

**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, 2019

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.**

(Exact name of registrant as specified in its charter)  
Incorporated in the State of North Carolina

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

**1 RAYONIER WAY**  
**WILDLIGHT, FL 32097**  
**(Principal Executive Office)**

**Telephone Number: (904) 357-9100**

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Exchange</u>
COMMON SHARES, NO PAR VALUE	RYN	New York Stock Exchange

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 every Interactive Data File required to be submitted 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer   
Non-accelerated Filer  Smaller Reporting Company  Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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 August 2, 2019, there were outstanding 129,630,052 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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>SALES (NOTE 2)</b>	\$184,800	\$245,906	\$376,346	\$449,101
Costs and Expenses				
Cost of sales	(140,454)	(184,418)	(283,705)	(322,906)
Selling and general expenses	(10,984)	(11,502)	(20,794)	(20,504)
Other operating (expense) income, net (Note 16)	(1,969)	1,659	(1,934)	3,029
	<u>(153,407)</u>	<u>(194,261)</u>	<u>(306,433)</u>	<u>(340,381)</u>
<b>OPERATING INCOME</b>	31,393	51,645	69,913	108,720
Interest expense	(7,922)	(8,102)	(15,632)	(16,155)
Interest and other miscellaneous income, net	1,057	2,905	2,390	3,525
<b>INCOME BEFORE INCOME TAXES</b>	24,528	46,448	56,671	96,090
Income tax expense (Note 9)	(3,608)	(7,110)	(7,958)	(14,047)
<b>NET INCOME</b>	20,920	39,338	48,713	82,043
Less: Net income attributable to noncontrolling interest	(2,168)	(3,080)	(5,167)	(5,246)
<b>NET INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	18,752	36,258	43,546	76,797
<b>OTHER COMPREHENSIVE (LOSS) INCOME</b>				
Foreign currency translation adjustment, net of income tax expense of \$0, \$0, \$0 and \$0	(5,604)	(29,760)	429	(20,072)
Cash flow hedges, net of income tax (benefit) expense of (\$91), (\$2,008), \$244 and (\$1,640)	(19,519)	529	(30,205)	17,143
Amortization of pension and postretirement plans, net of income tax expense of \$0, \$0, \$0 and \$0	112	178	224	338
Total other comprehensive (loss) income	<u>(25,011)</u>	<u>(29,053)</u>	<u>(29,552)</u>	<u>(2,591)</u>
<b>COMPREHENSIVE (LOSS) INCOME</b>	(4,091)	10,285	19,161	79,452
Less: Comprehensive (income) loss attributable to noncontrolling interest	(815)	5,011	(5,366)	528
<b>COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	<u>(\$4,906)</u>	<u>\$15,296</u>	<u>\$13,795</u>	<u>\$79,980</u>
<b>EARNINGS PER COMMON SHARE (NOTE 12)</b>				
Basic earnings per share attributable to Rayonier Inc.	\$0.14	\$0.28	\$0.34	\$0.60
Diluted earnings per share attributable to Rayonier Inc.	\$0.14	\$0.28	\$0.34	\$0.59

See Notes to Consolidated Financial Statements.

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

	June 30, 2019	December 31, 2018
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$130,956	\$148,374
Accounts receivable, less allowance for doubtful accounts of \$8 and \$8	44,931	26,151
Inventory ( <a href="#">Note 17</a> )	23,597	15,703
Prepaid expenses	20,581	17,016
Other current assets	690	609
Total current assets	220,755	207,853
<b>TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION</b>	2,392,389	2,401,327
<b>HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT INVESTMENTS (<a href="#">NOTE 7</a>)</b>	77,072	85,609
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	4,131	4,131
Buildings	22,432	22,503
Machinery and equipment	3,681	3,534
Construction in progress	589	567
Total property, plant and equipment, gross	30,833	30,735
Less — accumulated depreciation	(8,789)	(7,984)
Total property, plant and equipment, net	22,044	22,751
<b>RESTRICTED CASH (<a href="#">NOTE 18</a>)</b>	3,754	8,080
<b>RIGHT-OF-USE ASSETS (<a href="#">NOTE 3</a>)</b>	104,016	—
<b>OTHER ASSETS</b>	41,021	55,046
<b>TOTAL ASSETS</b>	<b>\$2,861,051</b>	<b>\$2,780,666</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$24,944	\$18,019
Accrued taxes	5,935	3,178
Accrued payroll and benefits	5,451	10,416
Accrued interest	4,931	5,007
Deferred revenue	19,798	10,447
Other current liabilities	25,026	16,474
Total current liabilities	86,085	63,541
<b>LONG-TERM DEBT, NET OF DEFERRED FINANCING COSTS (<a href="#">NOTE 6</a>)</b>	972,848	972,567
<b>PENSION AND OTHER POSTRETIREMENT BENEFITS (<a href="#">NOTE 15</a>)</b>	29,383	29,800
<b>LONG-TERM LEASE LIABILITY (<a href="#">NOTE 3</a>)</b>	93,749	—
<b>OTHER NON-CURRENT LIABILITIES</b>	78,688	60,208
<b>COMMITMENTS AND CONTINGENCIES (<a href="#">NOTES 8</a> and <a href="#">10</a>)</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Common Shares, 480,000,000 shares authorized, 129,629,716 and 129,488,675 shares issued and outstanding	884,618	884,263
Retained earnings	645,743	672,371
Accumulated other comprehensive (loss) income ( <a href="#">Note 19</a> )	(29,511)	239
<b>TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY</b>	<b>1,500,850</b>	<b>1,556,873</b>
Noncontrolling interest	99,448	97,677
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,600,298</b>	<b>1,654,550</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$2,861,051</b>	<b>\$2,780,666</b>

See Notes to Consolidated Financial Statements.

**RAYONIER INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(Unaudited)**  
**(Dollars in thousands, except share data)**

	Common Shares		Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Non-controlling Interest	Shareholders' Equity
	Shares	Amount				
<b>Balance, January 1, 2019</b>	129,488,675	\$884,263	\$672,371	\$239	\$97,677	\$1,654,550
Net income	—	—	24,794	—	2,999	27,793
Dividends (\$0.27 per share)	—	—	(35,049)	—	—	(35,049)
Issuance of shares under incentive stock plans	26,031	597	—	—	—	597
Stock-based compensation	—	1,477	—	—	—	1,477
Repurchase of common shares	(1,140)	(33)	—	—	—	(33)
Amortization of pension and postretirement plan liabilities	—	—	—	112	—	112
Foreign currency translation adjustment	—	—	—	4,680	1,353	6,033
Cash flow hedges	—	—	—	(10,884)	198	(10,686)
Distribution to minority shareholder	—	—	—	—	(3,594)	(3,594)
<b>Balance, March 31, 2019</b>	<u>129,513,566</u>	<u>\$886,304</u>	<u>\$662,116</u>	<u>(\$5,853)</u>	<u>\$98,633</u>	<u>\$1,641,200</u>
Net income	—	—	18,752	—	2,168	20,920
Dividends (\$0.27 per share)	—	—	(35,125)	—	—	(35,125)
Issuance of shares under incentive stock plans	250,344	177	—	—	—	177
Stock-based compensation	—	2,344	—	—	—	2,344
Repurchase of common shares	(134,194)	(4,207)	—	—	—	(4,207)
Amortization of pension and postretirement plan liabilities	—	—	—	112	—	112
Foreign currency translation adjustment	—	—	—	(4,305)	(1,299)	(5,604)
Cash flow hedges	—	—	—	(19,465)	(54)	(19,519)
<b>Balance, June 30, 2019</b>	<u>129,629,716</u>	<u>\$884,618</u>	<u>\$645,743</u>	<u>(\$29,511)</u>	<u>\$99,448</u>	<u>\$1,600,298</u>

	Common Shares		Retained Earnings	Accumulated Other Comprehensive Income	Non-controlling Interest	Shareholders' Equity
	Shares	Amount				
<b>Balance, January 1, 2018</b>	128,970,776	\$872,228	\$707,378	\$13,417	\$99,917	\$1,692,940
Net income	—	—	40,539	—	2,167	42,706
Dividends (\$0.25 per share)	—	—	(32,634)	—	—	(32,634)
Issuance of shares under incentive stock plans	204,336	5,455	—	—	—	5,455
Stock-based compensation	—	1,262	—	—	—	1,262
Repurchase of common shares	(811)	(18)	—	—	—	(18)
Amortization of pension and postretirement plan liabilities	—	—	—	159	—	159
Foreign currency translation adjustment	—	—	—	7,606	2,082	9,688
Cash flow hedges	—	—	—	16,381	234	16,615
<b>Balance, March 31, 2018</b>	<u>129,174,301</u>	<u>\$878,927</u>	<u>\$715,283</u>	<u>\$37,563</u>	<u>\$104,400</u>	<u>\$1,736,173</u>
Net income	—	—	36,258	—	3,080	39,338
Dividends (\$0.27 per share)	—	—	(35,213)	—	—	(35,213)
Issuance of shares under incentive stock plans	357,139	2,369	—	—	—	2,369
Stock-based compensation	—	2,212	—	—	—	2,212
Repurchase of common shares	(80,172)	(2,948)	—	—	—	(2,948)
Amortization of pension and postretirement plan liabilities	—	—	—	178	—	178
Foreign currency translation adjustment	—	—	—	(22,857)	(6,903)	(29,760)
Cash flow hedges	—	—	—	1,717	(1,189)	529
<b>Balance, June 30, 2018</b>	<u>129,451,268</u>	<u>\$880,560</u>	<u>\$716,328</u>	<u>\$16,601</u>	<u>\$99,388</u>	<u>\$1,712,877</u>

See Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2019	2018
<b>OPERATING ACTIVITIES</b>		
Net income	\$48,713	\$82,043
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion and amortization	64,093	80,920
Non-cash cost of land and improved development	5,647	14,936
Stock-based incentive compensation expense	3,821	3,474
Deferred income taxes	7,257	13,653
Amortization of losses from pension and postretirement plans	224	338
Other	987	(5,466)
Changes in operating assets and liabilities:		
Receivables	(21,031)	(26,203)
Inventories	(994)	1,014
Accounts payable	5,558	4,448
Income tax receivable/payable	—	(84)
All other operating activities	2,679	12,510
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>116,954</b>	<b>181,583</b>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(29,505)	(25,920)
Real estate development investments	(999)	(4,501)
Purchase of timberlands	(26,396)	(31,234)
Other	(3,888)	113
<b>CASH USED FOR INVESTING ACTIVITIES</b>	<b>(60,788)</b>	<b>(61,542)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of debt	—	1,014
Repayment of debt	—	(54,389)
Dividends paid	(71,107)	(67,053)
Proceeds from the issuance of common shares under incentive stock plan	774	7,824
Repurchase of common shares	(4,241)	(2,966)
Distribution to minority shareholder	(3,594)	—
Other	133	—
<b>CASH USED FOR FINANCING ACTIVITIES</b>	<b>(78,035)</b>	<b>(115,570)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>125</b>	<b>(578)</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>		
Change in cash, cash equivalents and restricted cash	(21,744)	3,893
Balance, beginning of year	156,454	172,356
Balance, end of period	<b>\$134,710</b>	<b>\$176,249</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the period:		
Interest (a)	\$14,377	\$14,858
Income taxes	705	302
Non-cash investing activity:		
Capital assets purchased on account	3,407	6,646

(a) Interest paid is presented net of patronage payments received of \$4.0 million and \$3.8 million for the six months ended June 30, 2019 and June 30, 2018, respectively. For additional information on patronage payments, see Note 5 — Debt in the 2018 Form 10-K.

See Notes to Consolidated Financial Statements.

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

## 1. 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 (“GAAP”) for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”). The year-end balance sheet information was derived from audited financial statements not included herein. In the opinion of management, these financial statements and notes reflect any 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, 2018, as filed with the SEC (the “2018 Form 10-K”).

### SUMMARY OF UPDATES TO SIGNIFICANT ACCOUNTING POLICIES

For information on updated significant accounting policies due to the adoption of ASC 842, see [Note 3 — Leases](#). For a full description of our other significant accounting policies, see Note 1 — *Basis of Presentation* in the 2018 Form 10-K.

### RECENTLY ADOPTED STANDARDS

#### ASU 2016-02 (ASC 842)

The Company adopted Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)*, on January 1, 2019 and elected to apply the standard as of that day. As such, the Consolidated Balance Sheet as of June 30, 2019 includes right-of-use assets and lease liabilities related to the rights and obligations created by the Company’s long-term leases. Prior periods have not been restated.

The Company applied the following practical expedients in the transition to the new standard as allowed under ASC 842-10-65-1:

Practical Expedient	Description
Reassessment of expired or existing contracts	The Company elected not to reassess, at the application date, whether any expired or existing contracts contained leases, the lease classification for any expired or existing leases, and the accounting for initial direct costs for any existing leases.
Use of hindsight	The Company elected to use hindsight in determining the lease term (that is, when considering options to extend or terminate the lease and to purchase the underlying asset) and in assessing impairment of right-to-use assets.
Reassessment of existing or expired land easements	The Company elected not to evaluate existing or expired land easements that were not previously accounted for as leases under ASC 840, as allowed under the transition practical expedient. Going forward, new or modified land easements will be evaluated under ASU No. 2016-02.

See [Note 3 — Leases](#) for additional qualitative and quantitative disclosures required under ASU No. 2016-02.

### OTHER RECENTLY ADOPTED STANDARDS

The Company adopted ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* in the first quarter ended March 31, 2019 with no material impact on the consolidated financial statements.

The Company adopted ASU No 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting* in the first quarter ended March 31, 2019 with no impact on the consolidated financial statements.



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

## NEW ACCOUNTING STANDARDS

During the six months ended June 30, 2019, the Financial Accounting Standards Board (“FASB”) has not issued any Accounting Standard Updates which are expected to have a material retrospective or future effect on the consolidated financial statements.

## SUBSEQUENT EVENTS

The Company has evaluated events occurring from June 30, 2019 to the date of issuance of these Consolidated Financial Statements for potential recognition or disclosure in the consolidated financial statements. No events were identified that warranted recognition or disclosure.

## 2. REVENUE

### PERFORMANCE OBLIGATIONS

The Company recognizes revenues when control of promised goods or services (“performance obligations”) is transferred to customers, in an amount that reflects the consideration expected in exchange for those goods or services (“transaction price”). The Company generally satisfies performance obligations within a year of entering into a contract and therefore has applied the disclosure exemption found under ASC 606-10-50-14. Unsatisfied performance obligations as of June 30, 2019 are primarily due to advances on stumpage contracts and unearned license revenue. These performance obligations are expected to be satisfied within the next twelve months. The Company generally collects payment within a year of satisfying performance obligations and therefore has elected not to adjust revenues for a financing component.

### CONTRACT BALANCES

The timing of revenue recognition, invoicing and cash collections results in accounts receivable and deferred revenue (contract liabilities) on the Consolidated Balance Sheets. Accounts receivable are recorded when the Company has an unconditional right to consideration for completed performance under the contract. Contract liabilities relate to payments received in advance of performance under the contract. Contract liabilities are recognized as revenue as (or when) the Company performs under the contract.

The following table summarizes revenue recognized during the three and six months ended June 30, 2019 and 2018 that was included in the contract liability balance at the beginning of each year:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenue recognized from contract liability balance at the beginning of the year (a)	\$3,440	\$5,429	\$8,796	\$11,800

(a) Revenue recognized was primarily from hunting licenses and the use of advances on pay-as-cut timber sales.

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

The following tables present our revenue from contracts with customers disaggregated by product type for the three and six months ended June 30, 2019 and 2018:

Three Months Ended	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Real Estate	Trading	Elim.	Total
<b>June 30, 2019</b>							
Pulpwood	\$19,310	\$2,267	\$8,581	—	\$3,826	—	\$33,984
Sawtimber	16,286	15,407	52,427	—	31,377	—	115,497
Hardwood	1,391	—	—	—	—	—	1,391
<b>Total Timber Sales</b>	<b>36,987</b>	<b>17,674</b>	<b>61,008</b>	<b>—</b>	<b>35,203</b>	<b>—</b>	<b>150,872</b>
License Revenue, Primarily From Hunting	4,296	103	142	—	—	—	4,541
Other Non-Timber/Carbon Revenue	4,914	779	977	—	—	—	6,670
Agency Fee Income	—	—	—	—	184	—	184
<b>Total Non-Timber Sales</b>	<b>9,210</b>	<b>882</b>	<b>1,119</b>	<b>—</b>	<b>184</b>	<b>—</b>	<b>11,395</b>
Improved Development	—	—	—	172	—	—	172
Unimproved Development	—	—	—	14,431	—	—	14,431
Rural	—	—	—	6,799	—	—	6,799
Non-strategic / Timberlands	—	—	—	1,123	—	—	1,123
Other	—	—	—	8	—	—	8
<b>Total Real Estate Sales</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>22,533</b>	<b>—</b>	<b>—</b>	<b>22,533</b>
Revenue from Contracts with Customers	46,197	18,556	62,127	22,533	35,387	—	184,800
Intersegment	—	—	—	—	74	(74)	—
<b>Total Revenue</b>	<b>\$46,197</b>	<b>\$18,556</b>	<b>\$62,127</b>	<b>\$22,533</b>	<b>\$35,461</b>	<b>(\$74)</b>	<b>\$184,800</b>
<b>June 30, 2018</b>							
Pulpwood	\$20,300	\$4,625	\$7,788	—	\$3,804	—	\$36,517
Sawtimber	15,776	26,654	61,219	—	42,162	—	145,811
Hardwood	1,214	—	—	—	—	—	1,214
<b>Total Timber Sales</b>	<b>37,290</b>	<b>31,279</b>	<b>69,007</b>	<b>—</b>	<b>45,966</b>	<b>—</b>	<b>183,542</b>
License Revenue, Primarily from Hunting	3,936	103	142	—	—	—	4,181
Other Non-Timber/Carbon Revenue	6,821	831	504	—	—	—	8,156
Agency Fee Income	—	—	—	—	167	—	167
<b>Total Non-Timber Sales</b>	<b>10,757</b>	<b>934</b>	<b>646</b>	<b>—</b>	<b>167</b>	<b>—</b>	<b>12,504</b>
Improved Development	—	—	—	1,345	—	—	1,345
Rural	—	—	—	4,827	—	—	4,827
Non-strategic / Timberlands	—	—	—	43,688	—	—	43,688
<b>Total Real Estate Sales</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>49,860</b>	<b>—</b>	<b>—</b>	<b>49,860</b>
Revenue from Contracts with Customers	48,047	32,213	69,653	49,860	46,133	—	245,906
Intersegment	—	—	—	—	29	(29)	—
<b>Total Revenue</b>	<b>\$48,047</b>	<b>\$32,213</b>	<b>\$69,653</b>	<b>\$49,860</b>	<b>\$46,162</b>	<b>(\$29)</b>	<b>\$245,906</b>

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

Six Months Ended	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Real Estate	Trading	Elim.	Total
<b>June 30, 2019</b>							
Pulpwood	\$46,109	\$5,087	\$17,349	—	\$8,152	—	\$76,697
Sawtimber	39,437	32,684	98,290	—	58,890	—	229,301
Hardwood	2,477	—	—	—	—	—	2,477
<b>Total Timber Sales</b>	<b>88,023</b>	<b>37,771</b>	<b>115,639</b>	<b>—</b>	<b>67,042</b>	<b>—</b>	<b>308,475</b>
License Revenue, Primarily From Hunting	8,420	205	195	—	—	—	8,820
Other Non-Timber/Carbon Revenue	10,600	1,115	3,423	—	—	—	15,138
Agency Fee Income	—	—	—	—	381	—	381
<b>Total Non-Timber Sales</b>	<b>19,020</b>	<b>1,320</b>	<b>3,618</b>	<b>—</b>	<b>381</b>	<b>—</b>	<b>24,339</b>
Improved Development	—	—	—	514	—	—	514
Unimproved Development	—	—	—	15,430	—	—	15,430
Rural	—	—	—	19,464	—	—	19,464
Non-strategic / Timberlands	—	—	—	8,056	—	—	8,056
Other	—	—	—	68	—	—	68
<b>Total Real Estate Sales</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>43,532</b>	<b>—</b>	<b>—</b>	<b>43,532</b>
Revenue from Contracts with Customers	107,043	39,091	119,257	43,532	67,423	—	376,346
Intersegment	—	—	—	—	103	(103)	—
<b>Total Revenue</b>	<b>\$107,043</b>	<b>\$39,091</b>	<b>\$119,257</b>	<b>\$43,532</b>	<b>\$67,526</b>	<b>(\$103)</b>	<b>\$376,346</b>
<b>June 30, 2018</b>							
Pulpwood	\$41,904	\$8,044	\$13,632	—	\$8,062	—	\$71,642
Sawtimber	31,713	53,721	105,964	—	76,987	—	268,385
Hardwood	1,811	—	—	—	—	—	1,811
<b>Total Timber Sales</b>	<b>75,428</b>	<b>61,765</b>	<b>119,596</b>	<b>—</b>	<b>85,049</b>	<b>—</b>	<b>341,838</b>
License Revenue, Primarily from Hunting	8,024	128	194	—	—	—	8,346
Other Non-Timber/Carbon Revenue	8,183	1,694	2,827	—	—	—	12,704
Agency Fee Income	—	—	—	—	289	—	289
<b>Total Non-Timber Sales</b>	<b>16,207</b>	<b>1,822</b>	<b>3,021</b>	<b>—</b>	<b>289</b>	<b>—</b>	<b>21,339</b>
Improved Development	—	—	—	2,465	—	—	2,465
Unimproved Development	—	—	—	7,446	—	—	7,446
Rural	—	—	—	6,480	—	—	6,480
Non-strategic / Timberlands	—	—	—	69,533	—	—	69,533
<b>Total Real Estate Sales</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>85,924</b>	<b>—</b>	<b>—</b>	<b>85,924</b>
Revenue from Contracts with Customers	91,635	63,587	122,617	85,924	85,338	—	449,101
Intersegment	—	—	—	—	35	(35)	—
<b>Total Revenue</b>	<b>\$91,635</b>	<b>\$63,587</b>	<b>\$122,617</b>	<b>\$85,924</b>	<b>\$85,373</b>	<b>(\$35)</b>	<b>\$449,101</b>

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

The following tables present our timber sales disaggregated by contract type for the three and six months ended June 30, 2019 and 2018:

Three Months Ended	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Trading	Total
<b>June 30, 2019</b>					
Stumpage Pay-as-Cut	\$15,172	—	—	—	\$15,172
Stumpage Lump Sum	581	—	—	—	581
Total Stumpage	15,753	—	—	—	15,753
Delivered Wood (Domestic)	17,041	17,674	21,739	2,669	59,123
Delivered Wood (Export)	4,193	—	39,269	32,534	75,996
Total Delivered	21,234	17,674	61,008	35,203	135,119
<b>Total Timber Sales</b>	<b>\$36,987</b>	<b>\$17,674</b>	<b>\$61,008</b>	<b>\$35,203</b>	<b>\$150,872</b>
<b>June 30, 2018</b>					
Stumpage Pay-as-Cut	\$19,855	—	—	—	\$19,855
Stumpage Lump Sum	256	4,605	—	—	4,861
Total Stumpage	20,111	4,605	—	—	24,716
Delivered Wood (Domestic)	15,166	26,674	25,647	1,567	69,054
Delivered Wood (Export)	2,013	—	43,360	44,399	89,772
Total Delivered	17,179	26,674	69,007	45,966	158,826
<b>Total Timber Sales</b>	<b>\$37,290</b>	<b>\$31,279</b>	<b>\$69,007</b>	<b>\$45,966</b>	<b>\$183,542</b>
Six Months Ended	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Trading	Total
<b>June 30, 2019</b>					
Stumpage Pay-as-Cut	\$43,180	—	—	—	\$43,180
Stumpage Lump Sum	2,675	—	—	—	2,675
Total Stumpage	45,855	—	—	—	45,855
Delivered Wood (Domestic)	36,379	37,771	42,439	4,793	121,382
Delivered Wood (Export)	5,789	—	73,200	62,249	141,238
Total Delivered	42,168	37,771	115,639	67,042	262,620
<b>Total Timber Sales</b>	<b>\$88,023</b>	<b>\$37,771</b>	<b>\$115,639</b>	<b>\$67,042</b>	<b>\$308,475</b>
<b>June 30, 2018</b>					
Stumpage Pay-as-Cut	\$42,364	—	—	—	\$42,364
Stumpage Lump Sum	2,074	9,711	—	—	11,785
Total Stumpage	44,438	9,711	—	—	54,149
Delivered Wood (Domestic)	28,543	52,054	45,750	2,504	128,851
Delivered Wood (Export)	2,447	—	73,846	82,545	158,838
Total Delivered	30,990	52,054	119,596	85,049	287,689
<b>Total Timber Sales</b>	<b>\$75,428</b>	<b>\$61,765</b>	<b>\$119,596</b>	<b>\$85,049</b>	<b>\$341,838</b>

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

**3. LEASES***ADOPTION OF ASC 842*

For information on the adoption of ASC 842, including required transition disclosures, see [Note 1 — Basis of Presentation](#).

*TIMBERLAND LEASES*

U.S. timberland leases typically have initial terms of approximately 30 to 65 years, with renewal provisions in some cases. New Zealand timberland lease terms typically range between 30 and 99 years. New Zealand lease arrangements generally consist of Crown Forest Licenses (“CFLs”), forestry rights and land leases. A CFL is a license arrangement to use government or privately owned land to operate a commercial forest. CFLs generally extend indefinitely and may only be terminated upon a 35-year termination notice. If no termination notice is given, the CFLs renew automatically each year for a one-year term. Alternatively, some CFLs extend for a specific term. Once a CFL is terminated, the Company may be able to obtain a forestry right from the subsequent owner. A forestry right is a license arrangement with a private entity to use their lands to operate a commercial forest. Forestry rights terminate either upon the issuance of a termination notice (which can last 35 to 45 years), completion of harvest, or a specified termination date.

As of June 30, 2019, the New Zealand subsidiary has two CFLs comprising 9,000 acres under termination notice that are currently being relinquished as harvest activities are concluding, as well as two fixed-term CFLs comprising 3,000 acres expiring in 2062. Additionally, the New Zealand subsidiary has two forestry rights comprising 32,000 acres under termination notice that are currently being relinquished as harvest activities are concluding.

*OTHER NON-TIMBERLAND LEASES*

In addition to timberland holdings, the Company leases properties for certain office locations. Significant leased properties include a regional office in Lufkin, Texas; a Pacific Northwest Timber office in Hoquiam, Washington and a New Zealand Timber and Trading headquarters in Auckland, New Zealand.

*LEASE MATURITIES, LEASE COST AND OTHER LEASE INFORMATION*

The following table details the Company’s undiscounted lease obligations as of June 30, 2019 by type of lease and year of expiration:

Lease obligations	Total	Year of Expiration					
		Remaining 2019	2020	2021	2022	2023	Thereafter
Operating lease liabilities	\$202,266	\$5,874	\$9,642	\$9,494	\$8,858	\$8,318	\$160,080
<b>Total Undiscounted Cash Flows</b>	<b>\$202,266</b>	<b>\$5,874</b>	<b>\$9,642</b>	<b>\$9,494</b>	<b>\$8,858</b>	<b>\$8,318</b>	<b>\$160,080</b>
Imputed interest	(98,212)						
<b>Balance at June 30, 2019</b>	<b>104,054</b>						
Less: Current portion	(10,305)						
<b>Non-current portion at June 30, 2019</b>	<b>\$93,749</b>						

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

The following table details components of the Company's lease cost for the three and six months ended June 30, 2019:

Lease Cost Components	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Operating lease cost	2,396	4,833
Variable lease cost (a)	81	157
<b>Total lease cost (b)</b>	<b>\$2,477</b>	<b>\$4,990</b>

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

(b) Short-term leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense for these leases are expensed on a straight line basis over the lease term. Short-term lease expense was not material for the three and six months ended June 30, 2019.

The following table details components of the Company's lease cost for the six months ended June 30, 2019:

Supplemental cash flow information related to leases:	Six Months Ended June 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	1,493
Investing cash flows from operating leases	3,340
<b>Total cash flows from operating leases</b>	<b>\$4,833</b>
Weighted-average remaining lease term in years - operating leases	28
Weighted-average discount rate - operating leases	5%

The Company applied the following practical expedients upon adoption of the the new standard as allowed under ASC 842:

Practical Expedient	Description
Short-term leases	The Company does not record right-of-use assets or lease liabilities for short-term leases (a lease that at commencement date has a lease term of 12 months or less and does not contain a purchase option that is reasonably certain to be exercised).
Separation of lease and non-lease components	The Company does not separate non-lease components from the associated lease components if they have the same timing and pattern of transfer and, if accounted for separately, would both be classified as an operating lease.

#### 4. NEW ZEALAND SUBSIDIARY

The Company maintains a 77% controlling financial interest in Matariki Forestry Group (the "New Zealand subsidiary"), a joint venture that owns or leases approximately 410,000 legal acres of New Zealand timberland. Accordingly, the Company consolidates the New Zealand subsidiary's balance sheet and results of operations. The portions of the consolidated financial position and results of operations attributable to the New Zealand subsidiary's 23% noncontrolling interest are shown separately within the Consolidated Statements of Income and Comprehensive Income and Consolidated Statements of Shareholders' Equity. Rayonier New Zealand Limited ("RNZ"), a wholly-owned subsidiary of Rayonier Inc., serves as the manager of the New Zealand subsidiary.

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

## 5. SEGMENT AND GEOGRAPHICAL INFORMATION

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 segment operating income and Adjusted EBITDA. Asset information is not reported by segment, as the Company does not produce asset information by segment internally.

Operating income as presented in the Consolidated Statements of Income and Comprehensive Income is equal to segment income. Certain income (loss) items in the Consolidated Statements of Income and Comprehensive Income are not allocated to segments. These items, which include interest income (expense), miscellaneous income (expense) and income tax expense, are not considered by management to be part of segment operations and are included under "unallocated interest expense and other."

The following tables summarize the segment information for the three and six months ended June 30, 2019 and 2018:

SALES	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Southern Timber	\$46,197	\$48,047	\$107,043	\$91,635
Pacific Northwest Timber	18,556	32,213	39,091	63,587
New Zealand Timber	62,127	69,653	119,257	122,617
Real Estate	22,533	49,860	43,532	85,924
Trading	35,461	46,162	67,526	85,373
Intersegment Eliminations	(74)	(29)	(103)	(35)
Total	<u>\$184,800</u>	<u>\$245,906</u>	<u>\$376,346</u>	<u>\$449,101</u>

OPERATING INCOME (LOSS)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Southern Timber	\$14,741	\$15,651	\$36,261	\$27,878
Pacific Northwest Timber	(3,815)	5,625	(7,556)	10,299
New Zealand Timber	12,797	17,768	28,517	33,725
Real Estate	15,468	18,864	25,495	46,918
Trading	(171)	227	309	376
Corporate and other	(7,627)	(6,490)	(13,113)	(10,476)
Total Operating Income	<u>31,393</u>	<u>51,645</u>	<u>69,913</u>	<u>108,720</u>
Unallocated interest expense and other	(6,865)	(5,197)	(13,242)	(12,630)
Total Income before Income Taxes	<u>\$24,528</u>	<u>\$46,448</u>	<u>\$56,671</u>	<u>\$96,090</u>

DEPRECIATION, DEPLETION AND AMORTIZATION	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Southern Timber	\$12,880	\$14,940	\$32,608	\$30,919
Pacific Northwest Timber	6,045	9,381	12,871	18,885
New Zealand Timber	7,189	8,026	13,508	13,743
Real Estate	1,199	13,739	4,534	16,805
Corporate and other	288	297	572	568
Total	<u>\$27,601</u>	<u>\$46,383</u>	<u>\$64,093</u>	<u>\$80,920</u>

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

NON-CASH COST OF LAND AND IMPROVED DEVELOPMENT	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Real Estate	\$1,617	\$13,312	\$5,647	\$14,936
Total	\$1,617	\$13,312	\$5,647	\$14,936

## 6. DEBT

Rayonier's debt consisted of the following at June 30, 2019:

	June 30, 2019
Term Credit Agreement borrowings due 2024 at a variable interest rate of 4.1% at June 30, 2019 (a)	\$350,000
Senior Notes due 2022 at a fixed interest rate of 3.75%	325,000
Incremental Term Loan Agreement borrowings due 2026 at a variable interest rate of 4.3% at June 30, 2019 (b)	300,000
Total debt	975,000
Less: Deferred financing costs	(2,152)
Long-term debt, net of deferred financing costs	\$972,848

(a) As of June 30, 2019, the periodic interest rate on the term loan facility was LIBOR plus 1.625%. The Company estimates the effective fixed interest rate on the term loan facility to be approximately 3.3% after consideration of interest rate swaps and estimated patronage refunds.

(b) As of June 30, 2019, the periodic interest rate on the incremental term loan was LIBOR plus 1.900%. The Company estimates the effective fixed interest rate on the incremental term loan facility to be approximately 2.8% after consideration of interest rate swaps and estimated patronage refunds.

Principal payments due during the next five years and thereafter are as follows:

2019	—
2020	—
2021	—
2022	325,000
2023	—
Thereafter	650,000
Total Debt	\$975,000

### 2019 DEBT ACTIVITY

During the six months ended June 30, 2019, the Company made no borrowings or repayments on its Revolving Credit Facility. At June 30, 2019, the Company had available borrowings of \$198.4 million under the Revolving Credit Facility, net of \$1.6 million to secure its outstanding letters of credit.

During the six months ended June 30, 2019, the New Zealand subsidiary made no borrowings or repayments on its working capital facility. At June 30, 2019, the New Zealand subsidiary had NZ\$20.0 million of available borrowings under its working capital facility.



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

**DEBT COVENANTS**

In connection with the Company's \$350 million term credit agreement (the "Term Credit Agreement"), \$300 million incremental term loan agreement (the "Incremental Term Loan Agreement") and \$200 million revolving credit facility (the "Revolving Credit Facility"), customary covenants must be met, the most significant of which include interest coverage and leverage ratios.

In addition to these financial covenants listed above, the Senior Notes, Term Credit Agreement, Incremental Term Loan Agreement and Revolving Credit Facility include customary covenants that limit the incurrence of debt and the disposition of assets, among others. At June 30, 2019, the Company was in compliance with all applicable covenants.

**7. HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT INVESTMENTS**

Rayonier continuously assesses potential alternative uses of its timberlands, as some properties may become more valuable for development, residential, recreation or other purposes. The Company periodically transfers, via a sale or contribution from the real estate investment trust ("REIT") entities to taxable REIT subsidiaries ("TRS"), higher and better use ("HBU") timberlands to enable land-use entitlement, development or marketing activities. The Company also acquires HBU properties in connection with timberland acquisitions. These properties are managed as timberlands until sold or developed. While the majority of HBU sales involve rural and recreational land, the Company also selectively pursues various land-use entitlements on certain properties for residential, commercial and industrial development in order to enhance the long-term value of such properties. For selected development properties, Rayonier also invests in targeted infrastructure improvements, such as roadways and utilities, to accelerate the marketability and improve the value of such properties.

An analysis of higher and better use timberlands and real estate development investments from December 31, 2018 to June 30, 2019 is shown below:

	Higher and Better Use Timberlands and Real Estate Development Investments		
	Land and Timber	Development Investments	Total
<b>Non-current portion at December 31, 2018</b>	\$59,189	\$26,420	\$85,609
Plus: Current portion (a)	4,239	7,680	11,919
<b>Total Balance at December 31, 2018</b>	<u>63,428</u>	<u>34,100</u>	<u>97,528</u>
Non-cash cost of land and improved development	(1,288)	(376)	(1,664)
Timber depletion from harvesting activities and basis of timber sold in real estate sales	(1,657)	—	(1,657)
Capitalized real estate development investments (b)	—	999	999
Capital expenditures (silviculture)	117	—	117
Intersegment transfers	76	—	76
<b>Total Balance at June 30, 2019</b>	<u>60,676</u>	<u>34,723</u>	<u>95,399</u>
Less: Current portion (a)	(3,476)	(14,851)	(18,327)
<b>Non-current portion at June 30, 2019</b>	<u>\$57,200</u>	<u>\$19,872</u>	<u>\$77,072</u>

(a) The current portion of Higher and Better Use Timberlands and Real Estate Development Investments is recorded in Inventory. See [Note 17 — Inventory](#) for additional information.

(b) Capitalized real estate development investments include \$0.3 million of capitalized interest.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
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## 8. COMMITMENTS

At June 30, 2019, the future minimum payments under non-cancellable commitments were as follows:

	Development Projects (a)	Pension Contributions (b)	Commitments (c)	Total
Remaining 2019	\$1,742	\$884	\$1,329	\$3,955
2020	—	442	619	1,061
2021	—	—	134	134
2022	—	—	3	3
2023	—	—	—	—
Thereafter	—	—	—	—
	\$1,742	\$1,326	\$2,085	\$5,153

(a) Consists of payments expected to be made on the Company's Wildlight development project.

(b) Pension contribution requirements are based on actuarially determined estimates and IRS minimum funding requirements.

(c) Commitments include payments expected to be made on foreign exchange contracts, timberland deeds and other purchase obligations.

## 9. INCOME TAXES

The Company's timber operations are primarily conducted by the Company's REIT entity, which is generally not subject to U.S. federal and state income tax. The New Zealand timber operations are conducted by the New Zealand subsidiary, which is subject to corporate-level tax in New Zealand. Non-REIT qualifying operations, which are subject to corporate-level tax, are conducted by various TRS entities. These operations include log trading and certain real estate activities, such as the sale, entitlement and development of HBU properties.

### PROVISION FOR INCOME TAXES

The Company's tax expense is principally related to New Zealand corporate-level tax on the New Zealand subsidiary income. The following table contains the income tax expense recognized on the Consolidated Statements of Income and Comprehensive Income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Income tax expense	(\$3,608)	(\$7,110)	(\$7,958)	(\$14,047)

### ANNUAL EFFECTIVE TAX RATE

The Company's effective tax rate is below the 21.0% U.S. statutory rate due to tax benefits associated with being a REIT. The following table contains the Company's annualized effective tax rate.

	Six Months Ended June 30,	
	2019	2018
Annualized effective tax rate	15.5%	14.5%

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

**10. CONTINGENCIES**

The Company has been named as a defendant in various 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 large deductible insurance plans, primarily in the areas of executive risk, property, automobile and general liability. These pending 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.

**11. GUARANTEES**

The Company provides financial guarantees as required by creditors, insurance programs, and various governmental agencies.

As of June 30, 2019, the following financial guarantees were outstanding:

Financial Commitments (a)	Maximum Potential Payment
Standby letters of credit (b)	\$1,585
Surety bonds (c)	3,377
<b>Total financial commitments</b>	<b>\$4,962</b>

(a) The Company has not recorded any liabilities for these financial commitments in the Consolidated Balance Sheets. The guarantees are not subject to measurement, as the guarantees are dependent on the Company's own performance.

(b) Approximately \$0.6 million of the standby letters of credit serve as credit support for infrastructure at the Company's Wildlight development project. The remaining letters of credit support various insurance related agreements, primarily workers' compensation. These letters of credit will expire at various dates during 2019 and 2020 and will be renewed as required.

(c) Rayonier issues surety bonds primarily to secure performance obligations related to various operational activities and to provide collateral for outstanding claims under the Company's previous workers' compensation self-insurance programs in Washington and Florida. These surety bonds expire at various dates during 2019 and 2020 and are expected to be renewed as required.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
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**12. 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,	
	2019	2018	2019	2018
Net Income	\$20,920	\$39,338	\$48,713	\$82,043
Less: Net income attributable to noncontrolling interest	(2,168)	(3,080)	(5,167)	(5,246)
Net income attributable to Rayonier Inc.	<u>\$18,752</u>	<u>\$36,258</u>	<u>\$43,546</u>	<u>\$76,797</u>
Shares used for determining basic earnings per common share	129,380,282	129,067,325	129,277,490	128,935,003
Dilutive effect of:				
Stock options	13,463	103,154	16,580	90,815
Performance and restricted shares	250,170	540,808	403,915	606,760
Shares used for determining diluted earnings per common share	<u>129,643,915</u>	<u>129,711,287</u>	<u>129,697,985</u>	<u>129,632,578</u>
Basic earnings per common share attributable to Rayonier Inc.:	\$0.14	\$0.28	\$0.34	\$0.60
Diluted earnings per common share attributable to Rayonier Inc.:	\$0.14	\$0.28	\$0.34	\$0.59

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Anti-dilutive shares excluded from the computations of diluted earnings per share:				
Stock options and performance shares	451,258	254,663	444,765	213,241

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

### **13. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**

The Company is exposed to market risk related to potential fluctuations in foreign currency exchange rates and interest rates. The Company uses derivative financial instruments to mitigate the financial impact of exposure to these risks.

Accounting for derivative financial instruments is governed by ASC Topic 815, *Derivatives and Hedging*, ("ASC 815"). In accordance with ASC 815, the Company records its 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 (loss) income ("AOCI") and reclassified into earnings when the hedged transaction materializes. Gains and losses on derivatives that are designated and qualify for net investment hedge accounting are recorded as a component of AOCI and will not be reclassified into earnings until the Company's investment in its New Zealand operations is partially or completely liquidated. The ineffective portion of any hedge, changes in the fair value of derivatives not designated as hedging instruments and those which are no longer effective as hedging instruments, are recognized immediately in earnings.

#### **FOREIGN CURRENCY EXCHANGE AND OPTION CONTRACTS**

The functional currency of Rayonier's wholly owned subsidiary, Rayonier New Zealand Limited, and the New Zealand subsidiary is the New Zealand dollar. The New Zealand subsidiary is exposed to foreign currency risk on export sales and ocean freight payments which are mainly denominated in U.S. dollars. The New Zealand subsidiary typically hedges 35% to 90% of its estimated foreign currency exposure with respect to the following three months forecasted sales and purchases, 25% to 75% of forecasted sales and purchases for the forward three to 12 months and up to 50% of the forward 12 to 18 months. Foreign currency exposure from the New Zealand subsidiary's trading operations is typically hedged based on the following three months forecasted sales and purchases. As of June 30, 2019, foreign currency exchange contracts and foreign currency option contracts had maturity dates through November 2020 and September 2020, respectively.

Foreign currency exchange and option contracts hedging foreign currency risk on export sales and ocean freight payments qualify for cash flow hedge accounting. 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.

The Company may de-designate these cash flow hedge relationships in advance or at the occurrence of the forecasted transaction. The portion of gains or losses on the derivative instrument previously accumulated in other comprehensive income for de-designated hedges remains in accumulated other comprehensive (loss) income until the forecasted transaction affects earnings. Changes in the value of derivative instruments after de-designation are recorded in earnings.

#### **INTEREST RATE SWAPS**

The Company is exposed to cash flow interest rate risk on its variable-rate Term Credit Agreement and Incremental Term Loan Agreement and uses variable-to-fixed interest rate swaps to hedge this exposure. For these derivative instruments, the Company reports the gains/losses from the fluctuations in the fair market value of the hedges in AOCI and reclassifies them to earnings as interest expense in the same period in which the hedged interest payments affect earnings.

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

The following table contains information on the outstanding interest rate swaps as of June 30, 2019:

Outstanding Interest Rate Swaps (a)						
Date Entered Into	Term	Notional Amount	Related Debt Facility	Fixed Rate of Swap	Bank Margin on Debt	Total Effective Interest Rate (b)
August 2015	9 years	\$170,000	Term Credit Agreement	2.20%	1.63%	3.83%
August 2015	9 years	180,000	Term Credit Agreement	2.35%	1.63%	3.98%
April 2016	10 years	100,000	Incremental Term Loan	1.60%	1.90%	3.50%
April 2016	10 years	100,000	Incremental Term Loan	1.60%	1.90%	3.50%
July 2016	10 years	100,000	Incremental Term Loan	1.26%	1.90%	3.16%

(a) All interest rate swaps have been designated as interest rate cash flow hedges and qualify for hedge accounting.

(b) Rate is before estimated patronage payments.

### CARBON OPTIONS

The New Zealand subsidiary enters into carbon options from time to time to sell carbon assets at certain prices. The fair value of carbon options is determined by a mark-to-market valuation using the Black-Scholes option pricing model, 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. Changes in fair value of the carbon option contracts are recorded in "Interest and other miscellaneous income, net" as the contracts did not qualify for hedge accounting treatment. As of June 30, 2019, carbon option contracts had maturity dates through April 2020.

The following tables demonstrate the impact, gross of tax, of the Company's derivatives on the Consolidated Statements of Income and Comprehensive Income for the three and six months ended June 30, 2019 and 2018.

	Income Statement Location	Three Months Ended June 30,	
		2019	2018
<b>Derivatives designated as cash flow hedges:</b>			
Foreign currency exchange contracts	Other comprehensive (loss) income	(\$219)	(\$6,630)
Foreign currency option contracts	Other comprehensive (loss) income	(107)	(539)
Interest rate swaps	Other comprehensive (loss) income	(19,284)	5,690
<b>Derivatives designated as a net investment hedge:</b>			
Foreign currency exchange contract	Other comprehensive (loss) income	—	(454)
<b>Derivatives not designated as hedging instruments:</b>			
Foreign currency exchange contracts	Interest and other miscellaneous income, net	152	2,479
Carbon option contracts	Interest and other miscellaneous income, net	12	—

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

	Income Statement Location	Six Months Ended June 30,	
		2019	2018
<b>Derivatives designated as cash flow hedges:</b>			
Foreign currency exchange contracts	Other comprehensive (loss) income	\$900	(\$5,398)
Foreign currency option contracts	Other comprehensive (loss) income	(30)	(359)
Interest rate swaps	Other comprehensive (loss) income	(30,831)	21,287
<b>Derivatives designated as a net investment hedge:</b>			
Foreign currency exchange contract	Other comprehensive (loss) income	—	(344)
<b>Derivatives not designated as hedging instruments:</b>			
Foreign currency exchange contracts	Interest and other miscellaneous income, net	135	2,608
Carbon option contracts	Interest and other miscellaneous income, net	415	—

During the next 12 months, the amount of the June 30, 2019 AOCI balance, net of tax, expected to be reclassified into earnings as a result of the maturation of the Company's derivative instruments is a loss of approximately \$0.5 million.

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

	Notional Amount	
	June 30, 2019	December 31, 2018
<b>Derivatives designated as cash flow hedges:</b>		
Foreign currency exchange contracts	\$100,500	\$69,950
Foreign currency option contracts	20,000	24,000
Interest rate swaps	650,000	650,000
<b>Derivative not designated as a hedging instrument:</b>		
Foreign currency exchange contracts	—	9,396
Carbon options (a)	3,102	2,517

(a) Notional amount for carbon options is calculated as the number of units outstanding multiplied by the spot price as of June 30, 2019.

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

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

		Fair Value Assets / (Liabilities) (a)	
		June 30, 2019	December 31, 2018
<b>Derivatives designated as cash flow hedges:</b>			
Foreign currency exchange contracts	Other current assets	\$304	—
	Other assets	159	—
	Other current liabilities	(1,083)	(1,569)
	Other non-current liabilities	(50)	—
Foreign currency option contracts	Other current assets	123	217
	Other assets	63	102
	Other current liabilities	(37)	(106)
	Other non-current liabilities	(33)	(68)
Interest rate swaps	Other assets	4,159	23,735
	Other non-current liabilities	(11,256)	—
<b>Derivative not designated as a hedging instrument:</b>			
Foreign currency exchange contracts	Other current assets	—	152
	Other current liabilities	—	(24)
Carbon options	Other current liabilities	(2)	(322)
<b>Total derivative contracts:</b>			
Other current assets		\$427	\$369
Other assets		4,381	23,837
Total derivative assets		<u>\$4,808</u>	<u>\$24,206</u>
Other current liabilities		(1,122)	(2,021)
Other non-current liabilities		(11,339)	(68)
Total derivative liabilities		<u>(\$12,461)</u>	<u>(\$2,089)</u>

(a) See [Note 14 — Fair Value Measurements](#) for further information on the fair value of the Company's 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.



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

**14. FAIR VALUE MEASUREMENTS**

*FAIR VALUE OF FINANCIAL INSTRUMENTS*

A three-level hierarchy that prioritizes the inputs used to measure fair value was established in the Accounting Standards Codification 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 and estimated fair values of financial instruments held by the Company at June 30, 2019 and December 31, 2018, using market information and what the Company believes to be appropriate valuation methodologies under GAAP:

<b>Asset (Liability) (a)</b>	<b>June 30, 2019</b>			<b>December 31, 2018</b>		
	<b>Carrying Amount</b>	<b>Fair Value</b>		<b>Carrying Amount</b>	<b>Fair Value</b>	
		<b>Level 1</b>	<b>Level 2</b>		<b>Level 1</b>	<b>Level 2</b>
Cash and cash equivalents	\$130,956	\$130,956	—	\$148,374	\$148,374	—
Restricted cash (b)	3,754	3,754	—	8,080	8,080	—
Long-term debt (c)	(972,848)	—	(981,500)	(972,567)	—	(975,845)
Interest rate swaps (d)	(7,097)	—	(7,097)	23,735	—	23,735
Foreign currency exchange contracts (d)	(670)	—	(670)	(1,442)	—	(1,442)
Foreign currency option contracts (d)	116	—	116	145	—	145
Carbon option contracts (d)	(2)	—	(2)	(322)	—	(322)

(a) The Company did not have Level 3 assets or liabilities at June 30, 2019 and December 31, 2018.

(b) Restricted cash represents the proceeds from like-kind exchange sales deposited with a third-party intermediary and cash held in escrow for a real estate sale. See [Note 18 — Restricted Cash](#) for additional information.

(c) The carrying amount of long-term debt is presented net of capitalized debt costs on non-revolving debt. See [Note 6 — Debt](#) for additional information.

(d) See [Note 13 — Derivative Financial Instruments and Hedging Activities](#) for information regarding the Consolidated Balance Sheets 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.

*Carbon option contracts* — The fair value of carbon option contracts is determined by a mark-to-market valuation using the Black-Scholes option pricing model, 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.

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

**15. EMPLOYEE BENEFIT PLANS**

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. Both plans are closed to new participants. Effective December 31, 2016, the Company froze benefits for all employees participating in the pension plan. In lieu of the pension plan, the Company provides those employees with an enhanced 401(k) plan match. 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.

As of June 30, 2019, the Company has paid \$0.4 million of the approximately \$1.3 million in current year mandatory pension contribution requirements (based on actuarially determined estimates and IRS minimum funding requirements).

The net pension and postretirement benefit costs (credit) that have been recorded are shown in the following table:

Components of Net Periodic Benefit Cost (Credit)	Income Statement Location	Pension		Postretirement	
		Three Months Ended June 30,		Three Months Ended June 30,	
		2019	2018	2019	2018
Service cost	Selling and general expenses	—	—	\$1	\$2
Interest cost	Interest and other miscellaneous income, net	799	759	13	13
Expected return on plan assets (a)	Interest and other miscellaneous income, net	(777)	(984)	—	—
Amortization of losses	Interest and other miscellaneous income, net	112	178	—	—
Net periodic benefit cost (credit)		<u>\$134</u>	<u>(\$47)</u>	<u>\$14</u>	<u>\$15</u>

Components of Net Periodic Benefit Cost (Credit)	Income Statement Location	Pension		Postretirement	
		Six Months Ended June 30,		Six Months Ended June 30,	
		2019	2018	2019	2018
Service cost	Selling and general expenses	—	—	\$3	\$3
Interest cost	Interest and other miscellaneous income, net	1,599	1,510	27	25
Expected return on plan assets (a)	Interest and other miscellaneous income, net	(1,554)	(1,968)	—	—
Amortization of losses	Interest and other miscellaneous income, net	224	338	—	1
Net periodic benefit cost (credit)		<u>\$269</u>	<u>(\$120)</u>	<u>\$30</u>	<u>\$29</u>

(a) The weighted-average expected long-term rate of return on plan assets used in computing 2019 net periodic benefit cost for pension benefits is 5.7%.

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

**16. OTHER OPERATING (EXPENSE) INCOME, NET**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Foreign currency (expense) income	(\$659)	\$1,267	(\$577)	\$514
Gain on sale or disposal of property and equipment	35	12	56	27
(Loss) gain on foreign currency exchange and option contracts	(60)	386	(113)	1,819
Log trading marketing fees	80	62	137	131
Income from the sale of unused Internet Protocol addresses	—	—	—	646
Other expense, net	(1,365)	(68)	(1,437)	(108)
<b>Total</b>	<b>(\$1,969)</b>	<b>\$1,659</b>	<b>(\$1,934)</b>	<b>\$3,029</b>

**17. INVENTORY**

As of June 30, 2019 and December 31, 2018, Rayonier's inventory consisted entirely of finished goods, as follows:

	June 30, 2019	December 31, 2018
Finished goods inventory		
Real estate inventory (a)	\$18,327	\$11,919
Log inventory	5,270	3,784
<b>Total inventory</b>	<b>\$23,597</b>	<b>\$15,703</b>

(a) Represents cost of HBU real estate (including capitalized development investments) expected to be sold within 12 months.  
[See Note 7 — Higher And Better Use Timberlands and Real Estate Development Investments for additional information.](#)

**18. RESTRICTED CASH**

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, 2019 and December 31, 2018, the Company had \$3.8 million and \$8.1 million, respectively, of proceeds from real estate sales classified as restricted cash which were deposited with an LKE intermediary as well as cash held in escrow for a real estate sale.

The following table contains the amounts of restricted cash recorded in the Consolidated Balance Sheets and Consolidated Statements of Cash Flows for the six months ended June 30, 2019:

	June 30, 2019
Restricted cash deposited with LKE intermediary	\$3,204
Restricted cash held in escrow	550
<b>Total restricted cash shown in the Consolidated Balance Sheets</b>	<b>3,754</b>
Cash and cash equivalents	130,956
<b>Total cash, cash equivalents and restricted cash shown in the Consolidated Statements of Cash Flows</b>	<b>\$134,710</b>

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

**19. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME**

The following table summarizes the changes in AOCI by component for the six months ended June 30, 2019 and the year ended December 31, 2018. All amounts are presented net of tax and exclude portions attributable to noncontrolling interest.

	Foreign currency translation (loss) gains	Net investment hedges of New Zealand subsidiary	Cash flow hedges	Employee benefit plans	Total
Balance as of December 31, 2017	\$15,975	\$1,665	\$16,184	(\$20,407)	\$13,417
Other comprehensive (loss) income before reclassifications	(16,985)	(344)	5,944	(1,594)	(12,979)
Amounts reclassified from accumulated other comprehensive (loss) income	—	—	(163)	(36)	(199)
Net other comprehensive (loss)/income	(16,985)	(344)	5,781	(1,630)	(13,178)
Balance as of December 31, 2018	(\$1,010)	\$1,321	\$21,965	(\$22,037)	\$239
Other comprehensive (loss) income before reclassifications	375	—	(30,211) (a)	—	(29,836)
Amounts reclassified from accumulated other comprehensive (loss) income	—	—	(138)	224 (b)	86
Net other comprehensive (loss)/income	375	—	(30,349)	224	(29,750)
Balance as of June 30, 2019	(\$635)	\$1,321	(\$8,384)	(\$21,813)	(\$29,511)

(a) Includes \$30.8 million of other comprehensive income related to interest rate swaps. See [Note 13 — Derivative Financial Instruments and Hedging Activities](#) for additional information.

(b) This component of other comprehensive income (loss) is included in the computation of net periodic pension and post-retirement costs. See [Note 15 — Employee Benefit Plans](#) for additional information.

The following table presents details of the amounts reclassified in their entirety from AOCI to net income for the six months ended June 30, 2019 and June 30, 2018:

Details about accumulated other comprehensive (loss) income components	Amount reclassified from accumulated other comprehensive (loss) income		Affected line item in the income statement
	June 30, 2019	June 30, 2018	
Realized (gain) on foreign currency exchange contracts	(\$190)	(\$1,654)	Other operating (expense) income, net
Realized loss (gain) on foreign currency option contracts	(60)	(165)	Other operating (expense) income, net
Noncontrolling interest	58	419	Comprehensive (loss) income attributable to noncontrolling interest
Income tax expense from gain on foreign currency contracts	54	391	Income tax expense
Net gain from accumulated other comprehensive income	(\$138)	(\$1,009)	

**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 March 2012, Rayonier Inc. issued \$325 million of 3.75% Senior Notes due 2022. In connection with these 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*.

The subsidiary guarantors, Rayonier Operating Company LLC (“ROC”) and Rayonier TRS Holdings Inc., are wholly-owned by the parent company, Rayonier Inc. The notes are fully and unconditionally guaranteed on a joint and several basis by the guarantor subsidiaries.

<b>CONDENSED CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME</b>					
<b>For the Three Months Ended June 30, 2019</b>					
	<b>Rayonier Inc. (Parent Issuer)</b>	<b>Subsidiary Guarantors</b>	<b>Non- guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated</b>
<b>SALES</b>	—	—	\$184,800	—	\$184,800
<b>Costs and Expenses</b>					
Cost of sales	—	—	(140,454)	—	(140,454)
Selling and general expenses	—	(5,660)	(5,324)	—	(10,984)
Other operating expense, net	—	(1,091)	(878)	—	(1,969)
	—	(6,751)	(146,656)	—	(153,407)
<b>OPERATING (LOSS) INCOME</b>	—	(6,751)	38,144	—	31,393
Interest expense	(3,140)	(4,769)	(13)	—	(7,922)
Interest and miscellaneous income (expense), net	(457)	928	586	—	1,057
Equity in income from subsidiaries	22,349	33,071	—	(55,420)	—
<b>INCOME BEFORE INCOME TAXES</b>	18,752	22,479	38,717	(55,420)	24,528
Income tax expense	—	(130)	(3,478)	—	(3,608)
<b>NET INCOME</b>	18,752	22,349	35,239	(55,420)	20,920
Less: Net income attributable to noncontrolling interest	—	—	(2,168)	—	(2,168)
<b>NET INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	18,752	22,349	33,071	(55,420)	18,752
<b>OTHER COMPREHENSIVE (LOSS) INCOME</b>					
Foreign currency translation adjustment, net of income tax	(4,305)	—	(5,604)	4,305	(5,604)
Cash flow hedges, net of income tax	(19,465)	(19,284)	(235)	19,465	(19,519)
Amortization of pension and postretirement plans, net of income tax	112	112	—	(112)	112
Total other comprehensive (loss) income	(23,658)	(19,172)	(5,839)	23,658	(25,011)
<b>COMPREHENSIVE (LOSS) INCOME</b>	(4,906)	3,177	29,400	(31,762)	(4,091)
Less: Comprehensive income attributable to noncontrolling interest	—	—	(815)	—	(815)
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	(\$4,906)	\$3,177	\$28,585	(\$31,762)	(\$4,906)

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

<b>CONDENSED CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME</b>					
<b>For the Three Months Ended June 30, 2018</b>					
	<b>Rayonier Inc. (Parent Issuer)</b>	<b>Subsidiary Guarantors</b>	<b>Non- guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated</b>
<b>SALES</b>	—	—	\$245,906	—	\$245,906
Costs and Expenses					
Cost of sales	—	—	(184,418)	—	(184,418)
Selling and general expenses	—	(5,471)	(6,031)	—	(11,502)
Other operating (expense) income, net	—	(40)	1,699	—	1,659
	—	(5,511)	(188,750)	—	(194,261)
<b>OPERATING (LOSS) INCOME</b>	—	(5,511)	57,156	—	51,645
Interest expense	(3,139)	(4,900)	(63)	—	(8,102)
Interest and miscellaneous income (expense), net	2,734	746	(575)	—	2,905
Equity in income from subsidiaries	36,663	46,419	—	(83,082)	—
<b>INCOME BEFORE INCOME TAXES</b>	36,258	36,754	56,518	(83,082)	46,448
Income tax expense	—	(91)	(7,019)	—	(7,110)
<b>NET INCOME</b>	36,258	36,663	49,499	(83,082)	39,338
Less: Net income attributable to noncontrolling interest	—	—	(3,080)	—	(3,080)
<b>NET INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	36,258	36,663	46,419	(83,082)	36,258
<b>OTHER COMPREHENSIVE (LOSS) INCOME</b>					
Foreign currency translation adjustment, net of income tax	(22,856)	341	(30,101)	22,856	(29,760)
Cash flow hedges, net of income tax	1,716	5,690	(5,161)	(1,716)	529
Amortization of pension and postretirement plans, net of income tax	178	178	—	(178)	178
Total other comprehensive (loss) income	(20,962)	6,209	(35,262)	20,962	(29,053)
<b>COMPREHENSIVE INCOME</b>	15,296	42,872	14,237	(62,120)	10,285
Less: Comprehensive loss attributable to noncontrolling interest	—	—	5,011	—	5,011
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	<u>\$15,296</u>	<u>\$42,872</u>	<u>\$19,248</u>	<u>(\$62,120)</u>	<u>\$15,296</u>

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

<b>CONDENSED CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME</b>					
<b>Six Months Ended June 30, 2019</b>					
	<b>Rayonier Inc. (Parent Issuer)</b>	<b>Subsidiary Guarantors</b>	<b>Non- guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated</b>
<b>SALES</b>	—	—	\$376,346	—	\$376,346
Costs and Expenses					
Cost of sales	—	—	(283,705)	—	(283,705)
Selling and general expenses	—	(10,503)	(10,291)	—	(20,794)
Other operating expense, net	—	(1,090)	(844)	—	(1,934)
	—	(11,593)	(294,840)	—	(306,433)
<b>OPERATING (LOSS) INCOME</b>	—	(11,593)	81,506	—	69,913
Interest expense	(6,278)	(9,316)	(38)	—	(15,632)
Interest and miscellaneous income (expense), net	(913)	1,892	1,411	—	2,390
Equity in income from subsidiaries	50,737	70,501	—	(121,238)	—
<b>INCOME BEFORE INCOME TAXES</b>	43,546	51,484	82,879	(121,238)	56,671
Income tax expense	—	(747)	(7,211)	—	(7,958)
<b>NET INCOME</b>	43,546	50,737	75,668	(121,238)	48,713
Less: Net income attributable to noncontrolling interest	—	—	(5,167)	—	(5,167)
<b>NET INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	43,546	50,737	70,501	(121,238)	43,546
<b>OTHER COMPREHENSIVE (LOSS) INCOME</b>					
Foreign currency translation adjustment, net of income tax	374	(90)	520	(375)	429
Cash flow hedges, net of income tax	(30,349)	(30,832)	627	30,349	(30,205)
Amortization of pension and postretirement plans, net of income tax	224	224	—	(224)	224
Total other comprehensive (loss) income	(29,751)	(30,698)	1,147	29,750	(29,552)
<b>COMPREHENSIVE INCOME</b>	13,795	20,039	76,815	(91,488)	19,161
Less: Comprehensive income attributable to noncontrolling interest	—	—	(5,366)	—	(5,366)
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	<u>\$13,795</u>	<u>\$20,039</u>	<u>\$71,449</u>	<u>(\$91,488)</u>	<u>\$13,795</u>

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

<b>CONDENSED CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME</b>					
<b>Six Months Ended June 30, 2018</b>					
	<b>Rayonier Inc. (Parent Issuer)</b>	<b>Subsidiary Guarantors</b>	<b>Non- guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated</b>
<b>SALES</b>	—	—	\$449,101	—	\$449,101
<b>Costs and Expenses</b>					
Cost of sales	—	—	(322,906)	—	(322,906)
Selling and general expenses	—	(9,859)	(10,645)	—	(20,504)
Other operating (expense) income, net	(12)	595	2,446	—	3,029
	(12)	(9,264)	(331,105)	—	(340,381)
<b>OPERATING (LOSS) INCOME</b>	(12)	(9,264)	117,996	—	108,720
Interest expense	(6,278)	(9,555)	(322)	—	(16,155)
Interest and miscellaneous income (expense), net	5,362	1,511	(3,348)	—	3,525
Equity in income from subsidiaries	77,725	95,246	—	(172,971)	—
<b>INCOME BEFORE INCOME TAXES</b>	76,797	77,938	114,326	(172,971)	96,090
Income tax expense	—	(213)	(13,834)	—	(14,047)
<b>NET INCOME</b>	76,797	77,725	100,492	(172,971)	82,043
Less: Net income attributable to noncontrolling interest	—	—	(5,246)	—	(5,246)
<b>NET INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	76,797	77,725	95,246	(172,971)	76,797
<b>OTHER COMPREHENSIVE (LOSS) INCOME</b>					
Foreign currency translation adjustment, net of income tax	(15,252)	452	(20,524)	15,252	(20,072)
Cash flow hedges, net of income tax	18,097	21,287	(4,144)	(18,097)	17,143
Amortization of pension and postretirement plans, net of income tax	338	338	—	(338)	338
Total other comprehensive (loss) income	3,183	22,077	(24,668)	(3,183)	(2,591)
<b>COMPREHENSIVE INCOME</b>	79,980	99,802	75,824	(176,154)	79,452
Less: Comprehensive loss attributable to noncontrolling interest	—	—	528	—	528
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	<u>\$79,980</u>	<u>\$99,802</u>	<u>\$76,352</u>	<u>(\$176,154)</u>	<u>\$79,980</u>



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

<b>CONDENSED CONSOLIDATING BALANCE SHEETS</b>					
As of June 30, 2019					
	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non- guarantors	Consolidating Adjustments	Total Consolidated
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$84	\$92,874	\$37,998	—	\$130,956
Accounts receivable, less allowance for doubtful accounts	—	1,919	43,012	—	44,931
Inventory	—	—	23,597	—	23,597
Prepaid expenses	—	2,286	18,295	—	20,581
Other current assets	—	97	593	—	690
<b>Total current assets</b>	<b>84</b>	<b>97,176</b>	<b>123,495</b>	<b>—</b>	<b>220,755</b>
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION	—	—	2,392,389	—	2,392,389
HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT INVESTMENTS	—	—	77,072	—	77,072
NET PROPERTY, PLANT AND EQUIPMENT	—	16,439	5,605	—	22,044
RESTRICTED CASH	—	—	3,754	—	3,754
RIGHT-OF-USE ASSETS	—	35,291	68,725	—	104,016
INVESTMENT IN SUBSIDIARIES	1,771,540	3,009,380	—	(4,780,920)	—
INTERCOMPANY RECEIVABLE	56,257	(644,161)	587,904	—	—
OTHER ASSETS	2	169	40,850	—	41,021
<b>TOTAL ASSETS</b>	<b>\$1,827,883</b>	<b>\$2,514,294</b>	<b>\$3,299,794</b>	<b>(\$4,780,920)</b>	<b>\$2,861,051</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	—	\$4,227	\$20,717	—	\$24,944
Accrued taxes	—	170	5,765	—	5,935
Accrued payroll and benefits	—	3,123	2,328	—	5,451
Accrued interest	3,046	1,885	—	—	4,931
Deferred revenue	—	—	19,798	—	19,798
Other current liabilities	—	5,793	19,233	—	25,026
<b>Total current liabilities</b>	<b>3,046</b>	<b>15,198</b>	<b>67,841</b>	<b>—</b>	<b>86,085</b>
LONG-TERM DEBT, NET OF DEFERRED FINANCING COSTS	323,987	648,861	—	—	972,848
PENSION AND OTHER POSTRETIREMENT BENEFITS	—	30,067	(684)	—	29,383
LONG-TERM LEASE LIABILITY	—	30,130	63,619	—	93,749
OTHER NON-CURRENT LIABILITIES	—	18,498	60,190	—	78,688
<b>TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY</b>	<b>1,500,850</b>	<b>1,771,540</b>	<b>3,009,380</b>	<b>(4,780,920)</b>	<b>1,500,850</b>
Noncontrolling interest	—	—	99,448	—	99,448
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,500,850</b>	<b>1,771,540</b>	<b>3,108,828</b>	<b>(4,780,920)</b>	<b>1,600,298</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$1,827,883</b>	<b>\$2,514,294</b>	<b>\$3,299,794</b>	<b>(\$4,780,920)</b>	<b>\$2,861,051</b>

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

<b>CONDENSED CONSOLIDATING BALANCE SHEETS</b>					
As of December 31, 2018					
	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non- guarantors	Consolidating Adjustments	Total Consolidated
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$361	\$104,777	\$43,236	—	\$148,374
Accounts receivable, less allowance for doubtful accounts	—	3,752	22,399	—	26,151
Inventory	—	—	15,703	—	15,703
Prepaid expenses	—	977	16,039	—	17,016
Other current assets	—	108	501	—	609
<b>Total current assets</b>	<b>361</b>	<b>109,614</b>	<b>97,878</b>	<b>—</b>	<b>207,853</b>
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION	—	—	2,401,327	—	2,401,327
HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT INVESTMENTS	—	—	85,609	—	85,609
NET PROPERTY, PLANT AND EQUIPMENT	—	16,940	5,811	—	22,751
RESTRICTED CASH	—	—	8,080	—	8,080
INVESTMENT IN SUBSIDIARIES	1,833,899	3,022,875	—	(4,856,774)	—
INTERCOMPANY RECEIVABLE	49,461	(638,424)	588,963	—	—
OTHER ASSETS	2	19,244	35,800	—	55,046
<b>TOTAL ASSETS</b>	<b>\$1,883,723</b>	<b>\$2,530,249</b>	<b>\$3,223,468</b>	<b>(\$4,856,774)</b>	<b>\$2,780,666</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	—	\$1,616	\$16,403	—	\$18,019
Accrued taxes	—	8	3,170	—	3,178
Accrued payroll and benefits	—	5,848	4,568	—	10,416
Accrued interest	3,047	1,960	—	—	5,007
Deferred revenue	—	—	10,447	—	10,447
Other current liabilities	—	216	16,258	—	16,474
<b>Total current liabilities</b>	<b>3,047</b>	<b>9,648</b>	<b>50,846</b>	<b>—</b>	<b>63,541</b>
LONG-TERM DEBT, NET OF DEFERRED FINANCING COSTS	323,803	648,764	—	—	972,567
PENSION AND OTHER POSTRETIREMENT BENEFITS	—	30,484	(684)	—	29,800
OTHER NON-CURRENT LIABILITIES	—	7,454	52,754	—	60,208
<b>TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY</b>	<b>1,556,873</b>	<b>1,833,899</b>	<b>3,022,875</b>	<b>(4,856,774)</b>	<b>1,556,873</b>
Noncontrolling interest	—	—	97,677	—	97,677
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,556,873</b>	<b>1,833,899</b>	<b>3,120,552</b>	<b>(4,856,774)</b>	<b>1,654,550</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$1,883,723</b>	<b>\$2,530,249</b>	<b>\$3,223,468</b>	<b>(\$4,856,774)</b>	<b>\$2,780,666</b>

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

<b>CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS</b>					
<b>Six Months Ended June 30, 2019</b>					
	<b>Rayonier Inc. (Parent Issuer)</b>	<b>Subsidiary Guarantors</b>	<b>Non- guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated</b>
<b>CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES</b>	(\$14,180)	\$25,406	\$105,728	—	\$116,954
<b>INVESTING ACTIVITIES</b>					
Capital expenditures	—	—	(29,505)	—	(29,505)
Real estate development investments	—	—	(999)	—	(999)
Purchase of timberlands	—	—	(26,396)	—	(26,396)
Investment in subsidiaries	—	832	—	(832)	—
Other	—	(7,539)	3,651	—	(3,888)
<b>CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<b>—</b>	<b>(6,707)</b>	<b>(53,249)</b>	<b>(832)</b>	<b>(60,788)</b>
<b>FINANCING ACTIVITIES</b>					
Dividends paid	(69,798)	(1,309)	—	—	(71,107)
Proceeds from the issuance of common shares under incentive stock plan	774	—	—	—	774
Repurchase of common shares	(4,241)	—	—	—	(4,241)
Other	—	—	133	—	133
Distribution to minority shareholder	—	—	(3,594)	—	(3,594)
Intercompany distributions	87,168	(29,293)	(58,707)	832	—
<b>CASH USED FOR FINANCING ACTIVITIES</b>	<b>13,903</b>	<b>(30,602)</b>	<b>(62,168)</b>	<b>832</b>	<b>(78,035)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>—</b>	<b>—</b>	<b>125</b>	<b>—</b>	<b>125</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>					
Change in cash, cash equivalents and restricted cash	(277)	(11,903)	(9,564)	—	(21,744)
Balance, beginning of year	361	104,777	51,316	—	156,454
Balance, end of period	<u>\$84</u>	<u>\$92,874</u>	<u>\$41,752</u>	<u>—</u>	<u>\$134,710</u>

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

<b>CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS</b>					
<b>Six Months Ended June 30, 2018</b>					
	<b>Rayonier Inc. (Parent Issuer)</b>	<b>Subsidiary Guarantors</b>	<b>Non- guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated</b>
<b>CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES</b>	(\$7,491)	\$57,280	\$131,794	—	\$181,583
<b>INVESTING ACTIVITIES</b>					
Capital expenditures	—	(58)	(25,862)	—	(25,920)
Real estate development investments	—	—	(4,501)	—	(4,501)
Purchase of timberlands	—	—	(31,234)	—	(31,234)
Investment in subsidiaries	—	40,441	—	(40,441)	—
Other	—	—	113	—	113
<b>CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	—	40,383	(61,484)	(40,441)	(61,542)
<b>FINANCING ACTIVITIES</b>					
Issuance of debt	—	—	1,014	—	1,014
Repayment of debt	—	(50,000)	(4,389)	—	(54,389)
Dividends paid	(67,053)	—	—	—	(67,053)
Proceeds from the issuance of common shares under incentive stock plan	7,824	—	—	—	7,824
Repurchase of common shares	(2,966)	—	—	—	(2,966)
Issuance of intercompany notes	(9,000)	—	9,000	—	—
Intercompany distributions	107,102	(60,741)	(86,802)	40,441	—
<b>CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>	35,907	(110,741)	(81,177)	40,441	(115,570)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	—	—	(578)	—	(578)
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>					
Change in cash, cash equivalents and restricted cash	28,416	(13,078)	(11,445)	—	3,893
Balance, beginning of year	48,564	25,042	98,750	—	172,356
Balance, end of period	\$76,980	\$11,964	\$87,305	—	\$176,249

## **Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (“MD&A”)**

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

This MD&A is intended to provide a reader of our financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity, and certain other factors which may affect future results. Our MD&A should be read in conjunction with our Consolidated Financial Statements included in Item 1 of this report, our Annual Report on Form 10-K for the year ended December 31, 2018 (the “2018 Form 10-K”) and information contained in our subsequent reports filed with the Securities and Exchange Commission (the “SEC”).

### **FORWARD-LOOKING STATEMENTS**

Certain statements in this document regarding anticipated financial outcomes, including Rayonier’s earnings guidance, if any, business and market conditions, outlook, expected dividend rate, Rayonier’s business strategies, including expected harvest schedules, timberland acquisitions and dispositions, the anticipated benefits of Rayonier’s business strategies, and other similar statements relating to Rayonier’s future events, developments, or financial or operational performance or results, are “forward-looking statements” made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. These forward-looking statements are identified by the use of words such as “may,” “will,” “should,” “expect,” “estimate,” “believe,” “intend,” “project,” “anticipate” and other similar language. However, the absence of these or similar words or expressions does not mean that a statement is not forward-looking. While management believes that these forward-looking statements are reasonable when made, forward-looking statements are not guarantees of future performance or events and undue reliance should not be placed on these statements. The risk factors contained in Item 1A — *Risk Factors* in the 2018 Form 10-K and similar discussions included in other reports that we subsequently file with the SEC, among others, could cause actual results or events to differ materially from the Company’s historical experience and those expressed in forward-looking statements made in this document.

Forward-looking statements are only as of the date they are made, and the Company undertakes no duty to update its forward-looking statements except as required by law. You are advised, however, to review any subsequent disclosures the Company makes on related subjects in its subsequent reports filed with the SEC.

### **NON-GAAP MEASURES**

To supplement Rayonier’s financial statements presented in accordance with generally accepted accounting principles in the United States (“GAAP”), Rayonier uses certain non-GAAP measures, including “cash available for distribution,” and “Adjusted EBITDA,” which are defined and further explained in *Performance and Liquidity Indicators* below. Reconciliation of such measures to the nearest GAAP measures can also be found in *Performance and Liquidity Indicators* below. Rayonier’s definitions of these non-GAAP measures may differ from similarly titled measures used by others. These non-GAAP measures should be considered supplemental to, and not a substitute for, financial information prepared in accordance with GAAP.

## OUR COMPANY

We are a leading timberland real estate investment trust (“REIT”) with assets located in some of the most productive softwood timber growing regions in the United States and New Zealand. We invest in timberlands and actively manage them to provide current income and attractive long-term returns to our shareholders. Our revenues, operating income and cash flows are primarily derived from the following core business segments: Southern Timber, Pacific Northwest Timber, New Zealand Timber, Real Estate and Trading. As of June 30, 2019, we owned or leased under long-term agreements approximately 2.6 million acres of timberlands located in the U.S. South (1.8 million acres), U.S. Pacific Northwest (379,000 acres) and New Zealand (410,000 gross acres or 292,000 net plantable acres). Our New Zealand operations are conducted by Matariki Forestry Group, a joint venture (the “New Zealand subsidiary”), in which we maintain a 77% ownership interest.

## SEGMENT INFORMATION

The Southern Timber, Pacific Northwest Timber and New Zealand Timber segments include all activities related to the harvesting of timber and other non-timber income activities, such as the licensing of properties for hunting, the leasing of properties for mineral extraction and cell towers, and carbon credit sales.

The Real Estate segment includes all U.S. and New Zealand land or leasehold sales disaggregated into five sales categories: Improved Development, Unimproved Development, Rural, Non-Strategic / Timberlands and Large Dispositions.

The Trading segment primarily reflects the log trading activities that support our New Zealand operations. The Trading segment complements the New Zealand Timber segment by providing added market intelligence, increasing the scale of export operations and achieving cost savings that directly benefit the New Zealand Timber segment. It also provides additional market intelligence that benefits our Southern and Pacific Northwest export log marketing.

## INDUSTRY AND MARKET CONDITIONS

The demand for timber is directly related to the underlying demand for pulp, paper, packaging, lumber and other wood products. The significant majority of timber sold in our Southern Timber segment is consumed domestically. With a higher proportion of pulpwood, our Southern Timber segment relies heavily on downstream markets for pulp and paper, and to a lesser extent wood pellet markets. Our Pacific Northwest Timber segment relies primarily on domestic customers but also exports a significant volume of timber, particularly to China. Both the Southern and Pacific Northwest Timber segments rely on the strength of U.S. lumber markets as well as underlying housing starts. Our New Zealand Timber segment sells timber to domestic New Zealand wood products mills and also exports a significant portion of its volume to markets in China, South Korea and India. In addition to market dynamics in the Pacific Rim, the New Zealand Timber segment is subject to foreign exchange fluctuations, which can impact the operating results of the segment in U.S. dollar terms.

The Company is also subject to the risk of price fluctuations in its major cost components. The primary components of the Company's cost of sales are the cost basis of timber sold (depletion), the cost basis of real estate sold and logging and transportation costs (cut and haul). Depletion includes the amortization of capitalized costs (site preparation, planting and fertilization, real estate taxes, timberland lease payments and certain payroll costs). Other costs include amortization of capitalized costs related to road and bridge construction and software, depreciation of fixed assets and equipment, road maintenance, severance and excise taxes, fire prevention and real estate commissions and closing costs.

For additional information on market conditions impacting our business, see [Results of Operations](#).

## CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

The preparation of financial statements requires us to make estimates, assumptions and judgments that affect our assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. We base these estimates and assumptions on historical data and trends, current fact patterns, expectations and other sources of information we believe are reasonable. Actual results may differ from these estimates. See [Note 1 — Basis of Presentation](#) and [Note 3 — Leases](#) contained in Part I, Item 1 of this report for a discussion of the Company's updated accounting policies on leases. For a full description of our critical accounting policies, see Item 7 — *Management's Discussion and Analysis of Financial Condition and Results of Operations* in the 2018 Form 10-K.

## DISCUSSION OF TIMBER INVENTORY AND SUSTAINABLE YIELD

See Item 1 — *Business* — *Discussion of Timber Inventory and Sustainable Yield* in the 2018 Form 10-K.

## OUR TIMBERLANDS

Our timber operations are disaggregated into three geographically distinct segments: Southern Timber, Pacific Northwest Timber and New Zealand Timber. The following table provides a breakdown of our timberland holdings as of June 30, 2019 and December 31, 2018:

(acres in 000s)	As of June 30, 2019			As of December 31, 2018		
	Owned	Leased	Total	Owned	Leased	Total
<b>Southern</b>						
Alabama	228	14	242	229	14	243
Arkansas	—	9	9	—	9	9
Florida	298	73	371	290	73	363
Georgia	622	81	703	622	81	703
Louisiana	128	—	128	129	—	129
Mississippi	67	—	67	67	—	67
Oklahoma	92	—	92	92	—	92
South Carolina	18	—	18	18	—	18
Texas	178	—	178	182	—	182
	<u>1,631</u>	<u>177</u>	<u>1,808</u>	<u>1,629</u>	<u>177</u>	<u>1,806</u>
<b>Pacific Northwest</b>						
Oregon	61	—	61	61	—	61
Washington	317	1	318	316	1	317
	<u>378</u>	<u>1</u>	<u>379</u>	<u>377</u>	<u>1</u>	<u>378</u>
<b>New Zealand (a)</b>						
	181	229	410	178	230	408
<b>Total</b>	<u>2,190</u>	<u>407</u>	<u>2,597</u>	<u>2,184</u>	<u>408</u>	<u>2,592</u>

(a) Represents legal acres owned and leased by the New Zealand subsidiary, in which Rayonier owns a 77% interest. As of June 30, 2019, legal acres in New Zealand consisted of 292,000 plantable acres and 118,000 non-productive acres.

The following tables detail activity for owned and leased acres in our timberland holdings by state from December 31, 2018 to June 30, 2019:

(acres in 000s)	Acres Owned				
	December 31, 2018	Acquisitions	Sales	Other (a)	June 30, 2019
<b>Southern</b>					
Alabama	229	—	(1)	—	228
Florida	290	8	(1)	1	298
Georgia	622	1	(1)	—	622
Louisiana	129	—	(1)	—	128
Mississippi	67	—	—	—	67
Oklahoma	92	—	—	—	92
South Carolina	18	—	—	—	18
Texas	182	—	(4)	—	178
	<u>1,629</u>	<u>9</u>	<u>(8)</u>	<u>1</u>	<u>1,631</u>
<b>Pacific Northwest</b>					
Oregon	61	—	—	—	61
Washington	316	2	(1)	—	317
	<u>377</u>	<u>2</u>	<u>(1)</u>	<u>—</u>	<u>378</u>
<b>New Zealand (b)</b>	<u>178</u>	<u>3</u>	<u>—</u>	<u>—</u>	<u>181</u>
<b>Total</b>	<u>2,184</u>	<u>14</u>	<u>(9)</u>	<u>1</u>	<u>2,190</u>

(a) Includes adjustments for land mapping reviews.

(b) Represents legal acres owned by the New Zealand subsidiary, in which Rayonier has a 77% interest.

(acres in 000s)	Acres Leased				
	December 31, 2018	New Leases	Sold/Expired Leases (a)	Other (b)	June 30, 2019
<b>Southern</b>					
Alabama	14	—	—	—	14
Arkansas	9	—	—	—	9
Florida	73	—	—	—	73
Georgia	81	—	—	—	81
	<u>177</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>177</u>
<b>Pacific Northwest</b>					
Washington	1	—	—	—	1
<b>New Zealand (c)</b>	<u>230</u>	<u>2</u>	<u>(3)</u>	<u>—</u>	<u>229</u>
<b>Total</b>	<u>408</u>	<u>2</u>	<u>(3)</u>	<u>—</u>	<u>407</u>

(a) Includes acres previously under lease that have been harvested and activity for the relinquishment of leased acres.

(b) Includes adjustments for land mapping reviews.

(c) Represents legal acres leased by the New Zealand subsidiary, in which Rayonier has a 77% interest.



## RESULTS OF OPERATIONS

### CONSOLIDATED RESULTS

The following table provides key financial information by segment and on a consolidated basis:

Financial Information (in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Sales</b>				
Southern Timber	\$46.2	\$48.0	\$107.0	\$91.6
Pacific Northwest Timber	18.6	32.2	39.1	63.6
New Zealand Timber	62.1	69.7	119.3	122.6
<b>Real Estate</b>				
Improved Development	0.2	1.3	0.5	2.5
Unimproved Development	14.4	—	15.4	7.4
Rural	6.8	4.8	19.5	6.5
Non-Strategic / Timberlands	1.1	43.7	8.1	69.5
Other (a)	—	—	0.1	—
Total Real Estate	22.5	49.9	43.5	85.9
Trading	35.5	46.2	67.5	85.4
Intersegment Eliminations	(0.1)	—	(0.1)	—
<b>Total Sales</b>	<b>\$184.8</b>	<b>\$245.9</b>	<b>\$376.3</b>	<b>\$449.1</b>
<b>Operating Income (Loss)</b>				
Southern Timber	\$14.7	\$15.7	\$36.3	\$27.9
Pacific Northwest Timber	(3.8)	5.6	(7.6)	10.3
New Zealand Timber	12.8	17.8	28.5	33.7
Real Estate	15.5	18.9	25.5	46.9
Trading	(0.2)	0.2	0.3	0.4
Corporate and other	(7.6)	(6.5)	(13.1)	(10.5)
<b>Operating Income</b>	<b>31.4</b>	<b>51.6</b>	<b>69.9</b>	<b>108.7</b>
Interest expense, interest income and other	(6.9)	(5.2)	(13.2)	(12.7)
Income tax expense	(3.6)	(7.1)	(8.0)	(14.0)
<b>Net Income</b>	<b>20.9</b>	<b>39.3</b>	<b>48.7</b>	<b>82.0</b>
Less: Net income attributable to noncontrolling interest	(2.1)	(3.0)	(5.2)	(5.2)
<b>Net Income Attributable to Rayonier Inc.</b>	<b>\$18.8</b>	<b>\$36.3</b>	<b>\$43.5</b>	<b>\$76.8</b>
<b>Adjusted EBITDA (b)</b>				
Southern Timber	\$27.6	\$30.6	\$68.9	\$58.8
Pacific Northwest Timber	2.2	15.0	5.3	29.2
New Zealand Timber	20.0	25.8	42.0	47.5
Real Estate	18.3	45.9	35.7	78.7
Trading	(0.2)	0.2	0.3	0.4
Corporate and Other	(7.3)	(6.2)	(12.5)	(9.9)
<b>Total Adjusted EBITDA</b>	<b>\$60.6</b>	<b>\$111.3</b>	<b>\$139.7</b>	<b>\$204.6</b>

(a) Includes marketing fees from Improved Development sales.

(b) Adjusted EBITDA is a non-GAAP measure defined and reconciled in [Performance and Liquidity Indicators](#).

Southern Timber Overview	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Sales Volume (in thousands of tons)</b>				
Pine Pulpwood	755	905	1,877	1,848
Pine Sawtimber	462	503	1,206	1,083
<b>Total Pine Volume</b>	<b>1,217</b>	<b>1,408</b>	<b>3,083</b>	<b>2,931</b>
Hardwood	57	82	127	127
<b>Total Volume</b>	<b>1,274</b>	<b>1,490</b>	<b>3,209</b>	<b>3,058</b>
Percentage Delivered Sales	40%	29%	32%	26%
Percentage Stumpage Sales	60%	71%	68%	74%
<b>Net Stumpage Pricing (dollars per ton)</b>				
Pine Pulpwood	\$17.16	\$16.05	\$17.63	\$16.59
Pine Sawtimber	25.82	26.23	26.16	26.27
Weighted Average Pine	\$20.45	\$19.69	\$20.97	\$20.17
Hardwood	16.86	12.12	15.17	11.54
Weighted Average Total	\$20.29	\$19.27	\$20.74	\$19.80
<b>Summary Financial Data (in millions of dollars)</b>				
Timber Sales	\$37.0	\$37.3	\$88.0	\$75.4
Less: Cut, Haul & Freight	(11.1)	(8.6)	(21.5)	(14.8)
<b>Net Stumpage Sales</b>	<b>\$25.9</b>	<b>\$28.7</b>	<b>\$66.6</b>	<b>\$60.6</b>
Non-Timber Sales	9.2	10.8	19.0	16.2
<b>Total Sales</b>	<b>\$46.2</b>	<b>\$48.0</b>	<b>\$107.0</b>	<b>\$91.6</b>
Operating Income	\$14.7	\$15.7	\$36.3	\$27.9
(+) Depreciation, depletion and amortization	12.9	14.9	32.6	30.9
<b>Adjusted EBITDA (a)</b>	<b>\$27.6</b>	<b>\$30.6</b>	<b>\$68.9</b>	<b>\$58.8</b>
<b>Other Data</b>				
Period-End Acres (in thousands)	1,808	1,808	1,808	1,808

(a) Adjusted EBITDA is a non-GAAP measure defined and reconciled in [Performance and Liquidity Indicators](#).

Pacific Northwest Timber Overview	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Sales Volume (in thousands of tons)</b>				
Pulpwood	54	94	116	169
Sawtimber	197	281	417	585
<b>Total Volume</b>	<b>250</b>	<b>374</b>	<b>533</b>	<b>753</b>
<b>Sales Volume (converted to MBF)</b>				
Pulpwood	5,076	8,859	11,009	16,029
Sawtimber	26,603	37,414	55,548	76,224
<b>Total Volume</b>	<b>31,679</b>	<b>46,273</b>	<b>66,557</b>	<b>92,253</b>
<b>Percentage Delivered Sales</b>				
Percentage Delivered Sales	100%	81%	100%	80%
Percentage Sawtimber Sales	79%	75%	78%	78%
<b>Delivered Log Pricing (in dollars per ton)</b>				
Pulpwood	\$42.26	\$49.76	\$43.81	\$47.49
Sawtimber	78.35	103.38	78.41	99.24
Weighted Average Log Price	\$70.61	\$88.45	\$70.88	\$86.41
<b>Summary Financial Data (in millions of dollars)</b>				
Timber Sales	\$17.7	\$31.3	\$37.8	\$61.8
Less: Cut and Haul	(10.5)	(11.6)	(22.5)	(23.0)
<b>Net Stumpage Sales</b>	<b>\$7.2</b>	<b>\$19.6</b>	<b>\$15.3</b>	<b>\$38.7</b>
<b>Non-Timber Sales</b>				
Non-Timber Sales	0.9	0.9	1.3	1.8
<b>Total Sales</b>	<b>\$18.6</b>	<b>\$32.2</b>	<b>\$39.1</b>	<b>\$63.6</b>
<b>Operating Income (Loss)</b>				
Operating Income (Loss)	(\$3.8)	\$5.6	(\$7.6)	\$10.3
(+) Depreciation, depletion and amortization	6.0	9.4	12.9	18.9
<b>Adjusted EBITDA (a)</b>	<b>\$2.2</b>	<b>\$15.0</b>	<b>\$5.3</b>	<b>\$29.2</b>
<b>Other Data</b>				
Period-End Acres (in thousands)	379	378	379	378
Sawtimber (in dollars per MBF)	\$587	\$770	\$599	\$767
Estimated Percentage of Export Volume	26%	27%	21%	24%

(a) Adjusted EBITDA is a non-GAAP measure defined and reconciled in [Performance and Liquidity Indicators](#).

New Zealand Timber Overview	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Sales Volume (in thousands of tons)</b>				
Domestic Pulpwood (Delivered)	125	141	238	254
Domestic Sawtimber (Delivered)	204	235	400	420
Export Pulpwood (Delivered)	37	22	77	38
Export Sawtimber (Delivered)	318	340	573	584
<b>Total Volume</b>	<b>684</b>	<b>738</b>	<b>1,288</b>	<b>1,297</b>
<b>Delivered Log Pricing (in dollars per ton)</b>				
Domestic Pulpwood	\$39.10	\$38.28	\$39.16	\$37.26
Domestic Sawtimber	82.66	86.21	83.03	86.57
Export Sawtimber	111.81	120.80	113.78	119.51
Weighted Average Log Price	\$89.16	\$93.46	\$89.78	\$92.24
<b>Summary Financial Data (in millions of dollars)</b>				
Timber Sales	\$61.0	\$69.0	\$115.6	\$119.6
Less: Cut and Haul	(22.9)	(24.6)	(43.1)	(42.9)
Less: Port and Freight Costs	(12.6)	(14.5)	(22.3)	(23.1)
<b>Net Stumpage Sales</b>	<b>\$25.5</b>	<b>\$30.0</b>	<b>\$50.2</b>	<b>\$53.6</b>
Non-Timber Sales / Carbon Credits	1.1	0.6	3.6	3.0
<b>Total Sales</b>	<b>\$62.1</b>	<b>\$69.7</b>	<b>\$119.3</b>	<b>\$122.6</b>
Operating Income	\$12.8	\$17.8	\$28.5	\$33.7
(+) Depreciation, depletion and amortization	7.2	8.0	13.5	13.7
<b>Adjusted EBITDA (a)</b>	<b>\$20.0</b>	<b>\$25.8</b>	<b>\$42.0</b>	<b>\$47.5</b>
<b>Other Data</b>				
New Zealand Dollar to U.S. Dollar Exchange Rate (b)	0.6659	0.7104	0.6745	0.7170
Net Plantable Period-End Acres (in thousands)	292	294	292	294
Export Sawtimber (in dollars per JAS m <sup>3</sup> )	\$130.00	\$140.46	\$132.29	\$138.95
Domestic Sawtimber (in \$NZD per tonne)	\$136.55	\$133.60	\$135.47	\$132.91

(a) Adjusted EBITDA is a non-GAAP measure defined and reconciled in [Performance and Liquidity Indicators](#).

(b) Represents the period average rate.

Real Estate Overview	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Sales (in millions of dollars)</b>				
Improved Development	\$0.2	\$1.3	\$0.5	\$2.5
Unimproved Development	14.4	—	15.4	7.4
Rural	6.8	4.8	19.5	6.5
Non-Strategic / Timberlands	1.1	43.7	8.1	69.5
Other (a)	—	—	0.1	—
<b>Total Sales</b>	<b>\$22.5</b>	<b>\$49.9</b>	<b>\$43.5</b>	<b>\$85.9</b>
<b>Acres Sold</b>				
Improved Development	0.9	4.1	2.0	8.2
Unimproved Development	784	—	791	625
Rural	1,717	1,071	5,055	1,486
Non-Strategic / Timberlands	763	14,729	3,096	21,910
<b>Total Acres Sold</b>	<b>3,265</b>	<b>15,804</b>	<b>8,944</b>	<b>24,029</b>
<b>Gross Price per Acre (dollars per acre)</b>				
Improved Development	\$198,276	\$317,008	\$251,961	\$299,005
Unimproved Development	18,402	—	19,507	11,922
Rural	3,959	4,509	3,850	4,361
Non-Strategic / Timberlands	1,472	2,966	2,602	3,174
<b>Weighted Average (Total)</b>	<b>\$6,899</b>	<b>\$3,153</b>	<b>\$4,860</b>	<b>\$3,575</b>
<b>Weighted Average (Adjusted) (b)</b>	<b>\$6,848</b>	<b>\$3,071</b>	<b>\$4,803</b>	<b>\$3,474</b>
<b>Operating Income</b>				
Operating Income	\$15.5	\$18.9	\$25.5	\$46.9
(+) Depreciation, depletion and amortization	1.2	13.7	4.5	16.8
(+) Non-cash cost of land and improved development	1.6	13.3	5.6	14.9
<b>Adjusted EBITDA (c)</b>	<b>\$18.3</b>	<b>\$45.9</b>	<b>\$35.7</b>	<b>\$78.7</b>

(a) Includes marketing fees from Improved Development sales.

(b) Excludes Improved Development.

(c) Adjusted EBITDA is a non-GAAP measure defined and reconciled in [Performance and Liquidity Indicators](#).

Capital Expenditures By Segment (in millions of dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Timber Capital Expenditures</b>				
Southern Timber				
Reforestation, silviculture and other capital expenditures	\$5.7	\$3.8	\$8.5	\$6.4
Property taxes	1.8	1.7	3.6	3.2
Lease payments	0.3	0.5	1.9	2.1
Allocated overhead	0.9	0.9	2.2	2.0
<b>Subtotal Southern Timber</b>	<b>\$8.7</b>	<b>\$6.9</b>	<b>\$16.1</b>	<b>\$13.7</b>
Pacific Northwest Timber				
Reforestation, silviculture and other capital expenditures	0.8	1.0	3.6	3.5
Property taxes	0.2	0.2	0.4	0.4
Allocated overhead	0.8	0.6	1.6	1.2
<b>Subtotal Pacific Northwest Timber</b>	<b>\$1.8</b>	<b>\$1.7</b>	<b>\$5.6</b>	<b>\$5.0</b>
New Zealand Timber				
Reforestation, silviculture and other capital expenditures	2.3	2.0	4.0	3.8
Property taxes	0.1	0.1	0.3	0.3
Lease payments	1.7	1.1	2.1	1.5
Allocated overhead	0.7	0.7	1.3	1.4
<b>Subtotal New Zealand Timber</b>	<b>\$4.8</b>	<b>\$4.0</b>	<b>\$7.7</b>	<b>\$7.1</b>
<b>Total Timber Segments Capital Expenditures</b>	<b>\$15.3</b>	<b>\$12.6</b>	<b>\$29.4</b>	<b>\$25.8</b>
Real Estate	0.1	0.1	0.1	0.1
<b>Total Capital Expenditures</b>	<b>\$15.4</b>	<b>\$12.7</b>	<b>\$29.5</b>	<b>\$25.9</b>
<b>Timberland Acquisitions</b>				
Southern Timber	\$14.0	\$24.4	\$15.9	\$24.4
Pacific Northwest Timber	—	—	3.6	—
New Zealand Timber	—	6.8	6.9	6.8
<b>Subtotal Timberland Acquisitions</b>	<b>\$14.0</b>	<b>\$31.2</b>	<b>\$26.4</b>	<b>\$31.2</b>
<b>Real Estate Development Investments (a)</b>	<b>(\$0.7)</b>	<b>\$2.2</b>	<b>\$1.0</b>	<b>\$4.5</b>

(a) The three and six months ended June 30, 2019 includes \$3.7 million of reimbursements from community development bonds.

The following tables summarize sales, operating income and Adjusted EBITDA variances for June 30, 2019 versus June 30, 2018 (millions of dollars):

Sales	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Real Estate	Trading	Intersegment Eliminations	Total
<b>Three Months Ended June 30, 2018</b>	\$48.0	\$32.2	\$69.7	\$49.9	\$46.2	—	\$245.9
Volume	(4.1)	(6.5)	(4.9)	(39.6)	(8.0)	—	(63.1)
Price	1.3	(6.0)	(2.6)	12.2	(2.7)	—	2.2
Non-timber sales	(1.5)	(0.1)	0.5	—	—	—	(1.1)
Foreign exchange (a)	—	—	(1.6)	—	—	—	(1.6)
Other	2.5 (b)	(1.0) (b)	1.0 (c)	—	—	(0.1)	2.5
<b>Three Months Ended June 30, 2019</b>	<u>\$46.2</u>	<u>\$18.6</u>	<u>\$62.1</u>	<u>\$22.5</u>	<u>\$35.5</u>	<u>(\$0.1)</u>	<u>\$184.8</u>

(a) Net of currency hedging impact.

(b) Includes variance due to stumpage versus delivered sales.

(c) Includes variance due to domestic versus export sales.

Sales	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Real Estate	Trading	Intersegment Eliminations	Total
<b>Six Months Ended June 30, 2018</b>	\$91.6	\$63.6	\$122.6	\$85.9	\$85.4	—	\$449.1
Volume	3.0	(11.3)	(0.7)	(53.9)	(15.0)	—	(77.9)
Price	3.0	(12.1)	(3.5)	11.5	(3.0)	—	(4.1)
Non-timber sales	2.8	(0.5)	0.8	—	0.1	—	3.2
Foreign exchange (a)	—	—	(2.9)	—	—	—	(2.9)
Other	6.6 (b)	(0.6) (b)	3.0 (c)	—	—	(0.1)	8.9
<b>Six Months Ended June 30, 2019</b>	<u>\$107.0</u>	<u>\$39.1</u>	<u>\$119.3</u>	<u>\$43.5</u>	<u>\$67.5</u>	<u>(\$0.1)</u>	<u>\$376.3</u>

(a) Net of currency hedging impact.

(b) Includes variance due to stumpage versus delivered sales.

(c) Includes variance due to domestic versus export sales.

Operating Income	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Real Estate	Trading	Corporate and Other	Total
<b>Three Months Ended June 30, 2018</b>	\$15.7	\$5.6	\$17.8	\$18.9	\$0.2	(\$6.5)	\$51.6
Volume	(2.0)	(2.6)	(1.7)	(17.9)	—	—	(24.2)
Price	1.3	(6.0)	(2.6)	12.2	—	—	4.9
Cost	1.3	(1.0)	0.3	(0.5)	(0.4)	—	(0.3)
Non-timber income	(1.5)	(0.1)	0.4	—	—	—	(1.2)
Foreign exchange (a)	—	—	(1.2)	—	—	—	(1.2)
Depreciation, depletion & amortization	(0.1)	0.3	(0.2)	1.7	—	—	1.7
Non-cash cost of land and improved development	—	—	—	1.1	—	—	1.1
Other (b)	—	—	—	—	—	(1.1)	(1.1)
<b>Three Months Ended June 30, 2019</b>	<u>\$14.7</u>	<u>(\$3.8)</u>	<u>\$12.8</u>	<u>\$15.5</u>	<u>(\$0.2)</u>	<u>(\$7.6)</u>	<u>\$31.4</u>

(a) Net of currency hedging impact.

(b) Includes legal expenses of \$1.1 million.

<b>Operating Income</b>	<b>Southern Timber</b>	<b>Pacific Northwest Timber</b>	<b>New Zealand Timber</b>	<b>Real Estate</b>	<b>Trading</b>	<b>Corporate and Other</b>	<b>Total</b>
<b>Six Months Ended June 30, 2018</b>	\$27.9	\$10.3	\$33.7	\$46.9	\$0.4	(\$10.5)	\$108.7
Volume	1.4	(4.6)	(0.2)	(33.7)	—	—	(37.1)
Price	3.0	(12.1)	(3.5)	11.5	—	—	(1.1)
Cost	1.2	(1.2)	—	(1.0)	(0.1)	(0.9)	(2.0)
Non-timber income	3.0	(0.5)	0.6	—	—	—	3.1
Foreign exchange (a)	—	—	(1.4)	—	—	—	(1.4)
Depreciation, depletion & amortization	(0.2)	0.5	(0.7)	1.9	—	—	1.5
Non-cash cost of land and improved development	—	—	—	(0.1)	—	—	(0.1)
Other (b)	—	—	—	—	—	(1.7)	(1.7)
<b>Six Months Ended June 30, 2019</b>	<b>\$36.3</b>	<b>(\$7.6)</b>	<b>\$28.5</b>	<b>\$25.5</b>	<b>\$0.3</b>	<b>(\$13.1)</b>	<b>\$69.9</b>

(a) Net of currency hedging impact.

(b) Includes legal expenses of \$1.1 million and the sale of unused Internet Protocol addresses of \$0.6 million in the prior year period.

<b>Adjusted EBITDA (a)</b>	<b>Southern Timber</b>	<b>Pacific Northwest Timber</b>	<b>New Zealand Timber</b>	<b>Real Estate</b>	<b>Trading</b>	<b>Corporate and Other</b>	<b>Total</b>
<b>Three Months Ended June 30, 2018</b>	\$30.6	\$15.0	\$25.8	\$45.9	\$0.2	(\$6.2)	\$111.3
Volume	(4.1)	(5.7)	(2.2)	(39.3)	—	—	(51.3)
Price	1.3	(6.0)	(2.6)	12.2	—	—	4.9
Cost	1.3	(1.0)	0.3	(0.5)	(0.4)	—	(0.3)
Non-timber income	(1.5)	(0.1)	0.4	—	—	—	(1.2)
Foreign exchange (b)	—	—	(1.7)	—	—	—	(1.7)
Other (c)	—	—	—	—	—	(1.1)	(1.1)
<b>Three Months Ended June 30, 2019</b>	<b>\$27.6</b>	<b>\$2.2</b>	<b>\$20.0</b>	<b>\$18.3</b>	<b>(\$0.2)</b>	<b>(\$7.3)</b>	<b>\$60.6</b>

(a) Adjusted EBITDA is a non-GAAP measure defined and reconciled in [Performance and Liquidity Indicators](#) below.

(b) Net of currency hedging impact.

(c) Includes legal expenses of \$1.1 million.

<b>Adjusted EBITDA (a)</b>	<b>Southern Timber</b>	<b>Pacific Northwest Timber</b>	<b>New Zealand Timber</b>	<b>Real Estate</b>	<b>Trading</b>	<b>Corporate and Other</b>	<b>Total</b>
<b>Six Months Ended June 30, 2018</b>	\$58.8	\$29.2	\$47.5	\$78.7	\$0.4	(\$9.9)	\$204.6
Volume	2.9	(10.1)	(0.3)	(53.5)	—	—	(61.0)
Price	3.0	(12.1)	(3.5)	11.5	—	—	(1.1)
Cost	1.2	(1.2)	—	(1.0)	(0.1)	(0.9)	(2.0)
Non-timber income	3.0	(0.5)	0.6	—	—	—	3.1
Foreign exchange (b)	—	—	(2.3)	—	—	—	(2.3)
Other (c)	—	—	—	—	—	(1.7)	(1.7)
<b>Six Months Ended June 30, 2019</b>	<b>\$68.9</b>	<b>\$5.3</b>	<b>\$42.0</b>	<b>\$35.7</b>	<b>\$0.3</b>	<b>(\$12.5)</b>	<b>\$139.7</b>

(a) Adjusted EBITDA is a non-GAAP measure defined and reconciled in [Performance and Liquidity Indicators](#) below.

(b) Net of currency hedging impact.

(c) Includes legal expenses of \$1.1 million and the sale of unused Internet Protocol addresses of \$0.6 million in the prior year period.



## *SOUTHERN TIMBER*

Second quarter sales of \$46.2 million decreased \$1.8 million, or 4%, versus the prior year period. Harvest volumes decreased 14% to 1.27 million tons versus 1.49 million tons in the prior year period, largely driven by accelerated stumpage removals in the first quarter of the year. Average pine sawtimber stumpage prices decreased 2% to \$25.82 per ton versus \$26.23 per ton in the prior year period due to geographic mix, as an increased proportion of volume was harvested from lower priced regions. Average pine pulpwood stumpage prices increased 7% to \$17.16 per ton versus \$16.05 per ton in the prior year period, driven primarily by strong pricing on sales committed during wet weather conditions in the first quarter. Overall, weighted-average stumpage prices (including hardwood) increased 5% to \$20.29 per ton versus \$19.27 per ton in the prior year period. Operating income of \$14.7 million decreased \$1.0 million versus the prior year period as a result of lower volumes (\$2.0 million), lower non-timber income (\$1.5 million) and higher depletion rates (\$0.1 million), partially offset by higher net stumpage prices (\$1.3 million) and lower overhead and other expenses (\$1.3 million). Second quarter Adjusted EBITDA of \$27.6 million was \$3.0 million below the prior year period.

Year-to-date sales of \$107.0 million increased \$15.4 million, or 17%, versus the prior year period. Harvest volumes increased 5% to 3.21 million tons versus 3.06 million tons in the prior year period, primarily due to a consistent demand for fiber as wet ground conditions constrained supply. Average pine sawtimber stumpage prices were relatively flat at \$26.16 per ton versus \$26.27 per ton in the prior year period, whereas average pine pulpwood stumpage prices increased 6% to \$17.63 per ton versus \$16.59 per ton in the prior year period, driven primarily by strong pricing on sales committed during the first quarter's wet weather. Overall, weighted average stumpage prices (including hardwood) increased 5% to \$20.74 per ton versus \$19.80 per ton in the prior year period. Operating income of \$36.3 million increased \$8.4 million versus the prior year period as a result of higher volumes (\$1.4 million), higher net stumpage prices (\$3.0 million), lower overhead and other expenses (\$1.0 million) and higher non-timber income (\$3.0 million). Year-to-date Adjusted EBITDA of \$68.9 million was \$10.1 million above the prior year period.

## *PACIFIC NORTHWEST TIMBER*

Second quarter sales of \$18.6 million decreased \$13.6 million, or 42%, versus the prior year period. Harvest volumes decreased 33% to 250,000 tons versus 374,000 tons in the prior year period, as we deferred harvest in response to soft market conditions. Average delivered sawtimber prices decreased 24% to \$78.35 per ton versus \$103.38 per ton in the prior year period, while average delivered pulpwood prices decreased 15% to \$42.26 per ton versus \$49.76 per ton in the prior year period. The decrease in delivered sawtimber prices was driven by uncertainty in the export market resulting from the ongoing trade dispute between the U.S. and China as well as weaker U.S. lumber markets. The decrease in delivered pulpwood prices was driven primarily by excess supply in the market due to reduced chip exports to Asia. Operating loss of \$3.8 million versus operating income of \$5.6 million in the prior year period was primarily due to lower net stumpage prices (\$6.0 million), lower volumes (\$2.6 million), higher road maintenance and engineering costs (\$1.0 million) and lower non-timber income (\$0.1 million), partially offset by lower depletion rates (\$0.3 million). Second quarter Adjusted EBITDA of \$2.2 million was \$12.8 million below the prior year period.

Year-to-date sales of \$39.1 million decreased \$24.5 million, or 39%, versus the prior year period. Harvest volumes decreased 29% to 533,000 tons, versus 753,000 tons in the prior year period, as we deferred harvest in response to soft market conditions. Average delivered sawtimber prices decreased 21% to \$78.41 per ton from \$99.24 per ton in the prior year period, and average delivered pulpwood prices decreased 8% to \$43.81 per ton from \$47.49 per ton in the prior year period. The decrease in delivered sawtimber prices was driven by uncertainty in the export market resulting from the ongoing trade dispute between the U.S. and China as well as weaker U.S. lumber markets. The decrease in delivered pulpwood prices was driven primarily by excess supply in the market due to reduced chip exports to Asia. Operating loss of \$7.6 million versus operating income of \$10.3 million in the prior year period was primarily due to lower net stumpage prices (\$12.1 million), lower volumes (\$4.6 million), higher overhead and other costs (\$1.2 million), and lower non-timber income (\$0.5 million), partially offset by lower depletion rates (\$0.5 million). Year-to-date Adjusted EBITDA of \$5.3 million was \$23.9 million below the prior year period.

## NEW ZEALAND TIMBER

Second quarter sales of \$62.1 million decreased \$7.6 million, or 11%, versus the prior year period. Harvest volumes decreased 7% to 684,000 tons versus 738,000 tons in the prior year period primarily due to favorable timing of export shipments in the prior year period. Average delivered prices for export sawtimber decreased 7% to \$111.81 per ton versus \$120.80 per ton in the prior year period, while average delivered prices for domestic sawtimber decreased 4% to \$82.66 per ton versus \$86.21 per ton in the prior year period. The decrease in export sawtimber prices was primarily due to increased competition from lower-cost lumber imports into China and higher log inventories at China ports. The decrease in domestic sawtimber prices (in U.S. dollar terms) was driven primarily by the fall in the NZ\$/US\$ exchange rate (US\$0.67 per NZ\$1.00 versus US\$0.71 per NZ\$1.00). Excluding the impact of foreign exchange rates, domestic sawtimber prices increased 2% versus the prior year period. Operating income of \$12.8 million decreased \$5.0 million versus the prior year period as a result of lower net stumpage prices (\$2.6 million), lower volumes (\$1.7 million), higher depletion rates (\$0.2 million), and unfavorable foreign exchange impacts (\$1.2 million), partially offset by lower road maintenance costs (\$0.3 million) and higher non-timber income (\$0.4 million). Second quarter Adjusted EBITDA of \$20.0 million was \$5.8 million below the prior year period.

Year-to-date sales of \$119.3 million decreased \$3.3 million, or 3%, versus the prior year. Harvest volumes were flat at 1.29 million tons versus 1.30 million tons in the prior year. Average delivered prices for export sawtimber decreased 5% to \$113.78 per ton versus \$119.51 per ton in the prior year, while averaged delivered prices for domestic sawtimber decreased 4% to \$83.03 per ton versus \$86.57 per ton in the prior year. The decrease in export sawtimber prices was primarily due to increased competition from lower-cost lumber imports into China and higher log inventories at China ports. The decrease in the domestic sawtimber prices (in US dollar terms) was driven primarily by the fall in the NZ\$/US\$ exchange rate (US\$0.67 per NZ\$1.00 versus US\$0.72 per NZ\$1.00). Excluding the impact of foreign exchange rates, domestic sawtimber prices increased 2% versus the prior year period. Operating income of \$28.5 million decreased \$5.2 million versus the prior year period as a result of lower net stumpage prices (\$3.5 million), unfavorable foreign exchange rate (\$1.4 million), higher depletion rates (\$0.7 million) and lower volumes (\$0.2 million), partially offset by higher non-timber revenue (\$0.6 million). Year-to-date Adjusted EBITDA of \$42.0 million was \$5.5 million below the prior year period.

## REAL ESTATE

Second quarter sales of \$22.5 million decreased \$27.4 million versus the prior year period, while operating income of \$15.5 million decreased \$3.4 million versus the prior year period due to a lower number of acres sold (3,265 acres sold versus 15,804 acres sold in the prior year period), partially offset by a significant increase in weighted-average prices (\$6,899 per acre versus \$3,153 per acre in the prior year period).

Improved Development sales of \$0.2 million in the Wildlight development project consisted of six residential lots for townhomes (\$28,750 per lot or \$198,000 per acre). This compares to prior year period sales of \$1.3 million, which consisted of 2.0 acres of commercial property for \$0.7 million (\$351,000 per acre) and 12 residential lots for \$0.6 million (\$52,000 per lot or \$287,000 per acre).

Unimproved Development sales of \$14.4 million consisted of a 784 acre sale in St. Johns County, Florida for \$18,402 per acre. This compares to no Unimproved Development sales in the prior year period.

Rural sales of \$6.8 million consisted of 1,717 acres at an average price of \$3,959 per acre. This compares to prior year period sales of \$4.8 million, which consisted of 1,071 acres at an average price of \$4,509 per acre.

Non-strategic / Timberland sales of \$1.1 million consisted of 763 acres at an average price of \$1,472 per acre. This compares to prior year period sales of \$43.7 million, which consisted of 14,729 acres at an average price of \$2,966 per acre, including a sale of 14,447 acres in Louisiana for \$2,988 per acre. Second quarter Adjusted EBITDA of \$18.3 million was \$27.6 million below the prior year period.

Year-to-date sales of \$43.5 million decreased \$42.5 million versus the prior year period, while operating income of \$25.5 million decreased \$21.4 million versus the prior year period. Sales and operating income decreased in the first six months due primarily to a lower number of acres sold (8,944 acres sold versus 24,029 acres sold in the prior year period), partially offset by higher weighted-average prices (\$4,860 per acre versus \$3,575 per acre). Year-to-date Adjusted EBITDA of \$35.7 million decreased \$43.0 million versus the prior year.

## *TRADING*

Second quarter sales of \$35.5 million decreased \$10.7 million versus the prior year period primarily due to lower volumes and prices. Sales volumes decreased 18% to 325,000 tons versus 395,000 tons in the prior year period. Operating loss of \$0.2 million versus operating income of \$0.2 million in the prior year period was due to lower trading margins resulting from lower volumes and prices.

Year-to-date sales of \$67.5 million decreased \$17.8 million versus the prior year period primarily due to lower volumes. Sales volumes decreased 18% to 606,000 tons versus 736,000 tons in the the prior year period. Operating income and Adjusted EBITDA of \$0.3 million decreased \$0.1 million versus the prior year period.

## **OTHER ITEMS**

### *CORPORATE AND OTHER EXPENSE / ELIMINATIONS*

Second quarter corporate and other operating expenses of \$7.6 million increased \$1.1 million versus the prior year period, primarily due to elevated legal expenses.

Year-to-date corporate and other operating expenses of \$13.1 million increased \$2.6 million versus the prior year period due to elevated legal expenses (\$2.0 million) and the prior year income from the sale of unused Internet Protocol addresses (\$0.6 million).

### *INTEREST EXPENSE*

Second quarter interest expense of \$7.9 million decreased \$0.2 million versus the prior year period.

Year-to-date interest expense of \$15.6 million decreased \$0.5 million versus the prior year period due to lower average outstanding debt versus the prior year period.

### *INTEREST AND MISCELLANEOUS INCOME, NET*

Second quarter and year-to-date non-operating income of \$1.0 million and \$2.4 million, respectively, includes interest income and favorable mark-to-market adjustments on carbon options.

### *INCOME TAX EXPENSE*

Second quarter and year-to-date income tax expense of \$3.6 million and \$8.0 million decreased \$3.5 million and \$6.1 million, respectively, versus the prior year period as a result of lower taxable income. The New Zealand subsidiary is the primary driver of income tax expense.

## OUTLOOK

The ongoing U.S.-China trade dispute and its corresponding effects have continued to negatively impact our timber segments. With no clear resolution in sight, we have tempered our expectations for the balance of the year. As a result, we now anticipate full-year net income attributable to Rayonier of \$54 to \$63 million, EPS of \$0.42 to \$0.49 and Adjusted EBITDA of \$245 million to \$265 million. In our Southern Timber segment, we expect to achieve our prior full-year volume guidance of 6.2 to 6.3 million tons with higher Adjusted EBITDA driven primarily by strong non-timber income. In our Pacific Northwest Timber segment, we now expect full-year harvest volumes of approximately 1.2 million tons, as we have deferred planned harvest in response to weak market conditions. Given the current status of the U.S.-China trade dispute, we expect limited upside to current prices through the remainder of 2019. In our New Zealand Timber segment, we are maintaining our full-year volume guidance of 2.7 to 2.8 million tons, although we expect that near-term weakness in the China export market coupled with continued competition from alternative supply sources will weigh on pricing in the second half of the year. In our Real Estate segment, we are on track to achieve full-year Adjusted EBITDA generally in line with our prior guidance, although we expect that second half transaction activity will be concentrated in the fourth quarter.

### ADJUSTED EBITDA GUIDANCE (a):

	Revised Full-Year Guidance		Year-to-Date Results
<b>Net Income to Adjusted EBITDA Reconciliation</b>			
Net income	\$61.5	\$71.5	\$48.7
Less: Net income attributable to noncontrolling interest	(7.5)	(8.5)	(5.2)
Net income attributable to Rayonier Inc.	\$54.0	\$63.0	\$43.5
Interest, net	29.5	30.5	13.8
Income tax expense	12.0	13.5	8.0
Depreciation, depletion and amortization	130.0	135.5	64.1
Non-cash cost of land and improved development	12.0	14.0	5.6
Non-operating income	—	—	(0.6)
Net income attributable to noncontrolling interest	7.5	8.5	5.2
Adjusted EBITDA	\$245.0	\$265.0	\$139.7
Diluted Earnings per Share	\$0.42	\$0.49	\$0.34

(a) Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, depletion, amortization, the non-cash cost of land and improved development, non-operating income and expense and Large Dispositions. Adjusted EBITDA is a non-GAAP measure that management uses to make strategic decisions about the business and that investors can use to evaluate the operational performance of the assets under management. It removes the impact of specific items that management believes do not directly reflect the core business operations on an ongoing basis. Large Dispositions, which are excluded in the calculation of Adjusted EBITDA, are defined as transactions involving the sale of timberland that exceed \$20 million in size and do not have a demonstrable premium relative to timberland value.

## LIQUIDITY AND CAPITAL RESOURCES

Our principal source of cash is cash flow from operations, primarily the harvesting of timber and sales of real estate. As a REIT, our main use of cash is dividends. We also use cash to maintain the productivity of our timberlands through replanting and silviculture. Our operations have generally produced consistent cash flow and required limited capital resources. Short-term borrowings have helped fund working capital needs while acquisitions of timberlands generally require funding from external sources or Large Dispositions.

### SUMMARY OF LIQUIDITY AND FINANCING COMMITMENTS

(millions of dollars)	June 30, 2019	December 31, 2018
Cash and cash equivalents	\$131.0	\$148.4
Total debt (a)	975.0	975.0
Shareholders' equity	1,600.3	1,654.6
Total capitalization (total debt plus equity)	2,575.3	2,629.6
Debt to capital ratio	38%	37%
Net debt to enterprise value (b)(c)	18%	19%

(a) Total debt as of June 30, 2019 and December 31, 2018 is presented gross of deferred financing costs of \$2.2 million and \$2.4 million, respectively.

(b) Net debt is calculated as total debt less cash and cash equivalents.

(c) Enterprise value is calculated as the number of shares outstanding multiplied by the Company's share price plus net debt as of June 30, 2019 and December 31, 2018.

### CASH FLOWS

The following table summarizes our cash flows from operating, investing and financing activities for the six months ended June 30, 2019 and 2018.

(millions of dollars)	2019	2018
Cash provided by (used for):		
Operating activities	\$117.0	\$181.6
Investing activities	(60.8)	(61.5)
Financing activities	(78.0)	(115.6)

#### CASH PROVIDED BY OPERATING ACTIVITIES

Cash provided by operating activities decreased \$64.6 million primarily due to lower operating results.

#### CASH USED FOR INVESTING ACTIVITIES

Cash used for investing activities decreased \$0.7 million versus the prior year period primarily due to a decrease in timberland acquisitions (\$4.8 million) and real estate development investments (\$3.5 million), partially offset by higher capital expenditures (\$3.6 million) and other investing activities (\$4.0 million).

#### CASH USED FOR FINANCING ACTIVITIES

Cash used for financing activities decreased \$37.5 million from the prior year period primarily due to a decrease in net debt repayments (\$53.4 million), partially offset by a decrease in equity issuances (\$7.0 million) and increases in dividends paid (\$4.1 million), shares repurchased (\$1.2 million) and minority shareholder distributions (\$3.6 million).

## **EXPECTED 2019 EXPENDITURES**

Capital expenditures in 2019 are expected to be between \$66 million and \$69 million, excluding any strategic timberland acquisitions we may make. Capital expenditures are expected to primarily consist of seedling planting, fertilization and other silvicultural activities, property taxes, lease payments, allocated overhead and other capitalized costs. Aside from capital expenditures, we may also acquire timberland as we actively evaluate acquisition opportunities.

Real estate development investments in 2019 are expected to be between \$7 million and \$9 million, net of reimbursements from community development bonds. Expected real estate development investments are primarily related to Wildlight, our mixed-use community development project located north of Jacksonville, Florida at the interchange of I-95 and State Road A1A.

Our 2019 dividend payments are expected to be approximately \$140 million assuming no change in the quarterly dividend rate of \$0.27 per share or material changes in the number of shares outstanding.

Future share repurchases, if any, will depend on the Company's liquidity and cash flow, as well as general market conditions and other considerations including capital allocation priorities.

We have paid \$0.4 million of the approximately \$1.3 million in current year mandatory pension contribution requirements and may make discretionary contributions in the future.

Cash tax payments in 2019 are expected to be approximately \$2 million, primarily related to the New Zealand subsidiary.

## **PERFORMANCE AND LIQUIDITY INDICATORS**

The discussion below is presented to enhance the reader's understanding of our operating performance, liquidity, and ability to generate cash and satisfy rating agency and creditor requirements. This information includes two measures of financial results: Adjusted Earnings before Interest, Taxes, Depreciation, Depletion and Amortization ("Adjusted EBITDA") and Cash Available for Distribution ("CAD"). These measures are not defined by Generally Accepted Accounting Principles ("GAAP"), and the discussion of Adjusted EBITDA and CAD is not intended to conflict with or change any of the GAAP disclosures described above.

Management uses CAD as a liquidity measure. CAD is a non-GAAP measure that management uses to measure cash generated during a period that is available for common stock dividends, distributions to the New Zealand minority shareholder, repurchase of the Company's common shares, debt reduction, strategic acquisitions and real estate development investments. We define CAD as cash provided by operating activities adjusted for capital spending (excluding timberland acquisitions) and working capital and other balance sheet changes. CAD is not necessarily indicative of the CAD that may be generated in future periods.

Management uses Adjusted EBITDA as a performance measure. Adjusted EBITDA is a non-GAAP measure that management uses to make strategic decisions about the business and that investors can use to evaluate the operational performance of the assets under management. It removes the impact of specific items that management believes do not directly reflect the core business operations on an ongoing basis. We define Adjusted EBITDA as earnings before interest, taxes, depreciation, depletion, amortization, the non-cash cost of land and improved development, non-operating income and expense and Large Dispositions.

We reconcile Adjusted EBITDA to Net Income for the consolidated Company and to Operating Income for the segments, as those are the most comparable GAAP measures for each. The following table provides a reconciliation of Net Income to Adjusted EBITDA for the respective periods (in millions of dollars):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Net Income to Adjusted EBITDA Reconciliation</b>				
Net income	\$20.9	\$39.3	\$48.7	\$82.0
Interest, net	7.1	7.6	13.8	15.3
Income tax expense	3.6	7.1	8.0	14.0
Depreciation, depletion and amortization	27.6	46.4	64.1	80.9
Non-cash cost of land and improved development	1.6	13.3	5.6	14.9
Non-operating income	(0.3)	(2.5)	(0.6)	(2.7)
Adjusted EBITDA	<u>\$60.6</u>	<u>\$111.3</u>	<u>\$139.7</u>	<u>\$204.6</u>

The following tables provide a reconciliation of Operating Income (Loss) by segment to Adjusted EBITDA by segment for the respective periods (in millions of dollars):

Three Months Ended	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Real Estate	Trading	Corporate and other	Total
<b>June 30, 2019</b>							
Operating income (loss)	\$14.7	(\$3.8)	\$12.8	\$15.5	(\$0.2)	(\$7.6)	\$31.4
Depreciation, depletion and amortization	12.9	6.0	7.2	1.2	—	0.3	27.6
Non-cash cost of land and improved development	—	—	—	1.6	—	—	1.6
Adjusted EBITDA	<u>\$27.6</u>	<u>\$2.2</u>	<u>\$20.0</u>	<u>\$18.3</u>	<u>(\$0.2)</u>	<u>(\$7.3)</u>	<u>\$60.6</u>

<b>June 30, 2018</b>							
Operating income (loss)	\$15.7	\$5.6	\$17.8	\$18.9	\$0.2	(\$6.5)	\$51.6
Depreciation, depletion and amortization	14.9	9.4	8.0	13.7	—	0.3	46.4
Non-cash cost of land and improved development	—	—	—	13.3	—	—	13.3
Adjusted EBITDA	<u>\$30.6</u>	<u>\$15.0</u>	<u>\$25.8</u>	<u>\$45.9</u>	<u>\$0.2</u>	<u>(\$6.2)</u>	<u>\$111.3</u>

Six Months Ended	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Real Estate	Trading	Corporate and other	Total
<b>June 30, 2019</b>							
Operating income (loss)	\$36.3	(\$7.6)	\$28.5	\$25.5	\$0.3	(\$13.1)	\$69.9
Depreciation, depletion and amortization	32.6	12.9	13.5	4.5	—	0.6	64.1
Non-cash cost of land and improved development	—	—	—	5.6	—	—	5.6
Adjusted EBITDA	<u>\$68.9</u>	<u>\$5.3</u>	<u>\$42.0</u>	<u>\$35.7</u>	<u>\$0.3</u>	<u>(\$12.5)</u>	<u>\$139.7</u>

<b>June 30, 2018</b>							
Operating income (loss)	\$27.9	\$10.3	\$33.7	\$46.9	\$0.4	(\$10.5)	\$108.7
Depreciation, depletion and amortization	30.9	18.9	13.7	16.8	—	0.6	80.9
Non-cash cost of land and improved development	—	—	—	14.9	—	—	14.9
Adjusted EBITDA	<u>\$58.8</u>	<u>\$29.2</u>	<u>\$47.5</u>	<u>\$78.7</u>	<u>\$0.4</u>	<u>(\$9.9)</u>	<u>\$204.6</u>

The following table provides a reconciliation of Cash Provided by Operating Activities to Adjusted CAD (in millions of dollars):

	Six Months Ended June 30,	
	2019	2018
Cash provided by operating activities	\$117.0	\$181.6
Capital expenditures (a)	(29.5)	(25.9)
Working capital and other balance sheet changes	7.6	7.8
CAD	95.1	163.5
Mandatory debt repayments	—	—
CAD after mandatory debt repayments	95.1	163.5
Cash used for investing activities	(\$60.8)	(\$61.5)
Cash used for financing activities	(\$78.0)	(\$115.6)

(a) Capital expenditures exclude timberland acquisitions.

The following table provides supplemental cash flow data (in millions):

	Six Months Ended June 30,	
	2019	2018
Purchase of timberlands	(\$26.4)	(31.2)
Real Estate Development Investments (a)	(1.0)	(4.5)
Distributions to New Zealand minority shareholder (b)	(3.6)	(3.4)

(a) The six months ended June 30, 2019 includes \$3.7 million of reimbursements from community development bonds.

(b) 2018 amount includes debt repayments on the New Zealand subsidiary noncontrolling interest shareholder loan.

## LIQUIDITY FACILITIES

### 2019 DEBT ACTIVITY

See [Note 6 — Debt](#) for additional information.

### OFF-BALANCE SHEET ARRANGEMENTS

We utilize off-balance sheet arrangements to provide credit support for certain suppliers and vendors in case of their default on critical obligations, and collateral for outstanding claims under the Company's previous workers' compensation self-insurance programs. These arrangements consist of standby letters of credit and surety bonds. As part of our ongoing operations, we also periodically issue guarantees to third parties. Off-balance sheet arrangements are not considered a source of liquidity or capital resources and do not expose us to material risks or material unfavorable financial impacts. See [Note 11 — Guarantees](#) for details on the letters of credit, surety bonds and guarantees as of June 30, 2019.

### CONTRACTUAL FINANCIAL OBLIGATIONS

In addition to using cash flow from operations and proceeds from Large Dispositions, we finance our operations through the issuance of debt and by entering into leases. These financial obligations are recorded in accordance with accounting rules applicable to the underlying transaction, with the result that some are recorded as liabilities on the Consolidated Balance Sheets, while others are required to be disclosed in the Notes to Consolidated Financial Statements and Management's Discussion and Analysis.

The following table aggregates our contractual financial obligations as of June 30, 2019 and anticipated cash spending by period:



Contractual Financial Obligations (in millions)	Payments Due by Period				
	Total	Remaining 2019	2020-2021	2022-2023	Thereafter
Long-term debt (a)	\$975.0	—	—	\$325.0	\$650.0
Interest payments on long-term debt (b)	197.6	19.7	78.8	60.5	38.6
Operating leases — timberland (c)	194.5	5.0	16.7	15.6	157.2
Operating leases — PP&E, offices (c)	7.9	0.9	2.5	1.6	2.9
Commitments — derivatives (d)	1.2	1.0	0.2	—	—
Commitments — other (e)	4.0	3.0	1.0	—	—
<b>Total contractual cash obligations</b>	<b>\$1,380.2</b>	<b>\$29.6</b>	<b>\$99.2</b>	<b>\$402.7</b>	<b>\$848.7</b>

(a) The book value of long-term debt, net of deferred financing costs, is currently recorded at \$972.8 million on the Company's Consolidated Balance Sheet, but upon maturity the liability will be \$975.0 million.

(b) Projected interest payments for variable rate debt were calculated based on outstanding principal amounts and interest rates as of June 30, 2019.

(c) Includes anticipated renewal options.

(d) Commitments — derivatives represents payments expected to be made on derivative financial instruments (foreign exchange contracts and interest rate swaps). See [Note 13 — Derivative Financial Instruments and Hedging Activities](#).

(e) Commitments — other includes \$0.9 million of pension contribution requirements remaining in 2019 based on actuarially determined estimates and IRS minimum funding requirements, payments expected to be made on the Company's Wildlight development project, payments made on timberland deeds and other purchase obligations.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

#### Interest Rate Risk

We are exposed to interest rate risk through our variable rate debt, primarily due to changes in LIBOR. However, we use interest rate swaps to manage our exposure to interest rate movements on our term credit agreements by swapping existing and anticipated future borrowings from floating rates to fixed rates. As of June 30, 2019, we had \$650 million of U.S. long-term variable rate debt. The notional amount of outstanding interest rate swap contracts with respect to this debt at June 30, 2019 was also \$650 million. The term credit agreement and associated interest rate swaps mature in August 2024 and the incremental term loan agreement and associated interest rate swaps mature in May 2026. At this borrowing level, a hypothetical one-percentage point increase/decrease in interest rates would result in no corresponding increase/decrease in interest payments and expense over a 12-month period.

The fair market value of our long-term fixed interest rate debt is also subject to interest rate risk. The estimated fair value of our long-term fixed rate debt at June 30, 2019 was \$332 million compared to the \$325 million principal amount. We use interest rates of debt with similar terms and maturities to estimate the fair value of our debt. Generally, the fair market value of fixed-rate debt will increase as interest rates fall and decrease as interest rates rise. A hypothetical one-percentage point increase/decrease in prevailing interest rates at June 30, 2019 would result in a corresponding decrease/increase in the fair value of our long-term fixed rate debt of approximately \$9 million.

We estimate the periodic effective interest rate on our U.S. long-term fixed and variable rate debt to be approximately 3.3% after consideration of interest rate swaps and estimated patronage refunds, excluding unused commitment fees on the revolving credit facility.

The following table summarizes our outstanding debt, interest rate swaps and average interest rates, by year of expected maturity and their fair values at June 30, 2019:

(Dollars in thousands)	2019	2020	2021	2022	2023	Thereafter	Total	Fair Value
<b>Variable rate debt:</b>								
Principal amounts	—	—	—	—	—	\$650,000	\$650,000	\$650,000
Average interest rate (a)(b)	—	—	—	—	—	4.19%	4.19%	—
<b>Fixed rate debt:</b>								
Principal amounts	—	—	—	\$325,000	—	—	\$325,000	\$331,500
Average interest rate (b)	—	—	—	3.75%	—	—	3.75%	—
<b>Interest rate swaps:</b>								
Notional amount	—	—	—	—	—	\$650,000	\$650,000	(\$7,097)
Average pay rate (b)	—	—	—	—	—	1.91%	1.91%	—
Average receive rate (b)	—	—	—	—	—	2.43%	2.43%	—

(a) Excludes estimated patronage refunds.

(b) Interest rates as of June 30, 2019.

#### Foreign Currency Exchange Rate Risk

The functional currency of the Company's New Zealand-based operations and New Zealand subsidiary is the New Zealand dollar. Through these operations and our ownership in the New Zealand subsidiary, we are exposed to foreign currency risk on cash held in foreign currencies, shareholder distributions which are paid in U.S. dollars and on foreign export sales and ocean freight payments that are predominantly denominated in U.S. dollars. To mitigate these risks, the New Zealand subsidiary routinely enters into foreign currency exchange contracts and foreign currency option contracts to hedge a portion of the New Zealand subsidiary's foreign exchange exposure.

### Sales and Expense Exposure

At June 30, 2019, the New Zealand subsidiary had foreign currency exchange contracts with a notional amount of \$101 million and foreign currency option contracts with a notional amount of \$20 million outstanding related to foreign export sales and ocean freight payments. The amount hedged represents a portion of forecasted U.S. dollar denominated export timber and log trading sales proceeds over the next 18 months and next 3 months, respectively.

The following table summarizes our outstanding foreign currency exchange rate risk contracts at June 30, 2019:

(Dollars in thousands)	0-1 months	1-2 months	2-3 months	3-6 months	6-12 months	12-18 months	Total	Fair Value
<b>Foreign exchange contracts to sell U.S. dollar for New Zealand dollar</b>								
Notional amount	\$12,750	\$12,750	\$8,000	\$21,000	\$27,000	\$19,000	\$100,500	(\$670)
Average contract rate	1.4889	1.4881	1.4874	1.4861	1.4838	1.4827	1.4855	
<b>Foreign currency option contracts to sell U.S. dollar for New Zealand dollar</b>								
Notional amount	\$2,000	—	\$2,000	\$6,000	\$6,000	\$4,000	\$20,000	\$116
Average strike price	1.4739	—	1.5316	1.5375	1.5123	1.5246	1.5204	

## Item 4. CONTROLS AND PROCEDURES

### DISCLOSURE CONTROLS AND PROCEDURES

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

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

Based on an evaluation of our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q, our management, including the Chief Executive Officer and Chief Financial Officer, concluded the design and operation of the disclosure controls and procedures were effective as of June 30, 2019.

In the quarter ended June 30, 2019, based upon the evaluation required by Rule 13a-15(d) under the Exchange Act, there were no changes in our internal control over financial reporting that would materially affect or are reasonably likely to materially affect our internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 1. LEGAL PROCEEDINGS**

The information set forth in [Note 10 — Contingencies](#) in the “Notes to Consolidated Financial Statements” under Item 1 of Part I of this report is incorporated herein by reference.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****ISSUER PURCHASES OF EQUITY SECURITIES**

The following table provides information regarding our purchases of Rayonier common shares during the quarter ended June 30, 2019:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (b)
April 1 to April 30	100,473	31.94	—	7,154,960
May 1 to May 31	222	28.35	—	7,154,960
June 1 to June 30	33,499	30.05	—	7,154,960
Total	<u>134,194</u>		<u>—</u>	

(a) Includes 134,194 shares of the Company’s common shares purchased in April, May and June from current employees in non-open market transactions. The shares were sold by current employees of the Company in exchange for cash that was used to pay withholding taxes associated with the vesting of share-based awards under the Company’s stock incentive plan. The price per share surrendered is based on the closing price of the Company’s common shares on the respective vesting dates of the awards.

(b) Maximum number of shares authorized to be purchased as of June 30, 2019 include 3,877,389 under the 1996 anti-dilutive program and approximately 3,277,571 under the share repurchase program.

**Item 6. EXHIBITS**

- |      |   |                    |
|------|---|--------------------|
| 31.1 | <a href="#">Chief Executive Officer's Certification Pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>  | Filed herewith     |
| 31.2 | <a href="#">Chief Financial Officer's Certification Pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>  | Filed herewith     |
| 32   | <a href="#">Certification of Periodic Financial Reports Under Section 906 of the Sarbanes-Oxley Act of 2002</a>   | Furnished herewith |
| 101  | The following financial information from our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2019, formatted in Extensible Business Reporting Language ("XBRL"), includes: (i) the Consolidated Statements of Income and Comprehensive Income for the Three and Six Months Ended June 30, 2019 and 2018; (ii) the Consolidated Balance Sheets as of June 30, 2019 and December 31, 2018; (iii) the Consolidated Statements of Changes in Shareholders' Equity for the Six Months Ended June 30, 2019 and 2018; (iv) the Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2019 and 2018; and (v) the Notes to Consolidated Financial Statements | Filed herewith     |

**SIGNATURE**

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

RAYONIER INC.

\_\_\_\_\_  
(Registrant)

By: /s/ APRIL TICE

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April Tice  
*Vice President, Financial Services and Corporate Controller*  
*(Duly Authorized Officer, Principal Accounting Officer)*

Date: August 9, 2019

## CERTIFICATION

I, David L. Nunes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rayonier Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2019

/s/ DAVID L. NUNES

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David L. Nunes

*President and Chief Executive Officer, Rayonier Inc.*

## CERTIFICATION

I, Mark McHugh, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rayonier Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2019

/s/ MARK MCHUGH

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Mark McHugh

Senior Vice President and Chief Financial Officer, Rayonier Inc.



**CERTIFICATION**

The undersigned hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to our knowledge:

1. The quarterly report on Form 10-Q of Rayonier Inc. (the "Company") for the period ended June 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 9, 2019

/s/ DAVID L. NUNES

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David L. Nunes

*President and Chief Executive Officer, Rayonier Inc.*

/s/ MARK MCHUGH

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Mark McHugh

*Senior Vice President and  
Chief Financial Officer, Rayonier Inc.*