

RAYONIER INC
Form 10-Q
July 26, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from _____ to _____

Commission File Number 1-6780

RAYONIER INC.

Incorporated in the State of North Carolina

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

1301 RIVERPLACE BOULEVARD

JACKSONVILLE, FL 32207

(Principal Executive Office)

Telephone Number: (904) 357-9100

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

YES NO

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

YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

YES NO

As of July 18, 2013, there were outstanding 126,119,760 Common Shares of the registrant.



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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

RAYONIER INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands, except per share amounts)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| SALES | \$409,077 | \$348,096 | \$802,796 | \$684,667 |
| Costs and Expenses | | | | |
| Cost of sales | 297,698 | 243,571 | 563,716 | 479,279 |
| Selling and general expenses | 16,929 | 15,892 | 33,028 | 35,157 |
| Other operating expense (income), net | 291 | (5,295) | (3,212) | (6,433) |
| | 314,918 | 254,168 | 593,532 | 508,003 |
| Equity in income of New Zealand joint venture | 304 | 170 | 562 | 184 |
| OPERATING INCOME BEFORE GAIN ON CONSOLIDATION OF NEW ZEALAND JOINT VENTURE | 94,463 | 94,098 | 209,826 | 176,848 |
| Gain related to consolidation of New Zealand joint venture (Note 6) | 16,098 | — | 16,098 | — |
| OPERATING INCOME | 110,561 | 94,098 | 225,924 | 176,848 |
| Interest expense | (10,019) | (16,056) | (17,736) | (27,880) |
| Interest and miscellaneous income, net | 2,598 | 84 | 2,656 | 60 |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 103,140 | 78,126 | 210,844 | 149,028 |
| Income tax expense | (15,249) | (12,035) | (19,695) | (30,338) |
| INCOME FROM CONTINUING OPERATIONS DISCONTINUED OPERATIONS, NET (Note 2) | 87,891 | 66,091 | 191,149 | 118,690 |
| Income from discontinued operations, net of income tax expense of \$0, \$1,505, \$22,273 and \$1,927 | — | 2,988 | 44,477 | 3,825 |
| NET INCOME | 87,891 | 69,079 | 235,626 | 122,515 |
| Net income attributable to noncontrolling interest | 727 | — | 727 | — |
| NET INCOME ATTRIBUTABLE TO RAYONIER INC. | 87,164 | 69,079 | 234,899 | 122,515 |
| OTHER COMPREHENSIVE (LOSS) INCOME | | | | |
| Foreign currency translation adjustment | (28,201) | (8,081) | (27,226) | (2,255) |
| New Zealand joint venture cash flow hedges | 222 | (1,998) | 775 | (793) |
| Amortization of pension and postretirement plans, net of income tax expense of \$1,620, \$1,482, \$3,824 and \$2,850 | 3,717 | 3,401 | 8,687 | 6,541 |
| Total other comprehensive (loss) income | (24,262) | (6,678) | (17,764) | 3,493 |
| COMPREHENSIVE INCOME | 63,629 | 62,401 | 217,862 | 126,008 |
| Comprehensive loss attributable to noncontrolling interest | (9,505) | — | (9,505) | — |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC. | \$73,134 | \$62,401 | \$227,367 | \$126,008 |
| EARNINGS PER COMMON SHARE (Note 3) | | | | |
| BASIC EARNINGS PER SHARE ATTRIBUTABLE TO RAYONIER INC. | | | | |

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| | | | | |
|---|--------|--------|--------|--------|
| Continuing Operations | \$0.69 | \$0.54 | \$1.52 | \$0.97 |
| Discontinued Operations | — | 0.02 | 0.36 | 0.03 |
| Net Income | \$0.69 | \$0.56 | \$1.88 | \$1.00 |
| DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO RAYONIER INC. | | | | |
| Continuing Operations | \$0.67 | \$0.52 | \$1.46 | \$0.93 |
| Discontinued Operations | — | 0.02 | 0.34 | 0.03 |
| Net Income | \$0.67 | \$0.54 | \$1.80 | \$0.96 |

See Notes to Consolidated Financial Statements.

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

| | June 30, 2013 | December 31, 2012 |
|--|--------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$343,581 | \$280,596 |
| Accounts receivable, less allowance for doubtful accounts of \$685 and \$417 | 116,538 | 100,359 |
| Inventory | | |
| Finished goods | 79,121 | 103,568 |
| Work in progress | 3,047 | 4,446 |
| Raw materials | 14,620 | 17,602 |
| Manufacturing and maintenance supplies | 2,303 | 2,350 |
| Total inventory | 99,091 | 127,966 |
| Deferred tax assets | 55,563 | 15,845 |
| Prepaid and other current assets | 67,444 | 41,508 |
| Total current assets | 682,217 | 566,274 |
| TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION | 2,080,611 | 1,573,309 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Land | 22,996 | 27,383 |
| Buildings | 166,578 | 147,445 |
| Machinery and equipment | 1,644,945 | 1,444,012 |
| Construction in progress | 123,621 | 268,459 |
| Total property, plant and equipment, gross | 1,958,140 | 1,887,299 |
| Less — accumulated depreciation | (1,105,708) | (1,180,261) |
| Total property, plant and equipment, net | 852,432 | 707,038 |
| INVESTMENT IN JOINT VENTURE (Note 6) | — | 72,419 |
| OTHER ASSETS | 212,791 | 203,911 |
| TOTAL ASSETS | \$3,828,051 | \$3,122,951 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$133,255 | \$70,381 |
| Current maturities of long-term debt | 75,463 | 150,000 |
| Accrued taxes | 20,158 | 13,824 |
| Accrued payroll and benefits | 20,489 | 28,068 |
| Accrued interest | 9,835 | 7,956 |
| Accrued customer incentives | 10,743 | 10,849 |
| Other current liabilities | 51,842 | 18,640 |
| Current liabilities for dispositions and discontinued operations (Note 13) | 8,686 | 8,105 |
| Total current liabilities | 330,471 | 307,823 |
| LONG-TERM DEBT | 1,591,834 | 1,120,052 |
| NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS (Note 13) | 69,442 | 73,590 |
| PENSION AND OTHER POSTRETIREMENT BENEFITS (Note 15) | 158,594 | 159,582 |
| OTHER NON-CURRENT LIABILITIES | 27,590 | 23,900 |
| COMMITMENTS AND CONTINGENCIES (Notes 11, 12 and 14) | | |

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SHAREHOLDERS' EQUITY

| | | | | |
|---|-------------|---|-------------|---|
| Common Shares, 480,000,000 shares authorized, 126,119,760 and 123,332,444 shares issued and outstanding | 679,803 | | 670,749 | |
| Retained earnings | 1,000,647 | | 876,634 | |
| Accumulated other comprehensive loss | (116,911 |) | (109,379 |) |
| TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY | 1,563,539 | | 1,438,004 | |
| Noncontrolling interest | 86,581 | | — | |
| TOTAL SHAREHOLDERS' EQUITY | 1,650,120 | | 1,438,004 | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$3,828,051 | | \$3,122,951 | |

See Notes to Consolidated Financial Statements.

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

| | Six Months Ended June 30, | |
|---|---------------------------|--------------------|
| | 2013 | 2012 |
| OPERATING ACTIVITIES | | |
| Net income | \$235,626 | \$122,515 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation, depletion and amortization | 79,659 | 64,592 |
| Non-cash cost of real estate sold | 2,593 | 2,401 |
| Stock-based incentive compensation expense | 6,226 | 9,460 |
| Amortization of debt discount/premium | 837 | 3,863 |
| Deferred income taxes | 38,107 | (15,044) |
| Tax benefit of AFMC for CBPC exchange | (18,761) |) |
| Amortization of losses from pension and postretirement plans | 11,617 | 9,391 |
| Gain on sale of discontinued operations, net | (42,670) |) |
| Gain related to consolidation of New Zealand joint venture | (16,098) |) |
| Other | (8,936) |) (586) |
| Changes in operating assets and liabilities: | | |
| Receivables | (11,782) |) (13,773) |
| Inventories | 27,325 | 7,096 |
| Accounts payable | 19,535 | (9,518) |
| Income tax receivable/payable | (5,626) |) 31,758 |
| All other operating activities | (7,654) |) 1,524 |
| Payment to exchange AFMC for CBPC | (70,311) |) |
| Expenditures for dispositions and discontinued operations | (4,015) |) (4,803) |
| CASH PROVIDED BY OPERATING ACTIVITIES | 235,672 | 208,876 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (94,126) |) (76,246) |
| Purchase of additional interest in New Zealand joint venture | (139,879) |) |
| Purchase of timberlands | (10,447) |) (8,687) |
| Jesup mill cellulose specialties expansion (gross purchases of \$114,449 and \$72,662, net of purchases on account of \$14,264 and \$8,664) | (100,185) |) (63,998) |
| Proceeds from disposition of Wood Products business, net of income tax payments of \$11,137 | 72,953 | — |
| Change in restricted cash | 7,603 | (14,427) |
| Other | 20,076 | (704) |
| CASH USED FOR INVESTING ACTIVITIES | (244,005) |) (164,062) |
| FINANCING ACTIVITIES | | |
| Issuance of debt | 455,000 | 355,000 |
| Repayment of debt | (273,087) |) (188,110) |
| Dividends paid | (113,222) |) (98,201) |
| Proceeds from the issuance of common shares | 6,643 | 3,980 |
| Excess tax benefits on stock-based compensation | 7,399 | 4,234 |
| Debt issuance costs | — | (3,653) |
| Repurchase of common shares | (11,241) |) (7,783) |
| CASH PROVIDED BY FINANCING ACTIVITIES | 71,492 | 65,467 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | (174) |) 219 |

CASH AND CASH EQUIVALENTS

| | | |
|-------------------------------------|-----------|-----------|
| Change in cash and cash equivalents | 62,985 | 110,500 |
| Balance, beginning of year | 280,596 | 78,603 |
| Balance, end of period | \$343,581 | \$189,103 |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period:

| | | |
|--------------|----------|----------|
| Interest | \$16,754 | \$10,936 |
| Income taxes | \$84,508 | \$10,989 |

Non-cash investing activity:

| | | |
|-------------------------------------|----------|----------|
| Capital assets purchased on account | \$59,729 | \$30,175 |
|-------------------------------------|----------|----------|

Non-cash financing activity:

| | | |
|--|------------|-------|
| Shareholder debt assumed in acquisition of New Zealand joint venture | \$125,532 | \$— |
| Conversion of shareholder debt to equity noncontrolling interest | \$(95,961) |) \$— |

See Notes to Consolidated Financial Statements.

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

1. BASIS OF PRESENTATION

Basis of Presentation

The unaudited consolidated financial statements and notes thereto of Rayonier Inc. and its subsidiaries (“Rayonier” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, these financial statements and notes reflect all adjustments (all of which are normal recurring adjustments) necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented. These statements and notes should be read in conjunction with the financial statements and supplementary data included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC.

Reclassifications

Certain 2012 amounts have been reclassified to agree with the current year presentation. See Note 2 — Sale of Wood Products Business for information regarding reclassifications for discontinued operations.

New Accounting Standards

In December 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-11, Disclosures about Offsetting Assets and Liabilities. The standard requires enhanced disclosures about assets and liabilities that are subject to a master netting agreement or when the right of offset exists. In January 2013, the FASB issued ASU No. 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. This pronouncement limits the scope of ASU No. 2011-1. The standards’ disclosure requirements are retrospective and were effective beginning in first quarter 2013. See Note 9 — Derivative Financial Instruments and Hedging Activities for the disclosures required under this guidance.

In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This standard requires reporting, in one place, information about reclassifications out of AOCI by component. An entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount is reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified to net income in their entirety, an entity is required to cross-reference to other currently required disclosures that provide additional detail about those amounts. The information required by this standard must be presented in one place, either parenthetically on the face of the financial statements by income statement line item or in a note. See Note 17 — Accumulated Other Comprehensive Loss for the disclosures required under this guidance.

In March 2013, the FASB issued ASU No. 2013-05, Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. This standard requires a parent entity to release a related foreign entity’s cumulative translation adjustment into net income only if its sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The cumulative translation adjustment should be released into net income if the transaction results in the loss of a controlling financial interest in a foreign entity or results in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date. ASU No. 2013-05 will be effective for first quarter 2014. The Company does not expect that the adoption of this standard will have a material impact on the consolidated financial statements.

Subsequent Events

The Company evaluated events and transactions that occurred after the balance sheet date but before financial statements were issued, and two subsequent events were identified that warranted disclosure. On July 19, 2013, the Board of Directors approved an increase in the quarterly dividend per share from \$0.44 per share to \$0.49 per share

effective for the third quarter 2013 distribution. Additionally, the New Zealand JV negotiated an amendment to its debt facility, as discussed in Note 16 — Debt.

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

2. SALE OF WOOD PRODUCTS BUSINESS

On March 1, 2013, Rayonier completed the sale of its Wood Products business (consisting of three lumber mills in Baxley, Swainsboro and Eatonton, Georgia) to International Forest Products Limited (“Interfor”) for \$80 million plus a working capital adjustment. The sale is consistent with the Company’s strategic plan to fully position its manufacturing operations in the specialty chemicals sector. Rayonier will not have significant continuing involvement in the operations of the Wood Products business. Accordingly, the operating results of the Wood Products business, formerly reported as a separate operating segment, are classified as discontinued operations in the Company’s Consolidated Statements of Income and Comprehensive Income for all periods presented. Certain administrative and general costs historically allocated to the Wood Products segment, which will remain with the Company after the sale, are reported in continuing operations.

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

The following table summarizes the operating results of the Company’s discontinued operations and the related gain for the three and six months ended June 30, 2013 and 2012, as presented in “Income from discontinued operations, net” in the Consolidated Statements of Income and Comprehensive Income:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|-----------|---------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Sales | \$— | \$23,830 | \$16,968 | \$43,039 |
| Cost of sales and other | — | (19,337) | (14,258) | (37,287) |
| Gain on sale of discontinued operations | — | — | 64,040 | — |
| Income from discontinued operations before income taxes | — | 4,493 | 66,750 | 5,752 |
| Income tax expense | — | (1,505) | (22,273) | (1,927) |
| Income from discontinued operations, net | \$— | \$2,988 | \$44,477 | \$3,825 |

The sale did not meet the “held for sale” criteria prior to the period it was completed. The major classes of Wood Products assets and liabilities included in the sale were as follows:

| | March 1, 2013 |
|------------------------------------|---------------|
| Accounts receivable, net | \$4,127 |
| Inventory | 4,270 |
| Prepaid and other current assets | 2,053 |
| Property, plant and equipment, net | 9,990 |
| Total assets | \$20,440 |
| | |
| Total liabilities | \$596 |

Cash flows from discontinued operations are immaterial both individually and in the aggregate. As such, they are included with cash flows from continuing operations in the Consolidated Statements of Cash Flows.

Pursuant to the purchase and sale agreement, Rayonier will provide Interfor with saw timber procurement services for the three lumber mills through December 31, 2013. Rayonier also contracted with Interfor to purchase wood chips produced at the lumber mills for use at Rayonier’s Jesup mill and market other wood chips produced by the mills to third parties on Interfor’s behalf. The Company will purchase 100 percent of the Baxley mill chips for five years and

25 percent of the Swainsboro mill chips through 2013. The purchase price of these chips will be based on the average price paid by the Company to unrelated third parties.

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

Prior to the Wood Products sale, saw timber procurement services for and wood chip purchases from the lumber mills were intercompany transactions eliminated in consolidation as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------------------|-----------------------------|---------|---------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| Wood chip purchases | \$— | \$3,003 | \$1,650 | \$6,237 |
| Saw timber procurement services | — | 287 | 223 | 574 |
| Total intercompany | \$— | \$3,290 | \$1,873 | \$6,811 |

3. EARNINGS PER COMMON SHARE

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|-------------|---------------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| Income from continuing operations | \$87,891 | \$66,091 | \$191,149 | \$118,690 |
| Income from continuing operations attributable to noncontrolling interest | 727 | — | 727 | — |
| Income from continuing operations attributable to Rayonier Inc. | \$87,164 | \$66,091 | \$190,422 | \$118,690 |
| Income from discontinued operations attributable to Rayonier Inc. | \$— | \$2,988 | \$44,477 | \$3,825 |
| Net income attributable to Rayonier Inc. | \$87,164 | \$69,079 | \$234,899 | \$122,515 |
| Shares used for determining basic earnings per common share | 126,027,297 | 122,455,464 | 125,257,876 | 122,403,388 |
| Dilutive effect of: | | | | |
| Stock options | 504,321 | 669,298 | 519,014 | 692,622 |
| Performance and restricted shares | 386,228 | 726,368 | 384,910 | 727,968 |
| Assumed conversion of Senior Exchangeable Notes (a) | 2,217,058 | 2,669,808 | 2,173,658 | 2,830,382 |
| Assumed conversion of warrants (a) (b) | 1,632,345 | 890,189 | 2,250,361 | 1,077,217 |
| Shares used for determining diluted earnings per common share | 130,767,249 | 127,411,127 | 130,585,819 | 127,731,577 |
| Basic earnings per common share attributable to Rayonier Inc.: | | | | |
| Continuing operations | \$0.69 | \$0.54 | \$1.52 | \$0.97 |
| Discontinued operations | — | 0.02 | 0.36 | 0.03 |
| Net income | \$0.69 | \$0.56 | \$1.88 | \$1.00 |
| Diluted earnings per common share attributable to Rayonier Inc.: | | | | |
| Continuing operations | \$0.67 | \$0.52 | \$1.46 | \$0.93 |
| Discontinued operations | — | 0.02 | 0.34 | 0.03 |
| Net income | \$0.67 | \$0.54 | \$1.80 | \$0.96 |

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

| | Three Months Ended June 30, 2013 | 2012 | Six Months Ended June 30, 2013 | 2012 |
|--|-------------------------------------|-----------|-----------------------------------|-----------|
| Anti-dilutive shares excluded from the computations of diluted earnings per share: | | | | |
| Stock options, performance and restricted shares | 199,245 | 318,666 | 207,097 | 326,777 |
| Assumed conversion of exchangeable note hedges | 2,217,058 | 2,669,808 | 2,173,658 | 2,830,382 |
| (a) | | | | |
| Total | 2,416,303 | 2,988,474 | 2,380,755 | 3,157,159 |

(a) The Senior Exchangeable Notes due 2012 (the “2012 Notes”) matured in October 2012; however, no additional shares were issued due to offsetting exchangeable note hedges. Similarly, Rayonier will not issue additional shares upon maturity of the Senior Exchangeable Notes due 2015 (the “2015 Notes”) due to offsetting hedges. Accounting Standards Codification 260, Earnings Per Share requires the assumed conversion of the Notes to be included in dilutive shares if the average stock price for the period exceeds the strike prices, while the assumed conversion of the hedges is excluded since they are anti-dilutive. As such, the dilutive effect of the assumed conversion of the 2012 Notes was only included for the three and six months ended June 30, 2012, while the effect of the 2015 Notes was included for all periods presented.

The warrants sold in conjunction with the 2012 Notes began maturing on January 15, 2013 and matured ratably through March 27, 2013. As a result, 2,037,303 shares were issued through the end of the first quarter and 97,918 shares were issued in the first week of April. The dilutive impact of these warrants was calculated based on the length of time they were outstanding before settlement. Rayonier will distribute additional shares upon maturity of the warrants for the 2015 Notes if the stock price exceeds \$39.35 per share. For information on the potential dilutive impact of the Senior Exchangeable Notes, warrants and exchangeable note hedges, see Note 11 — Debt in the 2012 Annual Report on Form 10-K and Note 16 — Debt of this Form 10-Q.

(b) The higher shares used for the assumed conversion of the warrants were primarily due to an increase in the average stock price from \$43.74 for the three months ended June 30, 2012 to \$57.15 for the three months ended June 30, 2013 and from \$44.40 for the six months ended June 30, 2012 to \$56.34 for the six months ended June 30, 2013. The impact of the higher stock price was partially offset by a decrease in dilutive shares due to the maturity of the warrants on the Notes due 2012.

4. INCOME TAXES

Rayonier is a real estate investment trust (“REIT”). In general, only its taxable REIT subsidiaries, whose businesses include the Company’s non-REIT qualified activities, and foreign operations are subject to corporate income taxes. However, the Company was subject to U.S. federal corporate income tax on built-in gains (the excess of fair market value over tax basis for property held upon REIT election at January 1, 2004) on taxable sales of such property during calendar years 2004 through 2010. In 2011, the law provided a built-in-gains tax holiday. In 2013, the law provided a built-in gains tax holiday for 2012 (retroactive) and 2013. Accordingly, the provision for corporate income taxes relates principally to current and deferred taxes on taxable REIT subsidiaries’ income and foreign operations.

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

The U.S. Internal Revenue Code allowed two credits for taxpayers that produced and used an alternative fuel in the operation of their business through December 31, 2009. The AFMC is a \$.50 per gallon refundable tax credit (which is not taxable), while the CBPC is a \$1.01 per gallon credit that is nonrefundable, taxable and has limitations based on an entity’s tax liability. Rayonier produces and uses an alternative fuel (“black liquor”) at its Jesup, Georgia and Fernandina Beach, Florida performance fibers mills, which qualified for both credits. The Company claimed the AFMC on its 2009 tax return.

In the first quarter of 2013 and the second quarter of 2012, management approved the exchange of approximately 120 million and 60 million gallons respectively, of black liquor previously claimed for the AFMC for the CBPC. As a result, the Company recorded a \$19 million tax benefit in first quarter 2013. The second quarter 2012 impact of the exchange was a \$9.1 million tax benefit partially offset by a \$3.4 million interest expense accrual. The IRS later released guidance stating interest payments are not required for AFMC funds exchanged for the CBPC, based upon the manner of the Company's original claim. As such, Rayonier subsequently reversed the interest expense in third quarter 2012. For additional information on the AFMC and CBPC, see Note 8 — Income Taxes in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Provision for Income Taxes from Continuing Operations

The Company's effective tax rate is below the 35 percent U.S. statutory tax rate primarily due to tax benefits associated with being a REIT. The Company's effective tax rate in 2013 was lower than 2012 primarily due to recording the additional AFMC exchange, the federal research and experimentation tax credit and a \$4.9 million benefit associated with the completion of an

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(Dollar amounts in thousands unless otherwise stated)

internal transfer of properties.

The table below reconciles the U.S. statutory rate to the Company's effective tax rate for each period presented (in millions of dollars):

| | Three Months Ended June 30, | | | | | |
|--|-----------------------------|---------|------|------|---------|---|
| | 2013 | | 2012 | | | |
| Income tax expense at federal statutory rate | \$36 | 35.0 | % | \$27 | 35.0 | % |
| REIT income not subject to tax | (15 |) (14.3 |) | (6 |) (8.7 |) |
| Income tax expense before discrete items | 21 | 20.7 | % | 21 | 26.3 | % |
| Exchange of AFMC for CBPC | — | — | | (9 |) (10.9 |) |
| Other | (6 |) (5.9 |) | — | — | |
| Income tax expense as reported | \$15 | 14.8 | % | \$12 | 15.4 | % |

| | Six Months Ended June 30, | | | | | |
|--|---------------------------|---------|------|------|--------|---|
| | 2013 | | 2012 | | | |
| Income tax expense at federal statutory rate | \$74 | 35.0 | % | \$52 | 35.0 | % |
| REIT income not subject to tax | (26 |) (12.4 |) | (12 |) (8.1 |) |
| Other | (2 |) (0.7 |) | (1 |) (0.5 |) |
| Income tax expense before discrete items | 46 | 21.9 | % | 39 | 26.4 | % |
| Exchange of AFMC for CBPC | (19 |) (8.9 |) | (9 |) (6.0 |) |
| Gain related to consolidation of New Zealand joint venture | (5 |) (2.7 |) | — | — | |
| Other | (2 |) (1.0 |) | — | — | |
| Income tax expense as reported | \$20 | 9.3 | % | \$30 | 20.4 | % |

Provision for Income Taxes from Discontinued Operations

In the first quarter, Rayonier completed the sale of its Wood Products business for \$80 million plus a working capital adjustment. For the six months ended June 30, 2013 and 2012, income tax expense related to discontinued operations was \$22.3 million (\$21.4 million from the gain on sale) and \$1.9 million, respectively. For the three months ended June 30, 2012, income tax related to discontinued operations was \$1.5 million. See Note 2 — Sale of Wood Products Business for additional information.

5. RESTRICTED DEPOSITS

In order to qualify for like-kind exchange ("LKE") treatment, the proceeds from real estate sales must be deposited with a third-party intermediary. These proceeds are accounted for as restricted cash until a suitable replacement property is acquired. In the event LKE purchases are not completed, the proceeds are returned to the Company after 180 days and reclassified as available cash. As of June 30, 2013 and December 31, 2012, the Company had \$3.0 million and \$10.6 million, respectively, of proceeds from real estate sales classified as restricted cash in Other Assets, which were deposited with an LKE intermediary.

6. JOINT VENTURE INVESTMENT

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

Zealand Limited (“RNZ”), a wholly-owned subsidiary of Rayonier Inc., continues to serve as the manager of the JV forests and operates a log trading business.

The purchase price of the additional interest in the JV was \$139.9 million, which included \$3.3 million of contingent consideration and was financed through our term credit agreement. As the purchase price was in New Zealand dollars, the Company

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(Unaudited)

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purchased foreign currency forward contracts to mitigate foreign currency risk on the purchase price. As a result, the Company recorded a benefit of \$1.7 million and received that amount upon maturity of the contracts on April 2, 2013. The contingent consideration arrangement required the Company to pay an additional consideration to the JV's selling (former) shareholders equal to a multiple of the increase in log prices for a six month period beginning in November 2012. We estimated the fair value of the contingent consideration arrangement at the acquisition date to be \$3.3 million. Fair value was determined using an average of the cost and freight (CFR) selling price of China A-grade 3.8 meter logs. As of June 30, 2013, the contingent consideration had been determined and paid in the amount of \$3.3 million.

Prior to the acquisition date, the Company accounted for its 26 percent interest in the JV as an equity method investment. The additional 39 percent interest acquired resulted in the Company obtaining a controlling financial interest in the JV and accordingly, the purchase was accounted for as a step-acquisition. Upon consolidation, the Company recognized a \$10.1 million deferred gain, which resulted from the original sale of its New Zealand operations to the joint venture in 2005 and a \$6 million benefit due to the required fair market value remeasurement of the Company's equity interest in the JV held before the purchase of the additional interest. Both gains are included in the line item "Gain related to consolidation of New Zealand joint venture" in the Consolidated Statements of Income and Comprehensive Income. The acquisition-date fair value of the previous equity interest was \$93.3 million. We have applied estimates and judgments in order to determine the fair value of assets acquired and liabilities assumed at the acquisition date. In determining fair value we utilized valuation methodologies including discounted cash flow analysis. The assumptions made in performing these valuations include assumptions as to discount rates, foreign exchange rates, and commodity prices. Any significant change in key assumptions may cause the acquisition accounting to be revised.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date:

| | April 4, 2013 |
|--|---------------|
| Accounts receivable, net | \$9,777 |
| Inventory | 2,465 |
| Other current assets | 6,767 |
| Timber and timberlands, net | 545,287 |
| Other assets | 25,436 |
| Total identifiable assets acquired | 589,732 |
| Accounts payable | 11,679 |
| Current maturities of long-term debt | 3,843 |
| Accrued interest | 2,038 |
| Other current liabilities | 3,624 |
| Long-term debt (third party) | 196,319 |
| Long-term debt (shareholders) (a) | 125,532 |
| Other non-current liabilities | 13,565 |
| Total liabilities assumed | 356,600 |
| Net identifiable assets | 233,132 |
| Less: Fair value of equity method investment | (93,253) |
| Purchase price | \$139,879 |

(a) Long-term debt included \$125.5 million of shareholder loans payable to the noncontrolling interest by the JV. Subsequent to the acquisition date, \$96.0 million of the noncontrolling interest's shareholder loans were converted to preferred equity.

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(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

The Company's operating results for the three and six months ended June 30, 2013 reflect 26 percent of the JV's income prior to the acquisition date, as reported in "Equity in income of New Zealand joint venture" in the Consolidated Statements of Income and Comprehensive Income. The amounts of revenue and earnings of the JV included in the Company's Consolidated Statements of Income and Comprehensive Income from the acquisition date to the period ended June 30, 2013 are as follows:

| | |
|------------|---|
| | Revenue and earnings from April 4, 2013 to June 30, 2013 |
| Sales | \$47,426 |
| Net Income | 2,076 |

The following represents the pro forma consolidated sales and net income as if the JV had been included in the consolidated results of the Company for the three and six months ended June 30, 2013 and 2012:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|------------|-----------------------------|-----------|---------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Sales | \$409,077 | \$399,228 | \$837,322 | \$778,810 |
| Net Income | \$87,891 | \$67,376 | \$233,867 | \$118,730 |

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RAYONIER INC. AND SUBSIDIARIES

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(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

7. SHAREHOLDERS' EQUITY

An analysis of shareholders' equity for the six months ended June 30, 2013 and the year ended December 31, 2012 is shown below (share amounts not in thousands):

| | Rayonier Inc. Shareholders Common Shares | | Retained Earnings | Accumulated Other Comprehensive Income/(Loss) | Non-controlling Interest | Total Shareholders' Equity |
|---|---|-----------|----------------------|--|-----------------------------|----------------------------------|
| | Shares | Amount | | | | |
| Balance, December 31, 2011 | 122,035,177 | \$630,286 | \$806,235 | \$(113,448) | \$ — | \$1,323,073 |
| Net income | — | — | 278,685 | — | — | 278,685 |
| Dividends (\$1.68 per share) | — | — | (208,286) | — | — | (208,286) |
| Issuance of shares under incentive stock plans | 1,467,024 | 25,495 | — | — | — | 25,495 |
| Stock-based compensation | — | 15,116 | — | — | — | 15,116 |
| Excess tax benefit on stock-based compensation | — | 7,635 | — | — | — | 7,635 |
| Repurchase of common shares (169,757) | (169,757) | (7,783) | — | — | — | (7,783) |
| Net loss from pension and postretirement plans | — | — | — | (496) | — | (496) |
| Foreign currency translation adjustment | — | — | — | 4,352 | — | 4,352 |
| Joint venture cash flow hedges | — | — | — | 213 | — | 213 |
| Balance, December 31, 2012 | 123,332,444 | \$670,749 | \$876,634 | \$(109,379) | \$ — | \$1,438,004 |
| Acquisition of noncontrolling interest | — | — | — | — | 96,086 | 96,086 |
| Net income | — | — | 234,899 | — | 727 | 235,626 |
| Dividends (\$0.88 per share) | — | — | (110,886) | — | — | (110,886) |
| Issuance of shares under incentive stock plans | 861,838 | 6,643 | — | — | — | 6,643 |
| Stock-based compensation | — | 6,253 | — | — | — | 6,253 |
| Excess tax benefit on stock-based compensation | — | 7,399 | — | — | — | 7,399 |
| Repurchase of common shares (209,743) | (209,743) | (11,241) | — | — | — | (11,241) |
| Settlement of warrants (Note 16) | 2,135,221 | — | — | — | — | — |
| Amortization of pension and postretirement plans | — | — | — | 8,687 | — | 8,687 |
| Foreign currency translation adjustment | — | — | — | (17,650) | (9,576) | (27,226) |
| Joint venture cash flow hedges | — | — | — | 1,431 | (656) | 775 |
| Balance, June 30, 2013 | 126,119,760 | \$679,803 | \$1,000,647 | \$(116,911) | \$ 86,581 | \$1,650,120 |

8. SEGMENT AND GEOGRAPHICAL INFORMATION

Rayonier operates in three reportable business segments: Forest Resources, Real Estate and Performance Fibers. Prior to the first quarter of 2013, the Company operated in four reportable business segments, which included Wood Products. In March 2013, the Company sold its Wood Products business and its operations are shown as discontinued operations for all periods presented. See Note 2 — Sale of Wood Products Business for additional information. On April 4, 2013, Rayonier acquired an additional 39 percent interest in the JV, bringing its total ownership to 65 percent. As a result, the JV's results of operations have been consolidated and included within the Forest Resources segment since April 4, when the Company acquired control of the entity. Accordingly, the JV's assets and liabilities are fully consolidated at June 30, 2013. See Note 6 — Joint Venture Investment for further information regarding the Company's joint venture.

Forest Resources sales include all activities related to the harvesting of timber. Real Estate sales include all property sales, including those designated for higher and better use ("HBU"). The assets of the Real Estate segment include HBU property held by the Company's real estate subsidiary, TerraPointe LLC. The Performance Fibers segment includes two major product lines, cellulose specialties and absorbent materials. The Company's remaining operations include harvesting and selling timber acquired

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from third parties (log trading). These operations are reported in "Other Operations." Sales between operating segments are made based on estimated fair market value, and intercompany sales, purchases and profits (losses) are eliminated in consolidation. The Company evaluates financial performance based on the operating income of the segments. Operating income (loss) as presented in the Consolidated Statements of Income and Comprehensive Income is equal to segment income (loss). Certain income (loss) items in the Consolidated Statements of Income and Comprehensive Income are not allocated to segments. These items, which include gains (losses) from certain asset dispositions, interest income (expense), miscellaneous income (expense) and income tax (expense) benefit, are not considered by management to be part of segment operations.

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

| | June 30, 2013 | December 31, 2012 |
|---------------------|------------------|----------------------|
| ASSETS | | |
| Forest Resources | \$2,275,145 | \$1,690,030 |
| Real Estate | 85,018 | 112,647 |
| Performance Fibers | 1,067,673 | 902,309 |
| Wood Products (a) | — | 18,454 |
| Other Operations | 31,045 | 23,296 |
| Corporate and other | 369,170 | 376,215 |
| Total | \$3,828,051 | \$3,122,951 |

(a) The Company sold its Wood Products segment during the first quarter of 2013. See Note 2 — Sale of Wood Products Business for additional information.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------------|-----------------------------|-----------|---------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| SALES | | | | |
| Forest Resources | \$109,060 | \$52,663 | \$166,162 | \$104,858 |
| Real Estate | 13,376 | 11,680 | 37,673 | 24,326 |
| Performance Fibers | 253,025 | 254,509 | 537,213 | 505,364 |
| Other Operations | 33,872 | 29,268 | 62,099 | 50,409 |
| Intersegment Eliminations (b) | (256 |) (24 |) (351 |) (290 |
| Total | \$409,077 | \$348,096 | \$802,796 | \$684,667 |

(b) Intersegment eliminations primarily reflect sales from our Forest Resources segment to our Performance Fibers segment.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------|-----------------------------|----------|---------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| OPERATING INCOME(LOSS) | | | | |
| Forest Resources | \$20,890 | \$8,249 | \$34,145 | \$16,254 |
| Real Estate | 6,105 | 5,999 | 22,947 | 12,477 |
| Performance Fibers | 79,081 | 83,727 | 170,751 | 164,357 |
| Other Operations | 1,779 | 1,148 | 1,944 | 218 |
| Corporate and other (c) | 2,706 | (5,025 |) (3,863 |) (16,458 |
| Total | \$110,561 | \$94,098 | \$225,924 | \$176,848 |

(c) The three and six months ended June 30, 2013 includes a \$16.1 million gain related to the consolidation of the New Zealand JV. See Note 6 — Joint Venture Investment.

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(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|----------|---------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| DEPRECIATION, DEPLETION AND AMORTIZATION | | | | |
| Forest Resources | \$27,291 | \$17,066 | \$43,735 | \$33,900 |
| Real Estate | 2,469 | 1,600 | 6,646 | 3,445 |
| Performance Fibers | 13,649 | 15,139 | 28,802 | 26,500 |
| Corporate and other | 258 | 374 | 476 | 747 |
| Total | \$43,667 | \$34,179 | \$79,659 | \$64,592 |

9. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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

Foreign Currency Exchange and Option Contracts

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

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

Interest Rate Swaps

The Company uses interest rate swaps to manage the JV's exposure to interest rate movements on its variable rate debt attributable to changes in the New Zealand Bank bill rate. By converting a portion of these borrowings from floating rates to fixed rates the Company has reduced the impact of interest rate changes on its expected future cash outflows. As of June 30, 2013, the Company's interest rate contracts had maturity dates through January 2020.

Fuel Hedge Contracts

The Company uses fuel swap contracts to manage its JV's exposure to changes in New Zealand's domestic diesel prices. The fuel swaps are quoted by domestic banks in New Zealand dollar price terms. As of June 30, 2013 all of the contracts had maturities of less than one year. The fair value of the fuel swap contracts is determined by a mark to market valuation which estimates fair value by discounting the difference between the contracted forward price and the current forward price for the residual maturity of the contract.

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The following table demonstrates the impact of the Company's derivatives on the Consolidated Statements of Income and Comprehensive Income for the second quarter and six months ended June 30, 2013:

| | Income Statement Location | June 30, 2013 | |
|--|--|--------------------|------------------|
| | | Three Months Ended | Six Months Ended |
| Derivatives designated as cash flow hedges: | | | |
| Foreign currency exchange contracts | Other comprehensive income/(loss) (a) | \$(1,509) | \$(1,509) |
| Foreign currency option contracts | Other comprehensive income/(loss) (a) | (363) | (363) |
| Derivatives not designated as hedging instruments: | | | |
| Foreign currency exchange contracts | Other operating (expense) income | (456) | 1,426 |
| Foreign currency option contracts | Other operating (expense) income | (1,491) | (1,491) |
| Interest rate swaps | Interest and other miscellaneous income | 2,650 | 2,650 |
| Fuel hedges | Cost of sales - benefit | 148 | 148 |

(a) See Note 17 — Accumulated Other Comprehensive Loss.

During the next 12 months, the amount of the June 30, 2013 AOCI balance, net of tax, expected to be reclassified into earnings as a result of the maturation of the Company's derivative instruments is a loss of approximately \$1.9 million. The following table contains the notional amounts of the derivative financial instruments recorded in the Consolidated Balance Sheet at June 30, 2013:

| | June 30, 2013 Notional Amount (a) |
|--|--------------------------------------|
| Derivatives designated as cash flow hedges: | |
| Foreign currency exchange contracts | 19,000 |
| Foreign currency option contracts | 26,000 |
| Derivatives not designated as hedging instruments: | |
| Foreign currency exchange contracts | 7,020 |
| Foreign currency option contracts | 30,000 |
| Interest rate swaps | 172,497 |
| Fuel contracts | 40 |

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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The following table contains the fair values of the derivative financial instruments recorded in the Consolidated Balance Sheet at June 30, 2013:

| | June 30, 2013 | |
|--|-------------------------------|--|
| | Location on Balance Sheet | Fair Value Assets (Liabilities) (a) |
| Derivatives designated as cash flow hedges: | | |
| Foreign currency exchange contracts | Other current liabilities | (891) |
| Foreign currency option contracts | Other current liabilities | (363) |
| Derivatives not designated as hedging instruments: | | |
| Foreign currency exchange contracts | Other current liabilities | (174) |
| Foreign currency option contracts | Other current liabilities | (352) |
| Interest rate swaps | Other current liabilities | (2,843) |
| | Other non-current liabilities | (6,443) |
| Fuel contracts | Other assets | 69 |
| Total derivative contracts: | | |
| Other assets | | 69 |
| Total derivative assets | | \$69 |
| Other current liabilities | | (4,623) |
| Other non-current liabilities | | (6,443) |
| Total derivative liabilities | | \$(11,066) |

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

Offsetting Derivatives

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

10. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

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

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

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

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

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(Unaudited)

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The following table presents the carrying amount, estimated fair values and categorization under the fair value hierarchy of financial instruments held by the Company at June 30, 2013 and December 31, 2012, using market information and what management believes to be appropriate valuation methodologies under generally accepted accounting principles:

| Asset (liability) | June 30, 2013 | | | December 31, 2012 | | |
|---|-----------------|------------|--------------|-------------------|------------|--------------|
| | Carrying Amount | Fair Value | | Carrying Amount | Fair Value | |
| | | Level 1 | Level 2 | | Level 1 | Level 2 |
| Cash and cash equivalents | \$343,581 | \$343,581 | \$— | \$280,596 | \$280,596 | \$— |
| Restricted cash (a) | 2,956 | 2,956 | — | 10,559 | 10,559 | — |
| Current maturities of long-term debt | (75,463) | — | (75,463) | (150,000) | — | (150,000) |
| Long-term debt | (1,591,834) | — | (1,718,249) | (1,120,052) | — | (1,250,341) |
| Interest rate swaps (b) | (9,286) | — | (9,286) | — | — | — |
| Foreign currency exchange contracts (b) | (1,065) | — | (1,065) | — | — | — |
| Foreign currency option contracts (b) | (716) | — | (716) | — | — | — |
| Fuel contracts (b) | 69 | — | 69 | — | — | — |

(a) Restricted cash is recorded in “Other Assets” and represents the proceeds from LKE sales deposited with a third-party intermediary.

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

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

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

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

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

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

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

Fuel contracts — The fair value of diesel fuel contracts is determined by a mark-to-market valuation which estimates fair value by discounting the difference between the contracted forward price and the current forward price for the residual maturity of the contract.

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(Dollar amounts in thousands unless otherwise stated)

11. GUARANTEES

The Company provides financial guarantees as required by creditors, insurance programs, and various governmental agencies. As of June 30, 2013, the following financial guarantees were outstanding:

| Financial Commitments | Maximum Potential Payment | Carrying Amount of Liability |
|-------------------------------|---------------------------------|------------------------------------|
| Standby letters of credit (a) | \$18,205 | \$15,000 |
| Guarantees (b) | 2,254 | 43 |
| Surety bonds (c) | 7,231 | 1,360 |
| Total financial commitments | \$27,690 | \$16,403 |

(a) Approximately \$15 million of the standby letters of credit serve as credit support for industrial revenue bonds. The remaining letters of credit support various insurance related agreements, primarily workers' compensation and pollution liability policy requirements. These letters of credit will expire at various dates during 2013 and 2014 and will be renewed as required.

(b) In conjunction with a timberland sale and note monetization in the first quarter of 2004, the Company issued a make-whole agreement pursuant to which it guaranteed \$2.3 million of obligations of a special-purpose entity that was established to complete the monetization. At June 30, 2013, the Company has a de minimus liability to reflect the fair market value of its obligation to perform under the make-whole agreement.

(c) Rayonier issues surety bonds primarily to secure timber harvesting obligations in the State of Washington and to provide collateral for the Company's workers' compensation self-insurance program in that state. These surety bonds expire at various dates between 2013 and 2014 and are expected to be renewed as required.

12. COMMITMENTS

As disclosed in the Company's Annual Report on Form 10-K, Rayonier leases certain buildings, machinery and equipment under various operating leases. The Company's commitments have not materially changed since December 31, 2012 except as related to the acquisition of a controlling interest in the New Zealand joint venture. The following table shows the increase in the Company's commitments, as of June 30, 2013, as a result of the JV acquisition:

| | Forestry Rights (a) | Forest Leases (b) |
|----------------|------------------------|----------------------|
| Remaining 2013 | \$884 | \$541 |
| 2014 | 1,528 | 1,075 |
| 2015 | 1,528 | 1,075 |
| 2016 | 1,528 | 1,075 |
| 2017 | 1,528 | 1,075 |
| Thereafter | 39,757 | 53,889 |
| | \$46,753 | \$58,730 |

(a) Forestry rights grant access to the leased land for the purpose of harvesting. The majority of the JV's forestry rights terminate with the harvest of the land's existing crop and require the land to be left in the cut condition upon termination.

(b) Forest leases have an average term between 30 and 99 years. Annual rent is indexed to the Consumer Price Index or current market values. A number of these leases require the land to be returned in a fully stocked condition (replanted).

The JV has a number of Crown Forest Licenses ("CFL") with the New Zealand government. The leases extend indefinitely and may only be terminated upon a 35 year termination notice from the government. If no termination

notice is given, the leases renew automatically each year for a one year term. As of June 30, 2013, the JV has three CFL's under termination notice, with one terminating in 2034 and the remaining two expiring in 2062. The annual license fee is determined based on current market value, with three yearly rent reviews. The total annual license fee on the CFL's is \$2.7 million per year.

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

13. LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS

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

| | June 30, 2013 | December 31, 2012 |
|-------------------------------------|------------------|----------------------|
| Balance, beginning of period | \$81,695 | \$90,824 |
| Expenditures charged to liabilities | (4,015 |) (9,926) |
| Increase to liabilities | 448 | 797 |
| Balance, end of period | 78,128 | 81,695 |
| Less: Current portion | (8,686 |) (8,105) |
| Non-current portion | \$69,442 | \$73,590 |

The Company is exposed to the risk of reasonably possible additional losses in excess of the established liabilities. As of June 30, 2013, this amount could range up to \$29 million, attributable to several of the applicable sites, and arises from uncertainty over the availability, feasibility and effectiveness of certain remediation technologies, additional or different contamination that may be discovered, development of new or more effective environmental remediation technologies, potential changes in applicable law and regulations, and the exercise of discretion in interpretation of applicable law and regulations by governmental agencies.

The Company believes established liabilities are sufficient for probable 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 include on-site (and in certain cases off-site) removal or treatment of contaminated soils and sediments, recovery and treatment/remediation of groundwater, and source remediation and/or control.

14. CONTINGENCIES

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

15. EMPLOYEE BENEFIT PLANS

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

The net pension and postretirement benefit costs that have been recognized during the stated periods are shown in the following tables:

| | Pension | | Postretirement | |
|---|--------------------|---------|--------------------|-------|
| | Three Months Ended | | Three Months Ended | |
| | June 30, 2013 | 2012 | June 30, 2013 | 2012 |
| Components of Net Periodic Benefit Cost | | | | |
| Service cost | \$2,011 | \$2,102 | \$249 | \$227 |

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| | | | | |
|------------------------------------|---------|----------|-------|-------|
| Interest cost | 3,953 | 4,321 | 240 | 242 |
| Expected return on plan assets | (5,966 |) (6,369 |) — | — |
| Amortization of prior service cost | 322 | 327 | 6 | 6 |
| Amortization of losses | 4,791 | 4,394 | 218 | 156 |
| Net periodic benefit cost | \$5,111 | \$4,775 | \$713 | \$631 |

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

| | Pension | | Postretirement | |
|---|------------------|----------|------------------|----------|
| | Six Months Ended | | Six Months Ended | |
| | June 30, | June 30, | June 30, | June 30, |
| | 2013 | 2012 | 2013 | 2012 |
| Components of Net Periodic Benefit Cost | | | | |
| Service cost | \$4,430 | \$4,042 | \$498 | \$437 |
| Interest cost | 8,787 | 8,309 | 480 | 465 |
| Expected return on plan assets | (13,390) | (12,248) | — | — |
| Amortization of prior service cost | 710 | 629 | 13 | 12 |
| Amortization of losses | 10,516 | 8,451 | 436 | 299 |
| Net periodic benefit cost | \$11,053 | \$9,183 | \$1,427 | \$1,213 |

In 2013, the Company has no mandatory pension contribution requirements, but may make discretionary contributions.

16. DEBT

The warrants sold in conjunction with the issuance of the 3.75% Senior Exchangeable Notes due 2012 began maturing on January 15, 2013 and continued to mature through March 27, 2013. As of June 30, 2013, all of the 8,313,511 warrants have settled, resulting in the issuance of 2,135,221 Rayonier common shares.

As of March 31, 2013, the \$172.5 million 4.50% Senior Exchangeable Notes due 2015 became exchangeable at the option of the holders for the calendar quarter ending June 30, 2013. Per the indenture, in order for the notes to become exchangeable, the Company's stock price must exceed 130 percent of the exchange price for 20 trading days during a period of 30 consecutive trading days as of the last day of the quarter. During the three months ended June 30, 2013, the note holders did not elect to exercise the exchange option. Based upon the average stock price for the 30 trading days ended June 30, 2013, these notes again became exchangeable at the option of the holder for the calendar quarter ending September 30, 2013. The entire balance of the notes remained classified as long-term debt at June 30, 2013 due to the ability and intent of the Company to refinance them on a long-term basis.

During the six months ended June 30, 2013, the Company made net repayments of \$15 million on its \$450 million unsecured revolving credit facility. The Company had \$187 million of available borrowings under this facility at June 30, 2013. The Company also borrowed an additional \$200 million on the term credit agreement during the second quarter of 2013 for general corporate purposes. Additional draws totaling \$140 million remain available on the term credit agreement.

Joint Venture Debt

On April 4, 2013, Rayonier acquired an additional 39 percent interest in its New Zealand JV, bringing its total ownership to 65 percent and as a result, the JV's debt was consolidated effective on that date. See Note 6 — Joint Venture Investment for further information.

The JV's debt consisted of the following at June 30, 2013:

| | June 30, 2013 |
|---|---------------|
| Senior Secured Facilities Agreement | |
| Revolving Credit Facility due 2014 at variable interest rate of 3.61% | \$123,488 |
| Revolving Credit Facility due 2016 at variable interest rate of 3.76% | 57,885 |
| Working Capital Facility due 2013 at variable interest rate of 3.94% | 463 |
| Noncontrolling interest shareholder loan at a 0% interest rate | 29,571 |

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| | | |
|--|-----------|---|
| Total debt | 211,407 | |
| Less: Current maturities of long-term debt | (463 |) |
| Long-term debt | \$210,944 | |

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

Senior Secured Facilities Agreement

The New Zealand JV is party to a \$199 million variable rate Senior Secured Facilities Agreement, comprised of two tranches of revolving credit facilities and a working capital facility. Although the maximum amounts available under the agreement are denominated in New Zealand dollars, advances are also available in U.S. dollars. This agreement is secured by a Security Trust Deed that provides recourse only to the JV's assets; there is no recourse to Rayonier Inc. or any of its subsidiaries.

Revolving Credit Facilities

As of June 30, 2013 the Senior Secured Facilities Agreement had \$123 million outstanding on Tranche A at 3.61 percent due September 2014 and \$58 million outstanding on Tranche B at 3.76 percent due September 2016. The interest rates for both tranches are indexed to the 90 day New Zealand bank bill rate and are generally repriced at quarterly intervals. The margin on the index rate fluctuates based on the interest coverage ratio. The JV manages these rates through interest rate swaps, as discussed at Note 9 — Derivative Financial Instruments and Hedging Activities.

Working Capital Facility

The \$18 million Working Capital Facility is available for short-term operating cash flow needs of the New Zealand JV. This facility holds a variable interest rate indexed to the Official Cash Rate set by the Reserve Bank of New Zealand. The margin ranges from 1.17 percent to 1.44 percent based on the interest coverage ratio and the length of time each borrowing is outstanding. At June 30, 2013, \$0.5 million is outstanding at 3.94 percent and due September 2013.

Shareholder Loan

The shareholder loan is an interest-free loan from the noncontrolling JV interest in the amount of \$30 million. This loan represents part of the noncontrolling party's investment in the JV. The loan is secured by timberlands owned by the JV and is subordinated to the Senior Secured Facilities Agreement. Although Rayonier Inc. is not liable for this loan, the shareholder loan instrument contains features with characteristics of both debt and equity and is therefore required to be classified as debt and consolidated. As the loan is effectively at call, the carrying amount is deemed to be the fair value. The entire balance of the shareholder loan remained classified as long-term debt at June 30, 2013 due to the ability and intent of the JV to refinance it on a long-term basis.

Debt Covenants

In connection with the New Zealand JV's Senior Secured Facilities Agreement, covenants must be met, including generation of sufficient cash flows to meet a minimum interest coverage ratio of 1.50 to 1 on a quarterly basis and maintenance of a leverage ratio of bank debt versus the forest and land valuation below the covenant's maximum ratio of 35 percent. At June 30, 2013, the New Zealand JV was in compliance with all its covenants.

There were no other significant changes to the Company's outstanding debt as reported in Note 11 — Debt in the Company's 2012 Annual Report on Form 10-K.

Subsequent Event

On July 5, 2013 the New Zealand JV negotiated amendments to the existing Senior Secured Facilities Agreement. The amended and restated Senior Secured Facilities Agreement is now comprised of two tranches; a \$181 million revolving cash advance facility ("Tranche A") expiring September 2016 and an \$18 million working capital facility ("Tranche B") expiring July 2014. In addition to the extended maturity dates, the amended and restated agreement provides for favorable changes to the interest rate margin and covenant requirements. The margin for revolving cash advance borrowings now ranges from 0.75 percent to 0.85 percent (previously 0.775 percent to 1.05 percent). There was no change to the working capital facility interest rate. The maximum leverage ratio was increased to 40 percent and the interest coverage ratio was amended to allow a minimum ratio of 1.25 to 1, provided that the ratio is not below 1.50 to 1 for any two consecutive quarters.

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

17. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated Other Comprehensive Loss was comprised of the following:

| | Foreign currency translation gains | New Zealand joint venture cash flow hedges | Unrecognized components of employee benefit plans, net of tax | Total |
|--|---------------------------------------|--|--|-----------------|
| Balance as of December 31, 2012 | \$38,829 | \$ (3,628 |) \$ (144,580 |) \$ (109,379) |
| Other comprehensive income before reclassifications | (17,650 |) (a) (728 |) 530 | (17,848) |
| Amounts reclassified from accumulated other comprehensive income | — | 2,159 | 8,157 | (b) 10,316 |
| Net other comprehensive income | (17,650 |) 1,431 | 8,687 | (7,532) |
| Balance as of June 30, 2013 | \$21,179 | \$ (2,197 |) \$ (135,893 |) \$ (116,911) |

(a) The loss is due to a six cent decrease in the New Zealand dollar exchange rate.

(b) These accumulated other comprehensive income components are included in the computation of net periodic pension cost. See Note 15 — Employee Benefit Plans for additional information.

The following table presents details of the amounts reclassified in their entirety from AOCI for the six-month period ended June 30, 2012:

| Details about accumulated other comprehensive income components | Amount reclassified from accumulated other comprehensive income | Affected line item in the statement where net income is presented |
|--|---|--|
| New Zealand joint venture cash flow hedges | \$2,159 | Gain related to consolidation of New Zealand joint venture |

18. OTHER OPERATING (EXPENSE) INCOME, NET

Other operating (expense) income, net was comprised of the following:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|-----------|---------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Lease income, primarily from hunting leases | \$2,313 | \$2,520 | \$4,774 | \$4,905 |
| Other non-timber income | 604 | 1,048 | 1,078 | 1,891 |
| Foreign currency gain (loss) | 979 | 680 | 795 | (185) |
| Loss on sale or disposal of property, plant & equipment | (269 |) (711 |) (698 |) (1,732) |
| Insurance recoveries | — | 2,319 | — | 2,319 |
| Loss on foreign currency contracts | (1,947 |) — | (65 |) — |
| Legal and corporate development costs | (1,971 |) (561 |) (2,672 |) (765) |
| Total | \$ (291 |) \$5,295 | \$3,212 | \$6,433 |

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

19. CONSOLIDATING FINANCIAL STATEMENTS

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

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

CONDENSED CONSOLIDATING STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME

For the Three Months Ended June 30, 2013

| | Rayonier Inc (Parent Guarantor) | ROC (Subsidiary Guarantor) | Rayonier TRS Holdings Inc. (Issuer) | Non- guarantors | Consolidating Adjustments | Total Consolidated |
|---|---------------------------------------|----------------------------------|--|--------------------|------------------------------|-----------------------|
| SALES | \$ — | \$ — | \$ — | \$ 409,077 | \$ — | \$ 409,077 |
| Costs and Expenses | | | | | | |
| Cost of sales | — | — | — | 297,698 | — | 297,698 |
| Selling and general expenses | — | 2,680 | — | 14,249 | — | 16,929 |
| Other operating expense (income), net | 180 | (74) | — | 846 | (661) | 291 |
| | 180 | 2,606 | — | 312,793 | (661) | 314,918 |
| Equity in income of New Zealand joint venture | — | — | — | 304 | — | 304 |
| OPERATING (LOSS) INCOME BEFORE GAIN ON CONSOLIDATION OF NEW ZEALAND JOINT VENTURE | (180) | (2,606) | — | 96,588 | 661 | 94,463 |
| Gain related to consolidation of New Zealand joint venture | — | — | — | 16,098 | — | 16,098 |
| OPERATING (LOSS) INCOME | (180) | (2,606) | — | 112,686 | 661 | 110,561 |
| Interest (expense) income | (3,414) | (266) | (6,997) | 658 | — | (10,019) |
| Interest and miscellaneous income (expense), net | 1,759 | 1,104 | (797) | 532 | — | 2,598 |
| Equity in income from subsidiaries | 89,064 | 91,235 | 35,968 | — | (216,267) | — |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 87,229 | 89,467 | 28,174 | 113,876 | (215,606) | 103,140 |
| Income tax (expense) benefit | (65) | (403) | 2,847 | (17,691) | 63 | (15,249) |
| INCOME FROM CONTINUING OPERATIONS | 87,164 | 89,064 | 31,021 | 96,185 | (215,543) | 87,891 |

DISCONTINUED OPERATIONS,
NET

| | | | | | | |
|---|-----------|-----------|-----------|-----------|---------------|-----------|
| Income from discontinued operations, net of income taxes | — | — | — | — | — | — |
| NET INCOME | 87,164 | 89,064 | 31,021 | 96,185 | (215,543) | 87,891 |
| Net income attributable to noncontrolling interest | — | — | — | 727 | — | 727 |
| NET INCOME ATTRIBUTABLE TO RAYONIER INC | 87,164 | 89,064 | 31,021 | 95,458 | (215,543) | 87,164 |
| OTHER COMPREHENSIVE INCOME | | | | | | |
| Foreign currency translation adjustment | (18,625) | (28,201) | (1,725) | (18,625) | 38,975 | (28,201) |
| New Zealand joint venture cash flow hedges | 878 | 222 | (1,873) | 877 | 118 | 222 |
| Amortization of pension and postretirement plans, net of income tax | 3,717 | 3,717 | 2,819 | 6,831 | (13,367) | 3,717 |
| Total other comprehensive loss | (14,030) | (24,262) | (779) | (10,917) | 25,726 | (24,262) |
| COMPREHENSIVE INCOME | 73,134 | 64,802 | 30,242 | 85,268 | (189,817) | 63,629 |
| Comprehensive loss attributable to noncontrolling interest | — | — | — | (9,505) | — | (9,505) |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC. | \$73,134 | \$ 64,802 | \$ 30,242 | \$94,773 | \$ (189,817) | \$ 73,134 |

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

CONDENSED CONSOLIDATING STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME

For the Three Months Ended June 30, 2012

| | Rayonier Inc (Parent Guarantor) | ROC (Subsidiary Guarantor) | Rayonier TRS Holdings Inc. (Issuer) | Non- guarantors | Consolidating Adjustments | Total Consolidated |
|---|---------------------------------------|----------------------------------|--|--------------------|------------------------------|-----------------------|
| SALES | \$— | \$— | \$— | \$348,096 | \$— | \$348,096 |
| Costs and Expenses | | | | | | |
| Cost of sales | — | — | — | 243,571 | — | 243,571 |
| Selling and general expenses | — | 1,904 | — | 13,988 | — | 15,892 |
| Other operating income, net | — | (109) | — | (5,186) | — | (5,295) |
| | — | 1,795 | — | 252,373 | — | 254,168 |
| Equity in income of New Zealand joint venture | — | — | — | 170 | — | 170 |
| OPERATING (LOSS) INCOME | — | (1,795) | — | 95,893 | — | 94,098 |
| Interest expense | (3,117) | (212) | (10,243) | (2,484) | — | (16,056) |
| Interest and miscellaneous income (expense), net | 1,544 | 1,659 | (834) | (2,285) | — | 84 |
| Equity in income from subsidiaries | 70,652 | 70,948 | 60,407 | — | (202,007) | — |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 69,079 | 70,600 | 49,330 | 91,124 | (202,007) | 78,126 |
| Income tax benefit (expense) | — | 52 | 4,043 | (16,130) | — | (12,035) |
| INCOME FROM CONTINUING OPERATIONS | 69,079 | 70,652 | 53,373 | 74,994 | (202,007) | 66,091 |
| DISCONTINUED OPERATIONS, NET | | | | | | |
| Income from discontinued operations, net of income tax | — | — | — | 2,988 | — | 2,988 |
| NET INCOME | 69,079 | 70,652 | 53,373 | 77,982 | (202,007) | 69,079 |
| OTHER COMPREHENSIVE INCOME | | | | | | |
| Foreign currency translation adjustment | (8,081) | (8,081) | 478 | (8,081) | 15,684 | (8,081) |
| New Zealand joint venture cash flow hedges | (1,998) | (1,998) | — | (1,998) | 3,996 | (1,998) |
| Amortization of pension and postretirement plans, net of income tax | 3,401 | 3,401 | 2,579 | 2,579 | (8,559) | 3,401 |
| Total other comprehensive (loss) income | (6,678) | (6,678) | 3,057 | (7,500) | 11,121 | (6,678) |
| COMPREHENSIVE INCOME | \$62,401 | \$63,974 | \$56,430 | \$70,482 | \$(190,886) | \$62,401 |

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

| | CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME | | | | | |
|--|--|---|---|--------------------|------------------------------|-----------------------|
| | For the Six Months Ended June 30, 2013 | | | | | |
| | Rayonier IncROC (Parent Guarantor) | Rayonier TRS (Subsidiary Guarantor) | Rayonier TRS Holdings Inc. (Issuer) | Non- guarantors | Consolidating Adjustments | Total Consolidated |
| SALES | \$— | \$— | \$— | \$802,796 | \$— | \$802,796 |
| Costs and Expenses | | | | | | |
| Cost of sales | — | — | — | 563,716 | — | 563,716 |
| Selling and general expenses | — | 5,081 | — | 27,947 | — | 33,028 |
| Other operating (income) expense, net | (1,701) | 449 | — | (1,299) | (661) | (3,212) |
| | (1,701) | 5,530 | — | 590,364 | (661) | 593,532 |
| Equity in income of New Zealand joint venture | — | — | — | 562 | — | 562 |
| OPERATING (LOSS) INCOME BEFORE GAIN ON CONSOLIDATION OF NEW ZEALAND JOINT VENTURE | 1,701 | (5,530) | — | 212,994 | 661 | 209,826 |
| Gain related to consolidation of New Zealand joint venture | — | — | — | 16,098 | — | 16,098 |
| OPERATING INCOME (LOSS) | 1,701 | (5,530) | — | 229,092 | 661 | 225,924 |
| Interest expense | (6,689) | (518) | (13,615) | 3,086 | — | (17,736) |
| Interest and miscellaneous income (expense), net | 4,178 | 1,633 | (1,548) | (1,607) | — | 2,656 |
| Equity in income from subsidiaries | 235,774 | 240,000 | 159,437 | — | (635,211) | — |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 234,964 | 235,585 | 144,274 | 230,571 | (634,550) | 210,844 |
| Income tax (expense) benefit | (65) | 189 | 5,537 | (25,418) | 62 | (19,695) |
| INCOME FROM CONTINUING OPERATIONS | 234,899 | 235,774 | 149,811 | 205,153 | (634,488) | 191,149 |
| DISCONTINUED OPERATIONS, NET | | | | | | |
| Income from discontinued operations, net of income tax | — | — | — | 44,477 | — | 44,477 |
| NET INCOME | 234,899 | 235,774 | 149,811 | 249,630 | (634,488) | 235,626 |
| Net income attributable to noncontrolling interest | — | — | — | 727 | — | 727 |
| NET INCOME ATTRIBUTABLE TO RAYONIER INC | 234,899 | 235,774 | 149,811 | 248,903 | (634,488) | 234,899 |
| OTHER COMPREHENSIVE INCOME | | | | | | |
| Foreign currency translation adjustment | (17,650) | (27,226) | (1,485) | (17,650) | 36,785 | (27,226) |

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| | | | | | | |
|---|-----------|------------|------------|-----------|---------------|------------|
| New Zealand joint venture cash flow hedges | 1,431 | 775 | (1,873) | 1,431 | (989) | 775 |
| Amortization of pension and postretirement plans, net of income tax | 8,687 | 8,687 | 6,831 | 6,831 | (22,349) | 8,687 |
| Total other comprehensive (loss) income | (7,532) | (17,764) | 3,473 | (9,388) | 13,447 | (17,764) |
| COMPREHENSIVE INCOME | 227,367 | 218,010 | 153,284 | 240,242 | (621,041) | 217,862 |
| Comprehensive loss attributable to noncontrolling interest | — | — | — | (9,505) | — | (9,505) |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC. | \$227,367 | \$ 218,010 | \$ 153,284 | \$249,747 | \$ (621,041) | \$ 227,367 |

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

| | CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME For the Six Months Ended June 30, 2012 | | | | | |
|---|--|----------------------------------|--|----------------|------------------------------|-----------------------|
| | Rayonier Inc (Parent Guarantor) | ROC (Subsidiary Guarantor) | Rayonier TRS Holdings Inc. (Issuer) | Non-Guarantors | Consolidating Adjustments | Total Consolidated |
| SALES | \$— | \$— | \$— | \$ 684,667 | \$— | \$ 684,667 |
| Costs and Expenses | | | | | | |
| Cost of sales | — | — | — | 479,279 | — | 479,279 |
| Selling and general expenses | — | 5,215 | — | 29,942 | — | 35,157 |
| Other operating expense (income), net | — | 12 | — | (6,445) | — | (6,433) |
| | — | 5,227 | — | 502,776 | — | 508,003 |
| Equity in income of New Zealand joint venture | — | — | — | 184 | — | 184 |
| OPERATING (LOSS) INCOME | — | (5,227) | — | 182,075 | — | 176,848 |
| Interest expense | (4,366) | (450) | (20,469) | (2,595) | — | (27,880) |
| Interest and miscellaneous income (expense), net | 3,455 | 2,986 | (2,042) | (4,339) | — | 60 |
| Equity in income from subsidiaries | 123,426 | 126,394 | 106,152 | — | (355,972) | — |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 122,515 | 123,703 | 83,641 | 175,141 | (355,972) | 149,028 |
| Income tax (expense) benefit | — | (277) | 8,217 | (38,278) | — | (30,338) |
| INCOME FROM CONTINUING OPERATIONS | 122,515 | 123,426 | 91,858 | 136,863 | (355,972) | 118,690 |
| DISCONTINUED OPERATIONS, NET | | | | | | |
| Income from discontinued operations, net of income taxes | — | — | — | 3,825 | — | 3,825 |
| NET INCOME | 122,515 | 123,426 | 91,858 | 140,688 | (355,972) | 122,515 |
| OTHER COMPREHENSIVE INCOME | | | | | | |
| Foreign currency translation adjustment | (2,255) | (2,255) | 376 | (2,255) | 4,134 | (2,255) |
| New Zealand joint venture cash flow hedges | (793) | (793) | — | (793) | 1,586 | (793) |
| Amortization of pension and postretirement plans, net of income tax | 6,541 | 6,541 | 4,959 | 4,959 | (16,459) | 6,541 |
| Total other comprehensive income | 3,493 | 3,493 | 5,335 | 1,911 | (10,739) | 3,493 |
| COMPREHENSIVE INCOME | \$ 126,008 | \$ 126,919 | \$ 97,193 | \$ 142,599 | \$ (366,711) | \$ 126,008 |

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

CONDENSED CONSOLIDATING BALANCE SHEETS

As of June 30, 2013

| | Rayonier Inc.ROC (Parent Guarantor) | Rayonier TRS Holdings Inc. (Subsidiary Guarantor) | Rayonier TRS Inc. (Issuer) | Non- guarantors | Consolidating Adjustments | Total Consolidated |
|--|---|--|----------------------------------|--------------------|------------------------------|-----------------------|
| ASSETS | | | | | | |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents | \$ 170,442 | \$ 6,449 | \$ 26,790 | \$ 139,900 | \$— | \$ 343,581 |
| Accounts receivable, less allowance for doubtful accounts | — | 15 | 892 | 115,631 | — | 116,538 |
| Inventory | — | — | — | 99,091 | — | 99,091 |
| Deferred tax assets | — | — | — | 55,563 | — | 55,563 |
| Prepaid and other current assets | — | 2,136 | 639 | 64,669 | — | 67,444 |
| Total current assets | 170,442 | 8,600 | 28,321 | 474,854 | — | 682,217 |
| TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION | — | — | — | 2,080,611 | — | 2,080,611 |
| NET PROPERTY, PLANT AND EQUIPMENT | — | 2,217 | — | 850,215 | — | 852,432 |
| INVESTMENT IN SUBSIDIARIES | 1,575,156 | 1,696,714 | 1,037,668 | — | (4,309,538) | — |
| INTERCOMPANY NOTES RECEIVABLE | 217,073 | — | 20,166 | — | (237,239) | — |
| OTHER ASSETS | 3,928 | 30,171 | 4,513 | 174,179 | — | 212,791 |
| TOTAL ASSETS | \$ 1,966,599 | \$ 1,737,702 | \$ 1,090,668 | \$ 3,579,859 | \$ (4,546,777) | \$ 3,828,051 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| CURRENT LIABILITIES | | | | | | |
| Accounts payable | \$— | \$ 1,129 | \$ 505 | \$ 131,621 | \$— | \$ 133,255 |
| Current maturities of long-term debt | 75,000 | — | — | 463 | — | 75,463 |
| Accrued taxes | — | 2,603 | — | 17,555 | — | 20,158 |
| Accrued payroll and benefits | — | 10,689 | — | 9,800 | — | 20,489 |
| Accrued interest | 3,060 | 538 | 3,753 | 2,484 | — | 9,835 |
| Accrued customer incentives | — | — | — | 10,743 | — | 10,743 |
| Other current liabilities | — | 3,189 | — | 48,653 | — | 51,842 |
| Current liabilities for dispositions and discontinued operations | — | — | — | 8,686 | — | 8,686 |
| Total current liabilities | 78,060 | 18,148 | 4,258 | 230,005 | — | 330,471 |
| LONG-TERM DEBT | 325,000 | — | 979,511 | 287,323 | — | 1,591,834 |
| NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS | — | — | — | 69,442 | — | 69,442 |
| PENSION AND OTHER POSTRETIREMENT BENEFITS | — | 130,244 | — | 28,350 | — | 158,594 |

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| | | | | | | |
|--|-------------|-------------|--------------|-------------|---------------|-------------|
| OTHER NON-CURRENT LIABILITIES | — | 13,989 | — | 13,601 | — | 27,590 |
| INTERCOMPANY PAYABLE | — | 165 | — | 265,823 | (265,988) | — |
| TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY | 1,563,539 | 1,575,156 | 106,899 | 2,598,734 | (4,280,789) | 1,563,539 |
| Noncontrolling interest | — | — | — | 86,581 | — | 86,581 |
| TOTAL SHAREHOLDERS' EQUITY | 1,563,539 | 1,575,156 | 106,899 | 2,685,315 | (4,280,789) | 1,650,120 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$1,966,599 | \$1,737,702 | \$ 1,090,668 | \$3,579,859 | \$(4,546,777) | \$3,828,051 |

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

CONDENSED CONSOLIDATING BALANCE SHEETS

As of December 31, 2012

| | Rayonier Inc.ROC (Parent Guarantor) | Rayonier TRS (Subsidiary Guarantor) | Rayonier TRS Holdings Inc. (Issuer) | Non- guarantors | Consolidating Adjustments | Total Consolidated |
|--|---|---|---|--------------------|------------------------------|-----------------------|
| ASSETS | | | | | | |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents | \$252,888 | \$3,966 | \$ 19,358 | \$4,384 | \$— | \$ 280,596 |
| Accounts receivable, less allowance for doubtful accounts | — | 386 | — | 99,973 | — | 100,359 |
| Inventory | — | — | — | 127,966 | — | 127,966 |
| Deferred tax assets | — | — | — | 15,845 | — | 15,845 |
| Prepaid and other current assets | — | 1,566 | 691 | 39,251 | — | 41,508 |
| Total current assets | 252,888 | 5,918 | 20,049 | 287,419 | — | 566,274 |
| TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION | — | — | — | 1,573,309 | — | 1,573,309 |
| NET PROPERTY, PLANT AND EQUIPMENT | — | 2,321 | — | 704,717 | — | 707,038 |
| INVESTMENT IN JOINT VENTURE | — | — | — | 72,419 | — | 72,419 |
| INVESTMENT IN SUBSIDIARIES | 1,445,205 | 1,677,782 | 1,452,027 | — | (4,575,014) | — |
| INTERCOMPANY NOTES RECEIVABLE | 213,863 | 14,000 | 19,831 | — | (247,694) | — |
| OTHER ASSETS | 4,148 | 27,779 | 5,182 | 166,802 | — | 203,911 |
| TOTAL ASSETS | \$1,916,104 | \$1,727,800 | \$ 1,497,089 | \$2,804,666 | \$(4,822,708) | \$3,122,951 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| CURRENT LIABILITIES | | | | | | |
| Accounts payable | \$— | \$2,099 | \$ 33 | \$68,249 | \$— | \$70,381 |
| Current maturities of long-term debt | 150,000 | — | — | — | — | 150,000 |
| Accrued taxes | — | 485 | — | 13,339 | — | 13,824 |
| Accrued payroll and benefits | — | 15,044 | — | 13,024 | — | 28,068 |
| Accrued interest | 3,100 | 379 | 3,197 | 1,280 | — | 7,956 |
| Accrued customer incentives | — | — | — | 10,849 | — | 10,849 |
| Other current liabilities | — | 2,925 | — | 15,715 | — | 18,640 |
| Current liabilities for dispositions and discontinued operations | — | — | — | 8,105 | — | 8,105 |
| Total current liabilities | 153,100 | 20,932 | 3,230 | 130,561 | — | 307,823 |
| LONG-TERM DEBT | 325,000 | — | 718,321 | 76,731 | — | 1,120,052 |
| NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS | — | — | — | 73,590 | — | 73,590 |

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| | | | | | | |
|---|-------------|-------------|--------------|-------------|---------------|-------------|
| PENSION AND OTHER POSTRETIREMENT BENEFITS | — | 129,156 | — | 30,426 | — | 159,582 |
| OTHER NON-CURRENT LIABILITIES | — | 16,432 | — | 7,468 | — | 23,900 |
| INTERCOMPANY PAYABLE | — | 116,075 | — | 137,797 | (253,872) | — |
| TOTAL SHAREHOLDERS' EQUITY | 1,438,004 | 1,445,205 | 775,538 | 2,348,093 | (4,568,836) | 1,438,004 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$1,916,104 | \$1,727,800 | \$ 1,497,089 | \$2,804,666 | \$(4,822,708) | \$3,122,951 |

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

| | CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS | | | | | |
|---|--|-------------|---------------|------------|---------------|--------------|
| | For the Six Months Ended June 30, 2013 | | | | | |
| | Rayonier Inc | ROC | Rayonier TRS | Non- | Consolidating | Total |
| | (Parent | (Subsidiary | Holdings Inc. | Non- | Adjustments | Consolidated |
| | Guarantor) | Guarantor) | (Issuer) | guarantors | | |
| CASH PROVIDED BY OPERATING ACTIVITIES | \$248,552 | \$247,599 | \$64,000 | \$212,977 | \$ (537,456) | \$235,672 |
| INVESTING ACTIVITIES | | | | | | |
| Capital expenditures | — | (89) | — | (94,037) | — | (94,126) |
| Purchase of additional interest in New Zealand joint venture | — | — | — | (139,879) | — | (139,879) |
| Purchase of timberlands | — | — | — | (10,447) | — | (10,447) |
| Intercompany purchase of real estate | — | — | — | 984 | (984) | — |
| Jesup mill cellulose specialties expansion | — | — | — | (100,185) | — | (100,185) |
| Proceeds from the disposition of Wood Products business | — | — | — | 72,953 | — | 72,953 |
| Change in restricted cash | — | — | — | 7,603 | — | 7,603 |
| Investment in Subsidiaries | (138,178) | (138,178) | (249,481) | — | 525,837 | — |
| Other | — | 1,700 | — | 18,376 | — | 20,076 |
| CASH (USED FOR) INVESTING ACTIVITIES | (138,178) | (136,567) | (249,481) | (244,632) | 524,853 | (244,005) |
| FINANCING ACTIVITIES | | | | | | |
| Issuance of debt | 175,000 | — | 280,000 | — | — | 455,000 |
| Repayment of debt | (250,000) | — | (23,087) | — | — | (273,087) |
| Dividends paid | (113,222) | — | — | — | — | (113,222) |
| Proceeds from the issuance of common shares | 6,643 | — | — | — | — | 6,643 |
| Excess tax benefits on stock-based compensation | — | — | — | 7,399 | — | 7,399 |
| Repurchase of common shares | (11,241) | — | — | — | — | (11,241) |
| Intercompany distributions | — | (108,549) | (64,000) | 159,946 | 12,603 | — |
| CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES | (192,820) | (108,549) | 192,913 | 167,345 | 12,603 | 71,492 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | | | | | |
| Change in cash and cash equivalents | (82,446) | 2,483 | 7,432 | 135,516 | — | 62,985 |
| Balance, beginning of year | 252,888 | 3,966 | 19,358 | 4,384 | — | 280,596 |
| Balance, end of period | \$170,442 | \$6,449 | \$26,790 | \$139,900 | \$— | \$343,581 |

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

| | CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS | | | | | |
|--|--|---|---|--------------------|------------------------------|-----------------------|
| | For the Six Months Ended June 30, 2012 | | | | | |
| | Rayonier IncROC (Parent Guarantor) | Rayonier TRS (Subsidiary Guarantor) | Rayonier TRS Holdings Inc. (Issuer) | Non- guarantors | Consolidating Adjustments | Total Consolidated |
| CASH PROVIDED BY OPERATING ACTIVITIES | \$3,173 | \$51,579 | \$ 12,000 | \$181,124 | \$ (39,000) | \$ 208,876 |
| INVESTING ACTIVITIES | | | | | | |
| Capital expenditures | — | (165) | — | (76,081) | — | (76,246) |
| Purchase of timberlands | — | — | — | (8,687) | — | (8,687) |
| Jesup mill cellulose specialties expansion | — | — | — | (63,998) | — | (63,998) |
| Change in restricted cash | — | — | — | (14,427) | — | (14,427) |
| Investment in Subsidiaries | (5,181) | — | (39,436) | — | 44,617 | — |
| Other | — | (69) | — | (635) | — | (704) |
| CASH USED FOR INVESTING ACTIVITIES | (5,181) | (234) | (39,436) | (163,828) | 44,617 | (164,062) |
| FINANCING ACTIVITIES | | | | | | |
| Issuance of debt | 325,000 | — | 15,000 | 15,000 | — | 355,000 |
| Repayment of debt | (120,000) | (30,000) | (23,110) | (15,000) | — | (188,110) |
| Dividends paid | (98,201) | — | — | — | — | (98,201) |
| Proceeds from the issuance of common shares | 3,980 | — | — | — | — | 3,980 |
| Excess tax benefits on stock-based compensation | — | — | — | 4,234 | — | 4,234 |
| Debt issuance costs | (3,653) | — | — | — | — | (3,653) |
| Repurchase of common shares | (7,783) | — | — | — | — | (7,783) |
| Intercompany distributions | — | 5,181 | (9,233) | 9,669 | (5,617) | — |
| CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES | 99,343 | (24,819) | (17,343) | 13,903 | (5,617) | 65,467 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH CASH AND CASH EQUIVALENTS | | | | | | |
| Change in cash and cash equivalents | 97,335 | 26,526 | (44,779) | 31,418 | — | 110,500 |
| Balance, beginning of year | — | 8,977 | 59,976 | 9,650 | — | 78,603 |
| Balance, end of period | \$97,335 | \$35,503 | \$ 15,197 | \$41,068 | \$ — | \$ 189,103 |

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

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

CONDENSED CONSOLIDATING STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME

For the Three Months Ended June 30, 2013

| | Rayonier Inc. (Parent Issuer) | Subsidiary Guarantors | Non- guarantors | Consolidating Adjustments | Total Consolidated |
|---|-------------------------------------|--------------------------|--------------------|------------------------------|-----------------------|
| SALES | \$— | \$— | \$409,077 | \$— | \$409,077 |
| Costs and Expenses | | | | | |
| Cost of sales | — | — | 297,698 | — | 297,698 |
| Selling and general expenses | — | 2,680 | 14,249 | — | 16,929 |
| Other operating expense (income), net | 180 | (74) | 846 | (661) | 291 |
| | 180 | 2,606 | 312,793 | (661) | 314,918 |
| Equity in income of New Zealand joint venture | — | — | 304 | — | 304 |
| OPERATING (LOSS) INCOME BEFORE GAIN ON CONSOLIDATION OF NEW ZEALAND JOINT VENTURE | (180) | (2,606) | 96,588 | 661 | 94,463 |
| Gain on consolidation of New Zealand joint venture | — | — | 16,098 | — | 16,098 |
| OPERATING (LOSS) INCOME | (180) | (2,606) | 112,686 | 661 | 110,561 |
| Interest (expense) income | (3,414) | (7,263) | 658 | — | (10,019) |
| Interest and miscellaneous income, net | 1,759 | 307 | 532 | — | 2,598 |
| Equity in income from subsidiaries | 89,064 | 96,185 | — | (185,249) | — |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 87,229 | 86,623 | 113,876 | (184,588) | 103,140 |
| Income tax (expense) benefit | (65) | 2,441 | (17,691) | 66 | (15,249) |
| INCOME FROM CONTINUING OPERATIONS | 87,164 | 89,064 | 96,185 | (184,522) | 87,891 |
| DISCONTINUED OPERATIONS, NET | | | | | |
| Income from discontinued operations, net of income taxes | — | — | — | — | — |
| NET INCOME | 87,164 | 89,064 | 96,185 | (184,522) | 87,891 |
| Net income attributable to noncontrolling interest | — | — | 727 | — | 727 |
| NET INCOME ATTRIBUTABLE TO RAYONIER INC. | 87,164 | 89,064 | 95,458 | (184,522) | 87,164 |
| OTHER COMPREHENSIVE INCOME | | | | | |
| Foreign currency translation adjustment | (18,625) | (28,201) | (18,625) | 37,250 | (28,201) |
| New Zealand joint venture cash flow hedges | 878 | 221 | 877 | (1,754) | 222 |
| Amortization of pension and postretirement plans, net of income tax | 3,717 | 3,718 | 6,831 | (10,549) | 3,717 |

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| | | | | | | |
|--|----------|-----------|-----------|------------|------------|---|
| Total other comprehensive loss | (14,030 |) (24,262 |) (10,917 |) 24,947 | (24,262 |) |
| COMPREHENSIVE INCOME | 73,134 | 64,802 | 85,268 | (159,575 |) 63,629 | |
| Comprehensive loss attributable to noncontrolling interest | — | — | (9,505 |) — | (9,505 |) |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC. | \$73,134 | \$64,802 | \$94,773 | \$(159,575 |) \$73,134 | |

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

| | CONDENSED CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME | | | | |
|--|--|--------------------------|--------------------|------------------------------|-----------------------|
| | For the Three Months Ended June 30, 2012 | | | | |
| | Rayonier Inc. (Parent Issuer) | Subsidiary Guarantors | Non- guarantors | Consolidating Adjustments | Total Consolidated |
| SALES | \$— | \$— | \$348,096 | \$— | \$348,096 |
| Costs and Expenses | | | | | |
| Cost of sales | — | — | 243,571 | — | 243,571 |
| Selling and general expenses | — | 1,904 | 13,988 | — | 15,892 |
| Other operating income, net | — | (109) | (5,186) | — | (5,295) |
| | — | 1,795 | 252,373 | — | 254,168 |
| Equity in income of New Zealand joint venture | — | — | 170 | — | 170 |
| OPERATING (EXPENSE) INCOME | — | (1,795) | 95,893 | — | 94,098 |
| Interest expense | (3,117) | (10,455) | (2,484) | — | (16,056) |
| Interest and miscellaneous income (expense), net | 1,544 | 825 | (2,285) | — | 84 |
| Equity in income from subsidiaries | 70,652 | 77,982 | — | (148,634) | — |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 69,079 | 66,557 | 91,124 | (148,634) | 78,126 |
| Income tax benefit (expense) | — | 4,095 | (16,130) | — | (12,035) |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | 69,079 | 70,652 | 74,994 | (148,634) | 66,091 |
| DISCONTINUED OPERATIONS, NET | | | | | |
| Income from discontinued operations, net of income taxes | — | — | 2,988 | — | 2,988 |
| NET INCOME (LOSS) | 69,079 | 70,652 | 77,982 | (148,634) | 69,079 |
| OTHER COMPREHENSIVE INCOME | | | | | |
| Foreign currency translation adjustment | (8,081) | (8,080) | (8,081) | 16,161 | (8,081) |
| New Zealand joint venture cash flow hedges | (1,998) | (1,998) | (1,998) | 3,996 | (1,998) |
| Gain from pension and postretirement plans, net of income tax | 3,401 | 3,401 | 2,579 | (5,980) | 3,401 |
| Total other comprehensive loss | (6,678) | (6,677) | (7,500) | 14,177 | (6,678) |
| COMPREHENSIVE INCOME (LOSS) | \$62,401 | \$63,975 | \$70,482 | \$(134,457) | \$62,401 |

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

| | CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME For the Six Months Ended June 30, 2013 | | | | |
|--|--|--------------------------|--------------------|------------------------------|-----------------------|
| | Rayonier Inc. (Parent Issuer) | Subsidiary Guarantors | Non- guarantors | Consolidating Adjustments | Total Consolidated |
| SALES | \$— | \$— | \$802,796 | \$— | \$802,796 |
| Costs and Expenses | | | | | |
| Cost of sales | — | — | 563,716 | — | 563,716 |
| Selling and general expenses | — | 5,081 | 27,947 | — | 33,028 |
| Other operating (income) expense, net | (1,701) |) 449 | (1,299 |) (661 |) (3,212 |
| | (1,701 |) 5,530 | 590,364 | (661 |) 593,532 |
| Equity in income of New Zealand joint venture | — | — | 562 | — | 562 |
| OPERATING INCOME BEFORE GAIN ON CONSOLIDATION OF NEW ZEALAND JOINT VENTURE | 1,701 | (5,530 |) 212,994 | 661 | 209,826 |
| Gain on consolidation of New Zealand joint venture | — | — | 16,098 | — | 16,098 |
| OPERATING INCOME (LOSS) | 1,701 | (5,530 |) 229,092 | 661 | 225,924 |
| Interest (expense) income | (6,689 |) (14,133 |) 3,086 | — | (17,736 |
| Interest and miscellaneous income (expense), net | 4,178 | 85 | (1,607 |) — | 2,656 |
| Equity in income from subsidiaries | 235,774 | 249,630 | — | (485,404 |) — |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 234,964 | 230,052 | 230,571 | (484,743 |) 210,844 |
| Income tax benefit (expense) | (65 |) 5,722 | (25,418 |) 66 | (19,695 |
| INCOME FROM CONTINUING OPERATIONS | 234,899 | 235,774 | 205,153 | (484,677 |) 191,149 |
| DISCONTINUED OPERATIONS, NET | | | | | |
| Income from discontinued operations, net of income taxes | — | — | 44,477 | — | 44,477 |
| NET INCOME | 234,899 | 235,774 | 249,630 | (484,677 |) 235,626 |
| Net income attributable to noncontrolling interest | — | — | 727 | — | 727 |
| NET INCOME ATTRIBUTABLE TO RAYONIER INC. | 234,899 | 235,774 | 248,903 | (484,677 |) 234,899 |
| OTHER COMPREHENSIVE INCOME | | | | | |
| Foreign currency translation adjustment | (17,650 |) (27,226 |) (17,650 |) 35,300 | (27,226 |
| New Zealand joint venture cash flow hedges | 1,431 | 775 | 1,431 | (2,862 |) 775 |
| Gain from pension and postretirement plans, net of income tax | 8,687 | 8,687 | 6,831 | (15,518 |) 8,687 |
| Total other comprehensive income | (7,532 |) (17,764 |) (9,388 |) 16,920 | (17,764 |
| COMPREHENSIVE INCOME | 227,367 | 218,010 | 240,242 | (467,757 |) 217,862 |
| | — | — | (9,505 |) — | (9,505 |

Comprehensive loss attributable to
noncontrolling interest

| | | | | | |
|---|-----------|-----------|-----------|--------------|-----------|
| COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC. | \$227,367 | \$218,010 | \$249,747 | \$(467,757) | \$227,367 |
|---|-----------|-----------|-----------|--------------|-----------|

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

| | CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME For the Six Months Ended June 30, 2012 | | | | |
|--|--|--------------------------|---|------------------------------|-----------------------|
| | Rayonier Inc. (Parent Issuer) | Subsidiary Guarantors | All Other Subsidiaries (Non- guarantors) | Consolidating Adjustments | Total Consolidated |
| SALES | \$— | \$— | \$684,667 | \$— | \$684,667 |
| Costs and Expenses | | | | | |
| Cost of sales | — | — | 479,279 | — | 479,279 |
| Selling and general expenses | — | 5,215 | 29,942 | — | 35,157 |
| Other operating expense (income), net | — | 12 | (6,445) | — | (6,433) |
| | — | 5,227 | 502,776 | — | 508,003 |
| Equity in income of New Zealand joint venture | — | — | 184 | — | 184 |
| OPERATING (LOSS) INCOME | — | (5,227) | 182,075 | — | 176,848 |
| Interest expense | (4,366) | (20,919) | (2,595) | — | (27,880) |
| Interest and miscellaneous income (expense), net | 3,455 | 944 | (4,339) | — | 60 |
| Equity in income from subsidiaries | 123,426 | 140,688 | — | (264,114) | — |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 122,515 | 115,486 | 175,141 | (264,114) | 149,028 |
| Income tax benefit (expense) | — | 7,940 | (38,278) | — | (30,338) |
| INCOME FROM CONTINUING OPERATIONS | 122,515 | 123,426 | 136,863 | (264,114) | 118,690 |
| DISCONTINUED OPERATIONS, NET | | | | | |
| Income from discontinued operations, net of income tax | — | — | 3,825 | — | 3,825 |
| NET INCOME | 122,515 | 123,426 | 140,688 | (264,114) | 122,515 |
| OTHER COMPREHENSIVE INCOME | | | | | |
| Foreign currency translation adjustment | (2,255) | (2,255) | (2,255) | 4,510 | (2,255) |
| New Zealand joint venture cash flow hedges | (793) | (793) | (793) | 1,586 | (793) |
| Gain from pension and postretirement plans, net of income tax | 6,541 | 6,541 | 4,959 | (11,500) | 6,541 |
| Total other comprehensive income | 3,493 | 3,493 | 1,911 | (5,404) | 3,493 |
| COMPREHENSIVE INCOME | \$126,008 | \$126,919 | \$142,599 | \$(269,518) | \$126,008 |

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

| | CONDENSED CONSOLIDATING BALANCE SHEETS | | | | |
|--|--|--------------------------|---------------------|------------------------------|-----------------------|
| | As of June 30, 2013 | | | | |
| | Rayonier Inc. (Parent Issuer) | Subsidiary Guarantors | Non- guarantors | Consolidating Adjustments | Total Consolidated |
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | \$ 170,442 | \$ 33,239 | \$ 139,900 | \$ — | \$ 343,581 |
| Accounts receivable, less allowance for doubtful accounts | — | 907 | 115,631 | — | 116,538 |
| Inventory | — | — | 99,091 | — | 99,091 |
| Deferred tax asset | — | — | 55,563 | — | 55,563 |
| Prepaid and other current assets | — | 2,775 | 64,669 | — | 67,444 |
| Total current assets | 170,442 | 36,921 | 474,854 | — | 682,217 |
| TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION | — | — | 2,080,611 | — | 2,080,611 |
| NET PROPERTY, PLANT AND EQUIPMENT | — | 2,217 | 850,215 | — | 852,432 |
| INVESTMENT IN JOINT VENTURE | — | — | — | — | — |
| INVESTMENT IN SUBSIDIARIES | 1,575,156 | 2,627,483 | — | (4,202,639) | — |
| INTERCOMPANY NOTES RECEIVABLE | 217,073 | 20,166 | — | (237,239) | — |
| OTHER ASSETS | 3,928 | 34,684 | 174,179 | — | 212,791 |
| TOTAL ASSETS | \$ 1,966,599 | \$ 2,721,471 | \$ 3,579,859 | \$ (4,439,878) | \$ 3,828,051 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts payable | \$ — | \$ 1,634 | \$ 131,621 | \$ — | \$ 133,255 |
| Current maturities of long-term debt | 75,000 | — | 463 | — | 75,463 |
| Accrued taxes | — | 2,603 | 17,555 | — | 20,158 |
| Accrued payroll and benefits | — | 10,689 | 9,800 | — | 20,489 |
| Accrued interest | 3,060 | 4,291 | 2,484 | — | 9,835 |
| Accrued customer incentives | — | — | 10,743 | — | 10,743 |
| Other current liabilities | — | 3,189 | 48,653 | — | 51,842 |
| Current liabilities for dispositions and discontinued operations | — | — | 8,686 | — | 8,686 |
| Total current liabilities | 78,060 | 22,406 | 230,005 | — | 330,471 |
| LONG-TERM DEBT | 325,000 | 979,511 | 287,323 | — | 1,591,834 |
| NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS | — | — | 69,442 | — | 69,442 |
| PENSION AND OTHER POSTRETIREMENT BENEFITS | — | 130,244 | 28,350 | — | 158,594 |
| OTHER NON-CURRENT LIABILITIES | — | 13,989 | 13,601 | — | 27,590 |
| INTERCOMPANY PAYABLE | — | 165 | 265,823 | (265,988) | — |
| | 1,563,539 | 1,575,156 | 2,598,734 | (4,173,890) | 1,563,539 |

| | | | | | |
|---|-------------|-------------|-------------|---------------|-------------|
| TOTAL RAYONIER INC. | | | | | |
| SHAREHOLDERS' EQUITY | | | | | |
| Noncontrolling interest | — | — | 86,581 | — | 86,581 |
| TOTAL SHAREHOLDERS' EQUITY | 1,563,539 | 1,575,156 | 2,685,315 | (4,173,890) | 1,650,120 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$1,966,599 | \$2,721,471 | \$3,579,859 | \$(4,439,878) | \$3,828,051 |

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

| | CONDENSED CONSOLIDATING BALANCE SHEETS | | | | |
|--|--|--------------------------|--------------------|------------------------------|-----------------------|
| | As of December 31, 2012 | | | | |
| | Rayonier Inc. (Parent Issuer) | Subsidiary Guarantors | Non- guarantors | Consolidating Adjustments | Total Consolidated |
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | \$252,888 | \$23,324 | \$4,384 | \$— | \$280,596 |
| Accounts receivable, less allowance for doubtful accounts | — | 386 | 99,973 | — | 100,359 |
| Inventory | — | — | 127,966 | — | 127,966 |
| Deferred tax assets | — | — | 15,845 | — | 15,845 |
| Prepaid and other current assets | — | 2,257 | 39,251 | — | 41,508 |
| Total current assets | 252,888 | 25,967 | 287,419 | — | 566,274 |
| TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION | — | — | 1,573,309 | — | 1,573,309 |
| NET PROPERTY, PLANT AND EQUIPMENT | — | 2,321 | 704,717 | — | 707,038 |
| INVESTMENT IN JOINT VENTURE | — | — | 72,419 | — | 72,419 |
| INVESTMENT IN SUBSIDIARIES | 1,445,205 | 2,354,270 | — | (3,799,475) | — |
| INTERCOMPANY NOTES RECEIVABLE | 213,863 | 33,831 | — | (247,694) | — |
| OTHER ASSETS | 4,148 | 32,961 | 166,802 | — | 203,911 |
| TOTAL ASSETS | \$1,916,104 | \$2,449,350 | \$2,804,666 | \$(4,047,169) | \$3,122,951 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts payable | \$— | \$2,132 | \$68,249 | \$— | \$70,381 |
| Current maturities of long-term debt | 150,000 | — | — | — | 150,000 |
| Accrued taxes | — | 485 | 13,339 | — | 13,824 |
| Accrued payroll and benefits | — | 15,044 | 13,024 | — | 28,068 |
| Accrued interest | 3,100 | 3,576 | 1,280 | — | 7,956 |
| Accrued customer incentives | — | — | 10,849 | — | 10,849 |
| Other current liabilities | — | 2,925 | 15,715 | — | 18,640 |
| Current liabilities for dispositions and discontinued operations | — | — | 8,105 | — | 8,105 |
| Total current liabilities | 153,100 | 24,162 | 130,561 | — | 307,823 |
| LONG-TERM DEBT | 325,000 | 718,321 | 76,731 | — | 1,120,052 |
| NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS | — | — | 73,590 | — | 73,590 |
| PENSION AND OTHER POSTRETIREMENT BENEFITS | — | 129,156 | 30,426 | — | 159,582 |
| OTHER NON-CURRENT LIABILITIES | — | 16,432 | 7,468 | — | 23,900 |
| INTERCOMPANY PAYABLE | — | 116,074 | 137,797 | (253,871) | — |
| TOTAL SHAREHOLDERS' EQUITY | 1,438,004 | 1,445,205 | 2,348,093 | (3,793,298) | 1,438,004 |

| | | | | | |
|---|-------------|-------------|-------------|---------------|-------------|
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$1,916,104 | \$2,449,350 | \$2,804,666 | \$(4,047,169) | \$3,122,951 |
|---|-------------|-------------|-------------|---------------|-------------|

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

| | CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS | | | | |
|--|--|--------------------------|--------------------|------------------------------|-----------------------|
| | For the Six Months Ended June 30, 2013 | | | | |
| | Rayonier Inc. (Parent Issuer) | Subsidiary Guarantors | Non- guarantors | Consolidating Adjustments | Total Consolidated |
| CASH PROVIDED BY OPERATING ACTIVITIES | \$248,552 | \$247,599 | \$212,977 | \$ (473,456) | \$235,672 |
| INVESTING ACTIVITIES | | | | | |
| Capital expenditures | — | (89) | (94,037) | — | (94,126) |
| Purchase of additional interest in New Zealand joint venture | — | — | (139,879) | — | (139,879) |
| Purchase of timberlands | — | — | (10,447) | — | (10,447) |
| Intercompany purchase of real estate | — | — | 984 | (984) | — |
| Jesup mill cellulose specialties expansion | — | — | (100,185) | — | (100,185) |
| Proceeds from the disposition of Wood Products business | — | — | 72,953 | — | 72,953 |
| Change in restricted cash | — | — | 7,603 | — | 7,603 |
| Investment in Subsidiaries | (138,178) | (387,659) | — | 525,837 | — |
| Other | — | 1,700 | 18,376 | — | 20,076 |
| CASH (USED FOR) INVESTING ACTIVITIES | (138,178) | (386,048) | (244,632) | 524,853 | (244,005) |
| FINANCING ACTIVITIES | | | | | |
| Issuance of debt | 175,000 | 280,000 | — | — | 455,000 |
| Repayment of debt | (250,000) | (23,087) | — | — | (273,087) |
| Dividends paid | (113,222) | — | — | — | (113,222) |
| Proceeds from the issuance of common shares | 6,643 | — | — | — | 6,643 |
| Excess tax benefits on stock-based compensation | — | — | 7,399 | — | 7,399 |
| Debt issuance costs | — | — | — | — | — |
| Repurchase of common shares | (11,241) | — | — | — | (11,241) |
| Issuance of intercompany notes | — | — | — | — | — |
| Intercompany distributions | — | (108,549) | 159,946 | (51,397) | — |
| CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES | (192,820) | 148,364 | 167,345 | (51,397) | 71,492 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | — | — | (174) | — | (174) |
| CASH AND CASH EQUIVALENTS | | | | | |
| Change in cash and cash equivalents | (82,446) | 9,915 | 135,516 | — | 62,985 |
| Balance, beginning of year | 252,888 | 23,324 | 4,384 | — | 280,596 |
| Balance, end of period | \$170,442 | \$33,239 | \$139,900 | \$— | \$343,581 |

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

| | CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS | | | | |
|---|--|--------------------------|--------------------|------------------------------|-----------------------|
| | For the Six Months Ended June 30, 2012 | | | | |
| | Rayonier Inc. (Parent Issuer) | Subsidiary Guarantors | Non- guarantors | Consolidating Adjustments | Total Consolidated |
| CASH PROVIDED BY OPERATING ACTIVITIES | \$3,173 | \$54,346 | \$181,124 | \$(29,767) | \$208,876 |
| INVESTING ACTIVITIES | | | | | |
| Capital expenditures | — | (165) | (76,081) | — | (76,246) |
| Purchase of timberlands | — | — | (8,687) | — | (8,687) |
| Jesup mill cellulose specialties expansion | — | — | (63,998) | — | (63,998) |
| Change in restricted cash | — | — | (14,427) | — | (14,427) |
| Investment in Subsidiaries | (5,181) | (39,436) | — | 44,617 | — |
| Other | — | (69) | (635) | — | (704) |
| CASH (USED FOR) INVESTING ACTIVITIES | (5,181) | (39,670) | (163,828) | 44,617 | (164,062) |
| FINANCING ACTIVITIES | | | | | |
| Issuance of debt | 325,000 | 15,000 | 15,000 | — | 355,000 |
| Repayment of debt | (120,000) | (53,110) | (15,000) | — | (188,110) |
| Dividends paid | (98,201) | — | — | — | (98,201) |
| Proceeds from the issuance of common shares | 3,980 | — | — | — | 3,980 |
| Excess tax benefits on stock-based compensation | — | — | 4,234 | — | 4,234 |
| Debt issuance costs | (3,653) | — | — | — | (3,653) |
| Repurchase of common shares | (7,783) | — | — | — | (7,783) |
| Intercompany distributions | — | 5,181 | 9,669 | (14,850) | — |
| CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES | 99,343 | (32,929) | 13,903 | (14,850) | 65,467 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | — | — | 219 | — | 219 |
| CASH AND CASH EQUIVALENTS | | | | | |
| Change in cash and cash equivalents | 97,335 | (18,253) | 31,418 | — | 110,500 |
| Balance, beginning of year | — | 68,953 | 9,650 | — | 78,603 |
| Balance, end of period | \$97,335 | \$50,700 | \$41,068 | \$— | \$189,103 |

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

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

The Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide a reader of our financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity, and certain other factors which may affect future results. Our MD&A should be read in conjunction with the 2012 Annual Report on Form 10-K and information contained in our subsequent Forms 10-Q, 8-K, and other reports to the SEC.

Forward-Looking Statements

Certain statements in this document regarding anticipated financial outcomes including earnings guidance, if any, business and market conditions, outlook and other similar statements relating to Rayonier's future events, developments, or financial or operational performance or results, are "forward-looking statements" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. These forward-looking statements are identified by the use of words such as "may," "will," "should," "expect," "estimate," "believe," "intend," "anticipate" and other similar language. However, the absence of these or similar words or expressions does not mean that a statement is not forward-looking. While management believes that these forward-looking statements are reasonable when made, forward-looking statements are not guarantees of future performance or events and undue reliance should not be placed on these statements. The risk factors contained in Item 1A — Risk Factors in our 2012 Annual Report on Form 10-K, among others, could cause actual results or events to differ materially from the Company's historical experience and those expressed in forward-looking statements made in this document. Forward-looking statements are only as of the date they are made, and the Company undertakes no duty to update its forward-looking statements except as required by law. You are advised, however, to review any further disclosures we make on related subjects in our subsequent Forms 10-Q, 10-K, 8-K and other reports to the SEC.

Critical Accounting Policies and Use of Estimates

The preparation of financial statements requires us to make estimates, assumptions and judgments that affect our assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. We base these estimates and assumptions on historical data and trends, current fact patterns, expectations and other sources of information we believe are reasonable. Actual results may differ from these estimates.

Derivatives and Hedging

We use derivatives to manage a variety of risks, including risks related to interest rates, foreign exchange and commodity prices. Accounting for derivatives as hedges requires that, at inception and over the term of the arrangement, the hedged item and related derivative meet the requirements for hedge accounting. The rules and interpretations related to derivatives accounting are complex. Failure to apply this complex guidance correctly may result in volatility in reported earnings.

In evaluating whether a particular relationship qualifies for hedge accounting, we test effectiveness at inception. Quarterly, we evaluate ongoing effectiveness by determining whether changes in the fair value of the derivative offset, within a specified range, changes in the fair value of the hedged item. If not, we discontinue applying hedge accounting to that relationship prospectively. Fair values of derivative instruments are calculated using valuation models incorporating market-based assumptions including deposit/swap rates (for interest rate swaps), foreign exchange spot rates and foreign exchange ticks (for foreign currency forwards).

We also use derivatives that do not qualify for hedge accounting treatment. We account for such derivatives at market value with the resulting gains and losses reflected in our income statement. We do not use derivative instruments for trading or speculative purposes. We perform assessments of our counterparty credit risk regularly, including a review of credit ratings, credit default swap rates and potential nonperformance of the counterparty. Based on our most recent

assessment of our counterparty credit risk, we consider this risk to be low. In addition, we enter into derivative contracts with a variety of financial institutions that we believe are creditworthy in order to reduce our concentration of credit risk.

At June 30, 2013, derivative assets and liabilities were \$69 thousand and \$11.1 million, respectively. See Note 9 — Derivative Financial Instruments and Hedging Activities for additional information about our use of derivatives.

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For a full description of our critical accounting policies, see Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations in the 2012 Annual Report on Form 10-K.

Segments

We are a leading international forest products company primarily engaged in timberland management, the sale of real estate, and the production and sale of high-value specialty cellulose fibers and fluff pulp. We operate in three reportable business segments: Forest Resources, Real Estate and Performance Fibers. Prior to the first quarter of 2013, the Company operated in four reportable business segments, which included Wood Products. In March 2013, the Company sold its Wood Products business and its operations are shown as discontinued operations for all periods presented. See Note 2 — Sale of Wood Products Business for additional information. In April 2013, the Company purchased an additional 39 percent interest in Matariki Forestry Group, a joint venture (“JV”) that owns or leases approximately 0.3 million acres of New Zealand timberlands. As a result of the acquisition, Rayonier is a 65 percent owner of the JV and the results of its operations have been included within the Forest Resources segment, in the Company’s consolidated financial statements. See Note 6 — Joint Venture Investment for additional information. Forest Resources sales include all activities which relate to the harvesting of timber. Real Estate sales include all property sales, including those designated for higher and better use (“HBU”). The assets of the Real Estate segment include HBU property held by our real estate subsidiary, TerraPointe LLC. The Performance Fibers segment includes two major product lines, cellulose specialties and absorbent materials. Our remaining operations include harvesting and selling timber acquired from third parties (log trading). These operations are combined and reported in “Other Operations.” Sales between operating segments are made based on estimated fair market value, and intercompany sales, purchases and profits or losses are eliminated in consolidation.

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

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Results of Operations

| Financial Information (in millions) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|--------|---------------------------|--------|
| | 2013 | 2012 | 2013 | 2012 |
| Sales | | | | |
| Forest Resources | | | | |
| Atlantic | \$19 | \$16 | \$37 | \$31 |
| Gulf States | 13 | 9 | 25 | 19 |
| Northern | 30 | 26 | 54 | 50 |
| New Zealand | 47 | 2 | 50 | 5 |
| Total Forest Resources | 109 | 53 | 166 | 105 |
| Real Estate | | | | |
| Development | — | — | 2 | — |
| Rural | 9 | 11 | 11 | 23 |
| Non-Strategic Timberlands | 4 | 1 | 25 | 1 |
| Total Real Estate | 13 | 12 | 38 | 24 |
| Performance Fibers | | | | |
| Cellulose specialties | 233 | 220 | 480 | 432 |
| Absorbent materials | 20 | 35 | 57 | 73 |
| Total Performance Fibers | 253 | 255 | 537 | 505 |
| Other Operations | 34 | 28 | 62 | 51 |
| Total Sales | \$409 | \$348 | \$803 | \$685 |
| Operating Income (Loss) | | | | |
| Forest Resources | \$21 | \$8 | \$34 | \$16 |
| Real Estate | 6 | 6 | 23 | 12 |
| Performance Fibers | 79 | 84 | 171 | 164 |
| Other Operations | 2 | 1 | 2 | — |
| Corporate and other (a) | 3 | (5 |) (4 |) (15 |
| Operating Income | 111 | 94 | 226 | 177 |
| Interest Expense, Interest Income and Other | (8 |) (16 |) (15 |) (28 |
| Income Tax Expense | (15 |) (12 |) (20 |) (30 |
| Income from Continuing Operations | \$88 | \$66 | \$191 | \$119 |
| Discontinued Operations, Net | — | 3 | 45 | 4 |
| Net Income | \$88 | \$69 | \$236 | \$123 |
| Net income Attributable to Noncontrolling Interest | (1 |) — | (1 |) — |
| Net Income Attributable to Rayonier Inc. | \$87 | \$69 | \$235 | \$123 |
| Diluted Earnings Per Share Attributable to Rayonier Inc. | | | | |
| Continuing Operations | \$0.67 | \$0.52 | \$1.46 | \$0.93 |
| Discontinued Operations | — | 0.02 | 0.34 | 0.03 |
| Net Income | \$0.67 | \$0.54 | \$1.80 | \$0.96 |

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

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FOREST RESOURCES

| Sales (in millions) | 2012 | Changes Attributable to: | | | 2013 |
|-----------------------------|-------|--------------------------|----------------------|---|-------|
| Three Months Ended June 30, | | Price | Volume/ Mix/Other | | |
| Atlantic | \$16 | \$1 | \$2 | | \$19 |
| Gulf States | 9 | — | 4 | | 13 |
| Northern | 26 | 5 | (1 |) | 30 |
| New Zealand | 2 | — | 45 | | 47 |
| Total Sales | \$53 | \$6 | \$50 | | \$109 |
| Sales (in millions) | 2012 | Changes Attributable to: | | | 2013 |
| Six Months Ended June 30, | | Price | Volume/ Mix/Other | | |
| Atlantic | \$31 | \$3 | \$3 | | \$37 |
| Gulf States | 19 | 2 | 4 | | 25 |
| Northern | 50 | 6 | (2 |) | 54 |
| New Zealand | 5 | — | 45 | | 50 |
| Total Sales | \$105 | \$11 | \$50 | | \$166 |

| Operating Income (in millions) | 2012 | Changes Attributable to: | | | 2013 | |
|--------------------------------|------|--------------------------|----------------|------------|------|----|
| Three Months Ended June 30, | | Price | Volume/ Mix | Cost/Other | | |
| Atlantic | \$2 | \$1 | \$— | \$2 | \$5 | |
| Gulf States | 2 | — | 1 | — | 3 | |
| Northern | 4 | 5 | 2 | (1 |) | 10 |
| New Zealand/Other | — | — | — | 3 | 3 | |
| Total Operating Income | \$8 | \$6 | \$3 | \$4 | \$21 | |
| Operating Income (in millions) | 2012 | Changes Attributable to: | | | 2013 | |
| Six Months Ended June 30, | | Price | Volume/ Mix | Cost/Other | | |
| Atlantic | \$5 | \$3 | \$1 | \$1 | \$10 | |
| Gulf States | 2 | 2 | 1 | — | 5 | |
| Northern | 8 | 6 | 3 | (2 |) | 15 |
| New Zealand/Other | 1 | — | — | 3 | 4 | |
| Total Operating Income | \$16 | \$11 | \$5 | \$2 | \$34 | |

In the Atlantic region, both sales and operating income increased for the three and six months ended June 30, 2013 as compared to prior year periods. The increases were driven by higher pulpwood and sawlog demand and wet weather conditions restricting supply.

The Gulf region's sales and operating income for the 2013 periods also improved over 2012 primarily due to higher sawlog demand and increased volumes as a result of our Texas acquisition at the end of 2012. These increases were partially offset by lower non-timber income.

In the Northern region, improved domestic and export demand led to 13 percent and 10 percent price increases in the second quarter and year-to-date 2013 periods compared to prior year periods, respectively. The improved demand also drove volume increases of 20 percent and 11 percent comparing the same periods. Both 2013 periods were also impacted by higher logging costs.

In April 2013, we acquired an additional 39 percent ownership interest in our New Zealand JV for \$140 million. As a 65 percent owner, we consolidated 100 percent of the JV's results of operations for the first time during the second quarter of 2013. Higher sales and operating results for the three and six months ended June 30, 2013 over the prior

year periods reflect our increased ownership.

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REAL ESTATE

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

| | | | | |
|-----------------------------|------|--------------------------|------------|------|
| Sales (in millions) | 2012 | Changes Attributable to: | | 2013 |
| Three Months Ended June 30, | | Price | Volume/Mix | |
| Development | \$— | \$— | \$— | \$— |
| Rural | 11 | (2 |) — | 9 |
| Non-Strategic Timberlands | 1 | 1 | 2 | 4 |
| Total Sales | \$12 | \$(1 |) \$2 | \$13 |
| Sales (in millions) | 2012 | Changes Attributable to: | | 2013 |
| Six Months Ended June 30, | | Price | Volume/Mix | |
| Development | \$— | \$1 | \$1 | \$2 |
| Rural | 23 | (1 |) (11 |) 11 |
| Non-Strategic Timberlands | 1 | 13 | 11 | 25 |
| Total Sales | \$24 | \$13 | \$1 | \$38 |

| | | | | |
|--------------------------------|------|--------------------------|------------|--------|
| Operating Income (in millions) | 2012 | Changes Attributable to: | | 2013 |
| Three Months Ended June 30, | | Price | Volume/Mix | |
| Total Operating Income | \$6 | \$(1 |) \$1 | \$6 |
| Operating Income (in millions) | 2012 | Changes Attributable to: | | 2013 |
| Six Months Ended June 30, | | Price | Volume/Mix | |
| Total Operating Income | \$12 | \$13 | \$(2 |) \$23 |

Second quarter sales of \$13 million were slightly higher than the prior year period, while operating income of \$6 million was consistent with 2012. Year-to-date, sales were \$14 million higher than 2012 and operating income was \$11 million above the prior year as higher non-strategic prices and volumes more than offset lower rural prices (due to mix) and volumes.

PERFORMANCE FIBERS

| | | | | |
|-----------------------------|-------|--------------------------|----------------|---------|
| Sales (in millions) | 2012 | Changes Attributable to: | | 2013 |
| Three Months Ended June 30, | | Price | Volume/ Mix | |
| Cellulose specialties | \$220 | \$1 | \$12 | \$233 |
| Absorbent materials | 35 | (2 |) (13 |) 20 |
| Total Sales | \$255 | \$(1 |) \$(1 |) \$253 |
| Sales (in millions) | 2012 | Changes Attributable to: | | 2013 |
| Six Months Ended June 30, | | Price | Volume/ Mix | |
| Cellulose specialties | \$432 | \$9 | \$39 | \$480 |
| Absorbent materials | 73 | (7 |) (9 |) 57 |
| Total Sales | \$505 | \$2 | \$30 | \$537 |

Cellulose specialties prices improved in 2013 versus the prior year periods while volumes increased 5 percent and 9 percent for the quarter and year-to-date, respectively, due to the timing of customer orders. Absorbent materials sales decreased from the prior year periods as prices declined 10 percent and 11 percent, reflecting weakness in that market. Volumes dropped 37 percent for the quarter and 13 percent year-to-date, as we exit the absorbent materials business in conjunction with our CSE project.

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| | | | | | |
|--------------------------------|-------|--------------------------|----------------|------------|-------|
| Operating Income (in millions) | | Changes Attributable to: | | | |
| Three Months Ended June 30, | 2012 | Price | Volume/ Mix | Cost/Other | 2013 |
| Total Operating Income | \$84 | \$(1) | \$5 | \$(9) | \$79 |
| Operating Income (in millions) | | Changes Attributable to: | | | |
| Six Months Ended June 30, | 2012 | Price | Volume/ Mix | Cost/Other | 2013 |
| Total Operating Income | \$164 | \$2 | \$15 | \$(10) | \$171 |

Operating income declined \$5 million for the three months ended June 30, 2013 primarily due to higher wood and chemical prices and production costs. Year-to-date operating income was \$7 million above prior year as higher cellulose specialties prices and volumes more than offset lower absorbent materials results and increased costs. During the second quarter, we reached an important milestone by the on time start-up of the cellulose specialties expansion (“CSE”) project at our Jesup mill, with total project cost expected to be in the range of \$375 million to \$390 million. We plan on exiting the commodity absorbent materials business completely and moving to producing only cellulose specialties. Initially, we plan to produce commodity viscose as we commence customer qualifications for cellulose specialties from the converted line. As we complete customer qualifications and transition from producing commodity viscose to cellulose specialties, phased-in production of cellulose specialties from the CSE is expected to be 5,000 to 20,000 tons in 2013 and 90,000 to 100,000 tons in 2014. We expect to reach the full production rate of 190,000 tons of new cellulose specialties capacity in 2016. As production of cellulose specialties increases, we anticipate total sales and operating income to increase as higher prices received on the additional cellulose specialties volumes more than offset expected cost increases of approximately 11 percent for 2013 and the net 70,000 metric ton reduction in overall production capacity. For the quarter ended June 30, 2013, our cellulose specialties average sales price of \$1,902 per metric ton was \$1,258 above our absorbent materials average sales price per metric ton. We expect our costs to increase during the CSE phase-in due to start-up and higher conversion costs and depreciation expense.

OTHER OPERATIONS

Sales from our New Zealand log trading business increased \$6 million and \$11 million in 2013 over the prior year three and six month periods, respectively, due to increased Asian demand. Operating income increased \$1 million and \$2 million over the three and six months ended June 30, 2012, primarily due to foreign currency exchange gains.

Corporate and Other Expense/Eliminations

Corporate and other expenses for second quarter 2013 decreased \$8 million and \$11 million from the respective prior year quarter and year-to-date periods. The decreases were primarily due to the \$16 million gain related to the consolidation of the New Zealand JV. The gain includes the recognition of a \$10.1 million deferred gain based on the original sale of our New Zealand operations to the JV in 2005 and a \$6 million benefit due to the required fair market value remeasurement of our equity interest in the JV held before the purchase of the additional interest. Excluding the gain related to the consolidation of the New Zealand JV, corporate and other expenses increased due to higher legal, compensation and corporate development costs in the second quarter and increased legal costs in the year-to-date period. The prior year periods also benefited from a \$2 million insurance recovery.

Interest Expense/Income and Income Tax Expense

Interest and other expenses were \$8 million and \$13 million below the three and six month periods ended June 30, 2012, respectively. The decline in interest expense was primarily due to lower borrowing rates and higher capitalized interest related to the CSE project. Additionally, second quarter 2012 included a \$3 million interest accrual related to the alternative fuel mixture (“AFMC”) for cellulosic biofuel producer credit (“CBPC”) exchange.

The June 30, 2013 effective tax rates before discrete items were 20.7 percent and 21.9 percent for the quarter and year-to-date periods. The effective tax rates for the comparable 2012 periods were 26.3 percent and 26.4 percent, respectively. The decrease in the quarter and year-to-date effective tax rates was primarily due to proportionally higher REIT operating results in 2013. Including discrete items, primarily the AFMC for CBPC exchanges, the effective tax rates were 14.8 percent and 9.3 percent for the three and six months ended June 30, 2013, respectively, and 15.4 percent and 20.4 percent for the comparable 2012 periods. See Note 4 — Income Taxes for additional

information.

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Outlook

In Forest Resources, sawlog demand and prices are benefiting from the early stages of a gradually improving housing market, and Asian demand for sawlogs from our US Northwest and New Zealand timberlands remains strong. In Real Estate, we are seeing increased interest in our development properties and demand for our nonstrategic timberlands. In this transition year for Performance Fibers, we recently reached an important milestone by the on time start-up of the CSE project at our Jesup mill. Early production volumes and quality results have exceeded our expectations. We will begin qualifying production from the converted line with cellulose specialties customers in the third quarter.

Consistent with our earlier guidance, we expect earnings from continuing operations to be weighted more heavily to the first half of the year with the benefit of tax credits recognized in the first quarter and the impact of the CSE project phase-in on the second half. Overall, excluding the results of the Wood Products business and gain on sale, and the gain related to consolidation of our New Zealand JV, we expect 2013 operating income to be slightly above 2012, and 2013 EPS to be moderately above 2012 reflecting lower income tax and interest expenses.

Our full year 2013 financial guidance is subject to a number of variables and uncertainties, including those discussed under Item 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations, Forward-Looking Statements of this Form 10-Q and Item 1A — Risk Factors in our 2012 Annual Report on Form 10-K.

Employee Relations

On June 30, 2012, collective bargaining agreements covering approximately 700 hourly employees at our Jesup mill expired. Negotiations were successfully concluded on March 28, 2013, and the unions ratified a new agreement on April 12, 2013 that will expire on June 30, 2017. See Item 1 — Business and Item 1A — Risk Factors in our 2012 Annual Report on Form 10-K for additional information on employee relations.

Liquidity and Capital Resources

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

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

| | June 30, 2013 | December 31, 2012 | | |
|---|------------------|----------------------|--|---|
| Cash and cash equivalents (a) | \$344 | \$281 | | |
| Total debt | 1,667 | 1,270 | | |
| Shareholders’ equity | 1,650 | 1,438 | | |
| Total capitalization (total debt plus equity) | 3,317 | 2,708 | | |
| Debt to capital ratio | 50 | % 47 | | % |

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

Cash Flows (in millions of dollars)

The following table summarizes our cash flows from operating, investing and financing activities for the six months ended June 30:

| | 2013 | 2012 |
|------------------------------|-------|--------|
| Cash provided by (used for): | | |
| Operating activities | \$236 | \$209 |
| Investing activities | (244 |) (164 |
| Financing activities | 71 | 65 |

Cash Provided by Operating Activities

Cash provided by operating activities increased primarily due to stronger operating results across all segments. Partially offsetting these results was the Company’s election to pay \$70 million to exchange the AFMC for the CBPC. This resulted in a \$19 million discrete tax benefit in 2013 reflecting reduced future tax payments of \$89 million, including approximately \$60 million realized during 2013 and \$29 million expected to be realized in the first half of 2014.

Table of Contents**Cash Used for Investing Activities**

Cash used for investing activities increased mainly due to the purchase of an additional 39 percent interest in the New Zealand JV for \$140 million and higher capital expenditures including the CSE project. This spending was partially offset by net proceeds of \$73 million from the sale of our Wood Products business and a change in restricted cash due to the timing of like-kind exchanges.

Cash Provided by Financing Activities

Cash provided by financing activities increased primarily due to net borrowings of \$182 million through the second quarter of 2013 versus net borrowings of \$167 million in the prior year period.

Expected 2013 Expenditures

Capital expenditures in 2013 are forecasted between \$155 million and \$165 million, excluding strategic timberland acquisitions, the CSE project and the purchase of the additional interest in our New Zealand JV. We spent \$100 million through the second quarter of 2013 on the CSE project and expect total 2013 CSE spending to range between \$130 million and \$145 million. Annual dividend payments are expected to increase from \$207 million in 2012 to \$237 million in 2013 including the recent increase in the quarterly dividend rate from 44 cents to 49 cents per share effective with the third quarter payment.

We have no mandatory pension contributions in 2013 but may make discretionary contributions. Cash payments for income taxes in 2013 are anticipated to be between \$75 million and \$80 million, excluding taxes related to the gain on the Wood Products sale. Expenditures for environmental costs related to our dispositions and discontinued operations are expected to be \$8 million. See Note 13 — Liabilities for Dispositions and Discontinued Operations for further information.

Performance and Liquidity Indicators

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|-------|---------------------------|-------|
| | 2013 | 2012 | 2013 | 2012 |
| Net Income to EBITDA Reconciliation | | | | |
| Net Income | \$88 | \$69 | \$236 | \$123 |
| Interest, net | 8 | 16 | 15 | 28 |
| Income tax expense, continuing operations | 15 | 12 | 20 | 30 |
| Income tax expense, discontinued operations | — | 2 | 22 | 2 |
| Depreciation, depletion and amortization | 44 | 34 | 80 | 64 |
| Depreciation, depletion and amortization from discontinued operations | — | 1 | 1 | 2 |
| EBITDA | \$155 | \$134 | \$374 | \$249 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------|-----------------------------|-------|---------------------------|-------|
| | 2013 | 2012 | 2013 | 2012 |
| EBITDA by Segment | | | | |
| Forest Resources | \$49 | \$25 | \$78 | \$50 |
| Real Estate | 8 | 8 | 29 | 15 |
| Performance Fibers | 93 | 99 | 200 | 190 |
| Other Operations | 2 | 1 | 2 | — |
| Corporate and other | 3 | 1 | 65 | (6 |
| EBITDA | \$155 | \$134 | \$374 | \$249 |

Second quarter 2013 Corporate and other includes a \$16 million gain related to the consolidation of the New Zealand JV. Six months ended 2013 results include a \$64 million gain on the sale of Wood Products and the \$16 million gain related to the consolidation of the New Zealand JV. For the six months ended June 30, 2013, consolidated EBITDA was above the prior year period primarily due to these items as well as higher operating results.

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

| | Forest Resources | Real Estate | Performance Fibers | Other Operations | Corporate and Other | Total |
|--|------------------|-------------|--------------------|------------------|---------------------|-------|
| Three Months Ended June 30, 2013 | | | | | | |
| Operating Income | \$21 | \$6 | \$79 | \$2 | \$3 | \$111 |
| Add: Depreciation, depletion and amortization | 28 | 2 | 14 | — | — | 44 |
| Add: Income from discontinued operations | — | — | — | — | — | — |
| Add: Depreciation, depletion and amortization from discontinued operations | — | — | — | — | — | — |
| EBITDA | \$49 | \$8 | \$93 | \$2 | \$3 | \$155 |

Three Months Ended June 30, 2012

| | | | | | | |
|--|------|-----|------|-----|------|--------|
| Operating Income | \$8 | \$6 | \$84 | \$1 | \$(5 |) \$94 |
| Add: Depreciation, depletion and amortization | 17 | 2 | 15 | — | — | 34 |
| Add: Income from discontinued operations | — | — | — | — | 5 | 5 |
| Add: Depreciation, depletion and amortization from discontinued operations | — | — | — | — | 1 | 1 |
| EBITDA | \$25 | \$8 | \$99 | \$1 | \$1 | \$134 |

Six Months Ended June 30, 2013

| | | | | | | |
|--|------|------|-------|-----|------|---------|
| Operating Income | \$34 | \$23 | \$171 | \$2 | \$(4 |) \$226 |
| Add: Depreciation, depletion and amortization | 44 | 6 | 29 | — | 1 | 80 |
| Add: Income from discontinued operations | — | — | — | — | 67 | 67 |
| Add: Depreciation, depletion and amortization from discontinued operations | — | — | — | — | 1 | 1 |
| EBITDA | \$78 | \$29 | \$200 | \$2 | \$65 | \$374 |

Six Months Ended June 30, 2012

| | | | | | | |
|--|------|------|-------|-----|-------|---------|
| Operating Income | \$16 | \$12 | \$164 | \$— | \$(15 |) \$177 |
| Add: Depreciation, depletion and amortization | 34 | 3 | 26 | — | 1 | 64 |
| Add: Income from discontinued operations | — | — | — | — | 6 | 6 |
| Add: Depreciation, depletion and amortization from discontinued operations | — | — | — | — | 2 | 2 |

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EBITDA \$50 \$15 \$190 \$— \$(6) \$249

Adjusted CAD is a non-GAAP measure of cash generated during a period which is available for dividend distribution, repurchase of the Company's common shares, debt reduction and strategic acquisitions. We define CAD as Cash Provided by Operating Activities adjusted for capital spending, the change in committed cash, and other items which include cash provided by discontinued operations, excess tax benefits on stock-based compensation and the change in capital expenditures purchased on

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account. Committed cash represents outstanding checks that have been drawn on our zero balance bank accounts but have not been paid. In compliance with SEC requirements for non-GAAP measures, we reduce CAD by mandatory debt repayments which results in the measure entitled “Adjusted CAD.”

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

| | Six Months Ended June 30, | |
|---|---------------------------|----------|
| | 2013 | 2012 |
| Cash provided by operating activities | \$236 | \$209 |
| Capital expenditures (a) | (94 |) (76 |
| Change in committed cash | — | 3 |
| Excess tax benefits on stock-based compensation | 7 | 4 |
| Other | 21 | 1 |
| CAD | 170 | 141 |
| Mandatory debt repayments | — | (23 |
| Adjusted CAD | \$170 | \$118 |
| Cash used for investing activities | \$(244 |) \$(164 |
| Cash provided by financing activities | \$71 | \$65 |

Capital expenditures exclude strategic capital. Strategic capital totaled \$114 million for the CSE, \$140 million for the New Zealand acquisition and \$10 million for timberland acquisitions for the six months ended June 30, 2013. (a) Strategic capital totaled \$73 million for the CSE and \$9 million for timberland acquisitions for the six months ended June 30, 2012.

Adjusted CAD was higher in 2013 primarily due to favorable operating results and lower working capital requirements due to the timing of accounts payable payments, partially offset by a \$70 million tax payment to exchange AFMC for CBPC. Adjusted CAD generated in any period is not necessarily indicative of the amounts that may be generated in future periods.

Liquidity Facilities

During the six months ended June 30, 2013, we made net repayments of \$15 million on our \$450 million unsecured revolving credit facility. The Company had \$187 million of available borrowings under this facility at June 30, 2013. We also borrowed an additional \$200 million on our term credit agreement for general corporate purposes.

As of March 31, 2013, our \$172.5 million 4.50% Senior Exchangeable Notes due 2015 became exchangeable at the option of the holders for the calendar quarter ending June 30, 2013. Per the indenture, in order for the notes to become exchangeable, the Company’s stock price must exceed 130 percent of the exchange price for 20 trading days in a period of 30 consecutive trading days as of the last day of the quarter. During the quarter ended June 30, 2013, the note holders did not elect to exercise the exchange option. These notes are also exchangeable in the third quarter based upon the average stock price for the 30 trading days ending June 30, 2013. If the note holders exercise their options prior to September 30, 2013, the Company intends to repay the principal of the notes by accessing its revolving credit facility. Any excess exchange value will be settled at the option of the Company in either cash or stock of Rayonier. In connection with our installment note, term credit agreement and credit facility, covenants must be met, including ratios based on the covenant definition of EBITDA, ratios based on consolidated funded debt compared to consolidated net worth, ratios of subsidiary debt to consolidated net tangible assets and ratios of cash flows to fixed charges. Covenants must also be met in connection with the New Zealand JV’s credit facility, including ratios of debt to forestry and land valuations and ratios of operating cash flows to financing costs. At June 30, 2013, we are in compliance with all of these covenants. In addition to these financial covenants, the installment note, mortgage note, term credit agreement and revolving credit facility include customary covenants that limit the incurrence of debt and the disposition of assets, among others.

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Contractual Financial Obligations and Off-Balance Sheet Arrangements

The following table updates our contractual financial obligations and anticipated cash spending related to the New Zealand JV, which has been consolidated as a result of our acquisition of a controlling interest:

| Contractual Financial Obligations (in millions) | Total | Payments Due by Period | | | |
|---|-------|------------------------|-----------|-----------|------------|
| | | Remaining 2013 | 2014-2015 | 2016-2017 | Thereafter |
| Long-term debt (a) | \$181 | \$— | \$123 | \$58 | \$— |
| Interest payments on long-term debt (b) | 13 | 3 | 8 | 2 | — |
| Operating leases — timberland | 105 | 1 | 5 | 5 | 94 |
| Purchase obligations (c) | 11 | 1 | 1 | 1 | 8 |
| Total contractual cash obligations | \$310 | \$5 | \$137 | \$66 | \$102 |

Contractual payments were calculated based on outstanding principal amounts and maturity dates as of June 30, (a) 2013. The maturity dates changed in July 2013 due to the amendment of the Senior Secured Revolving Credit Agreement. See Note 16 — Debt for additional information on this subsequent event.

Projected interest payments for variable-rate debt were calculated based on outstanding principal amounts and (b) interest rates as of June 30, 2013. For changes made in conjunction with the subsequent refinancing, see Note 16 — Debt.

Purchase obligations represent derivative instruments held. See Note 9 — Derivative Financial Instruments and (c) Hedging Activities.

Excluding the New Zealand JV obligations outlined above, we have no material changes to the Contractual Financial Obligations table as presented in Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations of our 2012 Annual Report on Form 10-K. See Note 11 — Guarantees for details on the letters of credit, surety bonds and guarantees as of June 30, 2013.

Sales Volumes by Segment:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|-------|---------------------------|--------|
| | 2013 | 2012 | 2013 | 2012 |
| Forest Resources — in thousands of short green tons | | | | |
| Atlantic | 904 | 823 | 1,772 | 1,560 |
| Gulf States | 514 | 403 | 923 | 845 |
| Northern | 512 | 426 | 967 | 868 |
| New Zealand | 601 | — | 601 | — |
| Total | 2,531 | 1,652 | 4,263 | 3,273 |
| Real Estate — in acres | | | | |
| Development | 47 | 15 | 133 | 35 |
| Rural | 3,831 | 4,036 | 5,006 | 9,488 |
| Non-Strategic Timberlands | 3,372 | 717 | 8,947 | 956 |
| Total | 7,250 | 4,768 | 14,086 | 10,479 |
| Performance Fibers | | | | |
| Sales volume — in thousands of metric tons | | | | |
| Cellulose specialties | 123 | 116 | 255 | 234 |
| Absorbent materials | 29 | 46 | 85 | 97 |
| Total | 152 | 162 | 340 | 331 |

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market and Other Economic Risks

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

Cyclical pricing of commodity market paper pulp is one of the factors which influences Performance Fibers' prices in the absorbent materials product line. However, as a non-integrated producer of absorbent materials, primarily fluff pulp, for non-papermaking end uses, our absorbent material pricing tends to lag (on both the upturn and downturn) commodity paper pulp prices with pricing adjustments that are less severe. Our cellulose specialty products' prices are based on market supply and demand and are not correlated to commodity paper pulp prices. In addition, a majority of our cellulose specialty products are under long-term volume contracts that extend through 2013 to 2017.

As of June 30, 2013 we had \$881 million of long-term variable rate debt which is subject to interest rate risk. At this borrowing level, a hypothetical one-percentage point increase/decrease in interest rates would result in a corresponding increase/decrease of approximately \$8.8 million in interest payments and expense over a 12 month period. Our primary interest rate exposure on variable rate debt results from changes in LIBOR and the New Zealand 90 day bank bill rate. The Company's New Zealand JV uses interest rate swaps to manage its exposure to interest rate movements on its bank loan by swapping a portion of these borrowings from floating rates to fixed rates. The notional amounts of the outstanding interest rate swap contracts at June 30, 2013 were \$172.5 million. The interest rate swap contracts have maturities between one and ten years.

The fair market value of our long-term fixed interest rate debt is also subject to interest rate risk. However, we intend to hold most of our debt until maturity. The estimated fair value of our fixed-rate debt at June 30, 2013 was \$837 million compared to \$713 million in carrying value. We use interest rates of debt with similar terms and maturities to estimate the fair value of our debt. Generally, the fair market value of fixed-rate debt will increase as interest rates fall and decrease as interest rates rise. A hypothetical one-percentage point increase/decrease in prevailing interest rates at June 30, 2013 would result in a corresponding decrease/increase in the fair value of our fixed-rate debt of approximately \$35 million.

We periodically enter into commodity forward contracts to fix some of our fuel oil, diesel and natural gas costs. The forward contracts partially mitigate the risk of a change in Performance Fibers and the New Zealand JV's margins resulting from an increase or decrease in these energy costs. At June 30, 2013, the notional amount of our outstanding diesel contracts was 40 thousand barrels.

The functional currency of the Company's New Zealand-based operations and JV is the New Zealand dollar. Through these operations and our ownership in the New Zealand JV, we are exposed to foreign currency risk on cash held in foreign currencies and on foreign export sales and ocean freight payments that are predominantly denominated in U.S. dollars. To mitigate these risks, the JV routinely enters into foreign currency exchange contracts and foreign currency option contracts to hedge a portion of the JV's foreign exchange exposure. At June 30, 2013, the JV had foreign currency exchange contracts with a notional amount of \$26 million and foreign currency option contracts with a notional amount of \$56 million outstanding.

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

Based on an evaluation of our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q, our management, including the Chief Executive Officer and Chief Financial Officer, concluded the design and operation of the disclosure controls and procedures were effective as of June 30, 2013.

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In the quarter ended June 30, 2013, based upon the evaluation required by paragraph (d) of SEC Rule 13a-15, there were no changes in our internal control over financial reporting that would materially affect or are reasonably likely to materially affect our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 6. Exhibits

| | | |
|------|---|--------------------|
| 10.1 | Summary of Bonus Award to Charles Margiotta Chief Executive Officer's Certification Pursuant to Rule 13a-14(a) / | Filed herewith |
| 31.1 | 15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 Chief Financial Officer's Certification Pursuant to Rule | Filed herewith |
| 31.2 | 13a-14(a)/15d-14-(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 32 | Certification of Periodic Financial Reports Under Section 906 of the Sarbanes-Oxley Act of 2002 The following financial information from our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2013, formatted in Extensible Business Reporting Language ("XBRL"), includes: (i) the Consolidated Statements of Income and Comprehensive Income for the Three and Six Months Ended June 30, 2013 and 2012; (ii) the | Furnished herewith |
| 101 | Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012 (iii) the Consolidated Statements of Cash Flows for the Six Months Ended June, 2013 and 2012; and (iv) the Notes to Consolidated Financial Statements | Filed herewith |

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SIGNATURE

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

RAYONIER INC.
(Registrant)

By: /S/ HANS E. VANDEN NOORT
Hans E. Vanden Noort
Senior Vice President, Chief Financial Officer and
Treasurer
(Duly Authorized Officer, Principal Financial Officer and
Principal Accounting Officer)

Date: July 26, 2013