

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, 2005

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 Number 13-2607329

50 North Laura Street, 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 and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 22, 2005 there were outstanding 50,465,047 Common Shares of the Registrant.

TABLE OF CONTENTS

	<u>PAGE</u>
PART I. FINANCIAL INFORMATION	
Item 1. Condensed Consolidated Financial Statements (Unaudited)	
Condensed Consolidated Statements of Income and Comprehensive Income for the Three and Six Months Ended June 30, 2005 and 2004	1
Condensed Consolidated Balance Sheets as of June 30, 2005 and December 31, 2004	2
Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2005 and 2004	3
Notes to Condensed Consolidated Financial Statements	4
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3. Quantitative and Qualitative Disclosures About Market Risk	29
Item 4. Controls and Procedures	30
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	31
Item 4. Submission of Matters to a Vote of Security Holders	31
Item 5. Other Information	32
Item 6. Exhibits and Reports on Form 8-K	35
Signature	35
Exhibit Index	36

RAYONIER INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)
(Dollars in thousands unless otherwise noted)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
SALES	\$ 290,287	\$ 326,633	\$ 565,259	\$ 610,463
Costs and Expenses				
Cost of sales	227,040	240,950	444,366	464,514
Selling and general expenses	15,260	14,440	29,800	32,268
Other operating (income) / expense, net	(915)	19	(5,116)	(594)
	<u>241,385</u>	<u>255,409</u>	<u>469,050</u>	<u>496,188</u>
OPERATING INCOME	48,902	71,224	96,209	114,275
Interest expense	(12,827)	(11,889)	(25,140)	(23,013)
Interest and miscellaneous income, net	1,042	288	1,531	1,053
	<u>37,117</u>	<u>59,623</u>	<u>72,600</u>	<u>92,315</u>
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	37,117	59,623	72,600	92,315
Income tax benefit (expense)	4,458	(14,834)	3,815	28,665
	<u>41,575</u>	<u>44,789</u>	<u>76,415</u>	<u>120,980</u>
DISCONTINUED OPERATIONS, NET (Note 6)				
Loss on discontinued operations, net of income tax (expense) benefit of \$9,863, (\$88), \$10,329, and (\$181)	(24,699)	(1,076)	(25,080)	(1,732)
	<u>16,876</u>	<u>43,713</u>	<u>51,335</u>	<u>119,248</u>
NET INCOME	16,876	43,713	51,335	119,248
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized loss on hedged transactions, net of income tax benefit of \$358, \$573, \$262, and \$526	(229)	(367)	(410)	(822)
Foreign currency translation adjustment	(4,345)	(6,116)	(656)	(4,828)
Minimum pension liability adjustments	—	—	—	(2,496)
	<u>12,302</u>	<u>37,230</u>	<u>50,269</u>	<u>111,102</u>
COMPREHENSIVE INCOME	\$ 12,302	\$ 37,230	\$ 50,269	\$ 111,102
EARNINGS (LOSS) PER COMMON SHARE				
BASIC EARNINGS (LOSS) PER SHARE				
Continuing Operations	\$ 0.83	\$ 0.90	\$ 1.52	\$ 2.45
Discontinued Operations	(0.49)	(0.02)	(0.50)	(0.04)
	<u>0.34</u>	<u>0.88</u>	<u>1.02</u>	<u>2.41</u>
Net Income	\$ 0.34	\$ 0.88	\$ 1.02	\$ 2.41
DILUTED EARNINGS (LOSS) PER SHARE				
Continuing Operations	\$ 0.81	\$ 0.88	\$ 1.49	\$ 2.38
Discontinued Operations	(0.48)	(0.02)	(0.49)	(0.03)
	<u>0.33</u>	<u>0.86</u>	<u>1.00</u>	<u>2.35</u>
Net Income	\$ 0.33	\$ 0.86	\$ 1.00	\$ 2.35

See Notes to Condensed Consolidated Financial Statements.

[Table of Contents](#)

RAYONIER INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in thousands unless otherwise noted)

	June 30, 2005	December 31, 2004
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 136,315	\$ 84,117
Accounts receivable, less allowance for doubtful accounts of \$1,470 and \$1,271	88,060	87,483
Inventory		
Finished goods	57,790	60,155
Work in process	7,874	7,908
Raw materials	7,538	6,863
Manufacturing and maintenance supplies	8,210	7,814
	<hr/>	<hr/>
Total inventory	81,412	82,740
Timber purchase agreements	3,432	6,419
Other current assets	42,156	27,237
Assets held for sale	50,439	77,248
	<hr/>	<hr/>
Total current assets	401,814	365,244
	<hr/>	<hr/>
TIMBER PURCHASE AGREEMENTS	4,221	2,440
TIMBER, TIMBERLANDS AND LOGGING ROADS, NET OF DEPLETION AND AMORTIZATION	1,040,418	1,053,481
PROPERTY, PLANT AND EQUIPMENT		
Land	20,226	19,989
Buildings	115,147	114,384
Machinery and equipment	1,215,009	1,198,903
	<hr/>	<hr/>
Total property, plant and equipment	1,350,382	1,333,276
Less - accumulated depreciation	(971,054)	(936,161)
	<hr/>	<hr/>
	379,328	397,115
	<hr/>	<hr/>
OTHER ASSETS	108,684	111,407
	<hr/>	<hr/>
	\$ 1,938,664	\$ 1,933,886
	<hr/>	<hr/>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 65,930	\$ 72,487
Bank loans and current maturities	63,575	48,575
Accrued taxes	39,652	45,562
Accrued payroll and benefits	16,115	24,043
Accrued interest	5,633	5,093
Accrued customer incentives	8,278	9,077
Other current liabilities	29,217	20,635
Current reserves for dispositions and discontinued operations	12,711	12,126
Liabilities associated with assets held for sale	3,912	4,928
	<hr/>	<hr/>
Total current liabilities	245,023	242,526
	<hr/>	<hr/>
DEFERRED INCOME TAXES	38,821	46,447
LONG-TERM DEBT	623,228	610,290
NON-CURRENT RESERVES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS	128,539	133,928
OTHER NON-CURRENT LIABILITIES	101,512	100,108
COMMITMENTS AND CONTINGENCIES (Notes 13 and 14)		
SHAREHOLDERS' EQUITY		
Common Shares, 120,000,000 shares authorized, 50,439,361 and 49,977,553 shares issued and outstanding	406,536	393,513
Retained earnings	390,476	401,479
Accumulated other comprehensive income	330	1,396
	<hr/>	<hr/>
	797,342	796,388
	<hr/>	<hr/>
	\$ 1,934,465	\$ 1,929,687
	<hr/>	<hr/>

See Notes to Condensed Consolidated Financial Statements.

RAYONIER INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands unless otherwise noted)

	Six Months Ended June 30,	
	2005	2004
OPERATING ACTIVITIES		
Income from continuing operations	\$ 76,415	\$ 120,980
Non-cash items included in income:		
Depreciation, depletion and amortization	71,998	75,256
Non-cash cost of real estate sales	6,003	9,245
Deferred income tax benefit	(12,584)	(44,586)
Increase in accounts receivable	(614)	(11,549)
(Increase) decrease in inventory	(2,712)	208
Decrease in accounts payable	(6,565)	(5,081)
Increase in current timber purchase agreements and other current assets	(12,811)	(547)
Increase in accrued liabilities	2,044	22,039
Increase in other non-current liabilities	3,790	2,342
Decrease (increase) in timber purchase agreements and other assets	2,770	(7,167)
Expenditures for dispositions and discontinued operations	(4,804)	(3,409)
	<u>122,930</u>	<u>157,731</u>
CASH PROVIDED BY OPERATING ACTIVITIES OF CONTINUING OPERATIONS		
	965	14
CASH PROVIDED BY OPERATING ACTIVITIES OF DISCONTINUED OPERATIONS		
INVESTING ACTIVITIES		
Capital expenditures, net of proceeds from sales and retirements	(43,645)	(34,835)
Increase in restricted cash (Note 8)	(1,998)	(30,462)
	<u>(45,643)</u>	<u>(65,297)</u>
CASH USED FOR INVESTING ACTIVITIES OF CONTINUING OPERATIONS		
	(274)	(719)
CASH USED FOR INVESTING ACTIVITIES OF DISCONTINUED OPERATIONS		
FINANCING ACTIVITIES		
Issuance of debt	75,000	116,000
Repayment of debt	(46,545)	(117,545)
Dividends paid	(62,245)	(55,390)
Issuance of common shares	7,967	10,030
	<u>(25,823)</u>	<u>(46,905)</u>
CASH USED FOR FINANCING ACTIVITIES OF CONTINUING OPERATIONS		
EFFECT OF EXCHANGE RATE CHANGES ON CASH	43	(179)
	<u>52,198</u>	<u>44,645</u>
CASH AND CASH EQUIVALENTS		
Increase in cash and cash equivalents	84,117	21,397
Balance, beginning of year	\$ 136,315	\$ 66,042
Balance, end of period	<u>\$ 136,315</u>	<u>\$ 66,042</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period:		
Interest	\$ 23,867	\$ 22,529
Income taxes	\$ 5,898	\$ 814

See Notes to Condensed Consolidated Financial Statements.

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands unless otherwise stated)

1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements of Rayonier Inc. and its subsidiaries (Rayonier or the Company), reflect all adjustments (which include normal recurring adjustments) necessary for a fair presentation of the results of operations, the financial position and the cash flows for the periods presented. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of certain estimates by management in determining the amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. There are risks inherent in estimating, and therefore, actual results could differ from those estimates. For a full description of the Company's significant accounting policies, please refer to the Notes to Consolidated Financial Statements in the 2004 Annual Report on Form 10-K.

New Accounting Standards

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, *Accounting Changes and Error Corrections*. The Statement replaces Accounting Principles Board Opinion No. 20, *Accounting Changes* and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the accounting for and reporting of a change in accounting principle. The Statement applies to all voluntary changes in accounting principle and to changes required by an accounting pronouncement when specific transition provisions are not provided. The Statement requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine the period specific or cumulative effect of the change. The Statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In March 2005, the FASB issued Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*. This interpretation states that the term "conditional asset retirement obligation" as used in paragraph A23 of SFAS No. 143 refers to a legal obligation to perform an asset retirement in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement obligation is unconditional even though uncertainty exists about the timing and (or) method of settlement. The effective date for adopting this interpretation is no later than the end of fiscal years ending after December 15, 2005. The Company's financial condition, results of operations and cash flows were not impacted by the adoption of FIN 47 in the second quarter of 2005.

In December 2004, the FASB issued a revision to SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123R). SFAS No. 123R supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123R requires that all stock-based compensation, including options, be expensed at fair value as of the grant date over the vesting period. Companies will be required to use an option pricing model to determine compensation expense, consistent with the model used in the already required disclosures of SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure* (i.e., Black-Scholes or Binomial). In April 2005, the SEC issued a release to amend the effective date of compliance with SFAS No. 123R to the first quarter of the first fiscal year beginning after June 15, 2005. The Company expects to adopt SFAS No. 123R on January 1, 2006 and is currently evaluating the impact on its financial condition, results of operations or cash flows.

In December 2004, the FASB issued FASB Staff Position (FSP) 109-1, *Application of SFAS No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004*. The American Jobs Creation Act of 2004 (the Act) includes tax relief for domestic manufacturers by providing a tax deduction of up to 9 percent (when fully phased-in) of the lesser of "qualified production activities income" (as defined by the Act) or taxable income. In conjunction with creating this new deduction, the Act phases out the current Extraterritorial Income Exclusion (EIE) over the next two years. The FSP requires that the new deduction be accounted for as a special deduction because it is based on the future performance of specific activities, including level of wages. The Company has adopted the provisions of FSP 109-1 in 2005 and expects to record a tax benefit of approximately \$0.8 million greater than the 2004 benefit under the EIE.

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands unless otherwise stated)

In December 2004, the FASB issued FSP 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004*. SFAS No.109 requires adjustment of deferred tax assets and liabilities for the effect of a change in tax rates in the period that includes the enactment date of the Act. The purpose of this FSP was to grant companies additional time to evaluate the effect of the Act on their plans for reinvestment or repatriation of foreign earnings, postpone recognition until such determination is made and to provide guidance for disclosures during reporting periods when determination has not yet been made. The FSP requires disclosure of a company's status of its determination, its expected date of completion and a range of reasonably possible amounts considered for repatriation, including the related tax effects of doing so. The Company complied with the accounting and reporting guidance outlined in the FSP in 2004. The Company expects to complete its determination of foreign earnings to be repatriated in the third quarter of 2005. See also Note 7 - *Income Taxes*.

In November 2004, the FASB issued SFAS No. 151, *Amendment of ARB No. 43, Chapter 4*. This statement amends the guidance in Accounting Research Bulletin No. 43, Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). This statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this statement requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company will adopt the standard on January 1, 2006 and does not expect a material impact on its financial condition, results of operations or cash flows.

In May 2004, the FASB issued FSP 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 provides a prescription drug benefit under Medicare Part D to those employers that sponsor postretirement health care plans that provide prescription drug benefits to participants that are actuarially equivalent to Medicare Part D. This FSP provides reporting guidance for companies that have not made an actuarial determination and accounting guidance for when the determination is made. The Company adopted the provisions of FSP 106-2 in the first quarter of 2005; see Note 15—*Employee Benefit Plans*.

Reclassifications

Certain items in prior year's condensed consolidated financial statements have been reclassified to conform to the current year presentation.

2. SUBSEQUENT EVENT

On July 15, 2005, Rayonier entered into an agreement to sell its New Zealand forests (118,000 acres) having a book value of \$112 million, for approximately \$184 million (based on a New Zealand /U.S. dollar exchange rate of 0.68), and simultaneously entered into a joint venture arrangement with RREEF Infrastructure, the global infrastructure investing arm of Deutsche Asset Management. The joint venture has also entered into an agreement to purchase 235,000 acres of New Zealand forests from Carter Holt Harvey (CHH), an Australasian forest products company, for approximately \$296 million. The joint venture will use its investors' capital investment and approximately \$255 million of bank borrowings to purchase the Rayonier and CHH forestry assets. At a 49.7 percent level of investment, the sale of Rayonier's forests will result in \$67 million in cash proceeds (before cash taxes of \$6 million), net of its initial investment in the joint venture, and a \$28 million after-tax gain on the non-deferred portion of the sale of forests (38 percent of the total gain of \$73 million). Rayonier has provided a letter of credit, in the amount of \$25 million, as part of the bid process on the CHH forests purchase.

Rayonier will have an investment in the joint venture of between 40 percent and 49.7 percent, dependent upon additional third-party debt subscriptions and the joint venture's level of debt. At a 40 percent investment level, cash proceeds will be \$82 million and a \$38 million after-tax gain will be recognized. Rayonier's investment in the joint venture will be accounted for using the equity method of accounting. In addition, Rayonier will manage the joint venture. Closure of the transactions is expected in the fourth quarter of 2005.

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands unless otherwise stated)

3. INCOME PER COMMON SHARE

The following table provides details of the calculation of basic and diluted income per common share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Income from continuing operations	\$ 41,575	\$ 44,789	\$ 76,415	\$ 120,980
Loss from discontinued operations	(24,699)	(1,076)	(25,080)	(1,732)
Net income	\$ 16,876	\$ 43,713	\$ 51,335	\$ 119,248
Shares used for determining basic earnings per common share	50,217,948	49,557,582	50,169,207	49,449,037
Dilutive effect of:				
Stock options	955,130	906,890	916,502	957,089
Contingent performance and restricted shares	434,995	427,144	433,355	427,144
Shares used for determining diluted earnings per common share	51,608,073	50,891,616	51,519,064	50,833,270
Basic earnings (loss) per common share:				
Continuing operations	\$ 0.83	\$ 0.90	\$ 1.52	\$ 2.45
Discontinued operations	(0.49)	(0.02)	(0.50)	(0.04)
Net income	\$ 0.34	\$ 0.88	\$ 1.02	\$ 2.41
Diluted earnings (loss) per common share:				
Continuing operations	\$ 0.81	\$ 0.88	\$ 1.49	\$ 2.38
Discontinued operations	(0.48)	(0.02)	(0.49)	(0.03)
Net income	\$ 0.33	\$ 0.86	\$ 1.00	\$ 2.35

4. INCENTIVE STOCK PLANS

The Company accounts for stock based compensation using the intrinsic value based method under Accounting Principles Board Opinion No. 25 (APB No. 25), *Accounting for Stock Issued to Employees*. The 1994 Rayonier Incentive Stock Plan (the 1994 Plan) provided for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, performance shares and restricted stock, subject to certain limitations. Effective January 1, 2004, the Company adopted the 2004 Rayonier Incentive Stock Plan and Management Bonus Plan (the 2004 Plan). The 2004 Plan provides for 2.5 million shares to be granted for incentive stock options, non-qualified stock options, stock appreciation rights, performance shares and restricted stock, subject to certain limitations.

Pursuant to the disclosure requirements of SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*, the following table provides a reconciliation for the three months and six months ended June 30, 2005 and 2004 that adds back to reported net income the recorded expense under APB No. 25, net of related income tax effects, deducts the total fair value expense under SFAS No. 123, *Accounting for Stock Based Compensation*, net of related income tax effects, and shows the reported and pro forma earnings per share amounts.

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands unless otherwise stated)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net income, as reported	\$16,876	\$43,713	\$51,335	\$119,248
Total stock-based employee compensation cost included in the determination of net income, net of related tax effects	1,906	1,700	2,715	2,998
Total stock-based employee compensation cost determined under fair value method for all awards, net of related tax effects	(1,568)	(1,659)	(3,147)	(3,370)
Pro forma net income	<u>\$17,214</u>	<u>\$43,754</u>	<u>\$50,903</u>	<u>\$118,876</u>
Earnings per share:				
Basic, as reported	\$ 0.34	\$ 0.88	\$ 1.02	\$ 2.41
Basic, pro forma	\$ 0.34	\$ 0.88	\$ 1.01	\$ 2.40
Diluted, as reported	\$ 0.33	\$ 0.86	\$ 1.00	\$ 2.35
Diluted, pro forma	\$ 0.33	\$ 0.86	\$ 0.99	\$ 2.34

5. REAL ESTATE INVESTMENT TRUST (REIT) - LEGAL AND TAX CONVERSION

The Company converted to a Real Estate Investment Trust (REIT) on January 1, 2004. The Company is generally not required to pay federal income taxes on its U.S. timber harvest operations and other REIT qualifying activities contingent upon meeting applicable distribution, income, asset, shareholder and other tests. The REIT-qualifying operations are conducted primarily by the Company's wholly-owned subsidiary, Rayonier Forest Resources, L.P. (RFR). Other non-REIT qualifying and foreign operations, which will continue to pay corporate-level income tax, have been transferred to Rayonier TRS Holdings Inc., a wholly-owned subsidiary of Rayonier Inc. Rayonier TRS Holdings Inc. and its subsidiaries are sometimes referred to collectively as the "taxable REIT subsidiaries" (TRS). These operations include the Company's Performance Fibers, New Zealand timber, and Wood Products businesses, as well as the Company's Higher and Better Use (HBU) real estate sales activities. REIT conversion costs totaled \$5 million for the six months ended June 30, 2004.

6. MEDIUM-DENSITY FIBERBOARD BUSINESS - HELD FOR SALE

On June 28, 2005, the Company's Board of Directors approved a plan to sell its Medium-Density Fiberboard (MDF) business located in New Zealand. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company recorded an after-tax loss of \$24.1 million to adjust the MDF assets to fair market value less cost to sell. MDF's operating results have been segregated from continuing operations in the Condensed Consolidated Statements of Income and Comprehensive Income and reported as discontinued operations for all periods presented and the assets and liabilities associated with the MDF facility have been classified as "Assets Held for Sale" and "Liabilities Associated with Assets Held for Sale" in the Condensed Consolidated Balance Sheets at June 30, 2005 and December 31, 2004. The MDF operations and associated assets were previously reported in the Company's Wood Products segment.

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands unless otherwise stated)

Operating results of the discontinued operation are summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Sales	\$ 11,461	\$10,267	\$ 22,851	\$20,150
Operating loss, including impairment loss	\$ (34,562)	\$ (988)	\$ (35,409)	\$ (1,551)
Impairment loss, net of income tax benefit of \$9,136	\$ (24,102)	\$ —	\$ (24,102)	\$ —
Net loss from discontinued operations	\$ (24,699)	\$ (1,076)	\$ (25,080)	\$ (1,732)

The Consolidated Balance Sheets include assets and liabilities of discontinued operations as follows:

	June 30, 2005	December 31, 2004
Assets		
Accounts receivable, net	\$ 3,076	\$ 3,993
Inventory	8,156	8,202
Other current assets	6,933	(3,692)
Property and equipment, net	29,857	66,203
Other assets	2,417	2,542
Total assets held for sale	\$50,439	\$ 77,248
Liabilities		
Accounts payable	2,158	3,775
Other current liabilities	1,754	1,153
Total liabilities associated with assets held for sale	\$ 3,912	\$ 4,928

7. INCOME TAXES

As a REIT, if certain requirements are met, only the taxable REIT subsidiaries are subject to corporate income taxes. However, the Company is subject to corporate taxes on built-in gains (the excess of fair market value over tax basis at January 1, 2004) on taxable sales of property within the REIT during the first ten years following the election to be taxed as a REIT. In accordance with SFAS No. 109, *Accounting for Income Taxes*, the Company estimated the amount of timberland that will be sold within the ten year built-in gain period and retained a deferred tax liability for the expected income tax on such built-in gains. All deferred tax liabilities and assets related to taxable REIT subsidiaries were retained. The remaining deferred tax liability of \$78 million resulting from U.S. timberland temporary differences was reversed in the first quarter of 2004 and recorded as an income tax benefit. In addition, as a REIT, the Company can be subject to a 100 percent tax on the gain from entering into prohibited transactions. The Company believes it did not engage in any prohibited transactions during the three and six months ended June 30, 2005 and during 2004.

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands unless otherwise stated)

Under current law, the built-in gains tax from the sale of REIT property can be eliminated if sales proceeds from relinquished properties are reinvested in similar property within required time periods as outlined in Internal Revenue Code (IRC) Section 1031 regarding like-kind exchanges (LKE), so long as the replacement property is owned at least until expiration of the ten-year built-in gain period (which began on January 1, 2004) or exchanged for other property. However, this does not restrict the Company's ability to sell timber on a pay-as-cut basis from such replacement property during the ten-year built-in gain period. During the six months ended June 30, 2005, the Company has completed LKE transactions for \$6.7 million of its real estate sales which will result in tax benefits of \$1.8 million, \$0.9 million of which has been recognized to date. No LKE tax benefits were recorded during the first six months of 2004.

Prior to March 31, 2004, the Company did not provide for taxes on approximately \$123 million of undistributed foreign earnings as it intended to reinvest such earnings overseas in the future. Following the conversion to a REIT, this strategy was reevaluated with a greater likelihood of most future investments being made in U.S. timberlands. Accordingly, in 2004, the Company recognized \$33.9 million of tax expense on undistributed foreign earnings that it expects will ultimately be repatriated. Since repatriation has not occurred, the tax payable fluctuates due to exchange rate changes and in the second quarter of 2005, the Company recorded a \$2.5 million tax benefit which included the reversal of \$1.1 million of tax expense recorded in the first quarter. The Company has not recognized tax expense of approximately \$5 million related to \$20 million of undistributed foreign earnings intended to remain permanently reinvested overseas.

On October 22, 2004, the American Jobs Creation Act (the AJCA) was signed into law. The AJCA includes a deduction of 85 percent of certain foreign earnings that are repatriated, as defined in the AJCA. In 2005, the Company may elect to repatriate qualifying earnings approximating \$157 million (based on a .6955 exchange rate at June 30, 2005). The Company has started an evaluation of the effects of the Act's provisions on repatriation; however, the Company may not be able to complete this evaluation until after Congress passes the proposed technical corrections bill related to the repatriation provisions and/or the Treasury Department provides additional clarifying language. The Company expects to complete its evaluation of the effects of the repatriation provision in the third quarter of 2005.

Prior to filing the Company's first quarter 2005 Form 10-Q, Rayonier executed a settlement agreement with the Internal Revenue Service (IRS) regarding a disputed issue for its 1996 and 1997 taxable years. The Company reversed the final \$9.5 million of a tax reserve previously established for this issue which was required to be recorded in the first quarter.

In June 2005, Rayonier reached an agreement with the IRS regarding disputed issues for its 1998 and 1999 taxable years, resulting in the reversal in the second quarter of 2005 of a \$7.2 million reserve previously established for these issues. The Company expects cash refunds of approximately \$3 million for tax deposits previously paid on these issues.

The Company has other matters under review by various taxing authorities, including the IRS. The Company believes its positions on these matters as well as others, including some for which a Notice of Proposed Adjustment has been received, are technically sound and its tax reserves at June 30, 2005 adequately reflect the probable resolution regarding potential adjustments by the taxing authorities. Nevertheless, it is reasonably possible that the final resolution of these matters could result in an additional tax liability of up to \$8 million above established reserves.

8. RESTRICTED CASH - LIKE-KIND EXCHANGES

The Company continues to pursue additional LKE opportunities. The proceeds from real estate sales must be deposited with a third party Section 1031 intermediary in order to qualify for LKE treatment if a suitable replacement property is acquired. As of June 30 2005, and December 31, 2004, the Company had \$4.2 million and \$2.2 million, respectively, of proceeds from real estate sales classified as restricted cash in "Other Assets".

In the event that the LKE purchases are not completed, the proceeds will be returned and reclassified as available cash after 180 days. At June 30, 2005, and December 31, 2004, the Company had \$15.7 million and \$3.5 million, respectively, deposited with a Section 1031 intermediary recorded in "Other Current Assets" from real estate sales that were not matched with LKE purchases, which will be reclassified to "Cash and Cash Equivalents" in the third quarter of 2005.

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands unless otherwise stated)

9. SHAREHOLDERS' EQUITY

An analysis of shareholders' equity for the six months ended June 30, 2005 and the year ended December 31, 2004 is shown below.

	Common Shares		Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Shareholders' Equity
	Shares	Amount			
(Share and per share amounts not in thousands)					
Balance, January 1, 2004	49,018,316	\$ 364,810	\$ 355,956	\$ (9,660)	\$ 711,106
Net income			156,901		156,901
Dividends (\$2.24 per share)			(111,378)		(111,378)
Issuance of shares under incentive stock plans	959,237	24,323			24,323
Unrealized loss on hedged transactions				(338)	(338)
Minimum pension liability adjustments				(217)	(217)
Tax benefit on exercise of stock options		4,380			4,380
Foreign currency translation adjustment				11,611	11,611
Balance, December 31, 2004	49,977,553	393,513	401,479	1,396	796,388
Net income			51,335		51,335
Dividends (\$1.24 per share)			(62,338)		(62,338)
Issuance of shares under incentive stock plans	461,808	10,791			10,791
Unrealized loss on hedged transactions				(410)	(410)
Tax benefit on exercise of stock options		2,232			2,232
Foreign currency translation adjustment				(656)	(656)
Balance, June 30, 2005	50,439,361	\$ 406,536	\$ 390,476	\$ 330	\$ 797,342

10. SEGMENT INFORMATION

Rayonier operates in three reportable business segments as defined by SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*: Timber and Real Estate, Performance Fibers and Wood Products. The Company's remaining operations are combined and reported in a category called "Other Operations" as permitted by SFAS No. 131.

In June 2005, the Company's MDF business was classified as held for sale and its operations are shown as discontinued operations (see Note 6, *Medium-Density Fiberboard Business – Held for Sale*). These operations were previously included in the Wood Products segment. The Wood Products segment amounts shown below have been restated to exclude the MDF business.

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands unless otherwise stated)

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

	June 30, 2005	December 31, 2004
ASSETS		
Timber and Real Estate	\$ 1,147,705	\$ 1,146,795
Performance Fibers	478,208	489,383
Wood Products	46,913	44,121
Other Operations	29,552	29,936
Corporate	176,302	136,965
Assets Held for Sale (Note 6)	50,439	77,248
Dispositions	5,346	5,239
TOTAL	\$ 1,934,465	\$ 1,929,687

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
SALES				
Timber and Real Estate	\$ 69,223	\$ 89,728	\$ 144,736	\$ 176,091
Performance Fibers	153,283	152,407	296,227	285,333
Wood Products	36,348	34,455	66,896	62,115
Other Operations	31,504	50,315	57,790	87,220
Intersegment Eliminations	(71)	(272)	(390)	(296)
TOTAL	\$ 290,287	\$ 326,633	\$ 565,259	\$ 610,463
OPERATING INCOME (LOSS)				
Timber and Real Estate	\$ 33,792	\$ 55,071	\$ 72,812	\$ 101,608
Performance Fibers	18,505	18,370	30,886	24,461
Wood Products	5,781	6,077	9,031	7,331
Other Operations	(382)	1,946	(196)	4,248
Corporate and other	(8,794)	(10,240)	(16,324)	(23,373)
TOTAL	\$ 48,902	\$ 71,224	\$ 96,209	\$ 114,275
DEPRECIATION, DEPLETION AND AMORTIZATION				
Timber and Real Estate	\$ 15,499	\$ 17,170	\$ 33,299	\$ 32,320
Performance Fibers	18,653	20,509	34,635	38,722
Wood Products	1,837	2,044	3,584	3,786
Other Operations	156	139	306	266
Corporate and other	87	89	174	162
TOTAL	\$ 36,232	\$ 39,951	\$ 71,998	\$ 75,256

Operating income (loss), as stated in the preceding tables and as presented in the Condensed Consolidated Statements of Income and Comprehensive Income, is equal to Segment income (loss). The income (loss) items below "Operating income" in the Condensed Consolidated Statements of Income and Comprehensive Income are not allocated to segments. These items, which include interest (expense) income, miscellaneous income (expense) and income tax (expense) benefit are not considered by Company management to be part of segment operations.

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands unless otherwise stated)

11. FINANCIAL INSTRUMENTS*Foreign Currency Forward Contracts*

In the Company's Condensed Consolidated Statements of Income and Comprehensive Income for the three and six months ended June 30, 2005, gains of approximately \$0.5 million and \$0.8 million, respectively, were recorded on foreign currency contracts that matured, plus the time value changes for outstanding contracts. The Company recorded gains of approximately \$0.4 million and \$1.2 million for the three and six months ended June 30, 2004, respectively. At December 31, 2004, the Company also had an unrealized mark-to-market after tax gain of approximately \$0.4 million in "Accumulated Other Comprehensive Income (Loss)" (AOCI) in the Consolidated Balance Sheet. There were no outstanding foreign currency contracts as of June 30, 2005.

Interest Rate Swap Agreements

In April 2003, RFR entered into an interest rate swap on \$40 million of 8.288 percent fixed rate notes payable maturing on December 31, 2007. The swap converts interest payments from the fixed rate to six month LIBOR plus 4.99 percent and qualifies as a fair value hedge under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. As such, the net effect from the interest rate swap is recorded as interest expense. The swap agreement settles every June 30 and December 31, until maturity. During both the three and six months ended June 30, 2005, this swap agreement reduced the Company's interest expense by \$0.1 million. Based upon current interest rates for similar transactions, the fair value of the interest rate swap agreement resulted in a liability of approximately \$0.6 million and a corresponding decrease in debt at June 30, 2005.

In April 2004, RFR entered into an interest rate swap on \$50 million of 8.288 percent fixed rate notes payable maturing on December 31, 2007. The swap converts interest payments from the fixed rate to a six month LIBOR plus 4.7825 percent rate and qualifies as a fair value hedge under SFAS No. 133. As such, the net effect of the interest rate swap is recorded in interest expense. The swap agreement settles every June 30 and December 31, until maturity. During the three and six months ended June 30, 2005, this swap agreement reduced the Company's interest expense by \$0.1 million and \$0.2 million, respectively. Based upon current interest rates for similar transactions, the fair value of the interest rate swap agreement resulted in a liability of approximately \$0.7 million and a corresponding decrease in debt at June 30, 2005.

Commodity Swap Agreements

The Company periodically enters into commodity forward contracts to fix some of its fuel oil costs at its Performance Fibers mills. The Company's fuel oil contracts do not qualify for hedge accounting under SFAS No. 133 and instead are required to be marked-to-market. During the three and six months ended June 30, 2005, the Company's realized gain on fuel oil forward contracts that matured was \$0.9 million and \$1.0 million, respectively. The realized gain recorded on fuel oil forward contracts maturing during both the three and six months ended June 30, 2004 was \$0.4 million. The mark-to-market valuation of outstanding fuel oil forward contracts at June 30, 2005 and December 31, 2004 resulted in an asset of \$2.0 million and a liability of \$0.1 million, respectively. The mark-to-market adjustments are recorded in "Other Operating Income/Expense."

A summary of outstanding fuel oil forward contracts as of June 30, 2005 is shown below:

Volume (barrels)	Average price per barrel	Maturity	Percentage of Estimated Consumption
115,000	\$ 28.83	3rd quarter 2005	66%
110,000	\$ 35.12	4th quarter 2005	51%
25,000	\$ 38.25	1st quarter 2006	12%
25,000	\$ 38.35	2nd quarter 2006	16%
30,000	\$ 38.30	3rd quarter 2006	19%

During the three and six months ended June 30, 2005, the Company realized a \$22 thousand gain and a \$0.1 million loss on natural gas forward contracts that matured, respectively. The mark-to-market valuation of outstanding natural gas contracts at June 30, 2005 and December 31, 2004 resulted in an asset of \$0.2 million and a liability of \$0.2 million, respectively. The mark-to-market adjustments are recorded in "Other Operating Income/Expense."

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands unless otherwise stated)

Below is a summary of outstanding natural gas forward contracts as of June 30, 2005:

Volume (Decatherms)	Average price per Decatherm	Maturity	Percentage of Estimated Quarterly Consumption
175,000	\$ 6.65	3rd quarter 2005	74%
100,000	\$ 7.06	4th quarter 2005	35%
30,000	\$ 7.96	1st quarter 2006	14%

12. GUARANTEES

The Company provides financial guarantees as required by creditors, insurance programs and foreign governmental agencies. As of June 30, 2005, the following financial guarantees were outstanding:

	Maximum Potential Payment	Carrying Amount of Liability
Standby letters of credit (1)	\$ 76,948	\$ 61,410
Guarantees (2) and (3)	130,627	125,043
Surety bonds (4)	10,633	2,070
Total	\$ 218,208	\$ 188,523

- (1) Approximately \$62 million of the standby letters of credit serve as credit support for industrial revenue bonds. The remaining letters of credit support obligations under various insurance related agreements, primarily workers' compensation and pollution liability policy requirements. These letters of credit expire at various dates during 2005 and 2006 and are typically rolled over as required. See also Note 2, *Subsequent Event*.
- (2) In conjunction with the sale of the New Zealand East Coast timber operations in 2002, the Company guaranteed five years of Crown Forest license obligations. In late 2003, the buyer defaulted on its loan payments to its creditors and went into receivership with the 2004 obligation paid by the receiver. The property was then re-sold. The new owner is the primary obligor and has posted a bank performance bond with the New Zealand government. If the new owner fails to pay the obligations, the New Zealand government will demand payment from the owner's bank pursuant to the bond. The Company would have to perform under the guarantee and seek legal redress from the owner if the owner's bank defaulted on the bond. The Company expects the owner's bond to be sufficient to cover the license obligations. As of June 30, 2005, two payments remained outstanding, estimated at \$1.5 million per year. This guarantee expires in 2007.

In 2004, the Company sold approximately 15,000 acres of timberland in a single transaction for approximately \$25 million. As payment for this property a 15-year installment note was received from the buyer, with a fixed interest rate of 5.17 percent. In addition, the buyer delivered an irrevocable letter of credit from a major banking institution that secures all payments of principal and interest under the installment note. The Company monetized the note by contributing the note and the letter of credit to a bankruptcy-remote limited liability subsidiary that meets the requirements of a qualified special purpose entity (QSPE) as defined by SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. As such, the QSPE is not consolidated in the Company's financial statements. Using the installment note and the letter of credit as collateral, the QSPE issued \$22.5 million of 15-year Senior Secured Notes with a fixed interest rate of 5 percent and remitted cash of \$22.5 million to the Company. At closing the Company had a retained interest of \$2.5 million in the QSPE. In conjunction with this timberland sale and note monetization, the Company issued a make-whole agreement pursuant to which it guaranteed \$2.5 million of obligations of the QSPE. At June 30, 2005, the Company had a liability of \$43 thousand to reflect the fair market value of its obligation to perform under the make-whole agreement.

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands unless otherwise stated)

- (3) In conjunction with the Company's \$250 million revolving credit facility, Rayonier guarantees the borrowings of RFR and TRS. Additionally, TRS guarantees the borrowings of Rayonier Inc. At June 30, 2005, TRS had \$125 million of debt outstanding on the facility that is guaranteed by Rayonier.
- (4) Rayonier has issued surety bonds primarily to secure timber in the State of Washington and to provide collateral for the Company's workers' compensation self-insurance program in that state. These surety bonds expire at various dates during 2005 and 2006 and are renewed as required. In 1996, the Company was required to issue a bond to cover future potential closure costs for the MDF plant in New Zealand.

13. CONTINGENCIES

From time to time, Rayonier may become liable with respect to pending and threatened litigation and environmental and other matters. The following updates or repeats commentary included in the 2004 Annual Report on Form 10-K.

Legal Proceedings

The Company is involved in various legal actions, including environmental matters that are discussed more fully in Note 14-*Reserves for Dispositions and Discontinued Operations*. While the ultimate results of these legal actions and related claims cannot be determined, the Company does not expect that they will have a material adverse effect on the Company's consolidated financial position or results of operations.

Between 1985 and 1995, Southern Wood Piedmont Company (SWP, a wholly owned subsidiary of the Company) sent contaminated soil excavated in connection with the cleanup of various closed wood processing sites to a third-party processor in Louisiana for recycling. The processing facility closed in 1995 and is the subject of a variety of environmental related charges and a lawsuit brought by the U.S. Department of Justice (DOJ) and the State of Louisiana, through its Department of Environmental Quality (LDEQ), in United States District Court for the Western District of Louisiana (the Court) against the owner of the processing facility. Also in dispute is disposal liability for approximately 150,000 tons of recycled material from sites operated by SWP that are still owned and retained by the processor. SWP, DOJ and LDEQ have been engaged in discussions regarding a settlement of this matter. On July 14, 2005 DOJ filed a motion to dismiss SWP's Amended Complaint in Intervention in this case and, in the event the SWP's complaint was not dismissed by the Court, DOJ filed an answer to the complaint. DOJ also asked the Court for leave to file a counterclaim against SWP and the Company, which would assert claims for cost recovery under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) in respect of the investigation and remediation of the sites owned by the third party processor. Trial in this matter is currently scheduled for November 2005. If no settlement is reached in this matter, the Company will vigorously defend itself. The Company believes that reserves at June 30, 2005 adequately reflect the probable costs to be incurred upon the ultimate resolution of the dispute.

The Company received an April 22, 2005 letter from the Environmental Protection Division of the Georgia Department of Natural Resources, which identified it as a responsible party under the Georgia Hazardous Site Response Act for potential polychlorinated biphenyl (PCB) contamination allegedly originating from a third party-owned site in Jesup, Georgia. Approximately 60 other parties received similar letters. It is unclear at this time as to the nature, extent or scope of any potential contamination from the site. The Company is currently unable to estimate the amount or probability of any potential exposure.

Environmental Matters

Rayonier is subject to stringent environmental laws and regulations concerning air emissions, water discharges and waste handling and disposal. Such environmental laws and regulations include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, and CERCLA. Management closely monitors its environmental responsibilities, and similar state laws and regulations, and believes that the Company is in substantial compliance with current environmental requirements. It is the opinion of management that substantial expenditures over the next ten years will be required in the area of environmental compliance. During 2005 and 2006, Rayonier expects spending on environmental capital projects to be approximately \$6 million per year, primarily related to Cluster Rule compliance as discussed below.

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands unless otherwise stated)

The EPA finalized its Cluster Rules governing air emissions in 1998 but, due to the specialty nature of Rayonier's Performance Fibers products and operations, the agency postponed finalizing water discharge rules and certain air emissions rules governing the Company's two Performance Fibers dissolving pulp mills and two other similar mills. In late 2003, EPA informed the Company that it was delegating its Cluster Rule rulemaking authority for these four mills to the environmental agencies of the respective states. Rayonier will continue to work with the EPA and the applicable state environmental authorities to establish such rules for its mills, but the timing and costs associated with such rulemaking are uncertain. In the opinion of management, capital costs to be incurred over the next five years (2005-2009) associated with Cluster Rule compliance and other environmental regulations are not expected to exceed \$25 million at the Performance Fibers mills. Such capital expenditures are not expected to cause the Company's 2005 total annual spending to exceed \$90 million to \$100 million, excluding strategic investments.

Federal, state and local laws and regulations intended to protect threatened and endangered species, as well as wetlands and waterways, limit and may in certain cases prevent timber harvesting, road building and other activities on private lands, including a portion of the Company's timberlands. Over the past several years, the harvest of timber from the Company's timberlands in the State of Washington has been restricted as a result of the listing of the northern spotted owl, the marbled murrelet and several species of salmon and trout as threatened species under the Endangered Species Act. In 1999, the Washington timber industry and federal, state, local and tribal governments, entered into an agreement, known as the Forests and Fish Report. The Washington Forest Practices Board has adopted rules implementing the Forests and Fish Report that further restrict timber harvesting within buffers along streams with fish habitat. All of these restrictions have caused Rayonier to restructure and reschedule some harvest plans and have reduced the total acreage and volume of timber available for harvest. For the most part, however, these restrictions had been anticipated and the Company expects to sustain past harvest levels in the foreseeable future.

14. RESERVES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS

The Company's dispositions and discontinued operations include its Port Angeles, WA mill, which was closed on February 28, 1997; its wholly owned subsidiary, SWP, which owns 10 former wood processing sites and ceased operations in 1989; its Eastern Research Division (ERD), which ceased operations in 1981; and other miscellaneous assets held for disposition. SWP has been designated a potentially responsible party (PRP), or has had other claims made against it, under the U.S. Comprehensive Environmental Response, Compensation and Liability Act and/or comparable state statutes at various sites where the Company no longer operates.

During the three and six months ended June 30, 2005, expenditures of \$3.1 million and \$4.8 million for monitoring and remediation activities were charged to the reserves, respectively. An analysis of activity in the reserves for dispositions and discontinued operations for the six months ended June 30, 2005 and the year ended December 31, 2004, is as follows:

	June 30, 2005	December 31, 2004
Balance, January 1	\$ 146,054	\$ 153,625
Expenditures charged to reserves	(4,804)	(7,801)
Additions to reserve	—	460
Reclassifications and other adjustments	—	(230)
Balance, end of period	141,250	146,054
Less: Current portion	(12,711)	(12,126)
Non-current portion	\$ 128,539	\$ 133,928

Rayonier has identified three SWP sites (Augusta, GA, Spartanburg, SC, and East Point, GA) and Port Angeles, WA as individually material and separate disclosure was presented in the Company's 2004 Annual Report on Form 10-K. There have not been any significant changes in these sites' reserve requirements for the six months ended June 30, 2005, and therefore separate disclosure is not presented herein. For an analysis of the reserve activity for the two years ended December 31, 2004 and a brief description of these individually material sites, see the Company's 2004 Annual Report on Form 10-K, Note 15 to Consolidated Financial Statements.

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands unless otherwise stated)

In addition, the Company is exposed to the risk of reasonably possible additional losses in excess of the established reserves for PRP sites. As of June 30, 2005, this amount is estimated at \$4 million and arises from uncertainty over the effectiveness of treatments, additional contamination that may be discovered, and changes in laws, regulations and administrative interpretations and in environmental remediation technology. Excluded from this estimate are two sites for which the Company is not able to determine reasonably possible additional losses. Evaluation of these sites is in preliminary stages.

Rayonier currently estimates that expenditures for environmental remediation, monitoring and other costs for all dispositions and discontinued operations in 2005 and 2006 will be approximately \$12 million per year. Such costs will be charged against Rayonier's reserves for dispositions and discontinued operations, which include environmental monitoring and remediation costs. The Company believes established reserves are sufficient for costs expected to be incurred over the next 20 years with respect to its dispositions and discontinued operations. Remedial actions for these sites vary, but can include, among other remedies, removal of contaminated soils, groundwater recovery and treatment systems, and contamination source control.

The reliability and precision of cost estimates for these sites and the amount of actual future environmental costs can be impacted by various factors including, but not limited to, the necessity for additional or different investigation or remediation, changes in environmental remediation technologies, the discovery and extent of migration of any contamination off-site, remedial remedy selection, and the outcome of negotiations with federal and state agencies. Additionally, the potential for "brownfields" (environmentally impacted site considered for re-development) treatment of all or a portion of a site could accelerate expenditures, as well as impact the amount and/or type of remediation required, as could new laws, regulations and administrative actions. Based on information currently available, the Company does not believe that any future changes in estimates, if necessary, would materially affect its consolidated financial position or results of operations.

As of June 30, 2005 and December 31, 2004, Rayonier had \$8 million of receivables from insurance claims, net of reserves for uncollectibility, included in "Other Assets." Such receivables represent the Company's claim for reimbursements in connection with property damage settlements relating to SWP's wood preserving and ERD discontinued operations.

In respect of such claim, on May 2, 2005 the Company was awarded \$16.2 million in connection with arbitration proceedings against ITT Industries, Inc. (as successor-in-interest to Rayonier's former parent ITT Corporation, or "ITT") over the distribution of environmental litigation insurance recoveries. On May 3, 2005, ITT filed a petition to vacate the award in the U.S. District Court for the Southern District of New York. On July 21, 2005, the court denied ITT's motion and confirmed the award. It is unclear whether ITT will appeal this decision, and the timing and amount of any ultimate recovery are uncertain at this time.

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands unless otherwise stated)

15. EMPLOYEE BENEFIT PLANS

	Pension		Postretirement	
	Three Months Ended June 30,		Three Months Ended June 30,	
	2005	2004	2005	2004
Components of Net Periodic Benefit Cost				
Service cost	\$ 1,825	\$ 1,681	\$ 152	\$ 173
Interest cost	3,250	3,147	540	482
Expected return on plan assets	(3,550)	(3,441)	—	—
Amortization of prior service cost	350	392	71	77
Amortization of losses	1,125	781	264	189
Net periodic benefit cost	\$ 3,000	\$ 2,560	\$ 1,027	\$ 921

	Pension		Postretirement	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Components of Net Periodic Benefit Cost				
Service cost	\$ 3,650	\$ 3,434	\$ 303	\$ 346
Interest cost	6,500	6,102	1,077	964
Expected return on plan assets	(7,100)	(6,417)	—	—
Amortization of prior service cost	700	752	141	154
Amortization of losses	2,250	1,572	526	378
Amortization of transition asset	—	(1)	—	—
Net periodic benefit cost	\$ 6,000	\$ 5,442	\$ 2,047	\$ 1,842

The Company does not have any required pension plan contributions for 2005; however, discretionary contributions ranging from \$11 million to \$26 million are expected this year.

In the first quarter of 2005, the Company's actuary determined that the prescription drug benefit provided by the Company's postretirement plans is considered to be actuarially equivalent to the benefit provided under the Medicare Prescription Drug, Improvement and Modernization Act of 2003. As such, FASB Staff Position 106-2 was retroactively applied to the date of enactment. As a result, the Company's 2005 net periodic postretirement medical benefits cost decreased by a de minimus amount while its accumulated projected benefit obligation decreased by \$0.3 million.

16. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated Other Comprehensive Income (Loss) was comprised of the following as of June 30, 2005 and December 31, 2004:

	June 30, 2005	December 31, 2004
Foreign currency translation adjustments	\$ 33,114	\$ 33,770
Unrealized gains on hedged transactions	—	410
Minimum pension liability adjustments	(32,784)	(32,784)
Total	\$ 330	\$ 1,396

During the six months ended June 30, 2005, the decrease in net foreign currency translation adjustments was due to the change in the New Zealand to U.S. dollar exchange rate.

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

Critical Accounting Policies and Use of Estimates

The preparation of Rayonier's consolidated financial statements requires the Company to make estimates, assumptions and judgments that affect the Company's assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The Company bases these estimates and assumptions on historical data and trends, current fact patterns, expectations and other sources of information it believes are reasonable. Actual results may differ from these estimates under different conditions. For a full description of the Company's critical accounting policies, see Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* in the 2004 Annual Report on Form 10-K.

Segment Information

Rayonier operates in three reportable business segments as defined by SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*: Timber and Real Estate, Performance Fibers, and Wood Products. The Timber and Real Estate segment's strategies include buying, selling and managing timber and timberlands, as well as selling higher and better use (HBU) real estate to be used for conservation, development and large tract preservation. For presentation purposes, the Company classifies its sales activities into Timber sales and Real Estate sales. Timber sales include all activities that relate to the harvesting of timber, while Real Estate sales include the sale of all land, including those designated for HBU. The Performance Fibers segment includes two major product lines, Cellulose Specialties and Absorbent Materials. The Wood Products segment solely includes the Company's lumber operations (previously, the Company's Medium Density Fiberboard (MDF) operations were included). The Company's remaining operations include purchasing, harvesting and selling timber acquired from third parties (log trading) and trading wood products. As permitted by SFAS No. 131, these operations are combined and reported in an "Other" category. Sales between operating segments are made based on fair market value and intercompany profit or loss is eliminated in consolidation. The Company evaluates financial performance based on the operating income of the segments. The Company has committed to a plan to sell its MDF business in New Zealand which requires discontinued operations treatment. As such, the Wood Products segment has been restated to exclude the operations and assets of MDF in all periods presented. See Note 6 – *Medium-Density Fiberboard Business – Held for Sale* to Condensed Consolidated Financial Statements for additional information.

Operating income (loss), as stated in the following table and as presented in the Condensed Consolidated Statements of Income and Comprehensive Income, is equal to segment income (loss). The income (loss) items below "Operating income" in the Condensed Consolidated Statements of Income and Comprehensive Income are not allocated to segments. These items, which include interest, miscellaneous income (expense) and income tax (expense) benefit, are not considered by Company management to be part of segment operations.

[Table of Contents](#)

Results of Operations, Three and Six Months Ended June 30, 2005 Compared to Three and Six Months Ended June 30, 2004.

Sales of \$290 million and \$565 million and operating income of \$49 million and \$96 million for the three and six months ended June 30, 2005, respectively, decreased over the prior year periods due primarily to the absence of a \$26 million sale of timber lease rights that occurred in April 2004 and contributed \$24 million in operating income to that year's results, partly offset by improved performance fibers and timber sales and operating income in 2005. As a result, income from continuing operations, net income, and earnings per share for the three and six months ended June 30, 2005 were also below the same prior year periods. Income tax benefits from continuing operations for the three and six months ended June 30, 2005 were \$4.5 million and \$3.8 million compared to income tax expense of \$14.8 million and an income tax benefit of \$28.7 million for the three and six months ended June 30, 2004. The income tax benefit for the six months ended 2005 included \$16.7 million of tax benefits from favorable IRS audit settlements while the six months ended June 30, 2004 included a net tax benefit of \$49.7 million associated with two REIT conversion related items. Net income for the six months ended June 30, 2005 and 2004, excluding the \$16.7 million tax benefits from favorable IRS settlements in 2005, and the \$49.7 million tax benefit from the REIT conversion in 2004, was \$34.6 million and \$69.6 million, respectively.

Financial Information (in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Sales				
Timber and Real Estate				
Timber	\$ 54.6	\$ 49.3	\$ 106.5	\$ 102.4
Real Estate	14.6	40.4	38.2	73.7
Total Timber and Real Estate	69.2	89.7	144.7	176.1
Performance Fibers				
Cellulose Specialties	108.1	107.2	209.1	200.3
Absorbent Materials	45.2	45.2	87.1	85.0
Total Performance Fibers	153.3	152.4	296.2	285.3
Wood Products	36.3	34.5	66.9	62.1
Other operations	31.5	50.3	57.8	87.2
Intersegment Eliminations	—	(0.3)	(0.4)	(0.3)
Total Sales	\$ 290.3	\$ 326.6	\$ 565.2	\$ 610.4
Operating Income (Loss)				
Timber and Real Estate				
Timber	\$ 23.2	\$ 20.1	\$ 46.8	\$ 42.9
Real Estate	10.6	35.0	26.0	58.7
Total Timber and Real Estate	33.8	55.1	72.8	101.6
Performance Fibers	18.5	18.4	30.9	24.5
Wood Products	5.8	6.1	9.0	7.3
Other operations	(0.4)	1.9	(0.2)	4.3
Corporate and other expenses / eliminations	(8.8)	(10.3)	(16.3)	(23.4)
Total Operating Income	48.9	71.2	96.2	114.3
Interest Expense	(12.8)	(11.9)	(25.1)	(23.0)
Interest / Other Income	1.0	0.3	1.5	1.0
Income tax (expense) benefit	4.5	(14.8)	3.8	28.7
Income from Continuing Operations	41.6	44.8	76.4	121.0
Discontinued Operations, Net	(24.7)	(1.1)	(25.1)	(1.7)
Net Income	\$ 16.9	\$ 43.7	\$ 51.3	\$ 119.3
Diluted Earnings Per Share	\$ 0.33	\$ 0.86	\$ 1.00	\$ 2.35

[Table of Contents](#)

Timber and Real Estate

Second quarter sales declined by approximately \$20 million, year over year, primarily due to the absence of a major sale of timber lease rights on approximately 5,500 acres in the second quarter of 2004.

In the Northwest U.S., timber prices improved in the three and six months ended June 30, 2005 due to continued strong demand from lumber mills and lower imports of Canadian timber due to a weaker U.S. dollar. Northwest volumes decreased due to the abnormally high 2004 harvest levels resulting from the deferral of fourth quarter 2003 sales contracts as a result of term revisions the Company made in preparation for its REIT conversion on January 1, 2004. In the Southeast U.S., timber prices were relatively unchanged when compared to the prior year second quarter while volumes were higher due to the third quarter 2004 timberland acquisition of 83,000 acres in Alabama. During the six months ended June 30, 2005, volumes increased slightly, while prices were lower due to the sale of salvage timber in the early part of 2005 as a result of the major hurricanes in 2004. In New Zealand, pine prices increased during the three and six months ended June 30, 2005 due to favorable foreign exchange rates, while volumes decreased slightly.

Sales (in millions)

	Changes Attributable to:					2005
	2004*	Price	Volume	Mix/Other*	Foreign Exchange	
Three months ended June 30,						
Timber	\$ 49.3	\$ 6.1	\$ (1.6)	\$ 0.2	\$ 0.6	\$ 54.6
Real Estate	40.4	(8.5)	8.7	(26.0)	—	14.6
Total Sales	\$ 89.7	\$ (2.4)	\$ 7.1	\$ (25.8)	\$ 0.6	\$ 69.2
Six months ended June 30,						
Timber	\$102.4	\$10.0	\$ (6.9)	\$ 0.2	\$ 0.8	\$106.5
Real Estate	73.7	(6.5)	(3.0)	(26.0)	—	38.2
Total Sales	\$176.1	\$ 3.5	\$ (9.9)	\$ (25.8)	\$ 0.8	\$144.7

Operating income for the quarter declined by \$21 million due primarily to lower real estate sales offset by higher timber income primarily due to the strong prices in the Northwest U.S. The nature of real estate sales is such that year over year fluctuations may be material due to the uncertain timing of such transactions. For the six months ended June 30, operating income decreased due to the absence of the major timber lease rights sale in second quarter 2004, offset by higher timber operating income.

Operating Income (in millions)

	Changes Attributable to:					2005
	2004*	Price	Volume	Mix/Costs*	Foreign Exchange	
Three months ended June 30,						
Timber	\$ 20.1	\$ 6.7	\$ (1.8)	\$ (1.7)	\$ (0.1)	\$23.2
Real Estate	35.0	(8.5)	8.5	(24.4)	—	10.6
Total Operating Income	\$ 55.1	\$ (1.8)	\$ 6.7	\$ (26.1)	\$ (0.1)	\$33.8
Six months ended June 30,						
Timber	\$ 42.9	\$10.8	\$ (3.6)	\$ (3.0)	\$ (0.3)	\$46.8
Real Estate	58.7	(6.5)	0.5	(26.7)	—	26.0
Total Operating Income	\$101.6	\$ 4.3	\$ (3.1)	\$ (29.7)	\$ (0.3)	\$72.8

* 2004 includes the sale of timber lease rights on approximately 5,500 acres that contributed \$26 million in sales and \$24 million in operating income.

See also Note 2, *Subsequent Event*.

[Table of Contents](#)

Performance Fibers

Sales during the second quarter 2005 were relatively unchanged compared to the prior year; however, for the six months ended June 30, sales improved 4 percent as a result of increased prices in both cellulose specialties and absorbent materials product lines.

Cellulose Specialties prices increased three percent in both the three and six months ended June 30, 2005, compared to the same periods in 2004 primarily as a result of strong market demand for acetate pulp. Second quarter 2005 volume decreased while year to date volumes improved due to the strong acetate market and production efficiencies realized at both the Fernandina Beach, FL and Jesup, GA mills.

Absorbent Materials prices increased eight percent in both the three and six months ended June 30, 2005. These increases were primarily a result of strong fluff pulp market conditions that continued from the first quarter. Volumes declined in the second quarter and six months ended 2005 primarily as a result of lower production at the Jesup, GA mill in an effort to increase production of higher value Cellulose Specialties.

Sales (in millions)

	2004	Changes Attributable to:			2005
		Price	Volume	Mix/Other	
Three months ended June 30,					
Cellulose Specialties	\$107.2	\$ 2.9	\$ (2.0)	\$ —	\$108.1
Absorbent Materials	45.2	3.0	(3.0)	—	45.2
Total Sales	\$152.4	\$ 5.9	\$ (5.0)	\$ —	\$153.3
Six months ended June 30,					
Cellulose Specialties	\$200.3	\$ 5.2	\$ 3.6	\$ —	\$209.1
Absorbent Materials	85.0	6.1	(4.0)	—	87.1
Total Sales	\$285.3	\$11.3	\$ (0.4)	\$ —	\$296.2

Operating income was relatively unchanged in the second quarter 2005 compared to prior year; however, operating income for the six month period improved primarily due to higher prices slightly offset by increased caustic and energy costs.

Operating Income (in millions)

	2004	Changes Attributable to:				2005
		Price	Volume	Mix /Other	Costs	
Three months ended June 30,						
Total Operating Income	\$18.4	\$ 5.9	\$ (0.6)	\$ 0.7	\$(5.9)	\$18.5
Six months ended June 30,						
Total Operating Income	\$24.5	\$11.3	\$ 0.4	\$ 1.3	\$(6.6)	\$30.9

Wood Products

The Company has committed to a plan to sell its MDF business in New Zealand which requires disclosure as a discontinued operation. As such, the Wood Products segment has been restated to exclude the operations and assets of MDF in all periods presented. See Note 6 – *Medium-Density Fiberboard Business – Held for Sale* to Condensed Consolidated Financial Statements for additional information.

Lumber sales increased 5 percent and 8 percent during the three and six months ended June 30, 2005, respectively, due to higher prices as strong demand from the housing market and reduced Canadian imports resulting from the weaker U.S. dollar and continuing trade tariffs. Volumes remained relatively unchanged during the second quarter and six months ended June 30, 2005.

Sales (in millions)

	2004	Changes Attributable to:			2005
		Price	Volume	Mix / Other	
Three months ended June 30,					
Total Sales	\$34.5	\$2.2	\$ (0.1)	\$ (0.3)	\$36.3
Six months ended June 30,					
Total Sales	\$62.1	\$5.5	\$ (0.1)	\$ (0.6)	\$66.9

Operating income was relatively unchanged during the second quarter as higher lumber prices were offset by increased wood and conversion costs. For the six months ended, operating income increased as higher prices more than offset the increase in wood costs.

Operating Income (in millions)

	2004	Changes Attributable to:			2005
		Price	Mix/Other	Costs	
Three months ended June 30,					
Total Operating Income	\$6.1	\$2.2	\$ (0.8)	\$(1.7)	\$5.8
Six months ended June 30,					
Total Operating Income	\$7.3	\$5.5	\$ (0.9)	\$(2.9)	\$9.0

Other Operations

Sales for the second quarter and six months ended 2005 declined primarily due to weaker trading activity and lower coal extractions. Other operating income decreased in both the second quarter and six months ended June 30, 2005 due to lower trading margins and coal income.

Corporate and Other Expenses / Eliminations

Corporate and other expenses of \$8.8 million in the second quarter of 2005 decreased \$1.5 million from the prior year quarter. The decrease is primarily due to lower incentive compensation costs of approximately \$1.1 million and reduced legal fees of approximately \$0.4 million. For the six months ended June 30, 2005, corporate and other expenses of \$16.3 million were \$7.1 million below prior year principally due to the absence of REIT conversion costs.

Other Income / Expense

Interest expense of \$12.8 million in the second quarter of 2005 was \$0.9 million above the comparable prior year period due to increased short term borrowings at the TRS from the purchase of real estate from RFR, and higher interest rates. For the six months ended June 30, interest expense was \$25.1 million, \$2.1 million above the comparable prior year period due to higher debt levels and interest rates.

Interest and miscellaneous income of \$1.0 million in the second quarter of 2005 was \$0.7 million above prior year, while the year to date amount was \$0.5 million higher due to increased interest income.

Provision for Income Taxes from Continuing Operations

The effective tax rates for the second quarter and first six months of 2005, before discrete items, decreased from 27.6 percent to 14.1 percent, and from 24.5 percent to 15.7 percent, respectively, compared to the prior year periods. The decreased rates were the result of increased tax benefits from REIT income, lower taxes on foreign operations due to foreign exchange translation and higher state tax benefits, partially offset by reduced tax benefits from U.S. export sales.

The Company's overall net tax benefit of \$3.8 million for the first six months of 2005 included the following three discrete adjustments:

- i. favorable IRS audit settlements (\$9.5 million first quarter benefit, \$7.2 million second quarter benefit),
- ii. the recognition of non-realizable New Zealand tax credits on U.S. withholding tax for prior years' intercompany note interest (\$2.9 million first quarter expense), and
- iii. the effect of foreign exchange rate changes on U.S. tax on undistributed foreign earnings (\$1.1 million first quarter expense, \$2.5 million second quarter benefit).

In the first six months of 2004, the Company's overall tax benefit of \$28.7 million included the following three discrete adjustments:

- i. a reversal of deferred taxes resulting from the REIT conversion (a \$77.9 million benefit),
- ii. a related change in business strategy regarding repatriation of foreign earnings (a \$28.2 million expense), and
- iii. the effect of foreign exchange rate changes on U.S. tax on undistributed foreign earnings (a \$1.6 million benefit).

The Company's effective tax rate is below the 35 percent U.S. statutory tax rate primarily due to tax benefits associated with becoming a REIT, under which the Company's U.S. timberland operations are not subject to federal income taxes if applicable distribution, income, asset and shareholder tests are met, as well as LKE transactions. Partially offsetting these benefits is the loss of tax deductibility on interest expense (\$4.7 million in the quarter) and corporate overhead expenses associated with REIT activities (\$2.9 million in the quarter). The net tax benefit from REIT activities was \$7.3 million compared to \$7.7 million in the second quarter of 2004. The Company's net tax benefit from REIT activities for the six months ended June 30, 2005 and 2004 was \$13.0 million and \$12.8 million, respectively. During the second quarter of 2005 the Company completed a \$6.7 million like-kind exchange (LKE) which resulted in a tax benefit of \$1.8 million, \$0.9 million of which was recognized during the six months ended June 30, 2005. No LKE tax benefits were recorded during the six months ended June 30, 2004.

The following table reconciles the Company's income tax provision at the U.S. statutory tax rate to the reported provision and effective tax rate for the three and six months ended June 30 (millions of dollars):

	Three months ended June 30,			
	2005	%	2004	%
Income tax provision from continuing operations at U.S. statutory rate	\$(13.0)	(35.0)	\$(20.9)	(35.0)
State and local income taxes, net of federal benefit	(0.1)	(0.3)	(1.0)	(1.7)
REIT income not subject to federal tax	7.3	19.7	7.7	12.9
Foreign operations, primarily rate differentials	0.4	1.1	(3.2)	(5.5)
Tax benefit on U.S. export sales	0.5	1.3	1.1	1.9
Permanent differences	0.1	0.2	0.3	0.5
Tax credits and other, net	(0.4)	(1.1)	(0.4)	(0.7)
	<hr/>	<hr/>	<hr/>	<hr/>
Income tax provision from continuing operations before discrete items	(5.2)	(14.1)	(16.4)	(27.6)
Tax benefit from IRS audit settlement	7.2	19.4	—	—
Foreign exchange rate change on U.S. tax from undistributed foreign earnings	2.5	6.7	1.6	2.8
	<hr/>	<hr/>	<hr/>	<hr/>
Income tax benefit/(provision) from continuing operations as reported	\$ 4.5	12.0	\$(14.8)	(24.8)

[Table of Contents](#)

	Six months ended June 30,			
	2005	%	2004	%
Income tax provision from continuing operations at U. S. statutory rate	\$(25.4)	(35.0)	\$(32.3)	(35.0)
State and local income taxes, net of federal benefit	(0.5)	(0.7)	(1.4)	(1.5)
REIT income not subject to federal tax	13.0	18.0	12.8	13.9
Foreign operations, primarily rate differentials	0.5	0.7	(2.9)	(3.0)
Tax benefit on U.S. export sales	1.1	1.5	1.6	1.7
Permanent differences	0.3	0.3	0.5	0.4
Tax credits and other, net	(0.4)	(0.5)	(0.9)	(1.0)
	<hr/>	<hr/>	<hr/>	<hr/>
Income tax provision from continuing operations before discrete items	(11.4)	(15.7)	(22.6)	(24.5)
Tax benefits from IRS audit settlements	16.7	23.0	—	—
Foreign exchange rate change on U.S. tax from undistributed foreign earnings	1.4	1.9	1.6	1.7
Non-realizability of New Zealand tax credits on U.S. withholding tax for prior years' intercompany note interest	(2.9)	(4.0)	—	—
Reversal of deferred tax liability-REIT conversion	—	—	77.9	84.4
U.S. tax on prior undistributed foreign earnings	—	—	(28.2)	(30.5)
	<hr/>	<hr/>	<hr/>	<hr/>
Income tax benefit from continuing operations as reported	\$ 3.8	5.2	\$ 28.7	31.1
	<hr/>	<hr/>	<hr/>	<hr/>

Discontinued Operations

In June 2005, the Company's Board of Directors authorized the sale of its MDF business located in New Zealand. The MDF operations qualify for separate discontinued operations treatment in the Company's Consolidated Financial Statements. The Company had a net loss of \$24.7 million or \$0.48 per share from discontinued operations in the second quarter of 2005. This consisted of a net loss from operations of \$0.6 million and a net loss of \$24.1 million on the write down of MDF's assets to net realizable value. For the six months ended June 30, 2005, the net loss from discontinued operations was \$25.1 million or \$0.49 per share.

A reconciliation of the income tax provision for discontinued operations at the U. S. statutory rate to the reported provision for income taxes follows:

	Three months ended June 30,			
	2005	%	2004	%
Income tax benefit from discontinued operations at U. S. statutory rate	\$12.1	35.0	\$ 0.3	35.0
State and local income taxes, net of federal benefit	0.4	1.2	—	—
Permanent differences related to foreign exchange rate changes	(2.6)	(7.7)	(0.4)	(43.9)
	<hr/>	<hr/>	<hr/>	<hr/>
Income tax benefit (provision) from discontinued operations as reported	\$ 9.9	28.5	\$(0.1)	(8.9)
	<hr/>	<hr/>	<hr/>	<hr/>

[Table of Contents](#)

	Six months ended June 30,			
	2005	%	2004	%
Income tax benefit from discontinued operations at U. S. statutory rate	\$ 12.4	35.0	\$ 0.5	35.0
State and local income taxes, net of federal benefit	0.4	1.2	—	—
Permanent differences related to foreign exchange rate changes	(2.5)	(7.0)	(0.7)	(46.7)
Income tax benefit (provision) from discontinued operations as reported	\$ 10.3	29.2	\$ (0.2)	(11.7)

Outlook

The Company's third quarter 2005 income from continuing operations is expected to be comparable to second quarter, excluding the tax benefit of \$7.2 million (from an IRS audit settlement), due to significantly improved real estate earnings partly offset by lower results in performance fibers due to higher costs and reduced foreign exchange related tax benefits. Earnings are expected to well exceed third quarter 2004 primarily due to stronger U.S. timber prices and real estate results.

Liquidity and Capital Resources

Cash Flow

Cash flow provided by operating activities of \$123 million for the first six months of 2005 was \$35 million below the prior year period, primarily due to lower operating income and higher working capital requirements. Cash provided by operating activities was used to provide capital expenditures of \$44 million and to pay dividends of \$62 million, while also contributing to the June 30, 2005 ending cash balance by approximately \$52 million when compared to year end. Cash used for investing activities for the six months of 2005 decreased \$19 million to \$46 million compared to the prior year period. The decrease was primarily due to lower restricted cash (held for possible LKE land acquisitions) partly offset by increased capital expenditures. Cash used for financing activities for the six months of 2005 decreased \$21 million to \$26 million compared to the prior year period. The Company's cash dividend increased \$7 million during the first six months of 2005, while short term borrowings in the TRS increased \$30 million due to intercompany activity. Proceeds from the exercise of stock options decreased \$2 million in the first six months of 2005 to \$8 million compared to \$10 million in 2004. The Company had \$136 million of cash and cash equivalents at June 30, 2005, consisting of marketable securities with maturities at date of acquisition of 90 days or less, compared to \$84 million at December 31, 2004.

At June 30, 2005, debt was \$687 million, \$28 million above the December 31, 2004 balance. The debt-to-capital ratio at June 30, 2005 weakened slightly to 46.3 percent from 45.3 percent at December 31, 2004, primarily due to the increase in short term borrowings during the first six months of 2005.

There were no pension contributions made during the first six months of 2005 compared to a \$10 million discretionary contribution made in June 2004. The Company anticipates making discretionary payments ranging from \$11 million to \$26 million before year-end. While no assurances can be given, dividends for the fourth quarter of 2005 are expected to remain at the third quarter level of \$0.62 cents per share, which was 10.7 percent above the prior year quarterly dividend. Pre-tax spending for environmental costs in 2005 is expected to be approximately \$12 million. Capital expenditures for 2005, excluding any significant acquisition opportunities, are expected to total \$96 million.

In July 2005, the Company entered into a consortium, led by RREEF Infrastructure, the global infrastructure investing arm of Deutsche Asset Management, that will purchase Rayonier's New Zealand forest assets for approximately \$184 million and certain Carter Holt Harvey forest assets for \$296 million. The Company plans to invest between \$101 million and \$117 million in the consortium, resulting in net cash proceeds ranging from \$67 million to \$83 million. The sale and investment are expected to take place in the fourth quarter of 2005. See also Note 2 - *Subsequent Event*.

[Table of Contents](#)

Liquidity Performance Indicators

The discussion below is presented to enhance the reader's understanding of Rayonier's ability to generate cash, its liquidity and its ability to satisfy rating agency and creditor requirements. This information includes two measures of financial results: Earnings from Continuing Operations 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. 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 the financial condition and cash generating ability of the Company. EBITDA is defined by the Securities and Exchange Commission; however, Adjusted CAD as defined may not be comparable to similarly titled measures reported by other companies.

EBITDA and Adjusted CAD have been restated to exclude the discontinued operations of New Zealand's MDF business for all periods presented.

EBITDA is a non-GAAP measure of the operating cash generating capacity of the Company. For the three and six months ended June 30, 2005, EBITDA was \$86.2 million and \$169.7 million, \$25.2 million and \$20.9 million below the prior year periods, respectively. The decrease in EBITDA for both periods was primarily due to higher operating income during 2004 from higher real estate closings in the first half of the year.

Below is a reconciliation of Cash Provided by Operating Activities to EBITDA for the respective periods (in millions of dollars):

	Three Months Ended June 30,	
	2005	2004
Cash Provided by Operating Activities of Continuing Operations	\$ 47.5	\$ 74.5
Non-cash cost basis of real estate sold	(2.0)	(1.3)
Income tax (expense) benefit	(4.5)	14.8
Interest expense	12.8	12.0
Working capital increase	21.0	15.8
Other balance sheet changes	11.4	(4.4)
EBITDA	\$ 86.2	\$ 111.4

	Six Months Ended June 30,	
	2005	2004
Cash Provided by Operating Activities of Continuing Operations	\$ 122.9	\$ 157.7
Non-cash cost basis of real estate sold	(6.0)	(9.2)
Income tax (expense) benefit	(3.8)	(28.7)
Interest expense	25.1	23.1
Working capital increase (decrease)	20.1	(7.8)
Other balance sheet changes	11.4	55.5
EBITDA	\$ 169.7	\$ 190.6

A non-cash expense critical to the economics of our Timber and Real Estate business is the non-cash cost basis of real estate sold. EBITDA plus the non-cash cost basis of real estate sold for the three and six months ended June 30, 2005 totaled \$88.2 million and \$175.7 million, respectively.

[Table of Contents](#)

Adjusted CAD is a non-GAAP measure of cash generated during a period that is available for dividend distribution, repurchase of the Company's common shares, debt reduction and for strategic acquisitions net of associated financing (e.g. realizing like-kind exchange benefits). The Company defines Cash Available for Distribution (CAD) as Cash Provided by Operating Activities of Continuing Operations less capital spending, the tax benefit on the exercise of stock options, the tax benefits associated with certain strategic acquisitions and the change in committed cash. Committed cash represents outstanding checks that have been drawn on the Company's zero balance bank accounts but have not been paid. In compliance with recent Securities and Exchange Commission requirements for non-GAAP measures, the Company also reduces CAD by mandatory debt repayments resulting in the Company's measure entitled "Adjusted CAD."

Adjusted CAD for the six months ended June 30, 2005, was \$92.1 million, \$22.4 million favorable to the prior year period. The increase is due to the lower mandatory debt repayments (\$50 million), the release of restricted cash (\$12.0 million) (see Note 8 - *Restricted Cash—Like-Kind Exchanges*) and the change in committed cash (\$5.5 million) offset by lower cash provided by operating activities of continuing operations (\$34.8 million) and higher capital spending (\$8.9 million). The Adjusted Cash Available for Distribution generated in the current period is not necessarily indicative of amounts that may be generated in future periods.

Below is a reconciliation of Cash Provided by Operating Activities of Continuing Operations to Adjusted CAD for the six months ended June 30:

	Six Months Ended June 30,	
	2005	2004
Cash provided by Operating Activities of Continuing Operations	\$ 122.9	\$ 157.7
Capital spending, net	(43.7)	(34.8)
Change in committed cash	5.5	—
LKE tax benefits	(0.9)	—
Release of restricted cash*	12.0	—
Tax benefit on exercise of stock options	(2.2)	(1.7)
Cash Available for Distribution	93.6	121.2
Mandatory debt repayments**	(1.5)	(51.5)
Adjusted Cash Available for Distribution	\$ 92.1	\$ 69.7

* Released July 19, 2005.

** The mandatory repayments in 2004 included \$50 million of debt that matured during the period and was refinanced through the Company's bank facility. No discretionary debt repayments were made in the first six months of 2005 or 2004.

Liquidity Facilities

In connection with the \$250 million revolving credit facility, certain covenants must be met, including ratios based on the facility's definition of EBITDA (Covenant EBITDA). Covenant EBITDA consists of earnings from continuing operations before the cumulative effect of accounting changes and any provision for dispositions, income taxes, interest expense, depreciation, depletion, amortization and the non-cash cost basis of real estate sold. In addition, there are covenant requirements in effect for Rayonier Forest Resources, L.P. (RFR) on the ratio of cash flow available for fixed charges to fixed charges. At June 30, 2005, the Company had available borrowings of \$125 million under the revolving credit facility.

Covenant Funds from Operations (Covenant FFO), another facility covenant, is defined as Consolidated Net Income excluding gains or losses from debt restructuring and investments in marketable securities plus depletion, depreciation and amortization and the non-cash cost basis of real estate sold. This dividend restriction covenant limits the sum of dividends in any period of four fiscal quarters to 90 percent of Covenant FFO plus the aggregate amount of dividends permitted under Covenant FFO in excess of the amount of dividends paid during the prior four fiscal quarters.

[Table of Contents](#)

The covenants listed below are calculated on a trailing 12-month basis. The most restrictive long-term debt covenants in effect for Rayonier as of June 30, 2005 were as follows:

	<u>Covenant Requirement</u>	<u>Actual ratio at June 30, 2005</u>	<u>Favorable (Unfavorable)</u>
Covenant EBITDA to consolidated interest expense should not be less than	2.50 to 1	6.28 to 1	3.78
Total debt to Covenant EBITDA should not exceed	4.00 to 1	2.25 to 1	1.75
RFR cash flow available for fixed charges to RFR fixed charges should not be less than	2.50 to 1	5.72 to 1	3.22
Dividends paid should not exceed 90 percent of Covenant FFO	90%	45%	45%

The Company is currently in compliance with all of its financial covenants. In addition to the financial covenants listed above, the credit agreements include customary covenants that limit the incurrence of debt, the disposition of assets, and the making of certain payments between RFR and Rayonier among others. An asset sales covenant in the Company's RFR installment note-related agreements requires the Company, subject to certain exceptions, to either reinvest cumulative timberland sales proceeds in excess of approximately \$100 million (the "excess proceeds") in timberland-related investments and activities or, once the amount of excess proceeds not reinvested exceeds \$50 million, to make an offer to the note holders to prepay the notes ratably in the amount of the excess proceeds. At June 30, 2005 the amount of excess proceeds was approximately \$31 million.

Equity Resources

In 1996, the Company began a Common Share repurchase program to minimize the dilutive effect of earnings per share of its employee incentive stock plans. This program limits the number of shares that may be purchased each year to the greater of 1.5 percent of outstanding shares at the beginning of the year or the number of incentive shares actually issued to employees during the year. In October 2000, the Company's Board of Directors authorized repurchase of an additional 1.5 million shares. These shares were authorized separately from the 1.5 percent of outstanding shares anti-dilutive program, neither of which have expiration dates. Below is a summary of the share repurchases.

	<u>Six Months Ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Shares authorized for repurchase	2,065,313	2,050,925
Shares repurchased	—	—
Cost of repurchased shares	\$ —	\$ —
Average cost per share	\$ —	\$ —

At June 30, 2005, the Company has \$247 million available under its \$500 million shelf registration filed with the Securities and Exchange Commission in 2003. As authorized by the Company's Board of Directors, an acquisition shelf registration on Form S-4 covering 7,000,000 common shares was declared effective on May 10, 2004.

Contractual Financial Obligations and Off-Balance Sheet Arrangements

The Company's guarantee for the annual payment of the New Zealand Crown Forest licenses has two years remaining since the May 2005 payment was made. With the exception of the \$30 million increase in intercompany guarantees (Rayonier guarantees the TRS' third party debt) on the revolving credit facility, no other material changes to the Company's guarantees or financial instruments such as letters of credit and surety bonds occurred during the first six months of 2005. See Note 12 - *Guarantees*, for details on the outstanding letters of credit, surety bonds and total guarantees outstanding as of June 30, 2005.

[Table of Contents](#)

Segment EBITDA

EBITDA (defined above) is also used for evaluating segment cash return on investment, allocating resources and for valuation purposes. EBITDA by segment is a critical valuation measure used by the Chief Operating Decision Maker, existing shareholders and potential shareholders to measure how management is performing relative to the assets with which they have been entrusted. EBITDA by segment for the three and six months ended June 30, 2005 and 2004 was as follows (millions of dollars):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
EBITDA *				
Timber and Real Estate	\$ 50.0	\$ 72.5	\$ 106.9	\$ 134.5
Performance Fibers	37.2	39.1	65.6	63.6
Wood Products	7.5	8.1	12.5	11.1
Other Operations	(0.2)	2.2	0.1	4.5
Corporate and other	(8.3)	(10.5)	(15.4)	(23.1)
Total	\$ 86.2	\$ 111.4	\$ 169.7	\$ 190.6

* Item 5(a) provides a reconciliation of Cash Provided by Operating Activities of Continuing Operations by segment to EBITDA by segment for the three and six month periods presented above.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

The Company is exposed to various market risks, including changes in foreign exchange rates, interest rates and commodity prices. The Company's objective is to minimize the economic impact of these market risks. Derivatives are used in accordance with policies and procedures approved by the Finance Committee of the Board of Directors and are managed by a senior executive committee whose responsibilities include initiating, managing and monitoring resulting exposures. The Company does not enter into financial instruments for trading or speculative purposes. See Note 11 - *Financial Instruments* included in the Notes to the Condensed Consolidated Financial Statements.

Cyclical pricing of commodity market paper pulp ultimately influences Performance Fibers prices, particularly in the Absorbent Materials product line. However, since Rayonier is a non-integrated producer of specialized Performance Fibers for non-papermaking end uses, its high-value product mix tends to lag (on both the upturn and downturn) commodity paper pulp prices with peaks and valleys less severe.

Most of Rayonier's revenues and expenses are U.S. dollar-denominated. However, the Company does have some risk in its New Zealand operation related to foreign currency pricing and costs and periodically enters into foreign currency forward contracts to hedge the risks of foreign currency fluctuations. At June 30, 2005, there were no outstanding foreign currency contracts to purchase New Zealand dollars.

The fair market value of the Company's long-term fixed interest rate debt is subject to interest rate risk; however, Rayonier intends to hold most of its debt until maturity. Rayonier periodically enters into interest rate swap agreements to manage its exposure to interest rate changes, or in back-to-back arrangements at the time debt is issued in order to cost effectively place the debt. These swaps involve the exchange of fixed and variable interest rate payments without exchanging principal amounts. At June 30, 2005, the Company had two interest rate swap agreements both maturing in 2007 that resulted in a liability with a fair market value of \$1.3 million. Generally, the fair market value of fixed-interest rate debt will increase as interest rates fall and decrease as interest rates rise.

The Company periodically enters into commodity forward contracts to fix some of its fuel oil and natural gas costs. The forward contracts partially mitigate the risk of a change in Performance Fibers margins resulting from an increase or decrease in fuel oil and natural gas prices. The Company does not enter into commodity forwards for trading or speculative purposes. The net amounts paid or received under the contracts are recognized as an adjustment to fuel oil or natural gas expense. The Company's natural gas and fuel oil contracts do not qualify for hedge accounting and as such mark-to-market adjustments are recorded in "Other Operating

[Table of Contents](#)

(Income) Expense, net.” See Note 11 - *Financial Instruments* for outstanding forward contracts at June 30, 2005 as well as gains and losses recognized from such contracts.

For a full description of the Company’s market risk, please refer to Item 7, *Management Discussion and Analysis of Financial Condition and Results of Operations*, in the 2004 Annual Report on Form 10-K.

Safe Harbor

Comments relating to anticipated demand, pricing, earnings, tax planning opportunities and rates, and real estate sales and development opportunities are forward-looking and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The following important factors, among others, could cause actual results to differ materially from those expressed in the forward-looking statements: the ability of the Company, and the New Zealand joint venture in which it participates, to fulfill the conditions necessary to complete the transactions described in this report, including, without limitation, receipt of approval of the New Zealand Overseas Investment Commission, and the ability of the Company to effectuate a sale of its MDF business on acceptable terms. In addition, future results could be affected by changes in global market trends and world events; interest rate and currency movements; fluctuations in demand for or supply of cellulose specialties, absorbent materials, timber, wood products or real estate and entry of new competitors into these markets; adverse weather conditions affecting production; timber availability and sales, or distribution; changes in production costs for wood products or performance fibers, particularly for raw materials such as wood, energy and chemicals; unexpected delays in the closing of real estate sale transactions; changes in law or policy that might limit or restrict the development of real estate, particularly in the southeastern U.S.; the ability of the Company to identify and complete timberland and higher-value real estate acquisitions; the Company’s ability to satisfy complex rules in order to qualify as a REIT; the availability of tax deductions and the ability of the Company to complete tax-efficient exchanges of real estate; and implementation or revision of governmental policies and regulations affecting the environment, endangered species, import and export controls or taxes, including changes in tax laws that could reduce the benefits associated with REIT status. For additional factors that could impact future results, please see the Company’s most recent Form 10-K on file with the Securities and Exchange Commission.

Item 4. 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) and 15d-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”)) are designed with the objective of ensuring that 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 recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms.

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 its objectives are achieved.

Based on an evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q by the Company’s management, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of disclosure controls were effective as of June 30, 2005.

There were no changes in the Company’s internal controls or in other factors that could significantly affect internal controls subsequent to the date of their most recent evaluation.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Notes 13 and 14 of the Notes to Condensed Consolidated Financial Statements set forth in Part I of this Report, which is hereby incorporated by reference.

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Shareholders of the Company was held on May 19, 2005 (the "Annual Meeting"). At that meeting, four directors were elected as follows:

	<u>Votes For</u>	<u>Votes Withheld</u>
Directors of Class II, Terms Expire in 2008		
James H. Hance, Jr.	44,999,507	962,314
Paul G. Kirk, Jr.	45,326,226	635,594
Carl S. Sloane	45,349,521	612,299
Director of Class III, Term Expires in 2006		
Richard D. Kincaid	45,538,712	423,109

The following directors' terms of office also continued after the Annual Meeting: Rand V. Araskog, Ronald M. Gross, Thomas I. Morgan, W. Lee Nutter, Katherine D. Ortega and Ronald Townsend.

Abstentions and broker non-votes, as well as votes withheld, were not counted for or against a nominee.

[Table of Contents](#)

Item 5(a). Selected Supplemental Financial Data

	Three Months Ended		Six Months Ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Timber and Real Estate				
Sales volume - Timber				
Northwest U.S., in millions of board feet	69	81	145	169
Southeast U.S., in thousands of short green tons	1,206	1,140	2,427	2,389
New Zealand, in thousands of metric tons	143	158	237	264
Timber sales volume -				
Intercompany				
Southeast U.S., in thousands of short green tons	2	21	23	21
New Zealand, in thousands of metric tons	1	—	2	—
Acres sold	6,185	10,831*	16,934	27,881*
Performance Fibers				
Sales Volume				
Cellulose specialties, in thousands of metric tons	113	115	220	216
Absorbent materials, in thousands of metric tons	69	75	136	143
Production as a percent of capacity	102.8%	99.8%	102.6%	98.9%
Wood Products				
Lumber sales volume, in millions of board feet	90	91	173	174

* Includes 5,487 acres associated with a Northeast Florida sale (\$26 million) in which we had timber lease rights.

[Table of Contents](#)

Item 5(a). Selected Supplemental Financial Data (millions of dollars)

	Three Months Ended		Six Months Ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Geographical Data (Non-U.S.)				
Sales				
New Zealand	\$ 14.1	\$ 14.1	\$ 23.0	\$ 24.0
Other	2.8	9.4	5.5	15.4
Total	<u>\$ 16.9</u>	<u>\$ 23.5</u>	<u>\$ 28.5</u>	<u>\$ 39.4</u>
Operating income (loss)				
New Zealand	\$ 0.8	\$ 1.4	\$ 1.5	\$ 1.8
Other	(0.5)	(0.5)	(0.6)	(1.0)
Total	<u>\$ 0.3</u>	<u>\$ 0.9</u>	<u>\$ 0.9</u>	<u>\$ 0.8</u>
Timber				
Sales				
Northwest U.S.	\$ 26.0	\$ 22.0	\$ 52.3	\$ 46.2
Southeast U.S.	21.6	20.6	42.5	44.1
New Zealand	6.9	6.7	11.6	12.1
Total	<u>\$ 54.5</u>	<u>\$ 49.3</u>	<u>\$ 106.4</u>	<u>\$ 102.4</u>
Operating income				
Northwest U.S.	\$ 16.0	\$ 11.9	\$ 32.4	\$ 25.8
Southeast U.S.	5.8	6.2	12.2	14.5
New Zealand	1.3	2.0	2.2	2.6
Total	<u>\$ 23.1</u>	<u>\$ 20.1</u>	<u>\$ 46.8</u>	<u>\$ 42.9</u>

[Table of Contents](#)

Item 5(a). Selected Supplemental Financial Data (millions of dollars)

The following tables reconcile Cash Provided by Operating Activities by segment to EBITDA by segment:

	Timber and Real Estate	Performance Fibers	Wood Products	Other Operations	Corporate and other	Total
Three Months Ended June 30, 2005						
Cash provided by operating activities of continuing operations	\$ 37.6	\$ 28.8	\$ 6.9	\$ 2.5	\$ (28.3)	\$ 47.5
Less: Non-cash cost basis of real estate sold	(1.7)	—	—	(0.3)	—	(2.0)
Income tax benefit	—	—	—	—	(4.5)	(4.5)
Add: Interest expense	—	—	—	—	12.8	12.8
Working capital increases (decreases)	9.4	8.3	0.7	(2.0)	4.6	21.0
Other balance sheet changes	4.7	0.1	(0.1)	(0.4)	7.1	11.4
EBITDA	\$ 50.0	\$ 37.2	\$ 7.5	\$ (0.2)	\$ (8.3)	\$ 86.2
Three Months Ended June 30, 2004						
Cash provided by operating activities from continuing operations	\$ 80.0	\$ 30.6	\$ 7.6	\$ (0.6)	\$ (43.1)	\$ 74.5
Less: Non-cash cost basis of real estate sold	(1.1)	—	—	(0.2)	—	(1.3)
Add: Income tax expense	—	—	—	—	14.8	14.8
Interest expense	—	—	—	—	12.0	12.0
Working capital increases (decreases)	(3.6)	8.3	0.5	3.2	7.4	15.8
Other balance sheet changes	(2.8)	0.2	—	(0.2)	(1.6)	(4.4)
EBITDA	\$ 72.5	\$ 39.1	\$ 8.1	\$ 2.2	\$ (10.5)	\$ 111.4
Six Months Ended June 30, 2005						
Cash provided by operating activities from continuing operations	\$ 110.0	\$ 54.6	\$ 8.5	\$ (1.2)	\$ (49.0)	122.9
Less: Non-cash cost basis of real estate sold	(5.7)	—	—	(0.3)	—	(6.0)
Income tax benefit	—	—	—	—	(3.8)	(3.8)
Add: Interest expense	—	—	—	—	25.1	25.1
Working capital increases (decreases)	0.9	11.0	4.1	0.1	4.0	20.1
Other balance sheet changes	1.7	—	(0.1)	1.5	8.3	11.4
EBITDA	\$ 106.9	\$ 65.6	\$ 12.5	\$ 0.1	\$ (15.4)	\$ 169.7
Six Months Ended June 30, 2004						
Cash provided by operating activities from continuing operations	\$ 154.0	\$ 46.3	\$ 8.8	\$ 6.0	\$ (57.4)	\$ 157.7
Less: Non-cash cost basis of real estate sold	(9.0)	—	—	(0.2)	—	(9.2)
Income tax benefit	—	—	—	—	(28.7)	(28.7)
Add: Interest expense	—	—	—	—	23.1	23.1
Working capital increases (decreases)	(11.4)	15.9	2.3	(0.6)	(14.0)	(7.8)
Other balance sheet changes	0.9	1.4	—	(0.7)	53.9(a)	55.5
EBITDA	\$ 134.5	\$ 63.6	\$ 11.1	\$ 4.5	\$ (23.1)	\$ 190.6

(a) Includes reversal of deferred taxes not required after REIT conversion partly offset by additional taxes for repatriation of foreign earnings.

[Table of Contents](#)

Item 6. Exhibits and Reports on Form 8-K

- (a) See Exhibit Index
- (b) Reports on Form 8-K:
 - 1) On April 26, 2005, Rayonier filed a report on Form 8-K to announce first quarter 2005 earnings.
 - 2) On May 9, 2005, Rayonier filed a report on Form 8-K to announce that on May 2, 2005 the Company was awarded \$16.2 million in connection with arbitration proceedings against ITT Industries, Inc. over the distribution of environmental litigation insurance recoveries.
 - 3) On May 24, 2005, Rayonier filed a report on Form 8-K to announce that Gordon I. Ulmer retired from the Company's Board of Directors in accordance with the Board's mandatory retirement age policy.
 - 4) On May 25, 2005, Rayonier filed a report on Form 8-K to announce that the Company formed a real estate company, TerraPointe LLC, to maximize the value of the Company's HBU properties.
 - 5) On July 20, 2005, Rayonier filed a report on Form 8-K that provides details on New Zealand forests sale/investment, exit from MDF business, and other items. (Subsequent event)

SIGNATURE

Pursuant to the requirements of Section 13 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/ HANS E. VANDEN NOORT

Hans E. Vanden Noort
Vice President and
Corporate Controller

July 26, 2005

EXHIBIT INDEX

<u>EXHIBIT NO.</u>	<u>DESCRIPTION</u>	<u>LOCATION</u>
2	Plan of acquisition, reorganization, arrangement, liquidation or succession	None
3.1	Amended and restated articles of incorporation	None
3.2	By-laws	None
4	Instruments defining the rights of security holders, including indentures.	Not required to be filed. The Registrant hereby agrees to file with the Commission a copy of any instrument defining the rights of holders of the Registrant's long-term debt upon request of the Commission.
10.38	Master Shareholder Agreement in Relation to Matariki Forests, dated July 15, 2005, by and among SAS Trustee Corporation, Deutsche Bank AG (Sydney Branch), Deutsche Asset Management (Australia) Limited, Rayonier Canterbury LLC, Rayonier New Zealand Limited, Cameron and Company Limited, Matariki Forests Australia Pty Limited, Matariki Forestry Group and Matariki Forests	Filed herewith
10.39	Agreement for the Sale and Purchase of Assets, dated July 15, 2005, between Rayonier New Zealand Limited, as seller, and Matariki Forests, as purchaser	Filed herewith
11	Statement re: computation of per share earnings	Not required to be filed
12	Statement re: computation of ratios	Filed herewith
15	Letter re: unaudited interim financial information	None
18	Letter re: change in accounting principles	None
19	Report furnished to security holders	None
22	Published report regarding matters submitted to vote of security holders	None
23	Consents of experts and counsel	None
24	Power of attorney	None
31	Certifications	Filed herewith
32	Certification of periodic financial reports under Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith

MASTER SHAREHOLDER AGREEMENT IN RELATION TO MATARIKI FORESTS AUSTRALIA PTY LIMITED, MATARIKI FORESTRY GROUP AND MATARIKI FORESTS

Dated 15 July 2005

SAS Trustee Corporation

Deutsche Bank AG (Sydney Branch)

Deutsche Asset Management (Australia) Limited

Rayonier Canterbury LLC

Rayonier New Zealand Limited

Cameron and Company Limited

Matariki Forests Australia Pty Limited

Matariki Forestry Group

and

Matariki Forests

CONTENTS

1.	INTERPRETATION	2
2.	SUBSCRIPTION, ISSUE AND PAYMENT OF AUSCO SHARES	9
3.	SUBSCRIPTION, ISSUE AND PAYMENT OF HOLDCO SHARES	11
4.	SUBSCRIPTION, ISSUE AND PAYMENT OF TREECO SHARES	12
5.	NON-SATISFACTION OF CHH SPA CONDITIONS	13
6.	PROCEDURAL MATTERS FOLLOWING EXECUTION	14
7.	REIMBURSEMENT AND INDEMNITY	14
8.	GOVERNANCE	16
9.	FUNDING	17
10.	DEALING IN SHARES IN HOLDCO	18
11.	FURTHER PROVISIONS REGARDING DEALING IN SHARES	23
12.	WARRANTIES	25
13.	COMPLIANCE WITH THIS AGREEMENT AND THE CONSTITUTION	25
14.	DEFAULT IN RELATION TO HOLDCO	26
15.	LIQUIDATION	27
18.	GENERAL	28
	SCHEDULE ONE	35
	SUBSCRIPTION DETAILS	35
	SCHEDULE TWO	36
	GOVERNANCE OF AUSCO	36
	SCHEDULE THREE	39
	GOVERNANCE OF HOLDCO AND ITS SUBSIDIARIES	39
	SCHEDULE FOUR	44
	ADDRESS DETAILS OF THE PARTIES	44
	SCHEDULE FIVE	47
	FORM OF ACCESSION DEED	47
	SCHEDULE SIX	49
	UNDERWRITING ARRANGEMENTS	49

PARTIES

SAS TRUSTEE CORPORATION, a statutory corporation established under the Superannuation Administration Act 1987 (NSW) (under its former name State Authorities Superannuation Board) and continued by the Superannuation Administration Act 1991 (NSW) and the Superannuation Administration Act 1996 (NSW) of c/- Level 21, 83 Clarence Street, Sydney, NSW 2000, Australia (**STC**);

DEUTSCHE BANK AG (SYDNEY BRANCH), having its registered office at Level 18, 225 George Street, Sydney, NSW 2000 (**DBAG**);

DEUTSCHE ASSET MANAGEMENT (AUSTRALIA) LIMITED having its registered office at Level 21, 83 Clarence Street, Sydney, NSW 2000 (**DAM**);

RAYONIER CANTERBURY LLC, a limited liability company incorporated in Delaware (**RCL**);

RAYONIER NEW ZEALAND LIMITED, a limited liability company incorporated in New Zealand having its registered office at Level 5, 49 Symonds Street, Auckland, New Zealand (**RNZ**);

CAMERON & COMPANY LIMITED, a limited liability company having its registered office at Level 12, HP tower, 171 Featherston Street, Wellington, New Zealand (**CAM**);

MATARIKI FORESTS AUSTRALIA PTY LIMITED, a limited liability company incorporated in Australia, having its registered office at C-RREEF Infrastructure, Level 21, 83 Clarence Street, Sydney NSW 2000, Australia (**Ausco**);

MATARIKI FOREST GROUP, an unlimited liability company incorporated in New Zealand having its registered office at Level 5, 49 Symonds Street, Auckland, New Zealand (**Holdco**); and

MATARIKI FORESTS, an unlimited liability company incorporated in New Zealand having its registered office at Level 5, 49 Symonds Street, Auckland, New Zealand (**Treeco**).

BACKGROUND

- (A) STC is a client of RREEF Infrastructure (**RREEF**), the infrastructure business of DBAG. RCL is a Delaware incorporated limited liability company, wholly owned by Rayonier Inc (**Rayonier**). RREEF and Rayonier have procured the establishment of Holdco, a New Zealand incorporated unlimited liability company, in which Rayonier, STC and one or more other clients of RREEF intend to invest, either directly or indirectly, for the purpose of acquiring certain forestry assets currently owned by Carter Holt Harvey Limited (**CHH Assets**) and RNZ (**RNZ Assets**). CAM is a financial adviser to RREEF and RNZ.
- (B) STC will invest in Ausco, an Australian incorporated limited liability company. Rayonier will invest in Holdco through RCL. RCL will hold shares in Holdco directly. It has also agreed to subscribe for shares in Ausco, but this obligation may be exchanged for an obligation to subscribe for further shares in Holdco.
- (C) Pursuant to this agreement, STC, DBAG, RCL and CAM agree to subscribe for shares in Ausco in percentage proportions of 41.65%, 41.65% 16.21% and 0.49% respectively,

and Ausco and RCL agree to subscribe for shares in Holdco in percentage proportions of 60% and 40% respectively.

- (D) Each of DBAG, CAM and RCL have agreed to subscribe for shares in Ausco in an underwriting capacity, with the intention of transferring those obligations, or Ausco Shares or Holdco Shares issued pursuant to them, to new participants, who may be clients of RREEF.
- (E) Holdco has incorporated a wholly owned subsidiary (**Treeco**), a New Zealand incorporated unlimited liability company. Holdco shall subscribe for shares in Treeco. Treeco shall purchase the CHH Assets and the RNZ Assets. The purchase of the CHH Assets and RNZ Assets by Treeco shall be funded as follows:
 - (i) by the payment of subscription moneys by Holdco to Treeco;
 - (ii) by investor loans advanced by each of the Ausco Shareholders and RCL to Treeco; and
 - (iii) by bank debt.
- (F) The CHH Assets and RNZ Assets, once purchased by Treeco, shall be managed by RNZ, pursuant to the Management Agreement.
- (G) The parties wish to enter into this master shareholder agreement to record their respective rights and obligations in relation to Ausco, Holdco and Treeco, including arrangements as to the sell down of DBAG, CAM and RCL's subscription obligations in relation to Ausco, or the Ausco Shares or Holdco Shares resulting from such obligations.

IT IS AGREED as follows:

1. **INTERPRETATION**

1.1 **Definitions:** In this agreement:

Acceptance Date has the meaning set out in clause 10.5.

Accession Deed means a deed substantially in the form attached as schedule five.

Adjustment Amount has the meaning set out in clause 9.1(a)(i).

Adjustment Notice has the meaning set out in clause 9.1(a)(i).

Aggregate First Ausco Subscription Amount means the aggregate of the First Ausco Subscription Amounts payable by the Ausco Subscribers to Ausco in accordance with clause 2.3.

Aggregate First Holdco Subscription Amount means the aggregate of the First Holdco Subscription Amounts payable by the Holdco Subscribers to Holdco in accordance with clause 3.3.

Aggregate Second Ausco Subscription Amount means the aggregate of the Second Ausco Subscription Amounts payable by the Ausco Subscribers to Ausco in accordance with clause 2.5.

Aggregate Second Holdco Subscription Amount means the aggregate of the Second Holdco Subscription Amounts payable by the Holdco Subscribers to Holdco in accordance with clause 3.5.

Auditor means the auditor of Ausco or Holdco (or a subsidiary of Holdco) for the time being.

Ausco Board means the board of directors of Ausco for the time being.

Ausco Constitution means the constitution of Ausco, as amended from time to time, and in the first instance means the Replaceable Rules, as that term is defined in the Corporations Act.

Ausco Share means any ordinary share in Ausco.

Ausco Subscribers means the parties listed in Part A of schedule one, as amended in accordance with clause 5.7 of schedule 6.

Ausco Shareholders means the holders of Ausco Shares.

Ausco Subscription Shares means:

- (a) in relation to an Ausco Subscriber, the number of Ausco Shares for which it is subscribing pursuant to clauses 2.3 and 2.5; and
- (b) together, the Ausco Shares issued and allotted pursuant to this agreement.

Holdco Board means the board of directors of Holdco for the time being.

BNZ means Bank of New Zealand.

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

Buyer has the meaning set out in clause 10.6.

CHH means Carter Holt Harvey Limited.

CAM Transaction Fee means the transaction fee payable to CAM (on a post tax basis) pursuant to the engagement letter between CAM, RREEF and RNZ dated 20 June 2005.

CHH Assets means the assets being transferred pursuant to the CHH SPA.

CHH SPA means the agreement for the sale and purchase of the CHH Assets between CHH and Treeco, in the form agreed by CHH, RREEF and Rayonier.

Class means the Holdco Class A Shares or the Holdco Class B Shares as the context requires.

Companies Act means the Companies Act 1993 (New Zealand).

Corporations Act means the Corporations Act 2001 (Australia).

Debt Commitment means, in relation to an Ausco Shareholder or RCL, that party's Commitment under, and as defined in, the Investor Loan Facility.

Deed of Indemnity means the deed of indemnity to be executed by RNZ in favour of BNZ in relation to:

- (a) RNZ's obligation to pay BNZ all amounts that BNZ is called on to pay CHH under the LC; and

(b) LC Costs.

Defaulting Ausco Shareholder has the meaning set out in clause 7.2(b).

Defaulting Holdco Shareholder has the meaning set out in clause 14.1.

Drawdown Notice means a drawdown notice deliverable by Treeco to BNZ under the Senior Facility Agreement.

Equity Proportion means, at any time, in relation to an Ausco Subscriber:

- (a) the percentage proportion of Ausco Shares for which that Ausco Subscriber is obliged to subscribe pursuant to clause 2; or
- (b) if the Ausco Subscription Shares have been issued by Ausco in accordance with clause 2, the percentage proportion of Ausco Shares that Ausco Shareholder holds,

(such percentage proportion being, for the purpose of this definition, that Ausco Subscriber's **Interest**)

provided that so long as CAM is an Ausco Subscriber, its Interest shall be excluded from the calculation of any Ausco Subscriber's Equity Proportion.

Event of Default has the meaning set out in clause 14.2.

Fair Value means fair market value, determined in accordance with clause 10.17.

First Ausco Subscription Amount means, in respect of an Ausco Shareholder, the dollar amount specified as the First Ausco Subscription Amount in the First Ausco Subscription Notice.

First Ausco Subscription Notice means the notice issued by the Ausco Board in accordance with clause 2.2.

First Ausco Subscription Satisfaction Date means the date specified as such in the First Ausco Subscription Notice.

First Ausco Subscription Satisfaction Notice means the notice issued by the Ausco Board in accordance with clause 2.3(b).

First Holdco Subscription Amount means:

- (a) in relation to Holdco Class A Shareholders, a sum equal to the Aggregate First Ausco Subscription Amount; and
- (b) in relation to Holdco Class B Shareholders, a sum (**RCL First Subscription Amount**) calculated in accordance with the following formula:

$$A = (B \div C) \times D$$

Where:

A = RCL First Subscription Amount

B = Aggregate First Ausco Subscription Amount

C = 6

D = 4

First Holdco Subscription Satisfaction Notice means the notice issued by the Holdco Board in accordance with clause 3.3(b).

First Treeco Subscription Amount means a sum equivalent to the Aggregate First Holdco Subscription Amount.

Forestry Assets means the CHH Assets and the RNZ Assets collectively.

Forestry Rights means the forestry licences to be entered into by CHH and Treeco pursuant to the CHH SPA, in the form agreed by CHH, RREEF and Rayonier.

Holdco Class A Directors means the directors appointed to Holdco by the Holdco Class A Shareholders, in accordance with clause 2.1(a) of schedule three.

Holdco Class A Shares mean the ordinary shares in Holdco issued or to be issued to the Holdco Class A Subscribers.

Holdco Class A Shareholders means the holders of Holdco Class A Shares from time to time.

Holdco Class A Subscribers means the parties identified as such in Part B of schedule one.

Holdco Class B Directors means the directors appointed to Holdco by the Holdco Class B Shareholders, in accordance with clause 2.1(b) of schedule three.

Holdco Class B Shares mean the ordinary shares in Holdco issued or to be issued to the Holdco Class B Subscribers.

Holdco Class B Shareholders means the holders of Holdco Class B Shares from time to time.

Holdco Class B Subscribers means the parties identified as such in Part B of schedule one.

Holdco Constitution means the constitution of Holdco, as amended from time to time.

Holdco Share means any ordinary share in Holdco, of whatever Class.

Holdco Shareholders means the holders of Holdco Shares from time to time.

Holdco Subscribers means the parties listed in Part B of schedule one.

Holdco Subscription Shares means:

- (a) in relation to a Holdco Subscriber, the number of Holdco Shares for which it is subscribing pursuant to clauses 3.3 and 3.5, and
- (b) together, the Holdco Shares issued and allotted pursuant to this agreement.

Intercreditor Deed means the intercreditor deed to be entered into between the parties to the Senior Facility Agreement, the Ausco Shareholders and RCL.

Investment Agreement means any investment management agreement between RREEF and an Ausco Shareholder or Holdco Shareholder, pursuant to which RREEF manages that party's investment in Ausco or Holdco.

Investor Loan Facility means the investor loan facility agreement between the Ausco Subscribers, RCL and Treeco, dated on or around the date of this agreement.

LC means the letter of credit for \$25,000,000 issued or to be issued by BNZ to CHH as security for certain obligations of Treeco under the CHH SPA.

LC Costs means all costs, losses, expenses and liabilities of any other kind payable by RNZ under the Deed of Indemnity, excluding the LC Fee.

LC Fee means the initial fee of \$10,000 payable by RNZ to BNZ pursuant to clause 3(a) of the Deed of Indemnity, and any additional fee payable by RNZ to BNZ under the Deed of Indemnity.

LC Parties means the Ausco Subscribers (other than RCL), and **LC Party** means any one of them as the context requires.

Log Supply Agreements means the log supply agreements to be entered into by Treeco and CHH pursuant to the CHH SPA, in the form agreed by CHH, RREEF and Rayonier.

Management Agreement means the management agreement in the form agreed between RREEF and Rayonier.

Memorandum of Understanding means the memorandum of understanding entered into by RNZ and RREEF on 23 May 2005.

Non-Defaulting Holdco Shareholder has the meaning set out in clause 14.1.

Principal Completion Date means the date of Principal Completion under, and as defined in, the CHH SPA.

Regional Condition means the Regional Condition under, and as defined in, the CHH SPA.

Regional Unconditional Date means the date on which the Regional Condition is waived or satisfied, in accordance with the terms of the CHH SPA.

Regional Completion Date means the date of Delayed Completion under, and as defined in, the CHH SPA.

Relevant Proportion means the percentage proportion of the interest that each of the Ausco Subscribers and RCL holds (directly or indirectly) in Holdco from time to time, provided that so long as CAM is an Ausco Subscriber, its Interest shall be excluded from the calculation of any party's Relevant Proportion.

RNZ Assets means the assets being transferred pursuant to the RNZ SPA.

RNZ Completion means Completion under, and as defined in, the RNZ SPA.

RNZ GSA means the general security agreement to be executed by RNZ, in favour of BNZ, to secure the Deed of Indemnity.

RNZ SPA means the agreement for the sale and purchase of the RNZ Assets between RNZ and Treeco, in the form agreed by RREEF and Rayonier.

RREEF Client means a client of RREEF who has signed or will sign an Investment Agreement, or a member of the Deutsche Bank group.

Sale Notice has the meaning set out in clause 10.4.

Sale Interest has the meaning set out in clause 10.4.

Sale Shares has the meaning set out in clause 10.17.

Second Ausco Subscription Amount means, in respect of an Ausco Shareholder, the dollar amount specified as the Second Ausco Subscription Amount in the Second Ausco Subscription Notice.

Second Ausco Subscription Notice means the notice issued by the Ausco Board in accordance with clause 2.4.

Second Ausco Subscription Satisfaction Date means the date specified as such in the Second Ausco Subscription Notice.

Second Ausco Subscription Satisfaction Notice means the notice issued by the Ausco Board in accordance with clause 2.5(b).

Second Holdco Subscription Amount means:

- (a) in relation to Holdco Class A Shareholders, a sum equal to the Aggregate Second Ausco Subscription Amount; and
- (b) in relation to Holdco Class B Shareholders, a sum (**RCL Second Subscription Amount**) calculated in accordance with the following formula:

$$A = (B \div C) \times D$$

Where:

A = RCL Second Subscription Amount

B = Aggregate Second Ausco Subscription Amount

C = 6

D = 4

Second Holdco Subscription Satisfaction Notice means the notice issued by the Holdco Board in accordance with clause 3.5(b).

Second Treeco Subscription Amount means a sum equivalent to the Aggregate Second Holdco Subscription Amount.

Seller has the meaning set out in clause 10.4.

Senior Facility Agreement means the Senior Facility Agreement to be entered into between Treeco, BNZ and others.

Subscription Date means the First Ausco Subscription Satisfaction Date.

Tag Along Notice has the meaning set out in clause 10.16.

Tag Along Party has the meaning set out in clause 10.16.

Transaction Conditions means the Transaction Conditions under, and as defined in, the CHH SPA.

Transaction Unconditional Date means the date on which the last of the Transaction Conditions are waived or satisfied, in accordance with the terms of the CHH SPA.

Treeco Board means the board of directors of Treeco for the time being.

Treeco Constitution means the constitution of Treeco, as amended from time to time.

Treeco GSA means the general security agreement to be executed by Treeco, in favour of BNZ and others, to secure the Senior Facility Agreement.

Treeco Share means any ordinary share in Treeco.

Treeco Subscription Shares means the Treeco Shares for which Holdco is to subscribe pursuant to clause 4.

Tree Stock Supply Agreement means the tree stock supply agreement to be entered into by Treeco and CHH pursuant to the CHH SPA, in the form agreed by CHH, RREEF and Rayonier.

Trustee means any person that is at any time a party to this Agreement in its capacity as trustee of a trust, other than STC.

1.2 **Interpretation:** In this agreement, 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) references to \$ are 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.

1.5 **Trustee Limitation:**

- (a) Subject to clause 1.5(c), no Trustee will be liable to pay or satisfy any obligations or liabilities under this Agreement other than out of assets of the relevant trust (**Trust**) in respect of which that Trustee has entered into this Agreement and in no circumstances will that Trustee be called upon or liable to satisfy any of those obligations or liabilities out of its personal assets;
- (b) Subject to clause 1.5(c), each party to this Agreement may only enforce its rights against a Trustee to the extent of that Trustee's right of indemnity out of the assets held by it in respect of the relevant Trust; and
- (c) The limitation of liability recorded in clauses 1.5(a) and (b) above shall not apply if and to the extent that the Trustee does not have or has lost (as a result of the Trustee's wilful breach of trust, fraud or gross negligence) a right of indemnity out of the assets held by it in respect of the relevant Trust.

1.6 **STC Limitation of Liability:** Each party to this agreement acknowledges that:

- (i) STC is a statutory entity constituted pursuant to the Superannuation Administration Act 1996 (NSW) (**Act**); and
- (ii) STC is entitled to the statutory indemnity and limitation of liability provided in the Act and in other Acts of Parliament referred to in the Act.

2. **SUBSCRIPTION, ISSUE AND PAYMENT OF AUSCO SHARES**

2.1 **Subscription for Ausco Shares:** Each Ausco Subscriber agrees to subscribe for, and Ausco agrees to issue, the Ausco Subscription Shares:

- (a) in the percentage proportions set out in Part A of schedule one; and
- (b) in accordance with the terms of this agreement; and
- (c) otherwise on and subject to the terms set out in the Ausco Constitution.

2.2 **First Ausco Subscription:** As soon as is practicable following the Transaction Unconditional Date, Ausco shall issue each Ausco Subscriber with a notice (**First Ausco Subscription Notice**), which notice shall specify:

- (a) the Australian dollar amount of the First Ausco Subscription Amount;
- (b) the number of Ausco Subscription Shares to be issued to that Ausco Subscriber (being one Ausco Share per Australian dollar payable pursuant to clause 2.2(a)); and
- (c) the date by which the First Ausco Subscription Amount must be satisfied by the Ausco Subscribers, being the Business Day prior to the Principal Completion Date (**First Ausco Subscription Satisfaction Date**).

2.3 **Satisfaction of First Ausco Subscription Amount:**

- (a) Subject to clause 2.8, each Ausco Subscriber shall satisfy the First Ausco Subscription Amount on or before the First Ausco Subscription Satisfaction Date, by payment in immediately available funds to the bank account nominated by Ausco.

- (b) Upon receipt of the First Ausco Subscription Amount from each Ausco Subscriber, in accordance with clause 2.3(a), Ausco shall immediately:
 - (i) notify the Holdco Subscribers and Holdco in writing that the First Ausco Subscription Amount has been paid (**First Ausco Subscription Satisfaction Notice**); and
 - (ii) issue and allot to each Ausco Subscriber the number of fully paid Ausco Subscription Shares specified in the First Ausco Subscription Notice.
- 2.4 **Second Ausco Subscription:** As soon as is practicable following the Regional Unconditional Date, Ausco shall issue each Ausco Subscriber with a notice (**Second Ausco Subscription Notice**), which notice shall specify:
 - (a) The Australian dollar amount of the Second Ausco Subscription Amount;
 - (b) The number of Ausco Subscription Shares to be issued to that Ausco Subscriber (being one Ausco Share per Australian dollar payable pursuant to clause 2.4(a); and
 - (c) The date by which the Second Ausco Subscription Amount must be satisfied by the Ausco Subscribers, being the Business Day prior to the Regional Completion Date (**Second Ausco Subscription Satisfaction Date**).
- 2.5 **Satisfaction of Second Ausco Subscription Amount:**
 - (a) Subject to clause 2.8, each Ausco Subscriber shall satisfy the Second Ausco Subscription Amount on or before the Second Ausco Subscription Satisfaction Date, by payment in immediately available funds to a bank account nominated by Ausco.
 - (b) Upon receipt of the Second Ausco Subscription Amount from each Ausco Subscriber in accordance with clause 2.5(a), Ausco shall immediately:
 - (i) notify Holdco and RCL in writing that the Second Ausco Subscription Amount has been paid (**Second Ausco Subscription Satisfaction Notice**); and
 - (ii) issue and allot to each Ausco Subscriber the number of fully paid Ausco Subscription Shares specified in the Second Ausco Subscription Notice.
- 2.6 **Regional Condition satisfied early:** The Ausco Subscribers and Ausco acknowledge that the Regional Condition may be satisfied or waived, in accordance with the terms of the CHH SPA, on or before the Transaction Unconditional Date, in which case the CHH SPA may be wholly unconditional on the Transaction Unconditional Date. If this occurs, the provisions of clause 2.4 and 2.5 shall not apply.
- 2.7 **Issue of Ausco Shares:** When Ausco is required to issue Ausco Subscription Shares to any party pursuant to this clause 2, Ausco will:
 - (a) issue and allot those Ausco Subscription Shares as fully paid, in accordance with the Corporations Act; and
 - (b) ensure that each Ausco Subscriber is registered as the holder of its Ausco Subscription Shares, by procuring the Ausco Board to enter that Ausco

Shareholder's name in the share register of Ausco in relation to its Ausco Subscription Shares.

- 2.8 **Satisfaction of Ausco subscription moneys by CAM:** To the extent that CAM is required to pay a sum to Ausco in accordance with clauses 2.3(a) or 2.5(a) (**Subscription Payment**), upon that Subscription Payment becoming payable in accordance with clause 2.3(a) or 2.5(a), as the case may be, CAM shall be deemed to have satisfied that Subscription Payment, by RREEF and RNZ deducting an amount equal to that Subscription Payment from the CAM Transaction Fee.
- 2.9 **Acknowledgement regarding CAM:** The parties to this agreement acknowledge that CAM is a lender under the Investor Loan Facility. To the extent that CAM is required to advance a loan to Treeco under the Investor Loan Facility, CAM shall be deemed to have satisfied that obligation to advance, by RREEF and RNZ deducting an amount equal to that advance from the CAM Transaction Fee, and Treeco irrevocably acknowledges that such deduction shall satisfy in full CAM's obligation to advance under the Investor Loan Facility.
- 2.10 **Buyback of initial Ausco Share:** At the same time that Ausco issues Ausco Shares pursuant to clause 2.3(b)(ii), it shall buy back, for no consideration, the initial Ausco Share held by RNZ. All Ausco subscribers unconditionally agree to consent to this buyback pursuant to relevant provisions of the Corporations Act and this agreement.

3. **SUBSCRIPTION, ISSUE AND PAYMENT OF HOLDCO SHARES**

- 3.1 **Subscription for Holdco Shares:** Each Holdco Subscriber agrees to subscribe for, and Holdco agrees to issue the Holdco Subscription Shares:
- (a) in the percentage proportions set out in Part B of schedule one;
 - (b) in accordance with the terms of this agreement; and
 - (c) otherwise on and subject to the terms set out in the Holdco Constitution.
- 3.2 **First Holdco Subscription Amount payable:** The First Holdco Subscription Amount shall become payable by each Holdco Subscriber to Holdco on the First Ausco Subscription Satisfaction Date.
- 3.3 **Satisfaction of First Holdco Subscription Amount:**
- (a) Ausco shall satisfy the First Holdco Subscription Amount by payment of immediately available funds to the bank account nominated by Holdco, immediately upon receipt of the First Ausco Subscription Satisfaction Notice.
 - (b) RCL shall satisfy the First Holdco Subscription Amount by payment of immediately available funds to the bank account nominated by Holdco immediately upon RNZ Completion occurring, provided that if RNZ Completion has not occurred as a consequence of:
 - (i) a breach of the RNZ SPA by RNZ, or
 - (ii) a breach by BNZ under the Senior Facility Agreementthis clause 3.3(b) shall not apply to release RCL from its obligation to satisfy the First Holdco Subscription Amount.

- (c) Upon receipt of the First Holdco Subscription Amount from each Holdco Subscriber, Holdco shall immediately:
 - (i) notify Treeco in writing that the First Holdco Subscription Amount has been paid (**First Holdco Subscription Satisfaction Notice**); and
 - (ii) issue and allot to each Holdco Subscriber one fully paid Holdco Subscription Share for each dollar paid by it pursuant to clause 3.3(a) or 3.3(b), as the case may be.
- 3.4 **Second Holdco Subscription Amount payable:** The Second Holdco Subscription Amount shall become payable by each Holdco Subscriber to Holdco on the Regional Completion Date.
- 3.5 **Satisfaction of Second Holdco Subscription Amount:**
 - (a) Each Holdco Subscriber shall satisfy the Second Holdco Subscription Amount by payment of immediately available funds to the bank account nominated by Holdco on the Regional Completion Date.
 - (b) Upon receipt of the Second Holdco Subscription Amount from each Holdco Subscriber, Holdco shall immediately:
 - (i) notify Treeco in writing that the Second Holdco Subscription Amount has been paid (**Second Holdco Subscription Satisfaction Notice**); and
 - (ii) issue and allot to each Holdco Subscriber one fully paid Holdco Subscription Share for each dollar payable by it pursuant to clause 3.5(a).
- 3.6 **Regional Condition satisfied early:** If clause 2.6 applies, clauses 3.4 and 3.5 shall not apply.
- 3.7 **Issue of Holdco Shares:** When Holdco is required to issue Holdco Subscription Shares to any party pursuant to this clause 3, Holdco will:
 - (a) issue and allot those Holdco Subscription Shares fully paid in accordance with the Companies Act; and
 - (b) ensure that each Holdco Subscriber is registered as the holder of its Holdco Subscription Shares, by procuring the Holdco Board to enter that Holdco Subscriber's name in the share register of Holdco in relation to its Holdco Subscription Shares.
- 4. **SUBSCRIPTION, ISSUE AND PAYMENT OF TREECO SHARES**
- 4.1 **Subscription for Treeco Shares:** Holdco agrees to subscribe for, and Treeco agrees to issue the Treeco Subscription Shares:
 - (a) in accordance with the terms of this agreement; and
 - (b) otherwise on and subject to the terms set out in the Treeco Constitution.
- 4.2 **First Treeco Subscription Amount payable:** The First Treeco Subscription Amount shall become due and payable by Holdco upon the receipt by Holdco of the First Holdco

Subscription Amount from all Holdco Shareholders in accordance with clause 3.3(a) or 3.3(b) as the case may be.

- 4.3 **Satisfaction of First Treeco Subscription Amount:** Holdco shall satisfy the First Treeco Subscription Amount by payment of immediately available funds to the bank account nominated by Treeco. Immediately upon receipt of the First Treeco Subscription Amount, Treeco shall issue and allot to Holdco one fully paid Treeco Subscription Share for each dollar payable by Holdco to Treeco pursuant to this clause 4.
- 4.4 **Second Treeco Subscription Amount payable:** The Second Treeco Subscription Amount shall become due and payable by Holdco to Treeco upon the receipt by Holdco of the Second Holdco Subscription Amount from all Holdco Shareholders in accordance with clause 3.5(a).
- 4.5 **Satisfaction of Second Treeco Subscription Amount:** Holdco shall satisfy the Second Treeco Subscription Amount by payment of immediately available funds to the bank account nominated by Treeco. Immediately upon receipt of the Second Treeco Subscription Amount, Treeco shall issue and allot to Holdco one fully paid Treeco Subscription Share for each dollar payable by Holdco to Treeco pursuant to this clause.
- 4.6 **Regional Condition satisfied early:** If clause 2.6 applies, clauses 4.4 and 4.5 shall not apply.
- 4.7 **Issue of Treeco Subscription Shares:** When Treeco issues Treeco Subscription Shares to Holdco pursuant to this clause four, Treeco will:
- (a) issue and allot those Treeco Subscription Shares fully paid in accordance with the Companies Act; and
 - (b) ensure that Holdco is registered as the holder of its Treeco Subscription Shares, by procuring the Treeco Board to enter Holdco's name in the share register of Treeco in relation to its Treeco Subscription Shares.

5. **NON-SATISFACTION OF CHH SPA CONDITIONS**

- 5.1 **Process if CHH SPA not declared unconditional:** If the Transaction Conditions are not satisfied or waived in accordance with the terms of the CHH SPA, and subject to each of the Ausco Subscribers and Ausco having fully complied with any obligation it may have pursuant to clause 7, then:
- (a) each Ausco Shareholder shall sell, and Ausco shall purchase, its Ausco Subscription Shares, for no consideration;
 - (b) each Holdco Shareholder shall sell, and Holdco shall purchase, its Holdco Subscription Shares, for no consideration;
 - (c) Holdco shall sell, and Treeco shall purchase, its Treeco Subscription Shares, for no consideration, and
 - (d) the Ausco Shares, Holdco Shares and Treeco Shares repurchased in accordance with clauses 5.1(a) to (c) shall be cancelled by Ausco, Holdco and Treeco respectively.
- 5.2 **Liquidation:** Upon each of Ausco, Holdco and Treeco complying with its obligations under clause 5.1(d):
- (a) Holdco shall immediately procure the liquidation of Treeco;

- (b) the remaining Holdco Shareholders shall immediately procure the liquidation of Holdco; and
- (c) the remaining Ausco Shareholders shall immediately procure the liquidation of Ausco.

6. **PROCEDURAL MATTERS**

6.1 **Execution of documents:** Immediately following execution of this agreement (for the avoidance of doubt, on the same day):

- (a) Treeco and RNZ shall execute the Management Agreement;
- (b) Treeco and RNZ shall execute the RNZ SPA;
- (c) Each of the Ausco Shareholders, RCL and Treeco shall execute the Investor Loan Facility and the Intercreditor Deed;
- (d) Treeco shall execute the CHH SPA, the Senior Facility Agreement the Treeco GSA, the Log Supply Agreements, the Tree Stock Supply Agreement and the Forestry Rights; and
- (e) RNZ shall execute the the Deed of Indemnity and the RNZ GSA.

6.2 **Issue of Drawdown Notice:** Immediately upon receipt of the First Treeco Subscription Amount, Treeco shall issue a Drawdown Notice to BNZ, for such an amount as it requires to complete the CHH SPA and RNZ SPA in accordance with the terms of those agreements.

7. **REIMBURSEMENT AND INDEMNITY**

7.1 **Indemnity:** Subject to clause 7.2, 7.3 and 7.4, each Ausco Subscriber (excluding RCL and CAM):

- (a) shall pay to RNZ on demand an amount equal to its Relevant Proportion of the amount which RNZ is obliged to pay under or in connection with the Deed of Indemnity; and
- (b) hereby indemnifies RNZ, in each case to the extent of its Relevant Proportion, from and against all amounts payable by RNZ under or in connection with the Deed of Indemnity.

7.2 **Proportionate liability under Deed of Indemnity:** Each LC Party agrees that, if RNZ becomes obliged to pay an amount to BNZ under the Deed of Indemnity by reason of a failure of Treeco to satisfy its obligation to complete the CHH SPA on the Principal Completion Date and that failure to complete:

- (a) was directly attributable to RCL failing to comply with:
 - (i) its obligation pursuant to clause 3.3(b); and/or
 - (ii) its obligation to advance money to Treeco on the date and otherwise on the terms set out in the Investor Loan Facility,then RNZ shall be obliged to pay in full, without any recourse to any Ausco Subscriber or any other party to this agreement, all amounts payable to BNZ under or in connection with the Deed of Indemnity; or

- (b) was directly attributable to one or more Ausco Subscribers (each a **Defaulting Ausco Subscriber**) failing to comply with:
- (i) its obligation pursuant to clause 2.3(a); and/or
 - (ii) its obligations to advance money to Treeco on the date and otherwise on the terms set out in the Investor Loan Facility,
- then that (or each, as the case may be) Defaulting Ausco Subscriber shall be obliged to pay to RNZ on demand an amount equal to the result of the following formula:

$$A = \frac{EP}{AEP} \times Y$$

where:

- A is the amount payable by that Defaulting Ausco Subscriber to RNZ on demand;
- EP is the Equity Proportion of that Defaulting Ausco Subscriber;
- AEP is the aggregate Equity Proportion of all Defaulting Ausco Subscribers; and
- Y is the amount payable by RNZ to BNZ under or in connection with the Deed of Indemnity.

- (c) was directly attributable to:
- (i) one or more Ausco Subscribers, (each a **Defaulting Ausco Subscriber**), failing to comply with:
 - (A) its obligations pursuant to clause 2.3(a) and/or
 - (B) its obligation to advance money to Treeco on the date and otherwise on the terms set out in the Investor Loan Facility, and
 - (ii) RCL failing to comply with:
 - (A) its obligations pursuant to clause 3.3(b); and/or
 - (B) its obligation to advance money to Treeco on the date and otherwise on the terms set out in the Investor Loan Facility,
- then that (or each, as the case may be) Defaulting Ausco Subscriber shall be obliged to pay to RNZ on demand an amount equal to the result of the following formula:

$$A = \frac{RP}{ARP} \times Y$$

where:

- A is the amount payable by that Defaulting Ausco Subscriber to RNZ on demand;
- RP is the Relevant Proportion of that Defaulting Ausco Subscriber;
- ARP is the aggregate Relevant Proportion of all Defaulting Ausco Subscribers and RCL; and
- Y is the amount payable by RNZ to BNZ under or in connection with the Deed of Indemnity.

- 7.3 **Exclusion:** If:
- (a) each Ausco Subscriber has complied with its obligations pursuant to clause 2.3(a); and
 - (b) RCL has complied with its obligations 3.3(b),
- but Ausco has failed to satisfy its obligation pursuant to clause 3.3(a), then Ausco shall pay to RNZ on demand an amount equal to the amount which RNZ is obliged to pay under or in connection with the Deed of Indemnity and hereby indemnifies RNZ upon demand from and against all amounts payable under or in connection with the Deed of Indemnity.
- 7.4 **Further indemnity:** Without prejudice to clause 7.2, each Defaulting Ausco Subscriber hereby indemnifies RNZ from and against all costs, losses, expenses and liabilities of any kind incurred by RNZ under or in connection with the Deed of Indemnity by reason of a failure by that Defaulting Ausco Subscriber to comply with its obligations under clause 7.2(b) or 7.2(c), as applicable. If this clause applies, each Defaulting Ausco Subscriber shall be obliged to pay to RNZ an amount on demand equal to the result of the formula set out in clauses 7.2(b) or 7.2(c), as the case may be.
- 7.5 **Certificate:** A certificate of:
- (a) any officer of RNZ, certifying the amount which RNZ is required to pay BNZ under the Deed of Indemnity shall, in the absence of manifest error, be conclusive evidence of that amount; and
 - (b) any officer of Ausco, certifying any failure by an Ausco Subscriber to comply with any of the obligations referred to in clauses 7.2(b) or 7.2(c) shall, in the absence of manifest error, be conclusive evidence of that failure.
- 7.6 **Exclusion regarding CAM:** For the avoidance of doubt, CAM may not be classified as a Defaulting Ausco Subscriber for the purpose of clause 7.2(b), 7.2(c) or 7.3.
- 7.7 **Delivery of certificate:** Ausco shall, immediately upon becoming aware of any failure by an Ausco Subscriber to comply with the obligations referred to in clauses 7.2(b) or 7.2(c), send to RNZ and to each other Ausco Subscriber the certificate referred to in clause 7.5(b).
- 7.8 **Obligations of Ausco Subscribers:** The obligations of each Ausco Subscriber and RCL under this clause 7 shall be unconditional and shall not be subject to any reduction, termination or other impairment by any set-off, deduction, counterclaim, agreement, defence or otherwise, and no Ausco Subscriber, nor RCL, shall be released from its obligations under this clause 7 for any reason whatsoever. The liability of each Ausco Subscriber under this clause 7 shall be several.
- 7.9 **Variation of LC:** RNZ shall not agree to amend the terms of the LC or the LC Facility Letter without obtaining the prior written consent of Ausco and each Ausco Subscriber.
8. **GOVERNANCE**
- 8.1 **Ausco governance:** Ausco shall be governed in accordance with the provisions set out in schedule two, and otherwise in accordance with the Ausco Constitution.

8.2 **Holdco governance:** Holdco shall be governed in accordance with the provisions set out in schedule three, and otherwise in accordance with the Holdco Constitution.

8.3 **Treeco governance:** Treeco shall be governed in accordance with the provisions set out in schedule three, and otherwise in accordance with the Treeco Constitution.

9. FUNDING

9.1 **Adjustment provisions under CHH SPA and RNZ SPA:** The Ausco Shareholders, Holdco Shareholders and Holdco acknowledge that each of the RNZ SPA and the CHH SPA contain purchase price adjustment provisions that may result in Treeco being required to pay further sums by way of purchase price adjustments, or apportionment adjustments, to CHH or RNZ (as the case may be), or CHH or RNZ (as the case may be) refunding a portion of the purchase price or apportionments paid by Treeco. The Ausco Shareholders, Ausco, the Holdco Shareholders, Holdco and Treeco agree as follows:

(a) If Treeco is required to make a payment to the Vendor as an adjustment to the purchase price under the SPA:

- (i) Treeco shall immediately give notice to Holdco and the Holdco Shareholders and the Ausco Shareholders (**Adjustment Notice**) of the amount required to be paid (**Adjustment Amount**);
- (ii) Each Holdco Shareholder shall pay to Treeco, within 8 Business Days from the date of the Adjustment Notice, a portion of the Adjustment Amount pro rata in proportion to that Holdco Shareholder's Holdco Shares and Holdco shall as soon as is practicable issue further Holdco Shares to each Holdco Shareholder in consideration for such payment (on the basis of one share for each dollar amount payable) pro rata in proportion to each Holdco Shareholder's shareholding in Holdco;
- (iii) Following payment by each Holdco Shareholder in accordance with clause 9.1(a)(ii), Holdco shall immediately pay to Treeco the Adjustment Amount, and Treeco shall, as soon as is practicable, issue further Treeco Shares to Holdco, in consideration for such payment;
- (iv) In order that Ausco can comply with subclause 9.1(a)(ii), each Ausco Shareholder shall, within 5 Business Days from the date of the Adjustment Notice, pay to Ausco a portion of the Adjustment Amount payable by Ausco to Treeco (in accordance with clause 9.1(a)(ii)) pro rata in proportion to that Ausco Shareholder's shareholding in Ausco and Ausco shall as soon as is practicable issue further Ausco Shares to each Holdco Shareholder in consideration for such payment (on the basis of one share for each dollar payable) pro rata in proportion to each Ausco Shareholder's shareholding in Ausco.

(b) If Treeco receives a refund from the Vendor by way of an adjustment to the purchase price under the SPA, this sum shall be retained by Treeco and utilised as working capital.

9.2 For the purpose of this clause 9.1, **Vendor** means CHH or RNZ, as the case may be, and **SPA** means the CHH SPA or RNZ SPA, as the case may be.

- 9.3 **Satisfaction of Adjustment Amount by CAM:** To the extent that CAM is required to make a payment to Ausco in accordance with clause 9.1(a)(iv), CAM shall be deemed to have satisfied that payment, by RREEF and RNZ deducting an amount equal to that payment from the CAM Transaction Fee.
- 9.4 **Further funding:** Save as set out in clause 9.1:
- (a) No Ausco Shareholder shall be obligated to provide any further funding to Ausco upon complying with its obligations pursuant to clause 2.3(a) and (if applicable) 2.5(a).
 - (b) No Holdco Shareholder shall be obligated to provide any further funding to Holdco upon complying with its obligations pursuant to clause 3.3(a) or 3.3(b), as the case may be, and (if applicable) 3.5(a).
- 9.5 **Liability of CAM to pay cash:** Notwithstanding anything in this agreement, CAM shall not, at any time, be obliged to make any cash payment to any party to this agreement in relation to any matters contained in this agreement.
10. **DEALING IN SHARES IN HOLDCO**
- 10.1 **Grant of security, etc:** No Holdco Shareholder shall, except with the prior written consent of the other Holdco Shareholders:
- (a) pledge, mortgage, charge or otherwise encumber any Holdco Share or any interest in any Holdco Share;
 - (b) grant an option over any Holdco Share or any interest in any Holdco Share; or
 - (c) enter into any agreement in respect of the votes attached to any Holdco Share.
- 10.2 **Stand-down period:** Subject to clauses 10.12 to 10.15, no Holdco Shareholder shall transfer or dispose of any Holdco Share or any interest in any Holdco Share for a period of three years after the Issue Date, other than with the prior written consent of the other Holdco Shareholders.
- 10.3 **Pre-emptive rights:** Subject to clauses 10.12 to 10.15, following the expiry of the three year period referred to in clause 10.2, Holdco Shares may only be transferred in accordance with clauses 10.4 to 10.11.
- 10.4 **Sale notice:** In order for any Holdco Shareholder (**Seller**) to sell, transfer or otherwise dispose of the legal or beneficial ownership of, or the control of, any of its Holdco Shares, that Holdco Shareholder shall first give notice (**Sale Notice**) to Holdco and the other Holdco Shareholders specifying:
- (a) the total number of Holdco Shares it wishes to sell, and the corresponding proportion of its Debt Commitment (if any) that it is required to transfer with the relevant Holdco Shares pursuant to clause 11.3 (**Sale Interest**);
 - (b) the price which the Seller wishes to receive for the Sale Interest
 - (c) each other Holdco Shareholder's pro rata entitlement to that Sale Interest which must be offered pursuant to this clause 10; and
 - (d) any other terms and conditions of the proposed sale of the Sale Interest (which shall be described sufficiently precisely to enable an acceptance of the offer in the Sale Notice to constitute a binding contract).

- 10.5 **Acceptance of Sale Notice:** Each Holdco Shareholder other than the Seller may, not later than the date (**Acceptance Date**) 20 Business Days after giving of the Sale Notice, give irrevocable notice to the Seller that that Holdco Shareholder wishes to acquire its pro rata entitlement and an indication that it will purchase a larger portion of the Sale Interest if other Holdco Shareholders do not purchase their pro rata entitlement to the Sale Interest on the terms specified in the Sale Notice. For the avoidance of doubt, an acceptance given pursuant to this clause must relate to the entire pro rata entitlement of the accepting Holdco Shareholder to be effective.
- 10.6 **Terms of sale:** A Holdco Shareholder which gives notice to the Seller in accordance with clause 10.5 (**Buyer**) that it wishes to acquire its pro rata entitlement to the Sale Interest (**Entitlement**) shall be entitled and bound (subject to this clause 10.6 and clause 10.7) to acquire that Entitlement. If one of more Holdco Shareholders gives notice to the Seller that it does not wish to acquire its Entitlement (such Holdco Shareholders being **Non Responsive Parties**), or does not give any notice within the 20 Business Day period referred to in clause 10.5, the aggregate Entitlements of the Non Responsive Parties shall be offered to those Holdco Shareholders who accepted their Entitlement and who provided an indication that they would purchase a larger portion of the Sale Interest if other Holdco Shareholders declined to take up their Entitlement, pro rata to the number of Holdco Shares they currently hold, so as to exhaust these pre-emptive rights. If Buyers have given acceptances in relation to the entire Sale Interest by the date 20 Business Days after the Acceptance Date (**Final Acceptance Date**), the purchase of the Sale Interest shall be effected at the price, and on the terms and conditions, specified in the Sale Notice, and, subject to anything to the contrary in the Sale Notice, on the following terms:
- (a) The sale of the Sale Interest, whether to one or more Buyer(s), shall be conditional on the Seller or Buyer(s) obtaining any consents required pursuant to clause 10.7. By way of example (without limitation) if there are two Buyers in respect of a Sale Interest, and one of those Buyers does not obtain a consent in accordance clause 10.7, then the Seller shall no longer be obliged to sell to the remaining Buyer and the Affected Portion of the Sale Interest (as defined in clause 10.7) shall be re-offered in accordance with clause 10.4.
 - (b) The purchase of the Sale Interest shall be settled on the date 10 Business Days after the Acceptance Date, or (if later), the Final Acceptance Date) if clause 10.7 applies, 10 Business Days after the last of the consents referred to in clause 10.7 is obtained.
 - (c) If there is more than one Buyer, the purchase of the Sale Interest by all Buyers shall be settled simultaneously.
 - (d) The Seller shall transfer to the Buyer good title to the Sale Interest free of any charge or encumbrance.
 - (e) On settlement of the purchase of the Sale Interest the Buyer shall pay the purchase price to the Seller in cleared funds, and the Seller shall deliver to the Buyer a transfer of the Sale Interest, including an assignment of the relevant proportion of its Debt Commitment (if any), in a form reasonably acceptable to the Buyer and the Seller.
 - (f) The Holdco Shareholders shall take all necessary steps to procure the Holdco Board to cause the Buyer to be registered as holder of those Holdco Shares.
 - (g) The Seller will, upon settlement of the purchase of the Sale Interest, procure the removal of any Holdco director appointed by it (provided that if it is entitled to appoint more than one director, and is selling some but not all of its Holdco

Shares, it shall be entitled to retain representation on the Holdco Board, to the extent permitted by schedule three).

- 10.7 **Consents:** The Buyer(s) and the Seller shall use their reasonable endeavours, with all due speed and diligence, to obtain all necessary consents to the sale and purchase of any portion of the Sale Interest (**Affected Portion**) for which any such consent is required, including any consent required from any governmental or regulatory agency or authority. If any necessary consent is:
- (a) not granted within 60 Business Days from the Acceptance Date (or, if applicable, the Final Acceptance Date); or
 - (b) granted on terms and conditions that are not reasonably acceptable to the party affected thereby,
- the Seller or any Buyer may, by notice to all Holdco Shareholders, terminate the obligation to buy and sell the Affected Portion created by clause 10.6, and the Affected Portion shall be re-offered in accordance with 10.4.
- 10.8 **Sale to third parties:** If the pre-emptive procedure set out in clauses 10.4 to 10.7 has been exhausted in relation to the Sale Interest and acceptances have not been received for the entire Sale Interest, the Seller may, (subject to clauses 10.9, 10.10 and 11.2) within 100 Business Days of the Acceptance Date (or, if applicable, the Final Acceptance Date), transfer the Sale Interest to any other person for a price not less than that, and on terms and conditions no more favourable than those, specified in the Sale Notice. For the purpose of this clause:
- (a) the terms and conditions on which the Sale Interest is sold to a third party shall not be construed as being more favourable than those in the Sale Notice solely because those terms and conditions contain arms' length warranties; and
 - (b) each Holdco Shareholder shall provide such assistance as may reasonably be required by the Seller for the purposes of enabling the Seller to solicit offers for the Sale Interest including:
 - (i) allowing prospective purchasers and their advisers to carry out reasonable due diligence enquiries;
 - (ii) allowing the Seller to complete any offering or sale document (including any information memorandum); and
 - (iii) enabling completion of any such sale to take place.
- 10.9 **Approval of purchaser by RCL:** For so long as RCL (or any related company of RCL or Rayonier) remains a Holdco Shareholder, no other Holdco Shareholder shall transfer shares in Holdco to any person (other than another Holdco Shareholder) unless that Holdco Shareholder has obtained the approval of RCL (or the relevant related company of RCL or Rayonier holding Holdco Shares). The approval of RCL to the proposed transfer shall only be withheld if RCL (or the relevant related company of RCL or Rayonier holding Holdco Shares) concludes, acting reasonably and in good faith, that the proposed transferee's business (or the business of any related company of the proposed transferee) is the operation and/or management of forestry interests in competition with Rayonier. RCL shall respond to a request from the Seller for approval pursuant to this clause within 10 Business Days after receipt of that request. If RCL fails to respond within that time, it shall be deemed to have approved the proposed purchaser. RCL's response shall be in writing, and, if consent is withheld, shall include an explanation of, and reasons for, that decision.

10.10 Clause to apply again: If:

- (a) the obligation to buy and sell any Affected Portion is terminated pursuant to clause 10.7; or
 - (b) the Seller proposes to sell, transfer, or otherwise dispose of the Sale Interest outside the period referred to in clause 10.8, or at a price, or on terms and conditions more favourable than, specified in the Sale Notice; or
 - (c) the Seller does not obtain the approval referred to in clause 10.9,
- clauses 10.3 to 10.9 and this clause 10.10 shall again apply, with any necessary modifications.

10.11 Change of control: If RCL and RNZ cease to be directly or indirect wholly owned subsidiaries of the same entity, then RCL shall immediately be deemed to have given a Sale Notice offering to transfer all of its Holdco Shares at Fair Value, and clauses 10.3 to 10.8 shall, with the necessary modifications, apply.

10.12 Transfer to related companies: Nothing in clauses 10.2 and 10.3 shall prevent any Holdco Shareholder (**Transferring Shareholder**) transferring all or some of its Holdco Shares to any entity that is wholly owned (direct or indirectly) by the same parent company as the relevant Holdco Shareholder (**Sister Company**) provided:

- (a) where the transferor is a Holdco Shareholder other than RCL (or any related company of RCL), it must seek approval to such transfer in accordance with clause 10.9; and
- (b) where the transferee ceases to be a Sister Company of the Transferring Shareholder, the transferee shall, and the Transferring Shareholder shall procure that, the transferee forthwith transfers back to the Transferring Shareholder (or another Sister Company of the Transferring Shareholder) all Holdco Shares that it holds.

10.13 Change of corporate trustee: Where a Holdco Shareholder is a corporate trustee or custodian of a pension fund, nothing in clauses 10.2 or clause 10.3 shall prevent the Holdco Shares held by that Holdco Shareholder being transferred to a replacement corporate trustee or custodian of that pension fund. For the avoidance of doubt, consent pursuant to clause 10.9 is not required for any transfer pursuant to this clause.

10.14 Underwriting: Nothing in clause 10.2 or 10.3 shall prevent Ausco or RCL transferring Holdco Shares, or any interest in Holdco Shares, to any third party in accordance with schedule 6, provided that if the transferring Holdco Shareholder is not RCL, it must seek approval of the third party purchaser pursuant to clause 10.9.

10.15 Transfer to clients of RREEF: Except as expressly provided in this clause 10.15, nothing in clauses 10.2 and 10.3 shall prevent Ausco transferring Holdco Shares to a third party, provided that:

- (a) the third party is a RREEF Client; and
- (b) the third party purchaser is approved by RCL pursuant to clause 10.9,

provided that if a proposed transfer of Ausco Shares or Holdco Shares would, if that transfer was completed, result in the aggregate Relevant Proportion of RREEF Clients falling below 30% then that transfer shall not be effected without first complying with clause 10.3.

10.16 **Tag along right:** If:

- (a) a Holdco Class A Shareholder gives a Sale Notice in respect of a number of Holdco Class A Shares that exceeds 67% of the total Holdco Class A Shares on issue; or
- (b) a Holdco Class B Shareholder gives a Sale Notice in respect of a number of Holdco Class B Shares that exceeds 50% of the total Holdco Class B Shares on issue,

then any other Holdco Shareholder (**Tag Along Party**), may, within 10 Business Days of the Sale Notice being given, give irrevocable written notice (**Tag Along Notice**) to the Seller that it wishes the Seller to procure (if the Sale Interest is not purchased by the other Holdco Shareholders) that any third party purchaser of the Sale Interest also purchases the Holdco Shares (and any corresponding Debt Commitment) held by that Tag Along Party. If a Seller receives a Tag Along Notice, the Seller shall not sell the relevant Sale Interest to a third party unless the Seller procures that third party to purchase the relevant Holdco Shares (and any corresponding Debt Commitment) owned by the Tag Along Party, at a price and on terms no less favourable than those contained in the Sale Notice. If a Tag Along Notice is given, reference in this agreement to **Seller** and **Sale Interest** shall be deemed to be amended accordingly.

10.17 **Fair Value:** If it is necessary for any purpose of this agreement to determine the fair market value of the Holdco Shares held by a Holdco Shareholder (**Sale Shares**), the following provisions shall apply:

- (a) All Holdco Shareholders shall, for a period of 10 Business Days after one Holdco Shareholder gives notice to the Holdco Shareholders requiring them to do so, endeavour to agree on the fair market value of the Sale Shares.
- (b) If the Holdco Shareholders do not agree on the fair market value of the Sale Shares within the period of 10 Business Days referred to in clause 10.17(a), the fair market value shall be determined by an independent valuer agreed upon by the Holdco Shareholders, or failing agreement on the valuer within 5 Business Days after the end of that period, appointed on the application of any Holdco Shareholders by the president for the time being of the Institute of Chartered Accountants of New Zealand or his or her nominee.
- (c) The person appointed as valuer under clause 10.17(b) shall:
 - (i) act as an expert and not as arbitrator;
 - (ii) determine the fair market value of the Sale Shares as soon as possible, which valuation shall be conclusive.
- (d) In determining the fair market value of the Sale Shares, the valuer shall determine the fair market value of all of the Holdco Shares, and shall then determine the fair market value of the Sale Shares in question as the appropriate percentage of the value of all Holdco Shares, so that no regard shall be had to the control of Holdco, or to any premium for control or discount for lack of control.
- (e) The Holdco Shareholders shall promptly and openly make available to the valuer all information in their possession or under their control relating to Holdco to enable the valuer to proceed with the valuation on an informed basis as to the financial position, affairs, performance, and prospects of Holdco. In these circumstances, RNZ shall provide the valuer with all relevant information in this respect that it holds pursuant to the Management Agreement.

- (f) The fees and expenses of the valuer shall be paid by the Holdco Shareholders pro rata in proportion to their holdings of Holdco Shares, or in such other manner as the valuer may determine.
- (g) The valuer may require the parties to adhere to such adjustments to the time frames set out in clause 10 as may be appropriate to reflect the time taken to determine Fair Value.

11. FURTHER PROVISIONS REGARDING DEALING IN SHARES

11.1 Dealing in shares of Ausco: For the avoidance of doubt, subject to clauses 10.15, 11.2, 11.3 and 11.4 below and any restrictions set out in the Ausco Constitution and/or the Corporations Act, there are no restrictions on dealing with Ausco Shares.

11.2 Accession Deed: If:

- (a) an Ausco Shareholder transfers the legal or beneficial ownership of any Ausco Shares to any party (other than to a party who has already signed this agreement or an Accession Deed); or
- (b) a Holdco Shareholder transfers the legal or beneficial ownership of any Holdco Shares to any party (other than to a party who has already signed this agreement or an Accession Deed),

that Holdco Shareholder or Ausco Shareholder, as the case may be, shall procure that the relevant transferee validly executes an Accession Deed, and delivers a copy of that Accession Deed to each party to this agreement.

11.3 Stapling of interest under Investor Loan Facility: Subject to any variation of the terms below in the Investor Loan Facility:

- (a) no Ausco Shareholder shall transfer all or any of its Ausco Shares without transferring a corresponding proportion of its Debt Commitment, in accordance with clause 10.6 of the Investor Loan Facility; and
- (b) no Holdco Shareholder shall transfer all or any of its Holdco Shares without transferring a corresponding proportion of its Debt Commitment, in accordance with clause 10.6 of the Investor Loan Facility.

11.4 Approval of transferee of Ausco Shares: For so long as RCL (or any related party of RCL or Rayonier) remains a Holdco Shareholder, no Ausco Shareholder shall transfer any of its Ausco Shares to any person (other than another Ausco Shareholder) unless that Ausco Shareholder has obtained the approval of RCL (or the relevant related party of RCL or Rayonier holding Holdco Shares). The approval of RCL to the proposed transfer shall only be withheld if RCL (or the relevant related party of RCL or Rayonier holding Holdco Shares) concludes, acting reasonably and in good faith, that the proposed transferee's business (or the business of any related company of the proposed transferee) is the operation and/or management of forestry interests in competition with Rayonier. RCL shall respond to a request from an Ausco Shareholder for approval pursuant to this clause within 10 Business Days after receipt of that request. If RCL fails to respond within that time, it shall be deemed to have approved the proposed purchaser. RCL's response shall be in writing, and, if consent is withheld, shall include an explanation of, and reasons for, that decision.

11.5 Registration of transfers:

- (a) The Ausco Shareholders shall procure that the Ausco Board does not register a transfer of Ausco Shares unless such transfer has been carried out in accordance with clause 11.2, 11.3 and 11.4, the requirements of the Corporations Act and the Ausco Constitution.
- (b) The Holdco Shareholders shall procure that the Holdco Board does not register a transfer of Holdco Shares unless such transfer has been carried out in accordance with clauses 10.2 to 10.16, clause 11.2 and clause 11.3, the requirements of the Companies Act and the Holdco Constitution.

11.6 Investment Agreements: For the avoidance of doubt, nothing in this agreement shall be construed to preclude an Ausco Shareholder or Holdco Shareholder entering into an Investment Agreement with RREEF, or an investment management agreement with any other investment manager.

11.7 Liability of transferring shareholders: Except to the extent required by law, each Holdco Shareholder or Ausco Shareholder which transfers its entire holding of Holdco Shares or Ausco Shares (as the case may be) 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.

11.8 Underwriting arrangements: Each of the parties agrees to be bound by the underwriting arrangements set out in schedule six. The Ausco Shareholders and Holdco Shareholders agree to procure Ausco or Holdco, as the case may be, to co-operate with the Sales Co-ordinator (as defined in schedule six) to release all information necessary to facilitate the underwriting sell-down process set out in schedule six.

11.9 Consent to buyback of Ausco Shares: The Ausco Shareholders acknowledge that:

- (a) Additional RREEF Clients may wish to invest in Holdco.
- (b) While it is proposed that RREEF will facilitate the investment of RREEF Clients in Holdco by procuring that DBAG sells down some or all of its Ausco Shares, the individual needs of some RREEF Clients may require direct investment in Holdco, rather than investment through Ausco. If a RREEF Client requires that its investment in Holdco is direct, Ausco will wish to procure the selective buyback by Ausco of such number of DBAG's Ausco Shares as will be required to preserve the current percentage proportion of the other Ausco Shareholders indirect interest in Holdco.

Accordingly, each of the Ausco Shareholders unconditionally agrees to grant its consent, pursuant to section 257D of the Corporations Act, and this agreement, to any selective buyback by Ausco of the Ausco Shares held by DBAG and CAM pursuant to schedule six and this clause 11.9.

11.10 Consent to buyback of Holdco Shares: The Holdco Shareholders and the Ausco Shareholders acknowledge that:

- (a) When RCL sells down shares in Holdco pursuant to schedule six, new participants may wish to invest in Holdco by purchasing shares in Ausco rather than directly in Holdco.
- (b) If a new participant who is taking an interest in Holdco pursuant to a sell down by RCL pursuant to schedule six seeks to invest via Ausco, the parties will effect such sell down arrangement either by way of RCL transferring shares in Holdco to Ausco, or by Holdco buying back shares held by RCL and issuing

further shares to Ausco to reflect the new proportions of RCL and the Ausco Shareholders' interests in Holdco.

Accordingly, each of the Ausco Shareholders and each of the Holdco Shareholders unconditionally agrees to grant its consent under the Corporations Act or Companies Act (as the case may be) and under this agreement, to any selective buyback and/or issue of shares required to effect the sell down of shares by RCL pursuant to schedule six and this clause 11.10.

12. **WARRANTIES**

12.1 **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.
- (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.

12.2 **Related party warranty:** Each of the Ausco Shareholders and RCL warrants and represents to Treeco that (except as notified in writing to CHH pursuant to the CHH SPA), to the best of its knowledge, having made due inquiry, it is not, and will not at the date of Principal Completion be:

- (a) a "Related Party" of CHH, as defined under clause 9.2.3 of the Listing Rules of New Zealand Exchange Limited; or
- (b) (in relation to CHH) an entity identified in clauses 10.1.1 to 10.1.5 of the Listing Rules of Australian Stock Exchange Limited.

13. **COMPLIANCE WITH THIS AGREEMENT AND THE CONSTITUTION**

13.1 **Ausco Shareholders:** Each Ausco Shareholder undertakes to the other Ausco Shareholders that it shall:

- (a) take all practicable steps including, without limitation, the exercise of votes it directly or indirectly controls at meetings of the Ausco Board and Ausco Shareholder meetings of Ausco to ensure that the terms of this agreement are complied with and to procure that the Ausco Board and Ausco 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;

- (b) comply fully and promptly with the provisions of the Ausco Constitution so that each and every provision of the Ausco Constitution (subject to clause 18.1) shall be enforceable by the Ausco Shareholders as between themselves in whatever capacity.

13.2 **Holdco Shareholders:** Each Holdco Shareholder undertakes to the other Holdco Shareholders that it shall:

- (a) take all practicable steps including, without limitation, the exercise of votes it directly or indirectly controls at meetings of the Holdco Board and Holdco Shareholder meetings of Holdco to ensure that the terms of this agreement are complied with and to procure that the Holdco Board and Holdco 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;
- (b) comply fully and promptly with the provisions of the Holdco Constitution so that each and every provision of the Holdco Constitution (subject to clause 18.1) shall be enforceable by the Holdco Shareholders as between themselves in whatever capacity.

14. DEFAULT IN RELATION TO HOLDCO

14.1 **Procedure on Event of Default:** If an Event of Default occurs in relation to a Holdco Shareholder (**Defaulting Holdco Shareholder**), the non defaulting Shareholders (**Non-Defaulting Holdco Shareholders**) may (if the Non-Defaulting Holdco Shareholders agree unanimously) require that:

- (a) If:
 - (i) the breach or failure is capable of remedy, until the breach or failure is remedied; or
 - (ii) the breach or failure is not capable of remedy, pending completion of the action contemplated by clauses 14.1(b) or 14.1(c), the voting rights of the Defaulting Holdco Shareholder are deemed suspended;
- (b) the Defaulting Holdco Shareholder shall be deemed to have given a Sale Notice in accordance with clause 10.3 in relation to all of its Holdco Shares, at Fair Value (in which case the Holdco Board shall be authorised to give all notices and take all actions required in relation to that Sale Notice); or
- (c) Holdco is liquidated.

14.2 **Definition:** An Event of Default occurs in respect of a Holdco Shareholder if:

- (a) that Holdco Shareholder commits any material breach of or fails to observe any of the material obligations under this agreement and does not remedy that breach or failure within 20 Business Days of receiving written notice from the Non-Defaulting Shareholders specifying the breach or failure and the consequences of failing to remedy the breach or failure;
- (b) that Holdco 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 Holdco 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 Holdco 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 Holdco 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 Holdco Shareholder and is not discharged or stayed within 10 Business Days;
- (g) that Holdco 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 Holdco Shareholder under the laws of a jurisdiction other than New Zealand.

14.3 **Other remedies:** Clause 14.1 is without prejudice to any other right, power or remedy under this agreement, at law, or otherwise, that any Holdco Shareholder has in respect of a default by any other Holdco Shareholder.

15. LIQUIDATION

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

16. TAX ELECTIONS AND ESTABLISHMENT OF LOG TRADING COMPANY

16.1 **Acknowledgement:** The Holdco Shareholders acknowledge that either Holdco, Treeco or the Holdco Shareholders will establish a limited liability company for the purposes of conducting log trading associated with the Forestry Assets, such company to be called Matariki Forests Trading Limited (MFT). The Holdco Shareholders acknowledge and agree that they may be required by Rayonier to subscribe pro rata for shares in MFT at a nominal value, provided that RNZ may subscribe for shares in MFT in substitution for RCL. No MFT shareholder shall transfer all or any of its MFT shares without transferring a corresponding proportion of its Holdco Shares and Debt Commitment in accordance with clause 10. The Holdco Shareholders acknowledge that it is the intention of Holdco that MFT be governed in accordance with schedule three.

16.2 **US tax election:** The parties to this agreement shall use all reasonable endeavours to ensure that Holdco and Treeco elect to “check the box” for the purpose of any US tax election so that Holdco and Treeco are treated as partnerships for the purposes of US taxation.

17. **NOTICES TO CHH AND RNZ**

17.1 **Notices and approvals:** No party to this agreement will purport to give any notice (including confirmation of satisfaction of conditionality), or exercise any approval, discretion or right of waiver, pursuant to the CHH SPA or the RNZ SPA (other than RNZ in its capacity as seller of the RNZ Assets), without the prior written approval of Rayonier and RREEF. This clause is intended to confer a benefit upon Rayonier which may be enforced by Rayonier.

18. **GENERAL**

18.1 **Conflicting provisions:** If there is any conflict or inconsistency between the provisions of this agreement and the Ausco Constitution, the Holdco Constitution or the Treeco Constitution, as the case may be, this agreement shall prevail.

18.2 **Termination:** This agreement may be terminated upon the written agreement of all parties.

18.3 **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.

18.4 **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; or
- (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; or
- (f) that disclosure is made to a proposed third party purchaser of Holdco Shares or the Forestry Assets, which has entered into an appropriate confidentiality agreement to the satisfaction of Holdco.

18.5 **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.

- 18.6 **Variation:** Subject to clause 5.7 of schedule six, 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, provided as follows:
- (a) The Ausco Shareholders alone may, if a 80% majority of Ausco Shareholders agree, amend the provisions of schedule two, provided that such amendment does not impose an obligation on any party save for Ausco, an Ausco Shareholder or the Ausco Board. If schedule two is amended pursuant to this clause, the amendment shall be deemed effective upon Ausco delivering the amended schedule to all parties to this agreement.
 - (b) The Holdco Shareholders alone may, if the Holdco Shareholders agree unanimously, amend the provisions of schedule three, provided that such amendment does not impose an obligation on any party save for Holdco, a Holdco Shareholder or the Holdco Board. If schedule three is amended pursuant to this clause, the amendment shall be deemed effective upon Holdco delivering the amended schedule to all parties to this agreement.
- 18.7 **Requirements of Trustee:** To the extent that any Trustee has any legal requirements, either by way of statute or a deed of trust, the parties to this agreement agree to use reasonable endeavours to accommodate such legal requirements.
- 18.8 **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.
- 18.9 **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.
- 18.10 **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.
- 18.11 **Full agreement:** This agreement, and the provisions of clause 7 and 8 of the Memorandum of Understanding, contain a final and complete integration of all prior expressions by the parties with respect to the subject matter of this agreement and constitute the entire agreement between the parties with respect to the subject matter of this agreement, superseding all prior oral or written understandings. For the avoidance of doubt, the LC Fee shall be a third party bid cost for the purposes of clause 7 and 8 of the Memorandum of Understanding.
- 18.12 **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.
- 18.13 **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.
- 18.14 **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) or facsimile. 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 four.

18.15 **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,
- 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.

18.16 **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.

EXECUTION:

SIGNED by SAS TRUSTEE CORPORATION

by its attorneys in the presence of:

Signature of attorney

Name of attorney

Signature of witness

Name of witness

Occupation

City/town of residence

SIGNED by DEUTSCHE BANK AG (SYDNEY BRANCH) by its
attorneys in the presence of:

Signature of attorney

Name of attorney

Signature of witness

Name of witness

Occupation

City/town of residence

Signature of attorney

Name of attorney

Signature of attorney

Name of attorney

SIGNED by **DEUTSCHE ASSET MANAGEMENT (AUSTRALIA) LIMITED** by its attorneys in the presence of:

Signature of attorney

Name of attorney

Signature of witness

Name of witness

Occupation

City/town of residence

SIGNED by **RAYONIER CANTERBURY LLC** by:

Signature of officer

Name of officer

SIGNED by **RAYONIER NEW ZEALAND LIMITED** by:

Signature of director

Name of Director

Signature of attorney

Name of attorney

Signature of officer

Name of officer

Signature of director

Name of Director

SIGNED by **CAMERON & COMPANY LIMITED** by its attorney in the presence of:

Signature of attorney

Name of attorney

Signature of witness

Name of witness

Occupation

City/town of residence

SIGNED by **MATARIKI FORESTS AUSTRALIA PTY LIMITED** by:

Signature of director

Name of director

Signature of witness

Name of witness

Occupation

City/town of residence

SIGNED by **MATARIKI FORESTRY GROUP** by:

Signature of director

Signature of director

Name of Director

Name of Director

SIGNED by MATARIKI FORESTS by:

Signature of director

Name of Director

Signature of director

Name of Director

SCHEDULE ONE
SUBSCRIPTION DETAILS

PART A
AUSCO

<u>Ausco Subscribers</u>	<u>Percentage of Ausco Subscription Shares</u>
DBAG	41.65%
RCL	16.21%
STC	41.65%
CAM	0.49%

PART B
HOLDCO

<u>Holdco Subscribers</u>	<u>Percentage of Holdco Subscription Shares</u>
AUSCO (for Holdco Class A Shares)	60%
RCL (for Holdco Class B Shares)	40%

PART C
TREECO

<u>Treeco Subscriber</u>	<u>Percentage Treeco Subscription Shares</u>
Holdco	100%

SCHEDULE TWO
GOVERNANCE OF AUSCO

1. INTERPRETATION

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

Board means the board of directors of Ausco.

Company means Ausco.

Directors means the directors of Ausco.

Shares means ordinary shares in Ausco.

Shareholder means a shareholder of Ausco.

2. APPLICATION OF THIS SCHEDULE:

2.1 The provisions contained in this schedule shall apply from the Subscription Date. Prior to this, the following provisions shall apply in relation to the Company:

(a) The sole director shall be Martin Smith.

(b) The Shareholder agrees that it shall not remove Martin Smith.

(c) If for any reason Martin Smith ceases to be a director, RREEF shall nominate a replacement director, and the Shareholder agrees to appoint that nominated party.

(d) No board resolution shall be passed without the consent of the Shareholder.

3. COMPOSITION AND PROCEEDINGS OF THE BOARD

3.1 **Number of directors:** Each Shareholder shall be entitled to appoint one Director, provided that Shareholder's holding in the Company does not fall below 20%. The maximum number of Directors shall be three, unless the Shareholders unanimously agree otherwise.

3.2 **Removal of Directors appointed:** A director may only be removed by its appointing Shareholder.

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

3.4 **Quorum:** A quorum of any meeting of the Board must include at least two directors.

3.5 **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.

3.6 **Directors' voting rights:** At a meeting of the Board, the Directors shall be entitled to exercise a percentage of the votes which may be cast at that meeting equal to the percentage of the Shares in the Company held by that Director's appointing Shareholder.

- 3.7 **Interested Directors:** Except as provided in this agreement, a Director who has a material personal interest in a transaction entered into or to be entered into by the Company may not vote on any matter related to the transaction, but shall be included in the quorum of Directors considering the transaction.
- 3.8 **Regularity of Board Meetings:** Meetings of the Directors shall be held at regular intervals as shall be determined by the Board at such place or places as the Board may from time to time determine.
- 3.9 **Telephone meetings:** Meetings of the Board may be held with one or more Directors participating by telephone.
- 3.10 **Chairman:** The Board shall appoint a chairman. A new chairman shall be elected on an annual basis. The chairman shall not have a casting vote.
- 3.11 **Responsibility for management:** The Board shall be responsible for the overall guidance and direction of the Company. Subject to complying with their duties as directors, when exercising powers or performing duties, each Director may have regard to the interests of his/her appointing Shareholder.
- 3.12 **Board responsible for all matters:** Save to the extent that Shareholder approval is required by law, all decisions relating to the Company shall be made by the Board, by a simple majority.
- 3.13 **Exercise of votes at Holdco level:** In voting the Company's Holdco Shares in relation to a matter, the Board shall ensure that vote reflects proportionately the votes of the Directors on that matter. By way of example (without limitation), if two Directors (appointed by Shareholders holding together 70% of the Shares in the Company) vote in favour of the matter at Board level, and the other Director (appointed by the Shareholder holding the remaining 30% of the Shares in the Company) votes against, the Board shall ensure that 70% of the Company's Holdco Shares are voted in favour of the matter, and 30% are voted against.
- 3.14 **Indemnity on removal of Director:** Any Shareholder removing a director shall be responsible for and agrees with the Company and the other Shareholders to indemnify the other Shareholders and the Company against all losses, liabilities and costs which the other Shareholders 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.

4. DISTRIBUTIONS

- 4.1 **Profits to be distributed:** Subject to the requirements of the Corporations Act, the full amount of the Company's profits available for distribution shall be distributed on a quarterly basis or as and when the Board determines fit.

5. ENFORCEMENT OF COMPANY'S RIGHTS

- 5.1 **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 Shareholder(s) which are 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.

6. RECORDS AND FINANCIAL INFORMATION

- 6.1 **Financial year:** Each financial year of the Company shall end on 31 December unless otherwise determined by the Board.
- 6.2 **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.
- 6.3 **Financial statements:** The Shareholders shall procure that the Board arranges for the preparation of audited annual financial statements. These financial statements, accompanied by the report of the Auditors thereon, shall be prepared and delivered to each of the Shareholders as soon as is practicable after the end of each financial year of the Company, and in any case, within the time frame required by the Corporations Act.
- 6.4 **Additional financial information:** 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 is required by the Corporations Act, or as the Board may from time to time consider necessary or advisable.

SCHEDULE THREE

GOVERNANCE OF HOLDCO AND ITS SUBSIDIARIES

1. INTERPRETATION

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

Board means the board of directors of Holdco, Treeco, or any other subsidiary of Holdco, as the case may be.

Company means Holdco or, Treeco, or any other subsidiary of Holdco, as the case may be.

Directors means the directors of Holdco, Treeco, or any other subsidiary of Holdco, as the case may be.

Shares means ordinary shares (of whatever Class) in Holdco, Treeco, or any other subsidiary of Holdco, as the case may be.

Shareholder means a shareholder of Holdco, Treeco or any other subsidiary of Holdco, as the case may be.

2. COMPOSITION AND PROCEEDINGS OF THE BOARD

2.1 **Number of directors:** The number of directors of the Company shall be five. The directors shall be appointed as follows:

(a) a majority of the Holdco Class A Shareholders shall be entitled to appoint three directors (**Holdco Class A Directors**); and

(b) a majority of the Holdco Class B Shareholders shall be entitled to appoint two directors (**Holdco Class B Directors**).

2.2 **Directors appointed:** The Holdco Shareholders, Holdco and Treeco acknowledge that, the initial directors of the Company (being Holdco Class B Directors) are Timothy Brannon and Paul Nicholls. The Holdco Class A Shareholders shall appoint the initial Holdco Class A Directors on the Subscription Date.

2.3 **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.

2.4 **Quorum:** A quorum of any meeting of the Board must include at least one Holdco Class A Director and one Holdco Class B Director.

2.5 **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.

2.6 **Directors' voting rights:** At a meeting of the Board, the Directors appointed by each Class, shall 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 holders of the Shares in that Class.

- 2.7 **Interested Directors:** Except as provided in this agreement, 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.
- 2.8 **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 at two monthly intervals at such place or places as the Board may from time to time determine, provided that for the first twelve months following the issue date Board meetings shall be held on a monthly basis.
- 2.9 **Telephone meetings:** Meetings of the Board may be held with one or more Directors participating by telephone.
- 2.10 **Chairman:** The chairman of the Board shall alternate annually between the Holdco Class A Directors and the Holdco Class B Directors. The chairman shall not have a casting vote.
- 2.11 **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.
- 2.12 **Indemnity on removal of Director:** Any Holdco Shareholder removing a director shall be responsible for and agrees with the Company and the other Holdco Shareholders to indemnify the other Shareholders and the Company against all losses, liabilities and costs which the other Shareholders 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.
- 2.13 **Matters requiring supermajority consent:** Subject to clauses 2.14, 2.15 and 2.16 of this schedule three) 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, division, subdivision or consolidation of Shares or the creation of any options to subscribe for or acquire Shares; or;
 - (c) any change to the distribution policy set out in the agreement or any other distribution of the Company's assets;
 - (d) approval or amendment of annual operating plans or budgets or any activity outside the scope of the annual budget of the Company;
 - (e) any change in the nature of the Company's business;
 - (f) the making of any loan by the Company or the creation, renewal or extension of any borrowings by the Company (other than normal trade credit);
 - (g) the acquisition or construction or lease of items of tangible or intangible property;

- (h) any transaction by the Company with any Shareholder or any related Company of a Shareholder;
- (i) any obligation of the Company which could involve the payment by it, in cash or otherwise, of amounts in excess of amounts approved under the management agreement;
- (j) the assignment, sale or other disposal in any 12 month period of any asset or related group of assets (other than stumpage and logs) of the Company having a net book value in aggregate of NZD\$1,000,000 or more;
- (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; or
- (o) termination of the Management Agreement, other than for:
 - (i) material breach in accordance with its terms;
 - (ii) failure by RNZ to obtain approval for an assignment of the Management Agreement by RNZ; or
 - (iii) pursuant to the Holdco's automatic termination rights contained in clause 14.2 of the Management Agreement).

2.14 **Management Agreement:** Any decision relating to termination of the Management Agreement for:

- (a) material breach in accordance with its terms;
- (b) failure by RNZ to obtain approval for an assignment of the Management Agreement by RNZ or
- (c) pursuant to Holdco's automatic termination rights contained in clause 14.2 of the Management Agreement,

including any decision to bring proceedings in respect of that material breach or failure, or decision as to the conduct of such proceedings, shall require the consent of all Holdco Class A Directors. For the avoidance of doubt, the Holdco Class B Directors shall not be entitled to vote on any such decision.

2.15 **Proceedings if Company is in financial distress:** If an "*Event of Default*" (as defined in the Senior Facility Agreement) or "*Event of Review*" (as defined only in paragraphs (a) and (b) of the definition in clause 19.3 of the Senior Facility Agreement), occurs, the Board shall be entitled to resolve, by a simple majority, to raise equity (on a pro-rata basis) amongst shareholders and classes of shares already on issue, or to incur further debt on behalf of the Company, provided that the Board does not seek to issue, pursuant to this clause, an amount of equity that would, if RCL did not take up its entitlement to such equity, dilute RCL's Relevant Proportion to below 30%.

- 2.16 **Shareholder approval:** The following matters (which for the avoidance of doubt exclude any issue of securities) must be approved by 75% of Shareholders following approval by a simple majority of 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.

3. DISTRIBUTIONS

- 3.1 **Profits to be distributed:** The full amount of the Company's 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 a quarterly basis, or as and when the Board determines fit.

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 (including, without limitation, the Management Agreement and the RNZ SPA) shall be prosecuted by the directors of the Company appointed by the Shareholder(s) which are 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 generally accepted accounting principles, 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 FOUR

ADDRESS DETAILS OF THE PARTIES

SAS TRUSTEE CORPORATION

Address: C/- RREEF
Level 21, 83 Clarence Street
PO Box N127 Grosvenor Place
Sydney, NSW, 1220
Australia
Attention: Martin Smith
Facsimile: +612 9249 9795
Email: martin.smith@db.com

DEUTSCHE BANK AG (SYDNEY BRANCH)

Address: C/- RREEF
Level 21, 83 Clarence Street
PO Box N127 Grosvenor Place
Sydney, NSW, 1220
Australia
Attention: Richard Hedley
Facsimile: +612 9249 9795
Email: richard.hedley@db.com

DEUTSCHE ASSET MANAGEMENT (AUSTRALIA) LIMITED

Address: C/- RREEF
Level 21, 83 Clarence Street
PO Box N127 Grosvenor Place
Sydney, NSW, 1220
Australia
Attention: Martin Smith
Facsimile: +612 9249 9795
Email: martin.smith@db.com

CAMERON & COMPANY LIMITED

Address: Level 16
Vero Centre
48 Shortland Street
Attention: Chris Simcock
Facsimile: +649 912 8591
Email: chris.simcock@cam.co.nz

RAYONIER CANTERBURY LLC

Address: C/- RNZ
Level 5
Symonds Centre
49 Symonds Street
Auckland

Attention: The General Manager
Facsimile: +64 9 302 2318
Email: paul.nicholls@rayonier.com

RAYONIER NEW ZEALAND LIMITED

Address: C/- RNZ
Level 5
Symonds Centre
49 Symonds Street
Auckland

Attention: The General Manager
Facsimile: +64 9 302 2318
Email: paul.nicholls@rayonier.com

MATARIKI FORESTS AUSTRALIA PTY LIMITED

Address: C/- RREEF
Level 21, 83 Clarence Street
PO Box N127 Grosvenor Place
Sydney, NSW, 1220
Australia

Attention: Martin Smith
Facsimile: +612 9249 9795
Email: martin.smith@db.com

MATARIKI FORESTRY GROUP

Address: C/- RNZ
Level 5
Symonds Centre
49 Symonds Street
Auckland

Attention: The General Manager
Facsimile: +64 9 302 2318
Email: paul.nicholls@rayonier.com

C/- RREEF
Level 21, 83 Clarence Street
PO Box N127 Grosvenor Place
Sydney, NSW, 1220
Australia
Martin Smith
+612 9249 9795
martin.smith@db.com

MATARIKI FORESTS

Address: C/- RNZ
Level 5
Symonds Centre
49 Symonds Street
Auckland

Attention: The General Manager
Facsimile: +64 9 302 2318
Email: paul.nicholls@rayonier.com

C/- RREEF
Level 21, 83 Clarence Street
PO Box N127 Grosvenor Place
Sydney, NSW, 1220
Australia
Martin Smith
+612 9249 9795
martin.smith@db.com

SCHEDULE FIVE
FORM OF ACCESSION DEED

DEED dated

PARTIES [] **(Transferor)**
 [] **(Transferee)**

INTRODUCTION

- (A) The Transferor is a party to the Master Shareholder Agreement in relation to [Ausco], Matariki Forestry Group and Matariki Forests dated [] **(Shareholder Agreement)**.
- (B) The Transferor wishes to transfer to the Transferee [] shares in [Ausco / Holdco] **(Shares)**.
- (C) Under clause 11.2 of the Shareholder Agreement the Transferee is required to execute this deed.

INTERPRETATION

In this deed, unless the context otherwise requires, terms defined in the Shareholder Agreement shall have the same meaning in this deed.

OPERATIVE PROVISIONS

- 1. With effect from the date of this deed:
 - (a) The Transferee becomes a party to the Shareholder Agreement as if it had been named as an [Ausco Shareholder / Holdco Shareholder] in the Shareholder Agreement and had executed it.
 - (b) The Transferor transfers a corresponding proportion of its Debt Commitment, in accordance with clause 10.6 of the Investor Loan Facility.
- 2. If the transfer contemplated by this deed requires approval under clauses 10.9 or 11.4 of the Shareholder Agreement, the Transferor represents and warrants to each of the Transferee, Ausco and Holdco that it has obtained the consent of RCL as required by those clauses.
- 3. The Transferee assumes all of the obligations of the Transferor under the Shareholder Agreement, however without limiting clause 11.7 of the Shareholder Agreement the Transferor is not released from any liability to the remaining Holdco Shareholders and Ausco Shareholders existing as at the date of this deed and relating to the period prior to the date of transfer of the Shares **(Remaining Shareholders)**.
- 4. The parties acknowledge that the matters agreed by them in this deed are for the benefit of, and may be relied on by, the Remaining Shareholders.

5. Each of the Transferor and the Transferee represents and warrants to each of Ausco and Holdco that the Transferor will not be in breach of clause 10 or 11 of the Shareholder Agreement following transfer of the Shares.
6. The provisions of clauses 2 and 5 are for the benefit of, and are intended to be enforceable by, each of Ausco and Holdco under the Contracts (Privity) Act 1982.
7. This deed shall be governed by, and construed in accordance with, the laws of New Zealand, and the parties hereby submit to the exclusive jurisdiction of the courts of New Zealand.

SIGNED AS A DEED

SIGNED by [TRANSFEROR] by:

Signature of Director

Name of Director

SIGNED by [TRANSFEE] by:

Signature of Director

Name of Director

Signature of Director

Name of Director

Signature of Director

Name of Director

SCHEDULE SIX
UNDERWRITING ARRANGEMENTS

1. DEFINITIONS

1.1 For the purposes of this schedule:

CAM Underwritten Obligations means:

- (a) CAM's obligations to subscribe for Ausco Shares pursuant to clause 2.1 to 2.5 of this agreement and CAM's Debt Commitment; and
- (b) following a Transfer of such obligations, the obligation to subscribe for Ausco Shares and CAMS's Debt Commitment so remaining.

DBAG Additional Underwritten Obligations means:

- (a) DBAG's Total Underwritten Obligations less DBAG's Original Underwritten Obligations; and
- (b) following any Transfer of such obligations, the DBAG Additional Underwritten Obligations so remaining.

DBAG Original Underwritten Obligations means:

- (a) DBAG's obligation to subscribe for Ausco Shares and advance its Debt Commitment in an aggregate amount of not more than the Australian dollar equivalent of 45,000,000 Euros; and
- (b) following any Transfer of such obligations, the DBAG Original Underwritten Obligations so remaining.

DBAG Total Underwritten Obligations means:

- (a) DBAG's obligation to subscribe for Ausco Shares pursuant to clauses 2.1 to 2.5 of this agreement and DBAG's Debt Commitment; and
- (b) following any Transfer of such obligations, such obligation to subscribe for Ausco Shares and DBAG's Debt Commitment so remaining.

PSS means Public Sector Superannuation Scheme.

RCL Underwritten Obligations means:

- (a) at any time prior to a Transfer of RCL Underwritten Obligations, RCL's obligation to subscribe for Ausco Shares pursuant to clauses 2.1 to 2.5 of this agreement and 19.55% of RCL's Debt Commitment; and
- (b) following any Transfer of RCL Underwritten Obligations, such obligation to subscribe for Ausco Shares and RCL's Debt Commitment so remaining.

Sales Co-ordinator means DAM

Sales Co-ordination Term means the period from the date of this agreement to the date that is 9 months after the date of Principal Completion.

Specified RREEF Client means each of:

- (a) OPSEU Pension Trust;

- (b) clients of JANA Investment Advisers Pty Ltd (including, but not limited to, Retail Employees Superannuation Trust Pty Ltd and Super Investment Management Pty Ltd);
- (c) clients of Sovereign Investment Research Pty Ltd (including, but not limited to, SunSuper and SunSuper Pty Ltd);
- (d) clients of Access Economics (including, but not limited to, Motor Trades Association of Australia Superannuation Fund (MTAA Super), Westscheme and Statewide Superannuation Trust);
- (e) Australia Post Superannuation Scheme; and
- (f) Perpetual Investment Management Ltd.

Underwritten Obligations means, at any time, the CAM Underwritten Obligations, DBAG Original Underwritten Obligations, the DBAG Additional Underwritten Obligations and the RCL Underwritten Obligations at that time, or any of them as the context may require.

- 1.2 The parties acknowledge that the Underwritten Obligations are intended to be transferred to third parties in accordance with the terms of this schedule.
- 1.3 The parties acknowledge that it is mutual beneficial to them that the sales process is conducted in a co-ordinated and orderly manner.

2. **TRANSFER OF UNDERWRITTEN OBLIGATIONS**

- 2.1 CAM, RCL and DBAG each appoint the Sales Co-ordinator, for the Sales Co-ordination Term, to arrange the transfer (**Transfer**) of the Underwritten Obligations as soon as reasonably practicable after the date of this agreement and otherwise in accordance with the terms set out in this schedule. The Sales Co-ordinator accepts this appointment for the Sales Co-ordination Term.
- 2.2 The Sales Co-ordinator shall:
 - (a) use its reasonable endeavours to arrange the Transfer and shall perform its obligations under this schedule in an efficient and competent manner; and
 - (b) be the sole point of contact for and on behalf of the parties to this agreement and any proposed transferee of Underwritten Obligations.
- 2.3 CAM and RCL each agree not to procure, solicit or arrange the transfer of its respective Underwritten Obligations during the Sales Co-ordination Term.
- 2.4 No CAM Underwritten Obligation or RCL Underwritten Obligation may be transferred without CAM's or RCL's respective prior approval (acting reasonably) to the terms of transfer.
- 2.5 CAM and RCL each agree to co-operate with the Sales Co-ordinator in arranging the transfer of the Underwritten Obligations and to provide all assistance reasonably required by the Sales Co-ordinator in the performance by it of its obligations under this schedule.
- 2.6 If all of the CAM Underwritten Obligations and the RCL Underwritten Obligations have not been Transferred by the expiry of the Sales Co-ordination Term then each of CAM, DBAG and RCL shall:
 - (a) be responsible for disposing of Underwritten Obligations then held by it; and

- (b) use reasonable endeavours to procure that any proposed transferee of those Underwritten Obligations also acquires the Underwritten Obligations then held by the other parties with outstanding Underwritten Obligations,

provided that the CAM Underwritten Obligation may not be transferred to a person without that person also taking a transfer of another Underwritten Obligation.

3. **TRANSFER PROCESS**

3.1 CAM, RCL and the Sales Co-ordinator each agree that:

- (a) subject to clause 3.2 of this schedule, the CAM Underwritten Obligations shall be fully transferred before any DBAG Original Underwritten Obligations, DBAG Additional Underwritten Obligations or RCL Underwritten Obligations are Transferred;
- (b) subject to clause 3.1(a) of this schedule, if the Transferee of the Underwritten Obligations is PSS then:
 - (i) the RCL Underwritten Obligations and DBAG Additional Underwritten Obligations shall be fully Transferred prior to any amount of the DBAG Original Underwritten Obligations being Transferred; and
 - (ii) the RCL Underwritten Obligations and DBAG Additional Underwritten Obligations shall be transferred pro rata in the following proportions:
 - (A) 84.22% of the Underwritten Obligation Transferred to PSS shall be RCL Underwritten Obligations; and
 - (B) 15.78% of the Underwritten Obligation Transferred to PSS shall be DBAG Additional Underwritten Obligations;
- (c) subject to clause 3.1(a) of this schedule, if the Transferee of the Underwritten Obligations is a Specified RREEF Client then the DBAG Original Underwritten Obligations shall be fully Transferred prior to any amount of the RCL Underwritten Obligations and DBAG Additional Underwritten Obligations being Transferred;
- (d) subject to clause 3.1(a) of this schedule, if the Transferee of the Underwritten Obligations is:
 - (i) any person other than PSS or a Specified RREEF Client; or
 - (ii) a Specified RREEF Client and all the DBAG Original Underwritten Obligations have been fully Transferred, then:
 - (iii) the RCL Underwritten Obligations and DBAG Total Underwritten Obligations shall be Transferred pro rata in the following proportions:
 - (A) 28.01% of the Underwritten Obligations Transferred shall be RCL Underwritten Obligations; and
 - (B) 71.99% of the Underwritten Obligations Transferred shall be DBAG Total Underwritten Obligations.

3.2 The CAM Underwritten Obligations shall not be Transferred, and the Sales Co-ordinator shall not be required to arrange a Transfer of CAM Underwritten Obligations, if such Transfer

would result in either of STC or DBAG holding 50% or more of the total issued Ausco Shares.

- 3.3 Underwritten Obligations may be transferred in whole or in part provided that that portion of part of an Underwritten Obligation transferred which comprises an obligation to subscribe for Ausco Shares must be 40%, and the portion which comprises part of a Debt Commitment must be 60%, of the part transferred.

4. FAILURE TO TRANSFER RCL UNDERWRITTEN OBLIGATIONS

- 4.1 Notwithstanding any other provision of this agreement, if all of the RCL Underwritten Obligations have not been transferred by the date on which RCL is first required to pay for Ausco Shares pursuant to clause 2.1 to 2.5 of this Agreement, that portion of the RCL Underwritten Obligation then held by it which consists of the obligation to subscribe for Ausco Shares shall, without the need for any notice to be given, automatically be exchanged for an obligation to subscribe for additional new Holdco Shares pursuant to clauses 3.1 to 3.6 of this agreement.

The number of new Holdco Shares to be subscribed for by RCL in such circumstances shall be calculated in accordance with the following formula:

$$N = \frac{E}{F}$$

Where:

N is the number of additional Holdco Shares to be subscribed for by RCL

E is the aggregate amount which would have been payable by RCL for the relevant Ausco Shares

F is the issue price of each Holdco Share to be issued pursuant to clause 3.3(b) or 3.5(b) of this agreement and for which RCL has, as at the date of this agreement, agreed to subscribe.

- 4.2 Upon RCL assuming the obligation to subscribe for additional Holdco Shares under clause 4.1 of this schedule, its obligation to subscribe for the corresponding Ausco Shares shall automatically be extinguished.

5. MISCELLANEOUS

- 5.1 Any transferee of Underwritten Obligations shall be required to execute an Accession Deed, with all necessary modifications.
- 5.2 If all of the Underwritten Obligations have not been transferred in accordance with this schedule prior to the date on which any share is issued pursuant to that Underwritten Obligation, the provisions of this schedule shall continue to apply, as if references in this schedule:
- (a) to an obligation to subscribe for shares was a reference to any share issued pursuant to that obligation; and
 - (b) references to Debt Commitment were references to the corresponding amount advanced by CAM, DBAG and RCL pursuant to its relevant Debt Commitment under the Investor Loan Agreement.
- 5.3 Notwithstanding any provision of this agreement, the provisions of clauses 10.2 and 10.3 of this agreement shall not apply to any transfer of Underwritten Obligations or to any transfers

of Ausco Shares or Holdco Shares, subject to the transferor first complying with clause 10.9 and 11.4, if applicable.

- 5.4 Upon transfer of Underwritten Obligations in accordance with this schedule the relevant transferor shall be released from the Underwritten Obligations transferred.
- 5.5 If for any purpose related to the implementation of the arrangements contained in this schedule it is necessary to convert New Zealand dollars into Australian dollars, that conversion shall be made at the spot rate of exchange then applying for the relevant exchange.
- 5.6 Notwithstanding any provision of this schedule, it is agreed that the Transfer of any Underwritten Obligation may be effected in the manner referred to in clause 11.5 of this agreement.
- 5.7 As soon as is practicable following any Transfer pursuant to this schedule six, the Sales Coordinator will procure an amendment to schedule one reflecting the consequential changes to the identity and shareholdings of the shareholders of Holdco and/or Ausco (as the case may be) set out therein. Upon delivery of that amended schedule to all parties, the amended schedule shall be deemed to be a variation to this agreement.

RAYONIER NEW ZEALAND LIMITED

VENDOR

MATARIKI FORESTS

PURCHASER

AGREEMENT FOR SALE AND PURCHASE OF ASSETS

BUDDLE FINDLAY

CONTENTS

1.	INTERPRETATION	1
2.	AGREEMENT TO BUY AND SELL THE ASSETS	8
3.	CONDITIONS	9
4.	PURCHASE PRICE AND PAYMENTS	10
5.	APPORTIONMENTS	12
6.	THE VENDOR'S OBLIGATIONS IN THE PRE-COMPLETION PERIOD	14
7.	COMPLETION	15
8.	NON FREEHOLD LAND CONTRACTS	16
9.	INDEMNITIES AND DISPUTE PROCESS	18
10.	POST COMPLETION MATTERS	21
11.	WARRANTIES	21
12.	PUBLIC ANNOUNCEMENTS	27
13.	CONFIDENTIALITY	27
14.	GOODS AND SERVICES TAX	28
15.	GENERAL	29
	SCHEDULE 1 - ASSETS	34
	SCHEDULE 2 - COMPLETION LIST	38
	SCHEDULE 3 - VENDOR'S WARRANTIES	39
	SCHEDULE 4 - PURCHASER'S WARRANTIES	42
	SCHEDULE 5 - PURCHASE PRICE ALLOCATION	43
	SCHEDULE 6 - VENDOR'S KNOWLEDGE	44
	SCHEDULE 7 - DUE DILIGENCE FILE INDEX	45
	SCHEDULE 8 - ADJUSTMENT STATEMENT AND ADJUSTMENT AMOUNT	62
	SCHEDULE 9 - HARVESTING PLAN	64

PARTIES**RAYONIER NEW ZEALAND LIMITED (“Vendor”)****MATARIKI FORESTS (“Purchaser”)****INTRODUCTION**

- A. The Vendor owns and manages certain forests in New Zealand.
- B. The Vendor has decided to sell its timberland holdings in Northland, the Southern North Island, Marlborough and Southland, being the Forests, with the sale being implemented not as a sale of a going concern but rather as a sale of identified forestry assets.
- C. The parties wish to agree to the sale, purchase and transfer of the Assets on the terms and conditions set out in this Agreement.

AGREEMENT**1. INTERPRETATION****1.1 Definitions:** In this Agreement, unless the context otherwise requires:

“**Actual Harvest Volume**” means the aggregate actual volume of logs (in tonnes) harvested from all the Forests during the period from 1 January 2005 to the Calculation Time, calculated in accordance with Schedule 8.

“**Adjustment Amount**” has the meaning set out in clause 4.5(a) or clause 4.5(b), as applicable.

“**Adjustment Date**” means the date five Business Days after the calculation of the Adjustment Amount has been finalised in accordance with clause 2.1, clause 2.2(d) or clause 2.3(c) of Schedule 8.

“**Adjustment Statement**” has the meaning set out in clause 1 of Schedule 8.

“**Apportionment Adjustment Payment**” has the meaning set out in clause 5.4.

“**Agreed Form**” means, in relation to a document and any date, the form of that document which has been initialled as at that date by the Vendor and the Purchaser for identification purposes only (in each case with such amendments as may be agreed by the Vendor and the Purchaser).

“**Agreement**” means this agreement including the Background and the Schedules to this Agreement.

“**Agreement Date**” means the date of this Agreement.

“**Assets**” means:

- (a) the Freehold Land, the Standing Trees, the Forest Records and the Resource Consents; and
- (b) the rights and entitlements of the Vendor under or relating to the Non Freehold Land Contracts (to the extent these arise and relate to periods after Completion or otherwise relate or correspond to Assumed Liabilities),

but, in each case, excludes the Excluded Assets.

“**Assumed Liabilities**” means:

- (a) the obligations of the Vendor under the Non Freehold Land Contracts to the extent that they arise, and relate to the period, after the Calculation Time;
- (b) the obligations of the Vendor under the Resource Consents to the extent that they are transferred under this Agreement and to the extent that they arise, and relate to the period, after the Calculation Time;
- (c) any obligations in relation to the Assets which either transfer automatically by operation of law with the transfer of the Vendor’s interest in the Assets or which arise in relation to the Assets after Completion;
- (d) any obligations of the Vendor which relate or correspond to the Assets and are disclosed in the Due Diligence Files; and
- (e) any obligations of the Vendor arising prior to the Calculation Time and in respect of which the Purchaser is given a credit in the Final Apportionment Statement.

“**Bank Bill Rate**” means the average rate per annum (expressed as a percentage) as quoted on Reuters page BKBM (or any successor page displaying substantially the same information) under the heading FRA for bank accepted bills having a term of three months as fixed at 10.45 am on the first Business Day following the due date (and on the first Business Day next following the expiration of each succeeding three-month period after the due date thereafter).

“**Business Day**” means a day which is not a Saturday, Sunday, public holiday or bank holiday in Auckland, New Zealand.

“**Calculation Time**” means 11.59 pm (New Zealand time) on the last Business Day immediately before Completion.

“**CHH Sale and Purchase Agreement**” means the agreement relating to the sale and purchase of all the shares of Carter Holt Harvey Forests Limited and the related assets between Carter Holt Harvey Limited and the Purchaser.

“**Claim**” includes (as the context permits) a claim, notice, demand, action, proceeding, litigation, investigation, judgment, award, damage, loss, cost, expense or liability however arising, whether present, unascertained, immediate, future or contingent, whether based in contract, tort or statute and whether involving a third party or a party to this Agreement or otherwise.

“**Companies Act**” means the Companies Act 1993.

“**Companies Office**” means the New Zealand Companies Office.

“**Completion**” means the completion of the sale and purchase of the Assets in accordance with clause 7.1, clause 7.2 and clause 7.3.

“**Completion Date**” means the earlier to occur of:

- (a) the Principal Completion Date; or
- (b) any other date agreed by the Purchaser and the Vendor in writing.

“**Completion Notice**” means a notice given under clause 7.4(a).

“**Completion Valuation**” has the meaning set out in clause 4.5(a).

“**Completion Valuation Amount**” has the meaning set out in clause 4.5(c)(i).

“**Conditions**” means the conditions to the transactions described in this Agreement described in clause 3.1.

“**Consultant**” means an independent forestry consultant to be mutually agreed between the parties.

“**Crown Forestry Licence**” means a Crown forestry licence identified as such in Part C of Schedule 1.

“**Debit Note**” has the meaning given by the GST Act.

“**Default GST**” means any additional GST, penalty, interest or other sum levied against the Vendor under the GST Act or the Tax Administration Act 1994 by reason of the non-payment or late payment of the GST payable in respect of any Taxable Supply made under this Agreement, but does not include any sum levied against the Vendor, by reason of a default by that person after the payment of the GST (including any Default GST) to the Vendor by the Purchaser.

“**Disclosure Letter**” means the disclosure letter in the Agreed Form dated on or before the Agreement Date from the Vendor to the Purchaser containing certain disclosures against the Vendor’s Warranties, executed and delivered on or before the Agreement Date.

“**Dispute Process**” means the dispute resolution process set down in clause 9.4.

“**Due Diligence Investigation**” means the process under which the Purchaser and its advisers have conducted a due diligence review of the Assets, which process has involved the disclosure of the Due Diligence Files, and the provision by the Vendor, the Group or their advisers of answers to requests for information;

“**Due Diligence Files**” means the files of documents containing the materials identified in the Due Diligence Files Index together with the Vendor’s written answers to questionnaires and requests for information made by or on behalf of the Purchaser assembled in binders and initialled by the Purchaser and the Vendor (or on their behalf) for identification purposes on or before the Agreement Date.

“**Due Diligence Files Index**” means the index of documents set out in Schedule 7.

“**Encumbrance**” means an interest or power created or arising in or over an interest in an asset under a mortgage, debenture, charge, lien, pledge, hypothecation, title retention, preferential right or other similar instrument, device or power, and includes any agreement or arrangement to grant or create any of the above, but excludes any Permitted Encumbrances.

“**Environment**” has the same meaning as the definition contained in the Resource Management Act 1991.

“**Environmental Law**” means any law relating to the Environment.

“**Environmental Licence**” means any licence, permit, consent, trade waste agreement, authorisation or other approval required under Environmental Law.

“**Estimated Apportionment Statement**” means the apportionment statement to be prepared by the Vendor and referred to in clause 5.2.

“**Event**” includes any act, omission, transaction or other occurrence but excludes Completion.

“**Excluded Assets**” means all assets associated with the Vendor’s log trading business and management arrangements in Tasmania, Hawkes Bay and the Mines Block.

“**Excluded Records**” means the records relating to the Excluded Assets.

“**Expert**” has the meaning set out in clause 9.5.

“**Expert Determination**” means determination in accordance with clause 9.5.

“**Final Apportionment Statement**” means the apportionment statement to be prepared by the Vendor and referred to in clause 5.3.

“**Forests**” means those forests set out in Part A of Schedule 1.

“**Forest Records**” means the records owned and held by the Vendor relating exclusively to the Forests as at Completion but excludes the Excluded Records.

“**Forestry Rights**” means the forestry rights created in favour of the Vendor as set out in Part D of Schedule 1.

“**Freehold Land**” means the freehold land set out in Part A of Schedule 1 and includes the Improvements relating to that freehold land.

“**Government Agency**” means any government or any public, statutory, governmental (including a local government), semi-governmental, local governmental or judicial body, entity, department or authority, any self-regulatory organisation established under statute or any other body that has legal power to require another person to act or not act in a particular way or to authorise a particular act in any part of the world.

“**Group**” means the Vendor and all subsidiaries or holding companies (as those terms are defined in the Companies Act) of the Vendor and where the context requires, any one or more of those companies.

“**GST**” means tax charged under the GST Act.

“**GST Act**” means the Goods and Services Tax Act 1985.

“**GST Date**” means the earlier of:

- (a) the last day on which the Vendor can account for GST on the supply of the relevant Assets under this Agreement without incurring Default GST; and
- (b) the date on which Completion occurs.

“Guarantees” means those commitments and guarantees given by any member of the Group that are contained within any Non Freehold Land Contract.

“Harvesting Plan” means the harvesting plan for the Forests in the period 1 January 2005 to 31 December 2005 that is set out in Schedule 9.

“Immediately Available Funds” means cash, direct bank transfer of cleared and immediately available funds, or any other manner of payment agreed in writing by the Purchaser and the Vendor.

“Improvements” means, in relation to the Freehold Land and the Non Freehold Land, all the Vendor’s fixtures, buildings and other improvements on the Freehold Land or the Non Freehold Land owned by the Vendor, as the case may be, as at Completion and includes all its right, title and interest in:

- (a) all roads, road gates, fences, tracks, accessways, airstrips, quarries, firebreaks, bridges, culverts, irrigation works, erosion works, water-races, drainage works, water-storage and all works related to the prevention, detection or fighting of fire; and
- (b) in relation to the Freehold Land and Non Freehold Land work (in any instance where the grantee is entitled to the benefit of the work specified in b(i) to (iv) below), done on or for the benefit of the Freehold Land and the Non Freehold Land by any owner, occupier or user thereof in:
 - (i) the draining, excavation, filling, reclamation or stabilising of the Freehold Land or Non Freehold Land, or the making of retaining walls or other works appurtenant to that draining, excavation, filling, reclamation or stabilising; or
 - (ii) the grading or levelling of that Freehold Land or Non Freehold Land or the removal of rocks, stone, sand or soil there from; or
 - (iii) the removal or destruction of vegetation, or the effecting of any change in the nature or character of the vegetation; or
 - (iv) the alteration of soil fertility or the structure of the soil; or
 - (v) the arresting or elimination of erosion or flooding,

but does not include:

- (a) any improvements (such as, but not limited to, fences, water tanks and related items) which have been placed on that Freehold Land or that Non Freehold Land by holders of tenancies where such holder is entitled, in accordance with the terms of their tenancy, to remove such improvements; and
- (b) any improvements on that Non Freehold Land which are owned by the relevant lessor or grantor of the interest in that Non Freehold Land or for which the lessor or grantor has, in accordance with the terms of the relevant interest in that Non Freehold Land, exercised an option to acquire or give written notice that it intends to do so prior to Completion.

“Income Tax Act” means the Income Tax Act 1994 or the Income Tax Act 2004.

“Information” has the meaning set out in clause 13.1.

“**Law**” includes:

- (a) principles of law or equity established by decisions of New Zealand courts;
- (b) statutes, regulations or by-laws of New Zealand or a Government Agency; and
- (c) requirements and approvals (including conditions) of New Zealand or a Government Agency that have the force of law.

“**Liability**” includes all liabilities, losses, damages, costs, interest, fees, penalties, fines, assessments and expenses, and **Liabilities** has a corresponding meaning.

“**Margin**” means \$45 per cubic meter.

“**Non Freehold Land**” means the non freehold land interests the subject of Non Freehold Land Contracts set out in Schedule 1 relating to the Forests and includes the Improvements relating to those non freehold land interests.

“**Non Freehold Land Contracts**” means the leases, forestry rights and Crown Forestry Licences under which the Vendor holds its interest in the Non Freehold Land, details of which are set out in Parts B, C and D of Schedule 1.

“**Permitted Encumbrances**” means:

- (a) any encumbrances disclosed in the Due Diligence Files;
- (b) security interests arising in the ordinary course of business and disclosed on the Personal Property Securities Register; and
- (c) Encumbrances disclosed in the public database of Land Information New Zealand.

“**Personal Property Securities Register**” means the register of personal property securities established under section 139 of the Personal Property Securities Act 1999.

“**Planned Harvest Volume**” means the aggregate volume of logs (in tonnes) planned to be harvested from all the Forests during the period from 1 January 2005 to the Calculation Time, as set down in the Harvesting Plan.

“**Pre-Completion Period**” means the period commencing on the Agreement Date and ending on the date upon which Completion occurs.

“**Prescribed Rate**” means, for any day, the Bank Bill Rate for that day plus 5%.

“**Principal Completion**” means “Principal Completion” under, and as defined in, the CHH Sale and Purchase Agreement.

“**Principal Completion Date**” has the meaning set out in the CHH Sale and Purchase Agreement, being 3 October 2005, or such later date as may be agreed by the parties to the CHH Sale and Purchaser Agreement.

“**Purchase Price**” means the aggregate consideration payable for the Assets described in clause 4.2.

“**Purchaser’s Warranties**” means the representations and warranties set out in Schedule 4.

“**Related Company**” has the meaning given to that term in section 2(3) of the Companies Act.

“**Relief**” includes:

- (a) any relief, loss, allowance, credit, deduction or set-off taken into account in computing any Taxation liability, or any grant conferred on any person; or
- (b) any right to repayment of Taxation (whether or not including interest) available to that person, whether in New Zealand or elsewhere.

“**Resource Consents**” means the resource consents set out in Schedule 1.

“**Standing Trees**” means all the trees standing or located (even if not standing) on the Non Freehold Land and the Freehold Land as at Completion.

“**Shareholders’ Agreement**” means the shareholders’ agreement between the shareholders in the Purchaser;.

“**Tax, Taxes or Taxation**” includes:

- (a) all forms of taxation, withholding, duties, dues, imposts, levies and rates imposed in New Zealand or elsewhere, including income tax, fringe benefit tax, stamp duty, goods and services tax, gift duty, customs or excise duties, regional or local taxes, municipal taxes and accident compensation levies;
- (b) loss of Relief; and
- (c) all interest, penalties, fines and expenses, incidental and relating to or arising in connection with any such taxes, duties, dues, imposts, levies and rates or loss of relief.

“**Tax Invoice**” has the meaning given by the GST Act.

“**Taxable Supply**” has the meaning given by the GST Act.

“**Third Party**” has the meaning set out in clause 11.3.

“**Vendor’s Warranties**” means the representations and warranties set out in Schedule 3.

“**Warranty Claim**” means any Claim by the Purchaser (or any person making a Claim through or on behalf of the Purchaser) against the Vendor, for breach of any of the Vendor’s Warranties.

1.2 **Interpretation:** In this Agreement, unless the context requires otherwise:

- (a) the singular includes the plural and vice versa;
- (b) a gender includes the other genders;
- (c) the headings are used for convenience only and do not affect the interpretation of this Agreement;
- (d) other grammatical forms of defined words or expressions have corresponding meanings;
- (e) a reference to a document includes the document as modified from time to time and any document replacing it;
- (f) if something is to be done on a day which is not a Business Day then it must be done on the next Business Day;

- (g) the word “person” includes a natural person and any body or entity whether incorporated or not;
- (h) the word “month” means calendar month and the word “year” means 12 months;
- (i) the words “in writing” include any communication sent by letter, facsimile transmission or email or any other form of communication capable of being read by the recipient;
- (j) a reference to all or any part of a statute, rule, regulation or ordinance (statute) includes that statute as amended, consolidated, re-enacted or replaced from time to time;
- (k) wherever “include” or any form of that word is used, it must be construed as if it were followed by “(without being limited to)”;
- (l) each person required to exercise a discretion, express an opinion or satisfy itself as to any matter or thing shall act reasonably in so doing;
- (m) money amounts are stated in New Zealand currency unless otherwise specified; and
- (n) a reference to any agency or body, if that agency or body ceases to exist or is reconstituted, renamed or replaced or has its powers or functions removed (defunct body), means the agency or body which performs most closely the functions of the defunct body.

1.3 **Knowledge:**

- (a) A reference in or made during the Due Diligence Investigation or the Disclosure Letter or in this Agreement to the knowledge, information, belief or awareness (or similar expression) of the Vendor, is a reference to the actual knowledge, at the date on which a Warranty is given or deemed to be given (or the date on which any other matter is to be tested or stated), of the persons named in Schedule 6 only, and does not include any facts or circumstances of which any such person has constructive knowledge only. Where a Warranty is qualified by a reference to the knowledge, information, belief or awareness (or similar expression) of the Vendor that Warranty shall be deemed to include an additional statement that it has been made after all reasonable enquiries
- (b) The parties acknowledge that reference to the knowledge and belief of the persons named in Schedule 6 does not give rise to any personal liability of such persons whatsoever to any party to this Agreement.

2. **AGREEMENT TO BUY AND SELL THE ASSETS**

2.1 **Sale and purchase:**

- (a) The Vendor hereby sells the Assets to the Purchaser for the Purchase Price and on the other terms of this Agreement. The Purchaser agrees to buy the Assets from the Vendor on these terms.
- (b) The Purchaser hereby assumes liability for the Assumed Liabilities with effect from the Calculation Time, subject to Completion. Except as expressly provided in this Agreement, the Purchaser does not assume any liability in respect of the Assets other than the Assumed Liabilities.

- 2.2 **Title and risk:** The Vendor's title, right and interest in and to the Assets passes from the Vendor to the Purchaser when the Purchaser pays the Purchase Price to the Vendor. The financial benefit in, and risk of loss or damage to the value of, the Assets shall, subject to Completion, pass to the Purchaser as at the Calculation Time.
- 2.3 **Status before Completion:** The parties acknowledge and agree that, notwithstanding any other provision of this Agreement:
- (a) all receipts and expenses derived from or relating to the Assets in respect of the period prior to the Calculation Time are for the benefit or account of the Vendor;
 - (b) in preparing the Estimated Apportionment Statement and the Final Apportionment Statement, the Vendor shall be credited with all entitlements to all revenue and income and debited with all costs, expenses and other outgoings derived from or relating to the Assets in each case calculated as at the Calculation Time.
- 2.4 **Bases of transaction:** The Purchaser acknowledges that the sale of the Assets is not a sale of a going concern and that the Purchaser is not offering employment to any employees of the Vendor.
3. **CONDITIONS**
- 3.1 **Transaction Conditions:** Completion is subject to and conditional on each of the following conditions being fulfilled, or waived under clause 3.4, on or before the date set down in respect of that condition in this clause 3.1:
- (a) The CHH Sale and Purchase Agreement becoming unconditional in all respects;
 - (b) the Overseas Investment Commission granting consent in writing to the sale and purchase of Assets pursuant to this Agreement, by 23 September 2005;
- 3.2 **Duties in relation to Conditions:** The Purchaser and the Vendor must use their respective reasonable endeavours to ensure that each Condition is fulfilled by the date set down in respect of that Condition in clause 3.1 including:
- (a) providing to any Government Agency or any contracting party all necessary notices, information and documents for the purpose of fulfilling the Condition;
 - (b) cooperating with the other party;
 - (c) not taking any action that would or would be likely to prevent or hinder the fulfilment of the Condition; and
 - (d) not withdrawing any notices or applications lodged with a Government Agency or any contracting party, without prior notice to the other party.
- 3.3 **Termination:**
- (a) If a Condition:
 - (i) is incapable of being satisfied by the time and date set down in clause 3.1; or

(ii) is not fulfilled (or waived under clause 3.4) before the time and date set down in clause 3.1, or such other date agreed to by the Vendor and Purchaser in writing,

then this Agreement shall terminate upon the Vendor or the Purchaser giving written notice of termination to the other.

- (b) On termination under clause 3.3(a), no party has any obligation or Liability to any other party, except in connection with Claims which arose or related to the period before termination and under clause 12 and clause 13 which will continue to apply.
- (c) A Condition shall not be regarded as being satisfied or fulfilled until it has been satisfied or fulfilled to the satisfaction of the Vendor and the Purchaser.

3.4 **Fulfilment by waiver:** The Conditions may be waived only if the Purchaser and the Vendor agree in writing to waive the Condition (but only to the extent set out in the waiver).

4. PURCHASE PRICE AND PAYMENTS

4.1 **Consideration for the Assets:** In consideration for the Vendor selling the Assets to the Purchaser, the Purchaser must pay the Purchase Price in accordance with this clause 4.

4.2 **Purchase Price:** The Purchase Price payable by the Purchaser for the Assets is \$269,900,000 less any amount established under clause 6.3 prior to Completion.

4.3 **Allocation:** Subject to any adjustment made in accordance with clause 6.3, the Vendor and the Purchaser agree that the Purchase Price for the Assets is allocated as set out in Schedule 5.

4.4 **Payment of Purchase Price and Estimated Apportionments:**

The Purchaser shall pay the Purchase Price in cleared funds to the Vendor on Completion.

- (a) On the Completion Date, the Vendor or the Purchaser, as the case may be, must deliver to the Purchaser or Vendor, as the case may be, the amount specified for payment by that party in the Estimated Apportionment Statement required in terms of clause 5.2.
- (b) The Purchaser must pay to the Vendor, or the Vendor must pay to the Purchaser, the Adjustment Amount on the Adjustment Date.

4.5 **Adjustment to Purchase Price:**

- (a) If the Actual Harvest Volume exceeds the Planned Harvest Volume by an amount exceeding 5% of that Planned Harvest Volume; calculated as at the Calculation Time, then the Vendor shall pay to the Purchaser the Adjustment Amount calculated as at the Calculation Time as follows:

$$AA = [A - P] \times M$$

Where:

AA means the Adjustment Amount

A means the Actual Harvest Volume (in tonnes)

P means the Planned Harvest Volume (in tonnes)

M means the Margin.

- (b) If the Actual Harvest Volume is less than the Planned Harvest Volume by an amount exceeding to 5% of that Planned Harvest Volume calculated as at the Calculation Time, then the Purchaser shall pay to the Vendor the Adjustment Amount calculated as at the Calculation Time as follows:

$$AA = [P - A] \times M$$

Where:

AA means the Adjustment Amount

P means the Planned Harvest Volume (in tonnes)

A means the Actual Harvest Volume (in tonnes)

M means the Margin.

- (c) If the Actual Harvest Volume exceeds or is less than the Planned Harvest Volume at the Calculation Time, then the sole and exclusive remedies available to both the Vendor and the Purchaser are:
- (i) if the Actual Harvest Volume exceeds or is less than the Planned Harvest Volume by an amount equal to or less than 5% of the Planned Harvest Volume neither the Vendor nor the Purchaser shall have any Claim against the other and no compensation is payable; or
 - (ii) if the Actual Harvest Volume exceeds or is less than the Planned Harvest Volume by an amount equal to more than 5% of the Planned Harvest Volume, the Vendor shall pay to the Purchaser or the Purchaser shall pay to the Vendor, as the case may be, the Adjustment Amount in accordance with clause 4.5(a) or clause 4.5(b); or
 - (iii) if the Actual Harvest Volume exceeds the Planned Harvest Volume by an amount equal to more than 20% of that Planned Harvest Volume then, in addition to the Vendor paying to the Purchaser the Adjustment Amount, the Purchaser may make a Warranty Claim against the Vendor for breach of the Vendor's Warranty set out in clause 17 of Schedule 3. In calculating the amount of any Liability the Vendor has to the Purchaser for breach of the Vendor's Warranty set out in clause 17 of Schedule 3 there shall be taken into account the payment of the Adjustment Amount through the operation of clause 4.5(a) and clause 4.4(c).
- (d) If the Vendor or Purchaser is required to make payment of an Adjustment Amount, that party shall do so within five Business Days of the Adjustment Date.
- (e) The party making the Adjustment Amount payment shall, in addition, pay interest on the Adjustment Amount payable at the Bank Bill Rate for each day during the period from and including the date upon which Completion occurs until but excluding the Adjustment Date.

- 4.6 **Payments:** All payments under this Agreement must be made in Immediately Available Funds before 3.00 pm (New Zealand time) on the due date for payment, unless this Agreement expressly provides otherwise.
- 4.7 **Default interest:** If a party fails to pay on the due date any amount which that party is obliged to pay under this Agreement, then that party must on demand pay the other party interest on that amount at the Prescribed Rate for each day during the period from and including the date on which the default was made until but excluding the day that amount (and all interest on that amount) has been paid in full.
- 4.8 **Calculation of interest:** Any interest payable under this Agreement will be calculated and accrue on a daily basis and will be capitalised every 30 days.
- 4.9 **Core acquisition price:**
- (a) The Purchase Price does not include any capitalised interest and the parties agree that the Purchase Price is the “lowest price” for the purposes of valuing the Assets in accordance with section EW 32(3) of the Income Tax Act 2004.
 - (b) The parties agree that they will compute their taxable income for the relevant period on the basis that the Purchase Price includes no capitalised interest and they will file their tax returns accordingly.
- 4.10 **Adjustment to Purchase Price:** If any payment is made by the Vendor to the Purchaser or by the Purchaser to the Vendor in respect of:
- (a) an Adjustment Amount; or
 - (b) any Claim for any breach of this Agreement (including, for the avoidance of doubt, a breach of a Purchaser’s Warranty or a Vendor’s Warranty); or
 - (c) an indemnity under this Agreement,
- 4.11 or any adjustment to the Purchase Price is made in accordance with clause 6.3, the payment or adjustment shall adjust that portion of the Purchase Price allocated in Schedule 5 to the Assets to which the payment and/or Claim and/or adjustment relates under this Agreement and the Purchase Price for the particular Asset shall be deemed to be adjusted by the amount of such payment. Any disagreement between the Vendor and the Purchaser in relation to this clause 4.10 shall be referred to Expert Determination.
- 4.12 **Other rights not affected:** A party’s right to require payment of interest does not affect any other rights or remedies it may have in respect of a failure to pay an amount due under this Agreement.
5. **APPORTIONMENTS**
- 5.1 **Periodic payments:**
- (a) All costs, expenses and other outgoings of any nature, including all rent, rates, power, water, fees and rentals (but excluding insurance premiums), and all revenue and income of any nature, in each case that relate to the Assets, must be apportioned between the Vendor and the Purchaser as at the Calculation Time.
 - (b) If there is any rent or licence fee review under or relating to any amount to be apportioned under clause 5.1 that takes place after Completion that alters the amount payable in respect of any period prior to Completion, then the Vendor

shall pay to the Purchaser, or the Purchaser shall pay to the Vendor, as the case may be, the appropriate amount to reflect the change within 10 Business Days of the alteration of such rent or licence fee (with any dispute dealt with under the Dispute Process). The Purchaser may not agree any rent or licence fee review with any counterparty for which it will seek to recover payment from the Vendor under this clause 5.1 (or which will otherwise result in an additional payment being required to be made by the Vendor) without the prior written consent of the Vendor, such consent not to be unreasonably withheld.

- 5.2 **Apportionment estimate prepared:** No later than 5 Business Days prior to Completion, the Vendor shall provide the Purchaser with an apportionment statement, (“**Estimated Apportionment Statement**”), together with appropriate supporting documentation, detailing the payments that the Vendor estimates are required to be made under clause 5.1(a) on Completion, and showing whether the Vendor or the Purchaser is required to make a net payment to the other. All amounts in the Estimated Apportionment Statement and all calculations required by this clause 5.2 are to exclude GST.
- 5.3 **Final Apportionment Statement:** Within 30 Business Days after Completion, the Vendor shall provide the Purchaser with an apportionment statement (“**Final Apportionment Statement**”) detailing the actual payment required to be made under clause 5.1(a), and showing whether the Vendor or the Purchaser is required to make a net payment to the other, together with such working papers as the Purchaser may reasonably require to satisfy itself as to the calculation of such amounts. All amounts in the Final Apportionment Statement and all calculations required by this clause 5.3 are to exclude GST.
- 5.4 **Apportionment adjustment:** Subject to clause 5.5 below, if the Final Apportionment Statement differs from the Estimated Apportionment Statement, the Vendor will make an adjusting payment to the Purchaser, or the Purchaser will make an adjusting payment to the Vendor, as the case may require, together with interest thereon at the Bank Bill Rate (calculated on a daily basis), within 10 Business Days of the receipt by the Purchaser of the Final Apportionment Statement. To the extent that any incomings and outgoings that are to be apportioned pursuant to clause 5.1(a) have not been determined by the date of preparation of the Final Apportionment Statement, estimated incomings and outgoings will be included in the Final Apportionment Statement. A further adjustment payment (“**Apportionment Adjustment Payment**”) will be determined and made in a manner consistent with clause 5.3 and this clause 5.4 once these amounts have been determined.
- 5.5 **Disputes:** If the Purchaser disputes the Final Apportionment Statement, then:
- (a) the Purchaser must notify the Vendor within 10 Business Days after receipt of the Final Apportionment Statement or Apportionment Adjustment Payment, as the case may be, and specific details of the calculation it does not accept;
 - (b) the Vendor and the Purchaser shall negotiate in good faith for a period of 10 Business Days from the date of receipt by the Vendor of notice from the Purchaser under clause 5.5(a) in order to attempt to resolve the dispute and determine the further adjusting payment that is necessary (if any) and the party obliged to make that payment; and
 - (c) where the dispute is not resolved pursuant to clause 5.5(b), then either the Vendor or the Purchaser may refer such dispute to the Expert in accordance with clause 9.5.

6. **THE VENDOR'S OBLIGATIONS IN THE PRE-COMPLETION PERIOD**

6.1 **Operations pending Completion:** In respect of the Pre-Completion Period, the Vendor shall, unless the prior written consent of the Purchaser is given to act otherwise (which consent must not be unreasonably delayed or withheld) ensure that the Forests and Freehold Land are managed in a manner consistent with past practice, employing the same degree of care and skill as a reasonable person with expertise in large scale commercial forestry management in New Zealand would use in carrying out equivalent obligations. The Vendor's obligation under this clause shall for the avoidance of doubt extend to the replanting of areas awaiting regeneration and road construction and maintenance in preparation for harvest.

6.2 **Co-operation:**

- (a) In respect of the Pre-Completion Period, the Vendor and the Purchaser shall each co-operate during this period in respect of all matters relating to or arising out of the transition of the Assets from the ownership or control of the Vendor to the ownership or control of the Purchaser.
- (b) Nothing in this clause 6.2 will require the Vendor or the Purchaser or to pay any money or provide any other valuable consideration to or for the benefit of any person or otherwise take action which would or is reasonably likely to impact adversely on or otherwise be contrary to the interests of the Vendor or the Purchaser, respectively.

6.3 **Risk:**

- (a) The Assets shall, subject to Completion, remain in all respects at the risk of the Vendor until the Calculation Time.
- (b) If any of the Assets are lost, destroyed or materially damaged prior to the Calculation Time and the loss, destruction or damage has not been made good by Completion, then the Purchaser must complete the purchase of the Assets upon the basis that the Purchase Price is or shall be reduced by an amount equal to the loss of value of the relevant property resulting from the loss, destruction or damage.
- (c) If the Vendor and the Purchaser are unable to agree on the amount by which the Purchase Price is to be reduced pursuant to clause 6.3(b) within 10 Business Days of commencing discussions, the amount shall be determined under the Dispute Process.
- (d) For the avoidance of doubt, the harvesting of trees pursuant to the Harvesting Plan does not constitute loss or damage pursuant to this clause 6.3.

6.4 **Permitted acts:** During the Pre-Completion Period, the Vendor may do or omit to do anything that the Vendor considers appropriate or necessary including any of the following insofar as it relates to the Assets and any other contracts, assets or arrangements:

- (a) anything to reasonably respond to an existing or pending emergency or disaster;
- (b) anything which is necessary to meet its legal or contractual obligations; and
- (c) anything permitted by this Agreement,

provided that any action taken under this clause 6.4 shall be reported to the Purchaser as soon as reasonably practicable after the event

6.5 **Substitution of Guarantees:**

- (a) If the Vendor has not obtained a release of any of the Guarantees by the Agreement Date then, during the Pre-Completion Period and, if necessary, as soon as possible following Completion, the Purchaser must use all reasonable endeavours to assist the Vendor to secure a release of the Vendor and any other member of the Group from those Guarantees with effect from Completion.
- (b) Without limiting its obligations under clause 6.5(a), the Purchaser shall provide a such substitute guarantees as may be required by any third party whose consent to the release of the Guarantee is required, provided that:
 - (i) the Purchaser shall not be required to guarantee any greater sum or obligation than that provided by the Vendor or any member of the Group immediately prior to the release of the Guarantee; and
 - (ii) nothing in this clause 6.5 (b) shall be construed as requiring any person other than the Purchaser to provide such substitute guarantees.

7. **COMPLETION**

7.1 **Time and place of Completion:** Completion must occur on the Completion Date at:

- (a) the offices of the Vendor's Solicitors at Level 18, PricewaterhouseCoopers Tower, 188 Quay Street, Auckland by no later than 2:00 pm (New Zealand time) on the Completion Date; or
- (b) any other place or time the Vendor and Purchaser agree in writing.

7.2 **Vendor's obligations at Completion:** At Completion, the Vendor must:

- (a) deliver and make available to the Purchaser possession and control of all of the Assets at such place as the Assets may be, other than those to which the provisions of clause 7.2(b) relate; and
- (b) do all of the things stated in Part A of Schedule 2 and, in respect of delivery, make delivery at the offices of the Vendor's Solicitors.

7.3 **Purchaser's obligations at Completion:** At Completion, the Purchaser must do all of the things stated in Part B of Schedule 2.

7.4 **Default in Completion:** If, without the written agreement of the Vendor and the Purchaser, Completion does not take place on the Completion Date due to the Vendor or the Purchaser ("**Defaulting Party**") not complying with clause 7.2 or clause 7.3 (respectively), then the following provisions apply:

- (a) that of the Vendor or the Purchaser which is not the Defaulting Party ("**Non-Defaulting Party**") may give the Defaulting Party a notice ("**Completion Notice**") requiring the Defaulting Party to comply with clause 7.2 or clause 7.3 (as the case may be) within three Business Days after the date the notice is given;
- (b) a Completion Notice will be effective only if the Non-Defaulting Party, at the time the notice is given, is in all respects ready, able and willing to proceed to effect Completion in accordance with the Completion Notice (and the Non-Defaulting Party states in the Completion Notice that it is so ready, willing and

- able) or is not so ready, able and willing to effect Completion only by reason of the default or omission of the Defaulting Party;
- (c) the Defaulting Party must comply with all of its obligations under clause 7.2 or 7.3 (as the case may be) within three Business Days after the date the Completion Notice is given;
 - (d) if the Defaulting Party is the Purchaser and the Purchaser does not comply with its obligations referred to in clause 7.4(c), then the Vendor may, without prejudice to any of its other rights or remedies available under this Agreement or at Law:
 - (i) sue the Purchaser for specific performance; or
 - (ii) terminate this Agreement and sue the Purchaser for damages;
 - (e) the damages claimable by the Vendor under clause 7.4(d) will include all damages claimable at Law, the Vendor's legal costs (on a full indemnity basis) arising from the Purchaser's non-compliance with its obligations referred to in clause 7.4(c);
 - (f) the amount of the loss referred to in clause 7.4(e) may include:
 - (i) the difference between the Purchase Price and the price at which the Assets are sold on any resale, provided that the Vendor has obtained the best price reasonably obtainable for such Assets;
 - (ii) interest on the unpaid or unsatisfied portion of the Purchase Price at the Prescribed Rate for each day during the period from and including the Completion Date until but excluding the day of completion of such resale; and
 - (iii) all costs and expenses reasonably incurred (including the Vendor's legal costs on a full indemnity basis) in any resale or attempted resale of the Assets;
 - (g) if the Defaulting Party is the Vendor and it does not comply with its obligations referred to in clause 7.4(c), then the Purchaser may, without prejudice to any of its other rights or remedies available under this Agreement or at Law:
 - (i) sue the Vendor for specific performance; or
 - (ii) terminate this Agreement and sue the Vendor for damages;
 - (h) the damages claimable by the Purchaser under clause 7.4(g) will include all damages claimable at Law and the Purchaser's legal costs (on a full indemnity basis) arising from the Vendor's non-compliance with its obligations referred to in clause 7.4(c); and
 - (i) on termination under clause 7.4(d) or clause 7.4(g), this clause 7.4 and clause 13 continues to apply.

8. NON FREEHOLD LAND CONTRACTS

8.1 **Pre-Completion novations or assignments of Non Freehold Land Contracts:** The Vendor must use all reasonable endeavours to:

- (a) novate; or

(b) if, in the opinion of the Vendor, novation is not acceptable to the counter-party, if elected by the Vendor in its absolute discretion, assign, its right and interest under the Non Freehold Land Contracts to the Purchaser effective on Completion and to obtain the consent of the counter-parties to the novation or, where required, assignment, as the case may be, by Completion.

8.2 **Payments:** Nothing in this clause 8 will require the Vendor or Purchaser:

- (a) to pay any money or provide any other valuable consideration to or for the benefit of any person (other than an obligation under a Non Freehold Land Contract to reimburse the reasonable out-of-pocket costs of any third parties); or
- (b) otherwise take action which would or is reasonably likely to impact adversely on or otherwise be contrary to its interests.

8.3 **Documents:** The Vendor must, at its own cost, as soon as practicable following the Agreement Date, prepare deeds of novation or assignment (as the case may be) and consents for the novation or assignment of the Non Freehold Land Contracts and associated documents, the form of such deeds and consents to be first approved by the Purchaser.

8.4 **Pre-Completion Assistance:** The Purchaser:

- (a) must, prior to Completion, use all reasonable endeavours to assist the Vendor to secure in respect of each Non Freehold Land Contract, the consent of the counter-party to the novation or, if required, assignment (as the case may be);
- (b) must, prior to Completion, without limiting its obligations under clause 8.4(a), provide substitute guarantees no more onerous than the terms of the relevant Guarantee and reasonable financial and operational information required by any counter-party to any Non Freehold Land Contract whose consent is required; provided that:
 - (i) the Purchaser shall not be required to guarantee any greater sum or obligation than that provided by the Vendor or any member of the Group immediately prior to the release of the Guarantee; and
 - (ii) nothing in this clause 6.5 (b) shall be construed as requiring any person other than the Purchaser to provide such substitute guarantees;
- (c) must, prior to Completion, accept, or acknowledge that it will accept, any reasonable terms imposed by the counter-party to any Non Freehold Land Contract whose consent is required that it is entitled to impose or require; and
- (d) subject to clause 3, must not delay or fail to complete the purchase of the Assets if the counter-parties to all the Non Freehold Land Contracts have not consented to the novation or, if required, assignment of the Non Freehold Land Contracts on or before Completion.

8.5 **Post Completion novations or assignments of Non Freehold Land Contracts:**

- (a) The Vendor must use all reasonable endeavours following Completion to assist the Purchaser to obtain the consent of the counter-parties to those Non Freehold Land Contracts not yet novated or, if required, assigned to the Purchaser, to the novation or, if acceptable to the Vendor in its absolute discretion, the assignment (with a release all relevant companies in the Group

or, at the absolute discretion of the Vendor, without a release of any companies in the Group) of those Non Freehold Land Contracts to the Purchaser (on terms acceptable to the Vendor).

- (b) If, and to the extent that, any Non Freehold Land Contract is not or cannot be novated or, if acceptable to the Vendor in its absolute discretion, assigned (with a release of all relevant companies in the Group or, at the absolute discretion of the Vendor, without a release of any companies in the Group) to the Purchaser by Completion:
- (i) from Completion, legal ownership of that Non Freehold Land Contract will remain with the Vendor;
 - (ii) the Purchaser will use all reasonable endeavours to obtain the consent from the counter-parties to that Non Freehold Land Contract to the novation, or, if acceptable to the Vendor in its absolute discretion, assignment (with a release of all relevant companies in the Group or, at the absolute discretion of the Vendor, without a release of any companies in the Group) or any other arrangement agreed under clause 8.5(b)(iv);
 - (iii) without limiting its obligations under clause 8.5(b)(ii), the Purchaser must provide any financial and operational information as may be reasonably required by any counter-party whose consent is required, and substitute guarantees on terms no more onerous than the terms of the relevant Guarantee, provided that nothing in this subclause shall be construed as requiring any person other than the Purchaser to provide such substitute guarantees;
 - (iv) from Completion the Vendor will hold all of its right, title and interest in that Non Freehold Land Contract on trust for the benefit of the Purchaser and will act in accordance with the reasonable directions of the Purchaser in relation to the performance of that Non Freehold Land Contract (provided that the Vendor is not obliged to do, procure or allow to be done anything that would, in its reasonable opinion, breach any obligations (including obligations of confidentiality) that the Vendor owes to any third party or under any Law); and
 - (v) if the counter-parties to that Non Freehold Land Contract (being a material agreement to a Forest) continue to refuse to consent to the novation or, if acceptable to the Vendor in its absolute discretion, assignment (with a release of all relevant companies in the Group or, at the absolute discretion of the Vendor, without a release of any companies in the Group) of that Non Freehold Land Contract to the Purchaser, the Vendor and the Purchaser will negotiate in good faith with a view to agreeing an alternative mechanism to transfer the benefit of that Non Freehold Land Contract to the Purchaser (on terms acceptable to both the Vendor and the Purchaser, each acting reasonably) without causing a breach of that Non Freehold Land Contract.
- (c) The Purchaser must accept any reasonable terms imposed by the counter-party to a Non Freehold Land Contract that it is entitled to impose however.

9. INDEMNITIES AND DISPUTE PROCESS

- 9.1 **Indemnity by Vendor:** The Vendor, subject to Completion, indemnifies and must keep indemnified the Purchaser against all Liabilities incurred or Claims in connection with

any failure by the Vendor to perform all obligations under, or comply with the terms of, any Non Freehold Land Contract for the period prior to Completion provided that no claim may be made by the Purchaser under this clause 9.1 for any amount for which it is given credit under the Final Apportionment Statement. The Vendor agrees to account to the Purchaser for all the sums received by the Vendor in respect of any Non Freehold Land Contract which relates to the period following Completion.

- 9.2 **Indemnity by Purchaser:** The Purchaser must, subject to Completion, assume and fully and effectively perform, or procure the performance of, all its obligations from Completion arising under
- (a) the Non Freehold Land Contracts; and
 - (b) the Assumed Liabilities,

and indemnifies and must keep indemnified the Vendor against all Liabilities incurred or Claims in connection with any failure by the Purchaser (or any assignee or transferee thereof) to perform or to procure the performance of all obligations under, or the compliance with the terms of, any of the Non Freehold Land Contracts and relating to the Assumed Liabilities. The Purchaser agrees to account to the Vendor for all the sums received by the Purchaser in respect of any Non Freehold Land Contract which relates to the period prior to the Calculation Time.

9.3 **No claims for consequential loss:**

Except to the extent set out in clause 7.4(g) and clause 7.4(h) or in respect of any loss of an equivalent nature suffered by the Purchaser as a result of a prior repudiation of this Agreement by the Vendor in breach of this Agreement, the Purchaser shall not make any Claim under this Agreement, and the Vendor shall not have any Liability under this Agreement, for loss of profits, or for special, indirect or other consequential loss or damage (including any loss of business or opportunity, loss of use of an asset, loss of production, contract or goodwill, loss or corruption of data and additional finance or interest costs), regardless of whether the Purchaser had been advised of the possibility of such loss or damage. Except to the extent set out in clause 7.4(e) and clause 7.4(f) or in respect of any loss of an equivalent nature suffered by the Vendor as a result of a prior repudiation of this Agreement by the Purchaser in breach of this Agreement, the Vendor shall not make any Claim under this Agreement, and the Purchaser shall not have any Liability under this Agreement, for loss of profits, or for special, indirect or other consequential loss or damage (including any loss of business or opportunity, loss of use of an asset, loss of production, contract or goodwill, loss or corruption of data and additional finance or interest costs), regardless of whether the Vendor had been advised of the possibility of such loss or damage.

9.4 **Dispute Process:**

- (a) Any dispute which is to be resolved in accordance with the Dispute Process will be determined in accordance with this clause 9.4;
- (b) The parties agree to meet and negotiate in good faith to resolve any and all disputes relating to or arising out of this Agreement;
- (c) If the parties cannot resolve a dispute by negotiations under clause 9.4(b), either party may by written notice to the other require that the dispute be dealt with by mediation under the following terms:
 - (i) the mediation shall be conducted in terms of the LEADR New Zealand Incorporated standard mediation agreement; and

- (ii) the mediation shall be conducted by a mediator and at a fee agreed by the parties. Failing agreement between the parties, the mediator will be selected and his/her fee determined by the Chair for the time being of LEADR New Zealand Incorporated.
- (d) If a dispute is not resolved by mediation under clause 9.2(c), either party may require the dispute to be resolved by arbitration by giving written notice to that effect to the other party. The arbitration shall be governed by the Arbitration Act 1996 (including, for the avoidance of doubt, schedules one and two of that Act) except as modified as follows:
 - (i) the arbitration will take place using a single arbitrator;
 - (ii) upon the dispute being referred to arbitration, the parties will appoint a single arbitrator if they can agree on one. If the parties cannot agree on an arbitrator within 5 Business Days of the receipt of the notice under this clause 9.2(d), the arbitrator shall be appointed by the then President of the New Zealand Law Society (or his or her nominee) on the written request of either party;
- (e) The arbitrator will:
 - (i) be suitably qualified for this purpose in matters relevant to the dispute;
 - (ii) be as independent from the parties as reasonably possible;
 - (iii) not be an ex-employee of either party; and
 - (iv) not have entered into significant contracts or arrangements with either party;
- (f) The arbitration shall be held in Auckland;
- (g) The decision of the arbitrator (including the right to determine damages and costs) will be final and binding on the parties;
- (h) Each party waives any rights at law to institute proceedings against the other relating to the dispute prior to the final decision of the arbitrator, except that nothing in this Agreement prevents a party from seeking urgent interlocutory relief;
- (i) The parties shall each submit their positions to the arbitrator and the arbitrator shall be empowered to select the position of one party or the other; and
- (j) Pending the resolution of a dispute in accordance with this clause 9.4, the parties will continue to perform all their obligations under this Agreement without prejudice.

9.5 **Expert Determination:** Any dispute which may arise between the parties out of or in connection with this Agreement which may or shall require resolution by an expert shall be referred for decision by an independent expert (“**Expert**”). The determination shall be commenced by a party serving written notice on the other party stating the subject matter and details of the dispute and requiring the dispute to be referred to an Expert. The Expert shall be appointed by the parties, or failing agreement within five Business Days after, and exclusive of, the date of service of the written notice shall be appointed at the request of a party by the president or vice-president for the time being of the Auckland District Law Society or the nominee of such president or vice-president. Any such Expert shall decide the matters referred to him as an expert and not as an arbitrator. The determination by the Expert shall be conducted as soon as possible at

Auckland and the parties shall be bound by any decision of the Expert without questioning the correctness of such decision or direction in any proceedings other than in respect of a manifest error.

9.6 **Qualifications of the Expert:** The Expert will:

- (i) be suitably qualified for this purpose in matters relevant to the dispute;
- (ii) be as independent from the parties as reasonably possible;
- (iii) not be an ex-employee of either party;
- (iv) not have entered into significant contracts or arrangements with either party; and
- (v) presentations, if any, to the Expert shall be held in Auckland.

10. **POST COMPLETION MATTERS**

10.1 **Access to information:** The Purchaser must ensure that the Vendor is promptly afforded reasonable access to the Forest Records on reasonable request by the Vendor for the purpose of:

- (a) enabling the Vendor to comply with any applicable Law or to ascertain or deal with a matter in relation to Tax;
- (b) the preparation of financial statements or Tax returns for the Vendor; and
- (c) defending or dealing with any Claim against the Vendor.

10.2 **Land:**

- (a) No error, omission or mis-description of any Freehold Land or Non Freehold Land or the title to any Freehold Land or Non Freehold Land will annul the sale but this clause 10.2(a) shall not limit the Purchaser's rights in respect of any Warranty Claim.
- (b) The Vendor shall not be obliged to point out the boundaries of any Freehold Land or Non Freehold Land to the Purchaser.
- (c) The Vendor shall not be liable to pay for or contribute towards the expense of erection or maintenance of any fence between any Freehold Land or Non Freehold Land and any contiguous land of the Vendor but this clause 10.2(c) shall not enure for the benefit of any subsequent purchaser of the contiguous land; and the Vendor shall be entitled to require the inclusion of a fencing covenant to this effect in any transfer of the Freehold Land or Non Freehold Land.
- (d) After Completion, the Vendor must give notice of sale to the territorial authority having jurisdiction with respect to the Freehold Land.

11. **WARRANTIES**

11.1 **Warranties by Vendor:** The Vendor warrants and represents to the Purchaser that, subject to the limitations in this clause 11, each of the Vendor's Warranties are true and accurate at the Agreement Date and will be so at Completion. The Vendor shall notify

the Purchaser immediately if it becomes aware of a fact or circumstance which would cause a Warranty to be untrue or inaccurate if given at the Agreement Date or Completion.

11.2 **Warranties by Purchaser:** The Purchaser warrants and represents to the Vendor that each of the Purchaser's Warranties are true and accurate at the Agreement Date and will be so at Completion.

11.3 **Vendor must pay for breach:** Subject to the other provisions of this clause 11, if:

- (a) the Purchaser makes a Warranty Claim; and
- (b) the Purchaser complies with its obligations under this clause 11 in respect of the Warranty Claim,

then the Vendor must pay to the Purchaser, as the Purchaser's sole and exclusive remedy, damages for any breach associated with the Warranty Claim.

11.4 **Time limits and other requirements for Warranty Claims:**

- (a) Notwithstanding any other provision of this Agreement and to the fullest extent permitted by Law, the Purchaser must not make a Warranty Claim unless:
 - (i) it notifies the Vendor of the Warranty Claim as soon as practicable after the Purchaser becomes aware of the matter, information or circumstance giving rise to, or the subject of, the Warranty Claim and, in any event before the expiration of 18 months after Completion (such time limit not to apply in respect of paragraph 4 of Schedule 3);
 - (ii) the notice to the Vendor gives reasonable details of the nature of the Warranty Claim, to the extent actually known to the Purchaser, and an estimate of the amount claimed and details of how it has been calculated; and
 - (iii) the Purchaser has begun court proceedings relating to the Warranty Claim or the Vendor admits the Warranty Claim or the Warranty Claim is settled, in each case, within 6 months of the relevant period under clause 11.4(a)(i).
- (b) The Vendor is not liable to make any payment whether by way of damages or otherwise for any Warranty Claim if a Warranty Claim is made by the Purchaser other than in accordance with clause 11.4(a).

11.5 **Limits on Warranty Claims:**

- (a) The Purchaser must not make a Warranty Claim (other than any Warranty Claim in respect of paragraph 4 of Schedule 3) unless the value of that Warranty Claim (including any one of a series of Warranty Claims aggregated with similar Warranty Claims arising from the same event or circumstance) is more than \$300,000.
- (b) The Vendor is not liable to make any payment in respect of a Warranty Claim (whether by way of damages or otherwise) (other than any Warranty Claim in respect of paragraph 4 of Schedule 3) unless the amount finally adjudicated against the Vendor in respect of that Warranty Claim (including an amount adjudicated in respect of any series of Warranty Claims arising from the same event or circumstance) is more than \$300,000.

- (c) Without limiting clauses 13.5(a) and 13.5(b):
 - (i) the Purchaser must not make a Warranty Claim (other than any Warranty Claim in respect of paragraph 4 of Schedule 3) unless the aggregate of that and all other Warranty Claims in total is more than \$3,000,000 and those Warranty Claims may only be pursued (whether under this Agreement or otherwise) to the extent that the aggregate of those Warranty Claims together exceed \$3,000,000; and
 - (ii) the Vendor is not liable to make any payment in respect of a Warranty Claim (whether by way of damages or otherwise) (other than any Warranty Claim in respect of paragraph 4 of Schedule 3) unless the aggregate of that and all other Warranty Claims finally adjudicated against the Vendor, in total is more than \$3,000,000 in which case the Vendor shall be liable for the total amount of the Warranty Claim.

11.6 Maximum amount the Purchaser may recover in respect of Claims:

- (a) The Purchaser must not make a Warranty Claim or Claim if and to the extent the aggregate of that and all other Warranty Claims and/or Claims in total is more than an amount equal to 50% of the Purchase Price.
- (b) The Vendor is not liable to make any payment in respect of a Warranty Claim or Claim (whether by way of damages or otherwise) if and to the extent the aggregate of that and all other Warranty Claims and/or Claims finally adjudicated against the Vendor in total is more than an amount equal to 50% of the Purchase Price.

11.7 Purchaser acknowledgments: The Purchaser acknowledges and agrees that

- (a) the Vendor has not made any representation or warranty (express or implied) in connection with this Agreement (including a representation or warranty about the financial or other prospects of the Assets) other than the Vendor's Warranties, and that no such representation or warranty has been made on behalf of the Vendor;
- (b) certain employees, agents and advisers of the Purchaser have been involved in the negotiations and discussions leading to the execution of this Agreement and, subject to clause 11.8:
 - (i) any matter fairly disclosed in writing to any of those persons; and
 - (ii) any request or approval by any of those persons,will be deemed to be, for the purposes of this clause 11, disclosed or known to, or requested or approved by, the Purchaser;
- (c) in entering into this Agreement and proceeding to Completion, the Purchaser relies solely on its own judgement, investigations and professional advice received and does not rely on any statement, representation or warranty, other than the Vendor's Warranties;
- (d) the Vendor's Warranties are qualified as set down in clause 1.3;
- (e) to the fullest extent permitted by Law:
 - (i) the Purchaser's right to payment under clause 11.3 is the Purchaser's sole and exclusive remedy in respect of a Warranty Claim and the Purchaser is not entitled to any other or separate cause of action for damages or other relief arising from any alleged misrepresentation, breach of warranty or otherwise;

- (ii) all terms, conditions, undertakings, inducements, warranties or representations, whether express or implied, statutory or otherwise, which are not expressly set out in this Agreement or the Disclosure Letter and which relate to or are connected with this Agreement or a matter the subject of a Vendor's Warranty, are excluded; and
- (iii) the Purchaser must not make, and waives any right it may otherwise have to make, any Warranty Claim against the Vendor under any applicable Law, other than as set out in clause 11.3;
- (f) any monetary compensation received by the Purchaser as a result of a breach of a Vendor's Warranty is deemed to be in reduction and partial refund of the Purchase Price;
- (g) the Vendor has not made any representation or warranty (express or implied) in connection with this Agreement that it has legal title to, or any enforceable right to harvest, any trees that are planted outside the legal boundaries of the relevant Freehold Land or Non Freehold Land.

11.8 **Limits on types of Warranty Claims:** The Purchaser must not make a Warranty Claim to the extent that:

- (a) the matter, information or circumstance giving rise to, or the subject of, the Warranty Claim is fairly disclosed to the Purchaser in writing on or before the Agreement Date (including by way of the Due Diligence Files or the Disclosure Letter); or
- (b) at the Agreement Date, the Purchaser knows of the matter, information or circumstance giving rise to, or the subject of, the Warranty Claim or the matter, information or circumstance is disclosed pursuant to a search conducted properly by Purchaser in the following public databases:
 - (i) PPSR Register;
 - (ii) High Court, Environmental Court, Court of Appeal and Supreme Court Registers;
 - (iii) Land Information New Zealand; and
 - (iv) the Waitangi Tribunal; or
- (c) the Warranty Claim results from, or the amount of the Warranty Claim is increased because of new Law or a change in the Law or in its interpretation; or
- (d) the Warranty Claim results from, or the amount of the Warranty Claim is increased because of, an increase in a rate of Tax on or after the Agreement Date; or
- (e) the matter, information or circumstance giving rise to, or the subject of, the Warranty Claim would not have arisen but for any change in ownership of the Assets on or after Completion; or
- (f) the Warranty Claim arises because of a thing the Vendor does or does not do:
 - (i) at the Purchaser's express request;
 - (ii) with the Purchaser's express consent; or

- (g) the matter, information or circumstance giving rise to, or the subject of, the Warranty Claim is made good without cost to the Purchaser; or
 - (h) the Warranty Claim is in respect of any budget, forecast, estimate, projection, model, forest yield projections or other statement which relates to the future and any statement of opinion or statement of intent, including the basis of preparation of, assumptions for or reasonableness of any such matter; or
 - (i) the Purchaser is directly or indirectly compensated for the matter, information or circumstance giving rise to, or the subject of, the Warranty Claim, whether by the Vendor, through insurance or otherwise; or
 - (j) the Warranty Claim is in respect of a matter for which an acknowledgement or agreement is given by the Purchaser in accordance with clause 11.7.
- 11.9 **Reduction in damages for benefits to Purchaser:** If the Purchaser is entitled to damages for a Warranty Claim, then the damages (and the amount of the Warranty Claim) will be reduced by the extent to which the damages otherwise payable in respect of the Warranty Claim result in any savings by, or net benefit to, the Purchaser or any Related Company of the Purchaser (including any Tax benefit arising from imputation credits) so that only the net amount is payable.
- 11.10 **Contingent Warranty Claims:**
- (a) The Purchaser must not make a Warranty Claim in connection with a contingent Liability. It may only make a Warranty Claim for a Liability that is notified on or before the relevant date in clause 11.4(a)(i).
 - (b) As soon as practicable after the Purchaser becomes aware of a contingent Liability for the purposes of clause 11.10(a), it must notify the Vendor giving reasonable details of the nature of the contingent Liability to the extent actually known by the Purchaser, and an estimate of the amount that may be claimed if the Liability becomes actual.
- 11.11 **Purchaser's obligations for Warranty Claims relating to third parties:** If after Completion the Purchaser becomes aware of a matter that may give rise to a Warranty Claim in connection with a Vendor's Warranty as a result of a Claim made or threatened by another person ("**Third Party**") against the Purchaser ("**Third Party Claim**"), then:
- (a) the Purchaser must as soon as reasonably practicable notify the Vendor of all relevant details available to the Purchaser, including the identity of the Third Party and the nature and amount of the Third Party Claim;
 - (b) the Purchaser must not admit anything or agree to anything with the Third Party in connection with the Third Party Claim, without the Vendor's prior written consent;
 - (c) the Purchaser must permit the Vendor at its discretion, through its authorised representatives, to have access to the records and employees of the Purchaser (during normal business hours and with reasonable notice), to enable the Vendor to deal with the Third Party Claim and the Vendor will reimburse the Purchaser for its reasonable costs in providing the Vendor with such access;
 - (d) the Purchaser must, at the Vendor's discretion (by notice to the Purchaser):
 - (i) enable the Vendor to defend or otherwise deal with the Third Party Claim in the Purchaser's name as against the Third Party, with the

Purchaser being required to ensure the Vendor is provided with reasonable assistance and cooperation; and/or

(ii) do any thing or not do any thing, in each case as the Vendor reasonably requests, to defend or otherwise deal with the Third Party Claim as against the Third Party and keep the Vendor informed about the Purchaser's actions or proposed actions in connection with the Third Party Claim; and

(e) the Vendor must indemnify the Purchaser for the reasonable direct costs and expenses incurred by the Purchaser in complying with clause 11.11(d), and undertakes to pay to the Purchaser such costs and expenses on receipt of copies of relevant invoices or other evidence of incurrence of costs or expenses by the Purchaser.

11.12 **Purchaser must pursue third parties:** Subject to clause 11.11, if the Purchaser recovers an amount under this clause 11 in connection with a matter and the Purchaser subsequently becomes entitled to claim an amount from a Third Party in connection with that matter, the Purchaser must, if called upon, assign to the Vendor or its nominee the benefit of any claim it may have against the Third Party. If the rights to any claim against the Third Party cannot be assigned to the Vendor, the Purchaser shall, at the request of the Vendor, comply with all reasonable directions of the Vendor in pursuing such claim, provided that the Vendor shall indemnify the Purchaser against any costs, charges, Liabilities and expenses that the Purchaser may incur as a result of complying with the Vendor's directions.

11.13 **Benefits received:**

(a) The Purchaser must promptly reimburse the Vendor if:

(i) the Purchaser recovers an amount from the Vendor under this clause 11; and

(ii) the Purchaser then receives an amount from a third party and this amount would have reduced the amount recovered by the Purchaser if it had been received before the recovery.

(b) The amount the Purchaser must reimburse to the Vendor is equal to the lesser of the amount the Purchaser receives from the:

(i) Vendor under this clause 11; and

(ii) Third Party

(i) less, in each case, any costs reasonably incurred in obtaining the amount from the Vendor or the Third Party, as the case may be.

11.14 **Mitigation:** The Purchaser must take all reasonable action to mitigate any Liability or other damage suffered as a result of a breach of a Vendor's Warranty.

11.15 **Obligation to notify:** If, at or prior to Completion, the Vendor becomes aware that any of the Vendor Warranties that are repeated on that Completion under this Agreement is or is reasonably likely to be breached on Completion, then as soon as reasonably practical after becoming so aware the Vendor shall provide notice to the Purchaser of that fact and give reasonable details of the circumstances giving rise to it.

12. **PUBLIC ANNOUNCEMENTS**

- 12.1 **Making announcements:** A party must not make, or authorise or cause to be made, any public announcement relating to the negotiations between the parties or the subject matter of this Agreement unless:
- (a) it has the prior written consent of the other party; or
 - (b) it is required to do so by Law or by the rules of any regulated financial market or stock exchange to which a party, or a Related Company of a party, is subject.
- 12.2 **Requirements:** If a party is required to make an announcement under clause 12.1(b), it must before doing so, to the extent practicable and as soon as reasonably possible:
- (a) notify each other party of the proposed announcement;
 - (b) consult with each other party as to its content; and
 - (c) use its reasonable endeavours to comply with any reasonable request by any other party concerning the proposed announcement.

13. **CONFIDENTIALITY**

- 13.1 **Purchaser to keep information confidential:** Subject to clause 13.3, the Purchaser must (and must cause each Related Company to) treat all confidential information made available by or on behalf of the Vendor and the terms of this Agreement (“**Information**”) as strictly private and confidential. This restriction will not apply, following Completion, to Information provided to the Purchaser as part of the Assets.
- 13.2 **Vendor to keep Information confidential:** Subject to clause 13.3, the Vendor must (and must cause each Related Company to) treat all confidential Information regarding the Assets being transferred under this Agreement and the terms of this Agreement as strictly private and confidential.
- 13.3 **Exceptions:** The obligation of confidentiality under clauses 13.1 and 13.2 does not apply to:
- (a) Information that is either generally available to the public or to participants in the industry of which the Vendor is a member at the Agreement Date or subsequently becomes so available other than by reason of breach of this Agreement; or
 - (b) Information that is reasonably required to be disclosed by the Vendor to a third party in order to comply with any management agreement entered into between the Vendor and the Purchaser; or
 - (c) any disclosure of Information that is necessary to comply with any court order, Law or the applicable rules of any regulated financial market or stock exchange; or
 - (d) Information disclosed to any Related Company, employee, agent, contractor, officer, professional advisor, banker, auditor or other consultant of the relevant party (each a Recipient) only if the disclosure is made to the Recipient strictly on a “need to know basis” and, prior to the disclosure the relevant party notifies the Recipient of the confidential nature of the Information to be disclosed; or
 - (e) disclosure of Information required to satisfy any Condition.

13.4 **Return of Information:**

- (a) Subject to clause 13.4(b) and (c), if this Agreement is validly terminated, each party must immediately return the Information referred to in clauses 13.1 and 13.2 to the party that has provided the Information, and must not divulge it to any third party (other than to the party's advisers on a confidential basis) or use it in any way, unless and until it becomes public knowledge otherwise than by or through the disclosure in breach of this clause 13.
- (b) Clause 13.4(a) does not apply to the extent Information is required by the Vendor for any Claim under or in connection with this Agreement or the circumstances leading to the termination of this Agreement.
- (c) Clause 13.4(a) does not prevent the Purchaser retaining full copies of submissions to and minutes of any board, investment or advisory committee meeting of fund managers, advisers and financiers of the Purchaser, despite any Information being, for bona fide reasons, contained therein.

14. **GOODS AND SERVICES TAX**

14.1 **GST payable by Purchaser:** GST in respect of the supply of the Assets made by the Vendor under this Agreement will be payable by the Purchaser to the Vendor, in addition to any other amount payable under this Agreement as follows:

- (a) on the GST Date the Purchaser will pay to the Vendor GST on the Purchase Price as adjusted under clause 6.3 as appropriate, and the Vendor will issue a Tax Invoice for the supply of the Assets to the Purchaser on Completion or if the GST Date is before Completion then two Business Days before the GST Date;
- (b) on Completion, the Purchaser will pay to the Vendor, or the Vendor will pay to the Purchaser (as appropriate) GST on the amount specified for payment in the Estimate Apportionment Statement to the extent it relates to the Assets. If the GST Date is the date of Completion then this amount will adjust any amount payable under clause 14.1(a) and the Tax Invoice issued under clause 14.1(a) will be adjusted to reflect this. If the GST Date is before Completion then the Vendor will issue a Debit Note or Credit Note as appropriate in respect of the Estimated Apportionment Statement;
- (c) at the same time as any payment is due under clause 5.4, the Purchaser will pay to the Vendor, or the Vendor will pay to the Purchaser, as appropriate, GST on the amount so due to the extent it relates to the Assets and the Vendor will issue a Debit Note or Credit Note, as appropriate, in respect of that amount;
- (d) at the same time as any payment is due as described in clause 4.9 the Purchaser will pay to the Vendor, or the Vendor will pay to the Purchaser, as appropriate, GST on the amount of that payment to the extent it relates to the Assets and the Vendor will issue a Debit Note or Credit Note, as appropriate, in respect of that amount.

14.2 **Default GST:** The Purchaser will indemnify the Vendor on demand for any Default GST that becomes owing by the Vendor to the IRD as a result of the Purchaser failing to pay an amount to the Vendor when due. Demand for Default GST will be made by the Vendor in writing and be accompanied by reasonable evidence of that person's liability for Default GST.

14.3 **Non-mitigation:** As between the Vendor and the Purchaser, the Vendor will not be under any obligation to pay GST chargeable on any Taxable Supply made under or pursuant to this Agreement in accordance with the GST Act or to take any steps to minimise their liability in respect of that GST or Default GST unless and until the Purchaser pays the corresponding payment to the Vendor.

15. **GENERAL**

15.1 **Nature of obligations**

- (a) Any provision in this Agreement which binds more than one person binds all of those persons jointly and each of them severally.
- (b) Each obligation imposed on a party by this Agreement in favour of another is a separate obligation.

15.2 **Entire understanding**

- (a) This Agreement and the Agreed Form documents contain the entire understanding between the parties concerning the subject matter of this Agreement and supersedes all prior communications between the parties.
- (b) Each party acknowledges that, except as expressly stated in this Agreement, that party has not relied on any representation, warranty or undertaking of any kind made by or on behalf of another party in relation to the subject matter of this Agreement.

15.3 **No adverse construction:** This Agreement is not to be construed to the disadvantage of a party because that party was responsible for its preparation.

15.4 **Further assurances:** A party, at its own expense and within a reasonable time of being requested by another party to do so, must do all things and execute all documents that are reasonably necessary to give full effect to this Agreement.

15.5 **No waiver:**

- (a) A failure, delay, relaxation or indulgence by a party in exercising any power or right conferred on the party by this Agreement does not operate as a waiver of the power or right.
- (b) A single or partial exercise of the power or right does not preclude a further exercise of it or the exercise of any other power or right under this Agreement.
- (c) A waiver of a breach does not operate as a waiver of any other breach.

15.6 **Severability:** If any provision of this Agreement offends any Law applicable to it and is as a consequence illegal, invalid or unenforceable then:

- (a) where the offending provision can be read down so as to give it a valid and enforceable operation of a partial nature, it must be read down to the minimum extent necessary to achieve that result; and
- (b) in any other case the offending provision must be severed from this Agreement, in which event the remaining provisions of this Agreement operate as if the severed provision had not been included.

15.7 **Successors and assigns:** This Agreement binds and benefits the parties and their respective successors and permitted assigns under clause 15.9.

15.8 **No assignment:** A party cannot assign or otherwise transfer the benefit of this Agreement without the prior written consent of each other party.

15.9 **No variation:** This Agreement cannot be amended or varied except in writing signed by the parties.

15.10 **Governing law and jurisdiction:**

(a) This Agreement is governed by and must be construed in accordance with the laws of New Zealand.

(b) The parties submit to the non-exclusive jurisdiction of the courts of New Zealand in respect of all matters arising out of or relating to this Agreement, its performance or subject matter.

15.11 **Notices:** Any notice or other communication to or by a party to this Agreement:

(a) may be given by personal service, post, facsimile or email;

(b) must be in writing, legible and in English addressed as shown below:

(i) If to the Vendor:

Address: Level 5
Symonds Centre
49 Symonds Street
Auckland

Attention: The General Manager

Facsimile: +64 9 302 2318

Email: paul.nicholls@rayonier.com

(ii) If to the Purchaser:

Address: Level 5
Symonds Centre
49 Symonds Street
Auckland

Attention: The General Manager

Facsimile: +64 9 302 2318

Email: paul.nicholls@rayonier.com

And to:

Address: C/ - DB Capital Partners
Level 21, 83 Clarence Street
PO Box N127 Grosvenor Place
Sydney, NSW, 1220
Australia

Attention: Martin Smith

Facsimile: +612 9249 9765

Email: martin.smith@db.com

- or to any other address last notified by the party to the sender by notice given in accordance with this clause;
- (c) in the case of a corporation, must be signed by an officer or authorised representative of the sender or in accordance with section 180 of the Companies Act; and
 - (d) is deemed to be given by the sender and received by the addressee:
 - (i) if delivered in person, when delivered to the addressee;
 - (ii) if sent by facsimile transmission, on the date and time shown on the transmission report by the machine from which the facsimile was sent which indicates that the facsimile was sent in its entirety and in legible form to the facsimile number of the addressee notified for the purposes of this clause; or
 - (iii) if sent by email, on the date and time at which it enters the addressee's information system (as shown in a confirmation of delivery report from the sender's information system, which indicates that the email was sent to the email address of the addressee notified for the purposes of this clause),

but if the delivery or receipt is on a day which is not a Business Day or is after 4.00 pm (addressee's time), it is deemed to have been received at 9.00 am on the next Business Day.

- 15.12 **Counterparts:** If this Agreement consists of a number of signed copies and delivered in counterparts (including by way of facsimile), each is an original and all of the counterparts together constitute the same document.
- 15.13 **Conflicting provisions:** If there is any conflict between the main body of this Agreement and any Schedules then the provisions of the main body of this Agreement prevail.
- 15.14 **Non merger:** A term or condition of, or act done in connection with, this Agreement does not operate as a merger of any of the rights or remedies of the parties under this Agreement and those rights and remedies continue unchanged.
- 15.15 **No right of set-off:** Unless this Agreement expressly provides otherwise, a party has no right of set-off, withholding or deduction from or against a payment due to another party.
- 15.16 **Relationship of parties:** Unless this Agreement expressly provides otherwise, nothing in this Agreement may be construed as creating a relationship of partnership, of principal and agent or of trustee and beneficiary.
- 15.17 **Personal liability:** The parties agree that to the fullest extent permitted by Law:
- (a) no natural person will bear any Liability to any party in respect of this Agreement or any transaction contemplated by this Agreement, other than for an act of fraud by that person;
 - (b) no existing or former director or officer of the Vendor and none of its advisers advising in its capacity as such in relation to the transactions contemplated by this Agreement (except to the extent expressly agreed in writing by such advisor) will be liable to the Purchaser in respect of any act, matter or thing

which occurred before, at or after Completion, other than an act of fraud by that person; and

- (c) the persons referred to in this clause 15.19 are entitled to the benefit of this clause 15.19 and it is enforceable at the suit of any of these persons whether by way of defence or otherwise pursuant to and in accordance with the Contracts (Privity) Act 1982. In addition, the Vendor is entitled to enforce this clause 15.19 on behalf of those persons. However, the consent of those persons is not required to any variation, amendment or discharge of this clause 15.19.

Executed as an agreement

EXECUTION PAGE OF RNZ AGREEMENT FOR SALE AND PURCHASE OF ASSETS

SIGNED for and on behalf of **RAYONIER
NEW ZEALAND LIMITED:**

Signature of Director

Signature of Director

Name of Director

Name of Director

Signature of witness

Name of witness

Occupation

City/town of residence

SIGNED for and on behalf of **MATARIKI FORESTS:**

Signature of Director

Signature of Director

Name of Director

Name of Director

Signature of witness

Name of witness

Occupation

City/town of residence

SCHEDULE 1 - ASSETS

PART A - FREEHOLD LAND

<u>Forest</u>	<u>Freehold Title Reference</u>	<u>LINZ Land Registry</u>
Bare Hill	CT SL12A/729	Southland
Blackmount	CT SL12A/995	Southland
Castledowns	CT SL12A/764	Southland
Catlins	CT 43458 CT 43459 CT 43461 CT 43462	Otago
Etavale	CT SL12A/131	Southland
Glendhu	CT OT18C/1080	Otago
Hokonui	CT 183737 CT 183738 CT 183739	Southland
Kohitere	CT WN38D/546 CT WN56B/874 CT WN56B/875	Wellington
Lismore Fire Store Site	CT WN40B/974	Wellington
Longwood	CT 5344 CT 5345	Southland
Manukaawa	CT OT16B/1147 CT OT16B/1148	Otago
Onapua	CT MB2D/1292 CT MB3E/992 CT MB52/752	Marlborough
Rowallan	CT SL12B/113	Southland

Slopedown	CT SL12B/163	Southland
Strathallan	CT SL12B/512 CT SL12B/513	Southland
Taringatura	CT SL12A/847	Southland
Tokonui	CT SL7A/117 CT SL12A/145 CT SL12A/147 CT SL12A/572	Southland
West Dome	CT SL12A/974	Southland

PART B – LEASEHOLD LAND

<u>Forest</u>	<u>Instrument Reference</u>	<u>Title Reference</u>	<u>LINZ Land Registry</u>	<u>Lessor</u>
Athenaeum	L 5624295.9	CT 100310	Otago	Clutha District Council
	L 649851.1	CT 100320		Clutha District Council
	L 649851.2	CT 100326		The Trustees of the Wangaloa Athenaeum
	5624295.11	CT 100326		Crown – assigned to Rayonier New Zealand Limited
	5624295.13	CT 100326		Crown – assigned to Rayonier New Zealand Limited
	L 5624295.14	CT 100327		City Forests Limited

McCrosties	607294.1	CT OT9C/394 CT OT9C/374 CT OT9C/377 CT OT9C/378 CT OT9C/379 CT OT9C/380 CT OT9C/387 CT OT9C/388 CT OT9C/389 CT OT9C/390 CT OT9C/391 CT OT9C/392 CT OT9C/393 CT OT9C/371 CT OT15D/146	Otago	Allan John McCrostie, Graeme Bruce McCrostie and Peter Stanley McCrostie
	948490.1	CT OT18B/499		McCrostie Estate Limited

PART C – CROWN FORESTRY LICENCES

<u>Forest</u>	<u>Instrument Reference</u>	<u>LINZ Land Registry</u>	<u>Licensor</u>
Glenbervie	CT NA100A/9	North Auckland	Crown
Lismore	CT 10272	Wellington	Crown
Longwood	CT 106305	Southland	Crown
Manakau	CT WN1300/5	Wellington	Crown
Queen Charlotte	CT MB5B/92	Marlborough	Crown
Slopedown	CT SL11D/11 CT 106303 CT 106304	Southland Otago Otago	Crown
Waitarere	CT WN1300/21	Wellington	Crown

PART D – FORESTRY RIGHTS

<u>Forest</u>	<u>Instrument Reference</u>	<u>Underlying Freehold Title Reference</u>	<u>LINZ Land Registry</u>	<u>Grantor</u>
Blackmount	5611898.1	CT SL9D/124	Southland	Wairaki Station Limited
	5647153.1	CT SL12A/995	Southland	Rayonier New Zealand Limited
Kohitere	B695938.8	CT WN52C/732	Wellington	Rayonier New Zealand Limited
		CT WN52C/733		
		CT WN52C/735		
		CT WN52C/737		
B774848.2	CT WN52C/738	CT 56B/871	Rayonier New Zealand Limited	
	CT 56B/872			
	CT 56B/873			
Longwood	5563264.1	CT 5346	Southland	Southland District Council
	5074057.4	CT 5343	Southland	Southland Plantation Forest Company of New Zealand Limited
		CT SL7B/686		
Mt. Camel	5835278.2	CT NA2A/219	North Auckland	Mt. Camel Farms Limited
Tokonui	268658.1	CT SL7C/244	Southland	Peter Edward Goble and Susan May Goble

SCHEDULE 2 - COMPLETION LIST

Part A – Obligations of Vendor

At or before Completion, the Vendor must:

1. deliver to the Purchaser:
 - (a) registrable transfers of the Freehold Land executed by the Vendor;
 - (b) registrable novations, assignments or transfers of registered Non Freehold Land Contracts, or novations or assignments of unregistered Non Freehold Land Contracts, in respect of which all required counter-party consents have been obtained, and any deeds of covenant required by the lessors or grantors to such novation, assignment or transfer, in each case executed by the Vendor (to the extent required by law or the terms thereof), together with all relevant counterparty consents;
 - (c) the originals of the relevant Non Freehold Land Contracts and all associated documentation (or copies of the original Non Freehold Land Contracts and documentation to the extent not held by the Vendor);
 - (d) transfers of the Resource Consents (and applications for any resource consents relating to the Forests that are currently being processed) to the extent they are not transferred automatically with the transfer of the Vendor's interest in the related Assets;
 - (e) executed and registrable releases of all Encumbrances over the Assets requested by the Purchaser;
 - (f) a signed acknowledgement by the Vendor confirming that it holds copies of all documents (either electronic (hard disk) and/or hard copy) comprising the Forest Records;
 - (g) any amount payable by the Vendor to the Purchaser in respect of the Estimated Apportionment Payment; and
2. do all other acts and execute all other documents that this Agreement requires the Vendor to do or execute Completion.

Part B - Obligations of Purchaser

At or before Completion, the Purchaser must:

- (a) satisfy the Purchase Price in accordance with clause 4.2;
- (b) pay the Vendor any amount payable by the Purchaser in respect of the Estimated Apportionment Payment;
- (c) pay GST in accordance with clause 14; and
- (d) do all other acts and execute all other documents that this Agreement requires the Purchaser to do or execute at Completion.

SCHEDULE 3 - VENDOR'S WARRANTIES

GENERAL

1. **Information**

- (a) All written information (excluding budgets, models, forecasts or projections including financial projections, material prepared by third parties) relating to the Assets contained in the Disclosure Letter and the Due Diligence Files, is accurate in all material respects as at the earlier of:
 - (b) the date the written information was made available; or
 - (c) the Agreement Date.
- (d) The Vendor is not aware of any material circumstance relating to the Assets that has not been fairly disclosed in writing to the Purchaser and which the Vendor expects, acting reasonably, to be materially adverse to the value of the Assets taken as a whole.

2. **Full Authority:** The Vendor has been duly authorised to enter into and perform this Agreement, and has the necessary power to bind itself in the manner contemplated by this Agreement.

3. **No Legal Impediment:** The execution, delivery and performance by the Vendor of this Agreement comply with:

- (a) each applicable Law, regulation, approval, ruling, judgment, order or decree of any Government Agency;
- (b) the constitution or other constituent documents (if any) of the Vendor; and
- (c) any material term or provision of any agreement, deed, writ, order or injunction to which the Vendor is a party or a subject or by which the Vendor is bound.

ASSETS

4. **Title:** Except as otherwise provided pursuant to the terms of the Non Freehold Land Contracts, the Vendor will at Completion have legal and beneficial title to the Assets transferred under this Agreement and the Assets will pass to the Purchaser free from Encumbrances (other than, for the avoidance of doubt, the rights of counterparties under the Non Freehold Land Contracts and the Assumed Liabilities).

5. **Power:** Subject to clause 8 of the Agreement, the Vendor has the right and power to sell the Assets on the terms set out in this Agreement.

6. **Freehold Land:**

- (a) No notices, orders, requirements, recommendations or approved proposals under any Law affecting the Freehold Land have been received which have not been disclosed.
- (b) Subject to the operation of clause 6.3, on Completion the Freehold Land will be transferred with vacant possession.
- (c) There are no material arrears of general or water rates on the Freehold Land that have not been, or will not be, included as part of the Final Apportionment Statement.

7. **Non Freehold Land:**
- (a) The Non Freehold Land Contracts are valid and subsisting agreements, the terms of which have been disclosed to the Purchaser in the Due Diligence Files.
 - (b) The Vendor has complied with all material covenants, conditions, restrictions and limitations binding on it in respect of the Non Freehold Land Contracts.
 - (c) On Completion the Non Freehold Land being transferred on Completion will be transferred with vacant possession as regards the Vendor.
8. **Non Freehold Land Contracts:**
- (a) To the best of the Vendor's knowledge:
 - (i) each Non Freehold Land Contract is valid, binding and enforceable against the parties to it, and
 - (ii) there is no current material breach or default of any Non Freehold Land Contract by any party that has had or is likely to have a material adverse effect on the value of the Assets.
 - (b) The Vendor has not received notice from any counterparty to a Non Freehold Land Contract to the effect that such counterparty intends to terminate the relevant Non Freehold Land Contract.
9. **Environment:**
- (a) To the best of the Vendor's knowledge, there are no ongoing or threatened actions or proceedings by Regulatory Authorities or third parties against the Vendor in relation to the Freehold Land or the Non Freehold Land concerning any breach or alleged breach of Environmental Law or Environmental Licences and no written notice has been received by the Vendor in relation to any such actions or proceedings.
 - (b) To the best of the Vendor's knowledge, the Vendor holds all material Environmental Licences required to undertake harvesting activities undertaken by the Vendor as at Completion and each of them is in full force and effect and is being complied with in all material respects. No such Environmental Licence is the subject of any existing challenge to its validity.
10. **Tenancies:** To the best of the Vendor's knowledge, there are no tenancies or other rights of access or use granted to third parties in respect of the Freehold Land or the Non Freehold Land that have not been disclosed to the Purchaser and that materially adversely restrict the forestry operations on that Freehold Land or the Non Freehold Land undertaken in a manner consistent with that undertaken by the Vendor immediately prior to Completion.
11. **Net Stocked Area:** The Forests Records as at 14 May 2005 and made available to the Purchaser are accurate in respect of location, age, species planted, stocking and pruned height.
12. **Compliance with Laws:** To the best of the Vendor's knowledge, it is not in breach of any statutory provision, order, by-law or regulation binding on it, or applicable to it with regard to the Assets.

13. **No Fencing Act Claim:** The Vendor has not received any written notice nor does it have any knowledge of any claim by owners or occupiers of land contiguous to the Freehold Land or the Non-Freehold Land pursuant to the Fencing Act 1978.
14. **No Maori Land Claim:** To the best of the Vendor's knowledge, there are not now, and will not on the Completion Date be, any Maori land claims in respect of any of the Assets other than the Crown Forestry Licences.
15. **Access:**
 - (a) The Vendor has reasonable access to each of the Forests.
 - (b) To the best of the Vendor's knowledge, there are no current circumstances that will adversely affect the Vendor's access to the Forests, and Completion will not give rise to any such circumstance.
16. **Improvements:** The Improvements are in good condition, fair wear and tear excepted, and are fit for the purpose for which they are employed.
17. **Harvesting:** As at the Calculation Time the Actual Harvest Volume will not exceed the Planned Harvest Volume by more than 20%.

SCHEDULE 4 - PURCHASER'S WARRANTIES

1. The execution and delivery of this Agreement has been properly authorised by all necessary corporate action of the Purchaser.
2. The Purchaser has full corporate power and lawful authority to execute and deliver this Agreement and to perform, or cause to be performed, their respective obligations under this Agreement.
3. This Agreement constitutes legal, valid and binding obligations on the Purchaser enforceable in accordance with its terms by appropriate legal remedy.

SCHEDULE 5 - PURCHASE PRICE ALLOCATION

	Total Purchase Price	Purchase Price NZS for Assets	
		Freehold Land	Standing Trees
All Forests	269,900,000	69,100,000	200,800,000

SCHEDULE 6 - VENDOR'S KNOWLEDGE

Paul Nicholls, General Manager Forest Resources

Peter Spencer, Manager Lands, Safety and Environment.

Graham Leaming, Finance Director

Doug Long, Forest Services Manager

Keith Davidson, Operations Manager

SCHEDULE 7 - DUE DILIGENCE FILE INDEX
RAYONIER NEW ZEALAND LIMITED
MASTER DUE DILIGENCE INDEX AS AT 27 JUNE 2005

1. ATHENAEUM FOREST

<u>Number</u>	<u>Document</u>
1.1	Certificate(s) of Title
1.1.1	CT 100310 – Otago Registry.
1.1.2	CT 100320 – Otago Registry.
1.1.3	CT 100326 – Otago Registry.
1.1.4	CT 100327 – Otago Registry.
1.2	Other material documents
1.2.1	Memorandum of Lease dated 12 December 1979 (649851.1).
1.2.2	Memorandum of Lease dated 12 December 1979 (649851.2).
1.2.3	Memorandum of Lease dated 12 June 2003 (5624295.9).
1.2.4	Memorandum of Sublease of Lease 649851.1 dated 23 September 2002 (5624295.11).
1.2.5	Memorandum of Sublease of Lease 649851.2 dated 23 September 2002 (5624295.13).
1.2.6	Memorandum of Lease 5624295.14 dated 23 September 2002 (5624295.14).
1.2.7	Transfer Instruments of the Athenaeum Leases from the Crown to Rayonier New Zealand Limited:- T 6297623.3 dated 26 November 2004; T 6297623.2 dated 24 December 2004; and T 6297623.1 dated 25 January 2005.
1.2.8	Letter from Pauline Ellis at Clutha District Council to Peter Spencer of Rayonier New Zealand Limited in relation to Kaitangata Athenaeum Lease dated 4 April 2005.
1.2.9	Letter from Peter Spencer of Rayonier New Zealand Limited to Pauline Ellis of Clutha District Council in relation to Kaitangata Athenaeum Lease dated 30 March 2005.
1.2.10	Letter from Pauline Ellis of Clutha District Council to Peter Spencer of Rayonier New Zealand Limited in relation to Kaitangata Athenaeum Lease – Valuation Reference – 28042/41100 dated 17 March 2005.
1.2.11	Letter from Pauline Ellis of Clutha District Council to David Paterson of Clutha District Council in relation to Kaitangata Athenaeum Lease – Valuation Reference – 28042/41100 dated 17 March 2005.

- 1.2.12 Letter from Peter Spencer of Rayonier New Zealand Limited to N H O'Malley at O'Malley and Black in relation to Wangaloa Athenaeum Lease; Rent Review dated 7 March 2005.
- 1.2.13 Letter from N H O'Malley at O'Malley and Black to Peter Spencer of Rayonier New Zealand Limited in relation to Wangaloa Athenaeum Trust – Rental dated 3 March 2005.

2. BARE HILL FOREST

<u>Number</u>	<u>Document</u>
2.1	Certificate(s) of Title
2.1.1	CT SL12A/729 – Southland Registry.
2.2	Other material documents
2.2.1	-

3. BLACKMOUNT FOREST

<u>Number</u>	<u>Document</u>
3.1	Certificate(s) of Title
3.1.1	CT SL12A/995 – Southland Registry.
3.1.2	CT SL11D/10 – Southland Registry.
3.1.3	CT SL9D/124 – Southland Registry.
3.2	Other material documents
3.2.1	Forest Track Use Licence Blackmount Forest between Rayonier New Zealand Limited and Craigpine Timber Limited dated 4 March 1998.
3.2.2	Memorandum of Transfer Creating Forestry Right between Rayonier New Zealand Limited and Wairaki Station Limited dated 20 May 2003 (Copy 5647153.1).
3.2.3	Memorandum of Transfer Creating Forestry Right between Wairaki Station Limited and Rayonier New Zealand Limited dated 20 May 2003 (AG 5611898.1).

4. CASTLEDOWNS FOREST

<u>Number</u>	<u>Document</u>
4.1	Certificate(s) of Title
4.1.1	CT SL12A/764 – Southland Registry.
4.2	Other material documents
4.2.1	-

5. CATLINS FOREST

<u>Number</u>	<u>Document</u>
5.1	Certificate(s) of Title
5.1.1	CT 43458 – Otago Registry.
5.1.2	CT 43459 – Otago Registry.
5.1.3	CT 43461 – Otago Registry.
5.1.4	CT 43462 – Otago Registry.
5.2	Other material documents
5.2.1	-

6. ETALVALE FOREST

<u>Number</u>	<u>Document</u>
6.1	Certificate(s) of Title
6.1.1	CT SL12A/131 – Southland Registry.
6.2	Other material documents
6.2.1	-

7. GLENBERVIE FOREST

<u>Number</u>	<u>Document</u>
7.1	Certificate(s) of Title
7.1.1	CT NA100A/9 – Auckland Registry.
7.2	Other material documents
7.2.1	Agreement to grant restrictive covenants relating to Subdivision adjacent to Glenbervie Forest between Innes Coutts and Juliet Coutts and Rayonier New Zealand Limited dated 11 May 2001.
7.2.2	Memorandum of Understanding between Rayonier New Zealand Limited and Te Waiariki Ngati Korora Hapu Iwi Trust (Te Waiariki) dated 11 April 2003.
7.2.3	Sub-Licence - Wilderness Hutt between Rayonier New Zealand Limited and Presbyterian Support (Northern) dated 13 October 2004.
7.2.4	Special Management Restrictions and Schedule of Existing Rights in relation to Crown Forestry Licence.

8. GLENDHU FOREST

<u>Number</u>	<u>Document</u>
8.1	Certificate(s) of Title
8.1.1	CT OT18C/1080 – Otago Registry.
8.2	Other material documents
8.2.1	-

9. HOKONUI FOREST

<u>Number</u>	<u>Document</u>
9.1	Certificate(s) of Title
9.1.1	CT 183737 – Southland Registry.
9.1.2	CT 183738 – Southland Registry.
9.1.3	CT 183739 – Southland Registry.
9.2	Other material documents
9.2.1	Mineral Exploration Access Permit granted by Rayonier New Zealand Limited to Silicon Metal Industries (NZ) Ltd dated 24 September 2001.
9.2.2	Mineral Exploration Access Permit granted by Rayonier New Zealand Limited to Silicon Metal Industries (NZ) Ltd dated 21 October 2004.

10. KOHITERE FOREST

<u>Number</u>	<u>Document</u>
10.1	Certificate(s) of Title
10.1.1	CT WN38D/546 – Wellington Registry.
10.1.2	CT WN56B/874 – Wellington Registry.
10.1.3	CT WN56B/875 – Wellington Registry.
10.1.4	CT WN56B/871 – Wellington Registry.
10.1.5	CT WN56B/872 – Wellington Registry.
10.1.6	CT WN56B/873 – Wellington Registry.
10.1.7	CT WN52C/732 – Wellington Registry.
10.1.8	CT WN52C/733 – Wellington Registry.
10.1.9	CT WN52C/735 – Wellington Registry.
10.1.10	CT WN52C/737 – Wellington Registry.
10.1.11	CT WN52C/738 – Wellington Registry.
10.2	Other material documents
10.2.1	Code Compliance Certificate No. 94/0575 issued by Horowhenua District Council dated 18 October 1994.
10.2.2	Lease of Telecommunications Site between Rayonier New Zealand Limited and BellSouth New Zealand dated 16 September 1994.
10.2.3	Letter from Manawatu Wanganui Regional Council confirming grant of Application No. 7321 for resource consent dated 12 December 1997.
10.2.4	Map of Road and Landing Construction 1997 in Kohitere Forest; Map of Proposed Harvest Areas 1997-2015 in Kohitere Forest; and Map of Road and Landing Construction 1999-2002 in Kohitere Forest.

- 10.2.5 Decision on Application No. 102275 for a land use consent (logging) dated 14 June 2002 in Kohitere Forest.
- 10.2.6 Decision on Application No. 6737 for a land use consent (quarrying) dated 19 August 1996 in Kohitere Forest.
- 10.2.7 Decision on Application No. 6738 for a discharge permit (stormwater) dated 19 August 1996 in Kohitere Forest.
- 10.2.8 Vodafone Deed of Renewal and Rent Review between Rayonier New Zealand Limited and Vodafone New Zealand Limited dated 27 April 2004.
- 10.2.9 Renewal and Rent Review relating to Levin Network Site between Rayonier New Zealand Limited and Vodafone New Zealand Limited dated 14 September 2001.
- 10.2.10 Concession Document between The Crown and Rayonier New Zealand Limited dated 28 May 2004 (excluding Schedule 3);;
- 10.2.11 Letter from Peter Spencer at Rayonier New Zealand Limited to David Bishop at the Department of Conservation in relation to the Kohitere/Catlins Exchange dated 4 August 2004;
- 10.2.12 Letter from David Bishop at the Department of Conservation to Peter Spencer at Rayonier New Zealand Limited in relation to Exchange-Rayonier/DoC – copy of executed agreement dated 3 June 2004. and attached copy of executed agreement between Rayonier New Zealand Limited and the Crown dated 28 May 2004.
- 10.2.13 Letter from Peter Spencer at Rayonier New Zealand Limited to Martin Weaver at the Otago Regional Council in relation to Resource Consent No. 2004.401 dated 13 April 2005.
- 10.2.14 Letter from Steve Batchelor at Rayonier New Zealand Limited to the Coastal Area Manager at the Department of Conservation in relation to Rayonier Concession PAA-13-02-01 (Harvesting of exotic trees within the DoC Catlins estate dated 14 April 2005.
- 10.2.15 Memorandum of Transfer Creating Forestry Right between Rayonier New Zealand Limited (“Proprietor”) and Rayonier New Zealand Limited (“Holder”), dated 9 March 2000 (FR B774848.2).
- 10.2.16 Memorandum of Transfer Creating Forestry Right between Rayonier New Zealand Limited (“Proprietor”) and Rayonier New Zealand Limited (“Holder”) dated 26 November 1998.

11. LISMORE FOREST

<u>Number</u>	<u>Document</u>
11.1	Certificate(s) of Title
11.1.1	CT 10272 – Wellington Registry.
11.2	Other material documents
11.2.1	Compliance Inspection Report of Lismore by the Manuwatu-Wanganui Regional Council dated 8 February 2005.
11.2.2	Letter from Crown Forestry Management Limited to Rayonier New Zealand Limited in relation to Lismore Hill Forest – Maputahi 1D3B1 & 1D3B3 dated 24 February 2000 and copy of the Forestry Right over Maputahi 1D3B3 dated 19 July 1999.
11.2.3	Letter from Manuwatu Wanganui Regional Council dated 9 February 1999 and Decision on Application No. 100222 for a land use consent (logging/tracking) dated 9 February 2005.
11.2.4	Decision on Application No. 101430 for a land use consent (quarry) dated 6 November 2000.
11.2.5	Erratum – Resource Consent No. 101430 dated 17 November 2000.
11.2.6	Letter from Environmental Services: Wanganui District Council granting resource consent in relation to Shellrock Extraction dated 30 October 2000.
11.2.7	Special Management Restrictions and Schedule of Existing Rights in relation to Crown Forestry Licence.

12. LISMORE FIRE STORE SITE FOREST

<u>Number</u>	<u>Document</u>
12.1	Certificate(s) of Title
12.1.1	CT WN40B/974 – Wellington Registry.
12.2	Other material documents
12.2.1	-

13. LONGWOOD

<u>Number</u>	<u>Document</u>
13.1	Certificate(s) of Title
13.1.1	CT 5344 – Southland Registry.
13.1.2	CT 5345 – Southland Registry.
13.1.3	CT 5346 – Southland Registry.
13.1.4	CT 106305 – Southland Registry
13.1.5	CT 5343 – Southland Registry
13.1.6	CT SL7B/686 – Southland Registry
13.2	Other material documents
13.2.1	Land Forestry Licence in relation to Longwood Forest – Island Bush Block – Southland between the Crown and Rayonier New Zealand Limited dated 9 July 2003.
13.2.2	Letter from Crown Forestry Management Limited dated 2 March 2001; and Unregistered Deed Granting Easement of Right of Way for Wasp, Kereru, Mt Pleasant and Glenburn Roads dated 23 February 2001.
13.2.3	Letter from Rayonier New Zealand Limited to Southwood Export Limited in relation to Happy Valley Forestry Right: Eucalypt Timber Sale Contract dated 20 November 2002; and Memorandum of Transfer Creating Forestry Right between Southland Plantation Forest Company of New Zealand Limited and Rayonier New Zealand Limited dated 1 August 2001.
13.2.4	Sublicence between Rayonier New Zealand Limited, and Jackson and Wills Radio and TV Limited dated 20 December 1998.
13.2.5	Deed of Agreement between the Director General of Conservation and Rayonier New Zealand Limited and Southland Plantation Forest Company of New Zealand Limited dated 6 January 2005.
13.2.6	Letter from Rayonier New Zealand Limited to Fred Smithies in relation to the burial of arsenic drums in Island Bush Block, Longwood Forest dated 14 April 2000.
13.2.7	Letter from the Hon Dr Michael Cullen and Hon Mark Burton to Rayonier New Zealand Limited granting permission to construct a road through a conservation covenant area in Longwood Forest dated 21 November 2001.
13.2.8	Deed granting Easement of Right of Way to Rayonier New Zealand Limited dated 2 February 2001.

- 13.2.9 Variation to Cutting Rights Agreement between the Department of Conservation Southland Conservancy and Rayonier New Zealand Limited dated 11 April 2005.
- 13.2.10 Letter from Bell Gully to Rayonier New Zealand Limited dated 28 August 2000; draft letter from Bell Gully to Brian Kennedy in relation to Memorandum of Encumbrance 272317.7 – dated 28 August 2000; and Lease between Rayonier New Zealand Limited and Vodafone New Zealand Limited dated 1 August 2000.
- 13.2.11 Sublicence between Rayonier New Zealand Limited and The Power Company Limited dated 20 December 1998.
- 13.2.12 Sublicence between Rayonier New Zealand Limited and New Zealand Police dated 16 March 1998.
- 13.2.13 Sublicence between Rayonier New Zealand Limited and Transpower New Zealand Limited dated 4 December 1997.
- 13.2.14 Lease between Rayonier New Zealand Limited and Woosh Wireless Limited dated 7 December 2004.
- 13.2.15 Memorandum of Transfer Creating Forestry Right between Southland Plantation Forest Company of New Zealand Limited and Rayonier New Zealand Limited dated 1 August 2001.
- 13.2.16 Memorandum of Transfer Creating Forestry Right between Rayonier New Zealand Limited (“Proprietor”) and Rayonier New Zealand Limited (“Holder”) (undated).

14. MANAKAU FOREST

<u>Number</u>	<u>Document</u>
14.1	Certificate(s) of Title
14.1.1	CT WN1300/5 – Wellington Registry.
14.2	Other material documents
14.2.1	Decision on Application No. 102030 Change No.2 for a land use consent (logging) dated 20 March 2003.
14.2.2	Map of Manakau Forest Water Hauling Restrictions dated 24 February 2003.
14.2.3	Letter from Rayonier New Zealand Limited to Horizons Regional Council in relation to proposed variation of Manakau Resource Consent No. 102030.
14.2.4	Decision on Change of Conditions of Resource Consent No. 102030 dated 20 March 2003.
14.2.5	Special Management Restrictions and Schedule of Existing Rights in relation to Crown Forestry Licence.

15. MANUKAAWA FOREST

<u>Number</u>	<u>Document</u>
15.1	Certificate(s) of Title
15.1.1	CT OT16B/1147 – Otago Registry.
15.1.2	CT OT16B/1148 – Otago Registry.
15.2	Other material documents
15.2.1	Understanding Regarding “Give and Take” Boundary between Rayonier New Zealand Limited and Hewett Farms Limited dated 2 May 2003.

16. MCCROSTIES FOREST

<u>Number</u>	<u>Document</u>
16.1	Certificate(s) of Title
16.1.1	CT OT9C/394 – Otago Registry.
16.1.2	CT OT9C/374 – Otago Registry.
16.1.3	CT OT9C/377 – Otago Registry.
16.1.4	CT OT9C/378 – Otago Registry.
16.1.5	CT OT9C/379 – Otago Registry.
16.1.6	CT OT9C/380 – Otago Registry.
16.1.7	CT OT9C/387 – Otago Registry.
16.1.8	CT OT9C/388 – Otago Registry.
16.1.9	CT OT9C/389 – Otago Registry.
16.1.10	CT OT9C/390 – Otago Registry.
16.1.11	CT OT9C/391 – Otago Registry.
16.1.12	CT OT9C/392 – Otago Registry.
16.1.13	CT OT9C/393 – Otago Registry.

- 16.1.14 CT OT9C/371 – Otago Registry.
- 16.1.15 CT OT18B/499 – Otago Registry.
- 16.1.16 CT OT15D/146 – Otago Registry.
- 16.2 **Other material documents**
- 16.2.1 Memorandum of Lease between McCrostie Estate Limited (“Lessors”) and Rayonier New Zealand Limited (“Lessees”) dated 20 March 1998 (948490.1).
- 16.2.2 Decision on Application No. 2003.157 for a land use consent dated 9 June 2003; and copy of the Land Use Consent No. 2003.157 dated 9 June 2003.
- 16.2.3 Memorandum of Lease between Allan McCrostie, Graeme McCrostie and Peter McCrostie (“Lessors”) and the Crown (“Lessee”) dated 22 November 1983.
- 16.2.4 Forest Road Use Licence between Rayonier New Zealand Limited and City Forests Limited dated 17 February 2005.
- 16.2.5 Forest Road Use Licence between Rayonier New Zealand Limited and City Forests Limited dated 17 February 2005 as amended 16 March 2005.
- 16.2.6 Decision on Application for resource consent decision in relation to the McCrostie Lease – dated 19 May 2003.
- 16.2.7 Report No. 2003/400 on Land Use Consent by Rayonier New Zealand Limited, to place a box culvert in Wangaloa Creek, near Kaitangata - prepared by Matthew Bird, Otago Regional Council dated 6 June 2003; and copy of Land Use Consent No. 2003.157 (undated).
- 16.2.8 Award ascertaining the current market rental as at 1 March 2002 for the property held in Lease 607294 in accordance with the provisions of the Deed of Lease between McCrostie Estate Limited (as Lessors) and Rayonier New Zealand Limited (as Lessees) dated 14 February 2005.

17. MT CAMEL FOREST

<u>Number</u>	<u>Document</u>
17.1	Certificate(s) of Title
17.1.1	CT NA2A/219 (North Auckland Registry).
17.2	Other material documents
17.2.1	Agreement as to Partial Surrender of Mt Camel Forestry Right dated 12 September 2000.

- 17.2.2 Memorandum of Transfer creating forestry right between Mt Camel Farms Limited and Rayonier New Zealand Limited dated 11 July 2003.
- 17.2.3 Letter from Bell Gully in relation to Forestry Right – Mt Camel dated 11 February 2004 and Copy of post registration search copy of certificate of title NA 2A/219 (North Auckland Registry); Copy of Surrender 5835278.1 dated 1 December 2003; Copy of Memorandum of Transfer creating Forestry Right 5835278.2 dated 11 July 2003; and Copy of Application for Change of Name – ITT Rayonier New Zealand Limited to Rayonier New Zealand Limited dated 1 December 2003.

18. ONAPUA FOREST

<u>Number</u>	<u>Document</u>
18.1	Certificate(s) of Title
18.1.1	CT MB2D/1292 – Marlborough Registry.
18.1.2	CT MB3E/992 – Marlborough Registry.
18.1.3	CT MB5D/752 – Marlborough Registry.
18.2	Other material documents
18.2.1	-

19. QUEEN CHARLOTTE FOREST

<u>Number</u>	<u>Document</u>
19.1	Certificate(s) of Title
19.1.1	CT MB5B/92 – Marlborough Registry.
19.2	Other material documents
19.2.1	Decision on Application No. U041035 for a land use consent dated 18 May 2005.
19.2.2	Application No. U010836 for a coastal permit – reclaim or drain at Opuia Bay, Tory Channel dated 29 August 2001.5.
19.2.3	Application No. U940033 for a land use consent and a water permit – dated 25 March 1994.
19.2.4	Application No. U940634 for a coastal permit – dated 6 July 1994.
19.2.5	Application No. U970454 for a coastal permit – reclaim or drain at Opuia Bay, Tory Channel dated 4 May 1998.

- 19.2.6 Application No. U991607 for a land use consent – land disturbance – dated 23 May 2003.
- 19.2.7 Agreement between Rayonier New Zealand Limited and Telecom New Zealand Limited dated 15 January 1997.
- 19.2.8 Letter from Rayonier New Zealand Limited to George Yorke in relation to Rayonier New Zealand Limited constructing a road and skid site on the terms stated in the letter dated 11 February 2005; and attached map of the G Yorke property and surrounding Rayonier Crown forest land.
- 19.2.9 Department of Conservation permit to provide for a log storage and handling area for barging and logging operation on Sounds Foreshore Reserve dated 3 May 2005.
- 19.2.10 Port Underwood Funding Agreement between Marlborough District Council and Rayonier New Zealand Limited dated 7 April 2005.
- 19.2.11 Letter from Rayonier New Zealand Limited to Marlborough Lines Limited confirming the understanding of the Crown, Rayonier New Zealand Limited, and Marlborough Lines Limited in relation to the proposed relocation of a section of the Rahotia Power Line dated 25 May 2004.
- 19.2.12 Schedule One of Conditions of Consent in relation to the decision on resource consent Application No. U031087 regarding Queen Charlotte Sound.
- 19.2.13 Decision on Application No. U040323 for a coastal permit – reclaim or drain dated 2 April 2004.
- 19.2.14 Rayonier New Zealand Barge Loading and Log Yard Plan – Opuia Bay.
- 19.2.15 Decision on Application No. U041040 for a coastal permit dated 14 July 2004.

20. ROWALLAN FOREST

20.1 Certificate(s) of Title

- 20.1.1 CT SL12B/113 – Southland Registry.

20.2 Other material documents.

- 20.2.1 Deed granting easement of right of way between Rayonier New Zealand Limited and the Crown in relation to Gumboot Road dated 2 February 2001.
- 20.2.2 Deed granting easement of right of way between Rayonier New Zealand Limited and the Crown in relation to Woodall Road and Lawn Road dated 2 February 2001.
- 20.2.3 Deed granting easement of right of way between Rayonier New Zealand Limited and the Crown in relation to Wops Road and Ram Creek Rd dated 2 February 2001.

21. SLOPEDOWN FOREST

<u>Number</u>	<u>Document</u>
21.1	Certificate(s) of Title
21.1.1	CT SL12B/163 – Southland Registry.
21.1.2	CT OT19C/35 – Southland Registry.
21.1.3	CT SL12B/162 – Southland Registry.
21.1.4	CT SL11D/11 – Southland Registry.
21.1.5	CT OT9D/507 – Southland Registry (now cancelled)
21.1.6	CT 106303 – Otago Registry.
21.1.7	CT 106304 – Otago Registry.
21.2	Other material documents
21.2.1	Crown Forestry Licence between the Crown and Rayonier New Zealand Limited in relation to Slopedown Forest – MacLennan, Tuatuku, Waikawa and Mokoreta Blocks dated 9 July 2003 (CFL 56735.3).
21.2.2	Letter from Tim Brannon at Rayonier New Zealand Limited to Paul Jackson at Land Information New Zealand in relation to the Dieldrin Dump Study dated 6 June 2000
21.2.3	Letter from P Mitchell of Mitchell Partnerships to Peter Spencer at Rayonier New Zealand Limited in relation to the Mokoreta Forest Dieldrin Dump dated 13 March 2000.
21.2.4	Letter from Paul Jackson to T Brannon at Rayonier New Zealand Limited in relation to Mokoreta Dieldrin Site: Slopedown dated 6 March 2000.
21.2.5	Land Information New Zealand – Closed Landfill Management Plan – Mokoreta Forest Dieldrin Dump
21.2.6	Land Information New Zealand - Report on Mokoreta Forest Dieldrin Dump: Review of Future Management dated May 1998.
21.2.7	Letter from Shaun Cawood of Rayonier to Craig Harris at Land Information New Zealand in relation to Dieldrin Dump – Slopedown dated 29 June 1998.
21.2.8	Letter from Craig Harris of Land Information New Zealand to Shaun Cawood of Rayonier New Zealand Limited in relation to Dieldrin Dump – Slopedown Crown Forest Licence – Mokoreta Block dated 23 June 1998.

22. STRATHALLAN FOREST

<u>Number</u>	<u>Document</u>
22.1	Certificate(s) of Title
22.1.1	CT SL12B/512 – Southland Registry.
22.1.2	CT SL12B/513 – Southland Registry.
22.2	Other material documents
22.2.1	-

23. TARINGATURA FOREST

<u>Number</u>	<u>Document</u>
23.1	Certificate(s) of Title
23.1.1	CT SL12A/847 – Southland Registry.
23.2	Other material documents
23.2.1	-

24. TOKONUI FOREST

<u>Number</u>	<u>Document</u>
24.1	Certificate(s) of Title
24.1.1	CT SL7A/117 – Southland Registry.
24.1.2	CT SL12A/572 – Southland Registry.
24.1.3	CT SL12A/145 – Southland Registry.
24.1.4	CT SL12A/147 – Southland Registry.
24.1.5	CT SL7C/244 – Southland Registry.
24.2	Other material documents
24.2.1	Licence to graze livestock between Rayonier New Zealand Limited and Peter Goble and Susan Goble dated 26 July 1999.
24.2.2	Memorandum of Transfer granting Forestry Right between Peter Goble and Susan Goble and Rayonier New Zealand Limited dated 26 July 1999.

25. WAITARERE FOREST

<u>Number</u>	<u>Document</u>
25.1	Certificate(s) of Title
25.1.1	CT WN1300/21 – Wellington Registry.
25.2	Other material documents
25.2.1	Decision on Application No. 102275 for a land use consent (logging) dated 14 June 2002.
25.2.2	Erratum on Land Use Consent No. 102275 in relation to Waitarere Forest – Horowhenua dated 18 June 2004.
25.2.3	Special Management Restrictions and Schedule of Existing Rights in relation to Crown Forestry Licence.

26. WEST DOME FOREST

<u>Number</u>	<u>Document</u>
26.1	Certificate(s) of Title
26.1.1	CT SL12A/974 – Southland Registry.
26.2	Other material documents
26.2.1	Conservation Covenant between Rayonier New Zealand Limited and the Minister of Conservation dated 15 November 2004 (COV 6229255.1).

27. MISCELLANEOUS DOCUMENTS

<u>Number</u>	<u>Document</u>
27.1	Certificate(s) of Title
27.1.1	-

- 27.2 **Other material documents**
- 27.2.1 Agreement relating to review of basis for fixing certain Crown Forestry Licence Fees between the Crown and Rayonier New Zealand Limited dated 20 March 2001.
- 27.2.2 Cutting Rights Agreement between the Department of Conservation: Southland Conservancy and Rayonier New Zealand dated 29 September 2004.
- 27.2.3 Rayonier New Zealand Limited Land Schedule.
- 27.2.4 Letter from Peter Spencer to Crown Forestry Management Limited in relation to Proseed New Zealand dated 1 October 2001; letter from Crown Forestry Management Limited to Rayonier New Zealand Limited in relation to Proseed New Zealand dated 22 August 2001; and Agreement between Rayonier New Zealand Limited and Crown Forestry Management Limited dated 8 December 1997.
- 27.2.5 Memorandum of Encumbrance between Rayonier New Zealand Limited and Te Runanga o Ngai Tahu in relation to the land contained in Certificates of Title 12A/847, 12A/995, 12A/764, 12A/974, 12A/729, 12B/512, 12B/513, 183737, 183738, 183739, 12B/113, 5344, 5345 and 12B/163 (Southland Registry) dated 31 March 2005
- 27.2.6 Letter from Crown Property Management to Rayonier New Zealand Limited in relation to Rayonier New Zealand Limited Crown Forestry Licences – 2004 Periodic Review dated 31 May 2004.
- 27.2.7 Corporate Structure – Power Point of New Zealand Legal Entity Structure
- 27.2.8 Memorandum of Encumbrance between Rayonier New Zealand Limited and Te Runanga o Ngai Tahu in relation to the land contained in Certificates of Title 18C/1080, 43458, 43459, 43459, 43461 and 43462 (Otago Registry) dated 31 March 2005.
- 27.2.9 Letter from Nina Sidhu at Buddle Findlay to Edwin Jansen at Ngai Tahu Property Limited dated 21 April 2005 in relation to Rayonier Encumbrances and **attached**: Post registration search copies of the following titles showing registration of the Southland Encumbrance: 12A/847; 12A/995; 12A/764; 12A/974; 12A/729; 12B/512; 12B/513, 183737, 183738, 183739, 12B/113, 5344, 5345, 12B/163; Post registration search copies of the following titles showing registration of the Otago Encumbrance: 18C/1080, 43458, 43459, 43461 and 43462.

SCHEDULE 8 - ADJUSTMENT STATEMENT AND ADJUSTMENT AMOUNT

1. PREPARATION OF ADJUSTMENT STATEMENT

1.1 Vendor to prepare: No later than ten Business Days after Completion, the Vendor must prepare and forward to the Consultant

- (a) a draft Adjustment Statement showing the Vendor's calculation of:
 - (i) the Actual Harvest Volume;
 - (ii) the Planned Harvest Volume;
 - (iii) the Adjustment Amount; and
 - (iv) the proposed allocation of the Adjustment Amount to the Purchase Price payable for the particular Asset in each case calculated as at the Calculation Time; and
- (b) information to support the preparation of the draft Adjustment Statement calculation of the items in clause 1.1(a) of this Schedule 8 above, including copies of all data on which they are based.

1.2 Review:

- (a) The Vendor must cause the Consultant to within 20 Business Days of the provision of the draft Adjustment Statement under clause 1.1 of this Schedule 5:
 - (i) review the draft Adjustment Statement and calculation of the Adjustment Amount; and
 - (ii) provide the Vendor and the Purchaser with an opinion as to whether the information upon which the draft Adjustment Statement and Adjustment Amount is based has been correctly extracted from the relevant forest records and is correct as at the Calculation Time and, if not, its opinion as to the required corrections and its calculation of the Adjustment Amount, together with copies of working papers relating to the review and the preparation of the opinion.
- (b) The costs of the Consultant will be borne equally by the Vendor and the Purchaser.

1.3 Provision of information and retention of records: The Purchaser and the Vendor must:

- (a) provide or ensure the provision of all information and assistance (including access to all relevant books and records) which may be reasonably required by the Consultant in connection with its review under clause 1.2 of this Schedule 8; and
- (b) cooperate fully with each other and the Consultant in relation to the review and the preparation of its opinion.

1.4 Provision of Adjustment Statement and Consultant's opinion: Within five Business Days of receiving the Consultant's opinion referred to in clause 1.2(a) of this Schedule 8, the Vendor will deliver to the Purchaser:

- (a) a copy of the draft Adjustment Statement together with information to support its preparation, including copies of all data on which they are based;

- (b) a copy of the Consultant's opinion together with copies of working papers relating to the review and the preparation of the opinion received from the Consultant.

2. **REVIEW OF ADJUSTMENT STATEMENT AND ADJUSTMENT AMOUNT**

2.1 **No objection by Purchaser:** Unless the Purchaser, within 10 Business Days after receipt of the draft Adjustment Statement and the Consultant's opinion under clause 1.4 of this Schedule 5, gives the Vendor notice of any clarifications or modifications that the Purchaser believes are required to the draft Adjustment Statement or the Adjustment Amount and the reasons why the Purchaser believes these clarifications and modifications are required, the draft Adjustment Statement and any Adjustment Amount will be taken to be the agreed Adjustment Statement and Adjustment Amount for the purposes of the Agreement.

2.2 **Agreed clarifications or modifications:** If:

- (a) the Purchaser, within 10 Business Days after receipt of the draft Adjustment Statement and the Consultant's opinion under clause 1.4 of this Schedule 8, gives the Vendor notice under clause 2.1 of this Schedule 8; and
- (b) within 10 Business Days after the Purchaser gives the Vendor notice under clause 2.1 of this Schedule 8, the Purchaser and the Vendor agree in writing the clarifications or modifications that are required,
then:
 - (c) the Vendor must, within 5 Business Days after reaching that agreement, prepare and provide to the Purchaser a revised Adjustment Statement and Adjustment Amount, in each case strictly reflecting the agreed clarifications or modifications; and
 - (d) the revised Adjustment Statement and Adjustment Amounts set out in the revised statement will be taken to be the agreed Adjustment Statement and Adjustment Amounts for the purposes of this Agreement.

2.3 **Requested clarifications or modifications not agreed:** If:

- (a) the Purchaser, within 10 Business Days after receipt of the draft Adjustment Statement and the Consultant's opinion under clause 1.4(a) of this Schedule 8, gives the Vendor notice under clause 2.1 of this Schedule 8;
- (b) within 10 Business Days after the Purchaser gives the Vendor notice under clause 2.1 of this Schedule 8 the Purchaser and the Vendor do not reach agreement on the relevant clarifications or modifications, then at any time within a further 10 Business Days after expiry of the initial 10 Business Days the Purchaser or the Vendor may refer the dispute for Expert Determination; and
- (c) on the determination of the dispute (or on the expiry of the second 10 Business Day period referred to in clause 2.3(b) of this Schedule 5 if no party refers the dispute for Expert Determination the draft Adjustment Statement and Adjustment Amount (amended if necessary to take into account any applicable determination) will be taken to be the agreed Adjustment Statement and Adjustment Amount for the purposes of this Agreement.

SCHEDULE 9 - HARVESTING PLAN

Planned Harvest Volume – RNZ Assets: Principal Completion Date (1 January 2005 – 30 September 2005)

<u>Region</u>	<u>Harvest Volume (cubic metre)</u>	<u>Forest</u>	<u>Sale Areas</u>			
Southland	275,198	Blackmount	04T	610-03		
			600-03	611-01		
			011-01	099-99		
		Catlins	012-01	099-99D		
			012-01D			
			004-03			
		Hokonui	018-01WT			
			032-01			
			032-13C			
		Longwood	222-05D			
			222-06D			
			301-02	308-02	309-02	
		McCrosties	307-02	308-03WT	310-01	
			307-02WT	309-01	311-01	
			308-01	309-01WT	312-01	
			313-02			
			252-01R	511-03D		
		Rowallen	252-03	548-02		
			511-01D	549-01		
			511-02D	549-02		
05T	018-01		112-03			
Slopedown	015-01	109-03A	113-01			
	015-02	110-01	113-04			
	016-02	112-01	114-03			
	016-03	112-02				
	16503	40001+02	60603			
	16602-05	60404	15301			
Northland	41,952	Glenbervie	16502	201R1	15601	
			16504	02501	401R1	
			16601	61504		

<u>Region</u>	<u>Harvest Volume (cubic metre)</u>	<u>Forest</u>	<u>Sale Areas</u>		
			04303	04402	4105R
		Lismore	04306	000601	1501R
			04305	000301	
			01201	001	07203
Southern North Island	49,287	Waitarere	01601	07301	03201P
			5001	03401	03701
			0204R		
		Manakau	2017		
		Kohitere	00504		
			00502		
			004	2024	2135
Marlborough	48,797	Queen Charlotte	2012	2026	20510
			2023		
TOTAL	415,234				

Rayonier Inc. and Subsidiaries
Ration of Earnings to Fixed Charges
(Unaudited, thousands of dollars)

	Six Months Ended June 30,	
	2005	2004
Earnings:		
Income from Continuing Operations	\$76,415	\$ 120,980
Add:		
Income tax expense/(benefit)	(3,815)	(28,665)
Amortization of capitalized interest	1,194	1,226
	<u>73,794</u>	<u>93,541</u>
Adjustments to earnings for fixed charges:		
Interest and other financial charges	25,140	23,013
Interest factor attributable to rentals	238	144
	<u>25,378</u>	<u>23,157</u>
Earnings as adjusted	<u>\$99,172</u>	<u>\$ 116,698</u>
Fixed Charges:		
Fixed charges above	\$25,378	\$ 23,157
Capitalized interest	—	—
	<u>\$25,378</u>	<u>\$ 23,157</u>
Ratio of earnings as adjusted to total fixed charges	<u>3.91</u>	<u>5.04</u>

CERTIFICATIONS

I, W. L. Nutter, 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 Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-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 changes 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 controls 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: July 26, 2005

/s/ W. L. NUTTER

W. L. Nutter

Chairman, President and Chief Executive Officer, Rayonier Inc.

I, Gerald J. Pollack, 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 Rules 13a-15(e) and 15d-15(e)) for the registrant and we 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 evaluations; 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: July 26, 2005

/s/ GERALD J. POLLACK

Gerald J. Pollack

Senior Vice President and Chief Financial Officer, Rayonier Inc.

CERTIFICATION OF PERIODIC FINANCIAL REPORTS UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certify that this Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained herein fairly presents, in all material respects, the financial condition and results of operations of Rayonier Inc.

/s/ W. L. NUTTER

W. L. Nutter
Chairman, President and
Chief Executive Officer

/s/ GERALD J. POLLACK

Gerald J. Pollack
Senior Vice President and
Chief Financial Officer

July 26, 2005

A signed original of this written statement required by Section 906 has been provided to Rayonier and will be retained by Rayonier and furnished to the Securities and Exchange Commission or its staff upon request