

Rayonier



Second 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 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.



Reconciliation of Reported to Pro Forma Earnings (\$ Millions – Except EPS)

	Second Quarter 2006			Six Months Ended June 30, 2006		
	Pretax Income	Net Income	EPS	Pretax Income	Net Income	EPS
2006 Reported Earnings	\$ 48.7	\$ 42.8	\$ 0.55	\$ 76.0	\$ 66.1	\$ 0.85
Less Special Items						
Sale of portion of New Zealand JV	7.8	6.5	0.08	7.8	6.5	0.08
Total	7.8	6.5	0.08	7.8	6.5	0.08
2006 Pro Forma Earnings *	40.9	36.3	0.47	68.2	59.6	0.77
	Second Quarter 2005			Six Months Ended June 30, 2005		
	Pretax Income	Net Income	EPS	Pretax Income	Net Income	EPS
2005 Reported Earnings	\$ 37.1	\$ 16.9	\$ 0.22	\$ 72.6	\$ 51.3	\$ 0.67
Less Special Items & Disc. Ops.						
MDF - discontinued operations	-	(24.7)	(0.32)	-	(25.1)	(0.32)
Prior years IRS audit settlements	-	7.2	0.10	-	16.7	0.22
Total	-	(17.5)	(0.22)	-	(8.4)	(0.10)
2005 Pro Forma Earnings *	37.1	34.4	0.44	72.6	59.7	0.77

* Non-GAAP measure



Second Quarter - Highlights (\$ Millions - Except EPS)

	<u>2Q 2006</u>	<u>1Q 2006</u>	<u>2Q 2005</u>
<u>Profitability</u>			
Sales	312	277	290
Operating income	51	37	49
Income from continuing operations	43	23	42
Net Income	43	23	17
Earnings Per Share:			
Continuing operations	0.55	0.30	0.54
Net income	0.55	0.30	0.22
Pro forma income from continuing operations *	0.47	0.30	0.44
ROE Annualized **	12.9%	10.0%	15.0%
<u>Six Months Ended June 30</u>			
	<u>2006</u>	<u>2005</u>	
<u>Capital Resources and Liquidity</u>			
Cash Provided by Operating Activities	133	123	
Cash Used for Investing Activities	(48)	(46)	
Cash Used for Financing Activities	(66)	(26)	
Adjusted EBITDA *	159	174	
Cash Available for Distribution (CAD) *	82	96	
	<u>6/30/06</u>	<u>12/31/05</u>	
Debt	557	559	
Debt / Capital	38.6%	38.7%	
Cash	165	146	
Average diluted shares outstanding (millions)	78.0	77.6	

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

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



Quarter to Quarter Variance Analysis - 2Q 06 to 1Q 06 (\$ Millions - Except EPS)

	Pretax	Income **	EPS
2006 1Q Continuing Ops	<u>27</u>	<u>23</u>	<u>0.30</u>
Variance			
Timber			
- Price / Mix	2	2	0.02
- Volume / Cost / Other	4	4	0.05
Real Estate	1	1	0.01
Performance Fibers			
- CS Price / Mix	2	2	0.02
- AM Price / Mix	1	-	-
- Volume / Cost / Other	2	1	0.02
Wood Products	(1)	-	-
Other Operations	1	-	-
Corporate / Other	2	1	0.02
Operating Income	<u>14</u>	<u>11</u>	<u>0.14</u>
Taxes	-	2	0.03
2006 2Q Continuing Ops (Pro forma) *	41	36	0.47

* 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.



Second Quarter / First Half Variance Analyses - 2006 to 2005 (\$ Millions - Except EPS)

	Second Quarter			First Half		
	Pretax	Income **	EPS	Pretax	Income **	EPS
2005 Continuing Ops (Pro forma) *	37	34	0.44	73	60	0.77
Variance						
Timber						
- Price	4	4	0.07	8	8	0.10
- Cost / Other	3	3	0.02	(1)	(1)	(0.01)
Real Estate	-	-	-	(5)	(3)	(0.04)
Performance Fibers						
- CS Price / Mix	12	7	0.09	20	12	0.16
- AM Price / Mix	-	-	-	1	1	0.01
- Volume / Cost / Other	(15)	(9)	(0.11)	(26)	(16)	(0.21)
Wood Products	(4)	(2)	(0.03)	(5)	(3)	(0.04)
Corporate / Other	2	1	0.02	-	-	-
Operating Income	2	4	0.06	(8)	(2)	(0.03)
Interest Expense / Other	2	-	-	3	1	0.02
Taxes - LKE	-	1	0.01	-	2	0.02
Taxes - Excludes LKE	-	(3)	(0.04)	-	(1)	(0.01)
2006 Continuing Ops (Pro forma) *	41	36	0.47	68	60	0.77

* 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)

	Six Months Ended June 30,	
	2006	2005
Cash Available for Distribution (CAD)		
Cash provided by operating activities	\$ 133.1	\$ 122.9
Capital spending *	(61.6)	(43.7)
Like-kind exchange tax benefits on third party real estate sales **	(2.6)	(0.9)
Change in committed cash	7.9	5.5
Equity based compensation adjustments	4.2	-
Release of restricted cash ***	-	12.0
Proceeds from matured forward energy contracts	0.7	-
Cash Available for Distribution (CAD)	<u>\$ 81.7</u>	<u>\$ 95.8</u>
Shares outstanding	<u>76,570,449</u>	<u>75,659,042</u>
CAD per share	1.07	1.27

* 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.

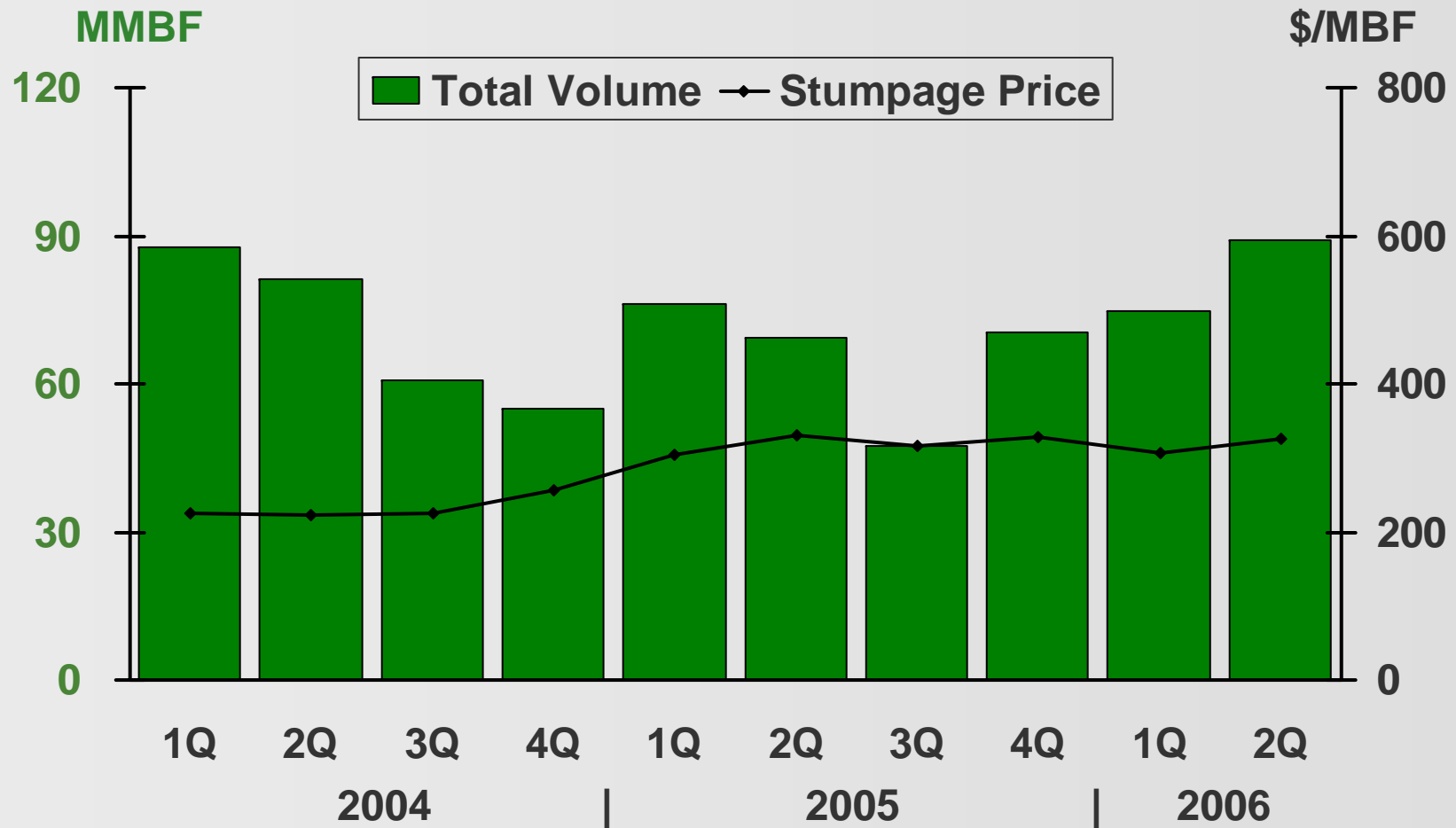
*** Released on July 19, 2005.



Markets and Operations

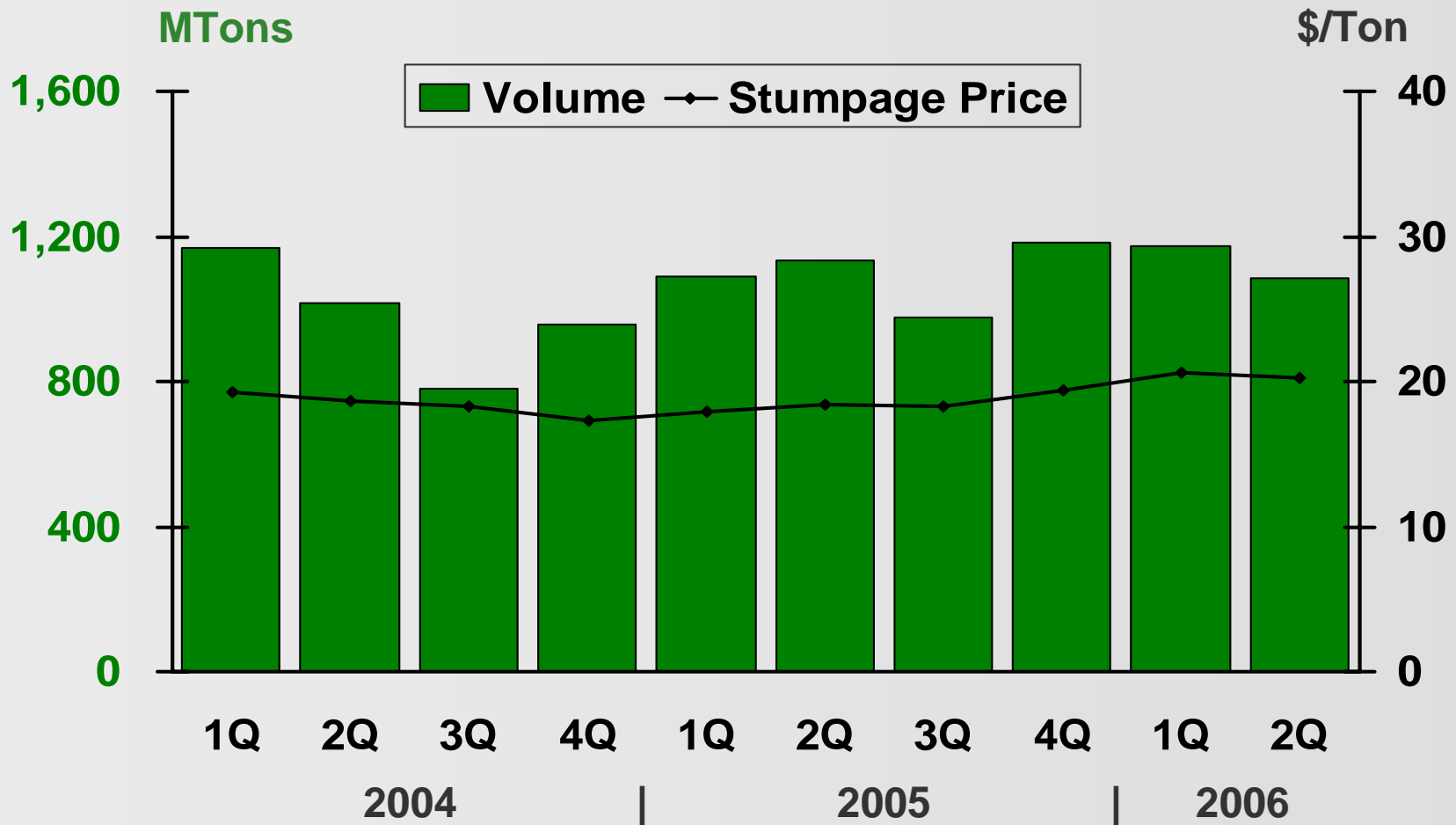


Northwest Timber Sales



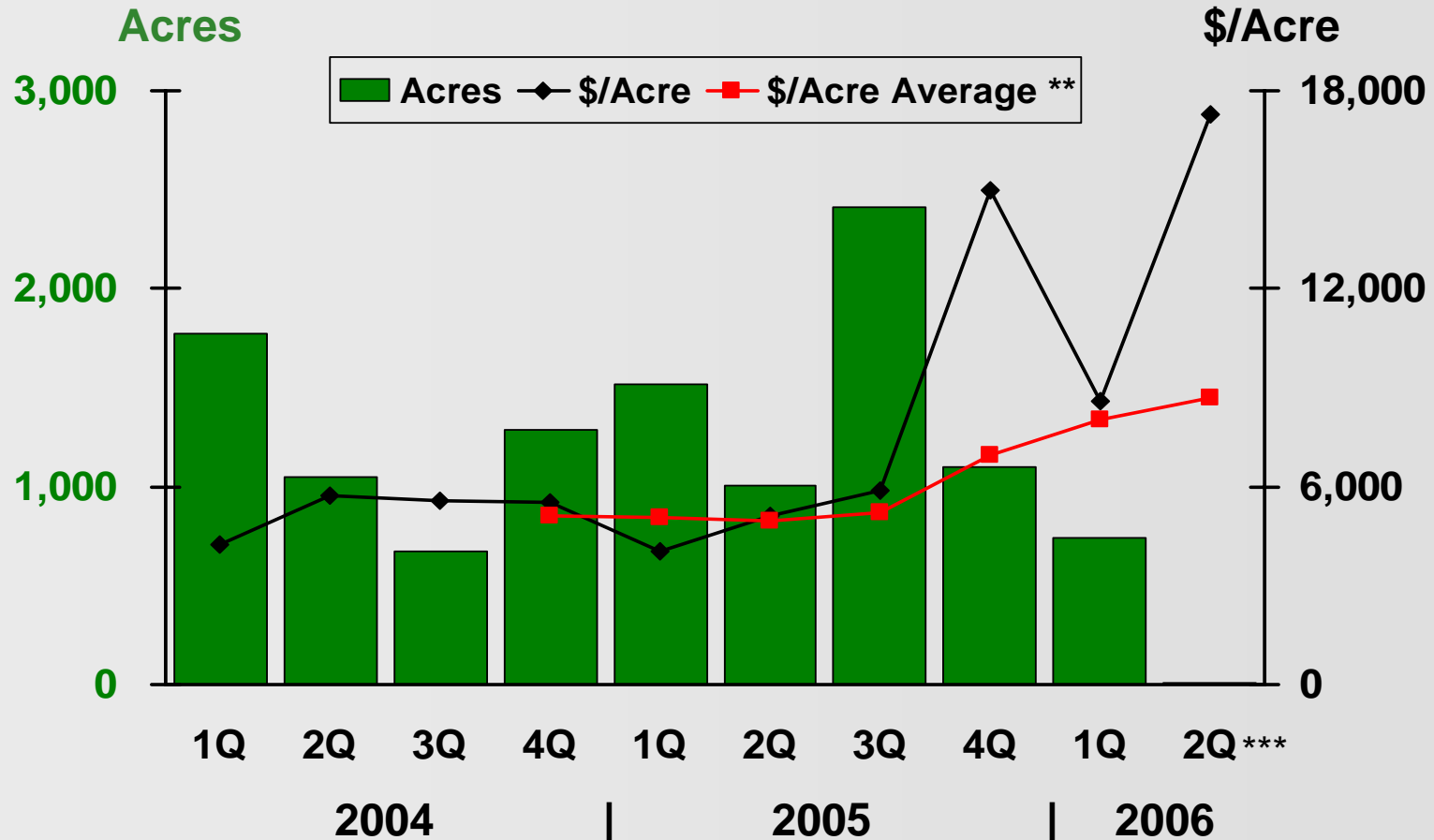


Southeast Pine Timber Sales





Development Acres * - Sales



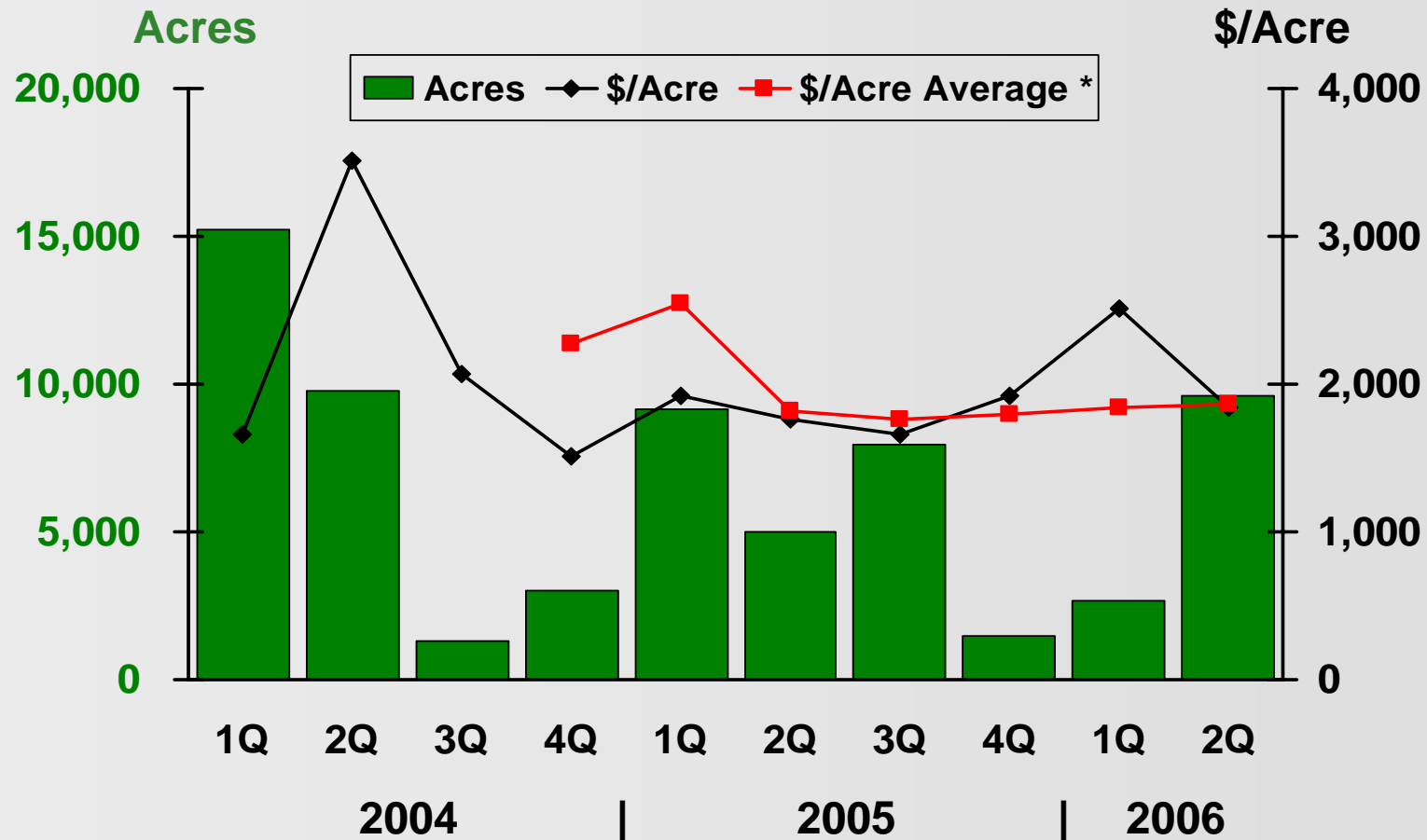
* Primarily sales in coastal counties.

** Four quarter rolling weighted average.

*** 7 acres



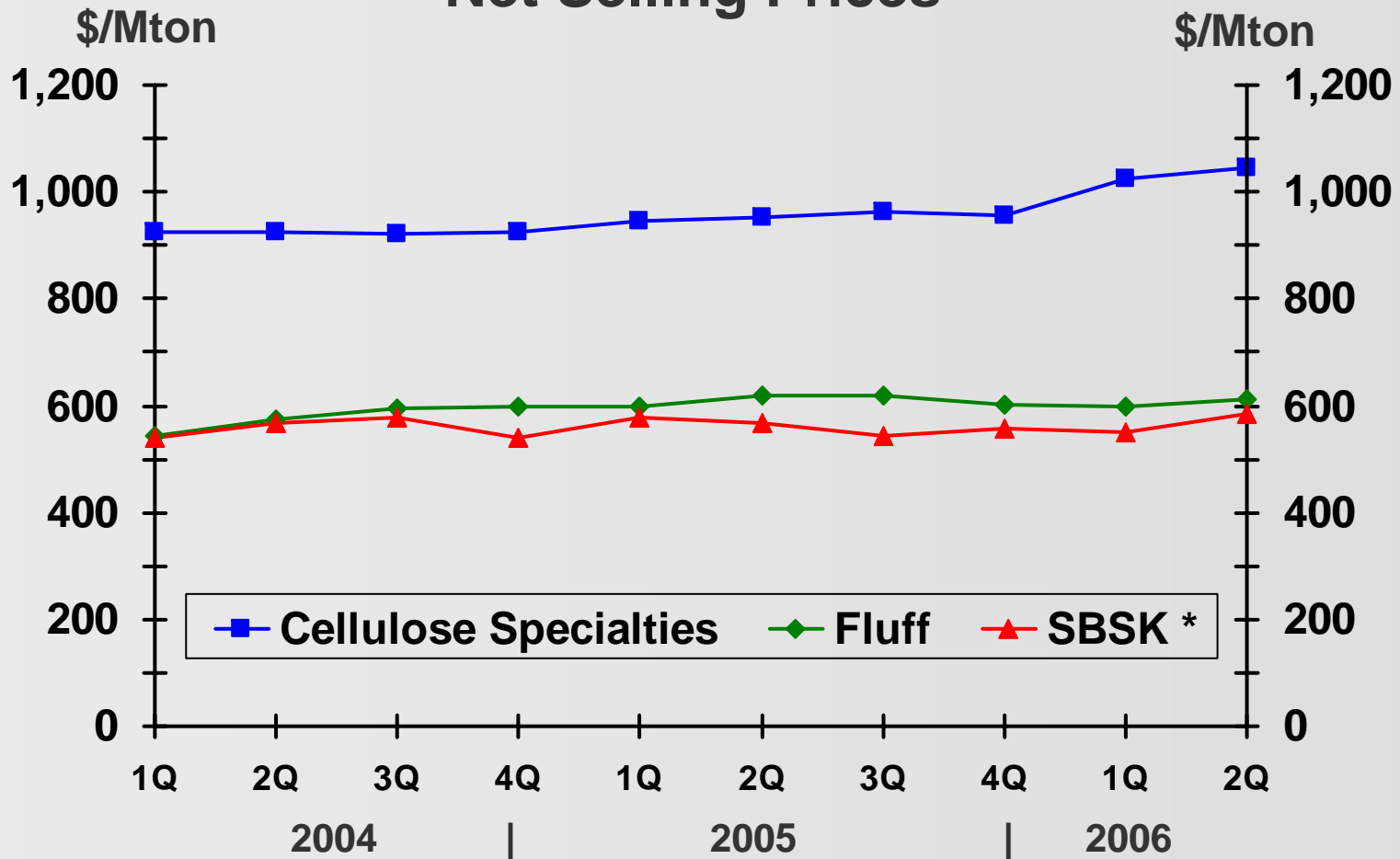
Rural Acres - Sales



* Four quarter rolling weighted average.



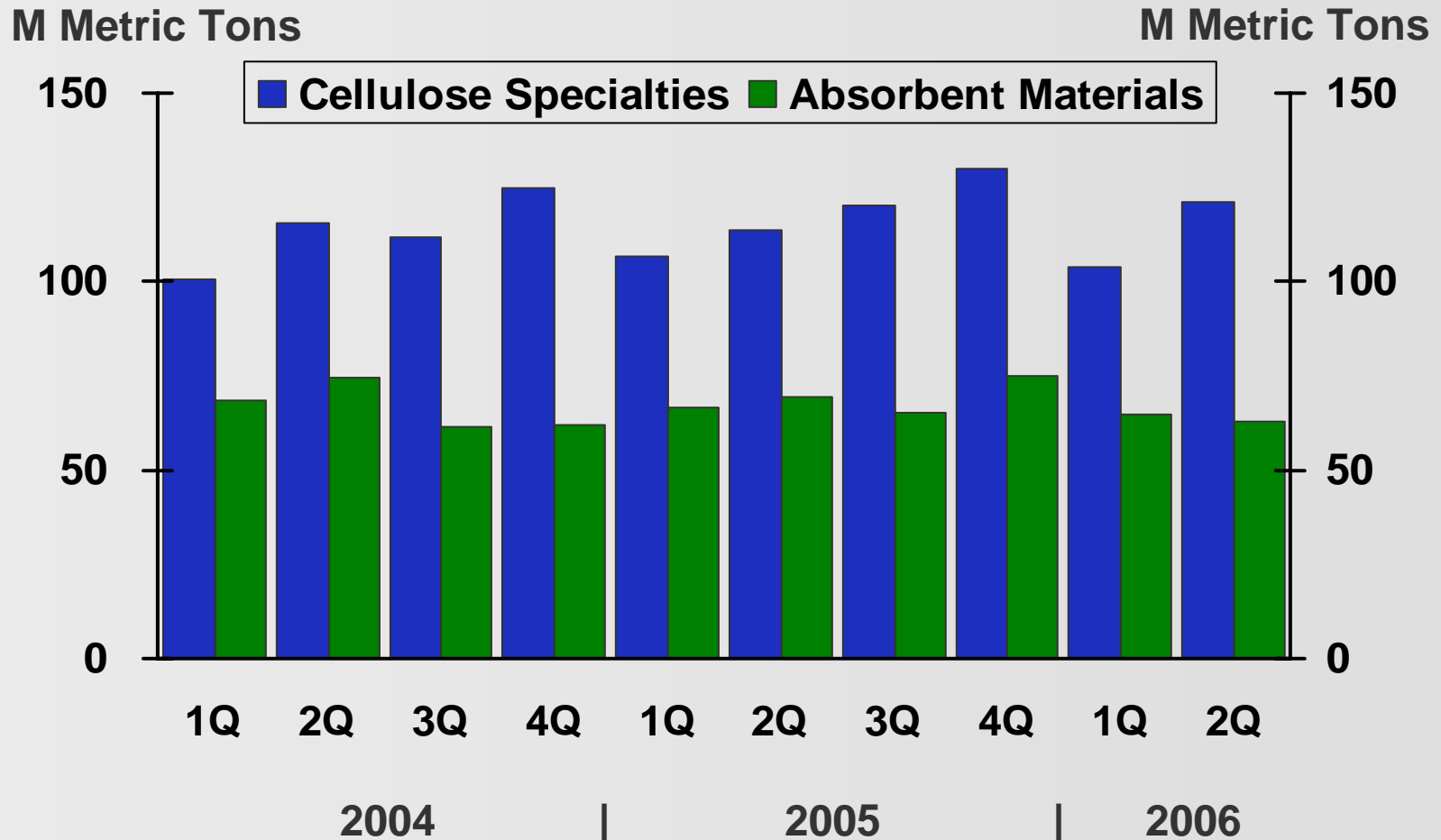
Performance Fibers Net Selling Prices



* Source: RISI gross price less typical discounts.



Performance Fibers Sales Volumes





Wood Products Southeast Lumber





2006 Dividend Projected Tax Characteristics to Shareholder

	Current Outlook*
Capital Gains	100%
Return of Capital	0
Ordinary Income	0
	100%

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



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	?	0.46		0.96
Fourth Quarter		0.34		0.73
Full Year	? ← Above	1.57		2.68

* Second quarter excludes the gain on the sale of a portion of our interest in a New Zealand JV of \$0.08 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 Non-GAAP Measures (\$ Millions)

	Six Months Ended June 30,	
	2006	2005
Adjusted EBITDA		
Cash provided by operating activities	\$ 133.1	\$ 122.9
Income tax expense / (benefit)	9.9	(3.8)
Interest, net	19.9	23.3
Working capital increases (decreases)	9.0 (a)	20.1
Other balance sheet changes	(12.7) (a)	11.9
Adjusted EBITDA	\$ 159.2	\$ 174.4
Cash Available for Distribution (CAD)		
Cash provided by operating activities	\$ 133.1	\$ 122.9
Capital spending *	(61.6)	(43.7)
Like-kind exchange tax benefits on third party real estate sales **	(2.6)	(0.9)
Change in committed cash	7.9	5.5
Equity-based compensation adjustments	4.2	-
Release of restricted cash ***	-	12.0
Proceeds from matured forward energy contracts	0.7	-
Cash Available for Distribution (CAD)	\$ 81.7	\$ 95.8

* 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.

*** Released on July 19, 2005.

(a) Revised subsequent to earnings release on July 25, 2006 at 8:00 a.m.



Reconciliation of Statutory Income Tax to Reported Income Tax (\$ Millions - Except Percentages)

	Three Months Ended						Six Months Ended			
	June 30, 2006		March 31, 2006		June 30, 2005		June 30, 2006		June 30, 2005	
	\$	%	\$	%	\$	%	\$	%	\$	%
Income tax provision at the U.S. statutory rate	\$ (17.0)	(35.0)	\$ (9.6)	(35.0)	\$ (13.0)	(35.0)	\$ (26.6)	(35.0)	\$ (25.4)	(35.0)
REIT income not subject to federal tax	11.4	23.4	8.0	29.3	9.9	26.7	19.4	25.5	18.3	25.2
Lost deduction on REIT interest expense and overhead expenses associated with REIT activities	(2.7)	(5.6)	(3.2)	(11.7)	(2.6)	(7.0)	(5.9)	(7.8)	(5.3)	(7.3)
Foreign, state and local income taxes, foreign exchange rate changes and permanent differences	1.5	3.2	0.3	1.0	0.5	1.2	1.8	2.4	1.0	1.4
Income tax (expense) benefit before discrete items	\$ (6.8)	(14.0)	\$ (4.5)	(16.4)	\$ (5.2)	(14.1)	\$ (11.3)	(14.9)	\$ (11.4)	(15.7)
Return to accrual adjustments	0.9	1.9	-	-	-	-	0.9	1.2	-	-
Favorable IRS audit settlements	-	-	0.5	1.8	7.2	19.4	0.5	0.7	16.7	23.1
Exchange rate changes on tax on undistributed foreign earnings	-	-	-	-	2.5	6.7	-	-	1.4	1.9
Non-realizability of New Zealand tax credits on U.S. withholding tax for prior years' intercompany note interest	-	-	-	-	-	-	-	-	(2.9)	(4.0)
Income tax (expense) benefit	<u>\$ (5.9)</u>	<u>(12.1)</u>	<u>\$ (4.0)</u>	<u>(14.6)</u>	<u>\$ 4.5</u>	<u>12.0</u>	<u>\$ (9.9)</u>	<u>(13.0)</u>	<u>\$ 3.8</u>	<u>5.3</u>