to \$200 million and the term credit agreement was reduced from \$640 million of available capacity to \$100 million. The amendments became effective July 7, 2014.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**18. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The following table summarizes the changes in AOCI by component for the six months ended June 30, 2014. All amounts are presented net of tax and exclude portions attributable to noncontrolling interest.

|  | Foreign currency<br>translation gains | New Zealand joint<br>venture cash flow<br>hedges | Unrecognized<br>components of<br>employee benefit plans | Total            |
|--|---------------------------------------|--|---|------------------|
| Balance as of December 31, 2013                                  | \$ 36,914                             | \$ (342)   | \$ (82,711)   | \$ (46,139)      |
| Other comprehensive income before reclassifications              | 15,546                                | 2,521  | 56,044 (a)  | 74,111           |
| Amounts reclassified from accumulated other comprehensive income | —                                     | (2,007)  | 4,926 (b)   | 2,919            |
| Net other comprehensive income                                   | 15,546                                | 514  | 60,970  | 77,030           |
| Balance as of June 30, 2014                                      | <u>\$ 52,460</u>                      | <u>\$ 172</u>                                    | <u>\$ (21,741)</u>                                      | <u>\$ 30,891</u> |

(a) Reflects \$81 million, net of taxes, of additional losses transferred to Rayonier Advanced Materials Pension Plans offset by \$25 million, net of taxes, of additional losses as a result of the revaluation required due to the spin-off. See Note 16 — *Employee Benefit Plans* for additional information.

(b) This accumulated other comprehensive income component is comprised of \$4 million in the computation of net periodic pension cost and \$1 million of recognized deferred tax asset in connection with revaluation and transfer of liabilities as a result of the spin-off.

The following table presents details of the amounts reclassified in their entirety from AOCI for the six months ended June 30, 2014:

| Details about accumulated other comprehensive income components                       | Amount reclassified from accumulated other comprehensive income | Affected line item in the income statement                          |
|---|---|---|
| Realized gain on foreign currency exchange contracts                                  | \$ (2,542)  | Other operating income, net   |
| Realized gain on foreign currency option contracts                                    | (937)   | Other operating income, net   |
| Noncontrolling interest   | 1,218   | Comprehensive (income) loss attributable to noncontrolling interest |
| Income tax expense on gain from foreign currency contracts                            | 254   | Income tax expense  |
| Net gain on cash flow hedges reclassified from accumulated other comprehensive income | (2,007)   |   |
| Income tax expense on pension plan contributed to Rayonier Advanced Materials         | 843   | Income tax expense  |
| Net gain reclassified from accumulated other comprehensive income                     | <u>\$ (1,164)</u>   |   |

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**19. OTHER OPERATING INCOME, NET**

Other operating income, net was comprised of the following:

|  | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|--|-----------------------------|----------|---------------------------|----------|
|  | 2014                        | 2013     | 2014                      | 2013     |
| Lease income, primarily from hunting leases                    | \$ 3,966                    | \$ 2,313 | \$ 7,003                  | \$ 4,774 |
| Other non-timber income  | 133                         | 604      | 686                       | 1,078    |
| Foreign currency income (loss)                                 | 1,232                       | 979      | (255)                     | 795      |
| (Loss) gain on sale or disposal of property, plant & equipment | (20)                        | 283      | (20)                      | 284      |
| Loss on foreign currency exchange contracts                    | —                           | (1,947)  | (32)                      | (65)     |
| Bankruptcy claim settlement                                    | 5,779                       | —        | 5,779                     | —        |
| Miscellaneous income (expense), net                            | 299                         | 1,392    | (1,397)                   | 906      |
| Total  | \$ 11,389                   | \$ 3,624 | \$ 11,764                 | \$ 7,772 |

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**20. CONSOLIDATING FINANCIAL STATEMENTS**

The condensed consolidating financial information below follows the same accounting policies as described in the consolidated financial statements, except for the use of the equity method of accounting to reflect ownership interests in wholly-owned subsidiaries, which are eliminated upon consolidation, and the allocation of certain expenses of Rayonier Inc. incurred for the benefit of its subsidiaries.

In August 2009 TRS issued \$172.5 million of 4.50% Senior Exchangeable Notes due 2015. The notes are guaranteed by Rayonier Inc. as the Parent Guarantor and Rayonier Operating Company LLC ("ROC") as the Subsidiary Guarantor. In connection with these exchangeable notes, the Company provides the following condensed consolidating financial information in accordance with SEC Regulation S-X Rule 3-10, *Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered*.

**CONDENSED CONSOLIDATING STATEMENTS OF INCOME  
AND COMPREHENSIVE INCOME  
For the Three Months Ended June 30, 2014**

|   | Rayonier Inc.<br>(Parent<br>Guarantor) | ROC<br>(Subsidiary<br>Guarantor) | Rayonier TRS<br>Holdings Inc.<br>(Issuer) | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|---|--|----------------------------------|---|--------------------|------------------------------|-----------------------|
| <b>SALES</b>  | \$ —                                   | \$ —                             | \$ —                                      | \$ 163,145         | \$ —                         | \$ 163,145            |
| Costs and Expenses  |  |                                  |   |                    |                              |                       |
| Cost of sales   | —                                      | —                                | —   | 121,105            | —                            | 121,105               |
| Selling and general expenses  | —                                      | 2,394                            | —   | 11,467             | —                            | 13,861                |
| Other operating expense (income), net                               | —                                      | 1,573                            | —   | (12,962)           | —                            | (11,389)              |
|   | —                                      | 3,967                            | —   | 119,610            | —                            | 123,577               |
| <b>OPERATING (LOSS) INCOME</b>                                      | —                                      | (3,967)                          | —   | 43,535             | —                            | 39,568                |
| Interest expense  | (3,196)                                | (225)                            | (10,982)                                  | (1,209)            | —                            | (15,612)              |
| Interest and miscellaneous income (expense), net                    | 2,733                                  | (3,003)                          | (1,098)                                   | (3,017)            | —                            | (4,385)               |
| Equity in income from subsidiaries                                  | 18,848                                 | 25,583                           | (10,946)                                  | —                  | (33,485)                     | —                     |
| <b>INCOME FROM CONTINUING OPERATIONS<br/>BEFORE INCOME TAXES</b>    | 18,385                                 | 18,388                           | (23,026)                                  | 39,309             | (33,485)                     | 19,571                |
| Income tax benefit (expense)  | —                                      | 460                              | 4,409                                     | (18,384)           | —                            | (13,515)              |
| <b>INCOME (LOSS) FROM CONTINUING<br/>OPERATIONS</b>                 | 18,385                                 | 18,848                           | (18,617)                                  | 20,925             | (33,485)                     | 6,056                 |
| <b>DISCONTINUED OPERATIONS, NET</b>                                 |  |                                  |   |                    |                              |                       |
| Income from discontinued operations, net of income taxes            | —                                      | —                                | —   | 12,084             | —                            | 12,084                |
| <b>NET INCOME (LOSS)</b>  | 18,385                                 | 18,848                           | (18,617)                                  | 33,009             | (33,485)                     | 18,140                |
| Less: Net loss attributable to noncontrolling interest              | —                                      | —                                | —   | (245)              | —                            | (245)                 |
| <b>NET INCOME (LOSS) ATTRIBUTABLE TO<br/>RAYONIER INC.</b>          | 18,385                                 | 18,848                           | (18,617)                                  | 33,254             | (33,485)                     | 18,385                |
| <b>OTHER COMPREHENSIVE INCOME</b>                                   |  |                                  |   |                    |                              |                       |
| Foreign currency translation adjustment                             | 2,653                                  | 2,653                            | 513                                       | 3,517              | (5,819)                      | 3,517                 |
| New Zealand joint venture cash flow hedges                          | (598)                                  | (598)                            | (598)                                     | (920)              | 1,794                        | (920)                 |
| Amortization of pension and postretirement plans, net of income tax | 58,873                                 | 58,873                           | 92,714                                    | 92,714             | (244,301)                    | 58,873                |
| Total other comprehensive income                                    | 60,928                                 | 60,928                           | 92,629                                    | 95,311             | (248,326)                    | 61,470                |
| <b>COMPREHENSIVE INCOME</b>   | 79,313                                 | 79,776                           | 74,012                                    | 128,320            | (281,811)                    | 79,610                |
| Less: Comprehensive income attributable to noncontrolling interest  | —                                      | —                                | —   | 297                | —                            | 297                   |
| <b>COMPREHENSIVE INCOME ATTRIBUTABLE TO<br/>RAYONIER INC.</b>       | \$ 79,313                              | \$ 79,776                        | \$ 74,012                                 | \$ 128,023         | \$ (281,811)                 | \$ 79,313             |

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**CONDENSED CONSOLIDATING STATEMENTS OF INCOME**  
**AND COMPREHENSIVE INCOME**  
**For the Three Months Ended June 30, 2013**

|  | Rayonier Inc.<br>(Parent<br>Guarantor) | ROC<br>(Subsidiary<br>Guarantor) | Rayonier TRS<br>Holdings Inc.<br>(Issuer) | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|--|--|----------------------------------|---|--------------------|------------------------------|-----------------------|
| <b>SALES</b>   | \$ —                                   | \$ —                             | \$ —                                      | \$ 154,889         | \$ —                         | \$ 154,889            |
| Costs and Expenses   |  |                                  |   |                    |                              |                       |
| Cost of sales  | —                                      | —                                | —   | 127,861            | —                            | 127,861               |
| Selling and general expenses   | —                                      | 2,680                            | —   | 12,023             | —                            | 14,703                |
| Other operating expense (income), net  | 180                                    | (74)                             | —   | (3,069)            | (661)                        | (3,624)               |
|  | 180                                    | 2,606                            | —   | 136,815            | (661)                        | 138,940               |
| Equity in income of New Zealand joint venture  | —                                      | —                                | —   | 304                | —                            | 304                   |
| <b>OPERATING (LOSS) INCOME BEFORE GAIN ON<br/>CONSOLIDATION OF NEW ZEALAND JOINT<br/>VENTURE</b> | (180)                                  | (2,606)                          | —   | 18,378             | 661                          | 16,253                |
| Gain related to consolidation of New Zealand joint venture                                       | —                                      | —                                | —   | 16,098             | —                            | 16,098                |
| <b>OPERATING (LOSS) INCOME</b>   | (180)                                  | (2,606)                          | —   | 34,476             | 661                          | 32,351                |
| Interest expense   | (3,414)                                | (266)                            | (6,997)                                   | (674)              | —                            | (11,351)              |
| Interest and miscellaneous income (expense), net   | 1,759                                  | 1,104                            | (797)                                     | 618                | —                            | 2,684                 |
| Equity in income from subsidiaries   | 89,064                                 | 91,235                           | 35,968                                    | —                  | (216,267)                    | —                     |
| <b>INCOME FROM CONTINUING OPERATIONS<br/>BEFORE INCOME TAXES</b>                                 | 87,229                                 | 89,467                           | 28,174                                    | 34,420             | (215,606)                    | 23,684                |
| Income tax (expense) benefit   | (65)                                   | (403)                            | 2,847                                     | 13,505             | 63                           | 15,947                |
| <b>INCOME FROM CONTINUING OPERATIONS</b>   | 87,164                                 | 89,064                           | 31,021                                    | 47,925             | (215,543)                    | 39,631                |
| <b>DISCONTINUED OPERATIONS, NET</b>  |  |                                  |   |                    |                              |                       |
| Income from discontinued operations, net of income taxes   | —                                      | —                                | —   | 48,260             | —                            | 48,260                |
| <b>NET INCOME</b>  | 87,164                                 | 89,064                           | 31,021                                    | 96,185             | (215,543)                    | 87,891                |
| Less: Net income attributable to noncontrolling interest   | —                                      | —                                | —   | 727                | —                            | 727                   |
| <b>NET INCOME ATTRIBUTABLE TO RAYONIER INC.</b>  | 87,164                                 | 89,064                           | 31,021                                    | 95,458             | (215,543)                    | 87,164                |
| <b>OTHER COMPREHENSIVE INCOME</b>  |  |                                  |   |                    |                              |                       |
| Foreign currency translation adjustment  | (18,625)                               | (28,201)                         | (1,725)                                   | (18,625)           | 38,975                       | (28,201)              |
| New Zealand joint venture cash flow hedges   | 878                                    | 222                              | (1,873)                                   | 877                | 118                          | 222                   |
| Amortization of pension and postretirement plans, net of income tax                              | 3,717                                  | 3,717                            | 2,819                                     | 6,831              | (13,367)                     | 3,717                 |
| Total other comprehensive loss   | (14,030)                               | (24,262)                         | (779)                                     | (10,917)           | 25,726                       | (24,262)              |
| <b>COMPREHENSIVE INCOME</b>  | 73,134                                 | 64,802                           | 30,242                                    | 85,268             | (189,817)                    | 63,629                |
| Less: Comprehensive loss attributable to noncontrolling interest                                 | —                                      | —                                | —   | (9,505)            | —                            | (9,505)               |
| <b>COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.</b>  | \$ 73,134                              | \$ 64,802                        | \$ 30,242                                 | \$ 94,773          | \$ (189,817)                 | \$ 73,134             |

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**CONSOLIDATING STATEMENTS OF INCOME**  
**AND COMPREHENSIVE INCOME**  
**For the Six Months Ended June 30, 2014**

|  | Rayonier Inc.<br>(Parent<br>Guarantor) | ROC<br>(Subsidiary<br>Guarantor) | Rayonier TRS<br>Holdings Inc.<br>(Issuer) | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|--|--|----------------------------------|---|--------------------|------------------------------|-----------------------|
| <b>SALES</b>   | \$ —                                   | \$ —                             | \$ —                                      | \$ 306,332         | \$ —                         | \$ 306,332            |
| Costs and Expenses   |  |                                  |   |                    |                              |                       |
| Cost of sales  | —                                      | —                                | —   | 235,036            | —                            | 235,036               |
| Selling and general expenses   | —                                      | 4,544                            | —   | 22,554             | —                            | 27,098                |
| Other operating expense (income), net  | —                                      | 3,948                            | —   | (15,712)           | —                            | (11,764)              |
|  | —                                      | 8,492                            | —   | 241,878            | —                            | 250,370               |
| <b>OPERATING INCOME (LOSS) BEFORE GAIN ON<br/>CONSOLIDATION OF NEW ZEALAND JOINT<br/>VENTURE</b> | —                                      | (8,492)                          | —   | 64,454             | —                            | 55,962                |
| <b>OPERATING INCOME (LOSS)</b>   | —                                      | (8,492)                          | —   | 64,454             | —                            | 55,962                |
| Interest expense   | (6,389)                                | (468)                            | (17,672)                                  | (1,757)            | —                            | (26,286)              |
| Interest and miscellaneous income (expense), net   | 5,431                                  | (2,189)                          | (2,145)                                   | (6,494)            | —                            | (5,397)               |
| Equity in income from subsidiaries   | 62,718                                 | 74,030                           | 20,164                                    | —                  | (156,912)                    | —                     |
| <b>INCOME FROM CONTINUING OPERATIONS<br/>BEFORE INCOME TAXES</b>                                 | 61,760                                 | 62,881                           | 347                                       | 56,203             | (156,912)                    | 24,279                |
| Income tax benefit (expense)   | —                                      | (163)                            | 7,233                                     | (13,009)           | —                            | (5,939)               |
| <b>INCOME FROM CONTINUING OPERATIONS</b>   | 61,760                                 | 62,718                           | 7,580                                     | 43,194             | (156,912)                    | 18,340                |
| <b>DISCONTINUED OPERATIONS, NET</b>  |  |                                  |   |                    |                              |                       |
| Income from discontinued operations, net of income tax   | —                                      | —                                | —   | 43,092             | —                            | 43,092                |
| <b>NET INCOME</b>  | 61,760                                 | 62,718                           | 7,580                                     | 86,286             | (156,912)                    | 61,432                |
| Less: Net loss attributable to noncontrolling interest   | —                                      | —                                | —   | (328)              | —                            | (328)                 |
| <b>NET INCOME ATTRIBUTABLE TO RAYONIER INC.</b>  | 61,760                                 | 62,718                           | 7,580                                     | 86,614             | (156,912)                    | 61,760                |
| <b>OTHER COMPREHENSIVE INCOME</b>  |  |                                  |   |                    |                              |                       |
| Foreign currency translation adjustment  | 15,547                                 | 15,547                           | 1,279                                     | 21,312             | (32,365)                     | 21,320                |
| New Zealand joint venture cash flow hedges   | 514                                    | 514                              | 514                                       | 791                | (1,542)                      | 791                   |
| Amortization of pension and postretirement plans, net of<br>income tax                           | 60,970                                 | 60,970                           | 94,334                                    | 94,334             | (249,638)                    | 60,970                |
| Total other comprehensive income   | 77,031                                 | 77,031                           | 96,127                                    | 116,437            | (283,545)                    | 83,081                |
| <b>COMPREHENSIVE INCOME</b>  | 138,791                                | 139,749                          | 103,707                                   | 202,723            | (440,457)                    | 144,513               |
| Less: Comprehensive income attributable to noncontrolling<br>interest                            | —                                      | —                                | —   | 5,722              | —                            | 5,722                 |
| <b>COMPREHENSIVE INCOME ATTRIBUTABLE TO<br/>RAYONIER INC.</b>                                    | \$ 138,791                             | \$ 139,749                       | \$ 103,707                                | \$ 197,001         | \$ (440,457)                 | \$ 138,791            |



**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**CONSOLIDATING STATEMENTS OF INCOME**  
**AND COMPREHENSIVE INCOME**  
**For the Six Months Ended June 30, 2013**

|  | Rayonier Inc.<br>(Parent<br>Guarantor) | ROC<br>(Subsidiary<br>Guarantor) | Rayonier TRS<br>Holdings Inc.<br>(Issuer) | Non-guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|--|--|----------------------------------|---|----------------|------------------------------|-----------------------|
| <b>SALES</b>   | \$ —                                   | \$ —                             | \$ —                                      | \$ 261,942     | \$ —                         | \$ 261,942            |
| Costs and Expenses   |  |                                  |   |                |                              |                       |
| Cost of sales  | —                                      | —                                | —   | 204,520        | —                            | 204,520               |
| Selling and general expenses   | —                                      | 5,081                            | —   | 23,019         | —                            | 28,100                |
| Other operating (income) expense, net  | (1,701)                                | 449                              | —   | (5,859)        | (661)                        | (7,772)               |
|  | (1,701)                                | 5,530                            | —   | 221,680        | (661)                        | 224,848               |
| Equity in income of New Zealand joint venture  | —                                      | —                                | —   | 562            | —                            | 562                   |
| <b>OPERATING INCOME (LOSS) BEFORE GAIN ON<br/>CONSOLIDATION OF NEW ZEALAND JOINT<br/>VENTURE</b> | 1,701                                  | (5,530)                          | —   | 40,824         | 661                          | 37,656                |
| Gain related to consolidation of New Zealand joint venture                                       | —                                      | —                                | —   | 16,098         | —                            | 16,098                |
| <b>OPERATING INCOME (LOSS)</b>   | 1,701                                  | (5,530)                          | —   | 56,922         | 661                          | 53,754                |
| Interest (expense) income  | (6,689)                                | (518)                            | (13,615)                                  | 1,019          | —                            | (19,803)              |
| Interest and miscellaneous income (expense), net   | 4,178                                  | 1,633                            | (1,548)                                   | (1,497)        | —                            | 2,766                 |
| Equity in income from subsidiaries   | 235,774                                | 240,000                          | 159,437                                   | —              | (635,211)                    | —                     |
| <b>INCOME FROM CONTINUING OPERATIONS<br/>BEFORE INCOME TAXES</b>                                 | 234,964                                | 235,585                          | 144,274                                   | 56,444         | (634,550)                    | 36,717                |
| Income tax (expense) benefit   | (65)                                   | 189                              | 5,537                                     | 16,219         | 62                           | 21,942                |
| <b>INCOME FROM CONTINUING OPERATIONS</b>   | 234,899                                | 235,774                          | 149,811                                   | 72,663         | (634,488)                    | 58,659                |
| <b>DISCONTINUED OPERATIONS, NET</b>  |  |                                  |   |                |                              |                       |
| Income from discontinued operations, net of income taxes   | —                                      | —                                | —   | 176,967        | —                            | 176,967               |
| <b>NET INCOME</b>  | 234,899                                | 235,774                          | 149,811                                   | 249,630        | (634,488)                    | 235,626               |
| Less: Net income attributable to noncontrolling interest   | —                                      | —                                | —   | 727            | —                            | 727                   |
| <b>NET INCOME ATTRIBUTABLE TO RAYONIER INC.</b>  | 234,899                                | 235,774                          | 149,811                                   | 248,903        | (634,488)                    | 234,899               |
| <b>OTHER COMPREHENSIVE INCOME</b>  |  |                                  |   |                |                              |                       |
| Foreign currency translation adjustment  | (17,650)                               | (27,226)                         | (1,485)                                   | (17,650)       | 36,785                       | (27,226)              |
| New Zealand joint venture cash flow hedges   | 1,431                                  | 775                              | (1,873)                                   | 1,431          | (989)                        | 775                   |
| Amortization of pension and postretirement plans, net of<br>income tax                           | 8,687                                  | 8,687                            | 6,831                                     | 6,831          | (22,349)                     | 8,687                 |
| Total other comprehensive (loss) income  | (7,532)                                | (17,764)                         | 3,473                                     | (9,388)        | 13,447                       | (17,764)              |
| <b>COMPREHENSIVE INCOME</b>  | 227,367                                | 218,010                          | 153,284                                   | 240,242        | (621,041)                    | 217,862               |
| Less: Comprehensive loss attributable to noncontrolling<br>interest                              | —                                      | —                                | —   | (9,505)        | —                            | (9,505)               |
| <b>COMPREHENSIVE INCOME ATTRIBUTABLE TO<br/>RAYONIER INC.</b>                                    | \$ 227,367                             | \$ 218,010                       | \$ 153,284                                | \$ 249,747     | \$ (621,041)                 | \$ 227,367            |

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**CONDENSED CONSOLIDATING BALANCE SHEETS**  
**As of June 30, 2014**

|  | Rayonier Inc.<br>(Parent<br>Guarantor) | ROC (Subsidiary<br>Guarantor) | Rayonier TRS<br>Holdings Inc.<br>(Issuer) | Non-<br>guarantors  | Consolidating<br>Adjustments | Total<br>Consolidated |
|--|--|-------------------------------|---|---------------------|------------------------------|-----------------------|
| <b>ASSETS</b>  |  |                               |   |                     |                              |                       |
| <b>CURRENT ASSETS</b>  |  |                               |   |                     |                              |                       |
| Cash and cash equivalents                                    | \$ 39,181                              | \$ 1,096                      | \$ 66,866                                 | \$ 114,918          | \$ —                         | \$ 222,061            |
| Restricted cash  | 75,000                                 | —                             | —   | —                   | —                            | 75,000                |
| Accounts receivable, less allowance for doubtful accounts    | —                                      | —                             | 1,366                                     | 18,399              | —                            | 19,765                |
| Inventory  | —                                      | —                             | —   | 18,484              | —                            | 18,484                |
| Deferred tax assets  | —                                      | —                             | —   | 3,221               | —                            | 3,221                 |
| Prepaid and other current assets                             | —                                      | 3,294                         | —   | 18,271              | —                            | 21,565                |
| <b>Total current assets</b>                                  | <b>114,181</b>                         | <b>4,390</b>                  | <b>68,232</b>                             | <b>173,293</b>      | <b>—</b>                     | <b>360,096</b>        |
| TIMBER AND TIMBERLANDS, NET OF DEPLETION<br>AND AMORTIZATION | —                                      | —                             | —   | 2,121,614           | —                            | 2,121,614             |
| NET PROPERTY, PLANT AND EQUIPMENT                            | —                                      | 332                           | —   | 5,811               | —                            | 6,143                 |
| INVESTMENT IN SUBSIDIARIES                                   | 1,612,064                              | 1,868,790                     | 377,913                                   | —                   | (3,858,767)                  | —                     |
| INTERCOMPANY NOTES RECEIVABLE                                | 218,854                                | —                             | 21,075                                    | —                   | (239,929)                    | —                     |
| OTHER ASSETS   | 3,473                                  | 21,698                        | 3,012                                     | 119,921             | —                            | 148,104               |
| <b>TOTAL ASSETS</b>  | <b>\$ 1,948,572</b>                    | <b>\$ 1,895,210</b>           | <b>\$ 470,232</b>                         | <b>\$ 2,420,639</b> | <b>\$ (4,098,696)</b>        | <b>\$ 2,635,957</b>   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                  |  |                               |   |                     |                              |                       |
| <b>CURRENT LIABILITIES</b>                                   |  |                               |   |                     |                              |                       |
| Accounts payable   | \$ —                                   | \$ 3,144                      | \$ 5,882                                  | \$ 18,845           | \$ —                         | \$ 27,871             |
| Accrued taxes  | —                                      | —                             | —   | 13,834              | —                            | 13,834                |
| Uncertain tax positions                                      | —                                      | 5,780                         | —   | —                   | —                            | 5,780                 |
| Accrued payroll and benefits                                 | —                                      | 3,229                         | —   | 2,087               | —                            | 5,316                 |
| Accrued interest   | 2,590                                  | 672                           | 2,636                                     | 27,279              | (23,434)                     | 9,743                 |
| Other current liabilities                                    | —                                      | 1,322                         | —   | 27,543              | —                            | 28,865                |
| <b>Total current liabilities</b>                             | <b>2,590</b>                           | <b>14,147</b>                 | <b>8,518</b>                              | <b>89,588</b>       | <b>(23,434)</b>              | <b>91,409</b>         |
| LONG-TERM DEBT   | 325,000                                | —                             | 143,706                                   | 301,380             | —                            | 770,086               |
| PENSION AND OTHER POSTRETIREMENT BENEFITS                    | —                                      | 24,699                        | —   | (685)               | —                            | 24,014                |
| OTHER NON-CURRENT LIABILITIES                                | —                                      | 6,804                         | —   | 23,796              | —                            | 30,600                |
| INTERCOMPANY PAYABLE   | —                                      | 237,496                       | —   | 790                 | (238,286)                    | —                     |
| <b>TOTAL RAYONIER INC. SHAREHOLDERS'<br/>EQUITY</b>          | <b>1,620,982</b>                       | <b>1,612,064</b>              | <b>318,008</b>                            | <b>1,906,904</b>    | <b>(3,836,976)</b>           | <b>1,620,982</b>      |
| Noncontrolling interest                                      | —                                      | —                             | —   | 98,866              | —                            | 98,866                |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                            | <b>1,620,982</b>                       | <b>1,612,064</b>              | <b>318,008</b>                            | <b>2,005,770</b>    | <b>(3,836,976)</b>           | <b>1,719,848</b>      |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS'<br/>EQUITY</b>        | <b>\$ 1,948,572</b>                    | <b>\$ 1,895,210</b>           | <b>\$ 470,232</b>                         | <b>\$ 2,420,639</b> | <b>\$ (4,098,696)</b>        | <b>\$ 2,635,957</b>   |

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**CONDENSED CONSOLIDATING BALANCE SHEETS**  
**As of December 31, 2013**

|   | Rayonier Inc.<br>(Parent<br>Guarantor) | ROC (Subsidiary<br>Guarantor) | Rayonier TRS<br>Holdings Inc.<br>(Issuer) | Non-<br>guarantors  | Consolidating<br>Adjustments | Total<br>Consolidated |
|---|--|-------------------------------|---|---------------------|------------------------------|-----------------------|
| <b>ASSETS</b>   |  |                               |   |                     |                              |                       |
| <b>CURRENT ASSETS</b>   |  |                               |   |                     |                              |                       |
| Cash and cash equivalents   | \$ 130,181                             | \$ 304                        | \$ 10,719                                 | \$ 58,440           | \$ —                         | \$ 199,644            |
| Accounts receivable, less allowance for doubtful accounts               | —                                      | 10                            | 2,300                                     | 92,646              | —                            | 94,956                |
| Inventory   | —                                      | —                             | —   | 138,818             | —                            | 138,818               |
| Deferred tax assets   | —                                      | —                             | 681                                       | 38,419              | —                            | 39,100                |
| Prepaid and other current assets  | —                                      | 2,363                         | 6   | 44,207              | —                            | 46,576                |
| Total current assets  | 130,181                                | 2,677                         | 13,706                                    | 372,530             | —                            | 519,094               |
| TIMBER AND TIMBERLANDS, NET OF DEPLETION<br>AND AMORTIZATION            | —                                      | —                             | —   | 2,049,378           | —                            | 2,049,378             |
| NET PROPERTY, PLANT AND EQUIPMENT                                       | —                                      | 2,612                         | —   | 858,209             | —                            | 860,821               |
| INVESTMENT IN SUBSIDIARIES  | 1,627,315                              | 1,837,760                     | 1,148,221                                 | —                   | (4,613,296)                  | —                     |
| INTERCOMPANY NOTES RECEIVABLE   | 228,032                                | —                             | 20,659                                    | —                   | (248,691)                    | —                     |
| OTHER ASSETS  | 3,689                                  | 32,519                        | 3,739                                     | 216,261             | —                            | 256,208               |
| <b>TOTAL ASSETS</b>   | <b>\$ 1,989,217</b>                    | <b>\$ 1,875,568</b>           | <b>\$ 1,186,325</b>                       | <b>\$ 3,496,378</b> | <b>\$ (4,861,987)</b>        | <b>\$ 3,685,501</b>   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                             |  |                               |   |                     |                              |                       |
| <b>CURRENT LIABILITIES</b>  |  |                               |   |                     |                              |                       |
| Accounts payable  | \$ —                                   | \$ 1,522                      | \$ 1,564                                  | \$ 66,207           | \$ —                         | \$ 69,293             |
| Current maturities of long-term debt                                    | —                                      | —                             | 112,500                                   | —                   | —                            | 112,500               |
| Accrued taxes   | —                                      | 4,855                         | —   | 3,696               | —                            | 8,551                 |
| Uncertain tax positions   | —                                      | 5,780                         | —   | 4,767               | —                            | 10,547                |
| Accrued payroll and benefits  | —                                      | 11,382                        | —   | 13,566              | —                            | 24,948                |
| Accrued interest  | 3,047                                  | 538                           | 2,742                                     | 22,816              | (19,612)                     | 9,531                 |
| Accrued customer incentives   | —                                      | —                             | —   | 9,580               | —                            | 9,580                 |
| Other current liabilities   | —                                      | 2,985                         | —   | 21,342              | —                            | 24,327                |
| Current liabilities for dispositions and discontinued<br>operations     | —                                      | —                             | —   | 6,835               | —                            | 6,835                 |
| Total current liabilities   | 3,047                                  | 27,062                        | 116,806                                   | 148,809             | (19,612)                     | 276,112               |
| LONG-TERM DEBT  | 325,000                                | —                             | 847,749                                   | 288,975             | —                            | 1,461,724             |
| NON-CURRENT LIABILITIES FOR DISPOSITIONS<br>AND DISCONTINUED OPERATIONS | —                                      | —                             | —   | 69,543              | —                            | 69,543                |
| PENSION AND OTHER POSTRETIREMENT BENEFITS                               | —                                      | 91,471                        | —   | 4,183               | —                            | 95,654                |
| OTHER NON-CURRENT LIABILITIES   | —                                      | 11,493                        | —   | 15,732              | —                            | 27,225                |
| INTERCOMPANY PAYABLE  | —                                      | 118,227                       | —   | 125,921             | (244,148)                    | —                     |
| <b>TOTAL RAYONIER INC. SHAREHOLDERS'<br/>EQUITY</b>                     | <b>1,661,170</b>                       | <b>1,627,315</b>              | <b>221,770</b>                            | <b>2,749,142</b>    | <b>(4,598,227)</b>           | <b>1,661,170</b>      |
| Noncontrolling interest   | —                                      | —                             | —   | 94,073              | —                            | 94,073                |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                                       | <b>1,661,170</b>                       | <b>1,627,315</b>              | <b>221,770</b>                            | <b>2,843,215</b>    | <b>(4,598,227)</b>           | <b>1,755,243</b>      |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS'<br/>EQUITY</b>                   | <b>\$ 1,989,217</b>                    | <b>\$ 1,875,568</b>           | <b>\$ 1,186,325</b>                       | <b>\$ 3,496,378</b> | <b>\$ (4,861,987)</b>        | <b>\$ 3,685,501</b>   |

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**  
**For the Six Months Ended June 30, 2014**

|   | Rayonier Inc.<br>(Parent<br>Guarantor) | ROC (Subsidiary<br>Guarantor) | Rayonier TRS<br>Holdings Inc.<br>(Issuer) | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|---|--|-------------------------------|---|--------------------|------------------------------|-----------------------|
| <b>CASH PROVIDED BY OPERATING<br/>ACTIVITIES</b>                  | \$ 138,535                             | \$ 150,518                    | \$ —                                      | \$ 84,350          | \$ (147,007)                 | \$ 226,396            |
| <b>INVESTING ACTIVITIES</b>                                       |  |                               |   |                    |                              |                       |
| Capital expenditures  | —                                      | (201)                         | —   | (80,293)           | —                            | (80,494)              |
| Purchase of timberlands   | —                                      | —                             | —   | (74,817)           | —                            | (74,817)              |
| Change in restricted cash   | —                                      | —                             | —   | 63,128             | —                            | 63,128                |
| Investment in Subsidiaries  | —                                      | —                             | (62,800)                                  | —                  | 62,800                       | —                     |
| Other   | —                                      | —                             | —   | (478)              | —                            | (478)                 |
| <b>CASH (USED FOR) PROVIDED BY INVESTING<br/>ACTIVITIES</b>       | —                                      | (201)                         | (62,800)                                  | (92,460)           | 62,800                       | (92,661)              |
| <b>FINANCING ACTIVITIES</b>                                       |  |                               |   |                    |                              |                       |
| Issuance of debt  | —                                      | —                             | 1,238,389                                 | —                  | —                            | 1,238,389             |
| Repayment of debt   | —                                      | —                             | (1,107,062)                               | —                  | —                            | (1,107,062)           |
| Dividends paid  | (124,628)                              | —                             | —   | —                  | —                            | (124,628)             |
| Proceeds from the issuance of common shares                       | 3,347                                  | —                             | —   | —                  | —                            | 3,347                 |
| Debt issuance costs   | —                                      | —                             | (12,380)                                  | —                  | —                            | (12,380)              |
| Repurchase of common shares                                       | (1,834)                                | —                             | —   | —                  | —                            | (1,834)               |
| Purchase of timberland deeds for Rayonier Advanced<br>Materials   | (12,677)                               | —                             | —   | —                  | —                            | (12,677)              |
| Debt issuance funds distributed to Rayonier Advanced<br>Materials | (924,943)                              | —                             | —   | —                  | —                            | (924,943)             |
| Proceeds from spin-off of Rayonier Advanced<br>Materials          | 906,200                                | —                             | —   | —                  | —                            | 906,200               |
| Change in restricted cash reserved for dividends                  | (75,000)                               | —                             | —   | —                  | —                            | (75,000)              |
| Intercompany distributions  | —                                      | (149,525)                     | —   | 65,318             | 84,207                       | —                     |
| Other   | —                                      | —                             | —   | (680)              | —                            | (680)                 |
| <b>CASH USED FOR FINANCING ACTIVITIES</b>                         | (229,535)                              | (149,525)                     | 118,947                                   | 64,638             | 84,207                       | (111,268)             |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON<br/>CASH</b>                | —                                      | —                             | —   | (50)               | —                            | (50)                  |
| <b>CASH AND CASH EQUIVALENTS</b>                                  |  |                               |   |                    |                              |                       |
| Change in cash and cash equivalents                               | (91,000)                               | 792                           | 56,147                                    | 56,478             | —                            | 22,417                |
| Balance, beginning of year  | 130,181                                | 304                           | 10,719                                    | 58,440             | —                            | 199,644               |
| Balance, end of period  | \$ 39,181                              | \$ 1,096                      | \$ 66,866                                 | \$ 114,918         | \$ —                         | \$ 222,061            |

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**  
**For the Six Months Ended June 30, 2013**

|   | Rayonier Inc.<br>(Parent<br>Guarantor) | ROC (Subsidiary<br>Guarantor) | Rayonier TRS<br>Holdings Inc.<br>(Issuer) | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|---|--|-------------------------------|---|--------------------|------------------------------|-----------------------|
| <b>CASH PROVIDED BY OPERATING<br/>ACTIVITIES</b>                | \$ 248,552                             | \$ 247,599                    | \$ 64,000                                 | \$ 212,977         | \$ (537,456)                 | \$ 235,672            |
| <b>INVESTING ACTIVITIES</b>                                     |  |                               |   |                    |                              |                       |
| Capital expenditures  | —                                      | (89)                          | —   | (74,498)           | —                            | (74,587)              |
| Purchase of additional interest in New Zealand joint<br>venture | —                                      | —                             | —   | (139,879)          | —                            | (139,879)             |
| Purchase of timberlands   | —                                      | —                             | —   | (10,447)           | —                            | (10,447)              |
| Intercompany purchase of real estate                            | —                                      | —                             | —   | 984                | (984)                        | —                     |
| Jesup mill cellulose specialties expansion                      | —                                      | —                             | —   | (100,185)          | —                            | (100,185)             |
| Proceeds from disposition of Wood Products business             | —                                      | —                             | —   | 72,953             | —                            | 72,953                |
| Change in restricted cash                                       | —                                      | —                             | —   | 7,603              | —                            | 7,603                 |
| Investment in Subsidiaries                                      | (138,178)                              | (138,178)                     | (249,481)                                 | —                  | 525,837                      | —                     |
| Other   | —                                      | 1,700                         | —   | (1,163)            | —                            | 537                   |
| <b>CASH USED FOR INVESTING ACTIVITIES</b>                       | <b>(138,178)</b>                       | <b>(136,567)</b>              | <b>(249,481)</b>                          | <b>(244,632)</b>   | <b>524,853</b>               | <b>(244,005)</b>      |
| <b>FINANCING ACTIVITIES</b>                                     |  |                               |   |                    |                              |                       |
| Issuance of debt  | 175,000                                | —                             | 280,000                                   | —                  | —                            | 455,000               |
| Repayment of debt   | (250,000)                              | —                             | (23,087)                                  | —                  | —                            | (273,087)             |
| Dividends paid  | (113,222)                              | —                             | —   | —                  | —                            | (113,222)             |
| Proceeds from the issuance of common shares                     | 6,643                                  | —                             | —   | —                  | —                            | 6,643                 |
| Excess tax benefits on stock-based compensation                 | —                                      | —                             | —   | 7,399              | —                            | 7,399                 |
| Repurchase of common shares                                     | (11,241)                               | —                             | —   | —                  | —                            | (11,241)              |
| Intercompany distributions                                      | —                                      | (108,549)                     | (64,000)                                  | 159,946            | 12,603                       | —                     |
| <b>CASH (USED FOR) PROVIDED BY FINANCING<br/>ACTIVITIES</b>     | <b>(192,820)</b>                       | <b>(108,549)</b>              | <b>192,913</b>                            | <b>167,345</b>     | <b>12,603</b>                | <b>71,492</b>         |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON<br/>CASH</b>              | <b>—</b>                               | <b>—</b>                      | <b>—</b>                                  | <b>(174)</b>       | <b>—</b>                     | <b>(174)</b>          |
| <b>CASH AND CASH EQUIVALENTS</b>                                |  |                               |   |                    |                              |                       |
| Change in cash and cash equivalents                             | (82,446)                               | 2,483                         | 7,432                                     | 135,516            | —                            | 62,985                |
| Balance, beginning of year                                      | 252,888                                | 3,966                         | 19,358                                    | 4,384              | —                            | 280,596               |
| Balance, end of period  | <u>\$ 170,442</u>                      | <u>\$ 6,449</u>               | <u>\$ 26,790</u>                          | <u>\$ 139,900</u>  | <u>\$ —</u>                  | <u>\$ 343,581</u>     |

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

In March 2012, Rayonier Inc. issued \$325 million of 3.75% Senior Notes due 2022. The notes are fully and unconditionally guaranteed by ROC and Rayonier TRS Holdings Inc. In connection with these notes, the Company provides the following consolidating financial information in accordance with SEC Regulation S-X Rule 3-10, *Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered*.

**CONDENSED CONSOLIDATING STATEMENTS OF INCOME**  
**AND COMPREHENSIVE INCOME**  
**For the Three Months Ended June 30, 2014**

|   | Rayonier Inc.<br>(Parent<br>Issuer) | Subsidiary<br>Guarantors | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|---|-------------------------------------|--------------------------|--------------------|------------------------------|-----------------------|
| <b>SALES</b>  | \$ —                                | \$ —                     | \$ 163,145         | \$ —                         | \$ 163,145            |
| Costs and Expenses  |                                     |                          |                    |                              |                       |
| Cost of sales   | —                                   | —                        | 121,105            | —                            | 121,105               |
| Selling and general expenses  | —                                   | 2,394                    | 11,467             | —                            | 13,861                |
| Other operating expense, net  | —                                   | 1,573                    | (12,962)           | —                            | (11,389)              |
|   | —                                   | 3,967                    | 119,610            | —                            | 123,577               |
| <b>OPERATING (LOSS) INCOME</b>                                      | —                                   | (3,967)                  | 43,535             | —                            | 39,568                |
| Interest expense  | (3,196)                             | (11,207)                 | (1,209)            | —                            | (15,612)              |
| Interest and miscellaneous income (expense), net                    | 2,733                               | (4,101)                  | (3,017)            | —                            | (4,385)               |
| Equity in income from subsidiaries                                  | 18,848                              | 33,254                   | —                  | (52,102)                     | —                     |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE<br/>INCOME TAXES</b>    | 18,385                              | 13,979                   | 39,309             | (52,102)                     | 19,571                |
| Income tax benefit (expense)  | —                                   | 4,869                    | (18,384)           | —                            | (13,515)              |
| <b>INCOME FROM CONTINUING OPERATIONS</b>                            | 18,385                              | 18,848                   | 20,925             | (52,102)                     | 6,056                 |
| <b>DISCONTINUED OPERATIONS, NET</b>                                 |                                     |                          |                    |                              |                       |
| Income from discontinued operations, net of income taxes            | —                                   | —                        | 12,084             | —                            | 12,084                |
| <b>NET INCOME</b>   | 18,385                              | 18,848                   | 33,009             | (52,102)                     | 18,140                |
| Less: Net loss attributable to noncontrolling interest              | —                                   | —                        | (245)              | —                            | (245)                 |
| <b>NET INCOME ATTRIBUTABLE TO RAYONIER INC.</b>                     | 18,385                              | 18,848                   | 33,254             | (52,102)                     | 18,385                |
| <b>OTHER COMPREHENSIVE INCOME</b>                                   |                                     |                          |                    |                              |                       |
| Foreign currency translation adjustment                             | 2,653                               | 1,888                    | 3,517              | (4,541)                      | 3,517                 |
| New Zealand joint venture cash flow hedges                          | (598)                               | (1,710)                  | (920)              | 2,308                        | (920)                 |
| Amortization of pension and postretirement plans, net of income tax | 58,873                              | 57,253                   | 92,714             | (149,967)                    | 58,873                |
| Total other comprehensive income                                    | 60,928                              | 57,431                   | 95,311             | (152,200)                    | 61,470                |
| <b>COMPREHENSIVE INCOME</b>   | 79,313                              | 76,279                   | 128,320            | (204,302)                    | 79,610                |
| Less: Comprehensive income attributable to noncontrolling interest  | —                                   | —                        | 297                | —                            | 297                   |
| <b>COMPREHENSIVE INCOME ATTRIBUTABLE TO<br/>RAYONIER INC.</b>       | \$ 79,313                           | \$ 76,279                | \$ 128,023         | \$ (204,302)                 | \$ 79,313             |

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**CONDENSED CONSOLIDATING STATEMENTS OF INCOME**  
**AND COMPREHENSIVE INCOME**  
**For the Three Months Ended June 30, 2013**

|  | Rayonier Inc.<br>(Parent<br>Issuer) | Subsidiary<br>Guarantors | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|--|-------------------------------------|--------------------------|--------------------|------------------------------|-----------------------|
| <b>SALES</b>   | \$ —                                | \$ —                     | \$ 154,889         | \$ —                         | \$ 154,889            |
| Costs and Expenses   |                                     |                          |                    |                              |                       |
| Cost of sales  | —                                   | —                        | 127,861            | —                            | 127,861               |
| Selling and general expenses   | —                                   | 2,680                    | 12,023             | —                            | 14,703                |
| Other operating expense (income), net  | 180                                 | (74)                     | (3,069)            | (661)                        | (3,624)               |
|  | 180                                 | 2,606                    | 136,815            | (661)                        | 138,940               |
| Equity in income of New Zealand joint venture  | —                                   | —                        | 304                | —                            | 304                   |
| <b>OPERATING (LOSS) INCOME BEFORE GAIN ON<br/>CONSOLIDATION OF NEW ZEALAND JOINT VENTURE</b> | (180)                               | (2,606)                  | 18,378             | 661                          | 16,253                |
| Gain related to consolidation of New Zealand joint venture                                   | —                                   | —                        | 16,098             | —                            | 16,098                |
| <b>OPERATING (LOSS) INCOME</b>   | (180)                               | (2,606)                  | 34,476             | 661                          | 32,351                |
| Interest expense   | (3,414)                             | (7,263)                  | (674)              | —                            | (11,351)              |
| Interest and miscellaneous income, net   | 1,759                               | 307                      | 618                | —                            | 2,684                 |
| Equity in income from subsidiaries   | 89,064                              | 96,185                   | —                  | (185,249)                    | —                     |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE<br/>INCOME TAXES</b>                             | 87,229                              | 86,623                   | 34,420             | (184,588)                    | 23,684                |
| Income tax (expense) benefit   | (65)                                | 2,441                    | 13,505             | 66                           | 15,947                |
| <b>INCOME FROM CONTINUING OPERATIONS</b>   | 87,164                              | 89,064                   | 47,925             | (184,522)                    | 39,631                |
| <b>DISCONTINUED OPERATIONS, NET</b>  |                                     |                          |                    |                              |                       |
| Income from discontinued operations, net of income taxes                                     | —                                   | —                        | 48,260             | —                            | 48,260                |
| <b>NET INCOME</b>  | 87,164                              | 89,064                   | 96,185             | (184,522)                    | 87,891                |
| Less: Net income attributable to noncontrolling interest                                     | —                                   | —                        | 727                | —                            | 727                   |
| <b>NET INCOME ATTRIBUTABLE TO RAYONIER INC.</b>  | 87,164                              | 89,064                   | 95,458             | (184,522)                    | 87,164                |
| <b>OTHER COMPREHENSIVE INCOME</b>  |                                     |                          |                    |                              |                       |
| Foreign currency translation adjustment  | (18,625)                            | (28,201)                 | (18,625)           | 37,250                       | (28,201)              |
| New Zealand joint venture cash flow hedges   | 878                                 | 221                      | 877                | (1,754)                      | 222                   |
| Amortization of pension and postretirement plans, net of income tax                          | 3,717                               | 3,718                    | 6,831              | (10,549)                     | 3,717                 |
| Total other comprehensive loss   | (14,030)                            | (24,262)                 | (10,917)           | 24,947                       | (24,262)              |
| <b>COMPREHENSIVE INCOME</b>  | \$ 73,134                           | \$ 64,802                | \$ 85,268          | \$ (159,575)                 | \$ 63,629             |
| Less: Comprehensive loss attributable to noncontrolling interest                             | \$ —                                | \$ —                     | \$ (9,505)         | \$ —                         | \$ (9,505)            |
| <b>COMPREHENSIVE INCOME ATTRIBUTABLE TO<br/>RAYONIER INC.</b>                                | \$ 73,134                           | \$ 64,802                | \$ 94,773          | \$ (159,575)                 | \$ 73,134             |

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**CONSOLIDATING STATEMENTS OF INCOME  
AND COMPREHENSIVE INCOME  
For the Six Months Ended June 30, 2014**

|  | Rayonier Inc.<br>(Parent<br>Issuer) | Subsidiary<br>Guarantors | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|--|-------------------------------------|--------------------------|--------------------|------------------------------|-----------------------|
| <b>SALES</b>   | \$ —                                | \$ —                     | \$ 306,332         | \$ —                         | \$ 306,332            |
| <b>Costs and Expenses</b>  |                                     |                          |                    |                              |                       |
| Cost of sales  | —                                   | —                        | 235,036            | —                            | 235,036               |
| Selling and general expenses   | —                                   | 4,544                    | 22,554             | —                            | 27,098                |
| Other operating expense (income), net  | —                                   | 3,948                    | (15,712)           | —                            | (11,764)              |
|  | —                                   | 8,492                    | 241,878            | —                            | 250,370               |
| <b>OPERATING INCOME (LOSS) BEFORE GAIN ON<br/>CONSOLIDATION OF NEW ZEALAND JOINT VENTURE</b> | —                                   | (8,492)                  | 64,454             | —                            | 55,962                |
| <b>OPERATING INCOME (LOSS)</b>   | —                                   | (8,492)                  | 64,454             | —                            | 55,962                |
| Interest expense   | (6,389)                             | (18,140)                 | (1,757)            | —                            | (26,286)              |
| Interest and miscellaneous income (expense), net   | 5,431                               | (4,334)                  | (6,494)            | —                            | (5,397)               |
| Equity in income from subsidiaries   | 62,718                              | 86,614                   | —                  | (149,332)                    | —                     |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE<br/>INCOME TAXES</b>                             | 61,760                              | 55,648                   | 56,203             | (149,332)                    | 24,279                |
| Income tax benefit (expense)   | —                                   | 7,070                    | (13,009)           | —                            | (5,939)               |
| <b>INCOME FROM CONTINUING OPERATIONS</b>   | 61,760                              | 62,718                   | 43,194             | (149,332)                    | 18,340                |
| <b>DISCONTINUED OPERATIONS, NET</b>  |                                     |                          |                    |                              |                       |
| Income from discontinued operations, net of income taxes                                     | —                                   | —                        | 43,092             | —                            | 43,092                |
| <b>NET INCOME</b>  | 61,760                              | 62,718                   | 86,286             | (149,332)                    | 61,432                |
| Less: Net loss attributable to noncontrolling interest                                       | —                                   | —                        | (328)              | —                            | (328)                 |
| <b>NET INCOME ATTRIBUTABLE TO RAYONIER INC.</b>  | 61,760                              | 62,718                   | 86,614             | (149,332)                    | 61,760                |
| <b>OTHER COMPREHENSIVE INCOME</b>  |                                     |                          |                    |                              |                       |
| Foreign currency translation adjustment  | 15,547                              | 15,547                   | 21,312             | (31,086)                     | 21,320                |
| New Zealand joint venture cash flow hedges   | 514                                 | 514                      | 791                | (1,028)                      | 791                   |
| Amortization of pension and postretirement plans, net of income tax                          | 60,970                              | 60,970                   | 94,334             | (155,304)                    | 60,970                |
| Total other comprehensive income   | 77,031                              | 77,031                   | 116,437            | (187,418)                    | 83,081                |
| <b>COMPREHENSIVE INCOME</b>  | 138,791                             | 139,749                  | 202,723            | (336,750)                    | 144,513               |
| Less: Comprehensive income attributable to noncontrolling interest                           | —                                   | —                        | 5,722              | —                            | 5,722                 |
| <b>COMPREHENSIVE INCOME ATTRIBUTABLE TO<br/>RAYONIER INC.</b>                                | \$ 138,791                          | \$ 139,749               | \$ 197,001         | \$ (336,750)                 | \$ 138,791            |



**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**CONSOLIDATING STATEMENTS OF INCOME  
AND COMPREHENSIVE INCOME  
For the Six Months Ended June 30, 2013**

|  | Rayonier Inc.<br>(Parent<br>Issuer) | Subsidiary<br>Guarantors | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|--|-------------------------------------|--------------------------|--------------------|------------------------------|-----------------------|
| <b>SALES</b>   | \$ —                                | \$ —                     | \$ 261,942         | \$ —                         | \$ 261,942            |
| Costs and Expenses   |                                     |                          |                    |                              |                       |
| Cost of sales  | —                                   | —                        | 204,520            | —                            | 204,520               |
| Selling and general expenses   | —                                   | 5,081                    | 23,019             | —                            | 28,100                |
| Other operating (income) expense, net  | (1,701)                             | 449                      | (5,859)            | (661)                        | (7,772)               |
|  | (1,701)                             | 5,530                    | 221,680            | (661)                        | 224,848               |
| Equity in income of New Zealand joint venture  | —                                   | —                        | 562                | —                            | 562                   |
| <b>OPERATING INCOME (LOSS) BEFORE GAIN ON<br/>CONSOLIDATION OF NEW ZEALAND JOINT VENTURE</b> | 1,701                               | (5,530)                  | 40,824             | 661                          | 37,656                |
| Gain related to consolidation of New Zealand joint venture                                   | —                                   | —                        | 16,098             | —                            | 16,098                |
| <b>OPERATING INCOME (LOSS)</b>   | 1,701                               | (5,530)                  | 56,922             | 661                          | 53,754                |
| Interest (expense) income  | (6,689)                             | (14,133)                 | 1,019              | —                            | (19,803)              |
| Interest and miscellaneous income (expense), net   | 4,178                               | 85                       | (1,497)            | —                            | 2,766                 |
| Equity in income from subsidiaries   | 235,774                             | 249,630                  | —                  | (485,404)                    | —                     |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE<br/>INCOME TAXES</b>                             | 234,964                             | 230,052                  | 56,444             | (484,743)                    | 36,717                |
| Income tax (expense) benefit   | (65)                                | 5,722                    | 16,219             | 66                           | 21,942                |
| <b>INCOME FROM CONTINUING OPERATIONS</b>   | 234,899                             | 235,774                  | 72,663             | (484,677)                    | 58,659                |
| <b>DISCONTINUED OPERATIONS, NET</b>  |                                     |                          |                    |                              |                       |
| Income from discontinued operations, net of income tax                                       | —                                   | —                        | 176,967            | —                            | 176,967               |
| <b>NET INCOME</b>  | 234,899                             | 235,774                  | 249,630            | (484,677)                    | 235,626               |
| Less: Net income attributable to noncontrolling interest                                     | —                                   | —                        | 727                | —                            | 727                   |
| <b>NET INCOME ATTRIBUTABLE TO RAYONIER INC.</b>  | 234,899                             | 235,774                  | 248,903            | (484,677)                    | 234,899               |
| <b>OTHER COMPREHENSIVE INCOME</b>  |                                     |                          |                    |                              |                       |
| Foreign currency translation adjustment  | (17,650)                            | (27,226)                 | (17,650)           | 35,300                       | (27,226)              |
| New Zealand joint venture cash flow hedges   | 1,431                               | 775                      | 1,431              | (2,862)                      | 775                   |
| Amortization of pension and postretirement plans, net of income tax                          | 8,687                               | 8,687                    | 6,831              | (15,518)                     | 8,687                 |
| Total other comprehensive loss   | (7,532)                             | (17,764)                 | (9,388)            | 16,920                       | (17,764)              |
| <b>COMPREHENSIVE INCOME</b>  | 227,367                             | 218,010                  | 240,242            | (467,757)                    | 217,862               |
| Less: Comprehensive loss attributable to noncontrolling interest                             | —                                   | —                        | (9,505)            | —                            | (9,505)               |
| <b>COMPREHENSIVE INCOME ATTRIBUTABLE TO<br/>RAYONIER INC.</b>                                | \$ 227,367                          | \$ 218,010               | \$ 249,747         | \$ (467,757)                 | \$ 227,367            |

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**CONDENSED CONSOLIDATING BALANCE SHEETS**  
**As of June 30, 2014**

|   | Rayonier Inc.<br>(Parent<br>Issuer) | Subsidiary<br>Guarantors | Non-<br>guarantors  | Consolidating<br>Adjustments | Total<br>Consolidated |
|---|-------------------------------------|--------------------------|---------------------|------------------------------|-----------------------|
| <b>ASSETS</b>   |                                     |                          |                     |                              |                       |
| <b>CURRENT ASSETS</b>                                     |                                     |                          |                     |                              |                       |
| Cash and cash equivalents                                 | \$ 39,181                           | \$ 67,962                | \$ 114,918          | \$ —                         | \$ 222,061            |
| Restricted cash   | 75,000                              | —                        | —                   | —                            | 75,000                |
| Accounts receivable, less allowance for doubtful accounts | —                                   | 1,366                    | 18,399              | —                            | 19,765                |
| Inventory   | —                                   | —                        | 18,484              | —                            | 18,484                |
| Deferred tax asset  | —                                   | —                        | 3,221               | —                            | 3,221                 |
| Prepaid and other current assets                          | —                                   | 3,294                    | 18,271              | —                            | 21,565                |
| <b>Total current assets</b>                               | <b>114,181</b>                      | <b>72,622</b>            | <b>173,293</b>      | <b>—</b>                     | <b>360,096</b>        |
| TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION | —                                   | —                        | 2,121,614           | —                            | 2,121,614             |
| NET PROPERTY, PLANT AND EQUIPMENT                         | —                                   | 332                      | 5,811               | —                            | 6,143                 |
| INVESTMENT IN SUBSIDIARIES                                | 1,612,064                           | 1,928,695                | —                   | (3,540,759)                  | —                     |
| INTERCOMPANY NOTES RECEIVABLE                             | 218,854                             | 21,075                   | —                   | (239,929)                    | —                     |
| OTHER ASSETS  | 3,473                               | 24,710                   | 119,921             | —                            | 148,104               |
| <b>TOTAL ASSETS</b>                                       | <b>\$ 1,948,572</b>                 | <b>\$ 2,047,434</b>      | <b>\$ 2,420,639</b> | <b>\$ (3,780,688)</b>        | <b>\$ 2,635,957</b>   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>               |                                     |                          |                     |                              |                       |
| <b>CURRENT LIABILITIES</b>                                |                                     |                          |                     |                              |                       |
| Accounts payable  | \$ —                                | \$ 9,026                 | \$ 18,845           | \$ —                         | \$ 27,871             |
| Accrued taxes   | —                                   | —                        | 13,834              | —                            | 13,834                |
| Uncertain tax positions                                   | —                                   | 5,780                    | —                   | —                            | 5,780                 |
| Accrued payroll and benefits                              | —                                   | 3,229                    | 2,087               | —                            | 5,316                 |
| Accrued interest  | 2,590                               | 3,308                    | 27,279              | (23,434)                     | 9,743                 |
| Other current liabilities                                 | —                                   | 1,322                    | 27,543              | —                            | 28,865                |
| <b>Total current liabilities</b>                          | <b>2,590</b>                        | <b>22,665</b>            | <b>89,588</b>       | <b>(23,434)</b>              | <b>91,409</b>         |
| LONG-TERM DEBT  | 325,000                             | 143,706                  | 301,380             | —                            | 770,086               |
| PENSION AND OTHER POSTRETIREMENT BENEFITS                 | —                                   | 24,699                   | (685)               | —                            | 24,014                |
| OTHER NON-CURRENT LIABILITIES                             | —                                   | 6,804                    | 23,796              | —                            | 30,600                |
| INTERCOMPANY PAYABLE                                      | —                                   | 237,496                  | 790                 | (238,286)                    | —                     |
| <b>TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY</b>           | <b>1,620,982</b>                    | <b>1,612,064</b>         | <b>1,906,904</b>    | <b>(3,518,968)</b>           | <b>1,620,982</b>      |
| Noncontrolling interest                                   | —                                   | —                        | 98,866              | —                            | 98,866                |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                         | <b>1,620,982</b>                    | <b>1,612,064</b>         | <b>2,005,770</b>    | <b>(3,518,968)</b>           | <b>1,719,848</b>      |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>         | <b>\$ 1,948,572</b>                 | <b>\$ 2,047,434</b>      | <b>\$ 2,420,639</b> | <b>\$ (3,780,688)</b>        | <b>\$ 2,635,957</b>   |

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**CONDENSED CONSOLIDATING BALANCE SHEETS**  
**As of December 31, 2013**

|  | Rayonier Inc.<br>(Parent<br>Issuer) | Subsidiary<br>Guarantors | Non-<br>guarantors  | Consolidating<br>Adjustments | Total<br>Consolidated |
|--|-------------------------------------|--------------------------|---------------------|------------------------------|-----------------------|
| <b>ASSETS</b>  |                                     |                          |                     |                              |                       |
| <b>CURRENT ASSETS</b>  |                                     |                          |                     |                              |                       |
| Cash and cash equivalents  | \$ 130,181                          | \$ 11,023                | \$ 58,440           | \$ —                         | \$ 199,644            |
| Accounts receivable, less allowance for doubtful accounts            | —                                   | 2,310                    | 92,646              | —                            | 94,956                |
| Inventory  | —                                   | —                        | 138,818             | —                            | 138,818               |
| Deferred tax assets  | —                                   | 681                      | 38,419              | —                            | 39,100                |
| Prepaid and other current assets                                     | —                                   | 2,369                    | 44,207              | —                            | 46,576                |
| Total current assets   | 130,181                             | 16,383                   | 372,530             | —                            | 519,094               |
| TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION            | —                                   | —                        | 2,049,378           | —                            | 2,049,378             |
| NET PROPERTY, PLANT AND EQUIPMENT                                    | —                                   | 2,612                    | 858,209             | —                            | 860,821               |
| INVESTMENT IN SUBSIDIARIES   | 1,627,315                           | 2,764,211                | —                   | (4,391,526)                  | —                     |
| INTERCOMPANY NOTES RECEIVABLE  | 228,032                             | 20,659                   | —                   | (248,691)                    | —                     |
| OTHER ASSETS   | 3,689                               | 36,258                   | 216,261             | —                            | 256,208               |
| <b>TOTAL ASSETS</b>  | <b>\$ 1,989,217</b>                 | <b>\$ 2,840,123</b>      | <b>\$ 3,496,378</b> | <b>\$ (4,640,217)</b>        | <b>\$ 3,685,501</b>   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                          |                                     |                          |                     |                              |                       |
| <b>CURRENT LIABILITIES</b>   |                                     |                          |                     |                              |                       |
| Accounts payable   | \$ —                                | \$ 3,086                 | \$ 66,207           | \$ —                         | \$ 69,293             |
| Current maturities of long-term debt                                 | —                                   | 112,500                  | —                   | —                            | 112,500               |
| Accrued taxes  | —                                   | 4,855                    | 3,696               | —                            | 8,551                 |
| Uncertain tax positions  | —                                   | 5,780                    | 4,767               | —                            | 10,547                |
| Accrued payroll and benefits   | —                                   | 11,382                   | 13,566              | —                            | 24,948                |
| Accrued interest   | 3,047                               | 3,280                    | 22,816              | (19,612)                     | 9,531                 |
| Accrued customer incentives  | —                                   | —                        | 9,580               | —                            | 9,580                 |
| Other current liabilities  | —                                   | 2,985                    | 21,342              | —                            | 24,327                |
| Current liabilities for dispositions and discontinued operations     | —                                   | —                        | 6,835               | —                            | 6,835                 |
| Total current liabilities  | 3,047                               | 143,868                  | 148,809             | (19,612)                     | 276,112               |
| LONG-TERM DEBT   | 325,000                             | 847,749                  | 288,975             | —                            | 1,461,724             |
| NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS | —                                   | —                        | 69,543              | —                            | 69,543                |
| PENSION AND OTHER POSTRETIREMENT BENEFITS                            | —                                   | 91,471                   | 4,183               | —                            | 95,654                |
| OTHER NON-CURRENT LIABILITIES  | —                                   | 11,493                   | 15,732              | —                            | 27,225                |
| INTERCOMPANY PAYABLE   | —                                   | 118,227                  | 125,921             | (244,148)                    | —                     |
| <b>TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY</b>                      | <b>1,661,170</b>                    | <b>1,627,315</b>         | <b>2,749,142</b>    | <b>(4,376,457)</b>           | <b>1,661,170</b>      |
| Noncontrolling interest  | —                                   | —                        | 94,073              | —                            | 94,073                |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                                    | <b>1,661,170</b>                    | <b>1,627,315</b>         | <b>2,843,215</b>    | <b>(4,376,457)</b>           | <b>1,755,243</b>      |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                    | <b>\$ 1,989,217</b>                 | <b>\$ 2,840,123</b>      | <b>\$ 3,496,378</b> | <b>\$ (4,640,217)</b>        | <b>\$ 3,685,501</b>   |

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**  
**For the Six Months Ended June 30, 2014**

|   | Rayonier Inc.<br>(Parent<br>Issuer) | Subsidiary<br>Guarantors | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|---|-------------------------------------|--------------------------|--------------------|------------------------------|-----------------------|
| <b>CASH PROVIDED BY OPERATING ACTIVITIES</b>                      | \$ 138,535                          | \$ 150,518               | \$ 84,350          | \$ (147,007)                 | \$ 226,396            |
| <b>INVESTING ACTIVITIES</b>                                       |                                     |                          |                    |                              |                       |
| Capital expenditures  | —                                   | (201)                    | (80,293)           | —                            | (80,494)              |
| Purchase of timberlands   | —                                   | —                        | (74,817)           | —                            | (74,817)              |
| Change in restricted cash   | —                                   | —                        | 63,128             | —                            | 63,128                |
| Investment in Subsidiaries  | —                                   | (62,800)                 | —                  | 62,800                       | —                     |
| Other   | —                                   | —                        | (478)              | —                            | (478)                 |
| <b>CASH PROVIDED BY (USED FOR) INVESTING<br/>ACTIVITIES</b>       | —                                   | (63,001)                 | (92,460)           | 62,800                       | (92,661)              |
| <b>FINANCING ACTIVITIES</b>                                       |                                     |                          |                    |                              |                       |
| Issuance of debt  | —                                   | 1,238,389                | —                  | —                            | 1,238,389             |
| Repayment of debt   | —                                   | (1,107,062)              | —                  | —                            | (1,107,062)           |
| Dividends paid  | (124,628)                           | —                        | —                  | —                            | (124,628)             |
| Proceeds from the issuance of common shares                       | 3,347                               | —                        | —                  | —                            | 3,347                 |
| Debt issuance costs   | —                                   | (12,380)                 | —                  | —                            | (12,380)              |
| Repurchase of common shares                                       | (1,834)                             | —                        | —                  | —                            | (1,834)               |
| Purchase of timberland deeds for Rayonier Advanced<br>Materials   | (12,677)                            | —                        | —                  | —                            | (12,677)              |
| Debt issuance funds distributed to Rayonier Advanced<br>Materials | (924,943)                           | —                        | —                  | —                            | (924,943)             |
| Proceeds from spin-off of Rayonier Advanced Materials             | 906,200                             | —                        | —                  | —                            | 906,200               |
| Change in restricted cash reserved for dividends                  | (75,000)                            | —                        | —                  | —                            | (75,000)              |
| Intercompany distributions  | —                                   | (149,525)                | 65,318             | 84,207                       | —                     |
| Other   | —                                   | —                        | (680)              | —                            | (680)                 |
| <b>CASH USED FOR FINANCING ACTIVITIES</b>                         | (229,535)                           | (30,578)                 | 64,638             | 84,207                       | (111,268)             |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>                    | —                                   | —                        | (50)               | —                            | (50)                  |
| <b>CASH AND CASH EQUIVALENTS</b>                                  |                                     |                          |                    |                              |                       |
| Change in cash and cash equivalents                               | (91,000)                            | 56,939                   | 56,478             | —                            | 22,417                |
| Balance, beginning of year  | 130,181                             | 11,023                   | 58,440             | —                            | 199,644               |
| Balance, end of period  | \$ 39,181                           | \$ 67,962                | \$ 114,918         | \$ —                         | \$ 222,061            |

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**(Dollar amounts in thousands unless otherwise stated)**

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**  
**For the Six Months Ended June 30, 2013**

|  | Rayonier Inc.<br>(Parent<br>Issuer) | Subsidiary<br>Guarantors | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|--|-------------------------------------|--------------------------|--------------------|------------------------------|-----------------------|
| <b>CASH PROVIDED BY OPERATING ACTIVITIES</b>                 | \$ 248,552                          | \$ 247,599               | \$ 212,977         | \$ (473,456)                 | \$ 235,672            |
| <b>INVESTING ACTIVITIES</b>                                  |                                     |                          |                    |                              |                       |
| Capital expenditures   | —                                   | (89)                     | (74,498)           | —                            | (74,587)              |
| Purchase of additional interest in New Zealand joint venture | —                                   | —                        | (139,879)          | —                            | (139,879)             |
| Purchase of timberlands                                      | —                                   | —                        | (10,447)           | —                            | (10,447)              |
| Intercompany purchase of real estate                         | —                                   | —                        | 984                | (984)                        | —                     |
| Jesup mill cellulose specialties expansion                   | —                                   | —                        | (100,185)          | —                            | (100,185)             |
| Proceeds from disposition of Wood Products business          | —                                   | —                        | 72,953             | —                            | 72,953                |
| Change in restricted cash                                    | —                                   | —                        | 7,603              | —                            | 7,603                 |
| Investment in Subsidiaries                                   | (138,178)                           | (387,659)                | —                  | 525,837                      | —                     |
| Other  | —                                   | 1,700                    | (1,163)            | —                            | 537                   |
| <b>CASH USED FOR INVESTING ACTIVITIES</b>                    | <b>(138,178)</b>                    | <b>(386,048)</b>         | <b>(244,632)</b>   | <b>524,853</b>               | <b>(244,005)</b>      |
| <b>FINANCING ACTIVITIES</b>                                  |                                     |                          |                    |                              |                       |
| Issuance of debt   | 175,000                             | 280,000                  | —                  | —                            | 455,000               |
| Repayment of debt  | (250,000)                           | (23,087)                 | —                  | —                            | (273,087)             |
| Dividends paid   | (113,222)                           | —                        | —                  | —                            | (113,222)             |
| Proceeds from the issuance of common shares                  | 6,643                               | —                        | —                  | —                            | 6,643                 |
| Excess tax benefits on stock-based compensation              | —                                   | —                        | 7,399              | —                            | 7,399                 |
| Repurchase of common shares                                  | (11,241)                            | —                        | —                  | —                            | (11,241)              |
| Intercompany distributions                                   | —                                   | (108,549)                | 159,946            | (51,397)                     | —                     |
| <b>CASH (USED FOR) PROVIDED BY FINANCING<br/>ACTIVITIES</b>  | <b>(192,820)</b>                    | <b>148,364</b>           | <b>167,345</b>     | <b>(51,397)</b>              | <b>71,492</b>         |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>               | <b>—</b>                            | <b>—</b>                 | <b>(174)</b>       | <b>—</b>                     | <b>(174)</b>          |
| <b>CASH AND CASH EQUIVALENTS</b>                             |                                     |                          |                    |                              |                       |
| Change in cash and cash equivalents                          | (82,446)                            | 9,915                    | 135,516            | —                            | 62,985                |
| Balance, beginning of year                                   | 252,888                             | 23,324                   | 4,384              | —                            | 280,596               |
| Balance, end of period                                       | <u>\$ 170,442</u>                   | <u>\$ 33,239</u>         | <u>\$ 139,900</u>  | <u>\$ —</u>                  | <u>\$ 343,581</u>     |

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

When we refer to “we,” “us,” “our,” “the Company,” or “Rayonier,” we mean Rayonier Inc. and its consolidated subsidiaries. References herein to “Notes to Financial Statements” refer to the Notes to the Consolidated Financial Statements of Rayonier Inc. included in Item 1 of this Report.

The Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to provide a reader of our financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity, and certain other factors which may affect future results. Our MD&A should be read in conjunction with the 2013 Annual Report on Form 10-K and information contained in our subsequent Forms 10-Q, 8-K, and other reports to the SEC.

### Forward-Looking Statements

Certain statements in this document regarding anticipated financial outcomes including earnings guidance, if any, business and market conditions, outlook and other similar statements relating to Rayonier’s future events, developments, or financial or operational performance or results, are “forward-looking statements” made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. These forward-looking statements are identified by the use of words such as “may,” “will,” “should,” “expect,” “estimate,” “believe,” “intend,” “project,” “anticipate” and other similar language. However, the absence of these or similar words or expressions does not mean that a statement is not forward-looking. While management believes that these forward-looking statements are reasonable when made, forward-looking statements are not guarantees of future performance or events and undue reliance should not be placed on these statements. The risk factors contained in Item 1A — *Risk Factors* in our 2013 Annual Report on Form 10-K, among others, could cause actual results or events to differ materially from the Company’s historical experience and those expressed in forward-looking statements made in this document.

Forward-looking statements are only as of the date they are made, and the Company undertakes no duty to update its forward-looking statements except as required by law. You are advised, however, to review any further disclosures we make on related subjects in our subsequent Forms 10-Q, 10-K, 8-K and other reports to the SEC.

### Critical Accounting Policies and Use of Estimates

The preparation of financial statements requires us to make estimates, assumptions and judgments that affect our assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. We base these estimates and assumptions on historical data and trends, current fact patterns, expectations and other sources of information we believe are reasonable. Actual results may differ from these estimates. For a full description of our critical accounting policies, see Item 7 — *Management’s Discussion and Analysis of Financial Condition and Results of Operations* in the 2013 Annual Report on Form 10-K.

### Segments

We are a geographically diverse global land resources company primarily engaged in timberland management and the sale of real estate. We operate in two reportable business segments: Forest Resources and Real Estate. Prior to the second quarter of 2014, the Company operated in three reportable business segments, which included Performance Fibers. In June 2014, the Performance Fibers business was spun-off to Rayonier shareholders as a newly formed publicly traded company named Rayonier Advanced Materials. The results of the Performance Fibers segment are shown as discontinued operations for all periods presented.

Forest Resources sales include all activities which relate to the harvesting of timber. Real Estate sales include all property sales, including those designated for higher and better use (“HBU”). The assets of the Real Estate segment include HBU property held by our real estate subsidiary, TerraPointe LLC. Our remaining operations include harvesting and selling timber acquired from third parties (log trading). These operations are combined and reported in “Other Operations.” Sales between operating segments are made based on estimated fair market value, and intercompany sales, purchases and profits or losses are eliminated in consolidation.

We evaluate financial performance based on the operating income of the segments. Operating income, as presented in the Consolidated Statements of Income and Comprehensive Income, is equal to segment income (loss). Certain income (loss) items in the Consolidated Statements of Income and Comprehensive Income are not allocated to segments. These items, which include gains (losses) from certain asset dispositions, interest income (expense), miscellaneous income (expense) and income tax (expense) benefit, are not considered by management to be part of segment operations.

## Results of Operations

| <b>Financial Information (in millions)</b>                      | <b>Three Months Ended June 30,</b> |                | <b>Six Months Ended June 30,</b> |                |
|---|------------------------------------|----------------|----------------------------------|----------------|
|   | <b>2014</b>                        | <b>2013</b>    | <b>2014</b>                      | <b>2013</b>    |
| <b>Sales</b>  |                                    |                |                                  |                |
| Forest Resources  |                                    |                |                                  |                |
| Atlantic  | \$ 19                              | \$ 19          | \$ 40                            | \$ 37          |
| Gulf States   | 13                                 | 13             | 25                               | 25             |
| Northern  | 25                                 | 30             | 58                               | 54             |
| New Zealand   | 44                                 | 47             | 83                               | 50             |
| Total Forest Resources  | 101                                | 109            | 206                              | 166            |
| Real Estate   |                                    |                |                                  |                |
| Development   | 1                                  | —              | 2                                | 2              |
| Rural   | 6                                  | 9              | 11                               | 11             |
| Non-Strategic Timberlands                                       | 27                                 | 4              | 27                               | 25             |
| Total Real Estate   | 34                                 | 13             | 40                               | 38             |
| Other Operations  | 28                                 | 33             | 60                               | 58             |
| <b>Total Sales</b>  | <b>\$ 163</b>                      | <b>\$ 155</b>  | <b>\$ 306</b>                    | <b>\$ 262</b>  |
| <b>Operating Income (Loss)</b>                                  |                                    |                |                                  |                |
| Forest Resources  | \$ 22                              | \$ 21          | \$ 49                            | \$ 34          |
| Real Estate   | 28                                 | 6              | 29                               | 23             |
| Other Operations  | —                                  | 2              | (1)                              | 2              |
| Corporate and other   | (10)                               | 3              | (21)                             | (5)            |
| <b>Operating Income</b>   | <b>40</b>                          | <b>32</b>      | <b>56</b>                        | <b>54</b>      |
| Interest Expense, Interest Income and Other                     | (20)                               | (8)            | (32)                             | (17)           |
| Income Tax (Expense) Benefit                                    | (14)                               | 16             | (6)                              | 22             |
| <b>Income from Continuing Operations</b>                        | <b>6</b>                           | <b>40</b>      | <b>18</b>                        | <b>59</b>      |
| <b>Discontinued Operations, Net</b>                             | <b>12</b>                          | <b>48</b>      | <b>43</b>                        | <b>177</b>     |
| <b>Net Income</b>   | <b>18</b>                          | <b>88</b>      | <b>61</b>                        | <b>236</b>     |
| Less: Net income (loss) attributable to noncontrolling interest | —                                  | 1              | (1)                              | 1              |
| <b>Net Income Attributable to Rayonier Inc.</b>                 | <b>\$ 18</b>                       | <b>\$ 87</b>   | <b>\$ 62</b>                     | <b>\$ 235</b>  |
| <b>Diluted Earnings Per Share Attributable to Rayonier Inc.</b> |                                    |                |                                  |                |
| Continuing Operations   | \$ 0.05                            | \$ 0.30        | \$ 0.14                          | \$ 0.44        |
| Discontinued Operations   | 0.09                               | 0.37           | 0.33                             | 1.36           |
| <b>Net Income</b>   | <b>\$ 0.14</b>                     | <b>\$ 0.67</b> | <b>\$ 0.47</b>                   | <b>\$ 1.80</b> |

**FOREST RESOURCES**
**Sales (in millions)**

| Three Months Ended June 30, | 2013          | Changes Attributable to: |                      | 2014          |
|-----------------------------|---------------|--------------------------|----------------------|---------------|
|                             |               | Price                    | Volume/<br>Mix/Other |               |
| Atlantic                    | \$ 19         | \$ 3                     | \$ (3)               | \$ 19         |
| Gulf States                 | 13            | 1                        | (1)                  | 13            |
| Northern                    | 30            | —                        | (5)                  | 25            |
| New Zealand                 | 47            | —                        | (3)                  | 44            |
| <b>Total Sales</b>          | <b>\$ 109</b> | <b>\$ 4</b>              | <b>\$ (12)</b>       | <b>\$ 101</b> |

**Sales (in millions)**

| Six Months Ended June 30, | 2013          | Changes Attributable to: |                      | 2014          |
|---------------------------|---------------|--------------------------|----------------------|---------------|
|                           |               | Price                    | Volume/<br>Mix/Other |               |
| Atlantic                  | \$ 37         | \$ 7                     | \$ (4)               | \$ 40         |
| Gulf States               | 25            | 1                        | (1)                  | 25            |
| Northern                  | 54            | 3                        | 1                    | 58            |
| New Zealand (a)           | 50            | 2                        | 31                   | 83            |
| <b>Total Sales</b>        | <b>\$ 166</b> | <b>\$ 13</b>             | <b>\$ 27</b>         | <b>\$ 206</b> |

(a) First quarter 2014 included \$38 million of sales from the consolidation of the New Zealand joint venture (“New Zealand JV”), whereas first quarter 2013 was accounted for on the equity method.

**Operating Income (in millions)**

| Three Months Ended June 30,   | 2013         | Changes Attributable to: |                |               | 2014         |
|-------------------------------|--------------|--------------------------|----------------|---------------|--------------|
|                               |              | Price                    | Volume/<br>Mix | Cost/Other    |              |
| Atlantic                      | \$ 5         | \$ 3                     | \$ (2)         | \$ —          | \$ 6         |
| Gulf States                   | 3            | 1                        | —              | —             | 4            |
| Northern                      | 10           | —                        | (1)            | 1             | 10           |
| New Zealand                   | 3            | —                        | 3              | (4)           | 2            |
| <b>Total Operating Income</b> | <b>\$ 21</b> | <b>\$ 4</b>              | <b>\$ —</b>    | <b>\$ (3)</b> | <b>\$ 22</b> |

**Operating Income (in millions)**

| Six Months Ended June 30,     | 2013         | Changes Attributable to: |                |             | 2014         |
|-------------------------------|--------------|--------------------------|----------------|-------------|--------------|
|                               |              | Price                    | Volume/<br>Mix | Cost/Other  |              |
| Atlantic                      | \$ 10        | \$ 7                     | \$ (3)         | \$ —        | \$ 14        |
| Gulf States                   | 5            | 1                        | —              | 1           | 7            |
| Northern                      | 15           | 3                        | 4              | 1           | 23           |
| New Zealand/Other             | 4            | 2                        | —              | (1)         | 5            |
| <b>Total Operating Income</b> | <b>\$ 34</b> | <b>\$ 13</b>             | <b>\$ 1</b>    | <b>\$ 1</b> | <b>\$ 49</b> |

In the Atlantic region, 2014 second quarter sales were comparable to 2013; however, sales increased 10 percent for the six months ended June 30, 2014. Second quarter and year-to-date operating income increased as compared to the prior year periods driven by higher pine prices resulting from strong pulpwood demand and restricted supply, partially offset by lower volumes. Unusually wet weather conditions in the South hindered harvest efforts during the second quarter.

Gulf region sales for the 2014 periods were comparable to 2013. Operating income improved 26 percent and 44 percent for the three and six months ending June 30, 2014, respectively, due to higher pine prices and non-timber income, partially offset by lower volumes due to the wet weather.

In the Northern region, 2014 second quarter sales declined while second quarter operating income remained consistent compared to 2013 as lower volumes due to high China log inventory were offset by lower costs. On a year-to-date basis, sales and operating income increased by 7 percent and 54 percent, respectively, compared to the 2013 periods primarily driven by strong pricing and volume from a surge in China demand earlier in the year.



In April 2013, we acquired an additional 39 percent ownership interest in our New Zealand JV. As a 65 percent owner, we began consolidating 100 percent of the New Zealand JV's results of operations in the second quarter of 2013. The six months ended June 30, 2014 sales and operating results for New Zealand JV reflect this increased ownership.

In New Zealand, second quarter operating results were slightly lower than 2013 as prices declined in the export market due to the high China log inventories and were only partially offset by higher domestic prices and volumes. Year-to-date results were slightly higher compared to 2013, reflecting the lower 26 percent JV ownership in first quarter 2013, partially offset by lower export results.

### **REAL ESTATE**

Our real estate holdings are primarily in the southeastern U.S. We segregate these real estate holdings into three groups: development HBU, rural HBU and non-strategic timberlands. Our strategy is to extract maximum value from our HBU properties while selling non-strategic holdings to reinvest in more strategic timberland properties.

#### **Sales (in millions)**

| <b>Three Months Ended June 30,</b> | <b>2013</b>  | <b>Changes Attributable to:</b> |                   | <b>2014</b>  |
|------------------------------------|--------------|---------------------------------|-------------------|--------------|
|                                    |              | <b>Price</b>                    | <b>Volume/Mix</b> |              |
| Development                        | \$ —         | \$ 1                            | \$ —              | \$ 1         |
| Rural                              | 9            | 1                               | (4)               | 6            |
| Non-Strategic Timberlands          | 4            | —                               | 23                | 27           |
| <b>Total Sales</b>                 | <b>\$ 13</b> | <b>\$ 2</b>                     | <b>\$ 19</b>      | <b>\$ 34</b> |

#### **Sales (in millions)**

| <b>Six Months Ended June 30,</b> | <b>2013</b>  | <b>Changes Attributable to:</b> |                   | <b>2014</b>  |
|----------------------------------|--------------|---------------------------------|-------------------|--------------|
|                                  |              | <b>Price</b>                    | <b>Volume/Mix</b> |              |
| Development                      | \$ 2         | \$ —                            | \$ —              | \$ 2         |
| Rural                            | 11           | 2                               | (2)               | 11           |
| Non-Strategic Timberlands        | 25           | (58)                            | 60                | 27           |
| <b>Total Sales</b>               | <b>\$ 38</b> | <b>\$ (56)</b>                  | <b>\$ 58</b>      | <b>\$ 40</b> |

#### **Operating Income (in millions)**

| <b>Three Months Ended June 30,</b> | <b>2013</b> | <b>Changes Attributable to:</b> |                   | <b>2014</b>  |
|------------------------------------|-------------|---------------------------------|-------------------|--------------|
|                                    |             | <b>Price</b>                    | <b>Volume/Mix</b> |              |
| <b>Total Operating Income</b>      | <b>\$ 6</b> | <b>\$ 2</b>                     | <b>\$ 20</b>      | <b>\$ 28</b> |

#### **Operating Income (in millions)**

| <b>Six Months Ended June 30,</b> | <b>2013</b>  | <b>Changes Attributable to:</b> |                   | <b>2014</b>  |
|----------------------------------|--------------|---------------------------------|-------------------|--------------|
|                                  |              | <b>Price</b>                    | <b>Volume/Mix</b> |              |
| <b>Total Operating Income</b>    | <b>\$ 23</b> | <b>\$ (56)</b>                  | <b>\$ 62</b>      | <b>\$ 29</b> |

Second quarter sales of \$34 million and operating income of \$28 million increased \$21 million and \$22 million, respectively, compared to the prior year period. Year-to-date, sales and operating income were 5 percent and 26 percent above the prior year. These increases were the result of higher non-strategic timberland sales, primarily from a 19,500 acre parcel in Florida, and a \$6 million settlement of a bankruptcy claim related to a 2006 sale.

### **OTHER OPERATIONS**

Second quarter sales from our New Zealand log trading business decreased \$4 million compared to the prior year period as a result of high China log inventories. On a year-to-date basis, sales increased \$6 million over the prior year period, driven by the strong China demand in the first quarter 2014. Operating income decreased \$2 million for both periods when compared to 2013, primarily due to unfavorable movements in foreign currency exchange rates.

#### **Corporate and Other Expense/Eliminations**

Excluding the gain related to the consolidation of the New Zealand JV in the second quarter of 2013, corporate and other operating expenses of \$10 million in the second quarter of 2014 improved \$2 million due primarily to lower benefit costs. On a year-to-date basis, corporate and other expenses were comparable. Although all periods have been restated for the discontinued operations of the Performance Fibers business, corporate expenses previously allocated to the Performance Fibers operating results

are not permitted to be allocated to discontinued operations under generally accepted accounting principles. Going forward, the Company expects annual corporate expenses to approximate \$20 million.

### **Interest and Other Expense**

Interest and other expenses of \$20 million in the second quarter were \$11 million above the prior year period due to \$5 million of interest related to the early repayment of debt in connection with the spin-off of the Performance Fibers business and unfavorable mark-to-market valuations on New Zealand interest rate swaps. Additionally, other expenses in the second quarter included a \$4 million asset write-off associated with a long-standing directors' charitable award program that was transferred to Rayonier Advanced Materials.

### **Income Tax Expense**

The second quarter income tax benefit from continuing operations before discrete items was \$1 million compared to an income tax benefit of \$10 million in 2013. The income tax benefit represents tax benefits from losses at Rayonier's taxable operations from interest and general administrative expenses not allowed to be allocated to the discontinued operations of the Performance Fibers business. Including discrete items, the second quarter income tax expense from continuing operations was \$14 million compared to an income tax benefit of \$16 million in the second quarter of 2013. As a result of the spin-off of the Performance Fibers business, a \$16 million valuation allowance related to the cellulosic biofuel producer credit ("CBPC") was recorded reflecting Rayonier's limited potential use of the CBPC prior to its expiration on December 31, 2016.

The year-to-date income tax benefit from continuing operations before discrete items was \$7 million compared to \$16 million in 2013. Including discrete items, the income tax expense from continuing operations was \$6 million compared to a \$22 million tax benefit in 2013.

### **Outlook**

With the successful completion of the spin-off, Rayonier is positioned as an international pure-play timberland REIT. We expect our portfolio of highly-productive timberlands to generate increasing cash flow as U.S. housing starts gradually improve. We anticipate 2014 results from our timberlands in the U.S. South will be well above the prior year as demand continues to improve. In the U.S. Pacific Northwest and New Zealand, we expect higher log inventories in China to result in lower prices in the second half of 2014. Accordingly, we anticipate Forest Resources' full year results will be modestly below our earlier guidance from the first quarter of 2014, but well above 2013. In Real Estate, we expect 2014 results will be comparable to 2013.

We are committed to creating shareholder value from an attractive, growing dividend funded by recurring, operational cash flow from our Forest Resources and Real Estate segments. Operational cash flows are expected to benefit from gradually improving U.S. housing starts, continued investments in advanced silviculture, and incremental harvest volumes from timberland acquisitions. Through the first half of 2014, we acquired 35,000 acres of highly productive timberlands for \$75 million. We are pleased with the quality of these assets and look to further utilize our strong balance sheet while maintaining a disciplined approach to pursuing other timberland properties to add to our portfolio.

### **Liquidity and Capital Resources**

Our operations have generally produced consistent cash flows and required limited capital resources. Short-term borrowings have helped fund cyclicalities in working capital needs and long-term debt has been used to fund major acquisitions and strategic projects.

### **Summary of Liquidity and Financing Commitments (in millions of dollars)**

|   | <b>June 30,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|---|--------------------------|------------------------------|
| Cash and cash equivalents (a)                 | \$ 222                   | \$ 200                       |
| Restricted cash                               | 75                       | —                            |
| Total debt                                    | 770                      | 1,574                        |
| Shareholders' equity                          | 1,720                    | 1,755                        |
| Total capitalization (total debt plus equity) | 2,490                    | 3,329                        |
| Debt to capital ratio                         | 31%                      | 47%                          |

(a) Cash and cash equivalents consisted primarily of time deposits with original maturities of 90 days or less and money market accounts.

**Cash Flows (in millions of dollars)**

The following table summarizes our cash flows from operating, investing and financing activities for the six months ended June 30. The Consolidated Statements of Cash Flows for both 2014 and 2013 have not been restated to exclude discontinued operations.

|                              | 2014   | 2013   |
|------------------------------|--------|--------|
| Cash provided by (used for): |        |        |
| Operating activities         | \$ 226 | \$ 236 |
| Investing activities         | (93)   | (244)  |
| Financing activities         | (111)  | 71     |

**Cash Provided by Operating Activities**

The decline in cash provided by operating activities in 2014 was primarily attributable to lower income from the Performance Fibers business partially offset by lower working capital requirements as 2013 included a \$70 million payment to exchange AFMC for CBPC.

**Cash Used for Investing Activities**

Cash used for investing activities decreased compared to 2013. The prior year period included the purchase of an additional interest in the New Zealand JV for \$140 million and Cellulose Specialties Expansion project costs of \$100 million. The change in restricted cash of \$56 million, due to the timing of like-kind exchanges, also contributed to the decline in cash used for investing activities. Partially offsetting these were a \$64 million increase in timberland acquisitions in 2014 and \$73 million from the sale of our Wood Products business in 2013.

**Cash (Used for) Provided By Financing Activities**

Cash provided by financing activities decreased over the prior year period primarily due to transactions related to the spin-off of the Performance Fibers business. Also contributing to the decrease was the allocation of \$75 million to restricted cash, which will be used to pay a special dividend of \$0.50 per Rayonier common share in third quarter 2014. In addition, net debt borrowings (including debt issuance costs) decreased \$63 million and regular dividend payments increased \$11 million.

**Expected 2014 Expenditures**

For the first half of 2014, prior to the spin-off of the Performance Fibers business, capital expenditures were \$80 million, excluding strategic timberland acquisitions. We expect capital expenditures for the remainder of 2014 to total approximately \$35 million to \$40 million, excluding strategic timberland acquisitions. We are currently under contract for an \$18 million timberland acquisition. We do not expect any cash payments for income taxes during the second half of 2014. Dividend payments for the second half of 2014 are expected to be approximately \$139 million, which includes the third quarter special dividend of \$0.50 per share in addition to the regular quarterly dividend of \$0.30 per share. We have no mandatory pension contributions in 2014.

**Performance and Liquidity Indicators**

The discussion below is presented to enhance the reader's understanding of our operating performance, liquidity, ability to generate cash and satisfy rating agency and creditor requirements. This information includes two measures of financial results: Earnings before Interest, Taxes, Depreciation, Depletion and Amortization ("EBITDA"), and Adjusted Cash Available for Distribution ("Adjusted CAD"). These measures are not defined by Generally Accepted Accounting Principles ("GAAP") and the discussion of EBITDA and Adjusted CAD is not intended to conflict with or change any of the GAAP disclosures described above. Management considers these measures to be important to estimate the enterprise and shareholder values of the Company as a whole and of its core segments, and for allocating capital resources. In addition, analysts, investors and creditors use these measures when analyzing our operating performance, financial condition and cash generating ability. Management uses EBITDA as a performance measure and Adjusted CAD as a liquidity measure. EBITDA is defined by the Securities and Exchange Commission. Adjusted CAD as defined, however, may not be comparable to similarly titled measures reported by other companies.

We reconcile EBITDA to Net Income for the consolidated Company and Operating Income for the Segments, as those are the nearest GAAP measures for each. Below is a reconciliation of Net Income to EBITDA for the respective periods (in millions of dollars):

|  | Three Months Ended June 30, |               | Six Months Ended June 30, |               |
|--|-----------------------------|---------------|---------------------------|---------------|
|  | 2014                        | 2013          | 2014                      | 2013          |
| <b>Net Income to EBITDA Reconciliation</b> |                             |               |                           |               |
| Net Income                                 | \$ 18                       | \$ 88         | \$ 61                     | \$ 236        |
| Interest, net, continuing operations       | 16                          | 9             | 28                        | 17            |
| Income tax expense, continuing operations  | 14                          | (16)          | 6                         | (22)          |
| Depreciation, depletion and amortization   | 28                          | 30            | 54                        | 51            |
| Discontinued operations (a)                | 29                          | 44            | 67                        | 92            |
| <b>EBITDA</b>                              | <b>\$ 105</b>               | <b>\$ 155</b> | <b>\$ 216</b>             | <b>\$ 374</b> |

(a) Includes income, interest, income tax expense, and depreciation and amortization from discontinued operations

EBITDA by segment is a critical valuation measure used by our Chief Operating Decision Maker, existing shareholders and potential shareholders to measure how the Company is performing relative to the assets under management. EBITDA by segment for the respective periods was as follows (millions of dollars):

|                          | Three Months Ended June 30, |               | Six Months Ended June 30, |               |
|--------------------------|-----------------------------|---------------|---------------------------|---------------|
|                          | 2014                        | 2013          | 2014                      | 2013          |
| <b>EBITDA by Segment</b> |                             |               |                           |               |
| Forest Resources         | \$ 44                       | \$ 49         | \$ 96                     | \$ 78         |
| Real Estate              | 34                          | 8             | 36                        | 29            |
| Other Operations         | —                           | 2             | (1)                       | 2             |
| Corporate and other (a)  | 27                          | 96            | 85                        | 265           |
| <b>EBITDA</b>            | <b>\$ 105</b>               | <b>\$ 155</b> | <b>\$ 216</b>             | <b>\$ 374</b> |

(a) Corporate and other includes EBITDA from the Performance Fibers business of \$41 million and \$93 million for the three months ended June 30, 2014 and 2013, respectively. Performance Fibers EBITDA included within Corporate and Other was \$110 million for the six months ended June 30, 2014 and \$200 million for the six months ended June 30, 2013.

Second quarter and year-to-date 2014 EBITDA decreased from 2013 primarily due to lower results from the Performance Fiber business, partially offset by higher results from Forest Resources and Real Estate. In addition, second quarter 2013 EBITDA includes a \$16 million gain related to the consolidation of the New Zealand JV and EBITDA for the six months ended June 30, 2013 includes a \$64 million gain on the sale of Wood Products as well as the \$16 million gain related to the consolidation of the New Zealand JV.

The following tables reconcile Operating Income by segment to EBITDA by segment (millions of dollars):

|   | Forest<br>Resources | Real<br>Estate | Other<br>Operations | Corporate<br>and Other | Total         |
|---|---------------------|----------------|---------------------|------------------------|---------------|
| <b>Three Months Ended June 30, 2014</b>                       |                     |                |                     |                        |               |
| Operating Income  | \$ 22               | \$ 28          | \$ —                | \$ (10)                | \$ 40         |
| Add: Depreciation, depletion and amortization                 | 22                  | 6              | —                   | —                      | 28            |
| Add: Costs related to spin-off of Performance Fibers business | —                   | —              | —                   | (4)                    | (4)           |
| Add: Discontinued operations (a)                              | —                   | —              | —                   | 41                     | 41            |
| EBITDA  | <u>\$ 44</u>        | <u>\$ 34</u>   | <u>\$ —</u>         | <u>\$ 27</u>           | <u>\$ 105</u> |
| <b>Three Months Ended June 30, 2013</b>                       |                     |                |                     |                        |               |
| Operating Income  | \$ 21               | \$ 6           | \$ 2                | \$ 3                   | \$ 32         |
| Add: Depreciation, depletion and amortization                 | 28                  | 2              | —                   | —                      | 30            |
| Add: Discontinued operations (a)                              | —                   | —              | —                   | 93                     | 93            |
| EBITDA  | <u>\$ 49</u>        | <u>\$ 8</u>    | <u>\$ 2</u>         | <u>\$ 96</u>           | <u>\$ 155</u> |
| <b>Six Months Ended June 30, 2014</b>                         |                     |                |                     |                        |               |
| Operating Income  | \$ 49               | \$ 29          | \$ (1)              | \$ (21)                | \$ 56         |
| Add: Depreciation, depletion and amortization                 | 47                  | 7              | —                   | —                      | 54            |
| Add: Costs related to spin-off of Performance Fibers business | —                   | —              | —                   | (4)                    | (4)           |
| Add: Discontinued operations (a)                              | —                   | —              | —                   | 110                    | 110           |
| EBITDA  | <u>\$ 96</u>        | <u>\$ 36</u>   | <u>\$ (1)</u>       | <u>\$ 85</u>           | <u>\$ 216</u> |
| <b>Six Months Ended June 30, 2013</b>                         |                     |                |                     |                        |               |
| Operating Income  | \$ 34               | \$ 23          | \$ 2                | \$ (5)                 | \$ 54         |
| Add: Depreciation, depletion and amortization                 | 44                  | 6              | —                   | 1                      | 51            |
| Add: Discontinued operations (a)                              | —                   | —              | —                   | 269                    | 269           |
| EBITDA  | <u>\$ 78</u>        | <u>\$ 29</u>   | <u>\$ 2</u>         | <u>\$ 265</u>          | <u>\$ 374</u> |

(a) Includes income, interest, and depreciation and amortization from discontinued operations.

Adjusted CAD is a non-GAAP measure of cash generated during a period which is available for dividend distribution, repurchase of the Company's common shares, debt reduction and strategic acquisitions. We define CAD as Cash Provided by Operating Activities adjusted for capital spending, strategic divestitures, the change in committed cash, and other items which include cash provided by discontinued operations, excess tax benefits on stock-based compensation and the change in capital expenditures purchased on account. Committed cash represents outstanding checks that have been drawn on our zero balance bank accounts but have not been paid. In compliance with SEC requirements for non-GAAP measures, we reduce CAD by mandatory debt repayments which results in the measure entitled "Adjusted CAD."

Below is a reconciliation of Cash Provided by Operating Activities to Adjusted CAD (in millions of dollars):

|  | Six Months Ended June 30, |                 |
|--|---------------------------|-----------------|
|  | 2014                      | 2013            |
| Cash provided by operating activities            | \$ 226                    | \$ 236          |
| Capital expenditures (a)                         | (80)                      | (75)            |
| Change in committed cash                         | 5                         | 1               |
| Excess tax benefits on stock-based compensation  | —                         | 7               |
| Other  | 3                         | 1               |
| Discontinued operations                          | (64)                      | (78)            |
| CAD  | <u>90</u>                 | <u>92</u>       |
| Mandatory debt repayments                        | —                         | —               |
| Adjusted CAD                                     | <u>\$ 90</u>              | <u>\$ 92</u>    |
| Cash used for investing activities               | <u>\$ (93)</u>            | <u>\$ (244)</u> |
| Cash (used for) provided by financing activities | <u>\$ (111)</u>           | <u>\$ 71</u>    |

(a) Capital expenditures exclude strategic capital of \$75 million for timberland acquisitions during the six months ended June 30, 2014. Strategic capital totaled \$140 million for the purchase of additional interest in the New Zealand JV and \$10 million for timberland acquisitions for the six months ended June 30, 2013.

Adjusted CAD decreased slightly compared to the prior year period as improved operating results from Forest Resources and Real Estate and lower tax payments during 2014 were offset by higher capital expenditures. Adjusted CAD generated in any period is not necessarily indicative of the amounts that may be generated in future periods.

### **Liquidity Facilities**

As part of the spin-off of the Performance Fibers business, Rayonier Advanced Materials, while a subsidiary of Rayonier, issued \$950 million of new debt. Rayonier Advanced Materials distributed \$906 million from the proceeds of this new debt to the Company prior to the spin-off, including \$75 million restricted to shareholder dividend payments. Rayonier used the remainder of the distribution, as well as available cash, to make repayments of \$280 million on its unsecured revolving credit facility, \$500 million on its term credit agreement, and \$112.5 million on its installment note due 2014.

Net repayments of \$80 million were made in the first quarter on the revolving facility. At June 30, 2014, the Company had available borrowings of \$448 million under the credit facility and additional draws available of \$640 million under the term credit agreement. Effective July 7, 2014 the revolving credit facility and term credit agreement were amended to reduce the Company's borrowing capacity and related commitment fees. The revolving credit facility was reduced to \$200 million and the term credit agreement was reduced to \$100 million.

During the six months ended June 30, 2014, the New Zealand JV had no net activity on its working capital facility or revolving credit facility. Additional draws totaling \$20 million remain available on the revolving facility. In addition, the New Zealand JV paid \$1.2 million on its shareholder loan held with the non-controlling interest party. Unfavorable changes in exchange rates during the first half of 2014 resulted in a \$1.8 million and \$12 million increase to debt on a US dollar basis for the shareholder loan and revolving facility, respectively.

As of March 31, 2014, the 4.50% Senior Exchangeable Notes due 2015 were exchangeable at the option of the holders for the calendar quarter ending June 30, 2014. According to the indenture, in order for the notes to become exchangeable, the Company's stock price must exceed 130 percent of the exchange price for 20 trading days during a period of 30 consecutive trading days as of the last day of the quarter. During the six months ended June 30, 2014, the note holders did not elect to exercise the exchange option. These notes are also exchangeable in the third quarter based upon the average stock price for the 30 trading days ending June 30, 2014. If the note holders exercise their options prior to September 30, 2014, the Company intends to repay the principal of the notes by accessing its revolving credit facility. Any excess exchange value will be settled at the option of the Company in either cash or stock of Rayonier.

In connection with our installment note, term credit agreement and credit facility, covenants must be met, including ratios based on the covenant definition of EBITDA, ratios based on consolidated funded debt compared to consolidated net worth, and ratios of subsidiary debt to consolidated net tangible assets. Covenants must also be met in connection with the New Zealand JV's credit facility, including ratios of debt to forestry and land valuations and ratios of operating cash flows to financing costs. As of June 30, 2014, we were in compliance with all applicable covenants. In addition to these financial covenants, the mortgage note, term credit agreement and revolving credit facility include customary covenants that limit the incurrence of debt and the disposition of assets, among others.

Both our ability to obtain financing and the related costs of borrowing are affected by our credit ratings, which are periodically reviewed by the rating agencies. In July 2014, Standard & Poor's Ratings Services lowered its ratings on Rayonier, including our corporate credit rating, to "BBB" from "BBB+." Our outlook was revised, however, to "Stable" from "Credit Watch Negative," which went into effect during January 2014 in light of the announced spin-off of the Performance Fibers business.

### **Off-Balance Sheet Arrangements**

See Note 11 — *Guarantees* for details on the letters of credit, surety bonds and guarantees as of June 30, 2014.

## Contractual Financial Obligations

In addition to using cash flow from operations, we finance our operations through the issuance of debt and by entering into leases. These financial obligations are recorded in accordance with accounting rules applicable to the underlying transaction, with the result that some are recorded as liabilities on the Balance Sheet, while others are required to be disclosed in the Notes to Consolidated Financial Statements and Management's Discussion and Analysis.

The following table aggregates our contractual financial obligations as of June 30, 2014 and anticipated cash spending by period:

| Contractual Financial Obligations (in millions) | Total    | Payments Due by Period |           |           |            |
|---|----------|------------------------|-----------|-----------|------------|
|   |          | Remaining 2014         | 2015-2016 | 2017-2018 | Thereafter |
| Long-term debt (a)                              | \$ 771   | \$ —                   | \$ 336    | \$ 63     | \$ 372     |
| Current maturities of long-term debt            | —        | —                      | —         | —         | —          |
| Interest payments on long-term debt (b)         | 126      | 14                     | 46        | 26        | 40         |
| Operating leases — timberland                   | 184      | 4                      | 20        | 18        | 142        |
| Postretirement obligations (c)                  | 1        | —                      | 1         | —         | —          |
| Operating leases — PP&E, offices                | 7        | 1                      | 3         | 1         | 2          |
| Uncertain tax positions (d)                     | 6        | 6                      | —         | —         | —          |
| Purchase obligations — derivatives (e)          | 5        | —                      | —         | 2         | 3          |
| Purchase obligations — other                    | 1        | —                      | —         | 1         | —          |
| Total contractual cash obligations              | \$ 1,101 | \$ 25                  | \$ 406    | \$ 111    | \$ 559     |

- (a) The book value of our long-term debt is currently recorded at \$770.0 million on the Company's consolidated balance sheet, but upon maturity the liability will be \$770.5 million.
- (b) Projected interest payments for variable-rate debt were calculated based on outstanding principal amounts and interest rates as of June 30, 2014.
- (c) These amounts represent an estimate of our projected payments related to our unfunded excess pension plan and our postretirement medical and life insurance plans for the next ten years.
- (d) See Note 4 — *Income Taxes* for additional information on uncertain tax positions.
- (e) Purchase obligations represent payments expected to be made on derivative instruments held in New Zealand. See Note 9 — *Derivative Financial Instruments and Hedging Activities*.

## Sales Volume by Segment:

|   | Three Months Ended June 30, |       | Six Months Ended June 30, |        |
|---|-----------------------------|-------|---------------------------|--------|
|   | 2014                        | 2013  | 2014                      | 2013   |
| Forest Resources — in thousands of short green tons |                             |       |                           |        |
| Atlantic  | 698                         | 904   | 1,534                     | 1,772  |
| Gulf States   | 451                         | 514   | 889                       | 923    |
| Northern  | 447                         | 512   | 991                       | 967    |
| New Zealand   |                             |       |                           |        |
| Domestic  | 314                         | 401   | 623                       | 401    |
| Export  | 209                         | 200   | 359                       | 200    |
| Total   | 2,119                       | 2,531 | 4,396                     | 4,263  |
| Real Estate — in acres                              |                             |       |                           |        |
| Development   | 68                          | 47    | 95                        | 133    |
| Rural   | 2,030                       | 3,831 | 3,763                     | 5,006  |
| Non-Strategic Timberlands                           | 23,185                      | 3,372 | 23,547                    | 8,947  |
| Total   | 25,283                      | 7,250 | 27,405                    | 14,086 |

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Market and Other Economic Risks**

We are exposed to various market risks, including changes in interest rates, commodity prices and foreign exchange rates. Our objective is to minimize the economic impact of these market risks. We use derivatives in accordance with policies and procedures approved by the Audit Committee of the Board of Directors. Derivatives are managed by a senior executive committee whose responsibilities include initiating, managing and monitoring resulting exposures. We do not enter into financial instruments for trading or speculative purposes.

As of June 30, 2014 we had \$15 million of U.S. long-term variable rate debt which is subject to interest rate risk. At this borrowing level, a hypothetical one-percentage point increase/decrease in interest rates would result in a corresponding increase/decrease of approximately \$0.2 million in interest payments and expense over a 12 month period. Our primary interest rate exposure on variable rate debt results from changes in LIBOR.

As of June 30, 2014, our New Zealand JV had \$205 million of long-term variable rate debt. This debt is subject to interest rate risk resulting from changes in the 90 day New Zealand Bank bill rate. However, the New Zealand JV uses interest rate swaps to manage its exposure to interest rate movements on its bank loan by swapping a portion of these borrowings from floating rates to fixed rates. The notional amounts of the outstanding interest rate swap contracts at June 30, 2014 were \$181 million, or 88 percent of the variable rate debt. The interest rate swap contracts have maturities between one and six years.

The fair market value of our long-term fixed interest rate debt is also subject to interest rate risk. However, we intend to hold most of our debt until maturity. The estimated fair value of our fixed-rate debt at June 30, 2014 was \$620 million compared to the \$550 million principal amount. We use interest rates of debt with similar terms and maturities to estimate the fair value of our debt. Generally, the fair market value of fixed-rate debt will increase as interest rates fall and decrease as interest rates rise. A hypothetical one-percentage point increase/decrease in prevailing interest rates at June 30, 2014 would result in a corresponding decrease/increase in the fair value of our fixed-rate debt of approximately \$26 million.

The functional currency of the Company's New Zealand-based operations and New Zealand JV is the New Zealand dollar. Through these operations and our ownership in the New Zealand JV, we are exposed to foreign currency risk on cash held in foreign currencies and on foreign export sales and ocean freight payments that are predominantly denominated in U.S. dollars. To mitigate these risks, the New Zealand JV routinely enters into foreign currency exchange contracts and foreign currency option contracts to hedge a portion of the New Zealand JV's foreign exchange exposure. At June 30, 2014, the New Zealand JV had foreign currency exchange contracts with a notional amount of \$20 million and foreign currency option contracts with a notional amount of \$46 million outstanding.



**Item 4. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures*

Rayonier management is responsible for establishing and maintaining adequate disclosure controls and procedures. Disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)), are designed with the objective of ensuring information required to be disclosed by the Company in reports filed under the Exchange Act, such as this quarterly report on Form 10-Q, is (1) recorded, processed, summarized and reported or submitted within the time periods specified in the SEC’s rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Because of the inherent limitations in all control systems, no control evaluation can provide absolute assurance that all control exceptions and instances of fraud have been prevented or detected on a timely basis. Even systems determined to be effective can provide only reasonable assurance that their objectives are achieved.

Based on an evaluation of our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q, our management, including the Chief Executive Officer and Chief Financial Officer, concluded the design and operation of the disclosure controls and procedures were effective as of June 30, 2014.

In the quarter ended June 30, 2014, based upon the evaluation required by paragraph (d) of SEC Rule 13a-15, there were no changes in our internal control over financial reporting that would materially affect or are reasonably likely to materially affect our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

*Altamaha Riverkeeper Litigation—Jesup Mill.* In November 2013, Rayonier received a “sixty day letter” from lawyers representing a non-profit environmental organization, the Altamaha Riverkeeper. In the letter, the Altamaha Riverkeeper threatened to file a citizen suit against Rayonier as permitted under the federal Clean Water Act and the Georgia Water Quality Control Act due to what the letter alleged to be ongoing violations of such laws, if Rayonier did not correct such violations within 60 days of the date of the letter. The allegations related to the color and odor of treated effluent discharged into the Altamaha River by Rayonier’s Jesup, Georgia mill, which is now owned and operated by Rayonier Advanced Materials following the spin-off of Rayonier’s Performance Fibers business on June 27, 2014.

On March 26, 2014, Rayonier was served with a complaint, captioned *Altamaha Riverkeeper, Inc. v. Rayonier Inc. and Rayonier Performance Fibers LLC*, which was filed in the U.S. District Court for the Southern District of Georgia. In the complaint, the Altamaha Riverkeeper alleges, among other things, violations of the federal Clean Water Act and Georgia Water Quality Control Act, negligence and public nuisance, relating to the permitted discharge from the Jesup mill. The complaint seeks, among other things, injunctive relief, monetary damages, and attorneys’ fees and expenses. The total amount of monetary relief being sought by the plaintiff cannot be determined by Rayonier at this time.

In connection with Rayonier’s spin-off of its Performance Fibers business, and pursuant to the related Separation and Distribution Agreement between Rayonier and Rayonier Advanced Materials, Rayonier Advanced Materials has assumed any liability of Rayonier in connection with this matter and has agreed to indemnify and hold Rayonier harmless in connection with the same.

*Antidumping Investigation.* In February 2013, China’s Ministry of Commerce (“MOFCOM”) initiated an anti-dumping investigation of imports of dissolving wood, cotton and bamboo pulp into China from the U.S., Canada and Brazil during 2012. In November 2013, MOFCOM issued a preliminary determination that Rayonier’s lower purity product used in commodity viscose applications in its Performance Fibers business would be subject to a 21.7% interim duty effective November 7, 2013. However, Rayonier’s high-value cellulose acetate products, which constituted a large majority of Rayonier’s sales into China, were specifically excluded from assessment of any dumping duty, and Rayonier’s other high-value cellulose products were, likewise, exempted from any dumping duty because their higher quality specifications, including in the area of cellulose purity, do not meet the specifications applicable to lower-purity products that are dutiable under the preliminary determination.

On April 6, 2014, after completion of its investigation, MOFCOM issued its final determination, which was substantially similar to its November 2013 preliminary determination except that Rayonier’s final duty for lower purity, commodity viscose products declined to 17.2%. This matter relates to the Performance Fibers business, which was spun-off from Rayonier on June 27, 2014. Accordingly, Rayonier does not anticipate any material impact on its businesses following the spin-off as a result of MOFCOM’s final determination.

**Item 6. Exhibits**

|       |   |  |
|-------|---|--|
| 2.1   | Separation and Distribution Agreement, dated May 28, 2014 by and between Rayonier Inc. and Rayonier Advanced Materials Inc.**   | Incorporated by reference to Exhibit 2.1 to the Registrant's May 30, 2014 Form 8-K   |
| 4.1   | Indenture among Rayonier A.M. Products Inc., the guarantors party thereto from time to time and Wells Fargo Bank, National Association, as Trustee, dated as of May 22, 2014.   | Incorporated by reference to Exhibit 4.1 to the Registrant's May 22, 2014 Form 8-K   |
| 10.1  | Amendment No. 1 to the Amended and Restated Five-Year Revolving Credit Agreement, dated as of May 6, 2014, among Rayonier Inc., Rayonier TRS Holdings Inc., Rayonier Operating Company LLC, the lenders party thereto and Credit Suisse AG, as administrative agent   | Incorporated by reference to Exhibit 10.1 to the Registrant's May 7, 2014 Form 8-K   |
| 10.2  | First Amendment Agreement, dated as of May 6, 2014, among Rayonier Inc., Rayonier TRS Holdings Inc., Rayonier Operating Company LLC, the lenders party thereto and CoBank ACB, as administrative agent, amending that certain Credit Agreement among such parties dated as of December 17, 2012   | Incorporated by reference to Exhibit 10.2 to the Registrant's May 7, 2014 Form 8-K   |
| 10.3  | Agreement between Rayonier Advanced Materials, Inc. and Paul G. Boynton regarding special stock grant, dated May 28, 2014*  | Incorporated by reference to Exhibit 10.1 to the Registrant's May 30, 2014 Form 8-K  |
| 10.4  | Transition Services Agreement, dated as of June 27, 2014, by and between Rayonier Inc. and Rayonier Advanced Materials Inc.   | Incorporated by reference to Exhibit 10.1 to the Registrant's June 30, 2014 Form 8-K |
| 10.5  | Tax Matters Agreement, dated as of June 27, 2014, by and among Rayonier Inc., Rayonier Advanced Materials Inc., Rayonier TRS Holdings Inc. and Rayonier A.M. Products Inc.  | Incorporated by reference to Exhibit 10.2 to the Registrant's June 30, 2014 Form 8-K |
| 10.6  | Employee Matters Agreement, dated as of June 27, 2014, by and between Rayonier Inc. and Rayonier Advanced Materials Inc.  | Incorporated by reference to Exhibit 10.3 to the Registrant's June 30, 2014 Form 8-K |
| 10.7  | Intellectual Property Agreement, dated as of June 27, 2014, by and between Rayonier Inc. and Rayonier Advanced Materials Inc.   | Incorporated by reference to Exhibit 10.4 to the Registrant's June 30, 2014 Form 8-K |
| 10.8  | Form of Indemnification Agreement between Rayonier Inc. and its Officers and Directors*   | Filed herewith   |
| 10.9  | Rayonier Incentive Stock Plan, as amended*  | Filed herewith   |
| 10.10 | Description of Rayonier 2014 Performance Share Award Program*   | Filed herewith   |
| 10.11 | Deed of Amendment and Restatement of Shareholder Agreement, dated April 22, 2014, by and among Rayonier Canterbury LLC, Waimarie Forests Pty Limited, Matariki Forestry Group, Matariki Forests and Phaunos Timber Fund Limited   | Filed herewith   |
| 31.1  | Chief Executive Officer's Certification Pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  | Filed herewith   |
| 31.2  | Chief Financial Officer's Certification Pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  | Filed herewith   |
| 32    | Certification of Periodic Financial Reports Under Section 906 of the Sarbanes-Oxley Act of 2002   | Furnished herewith   |
| 101   | The following financial information from our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2014, formatted in Extensible Business Reporting Language ("XBRL"), includes: (i) the Consolidated Statements of Income and Comprehensive Income for the Three and Six Months Ended June 30, 2014 and 2013; (ii) the Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013; (iii) the Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and 2013; and (iv) the Notes to Consolidated Financial Statements | Filed herewith   |

\* Management contract or compensatory plan.

\*\* Certain schedules and similar attachments have been omitted from this filing pursuant to Item 601(b)(2) of Regulation S-K. Rayonier will furnish supplemental copies of any such schedules or attachments to the U.S. Securities and Exchange Commission upon request.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RAYONIER INC.

\_\_\_\_\_  
(Registrant)

By: /S/ H. EDWIN KIKER

\_\_\_\_\_  
H. Edwin Kiker  
*Senior Vice President and Chief Financial Officer*  
*(Duly Authorized Officer, Principal Financial Officer and Principal Accounting Officer)*

Date: August 8, 2014

## INDEMNIFICATION AGREEMENT

This INDEMNIFICATION AGREEMENT (the "Agreement") is entered into, effective as of \_\_\_\_\_ between Rayonier Inc., a North Carolina corporation (the "Company"), and \_\_\_\_\_ (the "Indemnitee").

WHEREAS, it is essential that the Company attract and maintain responsible, qualified directors and corporate officers; and

WHEREAS, the Indemnitee is a director or corporate officer of the Company; and

WHEREAS, both the Company and the Indemnitee recognize the increased risk of litigation and other claims being asserted against directors and corporate officers of public companies in today's environment, as well as the possibility that in certain control situations a threat of litigation may be employed to deter them from exercising their best judgment in the interest of the Company, and the consequent need to allocate the risk of personal liability through indemnification and insurance; and

WHEREAS, the Amended and Restated Articles of Incorporation of the Company (the "Charter") requires the Company to indemnify and advance expenses to its directors and officers to the fullest extent permitted from time to time by law and the Indemnitee is willing to serve or continue to serve as a director or corporate officer of the Company provided that he be indemnified as provided herein; and

WHEREAS, in recognition of the Indemnitee's need for substantial protection against personal liability and of the Indemnitee's reliance on the Charter, and in part to provide Indemnitee with specific contractual assurance that the protection promised by the Charter will be available to the Indemnitee (regardless of, among other things, any amendment to or revocation of the Charter or any change in the composition of the Company's Board of Directors or any acquisition transaction involving the Company), the Company wishes to provide in this Agreement for the indemnification of and the advancement of expenses to the Indemnitee to the fullest extent permitted by law and as set forth in this Agreement, and, to the extent insurance is maintained, for the continued coverage of Indemnitee under the Company's directors and officers liability insurance policies.

NOW, THEREFORE, in consideration of the premises and of the Indemnitee continuing to serve the Company directly or, at its request, another enterprise, and intending to be legally bound hereby, the parties hereto do hereby covenant and agree as follows:

#### 1. Certain Definitions.

(a) **Change in Control:** Shall mean the occurrence of any one or more of the following events:

(i) subject to the conditions contained in the final paragraph of this definition, the filing of a report on Schedule 13D with the Securities and Exchange Commission pursuant to Section 13(d) of the Securities Exchange Act of 1934 (the "Act") disclosing that any person, other than the Company or any employee benefit plan sponsored by the Company, is the beneficial owner (as the term is defined in Rule 13d-3 under the Act) directly or indirectly, of securities representing 20 percent or more of the total voting power represented by the Company's then outstanding Voting Securities (calculated as provided in paragraph (d) of Rule 13d-3 under the Act in the case of rights to acquire Voting Securities); or

(ii) the purchase by any person, other than the Company or any employee benefit plan sponsored by the Company, of shares pursuant to a tender offer or exchange offer to acquire any Voting Securities of the Company (or securities convertible into such Voting Securities) for cash, securities, or any other consideration, provided that after consummation of the offer, the person in question is the beneficial owner, directly or indirectly, of securities representing 20 percent or more of the total voting power represented by the Company's then outstanding Voting Securities (all as calculated under clause (i)); or

(iii) the approval by the shareholders of the Company, and the subsequent occurrence, of (A) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation (other than a merger of the Company in which holders of Common Shares of the Company immediately prior to the merger have the same proportionate ownership of Common Shares of the surviving corporation immediately after the merger as immediately before), or pursuant to which Common Shares of the Company would be converted into cash, securities, or other property,

or (B) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Company; or

(iv) a change in the composition of the Board of the Company at any time during any consecutive 24-month period such that “continuing directors” cease for any reason to constitute at least a 70 percent majority of the Board.

For purposes of this definition of “Change in Control,” the term “Voting Securities” means any securities of the Company that vote generally in the election of members of the Board and the term “continuing directors” means those members of the Board who either were directors at the beginning of a consecutive 24-month period or were elected during such period by or on the nomination or recommendation of at least a 70 percent majority of the then-existing Board. So long as there has not been a Change in Control within the meaning of clause (iv) above, the Board may adopt by a 70 percent majority vote of the “continuing directors” a resolution to the effect that the occurrence of an event described in clause (i) (a “Clause (i) Event”) does not constitute a “Change in Control” (an “Excluding Resolution”) or a resolution to the effect that the occurrence of a Clause (i) Event does constitute a “Change in Control” (an “Including Resolution”). The adoption of an Excluding Resolution with respect to any Clause (i) Event shall not deprive the Board of the right to adopt an Including Resolution with respect to such Clause (i) Event at a later date. A Clause (i) Event shall not in and of itself constitute a “Change in Control” until the earlier of (x) the effective date of an Including Resolution with respect thereto or (y) the passage of a period of 30 calendar days after the occurrence thereof without an Excluding Resolution having been adopted with respect thereto; notwithstanding the adoption of an Excluding Resolution within the 30-day period referred to in (y), an Including Resolution may subsequently be adopted with respect to the relevant Clause (i) Event while it continues to exist, in which event a “Change in Control” shall be deemed to have occurred for purposes of this definition upon the effective date of such Including Resolution. The provisions of this paragraph of the definition of “Change in Control” relate only to situations where a Clause (i) Event has occurred and no Change in Control within the meaning of clause (ii), (iii), or (iv) of the preceding paragraph has occurred, and nothing in this paragraph shall derogate from the principle that the occurrence of an event described in clause (ii), (iii), or (iv) of the preceding paragraph shall be deemed an immediate Change in Control regardless of whether or not a Clause (i) Event has occurred and an Excluding Resolution or Including Resolution become effective.

**(b) Expenses:** Shall mean expenses of every kind incurred in connection with a Proceeding, including counsel fees. Expenses shall include, without limitation, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone and fax charges, postage, delivery service charges, costs associated with procurement of surety bonds or loans or other costs associated with the stay of a judgment, penalty or fine, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, or being or preparing to be a witness in a Proceeding.

**(c) Independent Counsel:** Shall mean a lawyer or law firm that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent: (i) the Company or the Indemnitee in any matter, or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or the Indemnitee in an action to determine Indemnitee's rights under this Agreement. Independent Counsel may be, but need not be, a member of the bar of North Carolina.

**(d) Proceeding:** Shall mean any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative and whether formal or informal. A “Proceeding” may be instituted by another party, or by or in the right of the Company, or by the Indemnitee. The term “Proceeding” shall also include any preliminary inquiry or investigation that the Indemnitee in good faith believes might lead to the institution of a “Proceeding”.

**(e) Reviewing Party:** Shall mean any appropriate person or body consisting of (i) a member or members of the Company's Board of Directors or (ii) any other person or body duly appointed by the Board who is not a party to the particular Proceeding for which the Indemnitee is seeking indemnification, or (iii) Independent Counsel.

**(f) Voting Securities:** Shall mean any securities of the Company which vote generally in the election of directors.

**2. Term of Agreement.** This Agreement shall continue until and terminate upon the later of (i) the tenth anniversary after the date that the Indemnitee shall have ceased to serve as a director or officer of the Company (or in any other capacity in respect of which he has rights of indemnification hereunder); or (ii) the final termination of all pending Proceedings in respect of which Indemnitee is granted rights of indemnification or advancement of Expenses hereunder, including any Proceeding commenced by the Indemnitee to enforce the Indemnitee's rights under this Agreement.

### **3. Right to Indemnification and Advance; How Determined.**

**(a)** In the event the Indemnitee was, is or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Proceeding by reason of (or arising in whole or in part out of) Indemnitee's present or former status as a director, officer or fiduciary of the Company, or Indemnitee having served at the request of the Company as a director, officer, employee, trustee, agent or fiduciary of another corporation, joint venture, employee benefit plan, trust or other enterprise, the Company shall indemnify the Indemnitee to the fullest extent permitted by law in effect on the date hereof (and to such greater extent as applicable law may hereafter permit) against the obligation to pay any and all Expenses, judgments, settlements, penalties, or fines (including any interest assessed, and including any excise tax assessed with respect to an employee benefit plan) incurred on account of or with respect to such Proceeding. Such indemnification shall be made as soon as practicable, but in any event no later than sixty days after written demand is presented to the Secretary of the Company. This Agreement shall be effective as well with respect to any such Proceedings which relate to acts or omissions occurring or allegedly occurring prior to the execution of this Agreement, and regardless of whether the Company may have been incorporated in a different jurisdiction at the time of such acts or omissions.

**(b)** In connection with any such Proceeding, if so requested by the Indemnitee, the Company shall advance, within two business days of such request, any and all reasonable Expenses to the Indemnitee (an "Expense Advance"). An Expense Advance shall be made without awaiting the results of the Proceeding giving rise to the Expenses or the outcome of any further Proceeding to determine the Indemnitee's right to indemnification hereunder, and without making any preliminary determination as to the Indemnitee's state of mind at the time of the activities in question.

**(c)** Notwithstanding the foregoing, the Company shall not be obligated to indemnify under this Section 3 a person made a party to a Proceeding if (i) the Indemnitee is not successful within the meaning of Section 6 and (ii) the appropriate Reviewing Party specified in subsection (e) below shall have affirmatively determined (in a written opinion in any case in which Independent Counsel referred to in Section 4 hereof is involved, a copy of which shall be delivered to the Indemnitee) that the Indemnitee's activities in question were at the time taken known or believed by him to be clearly in conflict with the best interests of the Company. The obligation of the Company promptly to make an Expense Advance(s) pursuant to subsection (b) above is unqualified, is not subject to any means or other credit test, and shall be enforceable by the Indemnitee in summary judicial proceedings; but shall be subject, however, to the condition subsequent that if, when and to the extent the Reviewing Party may subsequently determine that the Indemnitee's activities were at the time taken known or believed by him to be clearly in conflict with the best interests of the Company, then the Company shall be entitled to be reimbursed by the Indemnitee for all such amounts theretofore advanced. The obligation of the Indemnitee to make such reimbursement shall be unsecured and without interest. The Indemnitee hereby undertakes so to reimburse the Company, the receipt of which unsecured and interest free undertaking is hereby accepted by the Company as the sole condition of advancing the Indemnitee's Expenses pursuant to subsection (b) above. If the Indemnitee has commenced legal or arbitration proceedings to secure a determination that the Indemnitee should be indemnified hereunder, the Indemnitee shall not be required to reimburse the Company for any Expense Advance until a final determination is made by the court or the arbitrators as the case may be that the Indemnitee's activities were at the time taken known or believed by him to be clearly in conflict with the best interests of the Company.

**(d)** Notwithstanding anything in this Agreement to the contrary, prior to a Change in Control, the Indemnitee shall not be entitled to indemnification pursuant to this Agreement in connection with any Proceeding initiated by the Indemnitee unless the Board of Directors has authorized or consented to the initiation of such Proceeding. For purposes of the foregoing sentence, a Proceeding shall not be deemed to have been "initiated" by the Indemnitee where its primary purpose is to enforce the Indemnitee's rights under this Agreement.

**(e)** If there has not been a Change in Control, the Reviewing Party shall be as determined by the Board of Directors, either in the specific case or under procedures adopted by the Board. If there has been a Change in Control (other than one approved in advance by a majority of the company's Board of Directors who were elected by the public shareholders prior to such Change in Control), the Reviewing Party shall be the Independent Counsel referred to in Section 4.

**(f)** If there has been a Change in Control and any dispute arises under this Agreement, the parties agree that at the Indemnitee's option such dispute shall be resolved by binding arbitration proceedings in accordance with the rules of the American Arbitration Association and the results of such proceedings shall be conclusive on both parties and shall not be subject to judicial interference or review on any ground whatsoever, including without limitation any claim that the Company was wrongfully induced to enter into this agreement to arbitrate such a dispute. The Company shall pay the cost of any arbitration proceedings under this Agreement. The Indemnitee shall be entitled to advancement of his Expenses in connection with such proceedings and, notwithstanding anything to the contrary in subsection (c) above, the Indemnitee shall be obligated to reimburse the Company for his Expenses in connection with such arbitration proceedings only if it is finally and specifically determined by the arbitrators that the Indemnitee's position in initiating the arbitration was frivolous and completely without merit.

#### 4. Independent Counsel.

(a) The Company agrees that if there is a Change in Control of the Company (other than a Change of Control which has been approved in advance by a majority of the Company's Board of Directors who were elected by the public shareholders prior to such Change in Control) then with respect to all matters thereafter arising concerning the rights of the Indemnitee to indemnity payments and Expense Advances under the Charter, this Agreement or any other agreement or Company by-law now or hereafter in effect relating to indemnification, the Company shall (unless otherwise agreed by the Indemnitee) seek legal advice exclusively from Independent Counsel selected by the Indemnitee and approved by the Company (which approval shall not be unreasonably withheld). Such counsel, among other things, shall render its written opinion to the Company and to the Indemnitee as to whether the Indemnitee is entitled to be indemnified under this Agreement. The Company agrees to pay the reasonable fees and expenses of the Independent Counsel and fully to indemnify such counsel against any and all expenses (including attorney's fees), claims, liabilities and damages arising out of or relating to this Agreement or such counsel's engagement pursuant hereto.

(b) Following the initial selection of Independent Counsel by the Indemnitee the Company may within seven (7) days deliver to the Indemnitee a written objection to such selection. Such objection may be asserted only on the ground that the Independent Counsel selected does not satisfy the definition of Independent Counsel in subsection 1(c) and the objection shall set forth with particularity the factual basis for such assertion. Absent a proper and timely objection, the person, persons or firm selected shall act as Independent Counsel. If such written objection is made, the Indemnitee may select alternate Independent Counsel. If the Company objects to the alternate selection the Indemnitee may either seek a judicial determination that such objections were inappropriate or else the Indemnitee may direct that the Company select Independent Counsel by lot from among the North Carolina firms having more than 25 attorneys and having a rating of "av" or better in the then current Martindale-Hubbell Law Directory. Such selection by lot shall be made by the principal financial officer of the Company in the presence of the Indemnitee (and the Indemnitee's legal counsel, or either or neither of them as the Indemnitee may elect). Such law firms shall be contacted in the order of their selection, requesting each firm to accept engagement to make the determination required, until one of such firms accepts such engagement. Notwithstanding the foregoing, in lieu of selection of alternate Independent Counsel after the Company has objected to the Indemnitee's first or second selection, the Indemnitee may request and direct that the Independent Counsel method be dispensed with and that any dispute be decided by arbitration as provided in subsection 3(f).

(c) Considering that a fundamental purpose of this Agreement is to provide for and ensure the timely advance of an Indemnitee's Expenses in any event, if there is a Change of Control and the Indemnitee must commence arbitration proceedings to secure an advance of his Expenses, the arbitrators shall have discretion to award punitive damages to the Indemnitee if it is found that the Company's failure to advance the Indemnitee's expenses makes such an award appropriate in the circumstances.

**5. Indemnification for Enforcement Expenses.** The Company shall indemnify the Indemnitee against any and all Expenses (including attorneys' fees) and, if requested by the Indemnitee, shall (within two business days of such request) advance such expenses to the Indemnitee, which are incurred by the Indemnitee in connection with any Proceeding initiated by the Indemnitee for: (i) indemnification or advancement of Expenses by the Company under the North Carolina Business Corporation Act (the "NCBCA"), the Charter, this Agreement, or any other agreement or Company by-law, vote of shareholders or resolution of the Board now or hereafter in effect relating to indemnification; or (ii) recovery under any directors' and officers' liability insurance policies maintained by the Company. The Indemnitee shall cooperate with the person, persons or entity making the determination with respect to the Indemnitee's entitlement to indemnification under this Agreement. Any expenses incurred by the Indemnitee in so cooperating shall be borne by the Company (irrespective of the determination as to the Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold the Indemnitee harmless therefrom.

**6. Success; Partial Indemnity, etc.** Notwithstanding any other provision of this Agreement, to the extent that the Indemnitee has been successful on the merits or otherwise in defense of any or all claims made against him in a Proceeding or in defense of any issue or matter therein, including dismissal without prejudice, the Indemnitee shall be indemnified against all Expenses incurred in connection therewith. If the Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the Expenses, judgments, settlements, penalties or fines paid as a result of a Proceeding but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify the Indemnitee for the portion thereof to which the Indemnitee is entitled.

**7. Burden of Proof.** In connection with any determination by the Reviewing Party or otherwise as to whether the Indemnitee is entitled to be indemnified hereunder, the person or persons or entity or body making such determination shall presume that the Indemnitee is entitled to indemnification under this Agreement and the burden of overcoming such presumption by clear and convincing evidence shall be on the Company. The termination of any claim, action, suit or proceeding by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of *nolo contendere*, or its equivalent, shall not create a presumption that the Indemnitee's activities were at the time taken known or believed by him to be clearly in conflict with



the best interests of the Company, or that a court has determined that indemnification is not permitted. In addition, neither the failure of the Reviewing Party to have made a determination as to the Indemnitee's state of mind, nor an actual determination by the Reviewing Party that the Indemnitee had a state of mind prior to the commencement of arbitration (if applicable) or legal proceedings to secure a determination that the Indemnitee should be indemnified under this agreement and applicable law, shall be a defense to the Indemnitee's claim or create a presumption of any kind. The knowledge and/or actions, or failure to act, of any director, officer, agent, fiduciary or employee of the Company shall not be imputed to the Indemnitee for purposes of determining the right to indemnification under this Agreement.

**8. Nonexclusivity, Etc.** The rights of the Indemnitee hereunder shall be in addition to any other rights the Indemnitee may have under the Charter, the North Carolina Business Corporation Act (the "NCBCA"), any by-law of the Company, any other agreement, a vote of shareholders or a resolution of the Board of Directors or otherwise. To the extent that a change in the NCBCA (whether by statute or judicial decision) permits greater indemnification by agreement than would be afforded currently under the Charter and this Agreement, it is the intent of the parties that the Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change.

**9. Contribution.** In the event the indemnification provided for in Section 3 of this Agreement is unavailable to the Indemnitee in connection with any Proceeding under any Federal law, the Company, in lieu of indemnifying the Indemnitee, shall contribute to the Expenses incurred by the Indemnitee in such proportion as deemed fair and reasonable by the Reviewing Party, in light of all the circumstances of the Proceeding giving rise to such Expenses, in order to reflect (i) the relative benefits received by the Company and the Indemnitee as a result of the event(s) and/or transaction(s) giving rise to such Proceeding, and (ii) the relative fault of each.

**10. Liability Insurance.** To the extent the Company maintains an insurance policy or policies providing directors' and officers' liability insurance, the Indemnitee shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any Company director or officer.

**11. Period of Limitations.** No legal action shall be brought and no cause of action shall be asserted by or in the right of the Company against the Indemnitee, the Indemnitee's spouse, heirs, executors or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, and any claim or cause of action of the Company shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such two-year period; provided, however, that if any shorter period of limitations is otherwise applicable to any such cause of action such shorter period shall govern.

**12. Procedures Valid.** The Company shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Agreement that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement. If a determination is made that the Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration.

**13. Amendments, Etc.** No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

**14. Subrogation.** In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute an appropriate document in favor of the Company to secure such rights.

**15. No Duplication of Payments.** The Company shall not be liable under this Agreement to make any payment in connection with any Proceeding to the extent the Indemnitee has otherwise actually received payment (under any insurance policy, the Charter, Company by-laws or otherwise) of the amounts otherwise indemnifiable hereunder.

**16. Binding Effect, Etc.** This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors, assigns (including any direct or indirect successor by purchase, merger or consolidation or otherwise to all or substantially all of the business and/or assets of the Company), spouses, heirs, executors and personal and legal representatives. This Agreement shall continue in effect regardless of whether Indemnitee continues to serve as a director or corporate officer of the Company or of any other entity at the Company's request. In the event of his demise, this agreement shall be enforceable by the Indemnitee's legal representatives as fully as if the Indemnitee had survived.

**17. Severability; Headings; Pronouns.** The provisions of this Agreement shall be severable in the event that any of the provisions hereof (including any provision within a single section, paragraph or sentence) is held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable in any respect, and the validity and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired and shall remain enforceable to the fullest extent permitted by law. The headings of the Sections of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof. The masculine pronoun wherever used in this Agreement includes the corresponding feminine pronoun.

**18. Notice of Proceedings; Notices.** The Indemnitee agrees promptly to notify the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter which may be subject to indemnification or advancement of Expenses covered hereunder. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given (i) upon delivery if delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, or (ii) on the third business day after mailing if mailed by certified or registered mail with postage prepaid, and addressed as follows: If to the Indemnitee, as shown after the Indemnitee's signature below; and if to the Company, to Corporate Secretary, Rayonier Inc., 1301 Riverplace Boulevard, Jacksonville, FL 32202 or such other address as may have been furnished in writing to the Indemnitee by the Company or to the Company by the Indemnitee, as the case may be.

**19. Governing Law.** This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of North Carolina applicable to contracts made and to be performed in such state without giving effect to the principles of conflicts of laws.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement to be effective as of the day and year first above written.

“Company”  
RAYONIER INC.

By: \_\_\_\_\_

“Indemnitee”

By: \_\_\_\_\_

## RAYONIER INCENTIVE STOCK PLAN

**1. Purpose**

The purpose of the Rayonier Incentive Stock Plan is to attract and retain highly qualified employees and directors and to motivate and reward performance that will lead to sustained increases in shareholder value. The Plan furthers opportunities for share ownership by our employees in order to increase their proprietary interest in Rayonier and, as a result, their interest in our long-term success and their commitment to creating shareholder value.

**2. Definitions**

When used herein, the following terms shall have the indicated meaning:

“Act” means the Securities Exchange Act of 1934.

“Award” means an award granted to any Key Employee in accordance with the provisions of the Plan in the form of Options, Rights, Performance Shares, Restricted Stock or any combination of the foregoing.

“Award Agreement” means the written agreement or document, including electronic communication, evidencing each Award granted to a Key Employee under the Plan.

“Beneficiary” means the estate of a Key Employee or such other beneficiary or beneficiaries lawfully designated pursuant to Section 10 to receive the amount, if any, payable under the Plan upon the death of a Key Employee.

“Board” means the Board of Directors of the Company.

“Change in Control” has the meaning set forth in Section 9(g).

“Code” means the Internal Revenue Code of 1986, as now in effect or as hereafter amended. (All citations to sections of the Code are to such sections as they may from time to time be amended or renumbered.)

“Committee” means the Compensation and Management Development Committee of the Board or such other committee as may be designated by the Board to administer the Plan.

“Company” means Rayonier Inc. and its successors and assigns.

“Effective Date” has the meaning set forth in [Section 17](#).

“Fair Market Value”, unless otherwise indicated in the provisions of this Plan, means, as of any date, the closing price for one share of Stock on the New York Stock Exchange for the most recently completed trading day or, if no sales of Stock have taken place on such date, the closing price on the most recent date on which selling prices were quoted, the determination to be made in the discretion of the Committee.

“GAAP” means U.S. Generally Accepted Accounting Principles.

“Incentive Stock Option” means a stock option qualified under Section 422 of the Code.

“Key Employee” means an employee (including any officer or director who is also an employee) of any Participating Company whose responsibilities and decisions, in the judgment of the Committee, directly affect the performance of the Company and its subsidiaries. References to the term “Key Employees” shall be read to include “Non-employee Directors” in the application of Sections 3, 5, 7, 8, and 9 through 16 of the Plan as the context may require in relationship to Awards to Non-employee Directors hereunder. Except as otherwise may be determined by the Board, a Non-employee Director’s ceasing to be a director of the Company shall be treated in the same manner as a voluntary termination of employment by a Key Employee on such date.

“Non-employee Director” means a member of the Board who is not otherwise an employee of the Company.

“Option” means an Incentive Stock Option or a non-qualified stock option awarded under Section 5 of the Plan.

“Original Plans” means the 2004 Rayonier Incentive Stock and Management Bonus Plan, as subsequently amended and restated prior to the Effective Date.

“Participating Company” means the Company or any subsidiary or other affiliate of the Company; provided, however, for Incentive Stock Options only, “Participating Company” means the Company or any corporation that at the time such Option is granted qualifies as a “subsidiary” of the Company under Section 424(f) of the Code.

“Performance Goals” means or may be expressed in terms of any, but not limited to, of the following business criteria: (i) net income, (ii) earnings per share, (iii) operating income, (iv) operating cash flow, (v) cash available for distribution, (vi) earnings before income taxes and depreciation, (vii) earnings before interest, taxes, depreciation and amortization, (viii) operating margins (ix) reductions in operating expenses, (x) sales or return on sales, (xi) total stockholder return

(xii) return on equity, (xiii) return on total capital, (xiv) return on invested capital, (xv) return on assets, (xvi) economic value added, (xvii) cost reductions and savings, (xviii) increase in surplus, (xix) productivity improvements, and (xx) an executive's attainment of personal objectives with respect to any of the foregoing criteria or other criteria such as growth and profitability, customer satisfaction, leadership effectiveness, business development, negotiating transactions and sales or developing long term business goals. A Performance Goal may be measured over a Performance Period on a periodic, annual, cumulative or average basis and may be established on a corporate-wide basis or established with respect to one or more operating units, divisions, subsidiaries, acquired businesses, minority investments, partnerships or joint ventures. Unless otherwise determined by the Committee, the Performance Goals will be determined using GAAP consistently applied during a Performance Period by no later than the earlier of the date that is ninety days after the commencement of the Performance Period or the day prior to the date on which twenty-five percent of the Performance Period has elapsed.

"Performance Objective" means the level or levels of performance required to be attained with respect to specified Performance Goals in order that a Key Employee shall become entitled to specified rights in connection with a Performance Share. The level or levels of performance specified with respect to a Performance Goal may be established in absolute terms, as objectives relative to performance in prior periods, as an objective compared to the performance of one or more peer companies or an index covering multiple companies, or otherwise as the Committee may determine.

"Performance Period" means the calendar year, or such other shorter or longer period designated by the Committee, during which performance will be measured in order to determine a Key Employee's entitlement to receive payment of a Performance Share.

"Performance Share" means a performance share awarded under Section 6 of the Plan.

"Plan" means this Rayonier Incentive Stock Plan, which amends and restates the Original Plans, as the same may be further amended, administered or interpreted from time to time.

"Plan Year" means the calendar year.

"Retirement" means an employee's separation from service having met the age and service requirements that would have resulted in the employee's being eligible to receive immediate retirement benefits under a Participating Company qualified defined benefit pension plan, but without regard to whether or not such employee participates in such pension plan.

"Restricted Stock" means Stock awarded under Section 7 of the Plan subject to such restrictions as the Committee deems appropriate or desirable.

"Restricted Stock Unit" has the meaning set forth in Section 6 of the Plan.

"Right" means a stock appreciation right awarded in connection with an option under Section 5 of the Plan.

"Share Limit" has the meaning set forth in Section 3.

"Shareholder Approval" shall mean approval of holders of a majority of the shares of Stock represented and voting in person or by proxy at an annual or special meeting of shareholders of the Company where a quorum is present.

"Stock" means the common shares of the Company.

"Total Disability" means the complete and permanent inability of a Key Employee to perform all of his or her duties under the terms of his or her employment with any Participating Company, as determined by the Committee upon the basis of such evidence, including independent medical reports and data, as the Committee deems appropriate or necessary.

"Voting Securities" means any securities of the Company that vote generally in the election of directors.

### **3. Shares Subject to the Plan**

(a) From and after the Effective Date, the total number of shares of Stock that may be issued pursuant to Awards under the Plan shall not exceed 7,241,663, together with any shares of Stock reserved for issuance as Awards under Original Plans programs outstanding on the Effective Date. The shares of Stock may be authorized, but unissued, or reacquired shares of Stock. Subject to Section 3(b), the number of shares available for issuance under the Plan shall be reduced by: (i) 1 share for each share of stock issued pursuant to an Option or a Right granted under Section 5, and (ii) 2.27 shares for each share of Stock issued pursuant to a Performance Share, Restricted Stock Award or Restricted Stock Unit granted under Section 6 and Section 7, respectively. Shares may be issued in connection with a merger or acquisition as permitted by NYSE Listed Company Manual Section 303A.08, and such issuance shall not reduce the number of shares available for issuance under the Plan. No more than 1,000,000 shares of Stock may be cumulatively available for Awards of Incentive Stock Options under the Plan. For any Plan Year, no individual employee may receive an Award of Options, Performance Shares, Restricted Stock or Rights for more than four percent (4%) of the total number of shares authorized under the Plan (with respect to any Key Employee, his or her "Share Limit"). The number of shares available in each category hereunder shall be subject to adjustment as provided in Section 13 in connection with a Stock split, Stock dividend, or other extraordinary transaction affecting the Stock.

(b) Subject to the above limitations, shares of Stock to be issued under the Plan may be made available from the authorized but unissued shares, or from shares purchased in the open market. For the purpose of computing the total number of shares of Stock available for future Awards under the Plan, shares of Stock shall be reserved for issuance under outstanding Performance Shares programs at the maximum award level and counted against the foregoing limitations. If any Awards under the Plan are forfeited, terminated, expire unexercised, are settled in cash in lieu of Stock, are exchanged for other Awards or are released from a reserve for failure to meet the maximum payout under a program, the shares of Stock that were theretofore subject to or reserved for such Awards shall again be available for Awards under the Plan to the extent of such forfeiture, expiration of such Awards or so released from a reserve. To the extent there is issued a share of Common Stock pursuant to a Stock Award that counted as 2.27 shares against the number of shares available for issuance under the Plan pursuant to Section 3(a) and such share of Common Stock again becomes available for issuance under the Plan pursuant to this Section 3(b), then the number of shares of Common Stock available for issuance under the Plan shall increase by 2.27 shares. Any shares that are exchanged (either actually or constructively) by optionees as full or partial payment to the Company of the purchase price of shares being acquired through the exercise of a stock option granted under the Plan will not be available for subsequent Awards. If any shares subject to a Stock Award are not delivered to a Participant because such shares are withheld for the payment of taxes or the Stock Award is exercised through a reduction of shares subject to the Stock Award (*i.e.*, “net exercised”) or an appreciation distribution in respect of a Right is paid in shares of Common Stock, the number of shares subject to the Stock Award that are not delivered to the Participant shall not remain available for subsequent issuance under the Plan. If the exercise price of any Stock Award is satisfied by tendering shares of Common Stock held by the Participant (either by actual delivery or attestation), then the number of shares so tendered shall not remain available for issuance under the Plan.

#### **4. Grant of Awards and Award Agreements**

(a) Subject to the provisions of the Plan, the Committee shall (i) determine and designate from time to time those Key Employees or groups of Key Employees to whom Awards are to be granted; (ii) determine the form or forms of Award to be granted to any Key Employee; (iii) determine the amount or number of shares of Stock subject to each Award, and (iv) determine the terms and conditions of each Award.

(b) The Board shall serve to administer and interpret the Plan with respect to any grants of Awards made to Non-employee Directors. Non-employee Directors shall only be eligible for Stock Options pursuant to Section 5 and/or Restricted Stock under Section 7. Non-employee Directors shall not be entitled to receive any Rights. Any such Awards, and all duties, powers and authority given to the Committee in this Plan, including those provided for in this Section 4, in Section 11 and elsewhere in the Plan, in connection with Awards to Participants shall be deemed to be given to the Board in its sole discretion in connection with Awards to Non-employee Directors. The Board may request of the Committee, its Nominating and Corporate Governance Committee or of any other Board committee comprised of independent directors, its recommendation on the level of Awards for this purpose. Except as may be specifically provided by the Board at the time of grant or in the applicable Award Agreement, the provisions of Sections 9, 14 and 15 shall not apply in respect of Awards made to Non-employee Directors.

(c) Each Award granted under the Plan shall be evidenced by a written Award Agreement. Such agreement shall be subject to and incorporate the express terms and conditions, if any, required under the Plan or required by the Committee, including such covenants and agreements with respect to the subject matter of Sections 14 and 15 as the Committee may determine in its sole discretion.

#### **5. Stock Options and Rights**

(a) With respect to Options and Rights, the Committee shall (i) authorize the granting of Incentive Stock Options, nonqualified stock options, or any combination thereof; (ii) authorize the granting of Rights that may be granted in connection with all or part of any Option granted under this Plan, either concurrently with the grant of the Option or at any time thereafter during the term of the Option; (iii) determine the number of shares of Stock subject to each Option or the number of shares of Stock that shall be used to determine the value of a Right; and (iv) determine the time or times when and the manner in which each Option or Right shall be exercisable and the duration of the exercise period.

(b) Any Option issued hereunder that is intended to qualify as an Incentive Stock Option shall be subject to such limitations or requirements as may be necessary for the purposes of Section 422 of the Code or any regulations and rulings thereunder to the extent and in such form as determined by the Committee in its discretion.

(c) Rights may be granted to any Key Employee or director, in the discretion of the Committee.

(d) The exercise period for Options and any related Rights shall not exceed ten years from the date of grant.

(e) The Option price per share shall be determined by the Committee at the time any Option is granted and shall be not less than the Fair Market Value of one share of Stock on the date the Option is granted.

(f) No part of any Option or Right may be exercised until the Key Employee who has been granted the Award shall have remained in the employ of a Participating Company for such period after the date of grant as the Committee may specify, if any, and the Committee may further require exercisability in installments; provided, however, the period during which a Right is exercisable shall commence no earlier than six months following the date the Option or Right is granted.

(g) The Option purchase price shall be paid to the Company at the time of exercise either in cash or Stock already owned by the optionee, or any combination thereof, having a total Fair Market Value equal to the purchase price. The Committee shall determine acceptable methods for tendering Stock as payment upon exercise of an Option and may impose such limitations and prohibitions on the use of Stock to exercise an Option as it deems appropriate.

(h) Unless Section 9 shall provide otherwise, Rights granted to a director or officer shall terminate when such person ceases to be considered a director or officer of the Company subject to Section 16 of the Act.

(i) In case of termination of employment, the following provisions shall apply:

(A) If a Key Employee who has been granted an Option shall die before such Option has expired, his or her vested Options may be exercised in full by the person or persons to whom the Key Employee's rights under the Option pass by will, or if no such person has such right, by his or her executors or administrators, at any time, or from time to time, in each such case, such heir, executor or administrator may exercise the Option within five years after the date of the Key Employee's death or within such other period, and subject to such terms and conditions as the Committee may specify, but in all events not later than the expiration date specified in Section 5(d) above. Unless the Committee or the Award Agreement shall specify otherwise, unvested Options shall be forfeited as of the date of the Key Employee's death.

(B) If the Key Employee's employment by any Participating Company terminates because of his or her Retirement or Total Disability, he or she may exercise his or her Options in full at any time, or from time to time, within five years after the date of the termination of his or her employment or within such other period, and subject to such terms and conditions as the Committee may specify, but not later than the expiration date specified in Section 5(d) above. Any such Options not fully exercisable immediately prior to such optionee's Retirement shall become fully exercisable upon such Retirement unless the Committee, in its sole discretion, shall otherwise determine.

(C) Except as provided in Section 9, if the Key Employee shall voluntarily resign before eligibility for Retirement or he or she is terminated for cause as determined by the Committee, the Options shall be cancelled coincident with the effective date of the termination of employment.

(D) If the Key Employee's employment terminates for any other reason, he or she may exercise his or her Options, to the extent that he or she shall have been entitled to do so at the date of the termination of his or her employment, at any time, or from time to time, within three months after the date of the termination of his or her employment or within such other period, and subject to such terms and conditions as the Committee may specify, but not later than the expiration date specified in Section 5(d) above.

(j) No Option or Right granted under the Plan shall be transferable other than by will or by the laws of descent and distribution. During the lifetime of the optionee, an Option or Right shall be exercisable only by the Key Employee to whom the Option or Right is granted.

(k) With respect to an Incentive Stock Option, the Committee shall specify such terms and provisions as the Committee may determine to be necessary or desirable in order to qualify such Option as an "incentive stock option" within the meaning of Section 422 of the Code.

(l) With respect to the exercisability and settlement of Rights:

(A) Upon exercise of a Right, the Key Employee shall be entitled, subject to such terms and conditions as the Committee may specify, to receive upon exercise thereof all or a portion of the excess of (i) the Fair Market Value of a specified number of shares of Stock at the time of exercise, as determined by the Committee, over (ii) a specified amount that shall not, subject to Section 5(e), be less than the Fair Market Value of such specified number of shares of Stock at the time the Right is granted. Upon exercise of a Right, payment of such excess shall be made by the issuance or transfer to the Key Employee of whole shares of Stock with a Fair Market Value at such time equal to any excess, all as determined by the Committee. The Company will not issue a fractional share of Stock and, if a fractional share would otherwise be issuable, the Company shall pay cash equal to the Fair Market Value of the fractional share of Stock at such time.

(B) In the event of the exercise of such Right, the Company's obligation in respect of any related Option or such portion thereof will be discharged by payment of the Right so exercised.

## 6. Performance Shares

(a) Subject to the provisions of the Plan, the Committee shall (i) determine and designate from time to time those Key Employees or groups of Key Employees to whom Awards of Performance Shares are to be made, (ii) determine the Performance Period and Performance Objectives applicable to such Awards, (iii) determine the form of settlement of a Performance Share and (iv) generally determine the terms and conditions of each such Award. At any date, each Performance Share shall have a value equal to the Fair Market Value of a share of Stock at such date; provided that the Committee may limit the aggregate amount payable upon the settlement of any Award.

(b) The Committee shall determine a Performance Period of not less than two nor more than five years with respect to the award of Performance Shares. Performance Periods may overlap and Key Employees may participate simultaneously with respect to Performance Shares for which different Performance Periods are prescribed.

(c) The Committee shall determine the Performance Objectives of Awards of Performance Shares. Performance Objectives may vary from Key Employee to Key Employee and between groups of Key Employees and shall be based upon such Performance Goals as the Committee may deem appropriate. The Performance Objective shall be established by the Committee prior to, or reasonably promptly following the inception of, a Performance Period but, to the extent required by Section 162(m) of the Code, by no later than the earlier of the date that is ninety days after the commencement of the Performance Period or the day prior to the date on which twenty-five percent of the Performance Period has elapsed.

(d) Following the completion of each Performance Period, the Committee shall certify in writing, in accordance with the requirements of Section 162(m) of the Code to the extent applicable, whether the Performance Objective and other material terms for paying amounts in respect of each Performance Share Award related to that Performance Period have been achieved or met. Unless the Committee determines otherwise, Performance Share Awards shall not be settled until the Committee has made the certification specified under this Section 6(d).

(e) The Committee is authorized at any time during or after a Performance Period to reduce or eliminate the Performance Share Award of any Key Employee for any reason, including, without limitation, changes in the position or duties of any Key Employee with the Participating Company during or after a Performance Period, whether due to any termination of employment (including death, disability, retirement, voluntary termination or termination with or without cause) or otherwise. In addition, to the extent necessary to preserve the intended economic effects of the Plan to the Participating Company and the Key Employee, the Committee shall adjust Performance Objectives, the Performance Share Awards or both to take into account: (i) a change in corporate capitalization, (ii) a corporate transaction, such as any merger of the Company or any subsidiary into another corporation, any consolidation of the Company or any subsidiary into another corporation, any separation of the Company or any subsidiary (including a spin-off or the distribution of stock or property of the Company or any subsidiary), any reorganization of the Company or any subsidiary or a large, special and non-recurring dividend paid or distributed by the Company (whether or not such reorganization comes within the definition of Section 368 of the Code), (iii) any partial or complete liquidation of the Company or any subsidiary or (iv) a change in accounting or other relevant rules or regulations (any adjustment pursuant to this Clause (iv) shall be subject to the timing requirements of the last sentence of the definition of Performance Goal set forth in Section 2 of the Plan); provided, however, that no adjustment hereunder shall be authorized or made if and to the extent that the Committee determines that such authority or the making of such adjustment would cause the Performance Bonus Awards to fail to qualify as "qualified performance-based compensation" under Section 162(m) of the Code with respect to a particular Key Employee.

(f) At the beginning of a Performance Period, the Committee shall determine for each Key Employee or group of Key Employees the number of Performance Shares or the percentage of Performance Shares that shall be paid to the Key Employee or member of the group of Key Employees if Performance Objectives are met in whole or in part.

(g) If a Key Employee terminates service with all Participating Companies during a Performance Period because of death, Total Disability, Retirement, or under other circumstances where the Committee in its sole discretion finds that a waiver would be in the best interests of the Company, that Key Employee may, as determined by the Committee, be entitled to an Award of Performance Shares at the end of the Performance Period based upon the extent to which the Performance Objectives were satisfied at the end of such period, which Award, in the discretion of the Committee, may be maintained without change or reduced and prorated for the portion of the Performance Period during which the Key Employee was employed by any Participating Company; provided, however, the Committee may provide for an earlier payment in settlement of such Performance Shares in such amount and under such terms and conditions as the Committee deems appropriate or desirable, but only to the extent consistent with the requirements of Section 162(m) of the Code to the extent applicable in respect of such Key Employee. If a Key Employee terminates service with all Participating Companies during a Performance Period for any other reason, then such Key Employee shall not be entitled to any Award with respect to that Performance Period unless the Committee shall otherwise determine.

(h) Each Award of a Performance Share shall be paid in whole shares of Stock, with payment to commence as soon as practicable after the end of the relevant Performance Period but no earlier than following the determination made in Section 6(d) hereof. To the extent provided at the beginning of a Performance Period and in the applicable Award Agreement, the Award may be individual dividends deemed invested in additional shares of stock. Subject to the terms of the applicable program, the Award may also be paid in shares of Stock or Restricted Stock.

(i) A Key Employee shall not be granted Performance Shares for all of the Performance Periods commencing in the same calendar year that permit the Key Employee to earn Stock covering more than the Share Limit in respect of such Key Employee. In addition, separate and apart from the limit in the previous sentence, with respect to Performance Share Awards to be settled in cash, a Key Employee shall not be granted Performance Share Awards for all of the Performance Periods commencing in a calendar year that permit the Key Employee in the aggregate to earn a cash payment in excess of the Fair Market Value of the Share Limit as of the first day of the first Performance Period commencing in such calendar year.

(j) Performance Share Awards may be structured in the form of Restricted Stock Units or any substantially similar instrument evidencing the right to receive a share of Stock at some future date upon the lapse of the applicable restrictions established by the Committee or upon the satisfaction of any applicable Performance Goals established by the Committee hereunder. To the extent provided for by the Committee, the rules of Section 7 shall apply to Restricted Stock Units.

## **7. Restricted Stock**

(a) Restricted Stock shall be subject to a restriction period (after which restrictions will lapse), which shall mean a period commencing on the date the Award is granted and ending on such date as the Committee shall determine (the "Restriction Period"). The Committee may provide for the lapse of restrictions in installments where deemed appropriate.

(b) Except when the Committee determines otherwise pursuant to Section 7(d), if a Key Employee terminates employment with all Participating Companies for any reason before the expiration of the Restriction Period, all shares of Restricted Stock still subject to restriction shall be forfeited by the Key Employee and shall be reacquired by the Company.

(c) Except as otherwise provided in this Section 7, no shares of Restricted Stock received by a Key Employee shall be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of during the Restriction Period.

(d) In cases of death, Total Disability or Retirement or in cases of special circumstances, the Committee may, in its sole discretion when it finds that a waiver would be in the best interests of the Company, elect to waive any or all remaining restrictions with respect to such Key Employee's Restricted Stock.

(e) The Committee may require, under such terms and conditions as it deems appropriate or desirable, that the certificates for Stock delivered under the Plan may be held in custody by a bank or other institution, or that the Company may itself hold such shares in custody until the Restriction Period expires or until restrictions thereon otherwise lapse, and may require, as a condition of any Award of Restricted Stock that the Key Employee shall have delivered a stock power endorsed in blank relating to the Restricted Stock.

(f) Nothing in this Section 7 shall preclude a Key Employee from exchanging any shares of Restricted Stock subject to the restrictions contained herein for any other shares of Stock that are similarly restricted.

(g) Subject to Section 7(e) and Section 8, each Key Employee entitled to receive Restricted Stock under the Plan shall be issued a certificate for the shares of Stock. Such certificate shall be registered in the name of the Key Employee, and shall bear an appropriate legend reciting the terms, conditions and restrictions, if any, applicable to such Award and shall be subject to appropriate stop-transfer orders.

## **8. Certificates for Awards of Stock**

(a) The Company shall not be required to issue or deliver any certificates for shares of Stock prior to (i) the listing of such shares on any stock exchange on which the Stock may then be listed and (ii) the completion of any registration or qualification of such shares under any federal or state law, or any ruling or regulation of any government body that the Company shall, in its sole discretion, determine to be necessary or advisable.

(b) All certificates for shares of Stock delivered under the Plan shall be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Stock is then listed and any applicable federal or state securities laws, and the Committee may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions. The foregoing provisions of this Section 8(b) shall not be effective if and to the extent that the shares of Stock delivered under the Plan are covered by an effective and current registration statement under the Securities Act of 1933, or if and so long



as the Committee determines that application of such provisions is no longer required or desirable. In making such determination, the Committee may rely upon an opinion of counsel for the Company. The rules applicable to certificates hereunder shall apply equally to noncertificated shares of Stock held pursuant to any electronic, book entry or other means or record of ownership and transfer.

(c) Except for the restrictions on Restricted Stock under Section 7, each Key Employee who receives Stock in settlement of an Award of Stock, shall have all of the rights of a shareholder with respect to such shares, including the right to vote the shares and receive dividends and other distributions. No Key Employee awarded an Option, a Right or Performance Share shall have any right as a shareholder with respect to any shares covered by his or her Option, Right or Performance Share prior to the date of issuance to him or her of a certificate or certificates for such shares.

## **9. Change in Control**

Notwithstanding any provisions in this Plan to the contrary:

(a) Each outstanding Option granted under the Plan shall become immediately exercisable in full for the aggregate number of shares covered thereby and all related Rights shall also become exercisable upon the occurrence of a Change in Control and shall continue to be exercisable in full for a period of 60 calendar days beginning on the date that such Change in Control occurs and ending on the 60<sup>th</sup> calendar day following that date; provided, however, that no Option or Right shall be exercisable beyond the expiration date of its original term.

(b) Options and Rights shall not terminate and shall continue to be fully exercisable for a period of seven months following the occurrence of a Change in Control in the case of an employee who is terminated other than for just cause or who voluntarily terminates his or her employment because he or she in good faith believes that as a result of such Change in Control he or she is unable effectively to discharge the duties of the position he or she occupied just prior to the occurrence of such Change in Control. For purposes of Section 9 only, termination shall be for "just cause" only if such termination is based on fraud, misappropriation or embezzlement on the part of the employee that results in a final conviction of a felony. Under no circumstances, however, shall any Option or Right be exercised beyond the expiration date of its original term.

(c) The restrictions applicable to Awards of Restricted Stock issued pursuant to Section 7 shall lapse upon the occurrence of a Change in Control and the Company shall issue stock certificates without a restrictive legend.

(d) Subject to any change or interpretation of the Committee under Section 16(f), if a Change in Control occurs during the course of a Performance Period applicable to an Award of Performance Shares pursuant to Section 6, then the Key Employee shall be deemed to have satisfied the Performance Objectives.

(e) For purposes of this Plan, "Change in Control" means the occurrence of any one or more of the following events:

- (i) subject to the conditions contained in the final paragraph of this definition, the filing of a report on Schedule 13D with the Securities and Exchange Commission pursuant to Section 13(d) of the Securities Exchange Act of 1934 (the "Act") disclosing that any person, other than the Company or any employee benefit plan sponsored by the Company, is the beneficial owner (as the term is defined in Rule 13d-3 under the Act) directly or indirectly, of securities representing 20 percent or more of the total voting power represented by the Company's then outstanding Voting Securities (calculated as provided in paragraph (d) of Rule 13d-3 under the Act in the case of rights to acquire Voting Securities); or
- (ii) the purchase by any person, other than the Company or any employee benefit plan sponsored by the Company, of shares pursuant to a tender offer or exchange offer to acquire any Voting Securities of the Company (or securities convertible into such Voting Securities) for cash, securities, or any other consideration, provided that after consummation of the offer, the person in question is the beneficial owner, directly or indirectly, of securities representing 20 percent or more of the total voting power represented by the Company's then outstanding Voting Securities (all as calculated under clause (i)); or
- (iii) the approval by the shareholders of the Company, and the subsequent occurrence, of (A) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation (other than a merger of the Company in which holders of Common Shares of the Company immediately prior to the merger have the same proportionate ownership of Common Shares of the surviving corporation immediately after the merger as immediately before), or pursuant to which Common Shares of the Company would be converted into cash, securities, or other property, or (B) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Company; or
- (iv) a change in the composition of the Board of the Company at any time during any consecutive 24-month period such that "continuing directors" cease for any reason to constitute at least a 70 percent majority of the Board.

For purposes of this definition of “Change in Control,” the term “Voting Securities” means any securities of the Company that vote generally in the election of members of the Board and the term “continuing directors” means those members of the Board who either were directors at the beginning of a consecutive 24-month period or were elected during such period by or on the nomination or recommendation of at least a 70 percent majority of the then-existing Board. So long as there has not been a Change in Control within the meaning of clause (iv) above, the Board may adopt by a 70 percent majority vote of the “continuing directors” a resolution to the effect that the occurrence of an event described in clause (i) (a “Clause (i) Event”) does not constitute a “Change in Control” (an “Excluding Resolution”) or a resolution to the effect that the occurrence of a Clause (i) Event does constitute a “Change in Control” (an “Including Resolution”). The adoption of an Excluding Resolution with respect to any Clause (i) Event shall not deprive the Board of the right to adopt an Including Resolution with respect to such Clause (i) Event at a later date. A Clause (i) Event shall not in and of itself constitute a “Change in Control” until the earlier of (x) the effective date of an Including Resolution with respect thereto or (y) the passage of a period of 30 calendar days after the occurrence thereof without an Excluding Resolution having been adopted with respect thereto; notwithstanding the adoption of an Excluding Resolution within the 30-day period referred to in (y), an Including Resolution may subsequently be adopted with respect to the relevant Clause (i) Event while it continues to exist, in which event a “Change in Control” shall be deemed to have occurred for purposes of this definition upon the effective date of such Including Resolution. The provisions of this paragraph of the definition of “Change in Control” relate only to situations where a Clause (i) Event has occurred and no Change in Control within the meaning of clause (ii), (iii), or (iv) of the preceding paragraph has occurred, and nothing in this paragraph shall derogate from the principle that the occurrence of an event described in clause (ii), (iii), or (iv) of the preceding paragraph shall be deemed an immediate Change in Control regardless of whether or not a Clause (i) Event has occurred and an Excluding Resolution or Including Resolution become effective.

## **10. Beneficiary**

The Beneficiary of a Key Employee shall be the Key Employee’s estate, which shall be entitled to receive the Award, if any, payable under the Plan upon his or her death. A Key Employee may file with the Company a written designation of one or more persons as a Beneficiary in lieu of his or her estate, who shall be entitled to receive the Award, if any, payable under the Plan upon his or her death, subject to the enforceability of the designation under applicable law at that time. A Key Employee may from time-to-time revoke or change his or her Beneficiary designation, with or without the consent of any prior Beneficiary as required by applicable law, by filing a new designation with the Company. Subject to the foregoing, the last such designation received by the Company shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Company prior to the Key Employee’s death, and in no event shall it be effective as of a date prior to such receipt. If the Committee is in doubt as to the right of any person to receive such Award, the Company may retain such Award, without liability for any interest thereon, until the Committee determines the rights thereto, or the Company may pay such Award into any court of appropriate jurisdiction and such payment shall be a complete discharge of the liability of the Company therefore.

## **11. Administration of the Plan**

(a) Each member of the Committee shall be both a member of the Board, a “non-employee director” within the meaning of Rule 16b-3(b)(3)(i) under the Act or successor rule or regulation and an “outside director “ within the meaning of Section 162(m) of the Code.

(b) All decisions, determinations or actions of the Committee made or taken pursuant to grants of authority under the Plan shall be made or taken in the sole discretion of the Committee and shall be final, conclusive and binding on all persons for all purposes.

(c) The Committee shall have full power, discretion and authority to interpret, construe and administer the Plan and any part thereof, and its interpretations and constructions thereof and actions taken thereunder shall be, except as otherwise determined by the Board, final, conclusive and binding on all persons for all purposes.

(d) The Committee’s decisions and determinations under the Plan need not be uniform and may be made selectively among Key Employees, whether or not such Key Employees are similarly situated.

(e) The Committee may, in its sole discretion, delegate such of its powers as it deems appropriate; provided, however, that the Committee may not delegate its responsibility (i) to make Awards to executive officers of the Company; (ii) to make Awards that are intended to constitute “qualified performance-based compensation” under Section 162(m) of the Code; or (iii) to certify the satisfaction of Performance Objectives pursuant to Section 6(d) or in accordance with Section 162(m) of the Code. The Committee may also appoint agents to assist in the day-to-day administration of the Plan and may delegate the authority to execute documents under the Plan to one or more members of the Committee or to one or more officers of the Company.

(f) If a Change in Control has not occurred and if the Committee determines that a Key Employee has taken action inimical to the best interests of any Participating Company, the Committee may, in its sole discretion, terminate in whole or in part such portion of any Option (including any related Right) as has not yet become exercisable at the time of termination, terminate any

Performance Share Award for which the Performance Period has not been completed or terminate any Award of Restricted Stock for which the Restriction Period has not lapsed.

## **12. Amendment, Extension or Termination**

The Board may, at any time, amend or terminate the Plan and, specifically, may make such modifications to the Plan as it deems necessary to avoid the application of Section 162(m) of the Code and the Treasury regulations issued thereunder. However, no amendment shall, without approval by a majority of the Company's stockholders, (a) alter the group of persons eligible to participate in the Plan, (b) except as provided in Section 13 increase the maximum number of shares of Stock that are available for Awards under the Plan, or (c) except for adjustments pursuant to Section 13 or as otherwise provided for in the Plan, decrease the Option price for any outstanding Option or Right after the date the Option or Right is granted, or cancel or accept the surrender of any outstanding Option or Right at a time when its exercise price exceeds the fair market value of the underlying Stock, in exchange for another Award, cash or other property or the grant of a new Option or Right with a lower price than the Option or Right being surrendered. If a Change in Control has occurred, no amendment or termination shall impair the rights of any person with respect to a prior Award.

## **13. Adjustments in Event of Change in Common Stock**

In the event of any recapitalization, reclassification, split-up or consolidation of shares of Stock or stock dividend, merger or consolidation of the Company or sale by the Company of all or a portion of its assets, the Committee shall make such adjustments in the Stock subject to Awards, including Stock subject to purchase by an Option, or the terms, conditions or restrictions on Stock or Awards, including the price payable upon the exercise of such Option, as the Committee deems equitable; provided however, that in the event of a stock split, stock dividend or consolidation of shares, the number of shares subject to an outstanding Option and the exercise price thereof, and the number of outstanding Performance Shares, shall be proportionately adjusted to reflect such action. With respect to Awards intended to qualify as "performance-based compensation" under Section 162(m) of the Code, such adjustments shall be made only to the extent that the Committee determines that such adjustments may be made without a loss of deductibility for such Awards under Section 162(m) of the Code.

## **14. Forfeiture of Gains on Exercise**

Except following a Change in Control, if the Key Employee terminates employment in breach of any covenants and conditions subsequent set forth in Section 15 and becomes employed by a competitor of the Company within one year after the date of exercise of any Option or the receipt of any Award, the Key Employee shall pay to the Company an amount equal to any gain from the exercise of the Option or the value of the Award other than Options, in each case measured by the amount reported as taxable compensation to the Key Employee by the Company for federal income tax purposes and in the case of Options that are incentive stock options, in an amount equal to the amount that would have been reported as taxable income were such Options not incentive stock options, and in each case without regard to any subsequent fluctuation in the market price of the shares of common stock of the Company. Any such amount due hereunder shall be paid by the Key Employee within thirty days of becoming employed by a competitor. By accepting an Option or other Award hereunder, the Key Employee is authorizing the Company to withhold, to the extent permitted by law, the amount owed to the Company hereunder from any amounts that the Company may owe to the Key Employee in any capacity whatsoever.

## **15. Conditions Subsequent**

Except after a Change in Control, the exercise of any Option or Right and the receipt of any Award shall be subject to the satisfaction of the following conditions subsequent: (i) that Key Employee refrain from engaging in any activity that in the opinion of the Committee is competitive with any activity of the Company or any Subsidiary, excluding any activity undertaken upon the written approval or request of the Company, (ii) that Key Employee refrain from otherwise acting in a manner inimical or in any way contrary to the best interests of the Company, and (iii) that the Key Employee furnish the Company such information with respect to the satisfaction of the foregoing conditions subsequent as the Committee shall reasonably request. In addition, except as may otherwise be excused by action of the Committee, the Key Employee by the exercise of the Option or the receipt of the Award agrees to remain in the employ of the Company, unless earlier terminated by the Company or by the Key Employee by reason of his or her death, disability or retirement.

## **16. Miscellaneous**

(a) Except as provided in Section 9, nothing in this Plan or any Award granted hereunder shall confer upon any employee any right to continue in the employ of any Participating Company or interfere in any way with the right of any Participating Company to terminate his or her employment at any time. No Award payable under the Plan shall be deemed salary or compensation for the purpose of computing benefits under any employee benefit plan or other arrangement of any Participating Company for the benefit of its employees unless the Company shall determine otherwise. No Key Employee shall have any claim to an Award

until it is actually granted under the Plan. To the extent that any person acquires a right to receive payments from the Company under this Plan, such right shall be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder shall be paid from the general funds of the Company and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts except as provided in Section 7(e) with respect to Restricted Stock.

(b) The Committee may cause to be made, as a condition precedent to the payment of any Award, or otherwise, appropriate arrangements with the Key Employee or his or her Beneficiary, for the withholding of any federal, state, local or foreign taxes.

(c) The Plan and the grant of Awards shall be subject to all applicable federal and state laws, rules, and regulations and to such approvals by any government or regulatory agency as may be required.

(d) The terms of the Plan shall be binding upon the Company and its successors and assigns.

(e) Captions preceding the sections hereof are inserted solely as a matter of convenience and in no way define or limit the scope or intent of any provision hereof.

(f) To the extent Awards issued under the Plan are intended to be exempt from the application of Section 162(m) of the Code, which restricts under certain circumstances the Federal income tax deduction for compensation paid by a public company to named executives in excess of \$1 million per year, the Committee may, without stockholder approval, amend the Plan retroactively or prospectively to the extent it determines necessary in order to comply with any subsequent clarification of Section 162(m) of the Code required to preserve the Company's Federal income tax deduction for compensation paid pursuant to the Plan.

(g) To the extent applicable, the Plan is intended to be compliant with the requirements of Section 409A of the Code, and the Plan and Award Agreements shall be interpreted and administered accordingly, though no guarantee or warranty of such compliance is made to any individual.

#### **17. Effective Date, Term of Plan and Shareholder Approval**

This Plan, which amends and restates the Original Plans, shall become effective upon Shareholder Approval on May 17, 2012 (the "Effective Date"). The Plan will continue in effect for existing Awards as long as any such Award is outstanding. Unless the Company determines otherwise, Section 6 of the Plan and the definition of "Performance Goal" shall be submitted to the Company's stockholders for Shareholder Approval at the first stockholder meeting that occurs in the fifth year following the year in which the Plan was last approved by stockholders (or any earlier meeting designated by the Board), or at such other time as may be required by Section 162(m) of the Code, and in accordance with the requirements thereof.

## Rayonier

**2014 Performance Share Award Program**

The number of shares to which a participant could become entitled under the 2014 Performance Share Award Program (the “Program”) can range from 0% to a maximum of 200% of the Target Award depending on Rayonier’s total shareholder return (“TSR”) performance for the Performance Period of July 1, 2014 through December 31, 2016, as compared to the TSR performance of the designated peer group companies for the same period. There will be no payout if results fall below the 30<sup>th</sup> percentile performance threshold.

- TSR is defined as stock price appreciation plus the reinvestment of dividends on a quarterly basis. For purposes of performance measurement, TSR shall be the final reported figure as may be adjusted by the Committee for unusual items to avoid distortion in the operation of the Program.
- TSR over the performance period will be calculated by measuring the value of a hypothetical \$100 investment in Rayonier shares as compared to an equal investment in each of the peer group companies.
- TSR calculations of stock price appreciation will be the average of the closing prices of Rayonier common shares and that of each of the peer group companies for the first 20 trading dates and last 20 trading dates of the Performance Period.

The final number of shares in an Award will be determined as follows:

- The TSR performance of Rayonier and the peer group companies will be calculated and Rayonier’s relative performance, on a percentile basis, is determined.
- The payout percentage of Target Award based on Rayonier’s percentile TSR performance against the peer group companies will be calculated per the following table:

| <b>Percentile Rank</b>              | <b>Award (Expressed As Percent of Target Award)</b>  |
|-------------------------------------|--|
| 80 <sup>th</sup> and Above          | 200%   |
| 51 <sup>st</sup> -79 <sup>th</sup>  | 100%, plus 3.33% for each incremental percentile position over the 50 <sup>th</sup> percentile |
| 50 <sup>th</sup>                    | 100%   |
| 31 <sup>st</sup> - 49 <sup>th</sup> | 30%, plus 3.5% for each incremental percentile position over the 30 <sup>th</sup> percentile   |
| 30 <sup>th</sup>                    | 30%  |
| Below 30 <sup>th</sup>              | 0%   |

- The payout percentage may not exceed 100% of target awards if Rayonier’s TSR for the Performance Period is negative.
- Payment, if any, is to be made in Rayonier Common Shares, and may be offset, to the extent allowed under applicable regulations, by the number of shares equal in value to the amount needed to cover associated tax liabilities.
- Dividend equivalents and interest will be paid in cash on the number of Rayonier Common Shares earned under the Program.
- Dividends equivalents and interest will be calculated by taking the dividends paid on one share of Rayonier Common Stock during the performance period times the number of shares awarded at the end of the period. Interest on such dividends will be earned at a rate equal to the prime rate as reported in the Wall Street Journal, adjusted and compounded annually, from the date such cash dividends were paid by the Company.
- Awards will be valued on January 14 following the end of the performance period. If January 14 falls on a non-trading day, awards will be valued on the next trading day. Awards, including dividends and interest, will be distributed to participants as soon as practicable following the valuation date.
- Target awards will be prorated in cases of retirement, death, or disability in accordance with Plan provisions.

**2014 Performance Share Award Program - Peer Group**  
**(July 1, 2014 - December 31, 2016)**

**Custom Peer Group (Weighted 50%)**

- Catchmark Timber Trust
- Deltic Timber
- Forestar
- Potlatch Corporation
- Plum Creek
- Pope Resources
- St. Joe Company
- Weyerhaeuser

**Companies that comprise the S&P Midcap 400 Index (Weighted 25%)**

**Companies that comprise the S&P Midcap 400 REIT Index (Weighted 25%)**

Human Resources  
July 2014

DEED OF AMENDMENT AND RESTATEMENT OF SHAREHOLDER AGREEMENT

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RAYONIER CANTERBURY LLC

WAIMARIE FORESTS PTY LIMITED

MATARIKI FORESTRY GROUP

MATARIKI FORESTS

PHAUNOS TIMBER FUND LIMITED

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DEED dated April 22nd 2014

## PARTIES

- A. **RAYONIER canterbury LLC**, a limited liability company incorporated in Delaware (**RCL**);
- B. **WAIMARIE FORESTS PTY LIMITED** a limited liability company incorporated in Australia having its registered office at c/- Grant Thornton, Level 17, 383 Kent Street, Sydney NSW 2000, Australia (**WFL**);
- C. **matariki forestry group**, an unlimited liability company incorporated in New Zealand having its registered office at Level 5, 32 - 34 Mahuhu Crescent, Auckland 1010, New Zealand (**MFG**);
- D. **Matariki Forests**, an unlimited liability company incorporated in New Zealand having its registered office at Level 5, 32 - 34 Mahuhu Crescent, Auckland 1010, New Zealand (**MF**); and
- E. **PHAUNOS TIMBER FUND LIMITED** a limited liability company incorporated in Guernsey having its registered office at Arnold House, St Julian's Avenue, St Peter Port, Guernsey GY1 2PF (**Phaunos**).

## INTRODUCTION

The parties wish to amend the Shareholder Agreement in relation to Matariki Forestry Group and Matariki Forests (originally entered into on 15 July 2005, amended and restated on each of 29 September 2005, 24 April 2006, 10 January 2008 and 19 February 2010) (**Shareholder Agreement**) on the terms set out in this deed.

## COVENANTS

1. **Amendment and Restatement:** With effect from the date of this deed:
  - (a) the Shareholders Agreement is amended and restated in the form set out in the schedule to this deed (**Amended Form**); and
  - (b) references in the Shareholders Agreement to 'this agreement' shall be references to the Shareholders Agreement as amended and restated by this deed.
2. **Counterparts:** This deed may be executed in any number of counterparts (including facsimile copies) and provided that every party has executed a counterpart, the counterparts together shall constitute a binding and enforceable deed.
3. **Further assurance:** Each party shall make all applications, execute all documents and do all acts and things necessary to implement and to carry out its obligations under this deed.
4. **Amendment:** No amendment to this deed will be effective unless it is in writing and signed by each party.
5. **Assignment:** No party will assign or otherwise transfer any of its rights or obligations under this deed to any other person.
6. **Governing law:** This deed is governed by and is to be construed in accordance with New Zealand law.



**SIGNED by RAYONIER CANTERBURY LLC by:**

/S/ NANCY LYNN WILSON

Signature of officer

Nancy Lynn Wilson

Name of officer

/S/ PAUL NICHOLLS

Signature of officer

Paul Nicholls

Name of officer

**SIGNED by WAIMARIE FORESTS PTY LIMITED by:**

/S/ HENRY L. WHITTEMORE

Signature of director

Henry L. Whittemore

Name of director

Signature of director

Name of director

**SIGNED by MATARIKI FORESTRY GROUP by:**

/S/ JOHN J. KUBLBOCK

Signature of director

John J. Kublbock

Name of director

/S/ PAUL NICHOLLS

Signature of director

Paul Nicholls

Name of director

**SIGNED by MATARIKI FORESTS by:**

/S/ JOHN J. KUBLBOCK

Signature of director

John J. Kublbock

Name of director

/S/ PAUL NICHOLLS

Signature of director

Paul Nicholls

Name of director

**SIGNED** by **PHAUNOS TIMBER FUND LIMITED** by:

/S/ HENRY L. WHITTEMORE

Signature of director

Henry L. Whittemore

Name of director

Signature of director

Name of director

**SCHEDULE**

**AMENDED FORM OF SHAREHOLDERS AGREEMENT**

**CONTENTS**

|     | <b>CLAUSE</b>                                       | <b>PAGE</b> |
|-----|---|-------------|
| 1.  | DEFINITIONS AND INTERPRETATION                      | 1           |
| 2.  | GOVERNANCE  | 4           |
| 3.  | DEALING IN SHARES IN MFG                            | 4           |
| 4.  | ISSUE OF SHARES IN MFG                              | 7           |
| 5.  | FURTHER PROVISIONS REGARDING DEALING IN SHARES      | 9           |
| 6.  | WARRANTIES  | 10          |
| 7.  | COMPLIANCE WITH THIS AGREEMENT AND THE CONSTITUTION | 10          |
| 8.  | DEFAULT IN RELATION TO MFG                          | 11          |
| 9.  | PHAUNOS DISSOLUTION                                 | 12          |
| 10. | LIQUIDATION   | 13          |
| 11. | DETERMINING NET ASSET VALUE                         | 13          |
| 12. | GENERAL   | 14          |

**SCHEDULES**

SCHEDULE ONE SHAREHOLDER DETAILS

SCHEDULE TWO GOVERNANCE OF MFG AND ITS SUBSIDIARIES

SCHEDULE THREE ADDRESS DETAILS OF THE PARTIES

This **AGREEMENT** was originally entered into on 15 July 2005, amended and restated on each of 29 September 2005, 24 April 2006, 10 January 2008 and 19 February 2010.

## **PARTIES**

1. **RAYONIER CANTERBURY LLC**, a limited liability company incorporated in Delaware (**RCL**);
2. **WAIMARIE FORESTS PTY LIMITED**, a limited liability company incorporated in Australia having its registered address at/- Grant Thornton, Level 17, 383 Kent Street, Sydney NSW 2000, Australia (**WFL**);
3. **MATARIKI FORESTRY GROUP**, an unlimited liability company incorporated in New Zealand having its registered office at Level 5, 32-34 Mahuhu Crescent, Auckland, New Zealand (**MFG**);
4. **MATARIKI FORESTS**, an unlimited liability company incorporated in New Zealand having its registered office at 32-34 Mahuhu Crescent, Auckland, New Zealand (**MF**); and
5. **PHAUNOS TIMBER FUND LIMITED**, a limited liability company incorporated in Guernsey having its registered office at LEGIS, 11 New Street, Saint Peter Port, Guernsey GY1 2BT (**Phaunos**).

## **BACKGROUND**

- A. RCL and WFL are the shareholders of MFG. MFG is the holding company for the Matariki forestry group of companies. MF, a wholly owned subsidiary of MFG, holds the assets comprising the Matariki forest estate (Matariki Estate). Rayonier Inc has invested in MFG through RCL, its wholly owned subsidiary. Phaunos has invested in MFG through its wholly owned subsidiary, WFL.
- B. The parties wish to enter into this shareholder agreement to record their respective rights and obligations in relation to MFG and MF.

## **THIS AGREEMENT RECORDS THAT:**

### **1. DEFINITIONS AND INTERPRETATION**

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#### **1.1 Definitions:** In this agreement, unless the context indicates otherwise:

**Acceptance Notice** has the meaning given to that term in clause 3.5;

**Acquisition Notice** has the meaning given to that term in clause 3.4;

**Acquisition Price** has the meaning given to that term in clause 3.4;

**Appointing Party** has the meaning given to that term in clause 1.1 of Schedule 2;

**Business Day** means any day (other than a Saturday) when banks in Auckland, New Zealand are open for the transaction of normal business;

**Board** has the meaning given to that term in clause 1.1 of Schedule 2;

**Class** means a class of MFG Shares having attached to them identical rights, privileges, limitations and conditions;

**Companies Act** means the Companies Act 1993 (New Zealand);

**Company** means MFG, MF or any other subsidiary of MFG, as the case may be;

**Constitution** means the constitution of the Company from time to time;

**Consultant** means Rayonier TRS Holdings Inc. in its capacity as consultant to MFG under a Consultancy Agreement dated on or about the date of this deed, or any other consultant MFG may appoint from time to time in connection with managing the Matariki Estate.

**Corporations Act** means the Corporations Act 2001 (Australia);

**Debt Commitment** means, in relation to RCL or Phaunos, that party's Commitment under, and as defined in, the Investor Loan Facility;

**Defaulting MFG Shareholder** has the meaning set out in clause 8.1;

**Direct Subsidiary** has the meaning given to it in clause 1.1 of Schedule 2;

**Disclosing Party** has the meaning given to that term in clause 12.5;

**Dispute Notice** has the meaning given to that term in clause 9.3(a);

**Event of Default** has the meaning given to that term in clause 8.1;

**Expert** has the meaning given to that term in clause 9.3(a);

**Independent Valuer** has the meaning given to that term in clause 11.1;

**Investor Loan Facility** means the investor loan facility agreement relating to an investor loan made to MF originally dated 29 September 2005, as amended and restated on 19 February 2010, amended on 3 February 2011 and amended on 25 April 2013;

**Matariki Estate** has the meaning given to that term in the background to this agreement.

**MF Constitution** means the constitution of MF, as amended from time to time;

**MF Share** means any ordinary share in MF;

**MFG Board** means the board of directors of MFG for the time being;

**MFG Constitution** means the constitution of MFG, as amended from time to time;

**MFG Fair Value** in relation to the Shares held by an MFG Shareholder means the Relevant Proportion of the value of the net assets of the Matariki forestry group of companies as determined in accordance with clause 11;

**MFG Ordinary Shares** means the ordinary shares in the capital of MFG on issue from time to time;

**MFG Redeemable Share** means any redeemable share in MFG of whatever Class, the terms of which have been agreed by the parties;

**MFG Share** means any share in MFG, of whatever Class;

**MFG Shareholder** means the holder of MFG Shares from time to time;

**MFG Shareholder Sister Company** means, in relation to an MFG Shareholder, an entity that is:

- (a) wholly owned (directly or indirectly) by the same holding company as that MFG Shareholder;
- (b) a wholly owned subsidiary of that MFG Shareholder; or
- (c) owned by the same parties that own that MFG Shareholder;

**MFT** has the meaning given to that term in clause 1.1 of Schedule 2;

**New Equity Securities** has the meaning given to that term in clause 4.3;

**Non-selling Shareholder** has the meaning given to that term in clause 3.3;

**Non-defaulting MFG Shareholder** has the meaning given to that term in clause 8.2;

**Non-Disclosing Parties** has the meaning given to that term in clause 12.5;

**Phaunos Dissolution** means the Phaunos shareholders voting at the Phaunos 2016 annual general meeting to wind up operations of Phaunos and to procure an orderly realisation of its assets (or any resolution of substantially the same effect);

**Relevant Proportion** means the percentage proportion of the total interest that each of RCL and WFL hold (directly or indirectly) in MFG from time to time as set out in part A of schedule one (updated from time to time in accordance with clause 5.5);

**Sale Interest** has the meaning given to that term in clause 3.3;

**Sale Notice** has the meaning given to that term in clause 3.3;

**Share** means an MFG Ordinary Share or an MFG Redeemable Share, as the case may be;

**Shareholder** has the meaning given to that term in clause 1.1 of Schedule 2;

**Selling Shareholder** has the meaning given to that term in clause 3.3.

**Stapled Proportion** has the meaning given to that term in clause 4.1; and

**Transferring MFG Shareholder** has the meaning given to that term in clause 3.9.

**1.2 Interpretation:** In this agreement, unless the context indicates otherwise, a reference to:

- a. a **subsidiary** or **holding company** or **related company** shall be construed in accordance with sections 2(3) and 5 of the Companies Act;
- b. the singular includes the plural and vice versa;
- c. a statutory provision includes a reference to:
  - i. the statutory provision as modified or re-enacted or both from time to time (whether before or after the date of this agreement); and
  - ii. any subordinate legislation made under the statutory provision (whether before or after the date of this agreement);
- d. persons includes a reference to any body corporate, unincorporated association or partnership;
- e. a person includes a reference to that the person's legal personal representatives or successors;
- f. a clause or schedule, unless the context otherwise requires, is a reference to a clause or schedule to this agreement;
- g. \$ is to New Zealand dollars, unless otherwise specified.

**1.3 Schedules:** The schedules form part of this agreement and shall have the same force and effect as if set out in the body of this agreement, and references to this agreement include the schedules.

**1.4 Headings:** The headings in this agreement shall not affect the interpretation of this agreement.

## 2. GOVERNANCE

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2.1 **MFG governance:** MFG shall be governed in accordance with the provisions set out in schedule two, and otherwise in accordance with the MFG Constitution.

## 3. DEALING IN SHARES IN MFG

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3.1 **Grant of security, etc:** No MFG Shareholder shall, except with the prior written consent of the other MFG Shareholder, such consent not to be unreasonably withheld or delayed:

- a. pledge, mortgage, charge or otherwise encumber any Share or any interest in any Share;
- b. grant an option over any Share, or any interest in any Share; or
- c. enter into any agreement in respect of the votes attached to any Share.

3.2 **Pre-emptive rights:** Subject to clauses 3.8 to 3.9, Shares may only be transferred in accordance with clauses 3.3 to 3.7.

3.3 **Sale notice:** In order for any MFG Shareholder (**Selling Shareholder**) to sell, transfer or otherwise dispose of the legal or beneficial ownership of, or the control of, any of its Shares, the Selling Shareholder shall first give notice (**Sale Notice**) to MFG and the other MFG Shareholder (**Non-selling Shareholder**) specifying the total number of Shares it wishes to sell, and the corresponding proportion of its MFG Ordinary Shares and/or MFG Redeemable Shares and Debt Commitment (which, in the case of WFL, shall be the corresponding proportion of Phaunos' Debt Commitment) that it is required to transfer with the relevant Shares pursuant to clause 5.2 and 5.3 (**Sale Interest**). The minimum number of Shares that may be specified in a Sale Notice must be at least 20% of the Shares (unless the Selling Shareholder holds fewer than 20% of the Shares, in which case the number of Shares that must be specified in a Sale Notice is the total number of Shares held by the Selling Shareholder).

3.4 **Acquisition Notice:** The Non-selling Shareholder may, not later than 20 Business Days after the date of the Sale Notice give irrevocable notice to the Selling Shareholder (**Acquisition Notice**) offering to acquire the Sale Interest and specifying the cash price being offered for the Sale Interest (**Acquisition Price**).

3.5 **Acceptance of Acquisition Notice:** The Selling Shareholder may, not later than 20 Business Days after the date of the Acquisition Notice, give irrevocable notice to the Non-selling Shareholder (**Acceptance Notice**) accepting the offer contained in the Acquisition Notice in which case the Selling Shareholder will be bound to sell, and the Non-selling Shareholder will be bound to acquire, the Sale Interest at the Acquisition Price and, unless the Selling Shareholder and the Non-selling Shareholder agree otherwise, on the terms and conditions set out below:

- a. the sale shall be conditional on the parties obtaining all necessary consents and approvals to the sale and purchase of the Sale Interest. If the sale is conditional as contemplated in this paragraph (a), the Selling Shareholder and the Non-selling Shareholder shall use their reasonable endeavours, with all due speed and diligence, to obtain all necessary consents;
- b. the sale shall be settled on the date 10 Business Days after the date of the Acceptance Notice, or if the sale is conditional as contemplated by clause (a), 10 Business Days after the last of the relevant consents is obtained;
- c. the Selling Shareholder shall transfer to the Non-selling Shareholder good title to the Sale Interest free of any charge or encumbrance (other than any charge or encumbrance to which the Non-selling Shareholder gives its prior approval in writing);
- d. on settlement of the purchase of the Sale Interest, the Non-selling Shareholder shall pay the purchase price to the Selling Shareholder in cleared funds, and the Selling Shareholder shall deliver to the Non-Selling Shareholder a transfer of the Sale Interest, in a form reasonably acceptable to the both parties;

- e. the parties shall take all necessary steps to procure the MFG Board to cause the Non-Selling Shareholder to be registered as holder of the Sale Interest; and
- f. if the Sale interest comprises all of the Selling Shareholder's interest in MFG, the Selling Shareholder will, upon settlement of the purchase of the Sale Interest, procure the removal of any Director appointed by it.

### 3.6 Options to sell: If:

- a. the Non-selling Shareholder does not give an Acquisition Notice by the deadline set out in clause 3.4;
- b. the Selling Shareholder does not give an Acceptance Notice by the deadline set out in clause 3.5; or
- c. any conditions referred to in clause 3.5(a) are not satisfied within 6 months, or if any statutory consents or approvals are required, 9 months, of the date of the Acceptance Notice,

the Selling Shareholder may sell the Sale Interest to any other person provided that, unless the Non-selling Shareholder consents in writing:

- d. the entire Sale Interest must be sold to that person;
- e. the consideration for the sale (which the Non-selling Shareholder shall be entitled to have independently verified and, if non-cash, valued) must be no less than the Acquisition Price;
- f. the sale must be on the terms and conditions which are not more advantageous to the purchaser than those offered to the Non-selling Shareholder, provided that the terms and conditions shall not be construed as being more advantageous solely because those terms contain arm's length warranties and other arm's length purchaser protections usual for a transaction of the nature contemplated; and
- g. the sale must be completed within 6 months of the date of the Sale Notice (unless clause 3.6(c) is relevant in which case the sale must be completed within 12 months of the date referred to in that clause).

3.7 **Assistance:** MFG and the Non-selling Shareholder shall (and MFG shall procure that the Consultant will), at the cost of the Selling Shareholder, provide such assistance as may be reasonably required by the Selling Shareholder for the purposes of enabling the Selling Shareholder to solicit offers for the Sale Interest, including allowing prospective purchasers to undertake due diligence.

3.8 **Clause to apply again:** If the Selling Shareholder proposes to sell, transfer, or otherwise dispose of the Sale Interest outside the period referred to in clause 3.6(g), then clauses 3.3 to 3.7 will again apply, with any necessary modifications.

3.9 **Transfer to related companies:** Nothing in clause 3.2 shall prevent any MFG Shareholder (**Transferring MFG Shareholder**) transferring all or some of its Shares to a holding company or an MFG Shareholder Sister Company, and the provisions of clauses 3.3 to 3.7 shall not apply to such transfer, provided where the transferee ceases to be a holding company or an MFG Shareholder Sister Company of the Transferring MFG Shareholder, the transferee shall, and the Transferring MFG Shareholder shall procure that, the transferee forthwith transfers back to the Transferring MFG Shareholder (or another holding company or MFG Shareholder Sister Company of the Transferring MFG Shareholder) all Shares that it holds.

## 4. ISSUE OF SHARES IN MFG

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4.1 **Stapled Proportions:** The MFG Board must ensure that:

- a. RCL holds an equal proportion of MFG Ordinary Shares, MFG Redeemable Shares and Debt Commitment (if any); and
- b. WFL holds an equal proportion of MFG Ordinary Shares and MFG Redeemable Shares, and Phaunos holds a proportion of Debt Commitment (if any) equal to WFL's Relevant Proportion,

being, in each case, the **Stapled Proportion**.



**4.2 Classes of shares:** The MFG Board may issue different Classes of shares in accordance with the provisions of this agreement. Without limiting the Classes which the MFG Board may issue:

- a. each Class of shares is deemed to constitute a separate Class but, except as expressly provided in this agreement, all the MFG Ordinary Shares have the same rights and privileges and are subject to the same restrictions; and
- b. any share may be issued upon the basis that it:
  - i. confers preferential rights to distributions of capital or income (or no rights to such distributions); or
  - ii. confers special, limited or conditional voting rights; or
  - iii. does not confer voting rights; or
  - iv. is redeemable in accordance with section 68 of the Companies Act.

**4.3 MFG Board may issue shares and other securities:** The MFG Board may, subject to the terms of this agreement, only issue shares, securities that are convertible into or exchangeable for shares, or options to acquire shares (together referred to in this clause as **New Equity Securities**) in accordance with the following provisions:

- a. subject to any special rights or restrictions attaching to any existing shares, all New Equity Securities must be offered to all MFG Shareholders in proportion to each MFG Shareholder's Stapled Proportion;
- b. subject to sub-clause (c) below, the offer must be made by written notice to each MFG Shareholder stating:
  - i. the number of New Equity Securities to which that MFG Shareholder is entitled;
  - ii. the Class or Classes of which the New Equity Securities will form part, and in the case of securities convertible into, or exchangeable for, shares, the Class of which those shares will upon issue form part;
  - iii. the consideration for which the New Equity Securities will be issued and the terms on which they will be issued;
  - iv. the time (not being less than 10 days nor more than 28 days) within which the offer, if not accepted, will be deemed to be declined;
  - v. that any MFG Shareholder who wishes to acquire New Equity Securities in excess of that MFG Shareholder's entitlement must, when accepting the offer, state the number of excess New Equity Securities which that MFG Shareholder wishes to acquire;
  - vi. that any unclaimed New Equity Securities will be used for satisfying the requests for excess New Equity Securities, upon the basis that the New Equity Securities not claimed by any MFG Shareholder will be allocated first to the other MFG Shareholders who have requested excess New Equity Securities, in proportion to that MFG Shareholder's Stapled Proportion, provided that no MFG Shareholder shall be allocated more excess New Equity Securities than the number which that MFG Shareholder has requested;
  - vii. that if, thereafter, any New Equity Securities remain unallocated, the MFG Board may offer them to any person whom the MFG Board is prepared to register as an MFG Shareholder provided that the consideration and terms of issue are no more advantageous to that person than those offered to the MFG Shareholders provided further that the terms on which New Equity Securities are offered to that person shall not be construed as being more advantageous solely because those terms contain arm's length warranties and other arm's length subscriber protections usual for a transaction of the nature contemplated; and

- viii. that each MFG Shareholder who accepts the offer of New Equity Securities must increase their holding of MFG Ordinary Shares, MFG Redeemable Shares and/or Debt Commitment (as may be the case) in order to maintain their Stapled Proportion, provided that where WFL accepts the offer of New Equity Securities, Phaunos shall be required to increase its Debt Commitment, equal to the Relevant Proportion held by WFL following the issue of New Equity Securities,
- c. the New Equity Securities offered to each MFG Shareholder shall be of a Class or Classes already held by that MFG Shareholder. For these purposes, any excess New Equity Securities offered pursuant to clause 4.3(b)(vi) shall, on issue, be issued as MFG Shares of the Class or Classes already held by the relevant MFG Shareholder. New Equity Securities which are convertible or exchangeable into MFG Shares shall be convertible or exchangeable into MFG Shares of a Class or Classes already held by the relevant MFG Shareholder (unless those New Equity Securities are convertible or exchangeable into a new Class of MFG Shares);
- d. notwithstanding the provisions of sub-clauses (a) and (b) and (c), but subject always to the provisions of schedule 2 of this agreement, the MFG Board may issue New Equity Securities to such persons and on such terms as it thinks fit; and
- e. if any holders of securities in MFG other than MFG Shares are entitled by the terms of issue of those securities to participate in any issue of New Equity Securities, the provisions of this clause shall be appropriately modified to take account of such entitlement.

## 5. FURTHER PROVISIONS REGARDING DEALING IN SHARES

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- 5.1 **Deed of accession:** If an MFG Shareholder transfers the legal or beneficial ownership of any MFG Shares to any party (other than to a party who has already signed this agreement or a deed of accession), that MFG Shareholder shall procure that the relevant transferee validly executes a deed of accession in a form reasonably satisfactory to the other parties to this agreement, and delivers a copy of that deed of accession to each party to this agreement. If the proposed transfer is of less than the MFG Shareholder's entire interest in MFG, the parties will negotiate in good faith such amendments to this agreement as are necessary and desirable to reflect an increase in the number of shareholders.
- 5.2 **Stapling of interest under Investor Loan Facility:** Subject to any variation of the terms below in the Investor Loan Facility no MFG Shareholder shall transfer all or any of its MFG Shares without transferring a corresponding proportion of its Debt Commitment, or where WFL is the transferring MFG Shareholder, procuring transfer of a corresponding proportion of Phaunos' Debt Commitment, in accordance with clause 10.6 of the Investor Loan Facility.
- 5.3 **Stapling of MFG Ordinary Shares with MFG Redeemable Shares:** No MFG Shareholder shall transfer legal or beneficial ownership to all or any of its MFG Ordinary Shares without transferring a corresponding proportion of its MFG Redeemable Shares and vice versa.
- 5.4 **Registration of transfers:** The MFG Shareholders shall procure that the MFG Board does not register a transfer of MFG Ordinary Shares or MFG Redeemable Shares unless such transfer has been carried out in accordance with clauses 3.2 to 3.9, clauses 5.1, 5.2 and 5.3 and the requirements of the Companies Act and the MFG Constitution.
- 5.5 **Board to procure amendment to schedule one:** As soon as is practicable after the registration of a transfer of MFG Shares pursuant to clause 5.4, the MFG Board shall procure an amendment to schedule one reflecting the consequential changes to the identities and shareholdings of the shareholders referred to in that schedule. Upon delivery of that amended schedule to all parties, that amended schedule shall be deemed to be a variation to this agreement.
- 5.6 **Investment management agreements:** For the avoidance of doubt, nothing in this agreement shall be construed to preclude an MFG Shareholder entering into an investment management agreement in relation to its investment in the Matariki group of companies with any investment manager.
- 5.7 **Liability of transferring shareholders:** Except to the extent required by law, each MFG Shareholder which transfers its entire holding of MFG Shares to another party, in accordance with the terms of this agreement, shall be deemed released by all other parties hereto from all liability under this agreement from the date of that transfer (except in relation to any prior breach of this agreement by the transferor) and shall no longer be a party to this agreement.

## 6. WARRANTIES

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### 6.1 Warranties of each party: Each party to this agreement warrants to each other party as follows:

- a. it is not aware of any circumstance which might reasonably be expected materially and adversely to affect its entry into this agreement;
- b. it has the legal right and power to enter into this agreement and to consummate the transactions contemplated under this agreement on and subject to the terms and conditions of this agreement;
- c. the execution, delivery and performance of this agreement by it has been duly and validly authorised and this agreement is a valid and binding agreement of it enforceable in accordance with its terms;
- d. this agreement will not conflict with, or result in a breach of, the terms, conditions or provisions of its constitutional documents or any instrument or agreement to which it is a party or by which it may be bound, or which constitutes (with or without the passage of time, the giving of notice, or both) a default under any such instrument or agreement, or results in the acceleration of any indebtedness or the imposition of any penalty or charge; and
- e. no further authorisation, consent or approval of any person is required as a condition to the validity of this agreement or to give effect to the transactions contemplated under this agreement.

## 7. COMPLIANCE WITH THIS AGREEMENT AND THE CONSTITUTION

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### 7.1 MFG Shareholders: Each MFG Shareholder undertakes to the other MFG Shareholder that it shall:

- a. take all practicable steps including, without limitation, the exercise of votes it directly or indirectly controls at meetings of the MFG Board and MFG Shareholder meetings of MFG to ensure that the terms of this agreement are complied with and to procure that the MFG Board and MFG complies with its obligations and that it shall do all such other acts and things as may be necessary or desirable to implement this agreement; and
- b. comply fully and promptly with the provisions of the MFG Constitution so that each and every provision of the MFG Constitution (subject to clause 10.1) shall be enforceable by the MFG Shareholders as between themselves in whatever capacity.

## 8. DEFAULT IN RELATION TO MFG

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### 8.1 Definition: An Event of Default occurs in respect of an MFG Shareholder (**Defaulting MFG Shareholder**) if, other than as a consequence of a Phaunos Dissolution:

- a. that MFG Shareholder commits any material breach of or fails to observe any of the material obligations under this agreement and (where such breach or failure is capable of remedy) does not remedy that breach or failure within 20 Business Days of receiving written notice from the Non-Defaulting MFG Shareholder specifying the breach or failure and requiring the remedy of the breach or failure;
- b. that MFG Shareholder ceases or threatens to cease to carry on all or substantially all of its business or operations;
- c. an order is made, or a resolution is passed, for the dissolution of that MFG Shareholder;
- d. an encumbrancer takes possession or a liquidator, provisional liquidator, trustee, receiver, receiver and manager, inspector appointed under any companies or securities legislation, or similar official, is appointed in respect of that MFG Shareholder;

- e. any step is taken to appoint or with a view to appointing a statutory manager (including the making of any recommendation in that regard by the Securities Commission) under the Corporations (Investigation and Management) Act 1989 in respect of that MFG Shareholder, or it is declared at risk pursuant to that Act;
- f. a distress, attachment or other execution is levied or enforced upon or commenced against any of the material assets of that MFG Shareholder and is not discharged or stayed within 10 Business Days;
- g. that MFG Shareholder is unable to pay its debts when due, or is deemed unable to pay its debts under any law, or enters into dealings with any of its creditors with a view to avoiding or in expectation of insolvency, or makes a general assignment or an arrangement or composition with or for the benefit of any of its creditors, or stops or threatens to stop payments generally; or
- h. anything analogous, or having a substantially similar effect, to anything referred to in paragraphs (b) to (g) inclusive occurs in relation to that MFG Shareholder under the laws of a jurisdiction other than New Zealand.

**8.2 Event of Default:** If an Event of Default occurs:

- a. the Defaulting MFG Shareholder will be deemed to have given the other MFG Shareholder (**Non-defaulting MFG Shareholder**) a Sale Notice under clause 3.3 in respect of its entire interest in MFG;
- b. if the Non-defaulting MFG Shareholder gives the Defaulting MFG Shareholder an Acquisition Notice under clause 3.4:
  - i. within 20 Business Days of the Non-defaulting MFG Shareholder becoming aware of the Event of the Default; or
  - ii. if the Event of Default is continuing, while the Event of Default is continuing,
 

(whichever is the later) and the Acquisition Price specified in that Acquisition Notice is no less than MFG Fair Value less 15%, the Defaulting MFG Shareholder will be deemed to have given an Acceptance Notice under clause 3.5;
- c. the voting rights of the Defaulting MFG Shareholder will be deemed to have been suspended.

**8.3 Other remedies:** Clause 8.2 is without prejudice to any other right, power or remedy under this agreement, at law, or otherwise, that any MFG Shareholder has in respect of a default by any other MFG Shareholder.

**9. PHAUNOS DISSOLUTION**

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**9.1 Phaunos Dissolution:** If a Phaunos Dissolution occurs, WFL must use its reasonable endeavours to sell its entire interest in MFG to a third party. For the avoidance of doubt, clauses 3.2 to 3.8 will apply to any sale under this clause 9.

**9.2 Partition plan:** If a sale is not completed within 2 years of the Phaunos Dissolution occurring WFL and RCL must, within 60 Business Days from the end of the 2 year period, agree on the terms and conditions of a partition plan or an alternative solution.

**9.3 Failure to agree partition plan:**

- a. If the Defaulting MFG Shareholder and the Non-Defaulting MFG Shareholder fail to come to an agreement as contemplated in clause 9.2, either may give written notice to the other and to MFG (**Dispute Notice**) referring the matter for determination by a single person who is suitably qualified and experienced expert (**Expert**). If the parties are unable to agree on the person to be appointed as Expert within 5 Business Days after delivery of the Dispute Notice, the Expert will be nominated by the President for the time being of the New Zealand Law Society;
- b. The Expert will be appointed to determine a fair and equitable division of the estate between the MFG Shareholders meeting the following criteria:

- i. the proportionate value of the net assets each MFG Shareholder is allocated must approximate, insofar as practicable, that MFG Shareholder's Relevant Proportion;
  - ii. the determination may require an MFG Shareholder to make a cash payment to the other to ensure that, when the cash payment is taken into account, the criterion in paragraph (i) is met;
  - iii. the determination must require that RCL be allocated all of the Shares (the intention being that the assets of MFG which are to be allocated to WFL will be transferred to WFL or its nominee, and the Shares which WFL holds in MFG will be transferred to RCL or its nominee; and
  - iv. the value of the net assets of the Matariki forestry group of companies, and the value of the net assets allocated to each MFG Shareholder, will be determined in accordance with clause 11; and
- c. In determining the matter:
- i. the Expert will be deemed to be acting as an expert, not as a mediator or an arbitrator;
  - ii. nothing in this clause will constitute a submission to arbitration under the Arbitration Act 1996;
  - iii. each party must give the Expert any information and assistance, and will ensure that its duly authorised representatives meet with the Expert, as the Expert may reasonably require in order to expedite the resolution of the Dispute;
  - iv. the parties will be jointly and severally liable to the Expert for all costs incurred by the Expert, but the Expert may allocate, as between the parties, the responsibility for payment of those costs and that allocation will be binding on the parties; and
  - v. any determination of the Expert will, in the absence of obvious error or fraud on the part of the Expert, be final and binding on the parties.

## 10. LIQUIDATION

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**10.1 Procedure on liquidation:** If pursuant to any provision of this agreement MFG is required to be liquidated, the MFG Shareholders shall without delay take all necessary steps to ensure that a special resolution of shareholders of MFG is passed appointing as liquidator of MFG a person agreed by the MFG Shareholders, or failing agreement, chosen on the application of any MFG Shareholder by the president for the time being of the New Zealand Institute of Chartered Accountants or his or her nominee.

## 11. DETERMINING NET ASSET VALUE

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**11.1 Net Asset Value:** In determining the net asset value of the Matariki forestry group of companies under this agreement, the following provisions will apply:

- a. the value of the land and forestry assets shall be determined by reference to the most recent forestry valuation and land valuation carried out by the independent forestry valuer and the independent land valuer appointed to Matariki (**Independent Valuer**) in relation to the Matariki forestry group of companies, unless an MFG Shareholder or the Expert requires that the forestry valuation and land valuation be updated, in which case:
  - i. the parties will ensure that the Independent Valuer will prepare, at the cost of MFG, an updated forestry valuation and land valuation as soon as reasonably practicable;
  - ii. the value of the land and forestry assets shall be determined by reference to the updated forestry valuation and land valuation provided by the Independent Valuer;

- iii. the MFG Shareholders shall promptly and openly make available to the Independent Valuer all information in their possession or under their control relating to MFG to enable the Independent Valuer to proceed with the preparation of the updated forestry valuation and land valuation;
  - iv. the parties shall adhere to such adjustments to the time frames set out in clause 8 or 9 (as the case may be) as may be appropriate to reflect the time taken to prepare the updated forestry valuation and land valuation;
  - v. the determination of the Independent Valuer will, in the absence of obvious error or fraud on the part of the Independent Valuer, be final and binding; and
- b. the other assets and liabilities will be valued at fair market value, consistent with MFG's IFRS financial statements.

## 12. GENERAL

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- 12.1 Conflicting provisions:** If there is any conflict or inconsistency between the provisions of this agreement and the MFG Constitution or the MF Constitution, as the case may be, this agreement shall prevail.
- 12.2 Termination:** This agreement may be terminated upon the written agreement of all parties.
- 12.3 Payments free and clear:** All amounts payable by one party to another pursuant to this agreement shall be paid free and clear of and, except to the extent required by law, without any deduction or withholding on account of any tax. If any party is required by law to make any deduction or withholding from any amount it is required to pay pursuant to this agreement, then that party shall increase the relevant payment to ensure that the recipient receives a net amount equal to the amount it would have received had no such deduction or withholding been made.
- 12.4 Confidentiality:** Each party shall at all times keep confidential, treat as privileged, and not directly or indirectly make any disclosure or use, or allow any disclosure or use to be made, of any provision of this agreement or of any information relating to any provision, or the subject matter, of this agreement, or any information directly or indirectly obtained from another party under or in connection with this agreement, except to the extent:
- a. required by law;
  - b. to satisfy the reporting requirements of any related company or other member of its group;
  - c. necessary to satisfy the requirements of any applicable stock exchange;
  - d. necessary to obtain the benefit of, or to carry out obligations under, this agreement;
  - e. that the information is or becomes available in the public domain without breach by a party of its confidentiality obligations under this clause or at law;
  - f. that disclosure is made to a subsidiary of the relevant party, or to a director, officer, employee, adviser or financier of the party or a subsidiary of the party, and that person has been informed of the party's confidentiality obligations under this agreement; or
  - g. that disclosure is made to a proposed third party purchaser of MFG Shares or the Matariki Estate, which has entered into an appropriate confidentiality agreement to the satisfaction of MFG.
- 12.5 Announcements:** If a party (**Disclosing Party**) is required by law or by the rules of any applicable stock exchange or regulatory authority to make any announcement or disclosure relating to any matter the subject of this Agreement, prior to making such announcement or disclosure, to the extent permitted by such law or rules, the Disclosing Party shall give the other parties (**Non Disclosing Parties**) at least 5 Business Days' notice and shall consult with the Non Disclosing Parties regarding the form and content of the announcement or disclosure.
- 12.6 Liability:** For the avoidance of doubt, the liability of each party to this agreement to any other party is limited (save as required by law) to the extent expressly provided for in this agreement.

- 12.7 Variation:** No variation of this agreement shall be valid unless it is in writing and signed by or on behalf of each of the parties hereto, except that the MFG Shareholders may, if both of the MFG Shareholders agree, amend the provisions of schedule two, provided that such amendment does not impose an obligation on any party save for MFG, an MFG Shareholder or the MFG Board. If schedule two is amended pursuant to this clause, the amendment shall be deemed effective upon MFG delivering the amended schedule to all parties to this agreement.
- 12.8 No waiver:** The failure to exercise or delay in exercising a right or remedy under this agreement shall not constitute a waiver of the right or remedy or a waiver of any other rights or remedies and no single or partial exercise of any right or remedy under this agreement shall prevent any further exercise of the right or remedy or the exercise of any other right or remedy.
- 12.9 Rights and remedies cumulative:** The rights and remedies contained in this agreement are cumulative and not exclusive of any rights or remedies provided by law.
- 12.10 Assignment:** No party shall assign or transfer or purport to assign or transfer any of its rights or obligations under this agreement, except as expressly permitted herein.
- 12.11 Full agreement:** This agreement contains a final and complete integration of all prior expressions by the parties with respect to the subject matter of this agreement and constitutes the entire agreement between the parties with respect to the subject matter of this agreement, superseding all prior oral or written understandings.
- 12.12 Further assurances:** The parties shall each execute and deliver such further and other documents and instruments and do such further and other things as may be necessary to implement and carry out the intent of this agreement.
- 12.13 Counterparts:** This agreement may be executed in any number of counterparts each of which when executed and delivered (including by way of facsimile) shall be an original, but all the counterparts together shall constitute one and the same instrument.
- 12.14 Notices:** Each notice, agreement and other communication (each a **communication**) to be given, delivered or made under this agreement is to be in writing but may be sent by personal delivery, post (by airmail if to another country), facsimile or email. Each communication is to be sent to the address of the relevant party set out below or to any other address from time to time designated for that purpose by at least five working days' prior notice to the other parties. The initial address details of the parties are set out in schedule three.
- 12.15 Service:** A communication under this agreement will only be effective:
- a. in the case of personal delivery, when delivered;
  - b. if posted locally or delivered to a document exchange, 3 Business Days in the place of receipt, after posting or delivery;
  - c. if posted or delivered overseas, 10 Business Days in the place of receipt, after posting by airmail;
  - d. if made by facsimile, upon production of a transmission report by the machine from which the facsimile was sent which indicates that the correct number of pages was sent to the facsimile number of the recipient designated for the purpose of this agreement; or
  - e. if made by email, upon the recipient acknowledging receipt (whether by way of an automated message or otherwise),
- provided that any communication received or deemed received after 5pm or on a day which is not a Business Day in the place to which it is delivered, posted or sent shall be deemed not to have been received until the next Business Day in that place.
- 12.16 Governing law:** This agreement shall be governed by and construed and interpreted in accordance with the laws of New Zealand and each party submits to the exclusive jurisdiction of the courts of New Zealand. Each party irrevocably waives any objection which it might at any time have to the courts of New Zealand being nominated as the forum to

hear and determine any proceedings and to settle any disputes and agrees not to claim that the courts of New Zealand are not a convenient or appropriate forum.



**SCHEDULE ONE**  
**SHAREHOLDER DETAILS <sup>1</sup>**

**PART A**

**MFG**

| <b>MFG Shareholders</b>                        | <b>Percentage of MFG Shares</b> |
|--|---------------------------------|
| RCL (for MFG Shares and MFG Redeemable Shares) | 65%                             |
| WFL (for MFG Shares and MFG Redeemable Shares) | 35%                             |

**PART B**

**MF**

| <b>MF Shareholder</b> | <b>Percentage MF Shares</b> |
|-----------------------|-----------------------------|
| MFG                   | 100%                        |

<sup>1</sup> Note this schedule is to be updated in accordance with clause 5.5.

## SCHEDULE TWO

### GOVERNANCE OF MFG AND ITS SUBSIDIARIES

#### 1. INTERPRETATION

##### 1.1 Definitions: For the purpose of this schedule:

**Appointing Party** means the party that appointed a director:

- a. in relation to a Director, the party that appointed that Director in accordance with clause 2.1(a) of this schedule; and
- b. in relation to an Alternate Director, the party that appointed that Alternate Director in accordance with clause 2.1(b) of this schedule;

**Board** means the board of directors of MFG, MF, MFT or any other Direct Subsidiary of MFG or MF, as the case may be;

**Company** means MFG, MF, MFT or any other Direct or indirect Subsidiary of MFG or MF, as the case may be;

**Constitution** means the constitution of the Company from time to time;

**Direct Subsidiary** means a subsidiary within the meaning of section 5(1)(a) of the Companies Act.

**Director** means a director of MFG, MF, MFT or any other subsidiary of MFG or MF, as the case may be;

**MFT** means Matariki Forests Trading Limited, a wholly owned subsidiary of MF;

**Shares** means an ordinary share in MFG or any other subsidiary of MFG, as the case may be; and

**Shareholder** means a shareholder of MFG, MF or any other subsidiary of MFG, as the case may be.

#### 2. COMPOSITION AND PROCEEDINGS OF THE BOARD

##### 2.1 Number of directors: The directors of the Company shall be appointed as follows:

- a. each MFG Shareholder will have the power to appoint two directors; and
- b. each MFG Shareholder may from time to time appoint by ordinary resolution, or by notice in writing to the Company, any person not already a director to act as an alternate director.

##### 2.2 Board resolutions: Except as provided in this agreement, resolutions of the Board shall be deemed to be passed if approved by a majority of the votes of Directors voting thereon.

##### 2.3 Quorum: A quorum of any meeting of the Board must include at least one Director appointed by each MFG Shareholder.

##### 2.4 Adjournment: If within 30 minutes after the time appointed for a meeting of the Board a quorum is not present the meeting is adjourned for 14 days to the same time and place unless otherwise agreed by all Directors. At least seven days' notice of the adjourned meeting must be given, and the notice must include a statement that it is given pursuant to this clause. If at the adjourned meeting a quorum is not present within 30 minutes after the time appointed for the meeting the Director or Directors present are a quorum.

##### 2.5 Directors' voting rights: At a meeting of the Board, the Directors appointed by an MFG Shareholder (including their alternates) shall together be entitled to exercise a percentage of the votes which may be cast at that meeting equal to the percentage of the Shares held by the MFG Shareholder who appointed them.

- 2.6 Interested Directors:** Except as provided in this agreement including in clause 4.1 below, a Director who is Interested (as defined in the Companies Act) in a transaction entered into or to be entered into by the Company may vote on any matter related to the transaction, and shall be included in the quorum of Directors considering the transaction.
- 2.7 Regularity of Board Meetings:** Meetings of the Directors shall be held at regular intervals as shall be determined by the Board but not less frequently than half yearly, but subject to this clause 2.7 the Board may from time to time determine the schedule of such meetings.
- 2.8 Telephone or video meetings:** Meetings of the Board may be held with one or more Directors participating by telephone or video conference.
- 2.9 Responsibility for management:** The Board shall be responsible for the overall guidance and direction of the Company. When exercising powers or performing duties, each Director may act in what the director believes is in the best interests of his/her appointing Shareholder, even though it may not be in the best interests of the Company.
- 2.10 Indemnity on removal of Director:** Any MFG Shareholder removing a director shall be responsible for and agrees with the Company and the other MFG Shareholder to indemnify the other Shareholder and the Company against all losses, liabilities and costs which the other Shareholder or the Company may incur arising out of, or in connection with, any claim by the director for wrongful or unfair dismissal or redundancy or other compensation arising out of the director's removal or loss of office.
- 2.11 Matters requiring supermajority consent:** Subject to clauses 2.13 and 2.14 of this schedule) any decision relating to any of the following matters of the Company shall require the consent of a supermajority of the Board, being 80% of the votes to be cast by the Board:
- a. the issue by the Company of any debenture or loan stock (whether secured or unsecured) or the creation of any mortgage, security interest, charge, lien, encumbrance or other third party right over any of the Company's assets or the giving by the Company of any guarantee or indemnity to or becoming surety for any third party;
  - b. any change in the capital structure of the Company, issue, buyback, cancellation, division, subdivision or consolidation of Shares, the redemption of any MFG Redeemable Shares, the change to the rights attaching to such Shares or MFG Redeemable Shares, the creation of any options to subscribe for or acquire Shares or the creation of any new Class of Shares;
  - c. any change to the distribution policy set out in the agreement or any other distribution of the Company's assets;
  - d. pursuit or settlement by the Company of any litigation with a potential value in excess of \$5 million;
  - e. approval or amendment of annual operating plans or budgets or any activity outside the scope of the annual operating plan or budget of the Company (and, for the avoidance of any doubt, the "management plan" and the "budget" referred to in the Management Agreement, dated on or about the date of this agreement, shall be included for the purposes of this clause);
  - f. any change in the nature of the Company's business;
  - g. the making of any loan by the Company or the creation, amendment to, renewal or extension of any borrowings by the Company (other than normal trade credit);
  - h. the acquisition or construction or lease of items of tangible or intangible property other than in accordance with the approved annual operating plans or budgets;
  - i. any transaction by the Company with any Shareholder or with any related company of a Shareholder;
  - j. the assignment, sale or other disposal in any 12 month period of any asset or related group of assets (other than stumps and logs) of the Company having a net book value in aggregate of NZD\$5,000,000 or more, other than in accordance with the approved annual operating plans or budgets;

- k. any change in the accounting policies or the Company's auditors, bankers, accounting reference date or bank mandates;
- l. the granting or entering into any licence, agreement or arrangement concerning any part of the name of the Company or any of its intellectual property rights;
- m. the making, granting or allowing of any claim, disclaimer, surrender, election or consent for taxation purposes;
- n. appointing any committee of the board or delegating any of the powers of the board to any committee;
- o. entry into any contract other than on arms-length terms;
- p. any change in the external forest certification for Matariki Forests (being the Forestry Stewardship Council); and
- q. any change to the independent forestry valuer appointed to Matariki from the current valuer (being Indufor Asia Pacific Limited).

**2.12 Proceedings if Company is in financial distress:** If an "Event of Default" or "Event of Review" (however defined) occurs under any debt facility agreement, for which the indebtedness owned ranks in priority to the debt owed under the Investor Loan Facility, the Board shall be entitled to resolve, by a supermajority of the Board, being 80% of the votes to be cast by the Board, to raise equity (on a pro-rata basis) amongst existing Shareholders and Classes of shares already on issue, and/or to incur further debt on behalf of the Company.

**2.13 Shareholder approval:** The following matters (which for the avoidance of doubt exclude any issue of securities) must be approved by both Shareholders following approval by a supermajority of the Board, being 80% of the votes to be cast by the Board:

- a. the acquisition of, or an agreement to acquire, whether contingent or not, assets the value of which is more than 20% of the value of the Company's assets before the acquisition; or
- b. the disposition of, or an agreement to dispose of, whether contingent or not, assets the value of which is more than 20% of the value of the Company's assets before the disposition; or
- c. a transaction that has or is likely to have the effect of the Company acquiring rights or interests or incurring obligations or liabilities, including contingent liabilities, the value of which is more than 20% of the value of the Company's assets before the transaction; or
- d. any alteration to, or revocation of, the constitution; or
- e. any arrangement for any joint venture or partnership; or
- f. the merger, amalgamation, liquidation or winding up of the Company; or
- g. any acquisition by the Company of any part of the issued share capital or of the assets and undertaking of another company or entity; or
- h. an application for quotation of any shares or other securities of the Company on any securities exchange.

**2.14 D&O Insurance:** The MFG Shareholders will procure that MFG will effect insurance for the directors of the Company, in respect of:

- a. liability, not being criminal liability, for any act or omission by him or her in such capacity;
- b. costs incurred by him or her in defending or settling any claim or proceeding relating to any such liability; or
- c. costs incurred by him or her in defending any criminal proceedings that have been brought against the director in relation to any act or omission in his or her capacity as a director and in which he or she is acquitted.

### 3. DISTRIBUTIONS

- 3.1 **Profits to be distributed:** The full amount of the Company's net cash profits available for distribution (within the meaning of section 2 of the Companies Act) in respect of each financial year during the term of this agreement after the provision of working capital and making such transfers to reserves and provisions as in the opinion of the Board ought reasonably to be made, shall be distributed by the Company to the Shareholders by way of distributions on not less than an annual basis, or as and when the Board determines fit (unless the parties agree otherwise).

### 4. ENFORCEMENT OF COMPANY'S RIGHTS

- 4.1 **Actions against Shareholders:** Any right of action which the Company may have in respect of breach or alleged breach of any agreement between the Company and a Shareholder or related company of a Shareholder shall be prosecuted by the Directors of the Company appointed by the Appointing Party representing the Shareholder which is not, or whose related company is not, responsible for the breach. Those Directors shall have full authority on behalf of the Company to negotiate, litigate and settle any claim arising out of the breach or exercise any right of termination arising out of the breach and the Shareholders shall take all steps within their power to give effect to the provisions of this clause.

### 5. RECORDS AND FINANCIAL INFORMATION

- 5.1 **Financial year:** Each financial year of the Company shall end on 31 December unless otherwise determined by the Board.
- 5.2 **Books and records:** The Board shall procure the Company to maintain accurate and complete books, records, accounts, statements and documents of the operation business and financial affairs of the Company, all of which shall be available to the Board for the purpose of inspection and making copies and taking extracts.
- 5.3 **Financial statements:** The Shareholders shall procure that the Board will prepare and deliver to each of the Shareholders financial statements in respect of the Company consisting of a balance sheet, statement of cash flows and statement of profit and loss, together with such other statements as are advisable, prepared in accordance with international financial reporting standards, as follows:
- a. unaudited monthly financial statements (which shall include a detailed balance sheet, a detailed statements of profit and loss, and cashflow statements, with comparison to budget and forecast) shall be prepared and delivered to each of the Shareholders within 15 days after the end of each month; and
  - b. audited annual financial statements, accompanied by the report of the auditors thereon, shall be prepared and delivered to each of the Shareholders within three months after the end of each financial year of the Company,

provided that all or any of the above requirements may, to the extent permitted by applicable law, be waived by unanimous resolution of the Board.

- 5.4 **Additional financial information:** The Shareholders shall procure that the Company will prepare and deliver to each of the Shareholders such further or other reports and statements concerning the operation, business and financial affairs of the Company as the Board may from time to time consider necessary or advisable, it being the intent of the Shareholders that each of them shall be kept fully and regularly informed regarding the Company.

**SCHEDULE THREE**

**ADDRESS DETAILS OF THE PARTIES**

**RAYONIER CANTERBURY LLC**

**Physical Address:** 1301 Riverplace Blvd  
Suite 2300  
Jacksonville, FL 32207  
Auckland

**Attention:** Lynn Wilson

**Email:** lynn.wilson@rayonier.com

**WAIMARIE FORESTS PTY LIMITED**

**Physical Address:** c/- Grant Thornton  
Level 17, 383 Kent Street  
Sydney, NSW 2000  
Australia

**Attention:** L Corder

**Email:** lcorder@grantthornton.com.au

**With a copy to:** Henry Whittemore

c/- Phaunos Boston Inc.  
28 State Street  
9<sup>th</sup> Floor  
Boston MA 02109  
USA

**Email:** hwhittemore@phaunosboston.com

**MATARIKI FORESTRY GROUP AND MATARIKI FORESTS**

**Physical Address:** Level 5  
32-34 Mahuhu Crescent  
Auckland

**Attention:** Paul Nicholls

**Email:** paul.nicholls@rayonier.com

**PHAUNOS TIMBER FUND LIMITED**

**Physical Address:** LEGIS  
11 New Street,  
Saint Peter Port,  
Guernsey GY1 2PF

**Attention:** Lisa Garnham

**With a copy to:** Henry Whittemore

c/- Phaunos Boston Inc.  
28 State Street  
9<sup>th</sup> Floor  
Boston MA 02109  
USA

**Facsimile:** +1 (617) 395 6870

**Email:** [hwhittemore@phaunosboston.com](mailto:hwhittemore@phaunosboston.com)

## CERTIFICATION

I, David L. Nunes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rayonier Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2014

/s/ DAVID L NUNES

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David L. Nunes

*President and Chief Executive Officer, Rayonier Inc.*



## CERTIFICATION

I, H. Edwin Kiker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rayonier Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2014

/s/ H. EDWIN KIKER

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H. Edwin Kiker

Senior Vice President and Chief Financial Officer, Rayonier Inc.

**CERTIFICATION**

The undersigned hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to our knowledge:

1. The quarterly report on Form 10-Q of Rayonier Inc. (the "Company") for the period ended June 30, 2014 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 8, 2014

/s/ DAVID L. NUNES

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David L. Nunes

*President and Chief Executive Officer, Rayonier Inc.*

/s/ H. EDWIN KIKER

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H. Edwin Kiker

*Senior Vice President and  
Chief Financial Officer, Rayonier Inc.*