

Rayonier



Fourth Quarter 2005 Supplemental Material



Safe Harbor

Reported results are preliminary and not final until filing of the 2005 Form 10-K with the Securities and Exchange Commission and, therefore, remain subject to adjustment. Statements regarding earnings, anticipated demand and pricing for our products, manufacturing costs, and real estate transactions are “forward-looking statements” made pursuant to the safe harbor provisions of federal securities laws. The following important factors, among others, could cause actual results to differ materially from those expressed in the forward-looking statements: changes in global market trends and world events; interest rate and currency movements; fluctuations in demand for, or supply of, cellulose specialty products, absorbent materials, timber, wood products or real estate and entry of new competitors into these markets; adverse weather conditions affecting production, timber availability and sales, or distribution; changes in production costs for wood products or performance fibers, particularly for raw materials such as wood, energy and chemicals; unexpected delays in the entry into or closing of real estate sale transactions; changes in law or policy that might condition, limit or restrict the development of real estate; the ability of the company to identify and complete timberland and higher-value real estate acquisitions; the company's ability to satisfy complex rules in order to qualify as a REIT; the availability of tax deductions and the ability of the company to complete tax-efficient exchanges of real estate; and implementation or revision of governmental policies and regulations affecting the environment, endangered species, import and export controls or taxes, including changes in tax laws that could reduce the benefits associated with REIT status. For additional factors that could impact future results, please see the company's most recent Form 10-K on file with the Securities and Exchange Commission. Rayonier assumes no obligation to update these statements except as may be required by law.

Reconciliation of Reported to Pro Forma Earnings

(\$ Millions – Except EPS)

	Fourth Quarter			Full Year		
	Pretax Income	Net Income	EPS	Pretax Income	Net Income	EPS
2005 Reported Earnings	\$ 65.2	\$ 56.4	\$ 0.73	\$ 190.9	\$ 182.8	\$ 2.36
Less Special Items & Disc. Ops.						
Sale of New Zealand timber assets	37.0	30.5	0.39	37.0	30.5	0.39
MDF - discontinued operations	-	-	-	-	(25.0)	(0.32)
Prior years IRS audit settlements	-	-	-	-	21.7	0.29
Interest associated with IRS settlements	-	-	-	4.9	3.1	0.03
Tax benefit on repatriated earnings	-	(0.4)	-	-	25.4	0.33
Arbitration award	-	-	-	8.2	5.2	0.07
Total	37.0	30.1	0.39	50.1	60.9	0.79
2005 Pro Forma Earnings	28.2	26.3	0.34	140.8	121.9	1.57
2004 Reported Earnings	\$ 12.9	\$ 13.5	\$ 0.18	\$ 126.5	\$ 156.9	\$ 2.05
Less Special Items & Disc. Ops.						
Deferred tax reversal (REIT)	-	-	-	-	77.9	1.02
Tax on repatriated earnings	-	-	-	-	(28.2)	(0.37)
MDF - discontinued operations	-	(0.5)	-	-	(3.2)	(0.04)
Total	-	(0.5)	-	-	46.5	0.61
2004 Pro Forma Earnings	12.9	14.0	0.18	126.5	110.4	1.44

Fourth Quarter - Highlights

(\$ Millions - Except EPS)

	4Q 2005	Variance to	
		3Q 2005	4Q 2004
Profitability			
Sales	316	16	31
Operating income	36	(15)	10
Income from continuing operations	56	(19)	42
Net Income	56	(19)	43
Earnings Per Share:			
Continuing operations	0.73	(0.23)	0.55
Net income	0.73	(0.23)	0.55
Pro forma income from continuing operations *	0.34	(0.12)	0.16
ROE Annualized **	14.2%	(0.5%)	(0.9%)
Capital Resources and Liquidity			
	Full Year		
	2005	2004	
Cash Provided by Operating Activities	263	292	
Cash Used for Investing Activities	(32)	(179)	
Cash Used for Financing Activities	(216)	(52)	
Adjusted EBITDA *	360	331	
Cash Available for Distribution (CAD) *	167	166	
	12/31/05	12/31/04	
Debt	559	659	
Debt / Capital	38.7%	45.3%	
Cash	146	84	
Average diluted shares outstanding (millions)	77.6	76.5	

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

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



Quarter to Quarter Variance Analysis - 4Q 05 to 3Q 05

(\$ Millions - Except EPS)

	<u>Pretax</u>	<u>Income **</u>	<u>EPS</u>
2005 3Q Continuing Ops (Pro forma) *	40	36	0.46
Variance			
Timber	7	7	0.11
Real Estate	(6)	(4)	(0.05)
Performance Fibers			
- CS Price / Mix	(1)	(1)	(0.01)
- AM Price / Mix	(3)	(2)	(0.02)
- Cost / Volume / Other	(5)	(3)	(0.04)
Wood Products	(2)	(1)	(0.01)
Corporate / Other	(5)	(2)	(0.04)
Operating Income	(15)	(6)	(0.06)
Interest Expense / Other	3	2	0.03
Taxes	-	(6)	(0.09)
2005 4Q Continuing Ops (Pro forma)	28	26	0.34

* Non-GAAP measure (see page 20 for reconciliation).

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



Fourth Quarter / Full Year Variance Analysis - 2005 to 2004

(\$ Millions - Except EPS)

	Fourth Quarter			Full Year		
	Pretax	Income *	EPS	Pretax	Income *	EPS
2004 Continuing Ops (Pro forma)	13	14	0.18	127	110	1.44
Variance						
Timber						
- Price	7	7	0.09	23	23	0.29
- Volume / Other	-	-	-	(8)	(8)	(0.12)
Real Estate	4	3	0.04	(12)	(7)	(0.09)
Performance Fibers						
- CS Price / Mix	4	3	0.04	14	9	0.11
- AM Price / Mix	1	-	0.01	10	6	0.08
- Volume / Cost / Other	(4)	(2)	(0.04)	(18)	(11)	(0.14)
Wood Products	2	1	0.01	3	2	0.03
Other Operations	(1)	-	(0.01)	(5)	(3)	(0.05)
Corporate / Other	(3)	(3)	(0.03)	3	1	0.01
Operating Income	10	9	0.11	10	12	0.12
Interest Expense / Other	5	4	0.06	4	3	0.05
Taxes - LKE	-	-	-	-	(8)	(0.11)
Taxes - Excludes LKE	-	(1)	(0.01)	-	5	0.07
2005 Continuing Ops (Pro forma)	28	26	0.34	141	122	1.57

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

Reconciliation of Adjusted EBITDA to CAD

(\$ Millions – Except Per Share Data)

	Full Year	
	2005	2004
Adjusted EBITDA	\$ 360.1	\$ 330.6
Capital spending, net	(89.9)	(87.7)
Interest expense	(47.0)	(46.7)
Income tax benefit	16.9	33.6
Accrued / deferred income taxes	(48.4)	(32.6)
Working capital / other balance sheet changes	(18.9)	7.4
Like-kind exchange tax benefits on third party land sales *	(3.2)	(11.3)
Like-kind exchange tax benefits on intercompany land sales *	-	(19.0)
Change in committed cash	1.8	(3.5)
Tax benefit on exercise of stock options	(4.6)	(4.4)
Cash Available for Distribution (CAD)	<u>\$ 166.8</u>	<u>\$ 166.4</u>
Average diluted shares outstanding	77,644,252	76,533,263
CAD per share	<u>\$ 2.15</u>	<u>\$ 2.17</u>

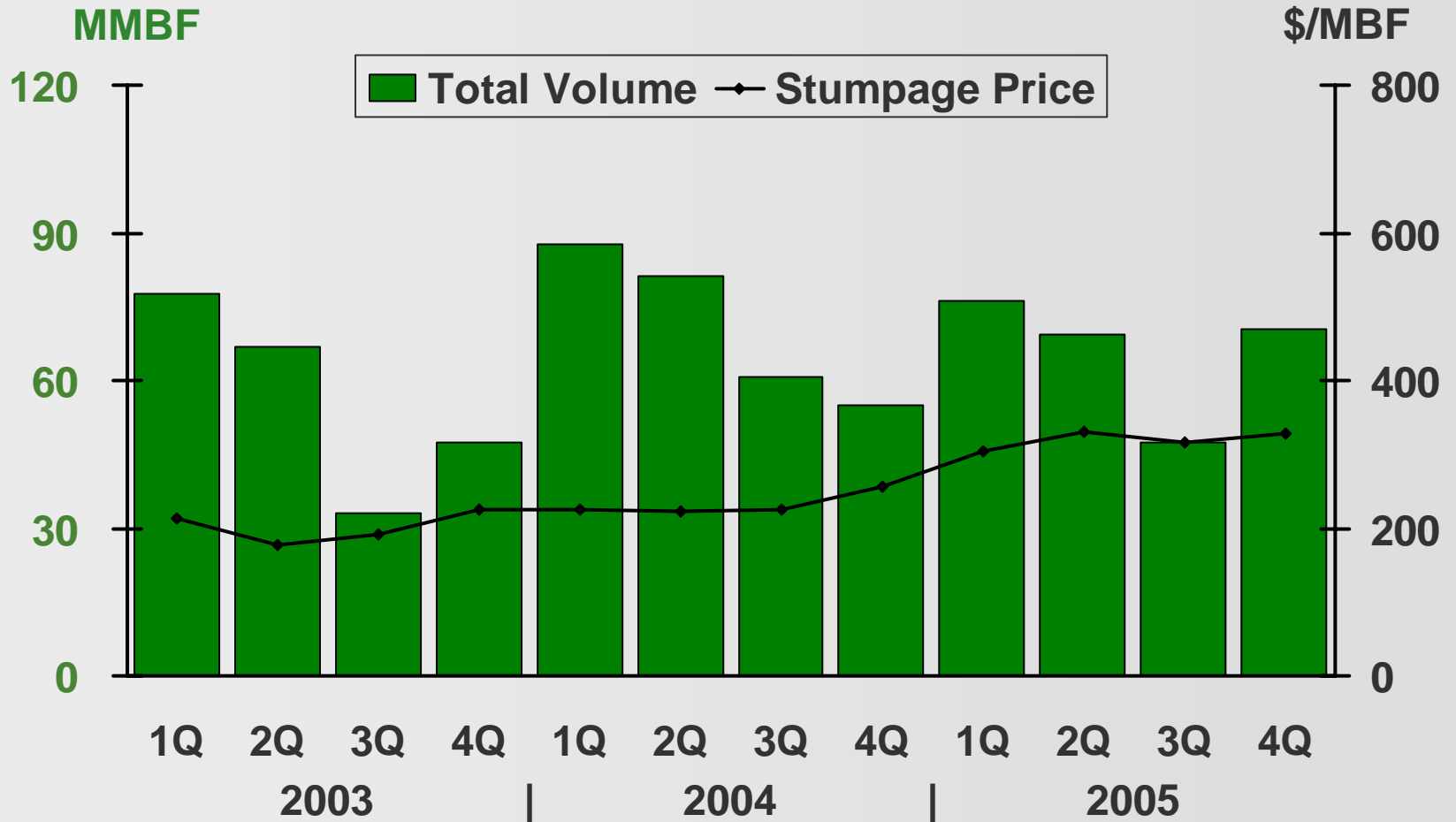
* Represents taxes that would have been paid on third party land sales had the Company not completed like-kind exchange transactions.



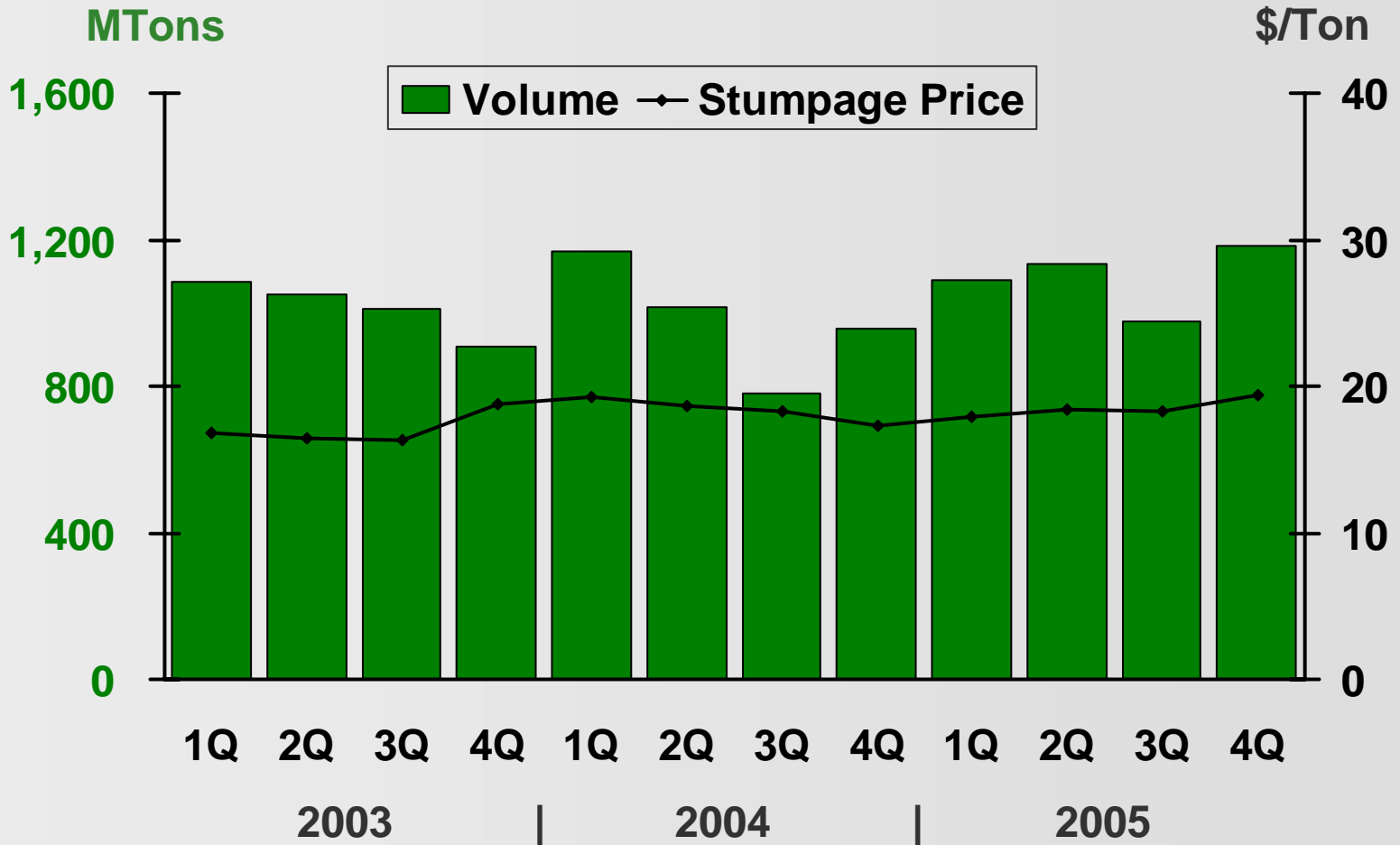
Markets and Operations



Northwest Timber Sales

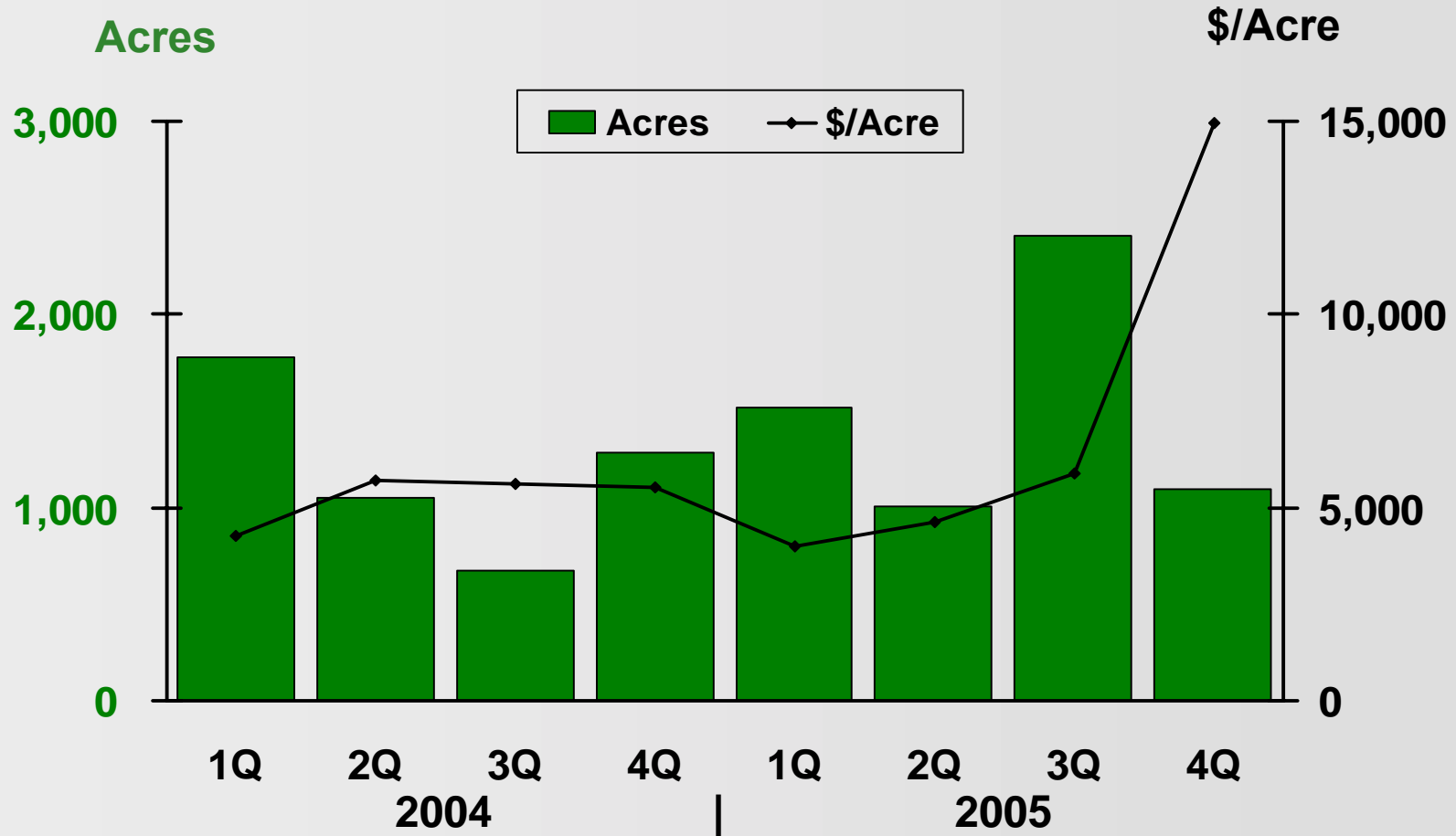


Southeast Pine Timber Sales





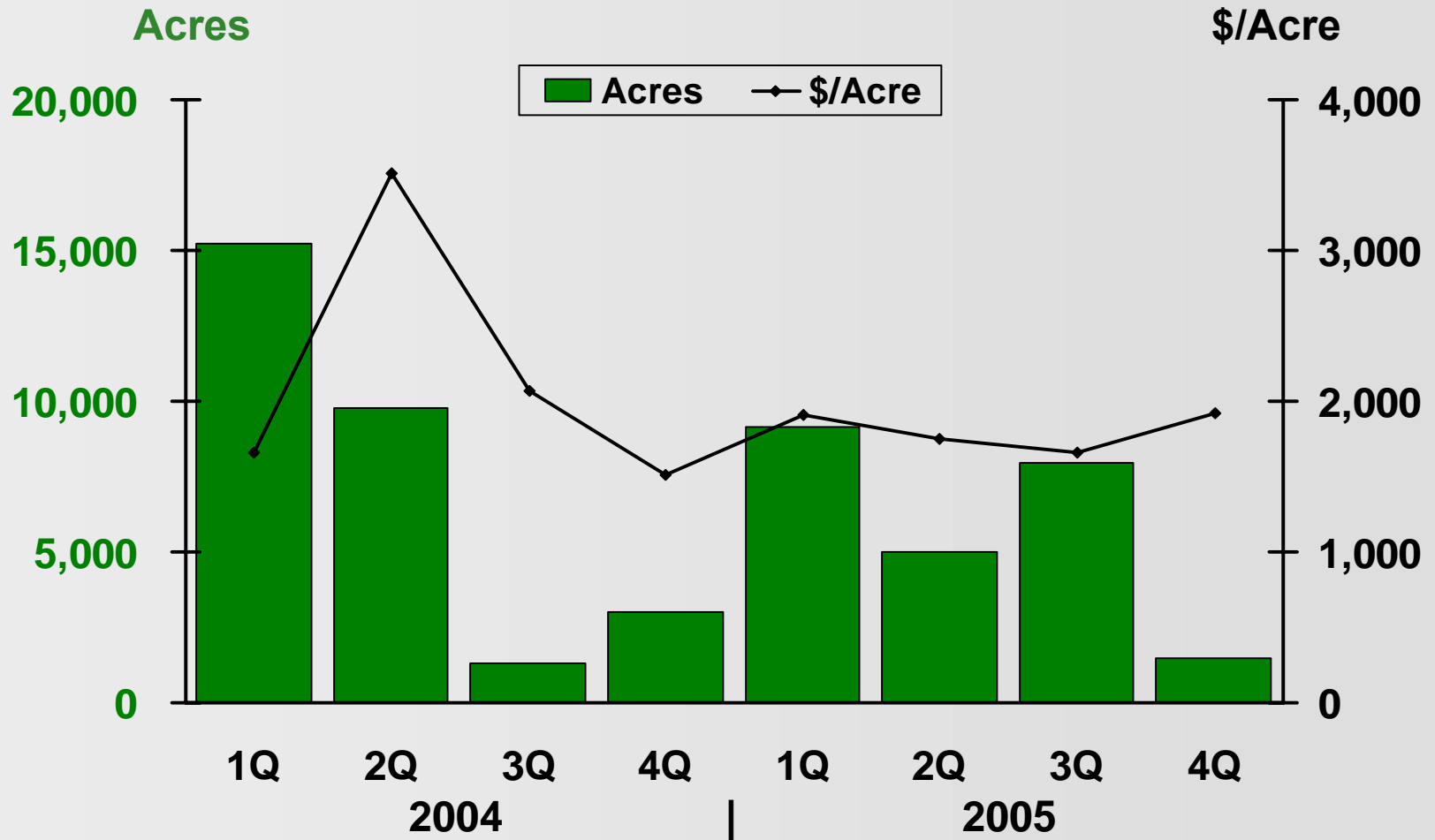
Development Acres * - Sales



* Primarily sales in coastal counties.



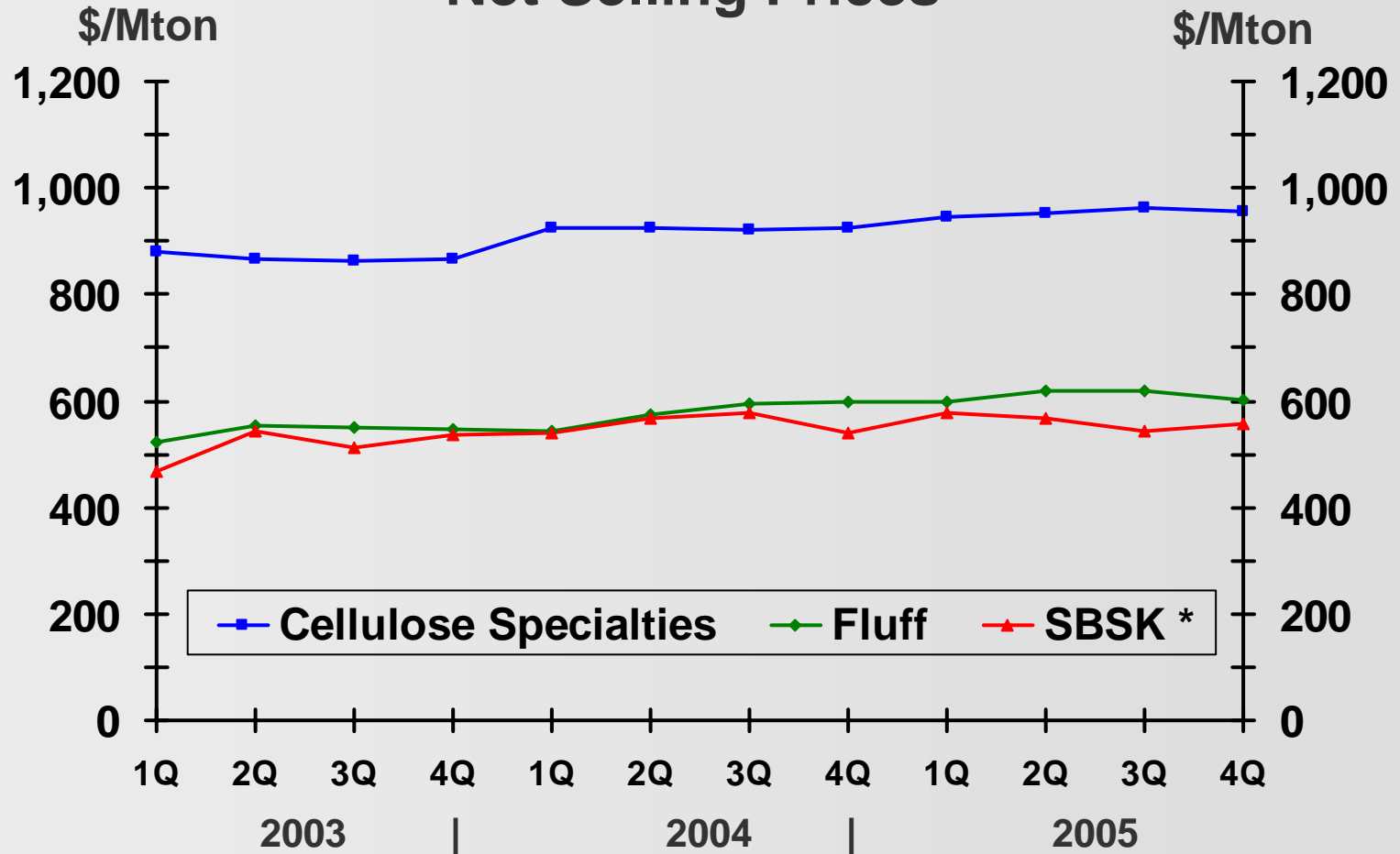
Rural Acres * - Sales



* Also includes non-development sales in coastal counties.



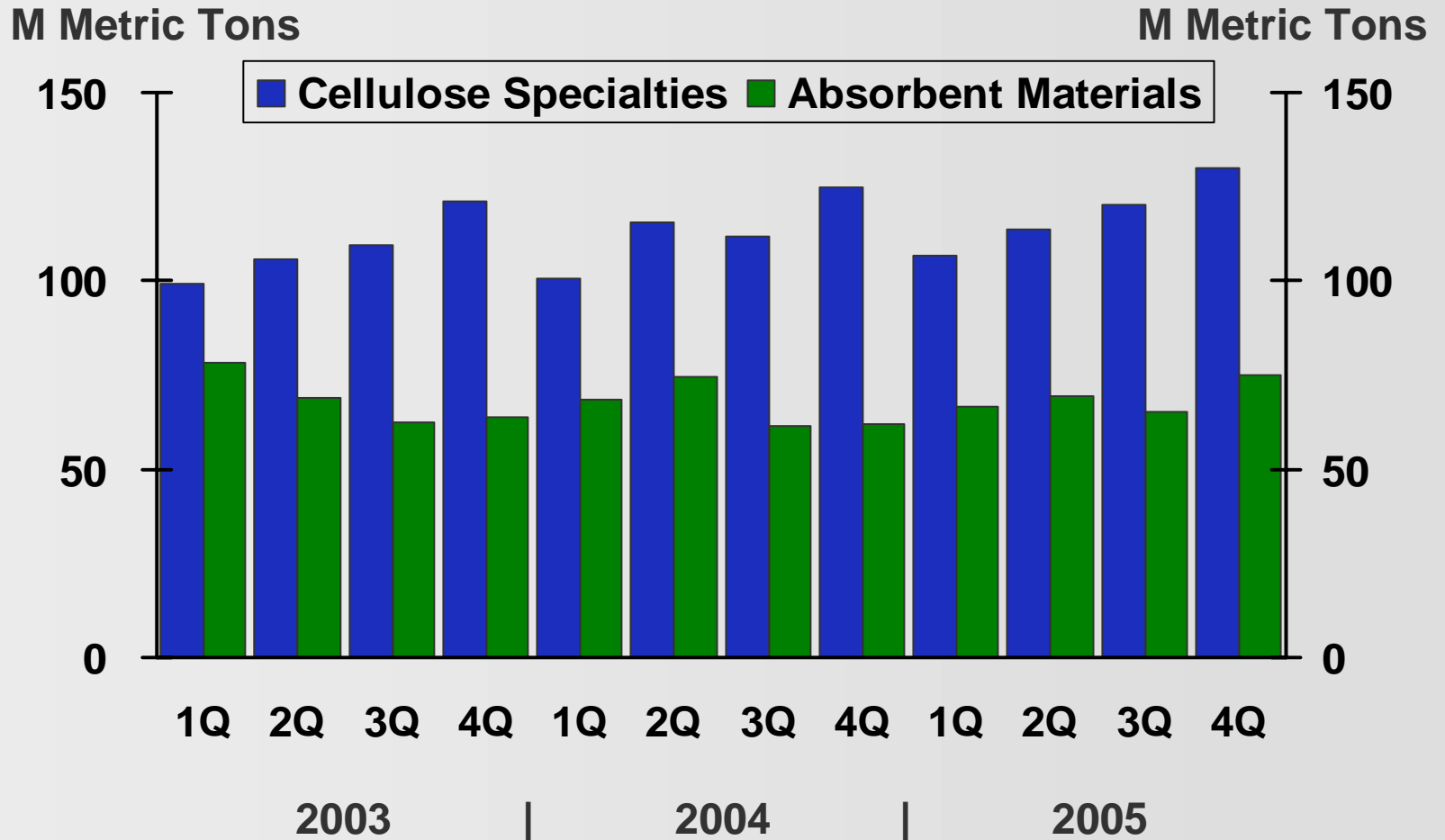
Performance Fibers Net Selling Prices



* Source: RISI gross price less typical discounts.

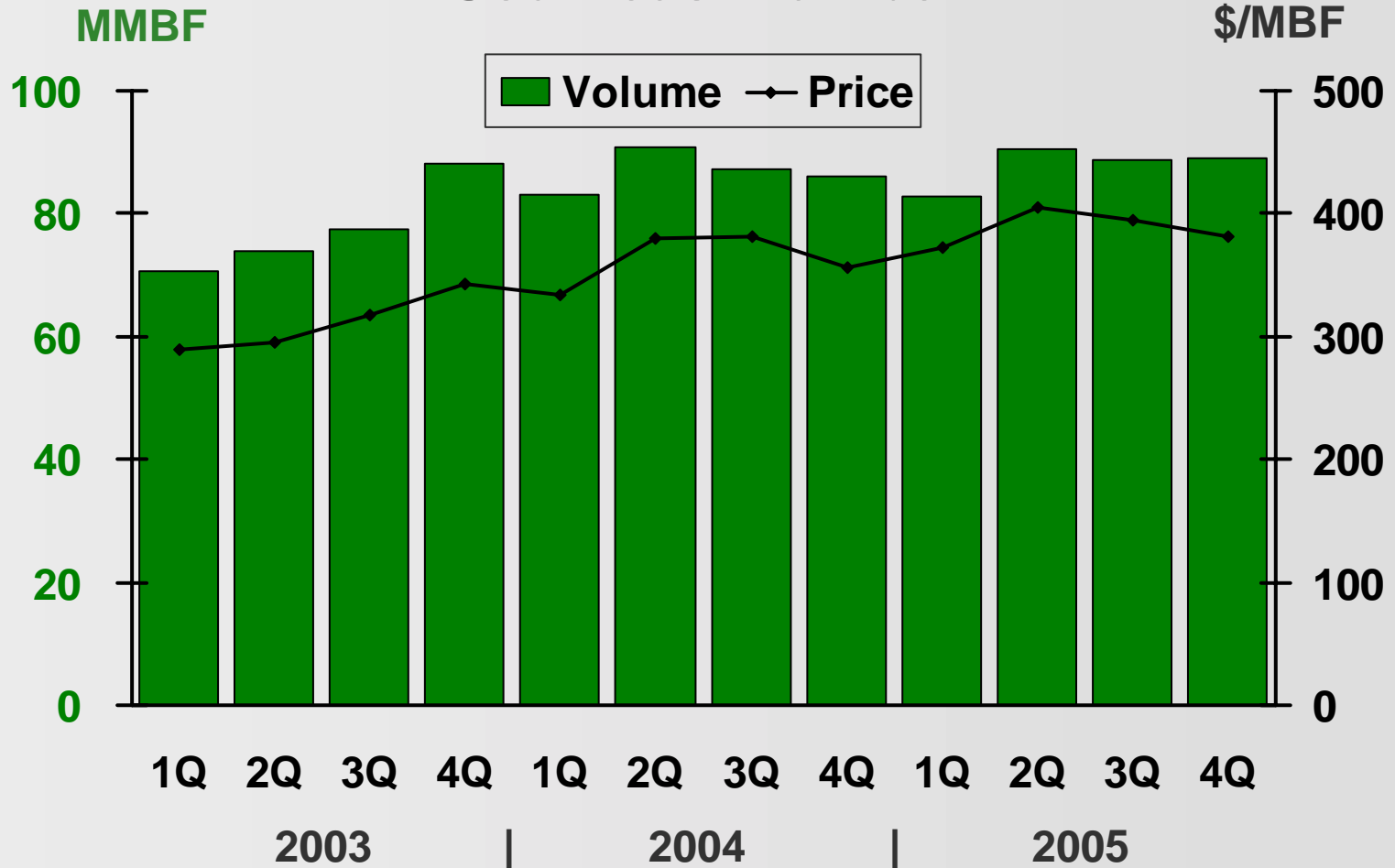


Performance Fibers Sales Volumes





Wood Products Southeast Lumber





Earnings Per Share - From Continuing Operations *

(\$) / Share

	2006	Pro forma		Actual	
		2005 **	2004 ***	2005	2004
First Quarter	?	← Below 0.33	0.35	0.45	1.00
Second Quarter		0.44	0.58	0.54	0.58
Third Quarter		0.46	0.33	0.96	0.33
Fourth Quarter		0.34	0.18	0.73	0.18
Full Year	?	← Somewhat above 1.57	1.44	2.68	2.09

* Excludes MDF.

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

*** First quarter excludes a net tax benefit of \$0.65 per share relating to REIT conversion.

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



Appendix



Definitions of Non-GAAP Measures

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

Cash Available for Distribution (CAD) is defined as cash provided by operating activities less capital spending, tax benefit on the exercise of stock options, tax benefits associated with certain strategic acquisitions and change in committed cash. Cash Available for Distribution is a non-GAAP measure of cash generated during a period that is available for dividend distribution, repurchase of the Company's common shares, debt reduction and for strategic acquisitions net of associated financing. Cash Available for Distribution is not necessarily indicative of the Cash Available for Distribution that may be generated in future periods.

Reconciliation of Non-GAAP Measures

(\$ Millions)

	Full Year	
	2005	2004
Adjusted EBITDA		
Cash provided by operating activities	\$ 262.7	\$ 292.3
Income tax benefit	(16.9)	(33.6)
Interest expense	47.0	46.7
Working capital increases (decreases)	19.2	(37.4)
Other balance sheet changes	48.1	62.6
Adjusted EBITDA	<u>\$ 360.1</u>	<u>\$ 330.6</u>
Cash Available for Distribution (CAD)		
Cash provided by operating activities	\$ 262.7	\$ 292.3
Capital spending (a)	(89.9)	(87.7)
Like-kind exchange tax benefits on third party real estate sales (b)	(3.2)	(11.3)
Like-kind exchange tax benefits on intercompany land sales (b)	-	(19.0)
Change in committed cash	1.8	(3.5)
Tax benefit on exercise of stock options	(4.6)	(4.4)
Cash Available for Distribution (CAD)	<u>\$ 166.8</u>	<u>\$ 166.4</u>

- (a) Capital Spending is net of sales and retirements and excludes strategic acquisitions and dispositions.
 (b) Represents taxes that would have been paid if the Company had not completed LKE transactions.



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

	Third Quarter		
	Pretax Income	Net Income	EPS
2005 Reported Earnings	\$ 53.1	\$ 75.0	\$ 0.96
Less Special Items & Disc. Ops.			
MDF - discontinued operations	-	0.1	-
Prior years IRS audit settlements	-	5.0	0.07
Interest associated with IRS settlements	4.9	3.1	0.03
Tax benefit on repatriated earnings	-	25.8	0.33
Arbitration award	8.2	5.2	0.07
Total	13.1	39.2	0.50
2005 Pro Forma Earnings	40.0	35.8	0.46

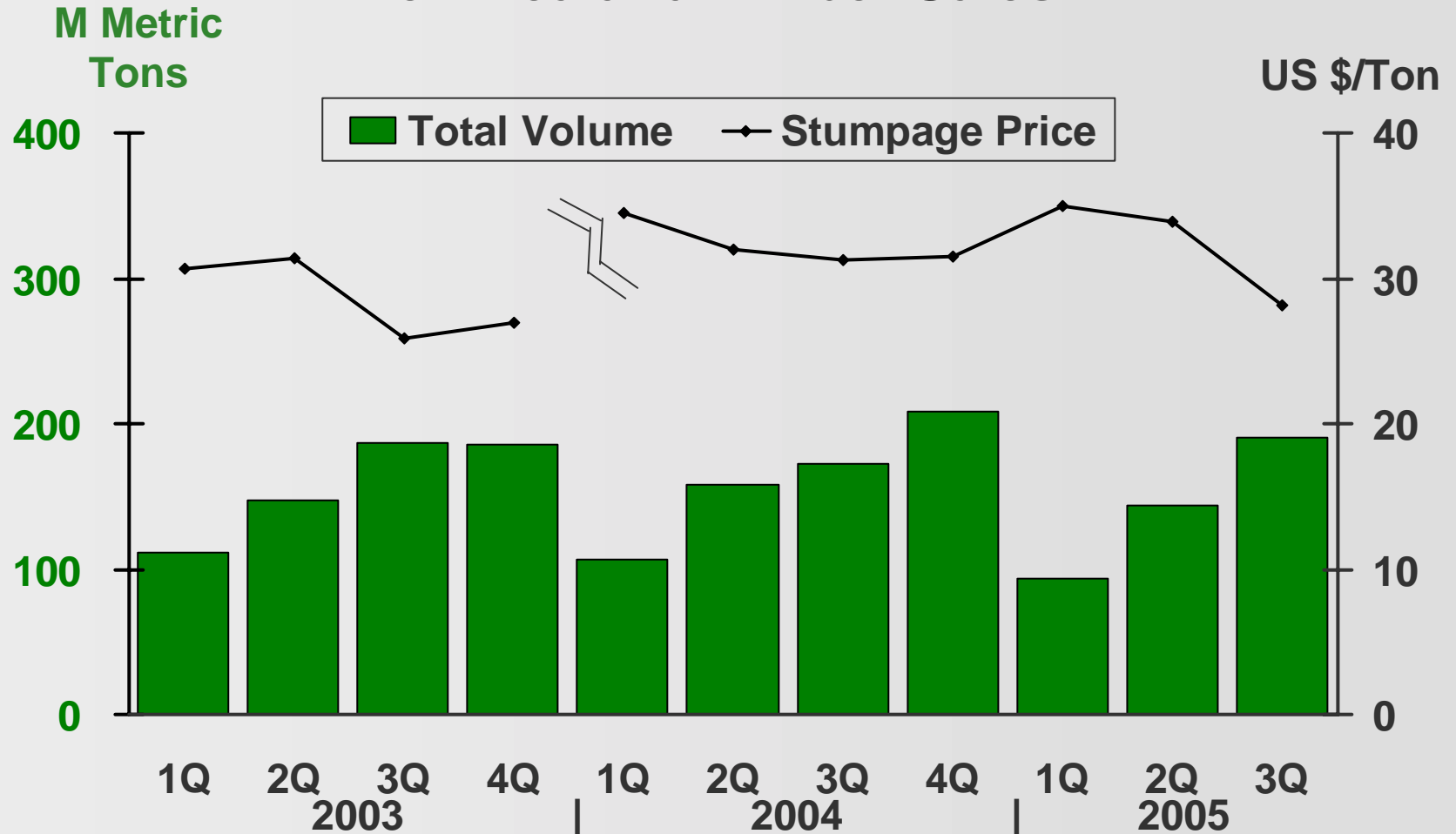
Reconciliation of Statutory Income Tax to Reported Income Tax (\$ Millions - Except Percentages)

	Three Months Ended						Year Ended			
	December 31, 2005		September 30, 2005		December 31, 2004		December 31, 2005		December 31, 2004	
	\$	%	\$	%	\$	%	\$	%	\$	%
Income tax provision at the U.S. statutory rate	\$ (22.8)	(35.0)	\$ (18.6)	(35.0)	\$ (4.4)	(35.0)	\$ (66.8)	(35.0)	\$ (44.2)	(35.0)
REIT income not subject to federal tax	11.1	17.0	10.4	19.6	5.4	42.2	39.9	20.9	36.2	28.6
Lost deduction on REIT interest expense and overhead expenses associated with REIT activities	(2.9)	(4.4)	(3.2)	(6.0)	(1.6)	(12.5)	(11.6)	(6.1)	(11.6)	(9.2)
Discrete items included in pretax income	-	-	4.9	6.5 **	-	-	4.9	1.6 **	-	-
Foreign, state and local income taxes, foreign exchange rate changes and permanent differences	4.9	7.5	2.3	4.3	4.7	36.7	8.4	4.4	5.1	4.0
Income tax (expense) benefit before discrete items *	\$ (9.7)	(14.9)	\$ (4.2)	(10.6)	\$ 4.1	31.4	\$ (25.2)	(14.2)	\$ (14.5)	(11.6)
Favorable adjustment of employee related cost between non-taxable and taxable entities	1.5	2.3	-	-	-	-	1.5	0.8	-	-
U.S. tax benefit on repatriation of foreign earnings	(0.4)	(0.6)	25.8	48.6	-	-	25.4	13.3	-	-
Return to accrual adjustment	(0.2)	(0.3)	(0.1)	(0.2)	-	-	(0.3)	(0.2)	1.4	1.1
Favorable IRS audit settlements, including reversal of accrued interest expense	-	-	3.1	6.9 **	-	-	19.8	11.0 **	-	-
Tax on favorable arbitration award	-	-	(3.0)	(3.9) **	-	-	(3.0)	(1.2) **	-	-
Exchange rate changes on tax on undistributed foreign earnings	-	-	0.2	0.4	(3.0)	(23.4)	1.6	0.8	(3.0)	(2.4)
Non-realizability of New Zealand tax credits on U.S. withholding tax for prior years' intercompany note interest	-	-	-	-	-	-	(2.9)	(1.5)	-	-
Income tax benefit (expense) *	<u>\$ (8.8)</u>	<u>(13.5)</u>	<u>\$ 21.8</u>	<u>41.2</u>	<u>\$ 1.1</u>	<u>8.0</u>	<u>\$ 16.9</u>	<u>8.8</u>	<u>\$ (16.1)</u>	<u>(12.9)</u>

* Twelve months ended December 31, 2004 excludes reversal of deferred taxes not required after REIT conversion of \$77.9 million and additional taxes for repatriation of foreign earnings of (\$28.2) million.

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

New Zealand Timber Sales *



Note: 2004 and 2005 prices exclude lower value timber sold as logs.

* On October 4, 2005, the New Zealand timber assets were sold to a consortium in which Rayonier has a 49.7% interest.

MDF – Discontinued Operations *

(\$ Millions - Except Per Share Data)

	Year 2003	2004				2005		
		1Q	2Q	3Q	4Q	1Q	2Q	3Q
Sales	\$ 41.3	\$ 9.9	\$ 10.3	\$ 11.0	\$ 13.0	\$ 11.4	\$ 11.5	9.0
Operating Loss	(3.4)	(0.6)	(1.0)	(1.0)	(0.4)	(0.8)	(1.4)	-
Net Income / (Loss)	(3.1)	(0.7)	(1.1)	(1.0)	(0.5)	(0.4)	(0.6)	0.1
Loss Per Share	(0.07)	(0.01)	(0.02)	(0.02)	(0.01)	(0.01)	(0.01)	-
EBITDA	3.9	1.1	0.9	0.7	1.6	0.9	0.5	1.4

* Excludes write-down related to the planned sale of the MDF business.
The sale of the MDF business closed on August 28, 2005.