

Rayonier



Third Quarter 2006 Supplemental Material



Safe Harbor

Except for historical information, the statements made in this press release are “forward-looking statements” made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. These forward-looking statements, which include statements regarding anticipated earnings, revenues, volumes, pricing, costs and other statements relating to Rayonier’s financial and operational performance, in some cases are identified by the use of words such as “may,” “will,” “should,” “expect,” “estimate,” “believe,” “anticipate” and other similar language. The following important factors, among others, could cause actual results to differ materially from those expressed in the forward-looking statements contained in this release: changes in global market trends and world events; interest rate and currency movements; fluctuations in demand for, or supply of, cellulose specialty products, absorbent materials, timber, wood products or real estate and entry of new competitors into these markets; adverse weather conditions affecting production, timber availability and sales, or distribution; changes in production costs for wood products or performance fibers, particularly for raw materials such as wood, energy and chemicals; unexpected delays in the entry into or closing of real estate sale transactions; changes in law, policy or political environment that might condition, limit or restrict the development of real estate; the ability of the company to identify and complete timberland and higher-value real estate acquisitions; the company's ability to continue to qualify as a REIT; the ability of the company to complete tax-efficient exchanges of real estate; and implementation or revision of governmental policies and regulations affecting the environment, endangered species, timber harvesting, import and export controls or taxes, including changes in tax laws that could reduce the benefits associated with REIT status. For additional factors that could impact future results, please see the company's most recent Form 10-K on file with the Securities and Exchange Commission. Rayonier assumes no obligation to update these statements except as may be required by law.

Reconciliation of Reported to Pro Forma Earnings

(\$ Millions – Except EPS)

	Third Quarter 2006			Nine Months Ended September 30, 2006		
	Pretax Income	Net Income	EPS	Pretax Income	Net Income	EPS
2006 Reported Earnings	\$ 57.7	\$ 55.0	\$ 0.70	\$ 133.7	\$ 121.1	\$ 1.55
Less Special Items						
IRS audit settlements and associated interest expense	0.6	5.3	0.07	0.6	5.3	0.07
Sale of portion of New Zealand JV	-	-	-	7.8	6.5	0.08
Total	0.6	5.3	0.07	8.4	11.8	0.15
2006 Pro Forma Earnings *	57.1	49.7	0.63	125.3	109.3	1.40
	Third Quarter 2005			Nine Months Ended September 30, 2005		
	Pretax Income	Net Income	EPS	Pretax Income	Net Income	EPS
2005 Reported Earnings	\$ 53.1	\$ 75.0	\$ 0.96	\$ 125.6	\$ 126.4	\$ 1.63
Less Special Items & Disc. Ops.						
MDF - discontinued operations	-	0.1	-	-	(24.9)	(0.32)
IRS audit settlements and associated interest expense	4.9	8.1	0.10	4.9	24.8	0.32
Tax benefit on repatriated earnings	-	25.8	0.33	-	25.8	0.33
Arbitration award	8.2	5.2	0.07	8.2	5.2	0.07
Total	13.1	39.2	0.50	13.1	30.9	0.40
2005 Pro Forma Earnings *	40.0	35.8	0.46	112.5	95.5	1.23

* Non-GAAP measure

Third Quarter - Highlights

(\$ Millions - Except EPS)

	<u>3Q 2006</u>	<u>2Q 2006</u>	<u>3Q 2005</u>
<u>Profitability</u>			
Sales	312	312	300
Operating income	66	51	51
Net Income	55	43	75
Earnings Per Share:			
Net income	0.70	0.55	0.96
Pro forma income from continuing operations *	0.63	0.47	0.46
ROE **	15.0%	12.9%	14.7%

	<u>Nine Months Ended September 30</u>	
	<u>2006</u>	<u>2005</u>
<u>Capital Resources and Liquidity</u>		
Cash Provided by Operating Activities	222	206
Cash Used for Investing Activities	(99)	(78)
Cash Used for Financing Activities	(102)	(150)
Adjusted EBITDA *	264	275
Cash Available for Distribution (CAD) *	146	162
	<u>9/30/06</u>	<u>12/31/05</u>
Debt	556	559
Debt / Capital	37.8%	38.7%
Cash	169	146
Average diluted shares outstanding (millions)	78.0	77.6

* Non-GAAP measures (see pages 3, 18, 19 and 20 for definitions and reconciliations).

** Year-to-date percentages are annualized; major land sales are not.



Quarter to Quarter Variance Analysis - 3Q 06 to 2Q 06

(\$ Millions - Except EPS)

	Pretax	Income **	EPS
2006 2Q Continuing Ops (Pro forma) *	41	36	0.47
Variance			
Timber			
- Price / Mix	(1)	(1)	(0.01)
- Volume / Cost	(12)	(12)	(0.15)
Real Estate	27	17	0.22
Performance Fibers			
- CS Price / Mix	3	2	0.03
- AM Price / Mix	1	-	-
- Volume / Cost / Other	1	1	0.01
Wood Products - Price	(5)	(3)	(0.04)
Corporate / Other	1	1	-
Operating Income	15	5	0.06
Interest / Other	1	1	0.01
Taxes	-	8	0.09
2006 3Q Continuing Ops (Pro forma) *	57	50	0.63

* Non-GAAP measure (see page 19 for 2Q reconciliation and page 3 for 3Q reconciliation).

** No taxes are provided for REIT timber income and a statutory rate is provided for other operations. Taxes include residual issues in order to balance to the total tax provision.



Third Quarter / Nine Month Variance Analyses - 2006 to 2005 (\$ Millions - Except EPS)

	Third Quarter			September YTD		
	Pretax	Income **	EPS	Pretax	Income **	EPS
2005 Continuing Ops (Pro forma) * Variance	40	36	0.46	113	96	1.23
Timber						
- Price	1	1	0.02	9	9	0.12
- Volume / Cost / Other	(1)	(1)	(0.01)	(2)	(2)	(0.02)
Real Estate	16	10	0.13	11	7	0.09
Performance Fibers						
- CS Price / Mix	12	9	0.10	32	21	0.26
- AM Price / Mix	(1)	(1)	(0.01)	-	-	-
- Volume / Cost / Other	(5)	(4)	(0.04)	(31)	(21)	(0.25)
Wood Products	(7)	(4)	(0.06)	(12)	(7)	(0.10)
Operating Income	15	10	0.13	7	7	0.10
Interest Expense / Other	2	1	0.01	5	3	0.04
Taxes - LKE	-	-	-	-	2	0.02
Taxes - Excludes LKE	-	3	0.03	-	1	0.01
2006 Continuing Ops (Pro forma) *	57	50	0.63	125	109	1.40

* Non-GAAP measure (see page 3 for reconciliation).

** No taxes are provided for REIT timber income and a statutory rate is provided for other operations. Taxes include residual issues in order to balance to the total tax provision.

Cash Available for Distribution

(\$ Millions – Except Per Share Data)

	Nine Months Ended September 30,	
	2006	2005
Cash Available for Distribution (CAD)		
Cash provided by operating activities	\$ 222.3	\$ 206.1
Capital spending *	(87.9)	(51.5)
Proceeds from matured forward energy contracts	0.9	-
Change in committed cash	10.9	10.0
Equity based compensation adjustments	4.2	(1.0)
Like-kind exchange tax benefits on third party real estate sales **	(4.1)	(2.0)
Cash Available for Distribution (CAD)	<u>\$ 146.3</u>	<u>\$ 161.6</u>
Shares outstanding	<u>76,646,621</u>	<u>75,858,366</u>
CAD per share	1.91	2.13

* Capital spending is net of sales and retirements and excludes strategic acquisitions and dispositions.

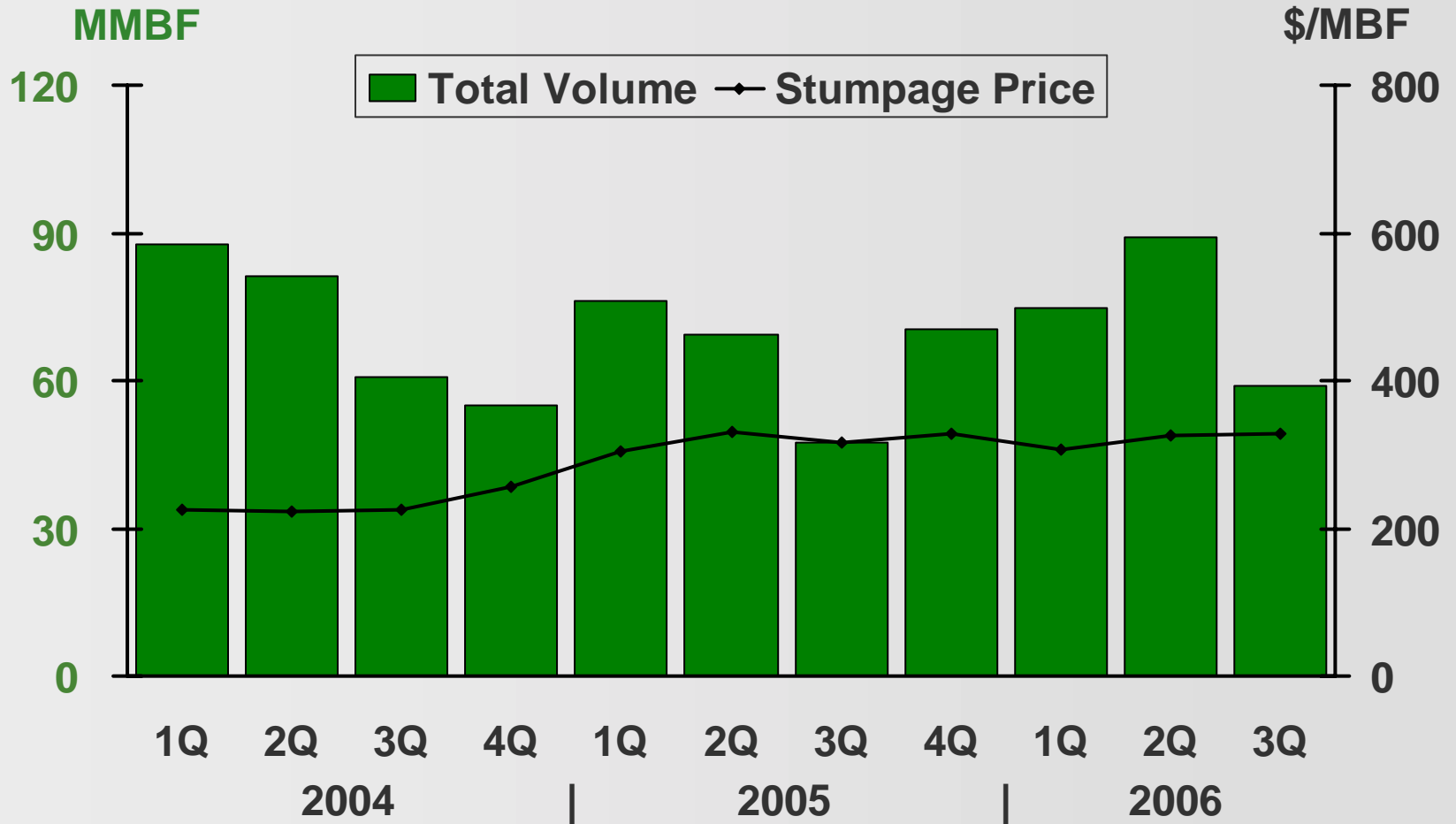
** Represents taxes that would have been paid if the Company had not completed LKE transactions.



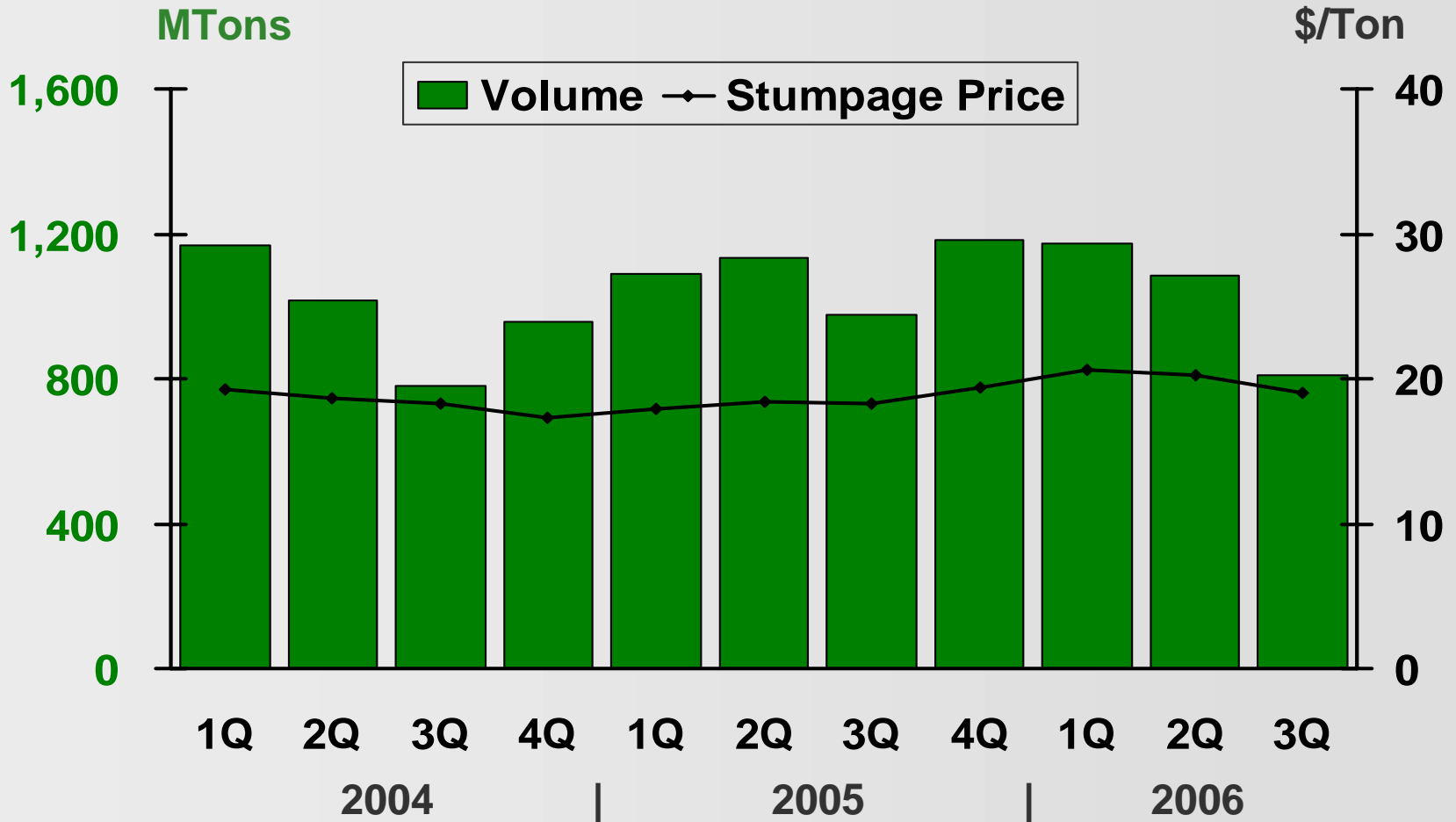
Markets and Operations



Northwest Timber Sales

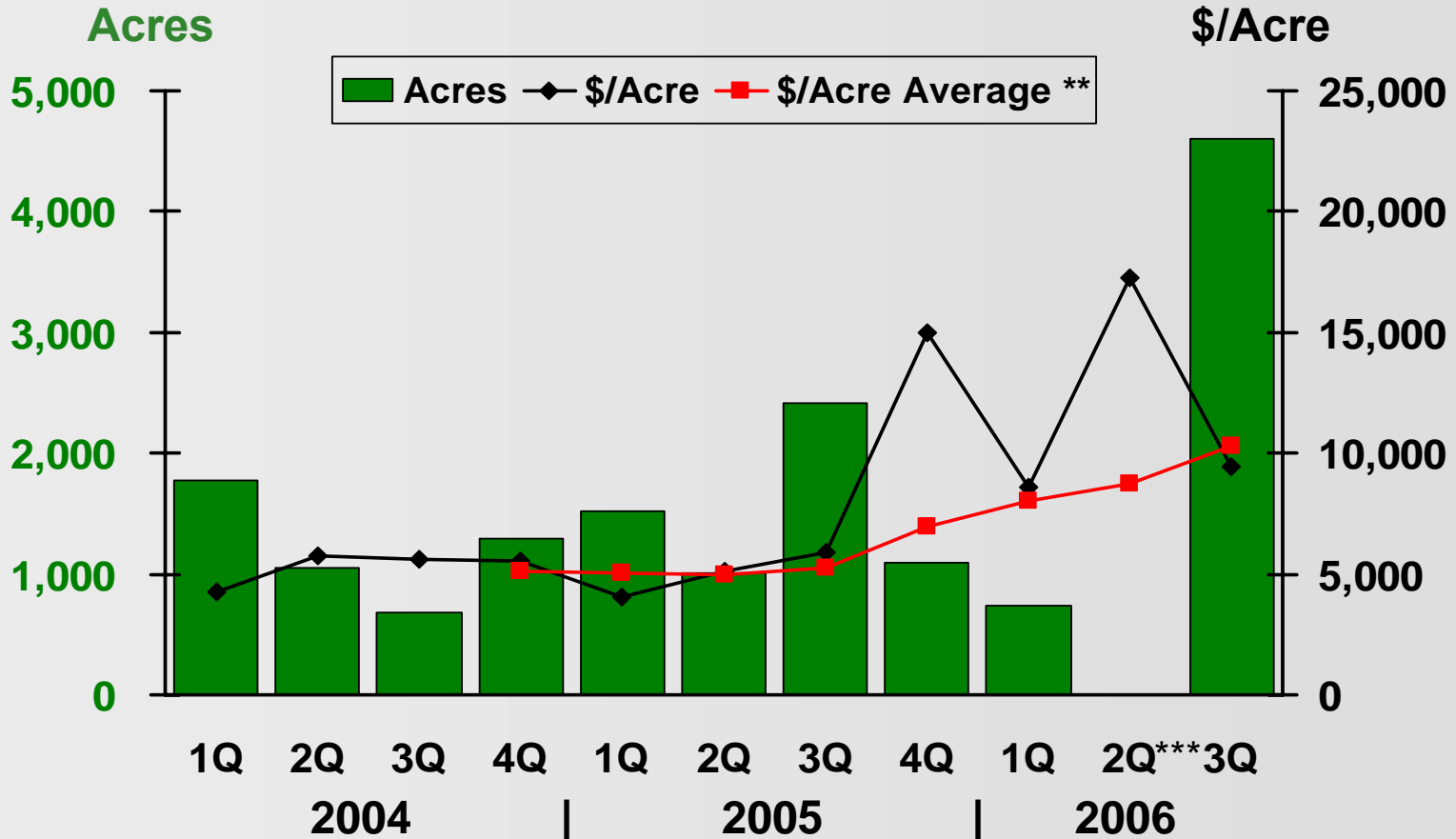


Southeast Pine Timber Sales





Development Acres * - Sales



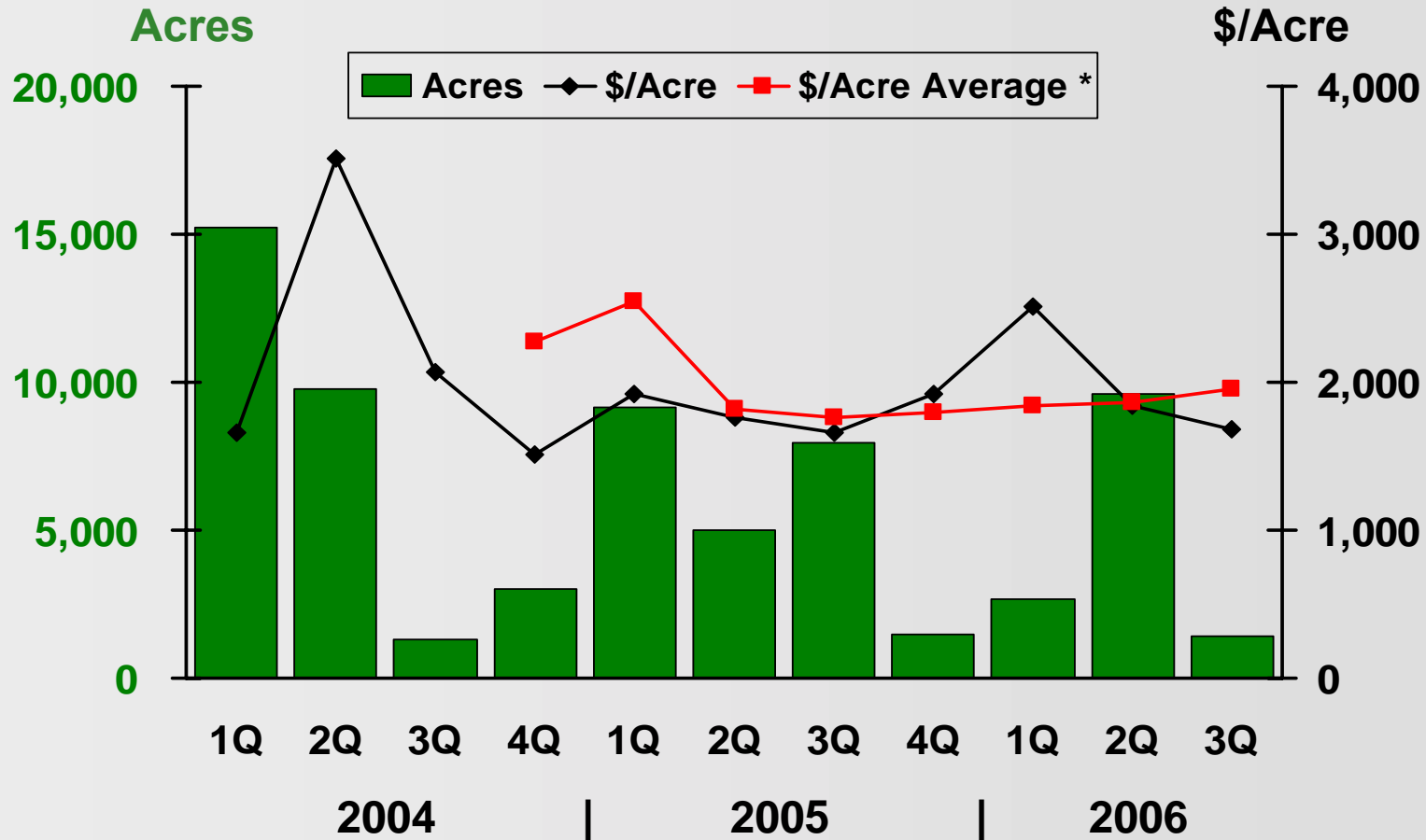
* Primarily sales in coastal counties.

** Four quarter rolling weighted average.

*** 7 acres

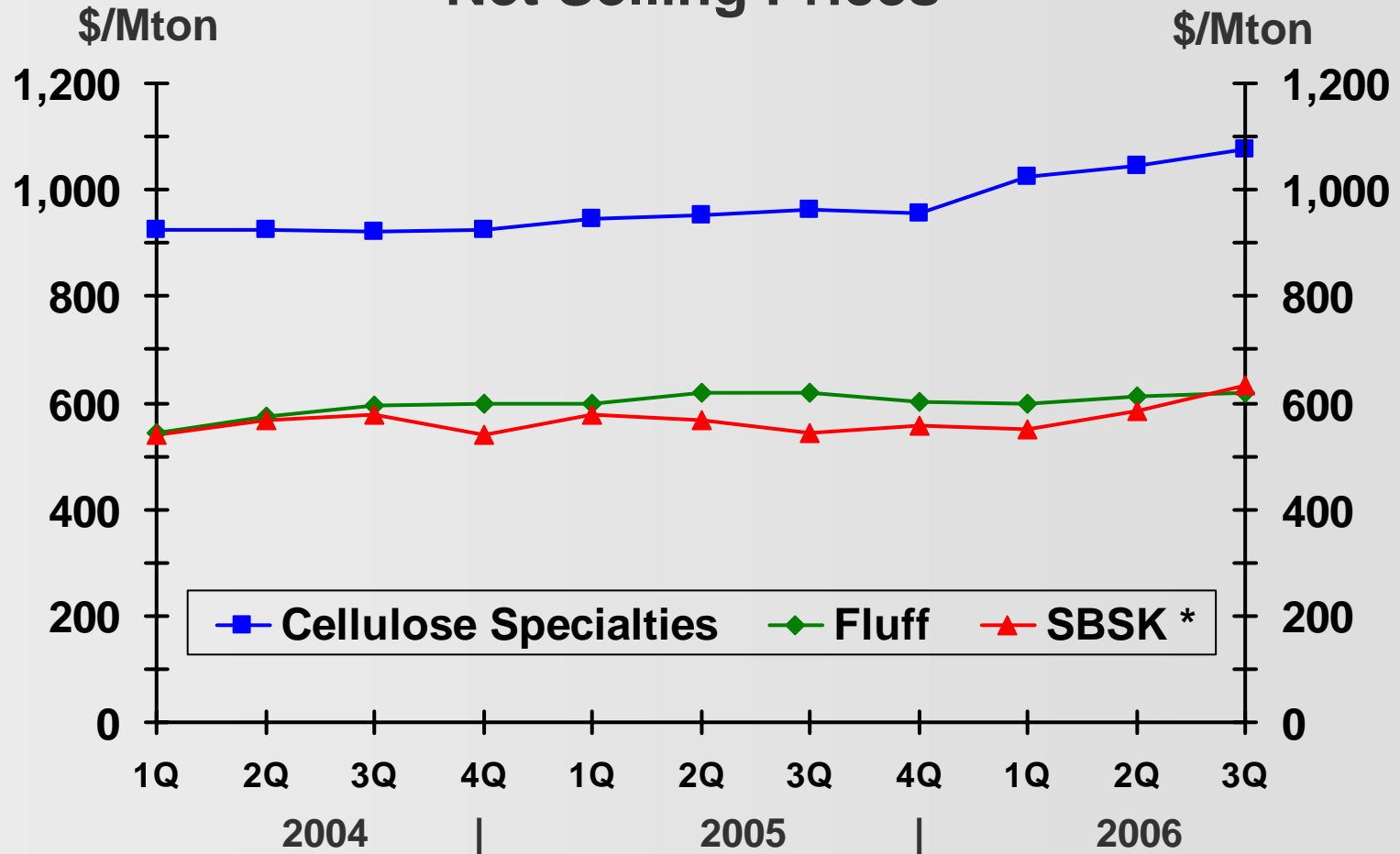


Rural Acres - Sales



* Four quarter rolling weighted average.

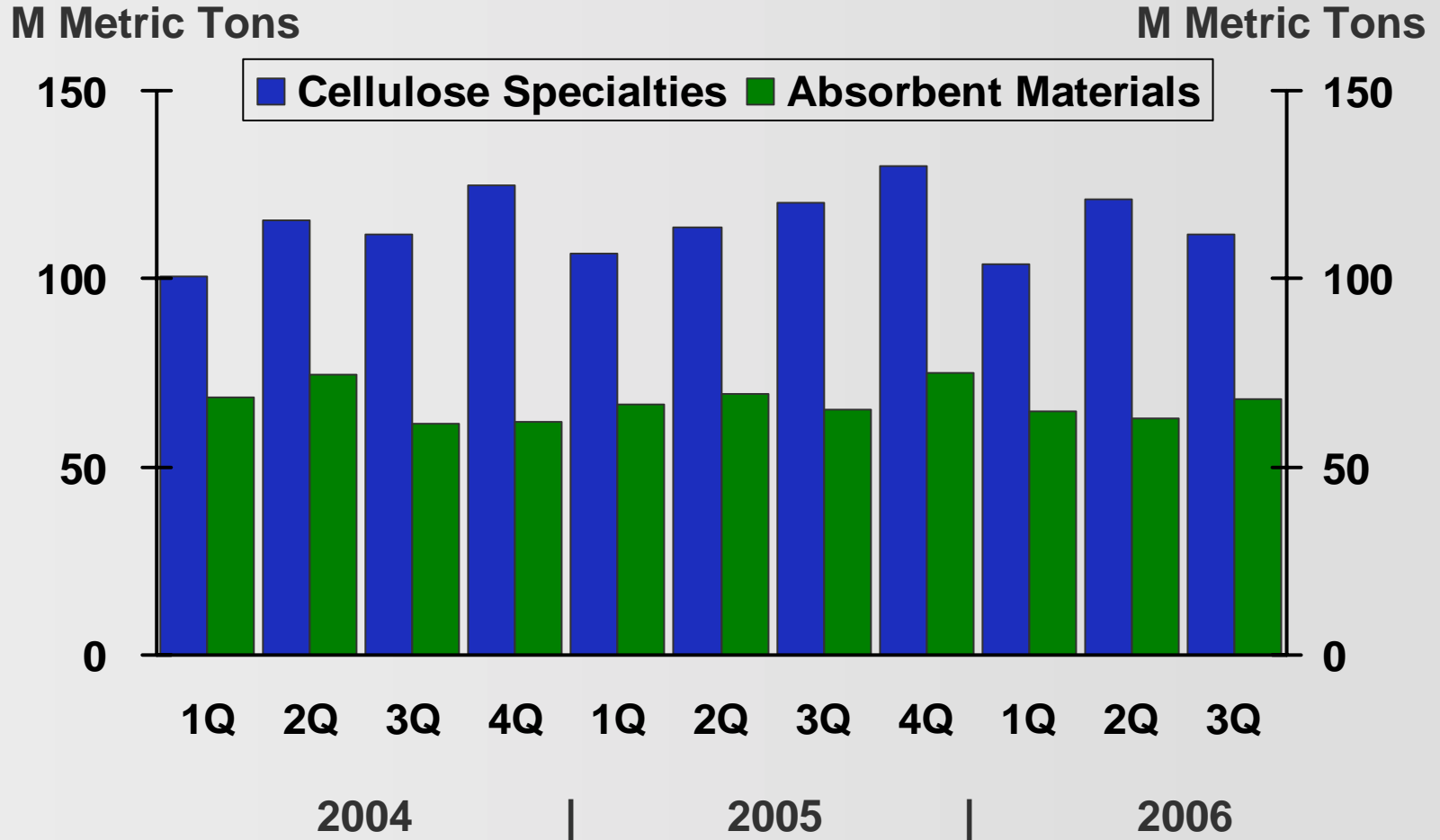
Performance Fibers Net Selling Prices



* Source: RISI gross price less typical discounts.

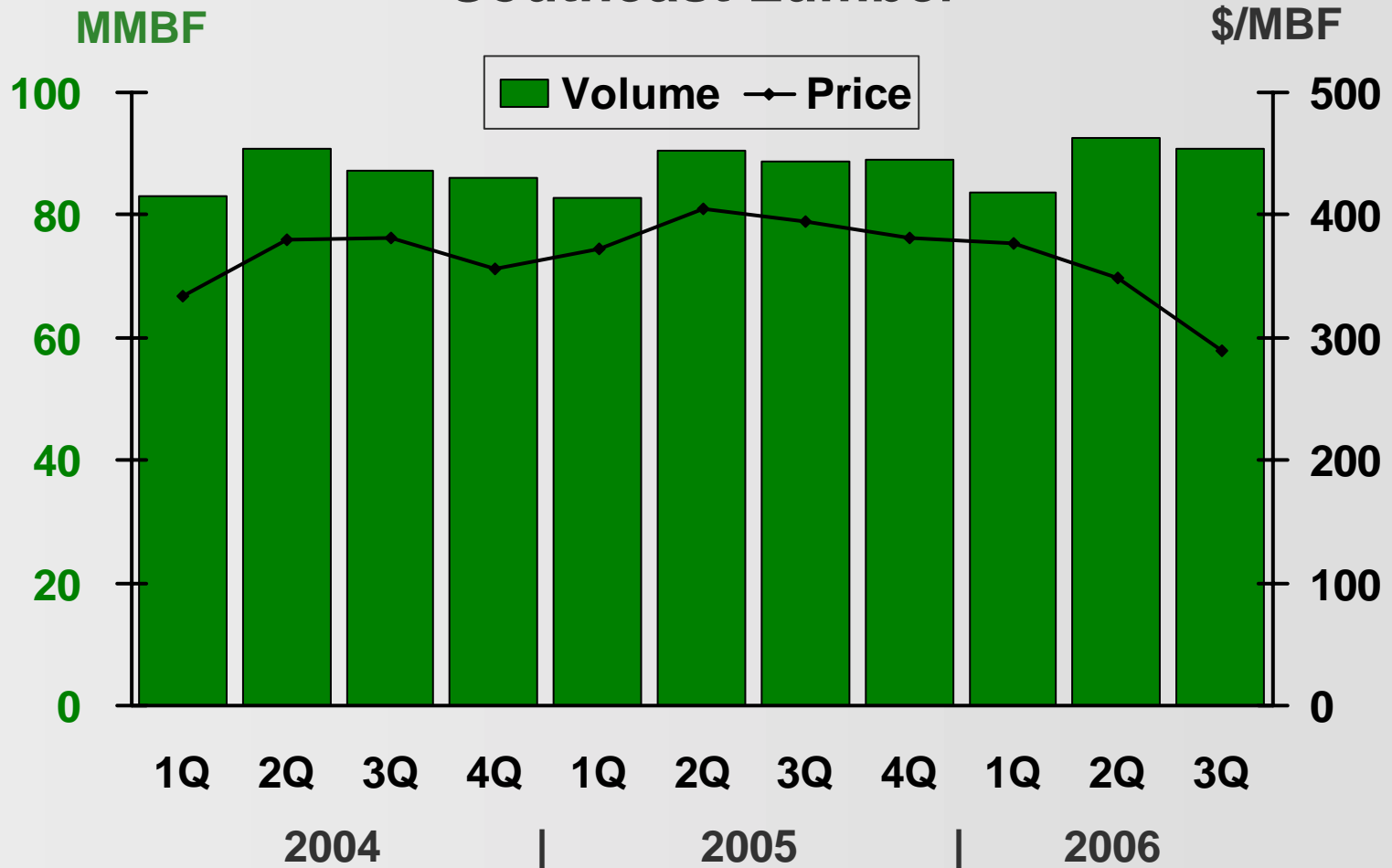


Performance Fibers Sales Volumes





Wood Products Southeast Lumber





Earnings Per Share - From Continuing Operations (\$ / Share)

	Pro forma		Actual	
	2006 *	2005 **	2006	2005
First Quarter	0.30	0.33	0.30	0.45
Second Quarter	0.47	0.44	0.55	0.54
Third Quarter	0.63	0.46	0.70	0.96
Fourth Quarter	?	0.34		0.73
Full Year	?	1.57		2.68

Annotations: "4Q Less than 3Q" is written vertically between the 3rd and 4th quarters. "Somewhat Above" is written between the 2006 and 2005 Pro forma values for the 4th quarter, with an arrow pointing from the 2005 value to the 2006 value.

* Second quarter excludes the gain on the sale of a portion of our interest in a New Zealand JV of \$0.08 per share. Third quarter excludes IRS audit settlements and associated interest expense of \$0.07 per share.

** First quarter excludes a tax benefit of \$0.12 per share resulting from an IRS audit settlement. Second quarter excludes a tax benefit of \$0.10 per share resulting from an IRS audit settlement. Third quarter excludes: tax benefits of \$0.33 per share associated with the repatriation of foreign earnings; tax benefits and adjustment of accrued interest expense/income of \$0.10 per share resulting from IRS audit settlements; and a favorable non-operating income adjustment of \$0.07 per share, resulting from an arbitration award. Fourth quarter excludes the gain on the sale of New Zealand timber assets of \$0.39 per share.

All per share data reflect the October 2005 3 for 2 stock split.



Appendix



Definitions of Non-GAAP Measures

Adjusted EBITDA is defined as earnings from continuing operations before interest, taxes, depreciation, depletion, amortization and the non-cash cost basis of real estate sold. Adjusted EBITDA is a non-GAAP measure of operating cash generating capacity of the Company.

Cash Available for Distribution (CAD) is defined as cash provided by operating activities of continuing operations less capital spending, adjusted for equity based compensation amounts, proceeds from matured energy forward contracts, the tax benefits associated with certain strategic acquisitions and the change in committed cash. Cash Available for Distribution is a non-GAAP measure of cash generated during a period that is available for dividend distribution, repurchase of the Company's common shares, debt reduction and for strategic acquisitions net of associated financing. Cash Available for Distribution is not necessarily indicative of the Cash Available for Distribution that may be generated in future periods.



Reconciliation of Reported to Pro Forma Earnings

(\$ Millions – Except EPS)

	Second Quarter		
	Pretax Income	Net Income	EPS
2006 Reported Earnings	\$ 48.7	\$ 42.8	\$ 0.55
Less Special Items			
Sale of portion of New Zealand JV	7.8	6.5	0.08
Total	7.8	6.5	0.08
2006 Pro Forma Earnings	40.9	36.3	0.47

Reconciliation of Non-GAAP Measures

(\$ Millions)

	Nine Months Ended September 30,	
	2006	2005
Adjusted EBITDA		
Cash provided by operating activities	\$ 222.3	\$ 206.1
Income tax expense / (benefit)	12.6	(25.7)
Interest, net	28.0	29.0
Working capital increases (decreases)	(4.1)	29.9
Other balance sheet changes	4.7	35.7
Adjusted EBITDA	<u>\$ 263.5</u>	<u>\$ 275.0</u>
Cash Available for Distribution (CAD)		
Cash provided by operating activities	\$ 222.3	\$ 206.1
Capital spending *	(87.9)	(51.5)
Proceeds from matured forward energy contracts	0.9	-
Change in committed cash	10.9	10.0
Equity based compensation adjustments	4.2	(1.0)
Like-kind exchange tax benefits on third party real estate sales **	(4.1)	(2.0)
Cash Available for Distribution (CAD)	<u>\$ 146.3</u>	<u>\$ 161.6</u>

* Capital Spending is net of sales and retirements and excludes strategic acquisitions and dispositions.

** Represents taxes that would have been paid if the Company had not completed LKE transactions.



Reconciliation of Statutory Income Tax to Reported Income Tax

(\$ Millions - Except Percentages)

	Three Months Ended						Nine Months Ended			
	September 30, 2006		June 30, 2006		September 30, 2005		September 30, 2006		September 30, 2005	
	\$	%	\$	%	\$	%	\$	%	\$	%
Income tax provision at the U.S. statutory rate	\$ (20.2)	(35.0)	\$ (17.0)	(35.0)	\$ (18.6)	(35.0)	\$ (46.8)	(35.0)	\$ (44.0)	(35.0)
REIT income not subject to federal tax	14.4	25.0	11.4	23.4	10.4	19.6	33.8	25.3	28.8	22.9
Lost deduction on REIT interest expense and overhead expenses associated with REIT activities	(2.8)	(4.9)	(2.7)	(5.6)	(3.2)	(6.0)	(8.7)	(6.5)	(8.7)	(6.8)
Discrete items included in pretax income	-	-	-	-	4.9	6.5 *	-	-	4.9	2.2 *
Foreign, state and local income taxes, foreign exchange rate changes and permanent differences	0.5	0.7	1.5	3.2	2.3	4.3	2.3	1.6	3.5	2.8
Income tax (expense) benefit before discrete items	\$ (8.1)	(14.2)	\$ (6.8)	(14.0)	\$ (4.2)	(10.6)	\$ (19.4)	(14.6)	\$ (15.5)	(13.9)
Favorable IRS audit settlements	4.8	8.3	-	-	3.1	6.9 *	5.3	4.0	19.8	16.4 *
Reversal of prior year built-in gain reserve	2.8	4.9	-	-	-	-	2.8	2.1	-	-
Return to accrual adjustments	(1.2)	(2.1)	0.9	1.9	(0.1)	(0.2)	(0.3)	(0.2)	(0.1)	(0.1)
Prior year foreign tax credit reserve	(1.0)	(1.7)	-	-	-	-	(1.0)	(0.7)	-	-
U.S. tax benefit on repatriation of foreign earnings	-	-	-	-	25.8	48.6	-	-	25.8	20.5
Tax on favorable arbitration award	-	-	-	-	(3.0)	(3.9) *	-	-	(3.0)	(1.4) *
Exchange rate changes on tax on undistributed foreign earnings	-	-	-	-	0.2	0.4	-	-	1.6	1.3
Non-realizability of New Zealand tax credits on U.S. withholding tax for prior years' intercompany note interest	-	-	-	-	-	-	-	-	(2.9)	(2.4)
Income tax (expense) benefit	<u>\$ (2.7)</u>	<u>(4.8)</u>	<u>\$ (5.9)</u>	<u>(12.1)</u>	<u>\$ 21.8</u>	<u>41.2</u>	<u>\$ (12.6)</u>	<u>(9.4)</u>	<u>\$ 25.7</u>	<u>20.4</u>

* Adjusted for change in pretax income due to discrete items.



2006 Dividend Projected Tax Characteristics to Shareholder

	<u>Current Outlook*</u>
Capital Gains	100%
Return of Capital	0
Ordinary Income	<u>0</u>
	100%

*Outlook percentage is based on current expectations and is subject to change.