

RAYONIER INC  
Form 10-Q  
August 08, 2014  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

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

Commission File Number 1-6780

RAYONIER INC.

Incorporated in the State of North Carolina

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

225 WATER STREET, SUITE 1400

JACKSONVILLE, FL 32202

(Principal Executive Office)

Telephone Number: (904) 357-9100

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

YES  NO

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

YES  NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

YES  NO

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



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

**BASIC EARNINGS PER SHARE ATTRIBUTABLE TO  
RAYONIER INC.**

|                         |        |        |        |        |
|-------------------------|--------|--------|--------|--------|
| Continuing Operations   | \$0.05 | \$0.31 | \$0.15 | \$0.46 |
| Discontinued Operations | 0.10   | 0.38   | 0.34   | 1.42   |
| Net Income              | \$0.15 | \$0.69 | \$0.49 | \$1.88 |

**DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO  
RAYONIER INC.**

|                         |        |        |        |        |
|-------------------------|--------|--------|--------|--------|
| Continuing Operations   | \$0.05 | \$0.30 | \$0.14 | \$0.44 |
| Discontinued Operations | 0.09   | 0.37   | 0.33   | 1.36   |
| Net Income              | \$0.14 | \$0.67 | \$0.47 | \$1.80 |

See Notes to Consolidated Financial Statements.

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

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

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COMMITMENTS AND CONTINGENCIES (Notes 12 and 14)

SHAREHOLDERS' EQUITY

|   |             |             |   |
|---|-------------|-------------|---|
| Common Shares, 480,000,000 shares authorized, 126,529,693 and 126,257,870 shares issued and outstanding | 698,462     | 692,100     |   |
| Retained earnings   | 891,629     | 1,015,209   |   |
| Accumulated other comprehensive income (loss)   | 30,891      | (46,139)    | ) |
| TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY  | 1,620,982   | 1,661,170   |   |
| Noncontrolling interest   | 98,866      | 94,073      |   |
| TOTAL SHAREHOLDERS' EQUITY  | 1,719,848   | 1,755,243   |   |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY  | \$2,635,957 | \$3,685,501 |   |

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



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|  |                 |          |               |
|--|-----------------|----------|---------------|
| Change in restricted cash reserved for dividends                     | (75,000         | )        | —             |
| Other  | (680            | )        | —             |
| <b>CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES</b>              | <b>(111,268</b> | <b>)</b> | <b>71,492</b> |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>                       | <b>(50</b>      | <b>)</b> | <b>(174</b>   |
|  |                 |          | <b>)</b>      |
| <b>CASH AND CASH EQUIVALENTS</b>                                     |                 |          |               |
| Change in cash and cash equivalents                                  | 22,417          |          | 62,985        |
| Balance, beginning of year   | 199,644         |          | 280,596       |
| Balance, end of period   | \$222,061       |          | \$343,581     |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>             |                 |          |               |
| Cash paid during the period:   |                 |          |               |
| Interest   | \$26,980        |          | \$16,754      |
| Income taxes   | 10,417          |          | 84,508        |
| Non-cash investing activity:   |                 |          |               |
| Capital assets purchased on account                                  | 11,547          |          | 59,729        |
| Non-cash financing activity:   |                 |          |               |
| Shareholder debt assumed in acquisition of New Zealand joint venture | —               |          | 125,532       |
| Conversion of shareholder debt to equity noncontrolling interest     | —               |          | (95,961       |
|  |                 |          | )             |

See Notes to Consolidated Financial Statements.

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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, 2013, as filed with the SEC.

Reclassifications

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

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

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

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

New Accounting Standards

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

In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The standard requires a disposal of a component of an entity to be reported in discontinued operations if it represents a strategic shift with a major effect on an entity’s operations and financial

results. It also removes requirements related to the evaluation of the component's effect on ongoing operations and the entity's continuing involvement with the component. Additional disclosures about discontinued operations are also required under this standard. ASU No. 2014-08 is required to be applied prospectively for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning December 15, 2014. As the Company has not elected early adoption, this standard will be effective for Rayonier's first quarter 2015 Form 10-Q filing. It is not expected that the standard will have any impact on the Company's consolidated financial statements.

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

Subsequent Events

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

2. DISCONTINUED OPERATIONS

Spin-Off of the Performance Fibers Business

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

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

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

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

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

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

The Employee Matters Agreement governs the compensation and employee benefit obligations with respect to the current and former employees and non-employee directors of Rayonier and Rayonier Advanced Materials, and generally allocates liabilities and responsibilities relating to employee compensation, benefit plans and programs. The Employee Matters Agreement provides that employees of Rayonier Advanced Materials will no longer participate in benefit plans sponsored or maintained by Rayonier. In addition, the Employee Matters Agreement provides that each of the parties will be responsible for their respective current employees and compensation plans for such current employees. The Employee Matters Agreement further provides that Rayonier Advanced Materials will be responsible for liabilities associated with former employees whose last employment was with the businesses that are to be

operated by Rayonier Advanced Materials after the spin-off, including the Performance Fibers business, as well as certain specified former corporate employees, and Rayonier will remain responsible for former employees whose last employment was with the businesses retained by Rayonier following the spin-off and certain specified corporate employees.

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

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

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

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

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

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

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

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

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

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

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

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

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

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

**Sale of Wood Products Business**

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

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

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

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

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

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

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

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



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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 3. EARNINGS PER COMMON SHARE

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

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

(a) Rayonier will not issue additional shares upon future exchange or maturity of the Senior Exchangeable Notes due 2015 (the "2015 Notes") due to offsetting hedges. Accounting Standards Codification 260, Earnings Per Share requires the assumed conversion of the 2015 Notes to be included in dilutive shares if the average stock price for the period

exceeds the strike price, while the assumed conversion of the hedges is excluded since they are anti-dilutive. As such, the full dilutive effect of the 2015 Notes was included for all periods presented.

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

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

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

#### 4. INCOME TAXES

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

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

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

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

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

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

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

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

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

Provision for Income Taxes from Discontinued Operations

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

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

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

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

Unrecognized Tax Benefits

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

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

Deferred Taxes

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

5. RESTRICTED CASH AND DEPOSITS

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

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

6. JOINT VENTURE INVESTMENT

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

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

the additional interest. The acquisition-date fair value of the previous equity interest was \$93.3 million.

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

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

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



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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 7. SHAREHOLDERS' EQUITY

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

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

Foreign currency translation  
adjustment

|                                |             |           |           |          |          |             |
|--------------------------------|-------------|-----------|-----------|----------|----------|-------------|
| Joint venture cash flow hedges | —           | —         | —         | 514      | 277      | 791         |
| Balance, June 30, 2014         | 126,529,693 | \$698,462 | \$891,629 | \$30,891 | \$98,866 | \$1,719,848 |

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 8. SEGMENT AND GEOGRAPHICAL INFORMATION

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

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

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

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

|                           | June 30,                    |           | December 31,              |           |
|---------------------------|-----------------------------|-----------|---------------------------|-----------|
|                           | 2014                        |           | 2013                      |           |
| ASSETS                    |                             |           |                           |           |
| Forest Resources          | \$2,288,157                 |           | \$2,162,913               |           |
| Real Estate               | 96,277                      |           | 149,001                   |           |
| Other Operations          | 24,860                      |           | 37,334                    |           |
| Corporate and other       | 226,663                     |           | 257,608                   |           |
| Performance Fibers        | —                           |           | 1,078,645                 |           |
| Total                     | \$2,635,957                 |           | \$3,685,501               |           |
|                           |                             |           |                           |           |
|                           | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
| SALES                     | 2014                        | 2013      | 2014                      | 2013      |
| Forest Resources          | \$101,120                   | \$109,060 | \$205,799                 | \$166,162 |
| Real Estate               | 34,017                      | 13,376    | 39,547                    | 37,673    |
| Other Operations          | 29,224                      | 32,709    | 64,910                    | 58,458    |
| Intersegment Eliminations | (1,216                      | ) (256    | ) (3,924                  | ) (351    |
| Total                     | \$163,145                   | \$154,889 | \$306,332                 | \$261,942 |

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

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

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

## 9. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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

## Foreign Currency Exchange and Option Contracts

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

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

## Interest Rate Swaps

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

New Zealand JV's variable rate debt and had maturity dates through January 2020.

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## Fuel Hedge Contracts

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

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

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

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

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

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

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

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

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

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

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

Offsetting Derivatives

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





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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 10. FAIR VALUE MEASUREMENTS

## Fair Value of Financial Instruments

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

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

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

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

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

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

Restricted cash of \$6 million and \$69 million, as of June 30, 2014 and December 31, 2013, respectively, is recorded in “Other Assets” and represents the proceeds from LKE sales deposited with a third-party intermediary.

(a) Restricted cash of \$75 million as of June 30, 2014 is recorded in “Restricted cash” and represents the funds restricted to pay dividends or repurchase common stock within eighteen months following the spin-off.

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

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

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

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

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

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

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



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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 11. GUARANTEES

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

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

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

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

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

## 12. COMMITMENTS

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

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

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

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

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

The New Zealand JV has a number of Crown Forest Licenses ("CFL") with the New Zealand government, which are excluded from the table above. A CFL consists of a license to use public or government owned land to operate a

commercial forest. The CFL's extend indefinitely and may only be terminated upon a 35 year termination notice from the government. If no termination notice is given, the CFLs renew automatically each year for a one year term. As of June 30, 2014, the New Zealand JV has two CFL's under termination notice, terminating in 2034 and 2046, and two fixed term CFL's expiring in 2062. The annual license fee is determined based on current market value, with triennial rent reviews. The total annual license fee on the CFL's is \$2.7 million per year with CFL's terminating or expiring of \$0.2 million.

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

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

## 14. CONTINGENCIES

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

## 15. INCENTIVE STOCK PLANS

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

## Stock Option Awards

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

## Restricted Stock Awards

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

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

Performance Share Awards

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

Performance share awards granted in 2012 (with a 2012-2014 performance period) continue to be subject to the same performance criteria as applied immediately prior to the spin-off, except that total shareholder return at the end of the performance period will be based on the combined stock prices of Rayonier and Rayonier Advanced Materials and any payment earned will be made in shares of Rayonier common stock and shares of Rayonier Advanced Materials common stock.

Performance share awards granted in 2013 (with a 2013-2015 performance period) were cancelled as of the distribution date and will be replaced with time-vested restricted stock of the post-separation employer of each holder (Rayonier or Rayonier Advanced Materials, as the case may be) that will vest 24 months after the distribution date, generally subject to the holder's continued employment. The number of shares of time-vested restricted stock granted will be determined in a manner intended to preserve the original value of the performance share award, subject to rounding.

Performance share awards granted in 2014 (with a 2014-2016 performance period) were cancelled and will be replaced with performance share awards of the post-separation employer of each holder (Rayonier or Rayonier Advanced Materials, as the case may be), and will be subject to the achievement of performance criteria that relate to the post-separation business of the applicable employer during a performance period ending December 31, 2016. The number of shares underlying each such performance share award will be determined in a manner intended to preserve the original value of the award, subject to rounding.

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

16. EMPLOYEE BENEFIT PLANS

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

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

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

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

|   | Pension            |           | Postretirement     |         |
|---|--------------------|-----------|--------------------|---------|
|   | Three Months Ended |           | Three Months Ended |         |
|   | June 30,           |           | June 30,           |         |
|   | 2014               | 2013      | 2014               | 2013    |
| Components of Net Periodic Benefit Cost |                    |           |                    |         |
| Service cost                            | \$1,544            | \$2,011   | \$147              | \$249   |
| Interest cost                           | 4,452              | 3,953     | 199                | 240     |
| Expected return on plan assets          | (6,330 )           | (5,966 )  | —                  | —       |
| Amortization of prior service cost      | 277                | 322       | 4                  | 6       |
| Amortization of losses                  | 2,603              | 4,791     | 116                | 218     |
| Amortization of negative plan amendment | —                  | —         | (133 )             | —       |
| Net periodic benefit cost               | \$2,546            | \$5,111   | \$333              | \$713   |
|   | Pension            |           | Postretirement     |         |
|   | Six Months Ended   |           | Six Months Ended   |         |
|   | June 30,           |           | June 30,           |         |
|   | 2014               | 2013      | 2014               | 2013    |
| Components of Net Periodic Benefit Cost |                    |           |                    |         |
| Service cost                            | \$3,168            | \$4,430   | \$326              | \$498   |
| Interest cost                           | 9,135              | 8,787     | 405                | 480     |
| Expected return on plan assets          | (12,988 )          | (13,390 ) | —                  | —       |
| Amortization of prior service cost      | 569                | 710       | 8                  | 13      |
| Amortization of losses                  | 5,340              | 10,516    | 245                | 436     |
| Amortization of negative plan amendment | —                  | —         | (267 )             | —       |
| Net periodic benefit cost               | \$5,224            | \$11,053  | \$717              | \$1,427 |

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

## 17. DEBT

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

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

Net repayments of \$80 million were made in the first quarter on the revolving facility. At June 30, 2014, the Company had available borrowings of \$448 million under the credit facility and additional draws available of \$640 million

under the term credit agreement. The Company's borrowing capacity on these instruments was reduced in July 2014, as discussed below.

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

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

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

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

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

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

## Subsequent Event

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

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 18. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

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

Reflects \$81 million, net of taxes, of additional losses transferred to Rayonier Advanced Materials Pension Plans (a) offset by \$25 million, net of taxes, of additional losses as a result of the revaluation required due to the spin-off.

See Note 16 — Employee Benefit Plans for additional information.

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

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

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

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 19. OTHER OPERATING INCOME, NET

Other operating income, net was comprised of the following:

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

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 20. CONSOLIDATING FINANCIAL STATEMENTS

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

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

CONDENSED CONSOLIDATING STATEMENTS OF INCOME  
AND COMPREHENSIVE INCOME

For the Three Months Ended June 30, 2014

|  | Rayonier Inc<br>(Parent<br>Guarantor) | ROC<br>(Subsidiary<br>Guarantor) | Rayonier TRS<br>Holdings<br>Inc.<br>(Issuer) | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|--|---------------------------------------|----------------------------------|--|--------------------|------------------------------|-----------------------|
| SALES  | \$—                                   | \$—                              | \$—  | \$163,145          | \$—                          | \$163,145             |
| Costs and Expenses                                       |                                       |                                  |  |                    |                              |                       |
| Cost of sales  | —                                     | —                                | —  | 121,105            | —                            | 121,105               |
| Selling and general expenses                             | —                                     | 2,394                            | —  | 11,467             | —                            | 13,861                |
| Other operating expense (income), net                    | —                                     | 1,573                            | —  | (12,962)           | —                            | (11,389)              |
|  | —                                     | 3,967                            | —  | 119,610            | —                            | 123,577               |
| OPERATING (LOSS) INCOME                                  | —                                     | (3,967)                          | —  | 43,535             | —                            | 39,568                |
| Interest expense   | (3,196)                               | (225)                            | (10,982)                                     | (1,209)            | —                            | (15,612)              |
| Interest and miscellaneous income (expense), net         | 2,733                                 | (3,003)                          | (1,098)                                      | (3,017)            | —                            | (4,385)               |
| Equity in income from subsidiaries                       | 18,848                                | 25,583                           | (10,946)                                     | —                  | (33,485)                     | —                     |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES    | 18,385                                | 18,388                           | (23,026)                                     | 39,309             | (33,485)                     | 19,571                |
| Income tax benefit (expense)                             | —                                     | 460                              | 4,409  | (18,384)           | —                            | (13,515)              |
| INCOME (LOSS) FROM CONTINUING OPERATIONS, NET            | 18,385                                | 18,848                           | (18,617)                                     | 20,925             | (33,485)                     | 6,056                 |
| Income from discontinued operations, net of income taxes | —                                     | —                                | —  | 12,084             | —                            | 12,084                |
| NET INCOME (LOSS)  | 18,385                                | 18,848                           | (18,617)                                     | 33,009             | (33,485)                     | 18,140                |
| Less: Net loss attributable to noncontrolling interest   | —                                     | —                                | —  | (245)              | —                            | (245)                 |
| NET INCOME (LOSS) ATTRIBUTABLE TO RAYONIER INC.          | 18,385                                | 18,848                           | (18,617)                                     | 33,254             | (33,485)                     | 18,385                |

OTHER COMPREHENSIVE  
INCOME

|   |          |           |           |            |             |             |   |
|---|----------|-----------|-----------|------------|-------------|-------------|---|
| Foreign currency translation adjustment                             | 2,653    | 2,653     | 513       | 3,517      | (5,819      | ) 3,517     |   |
| New Zealand joint venture cash flow hedges                          | (598     | ) (598    | ) (598    | ) (920     | ) 1,794     | (920        | ) |
| Amortization of pension and postretirement plans, net of income tax | 58,873   | 58,873    | 92,714    | 92,714     | (244,301    | ) 58,873    |   |
| Total other comprehensive income                                    | 60,928   | 60,928    | 92,629    | 95,311     | (248,326    | ) 61,470    |   |
| COMPREHENSIVE INCOME  | 79,313   | 79,776    | 74,012    | 128,320    | (281,811    | ) 79,610    |   |
| Less: Comprehensive income attributable to noncontrolling interest  | —        | —         | —         | 297        | —           | 297         |   |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.                  | \$79,313 | \$ 79,776 | \$ 74,012 | \$ 128,023 | \$ (281,811 | ) \$ 79,313 |   |

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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<br>AND COMPREHENSIVE INCOME |             |              |            |               |              |
|---|--|-------------|--------------|------------|---------------|--------------|
|   | For the Three Months Ended June 30, 2013                                 |             |              |            |               |              |
|   | Rayonier Inc   | ROC         | Rayonier TRS |            | Consolidating | Total        |
|   | (Parent  | (Subsidiary | Holdings     | Non-       | Adjustments   | Consolidated |
|   | Guarantor)   | Guarantor)  | Inc.         | guarantors |               |              |
|   |  |             | (Issuer)     |            |               |              |
| SALES   | \$—  | \$—         | \$—          | \$154,889  | \$—           | \$154,889    |
| Costs and Expenses  |  |             |              |            |               |              |
| Cost of sales   | —  | —           | —            | 127,861    | —             | 127,861      |
| Selling and general expenses  | —  | 2,680       | —            | 12,023     | —             | 14,703       |
| Other operating expense (income), net   | 180  | (74 )       | —            | (3,069 )   | (661 )        | (3,624 )     |
|   | 180  | 2,606       | —            | 136,815    | (661 )        | 138,940      |
| Equity in income of New Zealand joint venture                                     | —  | —           | —            | 304        | —             | 304          |
| OPERATING (LOSS) INCOME BEFORE GAIN ON CONSOLIDATION OF NEW ZEALAND JOINT VENTURE | (180 )   | (2,606 )    | —            | 18,378     | 661           | 16,253       |
| Gain related to consolidation of New Zealand joint venture                        | —  | —           | —            | 16,098     | —             | 16,098       |
| OPERATING (LOSS) INCOME   | (180 )   | (2,606 )    | —            | 34,476     | 661           | 32,351       |
| Interest expense  | (3,414 )   | (266 )      | (6,997 )     | (674 )     | —             | (11,351 )    |
| Interest and miscellaneous income (expense), net                                  | 1,759  | 1,104       | (797 )       | 618        | —             | 2,684        |
| Equity in income from subsidiaries  | 89,064   | 91,235      | 35,968       | —          | (216,267 )    | —            |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES                             | 87,229   | 89,467      | 28,174       | 34,420     | (215,606 )    | 23,684       |
| Income tax (expense) benefit  | (65 )  | (403 )      | 2,847        | 13,505     | 63            | 15,947       |
| INCOME FROM CONTINUING OPERATIONS   | 87,164   | 89,064      | 31,021       | 47,925     | (215,543 )    | 39,631       |
| DISCONTINUED OPERATIONS, NET  |  |             |              |            |               |              |
| Income from discontinued operations, net of income taxes                          | —  | —           | —            | 48,260     | —             | 48,260       |
| NET INCOME  | 87,164   | 89,064      | 31,021       | 96,185     | (215,543 )    | 87,891       |
| Less: 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  | (18,625 )  | (28,201 )   | (1,725 )     | (18,625 )  | 38,975        | (28,201 )    |

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|   |          |            |           |            |              |             |
|---|----------|------------|-----------|------------|--------------|-------------|
| Foreign currency translation adjustment                             |          |            |           |            |              |             |
| 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    |
| Less: 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)

|  | CONSOLIDATING STATEMENTS OF INCOME<br>AND COMPREHENSIVE INCOME |                                  |   |                    |                              |                       |
|--|--|----------------------------------|---|--------------------|------------------------------|-----------------------|
|  | For the Six Months Ended June 30, 2014                         |                                  |   |                    |                              |                       |
|  | Rayonier Inc<br>(Parent<br>Guarantor)                          | ROC<br>(Subsidiary<br>Guarantor) | Rayonier TRS<br>Holdings Inc.<br>(Issuer) | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
| SALES  | \$—  | \$—                              | \$—                                       | \$306,332          | \$—                          | \$306,332             |
| Costs and Expenses   |  |                                  |   |                    |                              |                       |
| Cost of sales  | —  | —                                | —   | 235,036            | —                            | 235,036               |
| Selling and general expenses   | —  | 4,544                            | —   | 22,554             | —                            | 27,098                |
| Other operating expense (income),<br>net   | —  | 3,948                            | —   | (15,712)           | —                            | (11,764)              |
|  | —  | 8,492                            | —   | 241,878            | —                            | 250,370               |
| OPERATING INCOME (LOSS)<br>BEFORE GAIN ON<br>CONSOLIDATION OF NEW<br>ZEALAND JOINT VENTURE | —  | (8,492)                          | —   | 64,454             | —                            | 55,962                |
| OPERATING INCOME (LOSS)  | —  | (8,492)                          | —   | 64,454             | —                            | 55,962                |
| Interest expense   | (6,389)  | (468)                            | (17,672)                                  | (1,757)            | —                            | (26,286)              |
| Interest and miscellaneous income<br>(expense), net  | 5,431  | (2,189)                          | (2,145)                                   | (6,494)            | —                            | (5,397)               |
| Equity in income from subsidiaries   | 62,718   | 74,030                           | 20,164                                    | —                  | (156,912)                    | —                     |
| INCOME FROM CONTINUING<br>OPERATIONS BEFORE INCOME<br>TAXES                                | 61,760   | 62,881                           | 347                                       | 56,203             | (156,912)                    | 24,279                |
| Income tax benefit (expense)   | —  | (163)                            | 7,233                                     | (13,009)           | —                            | (5,939)               |
| INCOME FROM CONTINUING<br>OPERATIONS   | 61,760   | 62,718                           | 7,580                                     | 43,194             | (156,912)                    | 18,340                |
| DISCONTINUED OPERATIONS,<br>NET  |  |                                  |   |                    |                              |                       |
| Income from discontinued<br>operations, net of income tax                                  | —  | —                                | —   | 43,092             | —                            | 43,092                |
| NET INCOME   | 61,760   | 62,718                           | 7,580                                     | 86,286             | (156,912)                    | 61,432                |
| Less: Net loss attributable to<br>noncontrolling interest                                  | —  | —                                | —   | (328)              | —                            | (328)                 |
| NET INCOME ATTRIBUTABLE<br>TO RAYONIER INC.  | 61,760   | 62,718                           | 7,580                                     | 86,614             | (156,912)                    | 61,760                |
| OTHER COMPREHENSIVE<br>INCOME  |  |                                  |   |                    |                              |                       |
| Foreign currency translation<br>adjustment   | 15,547   | 15,547                           | 1,279                                     | 21,312             | (32,365)                     | 21,320                |
| New Zealand joint venture cash<br>flow hedges  | 514  | 514                              | 514                                       | 791                | (1,542)                      | 791                   |
| Amortization of pension and<br>postretirement plans, net of income                         | 60,970   | 60,970                           | 94,334                                    | 94,334             | (249,638)                    | 60,970                |



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|  |            |            |            |            |               |            |
|--|------------|------------|------------|------------|---------------|------------|
| tax  |            |            |            |            |               |            |
| Total other comprehensive income                                   | 77,031     | 77,031     | 96,127     | 116,437    | (283,545 )    | 83,081     |
| COMPREHENSIVE INCOME   | 138,791    | 139,749    | 103,707    | 202,723    | (440,457 )    | 144,513    |
| Less: Comprehensive income attributable to noncontrolling interest | —          | —          | —          | 5,722      | —             | 5,722      |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.                 | \$ 138,791 | \$ 139,749 | \$ 103,707 | \$ 197,001 | \$ (440,457 ) | \$ 138,791 |

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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<br>AND COMPREHENSIVE INCOME<br>For the Six Months Ended June 30, 2013 |                                  |  |                |                              |                       |
|--|--|----------------------------------|--|----------------|------------------------------|-----------------------|
|  | Rayonier Inc<br>(Parent<br>Guarantor)  | ROC<br>(Subsidiary<br>Guarantor) | Rayonier TRS<br>Holdings<br>Inc.<br>(Issuer) | Non-guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
| SALES  | \$—  | \$—                              | \$—  | \$ 261,942     | \$—                          | \$ 261,942            |
| Costs and Expenses   |  |                                  |  |                |                              |                       |
| Cost of sales  | —  | —                                | —  | 204,520        | —                            | 204,520               |
| Selling and general expenses   | —  | 5,081                            | —  | 23,019         | —                            | 28,100                |
| Other operating (income) expense,<br>net   | (1,701 )   | 449                              | —  | (5,859 )       | (661 )                       | (7,772 )              |
|  | (1,701 )   | 5,530                            | —  | 221,680        | (661 )                       | 224,848               |
| Equity in income of New Zealand<br>joint venture   | —  | —                                | —  | 562            | —                            | 562                   |
| OPERATING INCOME (LOSS)<br>BEFORE GAIN ON<br>CONSOLIDATION OF NEW<br>ZEALAND JOINT VENTURE | 1,701  | (5,530 )                         | —  | 40,824         | 661                          | 37,656                |
| Gain related to consolidation of<br>New Zealand joint venture                              | —  | —                                | —  | 16,098         | —                            | 16,098                |
| OPERATING INCOME (LOSS)  | 1,701  | (5,530 )                         | —  | 56,922         | 661                          | 53,754                |
| Interest (expense) income  | (6,689 )   | (518 )                           | (13,615 )                                    | 1,019          | —                            | (19,803 )             |
| Interest and miscellaneous income<br>(expense), net  | 4,178  | 1,633                            | (1,548 )                                     | (1,497 )       | —                            | 2,766                 |
| Equity in income from subsidiaries   | 235,774  | 240,000                          | 159,437                                      | —              | (635,211 )                   | —                     |
| INCOME FROM CONTINUING<br>OPERATIONS BEFORE<br>INCOME TAXES                                | 234,964  | 235,585                          | 144,274                                      | 56,444         | (634,550 )                   | 36,717                |
| Income tax (expense) benefit   | (65 )  | 189                              | 5,537  | 16,219         | 62                           | 21,942                |
| INCOME FROM CONTINUING<br>OPERATIONS   | 234,899  | 235,774                          | 149,811                                      | 72,663         | (634,488 )                   | 58,659                |
| DISCONTINUED OPERATIONS,<br>NET  |  |                                  |  |                |                              |                       |
| Income from discontinued<br>operations, net of income taxes                                | —  | —                                | —  | 176,967        | —                            | 176,967               |
| NET INCOME   | 234,899  | 235,774                          | 149,811                                      | 249,630        | (634,488 )                   | 235,626               |
| Less: Net income attributable to<br>noncontrolling interest                                | —  | —                                | —  | 727            | —                            | 727                   |
| NET INCOME ATTRIBUTABLE<br>TO RAYONIER INC.  | 234,899  | 235,774                          | 149,811                                      | 248,903        | (634,488 )                   | 234,899               |
| OTHER COMPREHENSIVE<br>INCOME  | (17,650 )  | (27,226 )                        | (1,485 )                                     | (17,650 )      | 36,785                       | (27,226 )             |

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|   |           |            |            |            |               |            |
|---|-----------|------------|------------|------------|---------------|------------|
| Foreign currency translation adjustment                             |           |            |            |            |               |            |
| 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    |
| Less: 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)

## CONDENSED CONSOLIDATING BALANCE SHEETS

As of June 30, 2014

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

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|  |             |             |            |             |               |             |
|--|-------------|-------------|------------|-------------|---------------|-------------|
| Noncontrolling interest                    | —           | —           | —          | 98,866      | —             | 98,866      |
| TOTAL SHAREHOLDERS' EQUITY                 | 1,620,982   | 1,612,064   | 318,008    | 2,005,770   | (3,836,976 )  | 1,719,848   |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$1,948,572 | \$1,895,210 | \$ 470,232 | \$2,420,639 | \$(4,098,696) | \$2,635,957 |

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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, 2013

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

|  |             |             |              |             |               |             |
|--|-------------|-------------|--------------|-------------|---------------|-------------|
| PENSION AND OTHER<br>POSTRETIREMENT BENEFITS<br>OTHER NON-CURRENT<br>LIABILITIES | —           | 11,493      | —            | 15,732      | —             | 27,225      |
| INTERCOMPANY PAYABLE   | —           | 118,227     | —            | 125,921     | (244,148 )    | —           |
| TOTAL RAYONIER INC.<br>SHAREHOLDERS' EQUITY                                      | 1,661,170   | 1,627,315   | 221,770      | 2,749,142   | (4,598,227 )  | 1,661,170   |
| Noncontrolling interest  | —           | —           | —            | 94,073      | —             | 94,073      |
| TOTAL SHAREHOLDERS'<br>EQUITY  | 1,661,170   | 1,627,315   | 221,770      | 2,843,215   | (4,598,227 )  | 1,755,243   |
| TOTAL LIABILITIES AND<br>SHAREHOLDERS' EQUITY                                    | \$1,989,217 | \$1,875,568 | \$ 1,186,325 | \$3,496,378 | \$(4,861,987) | \$3,685,501 |

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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, 2014                              |              |             |               |            |               |              |
|   | Rayonier Inc | ROC         | Rayonier TRS  | Non-       | Consolidating | Total        |
|   | (Parent      | (Subsidiary | Holdings Inc. | Non-       | Adjustments   | Consolidated |
|   | Guarantor)   | Guarantor)  | (Issuer)      | guarantors |               |              |
| <b>CASH PROVIDED BY OPERATING ACTIVITIES</b>                        | \$ 138,535   | \$ 150,518  | \$ —          | \$ 84,350  | \$ (147,007 ) | \$ 226,396   |
| <b>INVESTING ACTIVITIES</b>   |              |             |               |            |               |              |
| Capital expenditures  | —            | (201 )      | —             | (80,293 )  | —             | (80,494 )    |
| Purchase of timberlands   | —            | —           | —             | (74,817 )  | —             | (74,817 )    |
| Change in restricted cash   | —            | —           | —             | 63,128     | —             | 63,128       |
| Investment in Subsidiaries  | —            | —           | (62,800 )     | —          | 62,800        | —            |
| Other   | —            | —           | —             | (478 )     | —             | (478 )       |
| <b>CASH (USED FOR) PROVIDED BY INVESTING ACTIVITIES</b>             | —            | (201 )      | (62,800 )     | (92,460 )  | 62,800        | (92,661 )    |
| <b>FINANCING ACTIVITIES</b>   |              |             |               |            |               |              |
| Issuance of debt  | —            | —           | 1,238,389     | —          | —             | 1,238,389    |
| Repayment of debt   | —            | —           | (1,107,062 )  | —          | —             | (1,107,062 ) |
| Dividends paid  | (124,628 )   | —           | —             | —          | —             | (124,628 )   |
| Proceeds from the issuance of common shares                         | 3,347        | —           | —             | —          | —             | 3,347        |
| Debt issuance costs   | —            | —           | (12,380 )     | —          | —             | (12,380 )    |
| Repurchase of common shares   | (1,834 )     | —           | —             | —          | —             | (1,834 )     |
| Purchase of timberland deeds for Rayonier Advanced Materials        | (12,677 )    | —           | —             | —          | —             | (12,677 )    |
| Debt issuance funds distributed to Rayonier Advanced Materials      | (924,943 )   | —           | —             | —          | —             | (924,943 )   |
| Proceeds from spin-off of Rayonier Advanced Materials               | 906,200      | —           | —             | —          | —             | 906,200      |
| Change in restricted cash reserved for dividends                    | (75,000 )    | —           | —             | —          | —             | (75,000 )    |
| Intercompany distributions  | —            | (149,525 )  | —             | 65,318     | 84,207        | —            |
| Other   | —            | —           | —             | (680 )     | —             | (680 )       |
| <b>CASH USED FOR FINANCING ACTIVITIES</b>                           | (229,535 )   | (149,525 )  | 118,947       | 64,638     | 84,207        | (111,268 )   |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b> |              |             |               |            |               |              |
| Change in cash and cash equivalents                                 | (91,000 )    | 792         | 56,147        | 56,478     | —             | 22,417       |
| Balance, beginning of year  | 130,181      | 304         | 10,719        | 58,440     | —             | 199,644      |
| Balance, end of period  | \$ 39,181    | \$ 1,096    | \$ 66,866     | \$ 114,918 | \$ —          | \$ 222,061   |





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

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

CONDENSED CONSOLIDATING STATEMENTS OF INCOME  
AND COMPREHENSIVE INCOME

For the Three Months Ended June 30, 2014

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



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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<br>AND COMPREHENSIVE INCOME |                          |                    |                              |                       |
|---|--|--------------------------|--------------------|------------------------------|-----------------------|
|   | For the Three Months Ended June 30, 2013                                 |                          |                    |                              |                       |
|   | Rayonier Inc.<br>(Parent<br>Issuer)                                      | Subsidiary<br>Guarantors | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
| SALES   | \$—  | \$—                      | \$154,889          | \$—                          | \$154,889             |
| Costs and Expenses  |  |                          |                    |                              |                       |
| Cost of sales   | —  | —                        | 127,861            | —                            | 127,861               |
| Selling and general expenses  | —  | 2,680                    | 12,023             | —                            | 14,703                |
| Other operating expense (income), net   | 180  | (74                      | ) (3,069           | ) (661                       | ) (3,624              |
|   | 180  | 2,606                    | 136,815            | (661                         | ) 138,940             |
| Equity in income of New Zealand joint<br>venture  | —  | —                        | 304                | —                            | 304                   |
| OPERATING (LOSS) INCOME BEFORE<br>GAIN ON CONSOLIDATION OF NEW<br>ZEALAND JOINT VENTURE | (180   | ) (2,606                 | ) 18,378           | 661                          | 16,253                |
| Gain related to consolidation of New Zealand<br>joint venture                           | —  | —                        | 16,098             | —                            | 16,098                |
| OPERATING (LOSS) INCOME   | (180   | ) (2,606                 | ) 34,476           | 661                          | 32,351                |
| Interest expense  | (3,414   | ) (7,263                 | ) (674             | ) —                          | (11,351               |
| Interest and miscellaneous income, net  | 1,759  | 307                      | 618                | —                            | 2,684                 |
| Equity in income from subsidiaries  | 89,064   | 96,185                   | —                  | (185,249                     | ) —                   |
| INCOME FROM CONTINUING<br>OPERATIONS BEFORE INCOME TAXES                                | 87,229   | 86,623                   | 34,420             | (184,588                     | ) 23,684              |
| Income tax (expense) benefit  | (65  | ) 2,441                  | 13,505             | 66                           | 15,947                |
| INCOME FROM CONTINUING<br>OPERATIONS  | 87,164   | 89,064                   | 47,925             | (184,522                     | ) 39,631              |
| DISCONTINUED OPERATIONS, NET  |  |                          |                    |                              |                       |
| Income from discontinued operations, net of<br>income taxes                             | —  | —                        | 48,260             | —                            | 48,260                |
| NET INCOME  | 87,164   | 89,064                   | 96,185             | (184,522                     | ) 87,891              |
| Less: Net income attributable to<br>noncontrolling interest                             | —  | —                        | 727                | —                            | 727                   |
| NET INCOME ATTRIBUTABLE TO<br>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<br>plans, net of income tax                  | 3,717  | 3,718                    | 6,831              | (10,549                      | ) 3,717               |
| Total other comprehensive loss  | (14,030  | ) (24,262                | ) (10,917          | ) 24,947                     | (24,262               |
| COMPREHENSIVE INCOME  | \$73,134   | \$64,802                 | \$85,268           | \$(159,575                   | ) \$63,629            |
| Less: Comprehensive loss attributable to<br>noncontrolling interest                     | \$—  | \$—                      | \$(9,505           | ) \$—                        | \$(9,505              |

|   |          |          |          |              |          |
|---|----------|----------|----------|--------------|----------|
| COMPREHENSIVE INCOME<br>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)

|   | CONSOLIDATING STATEMENTS OF INCOME<br>AND COMPREHENSIVE INCOME<br>For the Six Months Ended June 30, 2014 |                          |                    |                              |                       |
|---|--|--------------------------|--------------------|------------------------------|-----------------------|
|   | Rayonier Inc.<br>(Parent<br>Issuer)  | Subsidiary<br>Guarantors | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
| SALES   | \$—  | \$—                      | \$306,332          | \$—                          | \$306,332             |
| Costs and Expenses  |  |                          |                    |                              |                       |
| Cost of sales   | —  | —                        | 235,036            | —                            | 235,036               |
| Selling and general expenses  | —  | 4,544                    | 22,554             | —                            | 27,098                |
| Other operating expense (income), net   | —  | 3,948                    | (15,712)           | ) —                          | (11,764)              |
|   | —  | 8,492                    | 241,878            | —                            | 250,370               |
| OPERATING INCOME (LOSS) BEFORE<br>GAIN ON CONSOLIDATION OF NEW<br>ZEALAND JOINT VENTURE | —  | (8,492)                  | ) 64,454           | —                            | 55,962                |
| OPERATING INCOME (LOSS)   | —  | (8,492)                  | ) 64,454           | —                            | 55,962                |
| Interest expense  | (6,389)  | ) (18,140)               | ) (1,757)          | ) —                          | (26,286)              |
| Interest and miscellaneous income (expense),<br>net                                     | 5,431  | (4,334)                  | ) (6,494)          | ) —                          | (5,397)               |
| Equity in income from subsidiaries  | 62,718   | 86,614                   | —                  | (149,332)                    | ) —                   |
| INCOME FROM CONTINUING<br>OPERATIONS BEFORE INCOME TAXES                                | 61,760   | 55,648                   | 56,203             | (149,332)                    | ) 24,279              |
| Income tax benefit (expense)  | —  | 7,070                    | (13,009)           | ) —                          | (5,939)               |
| INCOME FROM CONTINUING<br>OPERATIONS  | 61,760   | 62,718                   | 43,194             | (149,332)                    | ) 18,340              |
| DISCONTINUED OPERATIONS, NET  |  |                          |                    |                              |                       |
| Income from discontinued operations, net of<br>income taxes                             | —  | —                        | 43,092             | —                            | 43,092                |
| NET INCOME  | 61,760   | 62,718                   | 86,286             | (149,332)                    | ) 61,432              |
| Less: Net loss attributable to noncontrolling<br>interest                               | —  | —                        | (328)              | ) —                          | (328)                 |
| NET INCOME ATTRIBUTABLE TO<br>RAYONIER INC.   | 61,760   | 62,718                   | 86,614             | (149,332)                    | ) 61,760              |
| OTHER COMPREHENSIVE INCOME  |  |                          |                    |                              |                       |
| Foreign currency translation adjustment   | 15,547   | 15,547                   | 21,312             | (31,086)                     | ) 21,320              |
| New Zealand joint venture cash flow hedges  | 514  | 514                      | 791                | (1,028)                      | ) 791                 |
| Amortization of pension and postretirement<br>plans, net of income tax                  | 60,970   | 60,970                   | 94,334             | (155,304)                    | ) 60,970              |
| Total other comprehensive income  | 77,031   | 77,031                   | 116,437            | (187,418)                    | ) 83,081              |
| COMPREHENSIVE INCOME  | 138,791  | 139,749                  | 202,723            | (336,750)                    | ) 144,513             |
| Less: Comprehensive income attributable to<br>noncontrolling interest                   | —  | —                        | 5,722              | —                            | 5,722                 |
| COMPREHENSIVE INCOME<br>ATTRIBUTABLE TO RAYONIER INC.                                   | \$138,791  | \$139,749                | \$197,001          | \$(336,750)                  | ) \$138,791           |





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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<br>AND COMPREHENSIVE INCOME<br>For the Six Months Ended June 30, 2013 |                          |                    |                              |                       |
|---|--|--------------------------|--------------------|------------------------------|-----------------------|
|   | Rayonier Inc.<br>(Parent<br>Issuer)  | Subsidiary<br>Guarantors | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
| SALES   | \$—  | \$—                      | \$261,942          | \$—                          | \$261,942             |
| Costs and Expenses  |  |                          |                    |                              |                       |
| Cost of sales   | —  | —                        | 204,520            | —                            | 204,520               |
| Selling and general expenses  | —  | 5,081                    | 23,019             | —                            | 28,100                |
| Other operating (income) expense, net   | (1,701)  | ) 449                    | (5,859)            | ) (661)                      | ) (7,772)             |
|   | (1,701)  | ) 5,530                  | 221,680            | (661)                        | ) 224,848             |
| Equity in income of New Zealand joint<br>venture  | —  | —                        | 562                | —                            | 562                   |
| OPERATING INCOME (LOSS) BEFORE<br>GAIN ON CONSOLIDATION OF NEW<br>ZEALAND JOINT VENTURE | 1,701  | (5,530)                  | ) 40,824           | 661                          | ) 37,656              |
| Gain related to consolidation of New Zealand<br>joint venture                           | —  | —                        | 16,098             | —                            | 16,098                |
| OPERATING INCOME (LOSS)   | 1,701  | (5,530)                  | ) 56,922           | 661                          | ) 53,754              |
| Interest (expense) income   | (6,689)  | ) (14,133)               | ) 1,019            | —                            | ) (19,803)            |
| Interest and miscellaneous income (expense),<br>net                                     | 4,178  | 85                       | (1,497)            | ) —                          | 2,766                 |
| Equity in income from subsidiaries  | 235,774  | 249,630                  | —                  | (485,404)                    | ) —                   |
| INCOME FROM CONTINUING<br>OPERATIONS BEFORE INCOME TAXES                                | 234,964  | 230,052                  | 56,444             | (484,743)                    | ) 36,717              |
| Income tax (expense) benefit  | (65)   | ) 5,722                  | 16,219             | 66                           | 21,942                |
| INCOME FROM CONTINUING<br>OPERATIONS  | 234,899  | 235,774                  | 72,663             | (484,677)                    | ) 58,659              |
| DISCONTINUED OPERATIONS, NET  |  |                          |                    |                              |                       |
| Income from discontinued operations, net of<br>income tax                               | —  | —                        | 176,967            | —                            | 176,967               |
| NET INCOME  | 234,899  | 235,774                  | 249,630            | (484,677)                    | ) 235,626             |
| Less: Net income attributable to<br>noncontrolling interest                             | —  | —                        | 727                | —                            | 727                   |
| NET INCOME ATTRIBUTABLE TO<br>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                 |
| Amortization of pension and postretirement<br>plans, net of income tax                  | 8,687  | 8,687                    | 6,831              | (15,518)                     | ) 8,687               |
| Total other comprehensive loss  | (7,532)  | ) (17,764)               | ) (9,388)          | ) 16,920                     | (17,764)              |
| COMPREHENSIVE INCOME  | 227,367  | 218,010                  | 240,242            | (467,757)                    | ) 217,862             |
|   | —  | —                        | (9,505)            | ) —                          | (9,505)               |

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Less: Comprehensive loss attributable to  
noncontrolling interest

|   |           |           |           |              |           |
|---|-----------|-----------|-----------|--------------|-----------|
| COMPREHENSIVE INCOME<br>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)

CONDENSED CONSOLIDATING BALANCE SHEETS

As of June 30, 2014

| Rayonier Inc.<br>(Parent<br>Issuer) | Subsidiary<br>Guarantors | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|-------------------------------------|--------------------------|--------------------|------------------------------|-----------------------|
|-------------------------------------|--------------------------|--------------------|------------------------------|-----------------------|

ASSETS