



**BUREAU  
VERITAS**

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

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Company Name	RAYONIER FOREST RESOURCES, L.P. UNITED STATES FOREST RESOURCES
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PQC Code	E01E-Forestry, logging related

Contract Number:	US.1936492	Certification Audit:		Re-Certification Audit:		Surveillance: (Indicate visit # or Pre-Assessment)	Sp
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**Audit Summary**

**Introduction**

A Special Surveillance audit was performed at Rayonier Forest Resources (Rayonier) on December 10 and 11, 2014. The audit was required under the Sustainable Forestry Initiative (SFI) based upon concerns that arose from the Company's November 10, 2014 "Investor Relations Press Release", which outlined, among other things, issues related to historical timber harvest levels, the estimate of merchantable timber, and the effect on the calculation of depletion rates. The undersigned, Brian Callaghan, RPF EP (EMSLA) performed the audit.

**Audit Scope, Objectives and Process**

The special surveillance audit was conducted to examine Rayonier's conformance with SFI Objective 1. Specifically, the audit analyzed forest inventory, growth-and-yield, long-term harvest scheduling, and actual harvest volumes for the past 10 years focused on the Pacific Northwest resource unit. Standard Bureau Veritas Certification protocols and forms as provided in the Bureau Veritas Certification SFI Auditor Handbook (version 17, 15 July 2014) were utilized. The audit included reviews of the Rayonier forest inventory system, forest planning systems, wood supply analysis, harvest records and silviculture records. The process for setting harvest rates was also reviewed.

**Audit Plan**

The following timeline was developed and implemented for this event.

**Date: December 10, 2014**

Time	Activity	BVC Repr.	Company Repr.
08:30 AM	Opening Meeting - Background, Audit Scope, Potential Findings, SFI Standards, Update on company activities	Callaghan	Cazell

09:00	AM	Background – How we got here.	Callaghan	Czell
10:00	AM	PNW Landbase, Forest Cover, land use		
12:00	PM	Lunch		
01:00	PM	Forest Inventory Methods and Data	Callaghan	Czell
02:00	PM	Growth & Yield, Forest Development	Callaghan	Czell
04:30	PM	Planning Procedures and Allowable Cuts		Czell
05:00	PM	Depart site		Czell

**Date: December 11, 2014**

<b>Time</b>		<b>Activity</b>	<b>BVC Repr.</b>	<b>Company Repr.</b>
08:00	AM	Forest Modeling, assumptions, parameters and objective functions	Callaghan	Czell
09:00	AM	Allowable Harvest Decision Making	Callaghan	Czell
10:00	AM	Finalize Initial Audit Findings	Callaghan	Czell
11:30	AM	Closing Meeting	Callaghan	Czell

**Company Information**

Rayonier is a forest management company, with 2.6 million acres of timberlands throughout the United States and New Zealand. Its US holdings are located in the Pacific Northwest and throughout the Southeast. Rayonier has been certified to the SFI standard since 2001. Until 2010, the Pacific Resource Unit (378,826 acres) had its own SFI land management certificate. In 2011, the company undertook an “integration initiative” to consolidate planning systems, information systems, decision-making and procedures across the company. At that time their SFI certificates were also consolidated. In 2014 the company divested itself of its specialty cellulose mills to become solely a timberland management company.

**Multi-Site Requirements**

Rayonier maintains a multi-site certification consisting of six regions, termed “resource units” as shown below. The management system’s headquarters are located in Fernandina Beach, Florida. The company qualifies for a multi-site certification since the management system is controlled and directed by the central office. There is one set of procedures that applies to the entire system, and the SFI manager is the sole person responsible for maintaining the procedures. Resource units are allowed to develop site-specific procedures and forms, but they are reviewed and approved by the corporate SFI manager. The company has an internal auditing and monitoring program that has historically been quite robust.

<b>Sites</b>	<b>Sites Audited During this Event</b>
Fernandina Beach, FL	X
Florida RU	
Coastal RU	
Greater Georgia RU	
Alabama RU	
Southwest RU	
Pacific RU	

## Audit Results

On November 10, 2014 Rayonier released an “Investor Relations Press Release” that created concerns for Bureau Veritas Certification North America, Inc. (Bureau Veritas). Some of the statements in the report appeared to be incongruous to forest sustainability. The press release announced six things:

- The results of internal review of the Company’s operations
- The realigned strategy and lowered future expected harvest volumes to support sustainable timber harvesting
- Revised guidance for 2014 and provided an outlook for 2015
- Reduced regular quarterly dividends
- Restated financial results for the first and second quarters of 2014 to correct understatements in depletion expense and corresponding overstatements in operating income from continuing operations
- Amended Form 10-K to correct merchantable timber inventory and reflect material weakness

The Press Release was the product of an internal management review initiated by the new Chief Executive Officer and conducted with the assistance of independent external advisors; and it made several findings related to Rayonier’s forest resources, for example,

*“As a result of the internal review, Rayonier concluded that it included in merchantable timber inventory for 2014, timber in specially designated parcels located in restricted, environmentally sensitive or economically inaccessible areas, which was incorrect, inconsistent with its definition of merchantable timber inventory, and a significant change from prior years,”*

This statement relates to an accounting practice used by Rayonier that included the gross forest area (all forest lands) in the merchantable timber inventory, rather than the net merchantable forest area, which had been utilized prior to 2013. This accounting practice change was made in 2013, but only impacted the financial results reported for the first two quarters of 2014. The change also resulted in a 10% overstatement of merchantable inventories over the whole estate and a 19% overstatement in the Pacific Resource Unit (PRU) as to the volumes reported in the Company’s 2013 Form 10-K filed with the Securities and Exchange Commission (“SEC”) in February of 2014. This practice was corrected as a result of the internal review.

Another issue raised in the Press Release was related to harvest levels:

*“For roughly a decade, the average rate at which Rayonier harvested timber in the U.S. Pacific Northwest exceeded the rate those timberlands could support on a long-term basis. Going forward, Rayonier intends to manage its timberlands on a “sustainable yield” basis; that is, Rayonier expects to harvest, on average, levels of timber that can be sustained into perpetuity based on its estimates of biological growth and the expected productivity resulting from its reforestation and silvicultural efforts..”*

Rayonier has shown through its ongoing regional timber supply that the timber supply in the PRU would decline over the coming decade, this has been clearly identified in analysis dating back to at least 2008. This decline was due in part to the age class distribution of its forest lands, which are not balanced and are weighted to currently merchantable timber (aged 34+) with some younger age classes being scarce. The company was establishing harvest objectives in the course of its long range financial planning process which allowed for wide flow constraints (i.e. allowing 30% change in annual harvest levels) allowing forecasts to vary from term to term. Additionally, a 2010 land sale removed a significant amount of younger forest from the PRU land base, further constraining future

wood supplies. An acquisition strategy has been in place since 2003 to help ameliorate the forecast wood supply decline through the purchase of additional lands.

Rayonier has adopted a new timber supply strategy which specifies that there be a long term non-declining flow of timber volumes, although it may adjust harvest levels periodically to capitalize on then-current economic conditions in its markets to provide for both financial and forest sustainability. If harvest levels are adjusted to capitalize on such spot markets, this will be a transparent process that is accounted for in future harvest schedules. The newly adopted non-declining flow strategy necessitates an immediate decline in harvest levels, and cash flow, to establish a more consistent and even flow of timber over the long term.

During the audit it was apparent that Rayonier has a robust forest planning system that includes long-term resource analyses, which are done on a three year cycle in the PRU and annually in the south. This is supported by a detailed forest stand inventory system. The company has internal proprietary growth and yield models that are used in its analyses. In the PRU during the past decade growth and yield models were created and maintained by a contractor. These curves were within the regional norms, but were higher than those used in the most recent Rayonier analysis. The forest and land inventory is maintained within a geographic information system.

Rayonier produced to the undersigned planned versus actual harvest levels from 2007 to 2014. The company has a record retention policy, which requires information and records to be destroyed after 5 or 7 years, depending on record types. This has resulted in the loss of some historic forest estate and forest activity information. In fact, to develop the information used in the November 10 press release, SEC Form 10-K filings had to be used to recreate forest growing stock and land base data for the previous 10 years. A non-conformance was issued with regards to this subject.

Over the past seven years the total harvest was very close to the planned harvest levels, although some years were marginally higher or lower than the targets for a variety of reasons (e.g. fire conditions, market changes, access restrictions). During the audit Rayonier provided information on its PRU forest harvest and renewal from 2007 to 2014. The results show the harvest and renewal activities are in general balance, with the majority of harvest sites being regenerated within 2 years. There is no backlog of harvested areas awaiting renewal. In fact, Rayonier takes great pride in the fact that they have planted more than a billion seedlings in past 60 years.

Throughout the audit Rayonier's staff was open and forthright providing the auditor insights into the planning processes used by the company. However, on some subjects such as past decision making and planning specific to the PRU there was no one available to provide historic information. This coupled with the short document retention time on planning information, made it difficult to assess historical information more than ten years old.

### **Findings**

Rayonier continues to operate a sound planning system supported by a full suite of information systems, proprietary growth and yield models, an up to date inventory and sophisticated forest estate and timber supply models. In light of declining harvest rates in the PRU and in order to provide shareholders with more consistent and predictable dividends the company has adopted a long term non-decline flow timber supply policy as described earlier, which will provide more consistent harvest levels.

A review of all aspects of Objective 1 found the company to be in conformance with the requirements of the current and past SFI land management standards. Performance measures were found to be in place, except where noted.

**Previous non-conformances: N/A**

**Non-conformances:**

PM 1.1, Ind. 2 : The Company's record retention policy calls for destruction of forestry data between 5 and 7 years; therefore, long term information on the forest estate and its management is not readily available beyond 7 years.

**Opportunities for Improvement: N/A**

**Notable Practices: N/A**

**Logo/label use: N/A**

**Customer Feedback System: N/A**

**SFI reporting: N/A**

### **Conclusions**

A closing meeting was held on December 11, 2014 at Rayonier's offices in Fernandina, Beach Florida. The undersigned reviewed the audit process and audit results with company staff. One minor non-conformance was issued and the process for clearing and closing the non-conformance was discussed. In conclusion the undersigned stated that he was proposing continued certification to the SFI 2010-2014 standard.

**SEE SF61 FOR AUDIT NOTES**

<b>Summary of Audit Findings:</b>									
Audit Date(s):		From: December 10 2014				To: December 11, 2014			
Number of SF02's Raised:				Major:		Minor:		1	
Is a follow up visit required:		Yes		No	X	Date(s) of follow up visit:			
Follow-up visit remarks:									
<b>Team Leader Recommendation:</b>									
Corrective Action Plan(s) Accepted		Yes		No		N/A		Date:	
Proceed to/Continue Certification		Yes		No		N/A		Date:	
All NCR's Closed		Yes		No		N/A		Date:	
Standard audit conducted against:									
1)	SFIS 2010-2014			3)					
2)				4)					
Team Leader (1):			Team Members (2,3,4...)						
Brian Callaghan			2)						
			3)						
			4)						
			5)						
Scope of Supply: (scope statement must be verified and appear in the space below)									
Timber and non-timber forest management activities on approximately 2.2 million acres on Rayonier Forest Resources lands in the United States									
Accreditation's		ANAB							
Number of Certificates		1							
Proposed Date for Next Audit Event									
Date									
Audit Report Distribution									

Clause	Audit Report
<p>Opening Meeting</p> <p>Dec 10 08:30</p>	<p>Participants: Ben Cazell, Mike Oppenheimer - Forest Resources Manager (GY, Inv), William Boswell - GIS manager, Janet Price – Envir Affairs, Mark Bridwell – General Counsel, Scott Katzer – Forest Analyst, Jim Gent – Dir Forest Research &amp; Silviculture Support &amp; LIS group, Doug Long – VP US Operations., John Bryant - Manager Planning &amp; Inventory &amp;, Interim LIS Mgr</p> <p>Discussions:</p> <ul style="list-style-type: none"> <li>➤ Introductions</li> <li>➤ Scope of the audit</li> <li>➤ Audit schedule/plan</li> <li>➤ Nonconformance types – Major / Minor</li> <li>➤ Review of previous nonconformances - 0.</li> <li>➤ Process approach to auditing and audit sampling</li> <li>➤ Confidentiality agreement</li> <li>➤ Termination of the audit</li> <li>➤ Appeals process</li> <li>➤ Closing meeting timing</li> </ul>
<p>Closing Meeting</p> <p>Dec 11 10:30</p>	<p>Participants: Ben Cazell, Mike Oppenheimer - Forest Resources Manager (GY, Inv), William Boswell - GIS manager, Janet Price – Envir Affairs, Mark Bridwell – General Counsel, Scott Katzer – Forest Analyst, Jim Gent – Dir Forest Research &amp; Silviculture Support &amp; LIS group, Doug Long – VP US Operations., John Bryant - Manager Planning &amp; Inventory &amp;, Interim LIS Mgr</p> <p>Discussions:</p> <ul style="list-style-type: none"> <li>➤ Introductions and appreciation for selecting Bureau Veritas Certification.</li> <li>➤ Review of audit process - process approach and sampling.</li> <li>➤ Review of OFIs and System Strengths</li> <li>➤ Nonconformances - 1</li> <li>➤ Reporting protocol and timing</li> </ul>



## SF02/NA NONCONFORMITY REPORT

<b>Company Name and Site:</b>		<b>SF02#:</b>	
Rayonier		1 (SS14)	
Contract #:	Type of audit (e.g., initial, surveillance):	Team Leader:	
US.1936492	Special Surveillance	Brian Callaghan	
Date:	Standard and Clause #:	Team Member:	
Dec 11, 2014	SFIS 2010-2014, 1.1		
Major	Minor	Other Documents (if applicable):	Company Representative:
	X		Ben Cazell
<b>REQUIREMENT OF AUDITED STANDARD:</b>			
PM 1.1 2. Documentation of annual harvest trends in relation to the sustainable forest management plan in a manner appropriate to document past and future activities			
<b>OBSERVED NONCONFORMITY:</b>			
The Company's record retention policy requires that most forestry information be destroyed after 5 or 7 years, as such long term information on the forest estate and its management is not available.			
<b>ROOT CAUSE ANALYSIS AND CORRECTIVE ACTION PLAN</b> (To be completed by the Company. Plan to be submitted in 30 days)			
Corrective Action Plan Date:	Dec 29/2014	Company Representative:	Ben Cazell
<b>Root Cause Analysis and Corrective Action</b>			
Root Cause: See Rayonier submission which is attached			
Corrective Action Plan: See Rayonier submission which is attached			
<b>ROOT CAUSE AND CORRECTIVE ACTION PLAN ACCEPTANCE REPORT</b> (To be completed by Bureau Veritas Certification – Verify effective identification of Root Cause and acceptance of Corrective Action Plan)			
Root Cause: accepted			
Corrective Action Plan: accepted			
Plan Accepted:	Yes	X	No
Comments:			
Auditor:	Brian Callaghan	Date:	January 2, 2014
<b>CORRECTIVE ACTION IMPLEMENTATION</b>			
To be completed by Company – Provide objective evidence. Not to exceed: 90 Days <input checked="" type="checkbox"/> 1 Year <input type="checkbox"/>			
Corrective Action Completion Date:		Company Representative:	
Corrective Action Implementation: Method used to verify effectiveness of action taken:			
<b>CORRECTIVE ACTION IMPLEMENTATION ACCEPTANCE REPORT</b> (To be completed by Bureau Veritas Certification – Acceptance of Corrective Action taken)			
Accepted:	Yes	No	Nonconformance Closed: Yes No
Follow Up Comments:			
Auditor:		Date:	