

Rayonier



# First Quarter 2006 Supplemental Material



## Safe Harbor

Reported results are preliminary and not final until filing of the first quarter 2006 Form 10-Q with the Securities and Exchange Commission and, therefore, remain subject to adjustment. Statements regarding anticipated earnings, demand and pricing for our products, manufacturing costs, and real estate transactions are “forward-looking statements” made pursuant to the safe harbor provisions of federal securities laws. The following important factors, among others, could cause actual results to differ materially from those expressed in the forward-looking statements: 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 or policy 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, 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.

# First Quarter - Highlights

(\$ Millions - Except EPS)

	1Q 2006	Variance to	
		4Q 2005	1Q 2005
<b>Profitability</b>			
Sales	277	(39)	2
Operating income	37	1	(10)
Income from continuing operations	23	(33)	(12)
Net Income	23	(33)	(11)
<b>Earnings Per Share:</b>			
Continuing operations	0.30	(0.43)	(0.15)
Net income	0.30	(0.43)	(0.15)
Pro forma income from continuing operations *	0.30	(0.04)	(0.03)
ROE Annualized **	10.0%	(4.2%)	0.4%
<b>Capital Resources and Liquidity</b>			
	<b>Three Months Ended March 31</b>		
	<b>2006</b>	<b>2005</b>	
Cash Provided by Operating Activities	51	76	
Cash Used for Investing Activities	(40)	(40)	
Cash Used for Financing Activities	(31)	(23)	
Adjusted EBITDA *	71	87	
Cash Available for Distribution (CAD) *	24	62	
	<b>3/31/06</b>	<b>12/31/05</b>	
Debt	558	559	
Debt / Capital	38.9%	38.7%	
Cash	126	146	
Average diluted shares outstanding (millions)	78.0	78.0	

\* Non-GAAP measures (see pages 17, 18 and 19 for definitions and reconciliations).

\*\* Based on year-to-date percent; major land sales are not annualized.



## Quarter to Quarter Variance Analysis - 1Q 06 to 4Q 05

(\$ Millions - Except EPS)

	Pretax	Income **	EPS
<b>2005 4Q Continuing Ops (Pro forma) *</b>	<b>28</b>	<b>26</b>	<b>0.34</b>
Variance			
Timber	-	-	-
Real Estate	(6)	(4)	(0.05)
Performance Fibers			
- CS Price / Mix	7	5	0.06
- AM Price / Mix	(2)	(2)	(0.02)
- Volume / Cost / Other	(1)	(1)	(0.01)
Other Operations	(1)	(1)	(0.01)
Corporate / Other	4	3	0.04
<b>Operating Income</b>	<b>1</b>	<b>-</b>	<b>0.01</b>
Interest Expense / Other	(2)	(1)	(0.02)
Taxes	-	(2)	(0.03)
<b>2006 1Q Continuing Ops</b>	<b>27</b>	<b>23</b>	<b>0.30</b>

\* Non-GAAP measure (see page 19 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.



## First Quarter Variance Analysis - 2006 to 2005

(\$ Millions - Except EPS)

	First Quarter		
	Pretax	Income **	EPS
<b>2005 1Q Continuing Ops (Pro forma) *</b>	<b>35</b>	<b>25</b>	<b>0.33</b>
Variance			
Timber			
- Price	4	4	0.03
- Cost / Other	(4)	(4)	(0.03)
Real Estate	(5)	(3)	(0.04)
Performance Fibers			
- CS Price / Mix	8	5	0.07
- AM Price / Mix	1	1	0.01
- Volume / Cost / Other	(11)	(7)	(0.10)
Wood Products	(1)	(1)	(0.01)
Corporate / Other	(2)	(1)	(0.02)
<b>Operating Income</b>	<b>(10)</b>	<b>(6)</b>	<b>(0.09)</b>
Interest Expense / Other	2	1	0.02
Taxes - LKE	-	1	0.01
Taxes - Excludes LKE	-	2	0.03
<b>2006 1Q Continuing Ops</b>	<b>27</b>	<b>23</b>	<b>0.30</b>

\* Non-GAAP measure (see page 19 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)

	Three Months Ended March 31,	
	2006	2005
<b>Cash Available for Distribution (CAD)</b>		
Cash provided by operating activities	\$ 50.8	\$ 75.6
Capital spending *	(36.5)	(20.1)
Like-kind exchange tax benefits on third party real estate sales **	(0.9)	-
Change in committed cash ***	5.9	5.5
Equity based compensation adjustments	4.2	1.2
Proceeds from matured forward energy contracts	0.2	-
Cash Available for Distribution (CAD)	<u>\$ 23.7</u>	<u>\$ 62.2</u>
Average diluted shares outstanding	<u>78,006,773</u>	<u>77,145,668</u>
CAD per share	0.30	0.81

\* 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.

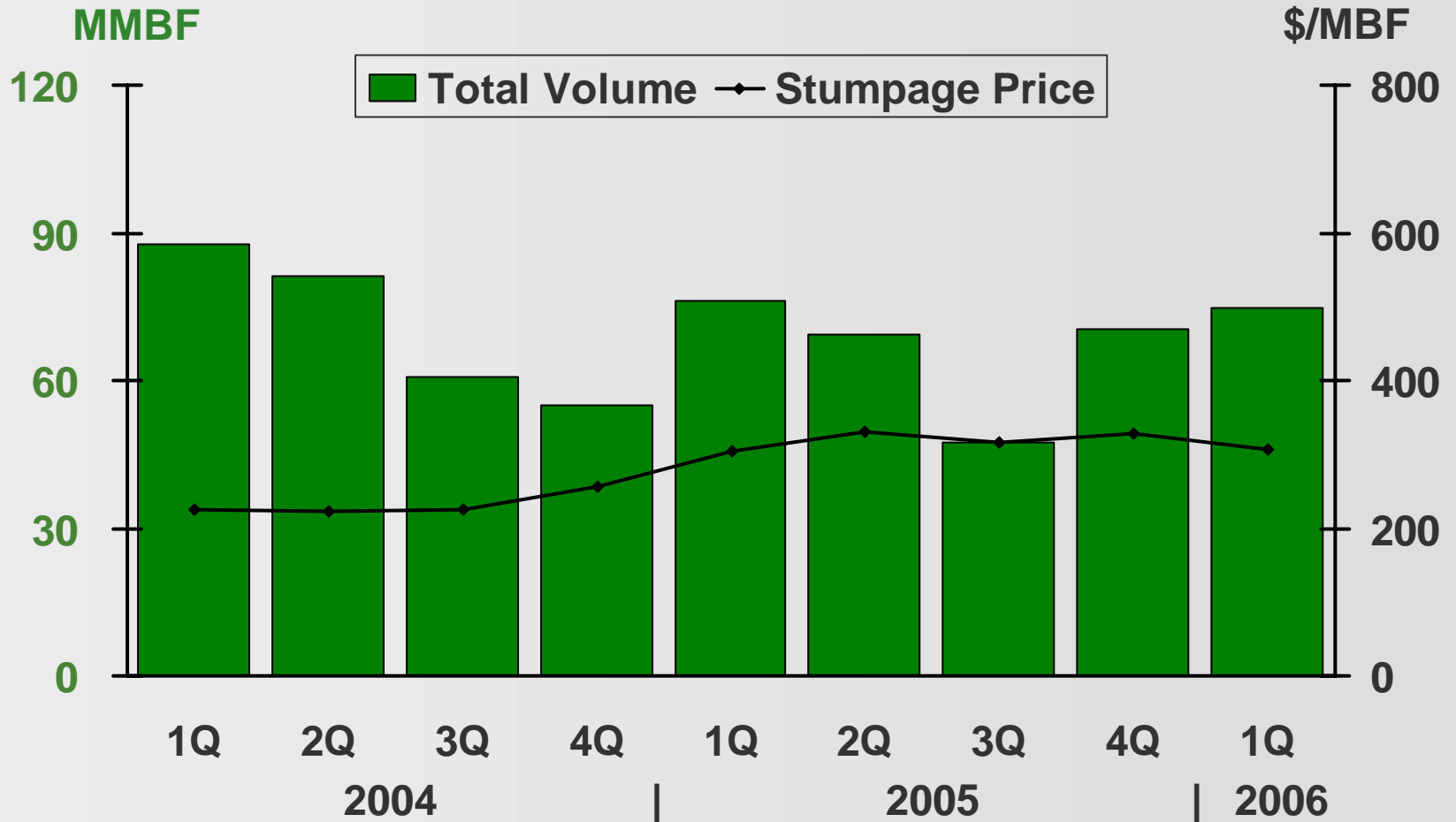
\*\*\* Committed cash represents outstanding checks that have been drawn but not paid.



# Markets and Operations

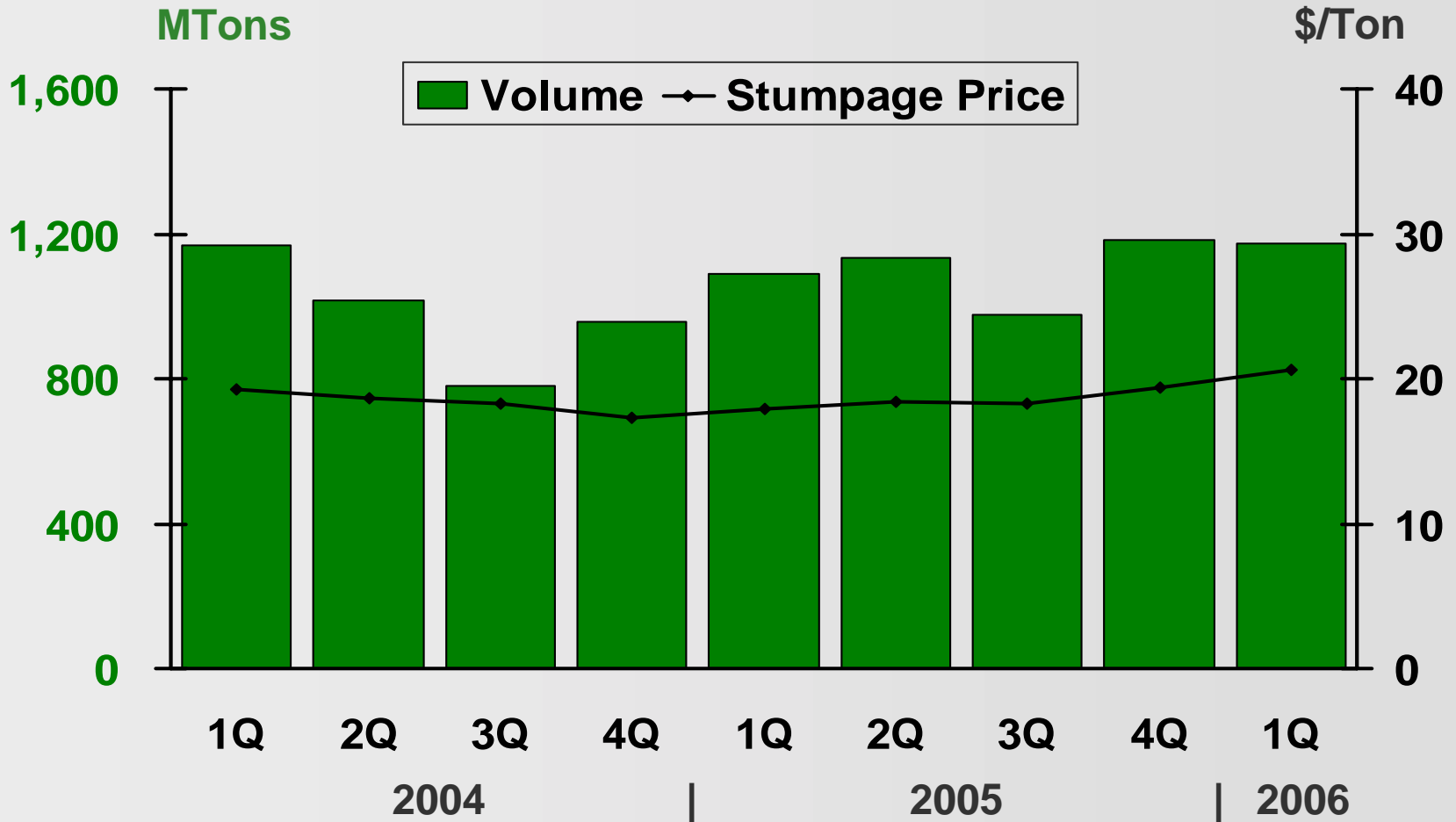


## Northwest Timber Sales



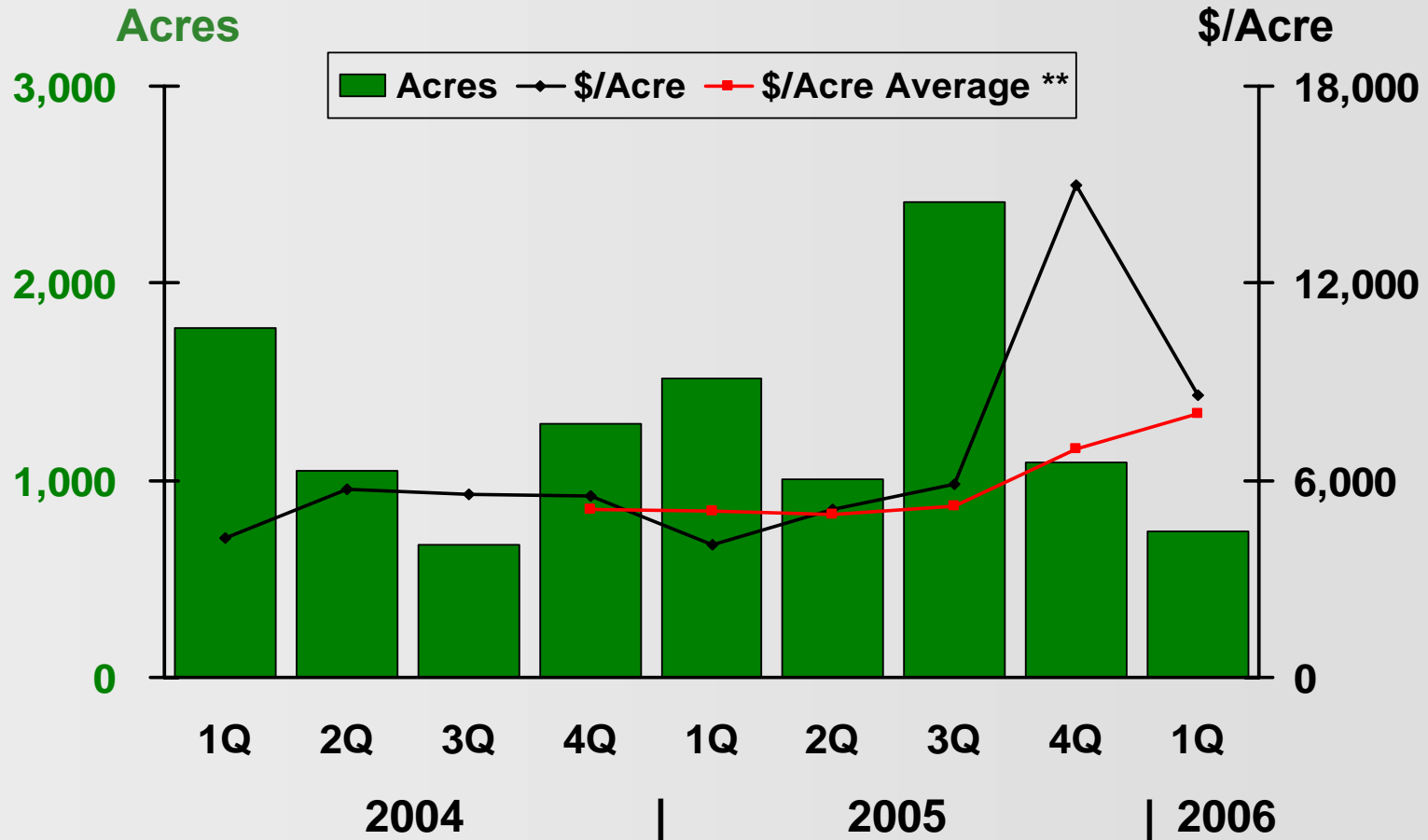


## Southeast Pine Timber Sales





## Development Acres \* - Sales

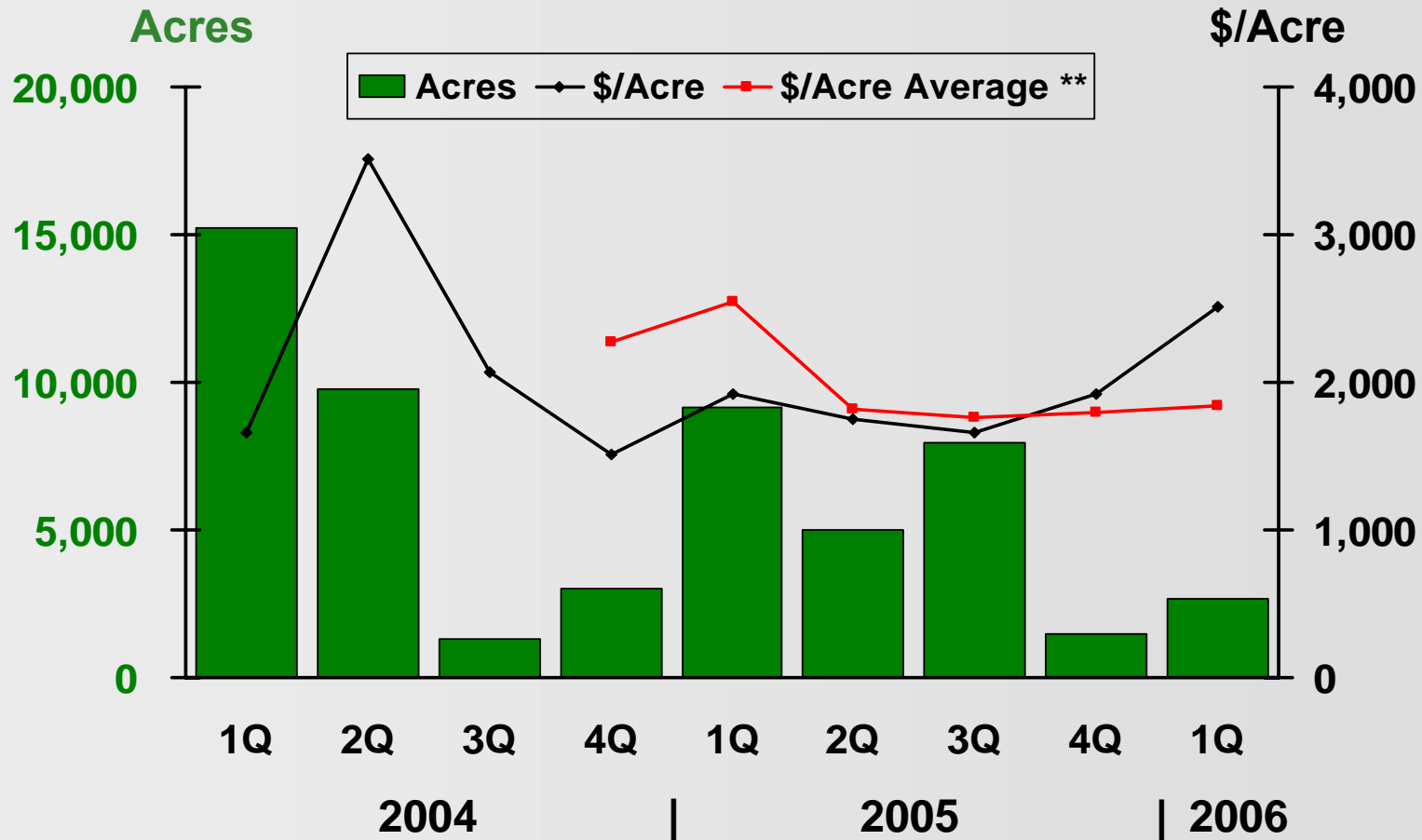


\* Primarily sales in coastal counties.

\*\* Four quarter rolling weighted average.



## Rural Acres \* - Sales

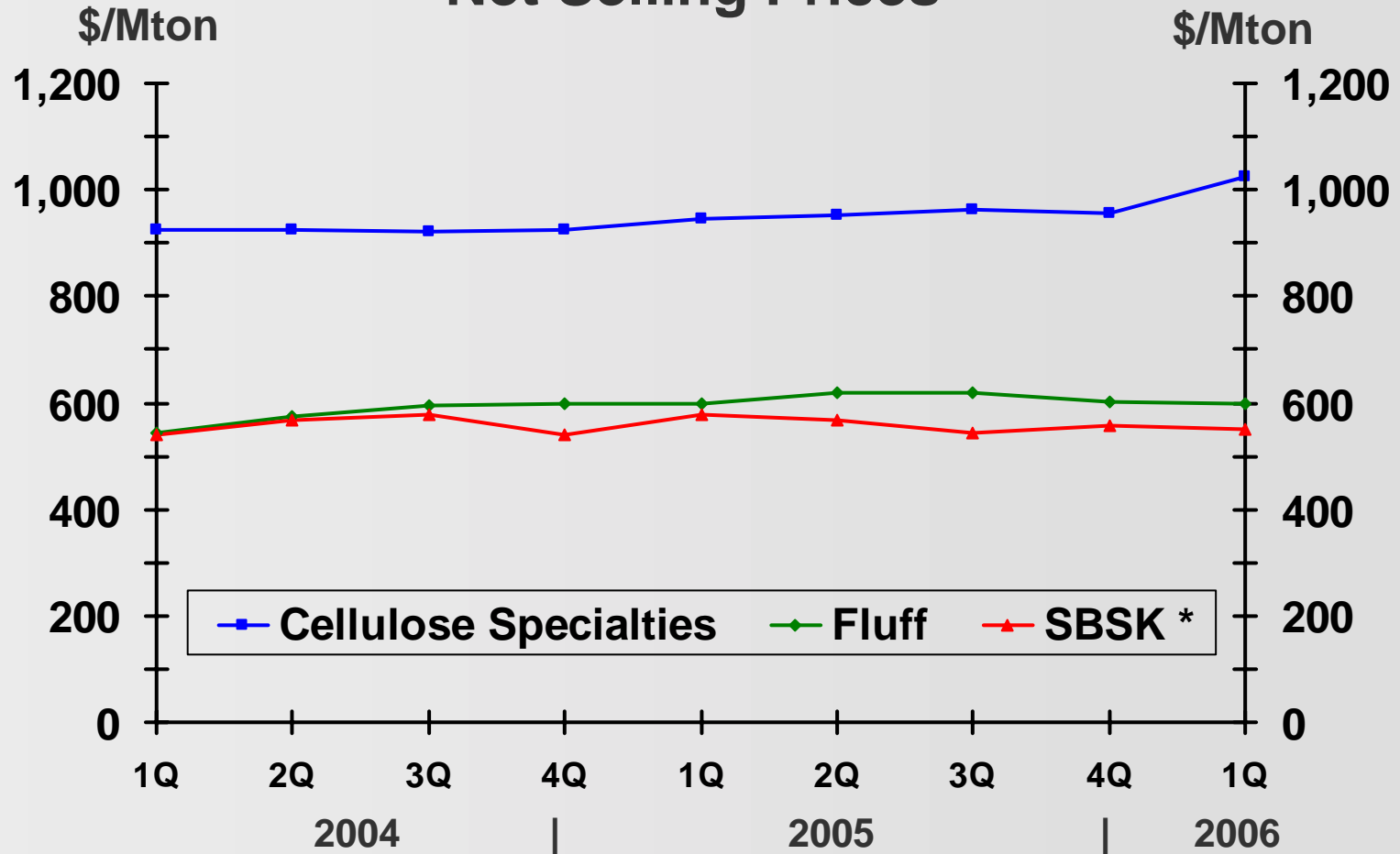


\* Also includes non-development sales in coastal counties.

\*\* Four quarter rolling weighted average.



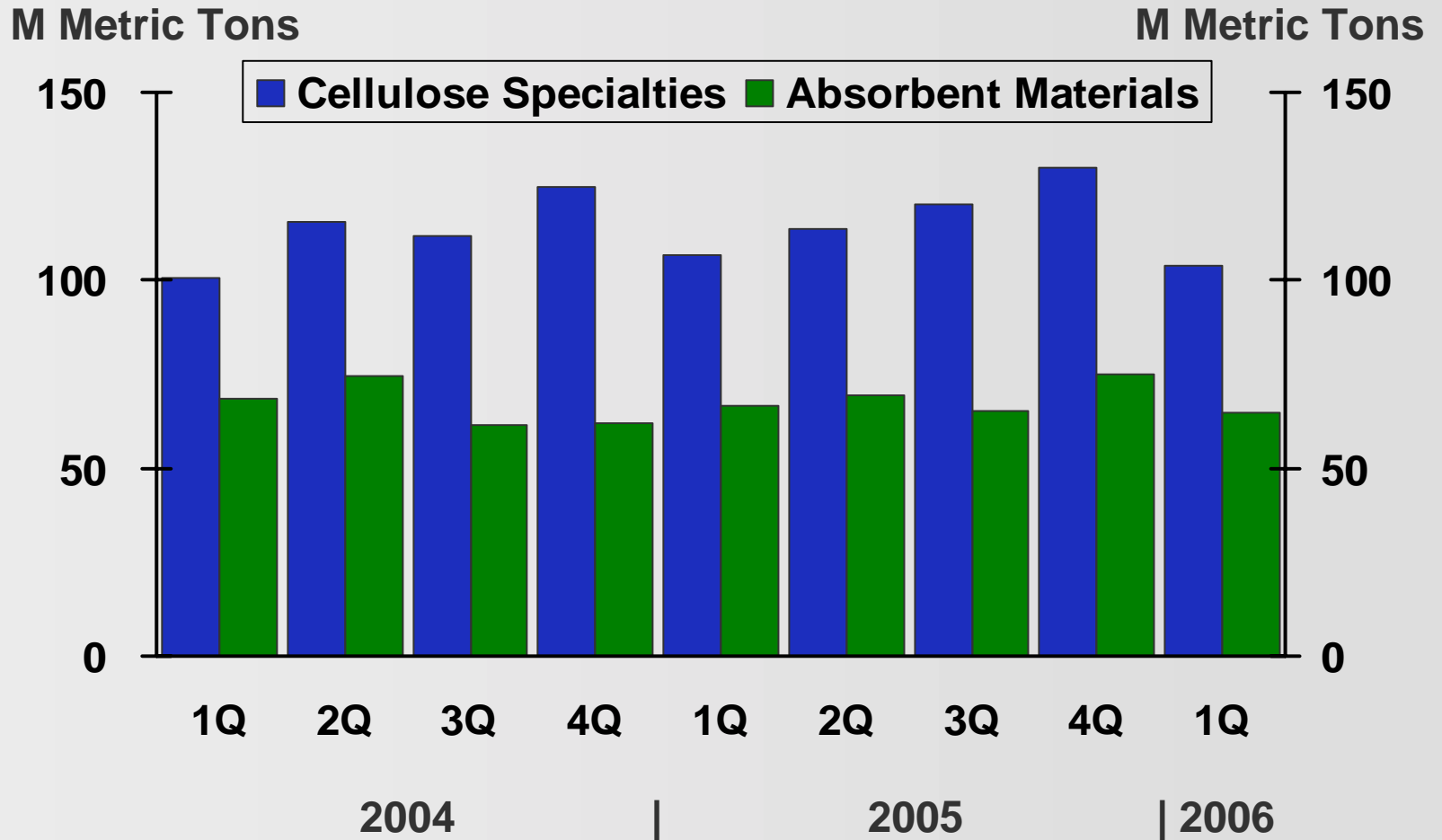
## Performance Fibers Net Selling Prices



\* Source: RISI gross price less typical discounts.

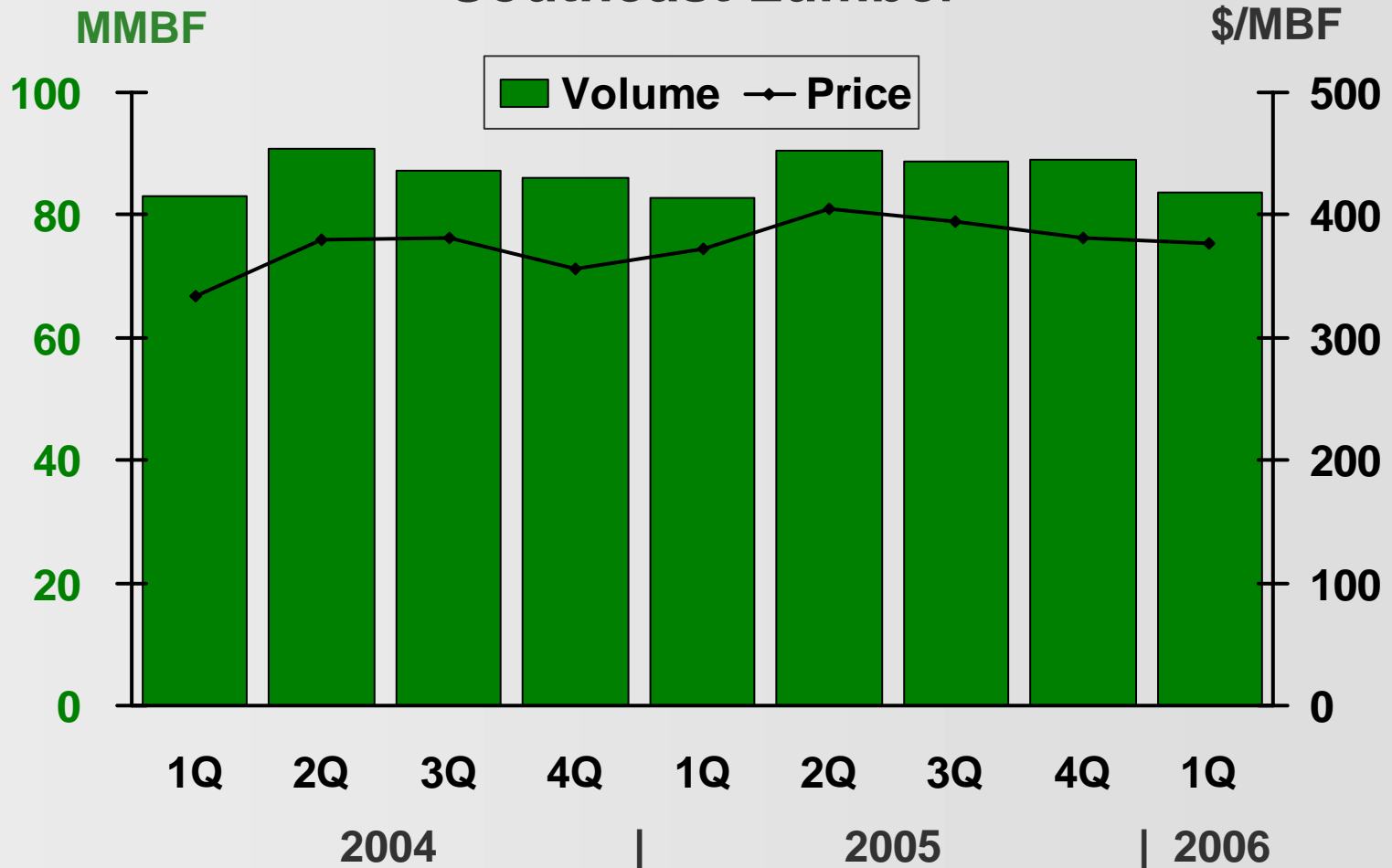


## Performance Fibers Sales Volumes





## Wood Products Southeast Lumber





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

	2006	2005	
		Pro forma *	Actual
First Quarter	0.30	0.33	0.45
Second Quarter	? ← 1Q to 2Q Up	0.44 ← Down	0.54
Third Quarter		0.46	0.96
Fourth Quarter		0.34	0.73
Full Year	? ← Somewhat above	1.57	2.68

\* 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 Non-GAAP Measures

(\$ Millions)

	Three Months Ended March 31,	
	2006	2005
<b>Adjusted EBITDA</b>		
Cash provided by operating activities	\$ 50.8	\$ 75.6
Income tax expense	4.0	0.6
Interest, net	10.0	11.7
Working capital increases (decreases)	11.9	-
Other balance sheet changes	(5.8)	(0.7)
Adjusted EBITDA	<u>\$ 70.9</u>	<u>\$ 87.2</u>
<b>Cash Available for Distribution (CAD)</b>		
Cash provided by operating activities	\$ 50.8	\$ 75.6
Capital spending *	(36.5)	(20.1)
Like-kind exchange tax benefits on third party real estate sales **	(0.9)	-
Change in committed cash ***	5.9	5.5
Equity based compensation adjustments	4.2	1.2
Proceeds from matured forward energy contracts	0.2	-
Cash Available for Distribution (CAD)	<u>\$ 23.7</u>	<u>\$ 62.2</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.

\*\*\* Committed cash represents outstanding checks that have been drawn but not paid.



## Reconciliation of Reported to Pro Forma Earnings

(\$ Millions – Except EPS)

	First Quarter			Fourth Quarter		
	Pretax Income	Net Income	EPS	Pretax Income	Net Income	EPS
<b>2005 Reported Earnings</b>	<b>\$ 35.4</b>	<b>\$ 34.4</b>	<b>\$ 0.45</b>	<b>\$ 65.2</b>	<b>\$ 56.4</b>	<b>\$ 0.73</b>
<b>Less Special Items &amp; Disc. Ops.</b>						
Sale of New Zealand timber assets	-	-	-	37.0	30.5	0.39
MDF - discontinued operations	-	(0.4)	-	-	-	-
Prior years IRS audit settlement	-	9.5	0.12	-	-	-
Tax benefit on repatriated earnings	-	-	-	-	(0.4)	-
<b>Total</b>	<b>-</b>	<b>9.1</b>	<b>0.12</b>	<b>37.0</b>	<b>30.1</b>	<b>0.39</b>
<b>2005 Pro Forma Earnings</b>	<b>35.4</b>	<b>25.3</b>	<b>0.33</b>	<b>28.2</b>	<b>26.3</b>	<b>0.34</b>



# Reconciliation of Statutory Income Tax to Reported Income Tax

## (\$ Millions - Except Percentages)

	Three Months Ended					
	March 31, 2006		December 31, 2005		March 31, 2005	
	\$	%	\$	%	\$	%
Income tax provision at the U.S. statutory rate	\$ (9.6)	(35.0)	\$ (22.8)	(35.0)	\$ (12.4)	(35.0)
REIT income not subject to federal tax	8.0	29.3	11.1	17.0	8.4	23.7
Lost deduction on REIT interest expense and overhead expenses associated with REIT activities	(3.2)	(11.7)	(2.9)	(4.4)	(2.7)	(7.6)
Foreign, state and local income taxes, foreign exchange rate changes and permanent differences	0.3	1.0	4.9	7.5	0.6	1.7
Income tax (expense) benefit before discrete items	\$ (4.5)	(16.4)	\$ (9.7)	(14.9)	\$ (6.1)	(17.2)
Favorable adjustment of employee related cost between non-taxable and taxable entities	-	-	1.5	2.3	-	-
U.S. tax benefit on repatriation of foreign earnings	-	-	(0.4)	(0.6)	-	-
Return to accrual adjustment	-	-	(0.2)	(0.3)	-	-
Favorable IRS audit settlements	0.5	1.8	-	-	9.5	26.8
Exchange rate changes on tax on undistributed foreign earnings	-	-	-	-	(1.1)	(3.1)
Non-realizability of New Zealand tax credits on U.S. withholding tax for prior years' intercompany note interest	-	-	-	-	(2.9)	(8.2)
Income tax (expense) benefit	\$ (4.0)	(14.6)	\$ (8.8)	(13.5)	\$ (0.6)	(1.7)