

RAYONIER INC  
Form 10-Q  
August 04, 2017  
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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, 2017

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.

Incorporated in the State of North Carolina

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

225 WATER STREET, SUITE 1400

JACKSONVILLE, FL 32202

(Principal Executive Office)

Telephone Number: (904) 357-9100

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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. ☐

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 July 28, 2017, there were outstanding 128,900,937 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<br>June 30, |           | Six Months Ended<br>June 30, |           |
|--|--------------------------------|-----------|------------------------------|-----------|
|  | 2017                           | 2016      | 2017                         | 2016      |
| SALES  | \$194,719                      | \$261,550 | \$381,232                    | \$396,393 |
| Costs and Expenses   |                                |           |                              |           |
| Cost of sales  | 143,687                        | 138,194   | 280,100                      | 246,166   |
| Selling and general expenses   | 10,246                         | 11,252    | 19,836                       | 21,031    |
| Other operating income, net (Note 14)  | (6,107 )                       | (9,463 )  | (14,858 )                    | (15,368 ) |
|  | 147,826                        | 139,983   | 285,078                      | 251,829   |
| OPERATING INCOME   | 46,893                         | 121,567   | 96,154                       | 144,564   |
| Interest expense   | (8,631 )                       | (7,961 )  | (17,046 )                    | (15,059 ) |
| Interest income and miscellaneous income (expense), net  | 4                              | 249       | 522                          | (1,373 )  |
| INCOME BEFORE INCOME TAXES   | 38,266                         | 113,855   | 79,630                       | 128,132   |
| Income tax expense   | (7,493 )                       | (2,276 )  | (13,774 )                    | (1,495 )  |
| NET INCOME   | 30,773                         | 111,579   | 65,856                       | 126,637   |
| Less: Net income attributable to noncontrolling interest   | 4,612                          | 1,758     | 5,853                        | 2,344     |
| NET INCOME ATTRIBUTABLE TO RAYONIER INC.   | 26,161                         | 109,821   | 60,003                       | 124,293   |
| OTHER COMPREHENSIVE INCOME (LOSS)  |                                |           |                              |           |
| Foreign currency translation adjustment, net of income tax expense of \$0, \$0, \$0 and \$0          | 21,484                         | 13,219    | 23,916                       | 16,023    |
| Cash flow hedges, net of income tax benefit of \$1,180, \$631, \$1,148 and \$1,064                   | (1,988 )                       | (12,476 ) | 565                          | (26,250 ) |
| Amortization of pension and postretirement plans, net of income tax expense of \$0, \$0, \$0 and \$0 | 116                            | 632       | 233                          | 1,249     |
| Total other comprehensive income (loss)  | 19,612                         | 1,375     | 24,714                       | (8,978 )  |
| COMPREHENSIVE INCOME   | 50,385                         | 112,954   | 90,570                       | 117,659   |
| Less: Comprehensive income attributable to noncontrolling interest                                   | 9,595                          | 4,410     | 11,247                       | 8,153     |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.   | \$40,790                       | \$108,544 | \$79,323                     | \$109,506 |
| EARNINGS PER COMMON SHARE (Note 10)  |                                |           |                              |           |
| Basic earnings per share attributable to Rayonier Inc.   | \$0.20                         | \$0.90    | \$0.48                       | \$1.01    |
| Diluted earnings per share attributable to Rayonier Inc.   | \$0.20                         | \$0.89    | \$0.47                       | \$1.01    |
| Dividends declared per share   | \$0.25                         | \$0.25    | \$0.50                       | \$0.50    |

See Notes to Consolidated Financial Statements.

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

|   | June 30,<br>2017   | December 31,<br>2016 |
|---|--------------------|----------------------|
| <b>ASSETS</b>   |                    |                      |
| <b>CURRENT ASSETS</b>   |                    |                      |
| Cash and cash equivalents   | \$136,559          | \$85,909             |
| Accounts receivable, less allowance for doubtful accounts of \$38 and \$33                              | 30,181             | 20,664               |
| Insurance settlement receivable (Note 8)  | 73,000             | —                    |
| Inventory (Note 15)   | 26,363             | 21,379               |
| Prepaid expenses  | 14,727             | 11,807               |
| Assets held for sale (Note 17)  | —                  | 23,171               |
| Other current assets  | 4,397              | 1,874                |
| Total current assets  | 285,227            | 164,804              |
| <b>TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION</b>  | 2,509,485          | 2,291,015            |
| <b>HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE</b>  |                    |                      |
| <b>DEVELOPMENT</b>  | 74,888             | 70,374               |
| <b>INVESTMENTS (NOTE 5)</b>   |                    |                      |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>  |                    |                      |
| Land  | 2,279              | 2,279                |
| Buildings   | 8,202              | 7,990                |
| Machinery and equipment   | 4,674              | 4,658                |
| Construction in progress  | 15,897             | 8,170                |
| Total property, plant and equipment, gross  | 31,052             | 23,097               |
| Less — accumulated depreciation   | (9,492)            | (9,063)              |
| Total property, plant and equipment, net  | 21,560             | 14,034               |
| <b>RESTRICTED CASH (Note 16)</b>  | 11,781             | 71,708               |
| <b>OTHER ASSETS</b>   | 49,853             | 73,825               |
| <b>TOTAL ASSETS</b>   | <b>\$2,952,794</b> | <b>\$2,685,760</b>   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                    |                      |
| <b>CURRENT LIABILITIES</b>  |                    |                      |
| Accounts payable  | \$28,696           | \$22,337             |
| Insurance settlement payable (Note 8)   | 73,000             | —                    |
| Current maturities of long-term debt  | 31,525             | 31,676               |
| Accrued taxes   | 5,374              | 2,657                |
| Accrued payroll and benefits  | 5,092              | 9,277                |
| Accrued interest  | 5,225              | 5,340                |
| Other current liabilities   | 29,716             | 20,679               |
| Total current liabilities   | 178,628            | 91,966               |
| <b>LONG-TERM DEBT, NET OF DEFERRED FINANCING COSTS</b>  | 1,033,621          | 1,030,205            |
| <b>PENSION AND OTHER POSTRETIREMENT BENEFITS (Note 13)</b>  | 31,589             | 31,856               |
| <b>OTHER NON-CURRENT LIABILITIES</b>  | 40,846             | 34,981               |
| <b>COMMITMENTS AND CONTINGENCIES (Notes 6 and 8)</b>  |                    |                      |
| <b>SHAREHOLDERS' EQUITY</b>   |                    |                      |
| Common Shares, 480,000,000 shares authorized, 128,897,430 and 122,904,368 shares issued and outstanding | 868,355            | 709,867              |
| Retained earnings   | 683,190            | 700,887              |

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|  |             |             |
|--|-------------|-------------|
| Accumulated other comprehensive income     | 20,175      | 856         |
| TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY   | 1,571,720   | 1,411,610   |
| Noncontrolling interest                    | 96,390      | 85,142      |
| TOTAL SHAREHOLDERS' EQUITY                 | 1,668,110   | 1,496,752   |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$2,952,794 | \$2,685,760 |

See Notes to Consolidated Financial Statements.

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## RAYONIER INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

(Dollars in thousands, except share data)

|  | Common Shares |           | Retained   | Accumulated                       | Non-controlling | Shareholders' |
|--|---------------|-----------|------------|-----------------------------------|-----------------|---------------|
|  | Shares        | Amount    | Earnings   | Other Comprehensive Income/(Loss) | Interest        | Equity        |
| Balance, December 31, 2015   | 122,770,217   | \$708,827 | \$612,760  | (\$33,503 )                       | \$73,656        | \$1,361,740   |
| Net income   | —             | —         | 211,972    | —                                 | 5,798           | 217,770       |
| Dividends (\$1.00 per share)   | —             | —         | (123,155 ) | —                                 | —               | (123,155 )    |
| Issuance of shares under incentive stock plans                                   | 179,743       | 1,576     | —          | —                                 | —               | 1,576         |
| Stock-based compensation   | —             | 5,136     | —          | —                                 | —               | 5,136         |
| Repurchase of common shares  | (45,592 )     | (178 )    | (690 )     | —                                 | —               | (868 )        |
| Actuarial change and amortization of pension and postretirement plan liabilities | —             | —         | —          | 5,533                             | —               | 5,533         |
| Foreign currency translation adjustment  | —             | —         | —          | 2,780                             | 3,542           | 6,322         |
| Cash flow hedges   | —             | —         | —          | 22,608                            | 214             | 22,822        |
| Recapitalization of New Zealand Joint Venture                                    | —             | (5,398 )  | —          | 3,438                             | 1,960           | —             |
| Recapitalization costs   | —             | (96 )     | —          | —                                 | (28 )           | (124 )        |
| Balance, December 31, 2016   | 122,904,368   | \$709,867 | \$700,887  | \$856                             | \$85,142        | \$1,496,752   |
| Cumulative-effect adjustment due to adoption of ASU No. 2016-16                  | —             | —         | (14,365 )  | —                                 | —               | (14,365 )     |
| Net income   | —             | —         | 60,003     | —                                 | 5,853           | 65,856        |
| Dividends (\$0.50 per share)   | —             | —         | (63,335 )  | —                                 | —               | (63,335 )     |
| Issuance of shares under incentive stock plans                                   | 243,360       | 3,206     | —          | —                                 | —               | 3,206         |
| Stock-based compensation   | —             | 2,892     | —          | —                                 | —               | 2,892         |
| Repurchase of common shares  | (298 )        | —         | —          | —                                 | —               | —             |
| Amortization of pension and postretirement plan liabilities                      | —             | —         | —          | 233                               | —               | 233           |
| Foreign currency translation adjustment  | —             | —         | —          | 19,201                            | 4,715           | 23,916        |
| Cash flow hedges   | —             | —         | —          | (115 )                            | 680             | 565           |
| Issuance of shares under equity offering, net of costs                           | 5,750,000     | 152,390   | —          | —                                 | —               | 152,390       |
| Balance, June 30, 2017   | 128,897,430   | \$868,355 | \$683,190  | \$20,175                          | \$96,390        | \$1,668,110   |

See Notes to Consolidated Financial Statements.





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

|  | Six Months Ended<br>June 30, |                   |
|--|------------------------------|-------------------|
|  | 2017                         | 2016              |
| <b>OPERATING ACTIVITIES</b>  |                              |                   |
| Net income   | \$65,856                     | \$126,637         |
| Adjustments to reconcile net income to cash provided by operating activities:  |                              |                   |
| Depreciation, depletion and amortization                                       | 67,895                       | 51,707            |
| Non-cash cost of land and improved development                                 | 7,359                        | 5,775             |
| Stock-based incentive compensation expense                                     | 2,892                        | 2,839             |
| Deferred income taxes  | 15,214                       | 2,840             |
| Amortization of losses from pension and postretirement plans                   | 233                          | 1,249             |
| Gain on sale of large disposition of timberlands                               | (28,183 )                    | (101,325 )        |
| Other  | 1,719                        | (983 )            |
| Changes in operating assets and liabilities:                                   |                              |                   |
| Receivables  | (10,421 )                    | (9,367 )          |
| Inventories  | (1,772 )                     | (2,132 )          |
| Accounts payable   | 5,141                        | 2,315             |
| Income tax receivable/payable  | (126 )                       | 441               |
| All other operating activities   | 2,508                        | (3,017 )          |
| <b>CASH PROVIDED BY OPERATING ACTIVITIES</b>                                   | <b>128,315</b>               | <b>76,979</b>     |
| <b>INVESTING ACTIVITIES</b>  |                              |                   |
| Capital expenditures   | (29,840 )                    | (26,180 )         |
| Real estate development investments  | (5,599 )                     | (3,018 )          |
| Purchase of timberlands  | (237,235 )                   | (276,614 )        |
| Assets purchased in business acquisition                                       | —                            | (1,113 )          |
| Net proceeds from large disposition of timberlands                             | 42,029                       | 126,965           |
| Rayonier office building under construction                                    | (5,573 )                     | (1,155 )          |
| Change in restricted cash  | 59,927                       | 17,985            |
| Other  | 1,033                        | (2,066 )          |
| <b>CASH USED FOR INVESTING ACTIVITIES</b>                                      | <b>(175,258 )</b>            | <b>(165,196 )</b> |
| <b>FINANCING ACTIVITIES</b>  |                              |                   |
| Issuance of debt   | 63,389                       | 653,775           |
| Repayment of debt  | (60,422 )                    | (426,173 )        |
| Dividends paid   | (62,825 )                    | (61,409 )         |
| Proceeds from the issuance of common shares under incentive stock plan         | 3,206                        | 644               |
| Proceeds from the issuance of common shares from equity offering, net of costs | 152,390                      | —                 |
| Repurchase of common shares made under share repurchase program                | —                            | (690 )            |
| Debt issuance costs  | —                            | (818 )            |
| Other  | —                            | (139 )            |
| <b>CASH PROVIDED BY FINANCING ACTIVITIES</b>                                   | <b>95,738</b>                | <b>165,190</b>    |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>                                 | <b>1,855</b>                 | <b>904</b>        |
| <b>CASH AND CASH EQUIVALENTS</b>   |                              |                   |
| Change in cash and cash equivalents  | 50,650                       | 77,877            |
| Balance, beginning of year   | 85,909                       | 51,777            |
| Balance, end of period   | \$136,559                    | \$129,654         |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period:

|                                     |          |          |
|-------------------------------------|----------|----------|
| Interest (a)                        | \$16,546 | \$16,934 |
| Income taxes                        | 376      | 337      |
| Non-cash investing activity:        |          |          |
| Capital assets purchased on account | 5,284    | 2,062    |

Interest paid is presented net of patronage payments received of \$3.0 million and \$0.4 million for the six months (a)ended June 30, 2017 and June 30, 2016, respectively. For additional information on patronage payments, see Note 5 — Debt in the 2016 Form 10-K.

See Notes to Consolidated Financial Statements.

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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”). In the opinion of management, these financial statements and notes reflect all 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, 2016, as filed with the SEC (the “2016 Form 10-K”).

Investment in Real Estate

The Company capitalizes costs directly and indirectly associated with development of identified real estate projects. Direct costs include land and common development costs (such as roads, utilities and amenities), and capitalized property taxes. Indirect costs include administration, legal fees, capitalized interest, and project administration to the extent that such costs are related to a specific project. Interest is capitalized based on the amount of underlying expenditures of real estate projects under development.

Revenue Recognition for Real Estate Sales

The Company generally recognizes revenue on sales of real estate using the full accrual method at closing, when cash has been received, title and risk of loss have passed to the buyer and there is no continuing involvement with the property. Revenue is recognized using the percentage-of-completion method on sales of real estate containing future performance obligations. Cost of sales associated with real estate sold includes the cost of the land, the cost of any timber on the property that was conveyed to the buyer, any real estate development costs and any closing costs including sales commissions that may be borne by the Company.

When developed residential or commercial land is sold, the cost of sales includes actual costs incurred and estimates of future development costs benefiting the property sold through completion. When developed land is sold, costs are allocated to each sold unit or lot based upon the relative sales value. For purposes of allocating development costs, estimates of future revenues and development costs are re-evaluated throughout the year, with adjustments being allocated prospectively to the remaining units available for sale.

Recently Adopted Standards

In October 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-16, Intra-Entity Transfers of Assets Other Than Inventory, stating entities should recognize income tax consequences of intra-entity transfers of assets other than inventory in the period in which they occur. As such, the Company is required to apply the changes on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. ASU No. 2016-16 is effective for annual periods beginning after December 15, 2017 with early adoption permitted at the beginning of an annual period for which financial statements have not been issued. Rayonier early adopted ASU No. 2016-16 during the first quarter ended March 31, 2017. See Note 7 — Income Taxes for additional information.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This update simplifies the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU No. 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Rayonier adopted ASU No. 2016-09 during the first quarter ended March 31, 2017. Upon adoption, additional excess tax benefits and tax

deficiencies are recorded to "Income tax expense" in the Consolidated Statements of Income and Comprehensive Income, forfeitures are accounted for when they occur and cash paid by Rayonier when directly withholding shares for tax withholding purposes are classified as a financing activity within the statement of cash flows. The adoption of this standard did not have a material impact on the consolidated financial statements.

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

New Accounting Standards

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU No. 2016-18 is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Rayonier intends to adopt ASU No. 2016-18 in the Company's first quarter 2018 Form 10-Q. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU No. 2016-15 is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. ASU No. 2016-15 is required to be applied retrospectively to all periods presented beginning in the period of adoption. Early adoption is permitted. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize most leases on their balance sheets related to the rights and obligations created by those leases. ASU No. 2016-02 also requires additional qualitative and quantitative disclosures related to the nature, timing and uncertainty of cash flows arising from leases. ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. ASU No. 2016-02 is required to be applied retrospectively to all periods presented beginning in the period of adoption. Early adoption is permitted. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

In May 2014, the FASB and International Accounting Standards Board ("IASB") jointly issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), a comprehensive new revenue recognition standard that will supersede current revenue recognition guidance. The guidance provides a unified model to determine when and how revenue is recognized and will require enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers - Deferral of the Effective Date. ASU No. 2015-14 provides a one-year deferral of the effective date of the new standard, with an option for organizations to adopt early based on the original effective date. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers - Identifying Performance Obligations and Licensing. The update clarifies the guidance for identifying performance obligations. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The update clarifies the guidance for assessing collectibility, presenting sales taxes and other similar taxes collected from customers, noncash consideration, contract modifications at transition, completed contracts at transition and disclosing the accounting change in the period of adoption. In February 2017, the FASB issued ASU No. 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The update clarifies that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. This standard will be effective for Rayonier beginning January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company expects the adoption of the new revenue recognition guidance will not materially impact operating results, balance sheet, cash flows or financial reporting aside from adding

expanded disclosures.

**Subsequent Events**

The Company has evaluated events occurring from June 30, 2017 to the date of issuance for potential recognition or disclosure in the consolidated financial statements. No events were identified that warranted recognition or disclosure.

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 2. JOINT VENTURE INVESTMENT

## Matariki Forestry Group

The Company maintains a controlling financial interest in Matariki Forestry Group (the "New Zealand JV"), a joint venture that owns or leases approximately 0.4 million legal acres of New Zealand timberland. Accordingly, the Company consolidates the New Zealand JV's balance sheet and results of operations. The portions of the consolidated financial position and results of operations attributable to the New Zealand JV'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 JV.

## 3. 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 gains (losses) from certain asset dispositions, interest income (expense), miscellaneous income (expense) and income tax (expense) benefit, are not considered by management to be part of segment operations and are included under "Corporate and other" or "unallocated interest expense and other."

The following tables summarize the segment information for the three and six months ended June 30, 2017 and 2016:

|                          | Three Months<br>Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|--------------------------|-----------------------------------|-----------|------------------------------|-----------|
| SALES                    | 2017                              | 2016      | 2017                         | 2016      |
| Southern Timber          | \$30,778                          | \$29,640  | \$63,493                     | \$74,380  |
| Pacific Northwest Timber | 19,451                            | 16,869    | 44,243                       | 36,178    |
| New Zealand Timber       | 77,163                            | 47,748    | 117,904                      | 83,772    |
| Real Estate (a)          | 25,620                            | 137,307   | 79,909                       | 150,670   |
| Trading                  | 41,707                            | 29,986    | 75,683                       | 51,393    |
| Total                    | \$194,719                         | \$261,550 | \$381,232                    | \$396,393 |

(a) The six months ended June 30, 2017 includes \$42.0 million from Large Dispositions. The three and six months ended June 30, 2016 includes \$129.5 million from Large Dispositions.

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

|  | Three Months<br>Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|--|-----------------------------------|-----------|------------------------------|-----------|
|  | 2017                              | 2016      | 2017                         | 2016      |
| OPERATING INCOME (LOSS)                |                                   |           |                              |           |
| Southern Timber                        | \$9,655                           | \$11,039  | \$23,594                     | \$26,793  |
| Pacific Northwest Timber               | (1,535 )                          | 1,034     | (2,413 )                     | 2,419     |
| New Zealand Timber                     | 26,804                            | 10,028    | 37,046                       | 14,772    |
| Real Estate (a)                        | 16,133                            | 105,695   | 45,798                       | 109,920   |
| Trading                                | 1,141                             | 625       | 2,239                        | 975       |
| Corporate and other                    | (5,305 )                          | (6,854 )  | (10,110 )                    | (10,315 ) |
| Total Operating Income                 | 46,893                            | 121,567   | 96,154                       | 144,564   |
| Unallocated interest expense and other | (8,627 )                          | (7,712 )  | (16,524 )                    | (16,432 ) |
| Total Income before Income Taxes       | \$38,266                          | \$113,855 | \$79,630                     | \$128,132 |

- (a) The six months ended June 30, 2017 includes \$28.2 million from Large Dispositions. The three and six months ended June 30, 2016 includes \$101.3 million from Large Dispositions.

|  | Three Months<br>Ended<br>June 30, |          | Six Months<br>Ended<br>June 30, |          |
|--|-----------------------------------|----------|---------------------------------|----------|
|  | 2017                              | 2016     | 2017                            | 2016     |
| DEPRECIATION, DEPLETION AND AMORTIZATION |                                   |          |                                 |          |
| Southern Timber                          | \$11,904                          | \$10,559 | \$24,356                        | \$27,115 |
| Pacific Northwest Timber                 | 7,075                             | 3,672    | 17,285                          | 8,311    |
| New Zealand Timber (a)                   | 15,456                            | 6,437    | 20,863                          | 11,296   |
| Real Estate (b)                          | 2,596                             | 23,525   | 13,303                          | 26,728   |
| Trading                                  | —                                 | —        | —                               | —        |
| Corporate and other                      | 92                                | 105      | 192                             | 190      |
| Total                                    | \$37,123                          | \$44,298 | \$75,999                        | \$73,640 |

- (a) The three and six months ended June 30, 2017 includes \$8.9 million of timber cost basis expensed in conjunction with a timberland sale.

- (b) The six months ended June 30, 2017 includes \$8.1 million from Large Dispositions. The three and six months ended June 30, 2016 includes \$21.9 million from Large Dispositions.

|  | Three Months<br>Ended<br>June 30, |         | Six Months<br>Ended<br>June 30, |         |
|--|-----------------------------------|---------|---------------------------------|---------|
|  | 2017                              | 2016    | 2017                            | 2016    |
| NON-CASH COST OF LAND AND IMPROVED DEVELOPMENT |                                   |         |                                 |         |
| Southern Timber                                | —                                 | —       | —                               | —       |
| Pacific Northwest Timber                       | —                                 | —       | —                               | —       |
| New Zealand Timber                             | 128                               | —       | 128                             | 1,824   |
| Real Estate (a)                                | 2,752                             | 3,471   | 12,974                          | 5,755   |
| Trading  | —                                 | —       | —                               | —       |
| Total  | \$2,880                           | \$3,471 | \$13,102                        | \$7,579 |

- (a) The six months ended June 30, 2017 includes \$5.7 million from Large Dispositions. The three and six months ended June 30, 2016 includes \$1.8 million from Large Dispositions.





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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 4. DEBT

Rayonier's debt consisted of the following at June 30, 2017:

|   | June 30,<br>2017 |
|---|------------------|
| Term Credit Agreement borrowings due 2024 at a variable interest rate of 2.7% at June 30, 2017 (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 2.95% at June 30, 2017 (b) | 300,000          |
| Mortgage Notes due 2017 at fixed interest rates of 4.35%  | 31,525           |
| Revolving Credit Facility borrowings due 2020 at an average variable interest rate of 2.5% at June 30, 2017   | 50,000           |
| New Zealand JV noncontrolling interest shareholder loan at 0% interest rate                                   | 11,899           |
| Total debt  | 1,068,424        |
| Less: Current maturities of long-term debt  | (31,525 )        |
| Less: Deferred financing costs  | (3,278 )         |
| Long-term debt, net of deferred financing costs   | \$1,033,621      |

As of June 30, 2017, the periodic interest rate on the term loan facility was LIBOR plus 1.625%. The Company (a) 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.

As of June 30, 2017, the periodic interest rate on the incremental term loan was LIBOR plus 1.900%. The (b) 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:

|                    |             |
|--------------------|-------------|
| 2017               | 31,500      |
| 2018               | —           |
| 2019               | —           |
| 2020               | 50,000      |
| 2021               | —           |
| Thereafter         | 986,899     |
| Total Debt         | \$1,068,399 |
| 2017 Debt Activity |             |

During the six months ended June 30, 2017, the Company made additional borrowings of \$25.0 million on the Revolving Credit Facility. A draw of \$15.0 million during the first quarter was used to repay the \$15.0 million solid waste bonds that were due in 2020 and an additional draw of \$10.0 million made in the second quarter was used to partially fund the acquisition of 91,000 acres in coastal Florida, Georgia and South Carolina. As of June 30, 2017, the Company had available borrowings of \$135.5 million under the Revolving Credit Facility, net of \$14.5 million to secure its outstanding letters of credit.

In addition, the New Zealand JV made additional borrowings and repayments of \$38.4 million on the working capital facility (the "New Zealand JV Working Capital Facility"). As of June 30, 2017, draws totaling NZ\$40.0 million remain available on the working capital facility. The New Zealand JV also paid \$7.6 million of its shareholder loan held by the non-controlling interest party during the six months ended June 30, 2017. Changes in exchange rates increased debt on a U.S. dollar basis for its shareholder loan by \$0.7 million.



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## 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 Mortgage Notes, 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, 2017, the Company was in compliance with all applicable covenants.

## 5. 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 costs from December 31, 2016 to June 30, 2017 is shown below:

|   | Higher and Better Use<br>Timberlands and Real Estate<br>Development Investments |           |           |
|---|---|-----------|-----------|
|   | Land and Development<br>Timber Investments                                      |           | Total     |
| Non-current portion at December 31, 2016  | \$59,956  | \$10,418  | \$70,374  |
| Plus: Current portion (a)   | 5,096   | 11,963    | 17,059    |
| Total Balance at December 31, 2016  | 65,052  | 22,381    | 87,433    |
| Non-cash cost of land and improved development  | (998 )  | (177 )    | (1,175 )  |
| Timber depletion from harvesting activities and basis of timber sold in real estate sales | (1,208 )  | —         | (1,208 )  |
| Capitalized real estate development investments (b)                                       | —   | 5,599     | 5,599     |
| Capital expenditures (silviculture)   | 141   | —         | 141       |
| Intersegment transfers  | 4,144   | —         | 4,144     |
| Total Balance at June 30, 2017  | 67,131  | 27,803    | 94,934    |
| Less: Current portion (a)   | (5,020 )  | (15,026 ) | (20,046 ) |
| Non-current portion at June 30, 2017  | \$62,111  | \$12,777  | \$74,888  |

(a)

The current portion of Higher and Better Use Timberlands and Real Estate Development Investments is recorded in Inventory. See Note 15 — Inventory for additional information.

(b) Capitalized real estate development investments includes \$0.2 million of capitalized interest.

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 6.COMMITMENTS

The Company leases certain buildings, machinery, and equipment under various operating leases. The Company also has long-term lease agreements on certain timberlands in the Southern U.S. and New Zealand. U.S. leases typically have initial terms of approximately 30 to 65 years, with renewal provisions in some cases. New Zealand timberland lease terms range between 30 and 99 years. Such leases are generally non-cancellable and require minimum annual rental payments.

At June 30, 2017, the future minimum payments under non-cancellable operating leases, timberland leases and other commitments were as follows:

|                | Operating<br>Leases | Timberland<br>Leases (a) | Commitments<br>(b) | Total     |
|----------------|---------------------|--------------------------|--------------------|-----------|
| Remaining 2017 | \$888               | \$4,357                  | \$4,778            | \$10,023  |
| 2018           | 1,047               | 9,350                    | 5,515              | 15,912    |
| 2019           | 837                 | 8,875                    | 5,515              | 15,227    |
| 2020           | 660                 | 8,470                    | 5,515              | 14,645    |
| 2021           | 570                 | 8,529                    | 5,515              | 14,614    |
| Thereafter (c) | 1,208               | 155,389                  | 16,541             | 173,138   |
|                | \$5,210             | \$194,970                | \$43,379           | \$243,559 |

(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.

Commitments include payments expected to be made on derivative financial instruments (foreign exchange contracts and interest rate swaps), construction of the Company's office building and Wildlight development project.

Includes 20 years of future minimum payments for perpetual Crown Forest Licenses ("CFL"). A CFL consists of a license to use public or government owned land to operate a commercial forest. The CFL's extend indefinitely and may only be terminated upon a 35-year termination notice from the government. If no termination notice is given, the CFLs renew automatically each year for a one-year term. As of June 30, 2017, the New Zealand JV has four CFL's under termination notice that are currently being relinquished as harvest activities are concluding, as well as two fixed term CFL's expiring in 2062. The annual license fee is determined based on current market rental value, with triennial rent reviews.

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

7. INCOME TAXES

The operations conducted by the Company's REIT entities are generally not subject to U.S. federal and state income tax. The New Zealand JV is subject to corporate level tax in New Zealand. Non-REIT qualifying operations are conducted by the Company's TRS. The primary businesses performed in Rayonier's TRS include log trading and certain real estate activities, such as the sale and entitlement of development HBU properties. For the three and six months ended June 30, 2017, the Company recorded income tax expense of \$7.5 million and \$13.8 million, respectively. For the three and six months ended June 30, 2016, the Company recorded income tax expense of \$2.3 million and \$1.5 million, respectively.

Provision for Income Taxes

The Company's effective tax rate is below the 35.0% U.S. statutory rate due to tax benefits associated with being a REIT. The Company's annualized effective tax rate ("AETR") as of June 30, 2017 and June 30, 2016 was 17.3% and 1.1%, respectively. The increase in income tax expense and the corresponding AETR for the three and six months ended June 30, 2017 is principally related to the New Zealand JV.

In accordance with GAAP, the Company recognizes the impact of a tax position if a position is "more-likely-than-not" to prevail. For the three and six months ended June 30, 2017, there were no material changes in uncertain tax positions.

Prepaid Taxes

In the first quarter 2017, the Company early adopted ASU No. 2016-16, Intra-Entity Transfers of Assets Other Than Inventory. ASU No. 2016-16 requires income tax consequences of intra-entity transfers of assets other than inventory be recognized in the period in which they occur. See Note 1 — Basis of Presentation. As a result, a cumulative-effect adjustment to retained earnings was recorded for the long-term prepaid federal income tax of \$14.4 million related to recognized built-in gains on 2006, 2008 and 2010 intercompany sales of timberlands between the REIT and the TRS. Taxes for the transactions were paid at the time of sale, but the gain and income tax expense were deferred. See the Consolidated Statement of Shareholders' Equity for the cumulative-effect adjustment to retained earnings due to the adoption of this standard.

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

8. CONTINGENCIES

Following the Company's November 10, 2014 earnings release and filing of the restated interim financial statements for the quarterly periods ended March 31, 2014 and June 30, 2014 (the "November 2014 Announcement"), shareholders of the Company filed five putative class actions against the Company and Paul G. Boynton, Hans E. Vanden Noort, David L. Nunes, and H. Edwin Kiker arising from circumstances described in the November 2014 Announcement, entitled respectively:

Sating v. Rayonier Inc. et al, Civil Action No. 3:14-cv-01395, filed November 12, 2014 in the United States District Court for the Middle District of Florida;

Keasler v. Rayonier Inc. et al, Civil Action No. 3:14-cv-01398, filed November 13, 2014 in the United States District Court for the Middle District of Florida;

Lake Worth Firefighters' Pension Trust Fund v. Rayonier Inc. et al, Civil Action No. 3:14-cv-01403, filed November 13, 2014 in the United States District Court for the Middle District of Florida;

Christie v. Rayonier Inc. et al, Civil Action No. 3:14-cv-01429, filed November 21, 2014 in the United States District Court for the Middle District of Florida; and

Brown v. Rayonier Inc. et al, Civil Action No. 1:14-cv-08986, initially filed in the United States District Court for the Southern District of New York and later transferred to the United States District Court for the Middle District of Florida and assigned as Civil Action No. 3:14-cv-01474.

On January 9, 2015, the five securities actions were consolidated into one putative class action entitled In re Rayonier Inc. Securities Litigation, Case No. 3:14-cv-01395-TJC-JBT, in the United States District Court for the Middle District of Florida. The plaintiffs alleged that the defendants made false and/or misleading statements in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The plaintiffs sought unspecified monetary damages and attorneys' fees and costs. Two shareholders, the Pension Trust Fund for Operating Engineers and the Lake Worth Firefighters' Pension Trust Fund moved for appointment as lead plaintiff on January 12, 2015, which was granted on February 25, 2015. On April 7, 2015, the plaintiffs filed a Consolidated Class Action Complaint (the "Consolidated Complaint"). In the Consolidated Complaint, plaintiffs added allegations as to and added as a defendant N. Lynn Wilson, a former officer of Rayonier. With the filing of the Consolidated Complaint, David L. Nunes and H. Edwin Kiker were dropped from the case as defendants. Defendants timely filed Motions to Dismiss the Consolidated Complaint on May 15, 2015. After oral argument on Defendants' motions on August 25, 2015, the Court dismissed the Consolidated Complaint without prejudice, allowing plaintiffs leave to refile. Plaintiffs filed the Amended Consolidated Class Action Complaint (the "Amended Complaint") on September 25, 2015, which continued to assert claims against the Company, as well as Ms. Wilson and Messrs. Boynton and Vanden Noort. Defendants timely filed Motions to Dismiss the Amended Complaint on October 26, 2015. The court denied those motions on May 20, 2016. On December 31, 2016, the case continued to be in the discovery phase and the Company could not determine whether there was a reasonable likelihood a material loss had been incurred nor could the range of any such loss be estimated. On March 13, 2017, the Company reached an agreement in principle to settle the case and all parties executed a term sheet memorializing such agreement. The parties executed and filed with the Court the Stipulation and Agreement of Settlement on April 12, 2017 (the "Settlement Agreement"), which Settlement Agreement included the material terms contained in the term sheet executed



on March 13. Pursuant to the terms of the Settlement Agreement, which is subject to Court approval and requests for exclusion by members of the settlement class, the Company agreed to cause certain of its directors' and officers' liability insurance carriers to fund a settlement payment to the class of \$73 million. As of July 14, 2017, the insurance carriers have fully funded the settlement payment by deposits in an escrow account as required by the Settlement Agreement. In connection with the settlement, the Company agreed to reimburse one of its insurance carriers approximately \$740,000 for certain disputed pre-litigation expenses, which reimbursement was made in the second quarter of 2017. The amounts agreed to on March 13, 2017, including the realized amount funded by the insurance carriers, were reflected in the Company's Consolidated Financial Statements as of June 30, 2017.

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

On November 26, 2014, December 29, 2014, January 26, 2015, February 13, 2015, and May 12, 2015, the Company received separate letters from shareholders requesting that the Company investigate or pursue derivative claims against certain officers and directors related to the November 2014 Announcement. Although these demands do not identify any claims against the Company, the Company has certain obligations to advance expenses and provide indemnification to certain current and former officers and directors of the Company. The Company has also incurred expenses as a result of costs arising from the investigation of the claims alleged in the various demands. At this preliminary stage, the ultimate outcome of these matters cannot be predicted, nor can the range of potential expenses the Company may incur as a result of the obligations identified above be estimated.

The Company has also been named as a defendant in various other 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 self-insurance, primarily in the areas of workers' compensation, property insurance 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.

**9. GUARANTEES**

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

As of June 30, 2017, the following financial guarantees were outstanding:

| Financial Commitments         | Carrying                  |                                |
|-------------------------------|---------------------------|--------------------------------|
|                               | Maximum Potential Payment | Amount of Associated Liability |
| Standby letters of credit (a) | \$14,540                  | —                              |
| Guarantees (b)                | 2,254                     | 43                             |
| Surety bonds (c)              | 1,184                     | —                              |
| Total financial commitments   | \$17,978                  | \$43                           |

(a) Approximately \$13.0 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 2017 and will be renewed as required.

(b) In conjunction with a timberland sale and note monetization in 2004, the Company issued a make-whole agreement pursuant to which it guaranteed \$2.3 million of obligations of a special-purpose entity that was established to complete the monetization. At June 30, 2017, the Company has a de minimis liability to reflect the fair market value of its obligation to perform under the make-whole agreement.

(c) Rayonier issues surety bonds primarily to secure timber harvesting obligations in the State of Washington and to provide collateral for the Company's workers' compensation self-insurance program in that state. Rayonier has also obtained performance bonds to secure the development activity at the Company's Wildlight development project. These surety bonds expire at various dates during 2017 and 2018 and are expected to be renewed as required.



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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 10. EARNINGS PER COMMON SHARE

The following table provides details of the calculations of basic and diluted earnings per common share:

|  | Three Months Ended<br>June 30, |             | Six Months Ended<br>June 30, |             |
|--|--------------------------------|-------------|------------------------------|-------------|
|  | 2017                           | 2016        | 2017                         | 2016        |
| Net Income   | \$30,773                       | \$111,579   | \$65,856                     | \$126,637   |
| Less: Net income attributable to noncontrolling interest         | 4,612                          | 1,758       | 5,853                        | 2,344       |
| Net income attributable to Rayonier Inc.                         | \$26,161                       | \$109,821   | \$60,003                     | \$124,293   |
| Shares used for determining basic earnings per common share      | 128,548,212                    | 122,567,853 | 126,081,762                  | 122,562,046 |
| Dilutive effect of:  |                                |             |                              |             |
| Stock options  | 92,513                         | 98,407      | 99,602                       | 75,967      |
| Performance and restricted shares                                | 447,448                        | 154,654     | 337,862                      | 94,889      |
| Shares used for determining diluted earnings per common share    | 129,088,172                    | 122,820,914 | 126,519,226                  | 122,732,902 |
| Basic earnings per common share attributable to Rayonier Inc.:   | \$0.20                         | \$0.90      | \$0.48                       | \$1.01      |
| Diluted earnings per common share attributable to Rayonier Inc.: | \$0.20                         | \$0.89      | \$0.47                       | \$1.01      |

|  | Three Months<br>Ended<br>June 30, |         | Six Months<br>Ended<br>June 30, |         |
|--|-----------------------------------|---------|---------------------------------|---------|
|  | 2017                              | 2016    | 2017                            | 2016    |
| Anti-dilutive shares excluded from the computations of diluted earnings per share: |                                   |         |                                 |         |
| Stock options, performance and restricted shares                                   | 586,017                           | 748,402 | 589,335                         | 921,928 |
| Total  | 586,017                           | 748,402 | 589,335                         | 921,928 |

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

11. 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 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. The Company’s hedge ineffectiveness was de minimis for all periods presented.

Foreign Currency Exchange and Option Contracts

The functional currency of Rayonier’s wholly owned subsidiary, Rayonier New Zealand Limited, and the New Zealand JV is the New Zealand dollar. The New Zealand JV is exposed to foreign currency risk on export sales and ocean freight payments which are mainly denominated in U.S. dollars. The New Zealand JV 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 JV’s trading operations is typically hedged based on the following three months forecasted sales and purchases. As of June 30, 2017, foreign currency exchange contracts and foreign currency option contracts had maturity dates through February 2019 and October 2018, 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 income until the forecasted transaction affects earnings. Changes in the value of derivative instruments after de-designation are recorded in earnings.

The New Zealand JV is exposed to foreign currency risk when making shareholder loan payments which are denominated in U.S. dollars. The New Zealand JV typically hedges 75% to 100% of its estimated foreign currency exposure with respect to the following three months forecasted distributions, up to 75% of forecasted distributions for the forward three to six months and up to 50% of the forward six to 12 months. For the three and six months ended June 30, 2017, the change in fair value of the foreign exchange forward contracts of \$0.5 million and \$0.3 million, respectively, was recorded in “Interest income and miscellaneous (income) expense, net” as the contracts did not qualify for hedge accounting treatment. As of June 30, 2017, foreign exchange forward contracts had maturity dates through December 2017.

For additional information on the shareholder loan see Note 4 — Debt.

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 (as discussed below), 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.

In August 2015, the Company entered into a nine-year interest rate swap agreement for a notional amount of \$170 million. This swap agreement fixes the variable portion of the interest rate on the Term Credit Agreement borrowings due 2024 from LIBOR to an average rate of 2.20%. Together with the bank margin of 1.63%, this results in a rate of 3.83% before estimated patronage payments. This derivative instrument has been designated as an interest rate cash flow hedge and qualifies for hedge accounting.

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

Also, in August 2015, the Company entered into a nine-year forward interest rate swap agreement with a start date in April 2016 for a notional amount of \$180 million. This swap agreement fixes the variable portion of the interest rate on the Term Credit Agreement borrowings due 2024 from LIBOR to an average rate of 2.35%. Together with the bank margin of 1.63%, this results in a rate of 3.97% before estimated patronage payments. This derivative instrument has been designated as an interest rate cash flow hedge and qualifies for hedge accounting.

In April 2016, the Company entered into two 10-year interest rate swap agreements, each for a notional amount of \$100 million. These swap agreements fix the variable portion of the interest rate on the Incremental Term Loan borrowings due 2026 to an average rate of 1.60%. Together with the bank margin of 1.90%, this results in a rate of 3.50% before estimated patronage payments. These derivative instruments have been designated as interest rate cash flow hedges and qualify for hedge accounting.

In July 2016, the Company entered into an interest rate swap agreement for a notional amount of \$100 million through May 2026. This swap agreement fixes the variable portion of the interest rate on the Incremental Term Loan borrowings due 2026 from LIBOR to an average rate of 1.26%. Together with the bank margin of 1.90%, this results in a rate of 3.16% before estimated patronage payments. This derivative instrument has been designated as an interest rate cash flow hedge and qualifies for hedge accounting.

The following tables demonstrate the impact of the Company's derivatives on the Consolidated Statements of Income and Comprehensive Income for the three and six months ended June 30, 2017 and 2016.

|  |   | Three Months<br>Ended<br>June 30,<br>2017 2016 |          |
|--|---|--|----------|
|  | Income Statement Location                               |  |          |
| Derivatives designated as cash flow hedges:        |   |  |          |
| Foreign currency exchange contracts                | Other comprehensive income (loss)                       | \$3,261  | \$1,116  |
| Foreign currency option contracts                  | Other comprehensive income (loss)                       | 976  | 1,096    |
| Interest rate swaps                                | Other comprehensive income (loss)                       | (5,022 )                                       | (14,102) |
| Derivatives not designated as hedging instruments: |   |  |          |
|  | Interest income and miscellaneous income (expense), net | (462 )   | —        |
|  |   | Six Months<br>Ended<br>June 30,<br>2017 2016   |          |
|  | Income Statement Location                               |  |          |
| Derivatives designated as cash flow hedges:        |   |  |          |
| Foreign currency exchange contracts                | Other comprehensive income (loss)                       | \$3,189  | \$1,816  |
| Foreign currency option contracts                  | Other comprehensive income (loss)                       | 935  | 1,929    |
| Interest rate swaps                                | Other comprehensive income (loss)                       | (2,388 )                                       | (28,988) |
| Derivatives designated as a net investment hedge:  |   |  |          |
| Foreign currency exchange contract                 | Other comprehensive income (loss)                       | —  | (4,606 ) |
| Derivatives not designated as hedging instruments: |   |  |          |
| Foreign currency exchange contracts                | Other operating income, net                             | —  | 895      |

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|                                   |   |        |          |
|-----------------------------------|---|--------|----------|
|                                   | Interest income and miscellaneous income (expense), net | (327 ) | —        |
| Foreign currency option contracts | Other operating income, net                             | —      | 258      |
| Interest rate swaps               | Interest income and miscellaneous income (expense), net | —      | (1,219 ) |

During the next 12 months, the amount of the June 30, 2017 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 gain of approximately \$3.0 million.

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

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

|   | Notional Amount       |          |
|---|-----------------------|----------|
|   | June 30, December 31, |          |
|   | 2017                  | 2016     |
| Derivatives designated as cash flow hedges: |                       |          |
| Foreign currency exchange contracts         | \$65,250              | \$44,800 |
| Foreign currency option contracts           | 68,000                | 91,000   |
| Interest rate swaps                         | 650,000               | 650,000  |

Derivative not designated as a hedging instrument:

|                                     |        |   |
|-------------------------------------|--------|---|
| Foreign currency exchange contracts | 14,083 | — |
|-------------------------------------|--------|---|

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

|   | Location on Balance Sheet     | Fair Value Assets /<br>(Liabilities) (a) |                      |
|---|-------------------------------|--|----------------------|
|   |                               | June 30,<br>2017                         | December<br>31, 2016 |
| Derivatives designated as cash flow hedges: |                               |  |                      |
| Foreign currency exchange contracts         | Other current assets          | \$3,188                                  | \$692                |
|   | Other assets                  | 675                                      | 33                   |
|   | Other current liabilities     | —  | (261 )               |
| Foreign currency option contracts           | Other current assets          | 1,162                                    | 1,064                |
|   | Other assets                  | 392                                      | 327                  |
|   | Other current liabilities     | (132 )                                   | (574 )               |
|   | Other non-current liabilities | (119 )                                   | (426 )               |
| Interest rate swaps                         | Other assets                  | 15,265                                   | 17,204               |
|   | Other non-current liabilities | (6,428 )                                 | (5,979 )             |

Derivative not designated as a hedging instrument:

|                                     |                           |        |   |
|-------------------------------------|---------------------------|--------|---|
| Foreign currency exchange contracts | Other current liabilities | (350 ) | — |
|-------------------------------------|---------------------------|--------|---|

Total derivative contracts:

|                         |          |          |
|-------------------------|----------|----------|
| Other current assets    | \$4,350  | \$1,756  |
| Other assets            | 16,332   | 17,564   |
| Total derivative assets | \$20,682 | \$19,320 |

|                               |            |            |
|-------------------------------|------------|------------|
| Other current liabilities     | (482 )     | (835 )     |
| Other non-current liabilities | (6,547 )   | (6,405 )   |
| Total derivative liabilities  | (\$7,029 ) | (\$7,240 ) |

(a) See Note 12 — 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.

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 12. 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. (a)

The following table presents the carrying amount and estimated fair values of financial instruments held by the Company at June 30, 2017 and December 31, 2016, using market information and what the Company believes to be appropriate valuation methodologies under GAAP:

| Asset (Liability) (a)                   | June 30, 2017   |            |             | December 31, 2016 |            |             |
|---|-----------------|------------|-------------|-------------------|------------|-------------|
|   | Carrying Amount | Fair Value |             | Carrying Amount   | Fair Value |             |
|   |                 | Level 1    | Level 2     |                   | Level 1    | Level 2     |
| Cash and cash equivalents               | \$136,559       | \$136,559  | —           | \$85,909          | \$85,909   | —           |
| Restricted cash (b)                     | 11,781          | 11,781     | —           | 71,708            | 71,708     | —           |
| Current maturities of long-term debt    | (31,525 )       | —          | (31,546 )   | (31,676 )         | —          | (31,984 )   |
| Long-term debt (c)                      | (1,033,621)     | —          | (1,041,774) | (1,030,205)       | —          | (1,030,708) |
| Interest rate swaps (d)                 | 8,837           | —          | 8,837       | 11,225            | —          | 11,225      |
| Foreign currency exchange contracts (d) | 3,513           | —          | 3,513       | 464               | —          | 464         |
| Foreign currency option contracts (d)   | 1,303           | —          | 1,303       | 391               | —          | 391         |

(a) The Company did not have Level 3 assets or liabilities at June 30, 2017.

(b) Restricted cash represent 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 16 — Restricted Cash for additional information.

(c) The carrying amount of long-term debt is presented net of capitalized debt costs on non-revolving debt.

(d) See Note 11 — Derivative Financial Instruments and Hedging Activities for information regarding the Balance Sheet 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.

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 13. 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.

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

|   | Pension                     |         | Postretirement              |      |
|---|-----------------------------|---------|-----------------------------|------|
|   | Three Months Ended June 30, |         | Three Months Ended June 30, |      |
|   | 2017                        | 2016    | 2017                        | 2016 |
| Components of Net Periodic Benefit Cost |                             |         |                             |      |
| Service cost                            | —                           | \$327   | \$13                        | \$2  |
| Interest cost                           | 815                         | 869     | 2                           | 12   |
| Expected return on plan assets (a)      | (945)                       | (1,008) | —                           | —    |
| Amortization of losses                  | 116                         | 632     | —                           | —    |
| Net periodic benefit (gain) cost        | (\$14)                      | \$820   | \$15                        | \$14 |
|   | Pension                     |         | Postretirement              |      |
|   | Six Months Ended June 30,   |         | Six Months Ended June 30,   |      |
|   | 2017                        | 2016    | 2017                        | 2016 |
| Components of Net Periodic Benefit Cost |                             |         |                             |      |
| Service cost                            | —                           | \$653   | \$26                        | \$3  |
| Interest cost                           | 1,630                       | 1,737   | 3                           | 24   |
| Expected return on plan assets (a)      | (1,891)                     | (2,015) | —                           | —    |
| Amortization of losses (gains)          | 233                         | 1,261   | —                           | (12) |
| Net periodic benefit (gain) cost        | (\$28)                      | \$1,636 | \$29                        | \$15 |

(a) The weighted-average expected long-term rate of return on plan assets used in computing 2017 net periodic benefit cost for pension benefits is 7.2 percent.

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 14. OTHER OPERATING INCOME, NET

Other operating income, net comprised the following:

|   | Three Months<br>Ended June 30, |          | Six Months Ended<br>June 30, |          |
|---|--------------------------------|----------|------------------------------|----------|
|   | 2017                           | 2016     | 2017                         | 2016     |
| Lease and license income, primarily from hunting              | \$3,978                        | \$5,661  | \$8,088                      | \$10,221 |
| Other non-timber income                                       | 1,426                          | 536      | 4,173                        | 1,055    |
| Foreign currency loss   | (463 )                         | (204 )   | (150 )                       | (499 )   |
| (Loss) gain on sale or disposal of property and equipment     | (7 )                           | 24       | (6 )                         | 24       |
| Gain (loss) on foreign currency exchange and option contracts | 529                            | (551 )   | 1,181                        | (1,072 ) |
| Deferred payment related to a prior land sale                 | —                              | 4,000    | —                            | 4,000    |
| Costs related to acquisition                                  | —                              | (1,215 ) | —                            | (1,215 ) |
| Gain on foreign currency derivatives (a)                      | —                              | —        | —                            | 1,153    |
| Log trading agency and marketing fees                         | 658                            | 592      | 1,126                        | 931      |
| Gain on sale of carbon credits                                | —                              | 754      | —                            | 754      |
| Miscellaneous (expense) income, net                           | (14 )                          | (134 )   | 446                          | 16       |
| Total   | \$6,107                        | \$9,463  | \$14,858                     | \$15,368 |

(a) The Company used foreign exchange derivatives to mitigate the risk of fluctuations in foreign exchange rates while awaiting the capital contribution to the New Zealand JV.

## 15. INVENTORY

As of June 30, 2017 and December 31, 2016, Rayonier's inventory was solely comprised of finished goods, as follows:

|                           | June 30, December 31, |          |
|---------------------------|-----------------------|----------|
|                           | 2017                  | 2016     |
| Finished goods inventory  |                       |          |
| Real estate inventory (a) | \$20,046              | \$17,059 |
| Log inventory             | 6,317                 | 4,320    |
| Total inventory           | \$26,363              | \$21,379 |

(a) Represents cost of HBU real estate (including capitalized development investments) expected to be sold within 12 months. See Note 5 — Higher And Better Use Timberlands And Real Estate Development Investments for additional information.

## 16. 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, 2017 and December 31, 2016, the Company had \$11.8 million and \$71.7 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.

## 17. ASSETS HELD FOR SALE

Assets held for sale are composed of properties expected to be sold within the next 12 months and meet the other relevant held-for sale criteria in accordance with ASC 360-10-45-9. As of June 30, 2017, there were no properties

identified that met this classification. As of December 31, 2016, the basis in properties meeting this classification was \$23.2 million. Since the basis in these properties was less than the fair value, including costs to sell, no impairment was recognized.

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 18. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

The following table summarizes the changes in AOCI by component for the six months ended June 30, 2017 and the year ended December 31, 2016. All amounts are presented net of tax and exclude portions attributable to noncontrolling interest.

|  | Foreign<br>currency<br>translation<br>gains/<br>(losses) | Net<br>investment<br>hedges of<br>New<br>Zealand<br>JV | Cash flow<br>hedges | Employee<br>benefit<br>plans | Total        |
|--|--|--|---------------------|------------------------------|--------------|
| Balance as of December 31, 2015                                  | (\$2,450 )   | \$6,271  | (\$11,592)          | (\$25,732)                   | (\$33,503)   |
| Other comprehensive income/(loss) before reclassifications       | 7,387  | —  | 22,024              | 3,020                        | (b) 32,431   |
| Amounts reclassified from accumulated other comprehensive loss   | —  | (4,606 )   | 583                 | 2,513                        | (c) (1,510 ) |
| Net other comprehensive income/(loss)                            | 7,387  | (4,606 )   | 22,607              | 5,533                        | 30,921       |
| Recapitalization of New Zealand JV                               | 3,622  | —  | (184 )              | —                            | 3,438        |
| Balance as of December 31, 2016                                  | \$8,559  | \$1,665  | \$10,831            | (\$20,199)                   | \$856        |
| Other comprehensive income before reclassifications              | 19,201   | —  | 1,140               | (a) —                        | 20,341       |
| Amounts reclassified from accumulated other comprehensive income | —  | —  | (1,255 )            | 233                          | (c) (1,022 ) |
| Net other comprehensive income                                   | 19,201   | —  | (115 )              | 233                          | 19,319       |
| Balance as of June 30, 2017                                      | \$27,760   | \$1,665  | \$10,716            | (\$19,966)                   | \$20,175     |

(a) Includes \$2.4 million of other comprehensive loss related to interest rate swaps. See Note 11 — Derivative Financial Instruments and Hedging Activities for additional information.

This accumulated other comprehensive income component is comprised of \$2.4 million from the annual (b) computation of pension liabilities and a \$5.4 million curtailment gain. See Note 15 — Employee Benefit Plans of the 2016 Form 10-K for additional information.

(c) This component of other comprehensive income is included in the computation of net periodic pension cost. See Note 13 — 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, 2017 and June 30, 2016:

| Details about accumulated other comprehensive income components | Amount<br>reclassified<br>from<br>accumulated<br>other<br>comprehensive<br>income | Affected line item in the income statement |
|---|---|--|
|   | June 30, 2017   | June 30, 2016                              |
|   | (\$1,730)   | \$341 Other operating income, net          |

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|  |           |        |  |
|--|-----------|--------|--|
| Realized (gain) loss on foreign currency exchange contracts          |           |        |  |
| Realized (gain) loss on foreign currency option contracts            | (534      | ) 573  | Other operating income, net                                  |
| Noncontrolling interest  | 521       | (320 ) | Comprehensive income attributable to noncontrolling interest |
| Income tax (expense) benefit on loss from foreign currency contracts | 488       | (166 ) | Income tax expense   |
| Net (gain) loss from accumulated other comprehensive income          | (\$1,255) | \$428  |  |

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 19. 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.

## CONDENSED CONSOLIDATING STATEMENTS OF INCOME

## AND COMPREHENSIVE INCOME

For the Three Months Ended June 30, 2017

|   | Rayonier Inc.<br>(Parent<br>Issuer) | Subsidiary<br>Guarantors | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|---|-------------------------------------|--------------------------|--------------------|------------------------------|-----------------------|
| SALES   | —                                   | —                        | \$194,719          | —                            | \$194,719             |
| Costs and Expenses  |                                     |                          |                    |                              |                       |
| Cost of sales   | —                                   | —                        | 143,687            | —                            | 143,687               |
| Selling and general expenses                                      | —                                   | 4,248                    | 5,998              | —                            | 10,246                |
| Other operating expense (income), net                             | —                                   | 20                       | (6,127)            | ) —                          | (6,107)               |
|   | —                                   | 4,268                    | 143,558            | —                            | 147,826               |
| OPERATING (LOSS) INCOME   | —                                   | (4,268)                  | ) 51,161           | —                            | 46,893                |
| Interest expense  | (3,139)                             | ) (4,883)                | ) (609)            | ) —                          | (8,631)               |
| Interest and miscellaneous income (expense), net                  | 2,345                               | 695                      | (3,036)            | ) —                          | 4                     |
| Equity in income from subsidiaries                                | 26,955                              | 35,580                   | —                  | (62,535)                     | ) —                   |
| INCOME FROM CONTINUING OPERATIONS<br>BEFORE INCOME TAXES          | 26,161                              | 27,124                   | 47,516             | (62,535)                     | ) 38,266              |
| Income tax expense  | —                                   | (169)                    | ) (7,324)          | ) —                          | (7,493)               |
| INCOME FROM CONTINUING OPERATIONS<br>DISCONTINUED OPERATIONS, NET | 26,161                              | 26,955                   | 40,192             | (62,535)                     | ) 30,773              |
| Income from discontinued operations, net of income<br>taxes       | —                                   | —                        | —                  | —                            | —                     |
| NET INCOME  | 26,161                              | 26,955                   | 40,192             | (62,535)                     | ) 30,773              |
| Less: Net income attributable to noncontrolling interest          | —                                   | —                        | 4,612              | —                            | 4,612                 |
| NET INCOME ATTRIBUTABLE TO RAYONIER<br>INC.                       | 26,161                              | 26,955                   | 35,580             | (62,535)                     | ) 26,161              |
| OTHER COMPREHENSIVE INCOME  |                                     |                          |                    |                              |                       |
| Foreign currency translation adjustment, net of income<br>tax     | 17,199                              | —                        | 21,484             | (17,199)                     | ) 21,484              |
| Cash flow hedges, net of income tax                               | (2,686)                             | ) (5,021)                | ) 3,033            | 2,686                        | (1,988)               |
|   | 116                                 | 116                      | —                  | (116)                        | ) 116                 |

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Amortization of pension and postretirement plans, net of  
income tax

|   |          |          |   |          |           |   |          |
|---|----------|----------|---|----------|-----------|---|----------|
| Total other comprehensive income                                      | 14,629   | (4,905   | ) | 24,517   | (14,629   | ) | 19,612   |
| COMPREHENSIVE INCOME  | 40,790   | 22,050   |   | 64,709   | (77,164   | ) | 50,385   |
| Less: Comprehensive income attributable to<br>noncontrolling interest | —        | —        |   | 9,595    | —         |   | 9,595    |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO<br>RAYONIER INC.                 | \$40,790 | \$22,050 |   | \$55,114 | (\$77,164 | ) | \$40,790 |

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

| CONDENSED CONSOLIDATING STATEMENTS OF<br>INCOME<br>AND COMPREHENSIVE INCOME<br>For the Three Months Ended June 30, 2016 |                                     |                          |                    |                              |                       |
|---|-------------------------------------|--------------------------|--------------------|------------------------------|-----------------------|
|   | Rayonier Inc.<br>(Parent<br>Issuer) | Subsidiary<br>Guarantors | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
| SALES   | —                                   | —                        | \$261,550          | —                            | \$261,550             |
| Costs and Expenses  |                                     |                          |                    |                              |                       |
| Cost of sales   | —                                   | —                        | 138,194            | —                            | 138,194               |
| Selling and general expenses  | —                                   | 2,643                    | 8,609              | —                            | 11,252                |
| Other operating income (expense), net   | —                                   | 1,343                    | (10,806 )          | —                            | (9,463 )              |
|   | —                                   | 3,986                    | 135,997            | —                            | 139,983               |
| OPERATING (LOSS) INCOME   | —                                   | (3,986 )                 | 125,553            | —                            | 121,567               |
| Interest expense  | (3,139 )                            | (4,384 )                 | (438 )             | —                            | (7,961 )              |
| Interest and miscellaneous income (expense), net  | 2,109                               | 685                      | (2,545 )           | —                            | 249                   |
| Equity in income from subsidiaries  | 110,851                             | 119,275                  | —                  | (230,126 )                   | —                     |
| INCOME FROM CONTINUING OPERATIONS<br>BEFORE INCOME TAXES  | 109,821                             | 111,590                  | 122,570            | (230,126 )                   | 113,855               |
| Income tax expense  | —                                   | (739 )                   | (1,537 )           | —                            | (2,276 )              |
| NET INCOME  | 109,821                             | 110,851                  | 121,033            | (230,126 )                   | 111,579               |
| Less: Net income attributable to noncontrolling interest  | —                                   | —                        | 1,758              | —                            | 1,758                 |
| NET INCOME ATTRIBUTABLE TO RAYONIER<br>INC.   | 109,821                             | 110,851                  | 119,275            | (230,126 )                   | 109,821               |
| OTHER COMPREHENSIVE INCOME  |                                     |                          |                    |                              |                       |
| Foreign currency translation adjustment, net of income<br>tax   | 10,941                              | —                        | 13,219             | (10,941 )                    | 13,219                |
| Cash flow hedges, net of income tax   | (12,850 )                           | (14,102 )                | 1,626              | 12,850                       | (12,476 )             |
| Amortization of pension and postretirement plans, net<br>of income tax  | 632                                 | 632                      | —                  | (632 )                       | 632                   |
| Total other comprehensive (loss) income   | (1,277 )                            | (13,470 )                | 14,845             | 1,277                        | 1,375                 |
| COMPREHENSIVE INCOME  | 108,544                             | 97,381                   | 135,878            | (228,849 )                   | 112,954               |
| Less: Comprehensive income attributable to<br>noncontrolling interest   | —                                   | —                        | 4,410              | —                            | 4,410                 |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO<br>RAYONIER INC.   | \$108,544                           | \$97,381                 | \$131,468          | (\$228,849 )                 | \$108,544             |

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

| CONDENSED CONSOLIDATING STATEMENTS OF<br>INCOME<br>AND COMPREHENSIVE INCOME<br>For the Six Months Ended June 30, 2017 |                                     |                          |                    |                              |                       |
|---|-------------------------------------|--------------------------|--------------------|------------------------------|-----------------------|
|   | Rayonier Inc.<br>(Parent<br>Issuer) | Subsidiary<br>Guarantors | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
| SALES   | —                                   | —                        | \$381,232          | —                            | \$381,232             |
| Costs and Expenses  |                                     |                          |                    |                              |                       |
| Cost of sales   | —                                   | —                        | 280,100            | —                            | 280,100               |
| Selling and general expenses  | —                                   | 7,784                    | 12,052             | —                            | 19,836                |
| Other operating expense (income), net   | —                                   | 131                      | (14,989)           | ) —                          | (14,858)              |
|   | —                                   | 7,915                    | 277,163            | —                            | 285,078               |
| OPERATING (LOSS) INCOME   | —                                   | (7,915)                  | ) 104,069          | —                            | 96,154                |
| Interest expense  | (6,278)                             | ) (9,741)                | ) (1,027)          | ) —                          | (17,046)              |
| Interest and miscellaneous income (expense), net  | 4,547                               | 1,383                    | (5,408)            | ) —                          | 522                   |
| Equity in income from subsidiaries  | 61,734                              | 78,323                   | —                  | (140,057)                    | ) —                   |
| INCOME BEFORE INCOME TAXES  | 60,003                              | 62,050                   | 97,634             | (140,057)                    | ) 79,630              |
| Income tax expense  | —                                   | (316)                    | ) (13,458)         | ) —                          | (13,774)              |
| NET INCOME  | 60,003                              | 61,734                   | 84,176             | (140,057)                    | ) 65,856              |
| Less: Net income attributable to noncontrolling interest  | —                                   | —                        | 5,853              | —                            | 5,853                 |
| NET INCOME ATTRIBUTABLE TO RAYONIER INC.  | 60,003                              | 61,734                   | 78,323             | (140,057)                    | ) 60,003              |
| OTHER COMPREHENSIVE INCOME  |                                     |                          |                    |                              |                       |
| Foreign currency translation adjustment, net of income tax  | 19,202                              | —                        | 23,916             | (19,202)                     | ) 23,916              |
| Cash flow hedges, net of income tax   | (115)                               | ) (2,389)                | ) 2,954            | 115                          | 565                   |
| Amortization of pension and postretirement plans, net of income tax   | 233                                 | 233                      | —                  | (233)                        | ) 233                 |
| Total other comprehensive income  | 19,320                              | (2,156)                  | ) 26,870           | (19,320)                     | ) 24,714              |
| COMPREHENSIVE INCOME  | 79,323                              | 59,578                   | 111,046            | (159,377)                    | ) 90,570              |
| Less: Comprehensive income attributable to noncontrolling interest  | —                                   | —                        | 11,247             | —                            | 11,247                |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.  | \$79,323                            | \$59,578                 | \$99,799           | (\$159,377)                  | ) \$79,323            |

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

CONDENSED CONSOLIDATING STATEMENTS OF  
INCOME

## AND COMPREHENSIVE INCOME

For the Six Months Ended June 30, 2016

|   | Rayonier Inc.<br>(Parent<br>Issuer) | Subsidiary<br>Guarantors | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|---|-------------------------------------|--------------------------|--------------------|------------------------------|-----------------------|
| SALES   | —                                   | —                        | \$396,393          | —                            | \$396,393             |
| Costs and Expenses  |                                     |                          |                    |                              |                       |
| Cost of sales   | —                                   | —                        | 246,166            | —                            | 246,166               |
| Selling and general expenses  | —                                   | 5,581                    | 15,450             | —                            | 21,031                |
| Other operating expense (income), net                               | —                                   | 188                      | (15,556)           | ) —                          | (15,368)              |
|   | —                                   | 5,769                    | 246,060            | —                            | 251,829               |
| OPERATING (LOSS) INCOME   | —                                   | (5,769)                  | ) 150,333          | —                            | 144,564               |
| Interest expense  | (6,278)                             | ) (6,528)                | ) (2,253)          | ) —                          | (15,059)              |
| Interest and miscellaneous income (expense), net                    | 4,147                               | 1,366                    | (6,886)            | ) —                          | (1,373)               |
| Equity in income from subsidiaries                                  | 126,424                             | 138,272                  | —                  | (264,696)                    | ) —                   |
| INCOME BEFORE INCOME TAXES  | 124,293                             | 127,341                  | 141,194            | (264,696)                    | ) 128,132             |
| Income tax expense  | —                                   | (917)                    | ) (578)            | ) —                          | (1,495)               |
| NET INCOME  | 124,293                             | 126,424                  | 140,616            | (264,696)                    | ) 126,637             |
| Less: Net income attributable to noncontrolling interest            | —                                   | —                        | 2,344              | —                            | 2,344                 |
| NET INCOME ATTRIBUTABLE TO RAYONIER INC.                            | 124,293                             | 126,424                  | 138,272            | (264,696)                    | ) 124,293             |
| OTHER COMPREHENSIVE INCOME (LOSS)                                   |                                     |                          |                    |                              |                       |
| Foreign currency translation adjustment, net of income tax          | 10,737                              | (4,606)                  | ) 20,629           | (10,737)                     | ) 16,023              |
| Cash flow hedges, net of income tax                                 | (26,773)                            | ) (28,988)               | ) 2,738            | 26,773                       | (26,250)              |
| Amortization of pension and postretirement plans, net of income tax | 1,249                               | 1,249                    | —                  | (1,249)                      | ) 1,249               |
| Total other comprehensive (loss) income                             | (14,787)                            | ) (32,345)               | ) 23,367           | 14,787                       | (8,978)               |
| COMPREHENSIVE INCOME  | 109,506                             | 94,079                   | 163,983            | (249,909)                    | ) 117,659             |
| Less: Comprehensive income attributable to noncontrolling interest  | —                                   | —                        | 8,153              | —                            | 8,153                 |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.                  | \$109,506                           | \$94,079                 | \$155,830          | (\$249,909)                  | ) \$109,506           |

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## CONDENSED CONSOLIDATING BALANCE SHEETS

As of June 30, 2017

|   | Rayonier Inc.<br>(Parent<br>Issuer) | Subsidiary<br>Guarantors | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|---|-------------------------------------|--------------------------|--------------------|------------------------------|-----------------------|
| <b>ASSETS</b>   |                                     |                          |                    |                              |                       |
| <b>CURRENT ASSETS</b>   |                                     |                          |                    |                              |                       |
| Cash and cash equivalents   | \$81,157                            | \$12,585                 | \$42,817           | —                            | \$136,559             |
| Accounts receivable, less allowance for doubtful accounts                 | —                                   | 1,911                    | 28,270             | —                            | 30,181                |
| Insurance settlement receivable   | 73,000                              | —                        | —                  | —                            | 73,000                |
| Inventory   | —                                   | —                        | 26,363             | —                            | 26,363                |
| Prepaid expenses  | —                                   | 1,848                    | 12,879             | —                            | 14,727                |
| Other current assets  | —                                   | 14                       | 4,383              | —                            | 4,397                 |
| Total current assets  | 154,157                             | 16,358                   | 114,712            | —                            | 285,227               |
| TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION                 | —                                   | —                        | 2,509,485          | —                            | 2,509,485             |
| HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT INVESTMENTS | —                                   | —                        | 74,888             | —                            | 74,888                |
| NET PROPERTY, PLANT AND EQUIPMENT   | —                                   | 105                      | 21,455             | —                            | 21,560                |
| RESTRICTED CASH   | —                                   | —                        | 11,781             | —                            | 11,781                |
| INVESTMENT IN SUBSIDIARIES  | 1,516,570                           | 2,812,673                | —                  | (4,329,243 )                 | —                     |
| INTERCOMPANY RECEIVABLE   | 32,573                              | (622,196 )               | 589,623            | —                            | —                     |
| OTHER ASSETS  | 2                                   | 7,452                    | 42,399             | —                            | 49,853                |
| TOTAL ASSETS  | \$1,703,302                         | \$2,214,392              | \$3,364,343        | (\$4,329,243 )               | \$2,952,794           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                               |                                     |                          |                    |                              |                       |
| <b>CURRENT LIABILITIES</b>  |                                     |                          |                    |                              |                       |
| Accounts payable  | —                                   | \$2,186                  | \$26,510           | —                            | \$28,696              |
| Insurance settlement payable  | 73,000                              | —                        | —                  | —                            | 73,000                |
| Current maturities of long-term debt                                      | 31,525                              | —                        | —                  | —                            | 31,525                |
| Accrued taxes   | —                                   | (41 )                    | 5,415              | —                            | 5,374                 |
| Accrued payroll and benefits  | —                                   | 2,460                    | 2,632              | —                            | 5,092                 |
| Accrued interest  | 3,047                               | 1,940                    | 238                | —                            | 5,225                 |
| Other current liabilities   | —                                   | 647                      | 29,069             | —                            | 29,716                |
| Total current liabilities   | 107,572                             | 7,192                    | 63,864             | —                            | 178,628               |
| LONG-TERM DEBT, NET OF DEFERRED FINANCING COSTS                           | 291,725                             | 663,473                  | 78,423             | —                            | 1,033,621             |
| PENSION AND OTHER POSTRETIREMENT BENEFITS                                 | —                                   | 32,274                   | (685 )             | —                            | 31,589                |
| OTHER NON-CURRENT LIABILITIES   | —                                   | 13,844                   | 27,002             | —                            | 40,846                |
| INTERCOMPANY PAYABLE  | (267,715 )                          | (18,961 )                | 286,676            | —                            | —                     |
| TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY                                  | 1,571,720                           | 1,516,570                | 2,812,673          | (4,329,243 )                 | 1,571,720             |

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|  |             |             |             |                |             |
|--|-------------|-------------|-------------|----------------|-------------|
| Noncontrolling interest                    | —           | —           | 96,390      | —              | 96,390      |
| TOTAL SHAREHOLDERS' EQUITY                 | 1,571,720   | 1,516,570   | 2,909,063   | (4,329,243 )   | 1,668,110   |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$1,703,302 | \$2,214,392 | \$3,364,343 | (\$4,329,243 ) | \$2,952,794 |

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## CONDENSED CONSOLIDATING BALANCE SHEETS

As of December 31, 2016

|   | Rayonier Inc.<br>(Parent<br>Issuer) | Subsidiary<br>Guarantors | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|---|-------------------------------------|--------------------------|--------------------|------------------------------|-----------------------|
| <b>ASSETS</b>   |                                     |                          |                    |                              |                       |
| <b>CURRENT ASSETS</b>   |                                     |                          |                    |                              |                       |
| Cash and cash equivalents   | \$21,453                            | \$9,461                  | \$54,995           | —                            | \$85,909              |
| Accounts receivable, less allowance for doubtful accounts                 | —                                   | 2,991                    | 17,673             | —                            | 20,664                |
| Inventory   | —                                   | —                        | 21,379             | —                            | 21,379                |
| Prepaid expenses  | —                                   | 427                      | 11,380             | —                            | 11,807                |
| Assets held for sale  | —                                   | —                        | 23,171             | —                            | 23,171                |
| Other current assets  | —                                   | 236                      | 1,638              | —                            | 1,874                 |
| Total current assets  | 21,453                              | 13,115                   | 130,236            | —                            | 164,804               |
| TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION                 | —                                   | —                        | 2,291,015          | —                            | 2,291,015             |
| HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT INVESTMENTS | —                                   | —                        | 70,374             | —                            | 70,374                |
| NET PROPERTY, PLANT AND EQUIPMENT   | —                                   | 177                      | 13,857             | —                            | 14,034                |
| RESTRICTED CASH   | —                                   | —                        | 71,708             | —                            | 71,708                |
| INVESTMENT IN SUBSIDIARIES  | 1,422,081                           | 2,671,428                | —                  | (4,093,509 )                 | —                     |
| INTERCOMPANY RECEIVABLE   | 26,472                              | (611,571 )               | 585,099            | —                            | —                     |
| OTHER ASSETS  | 2                                   | 46,846                   | 26,977             | —                            | 73,825                |
| TOTAL ASSETS  | \$1,470,008                         | \$2,119,995              | \$3,189,266        | (\$4,093,509 )               | \$2,685,760           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                               |                                     |                          |                    |                              |                       |
| <b>CURRENT LIABILITIES</b>  |                                     |                          |                    |                              |                       |
| Accounts payable  | —                                   | \$1,194                  | \$21,143           | —                            | \$22,337              |
| Current maturities of long-term debt                                      | 31,676                              | —                        | —                  | —                            | 31,676                |
| Accrued taxes   | —                                   | (111 )                   | 2,768              | —                            | 2,657                 |
| Accrued payroll and benefits  | —                                   | 5,013                    | 4,264              | —                            | 9,277                 |
| Accrued interest  | 3,047                               | 2,040                    | 253                | —                            | 5,340                 |
| Other current liabilities   | —                                   | 165                      | 20,514             | —                            | 20,679                |
| Total current liabilities   | 34,723                              | 8,301                    | 48,942             | —                            | 91,966                |
| LONG-TERM DEBT, NET OF DEFERRED FINANCING COSTS                           | 291,390                             | 663,343                  | 75,472             | —                            | 1,030,205             |
| PENSION AND OTHER POSTRETIREMENT BENEFITS                                 | —                                   | 32,541                   | (685 )             | —                            | 31,856                |
| OTHER NON-CURRENT LIABILITIES   | —                                   | 12,690                   | 22,291             | —                            | 34,981                |
| INTERCOMPANY PAYABLE  | (267,715 )                          | (18,961 )                | 286,676            | —                            | —                     |
| TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY                                  | 1,411,610                           | 1,422,081                | 2,671,428          | (4,093,509 )                 | 1,411,610             |
| Noncontrolling interest   | —                                   | —                        | 85,142             | —                            | 85,142                |



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|  |             |             |             |                |             |
|--|-------------|-------------|-------------|----------------|-------------|
| TOTAL SHAREHOLDERS' EQUITY                 | 1,411,610   | 1,422,081   | 2,756,570   | (4,093,509 )   | 1,496,752   |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$1,470,008 | \$2,119,995 | \$3,189,266 | (\$4,093,509 ) | \$2,685,760 |

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

| CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS                       |                                     |                          |                    |                              |                       |
|--|-------------------------------------|--------------------------|--------------------|------------------------------|-----------------------|
| For the Six Months Ended June 30, 2017                                 |                                     |                          |                    |                              |                       |
|  | Rayonier Inc.<br>(Parent<br>Issuer) | Subsidiary<br>Guarantors | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
| CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES                       | (\$7,648 )                          | \$59,557                 | \$76,406           | —                            | \$128,315             |
| INVESTING ACTIVITIES   |                                     |                          |                    |                              |                       |
| Capital expenditures   | —                                   | —                        | (29,840 )          | —                            | (29,840 )             |
| Real estate development investments                                    | —                                   | —                        | (5,599 )           | —                            | (5,599 )              |
| Purchase of timberlands  | —                                   | —                        | (237,235 )         | —                            | (237,235 )            |
| Net proceeds from large disposition                                    | —                                   | —                        | 42,029             | —                            | 42,029                |
| Rayonier office building under construction                            | —                                   | —                        | (5,573 )           | —                            | (5,573 )              |
| Change in restricted cash  | —                                   | —                        | 59,927             | —                            | 59,927                |
| Investment in subsidiaries   | —                                   | 6,932                    | —                  | (6,932 )                     | —                     |
| Other  | —                                   | —                        | 1,033              | —                            | 1,033                 |
| CASH (USED FOR) PROVIDED BY INVESTING ACTIVITIES                       | —                                   | 6,932                    | (175,258 )         | (6,932 )                     | (175,258 )            |
| FINANCING ACTIVITIES   |                                     |                          |                    |                              |                       |
| Issuance of debt   | —                                   | 25,000                   | 38,389             | —                            | 63,389                |
| Repayment of debt  | —                                   | (15,000 )                | (45,422 )          | —                            | (60,422 )             |
| Dividends paid   | (62,825 )                           | —                        | —                  | —                            | (62,825 )             |
| Proceeds from the issuance of common shares under incentive stock plan | 3,206                               | —                        | —                  | —                            | 3,206                 |
| Proceeds from the issuance of common shares under equity offering      | 152,390                             | —                        | —                  | —                            | 152,390               |
| Repurchase of common shares  | —                                   | —                        | —                  | —                            | —                     |
| Intercompany distributions   | (25,419 )                           | (73,365 )                | 91,852             | 6,932                        | —                     |
| Other  | —                                   | —                        | —                  | —                            | —                     |
| CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES                       | 67,352                              | (63,365 )                | 84,819             | 6,932                        | 95,738                |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH                                | —                                   | —                        | 1,855              | —                            | 1,855                 |
| CASH AND CASH EQUIVALENTS  |                                     |                          |                    |                              |                       |
| Change in cash and cash equivalents                                    | 59,704                              | 3,124                    | (12,178 )          | —                            | 50,650                |
| Balance, beginning of year   | 21,453                              | 9,461                    | 54,995             | —                            | 85,909                |
| Balance, end of period   | \$81,157                            | \$12,585                 | \$42,817           | —                            | \$136,559             |

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

CONDENSED CONSOLIDATING STATEMENTS OF  
CASH FLOWS

For the Six Months Ended June 30, 2016

|   | Rayonier Inc.<br>(Parent<br>Issuer) | Subsidiary<br>Guarantors | Non-<br>guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|---|-------------------------------------|--------------------------|--------------------|------------------------------|-----------------------|
| <b>CASH PROVIDED BY (USED FOR) OPERATING<br/>ACTIVITIES</b> | (\$4,055 )                          | (\$7,193 )               | \$88,227           | —                            | \$76,979              |
| <b>INVESTING ACTIVITIES</b>                                 |                                     |                          |                    |                              |                       |
| Capital expenditures  | —                                   | —                        | (26,180 )          | —                            | (26,180 )             |
| Real estate development investments                         | —                                   | —                        | (3,018 )           | —                            | (3,018 )              |
| Purchase of timberlands                                     | —                                   | —                        | (276,614 )         | —                            | (276,614 )            |
| Assets purchased in business acquisition                    | —                                   | —                        | (1,113 )           | —                            | (1,113 )              |
| Net proceeds from large disposition                         | —                                   | —                        | 126,965            | —                            | 126,965               |
| Rayonier office building under construction                 | —                                   | —                        | (1,155 )           | —                            | (1,155 )              |
| Change in restricted cash                                   | —                                   | —                        | 17,985             | —                            | 17,985                |
| Investment in subsidiaries                                  | —                                   | 262,505                  | —                  | (262,505 )                   | —                     |
| Other   | —                                   | —                        | (2,066 )           | —                            | (2,066 )              |
| <b>CASH PROVIDED BY (USED FOR) INVESTING<br/>ACTIVITIES</b> | —                                   | 262,505                  | (165,196 )         | (262,505 )                   | (165,196 )            |
| <b>FINANCING ACTIVITIES</b>                                 |                                     |                          |                    |                              |                       |
| Issuance of debt  | —                                   | 518,000                  | 135,775            | —                            | 653,775               |
| Repayment of debt   | —                                   | (135,000 )               | (291,173 )         | —                            | (426,173 )            |
| Dividends paid  | (61,409 )                           | —                        | —                  | —                            | (61,409 )             |
| Proceeds from the issuance of common shares                 | 644                                 | —                        | —                  | —                            | 644                   |
| Repurchase of common shares                                 | —                                   | (690 )                   | —                  | —                            | (690 )                |
| Debt issuance costs   | —                                   | (818 )                   | —                  | —                            | (818 )                |
| Intercompany distributions                                  | 137,844                             | (638,434 )               | 238,085            | 262,505                      | —                     |
| Other   | (139 )                              | —                        | —                  | —                            | (139 )                |
| <b>CASH PROVIDED BY (USED FOR) FINANCING<br/>ACTIVITIES</b> | 76,940                              | (256,942 )               | 82,687             | 262,505                      | 165,190               |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON<br/>CASH</b>          | —                                   | —                        | 904                | —                            | 904                   |
| <b>CASH AND CASH EQUIVALENTS</b>                            |                                     |                          |                    |                              |                       |
| Change in cash and cash equivalents                         | 72,885                              | (1,630 )                 | 6,622              | —                            | 77,877                |
| Balance, beginning of year                                  | 2,472                               | 13,217                   | 36,088             | —                            | 51,777                |
| Balance, end of period                                      | \$75,357                            | \$11,587                 | \$42,710           | —                            | \$129,654             |

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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, 2016 (the "2016 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, sales of non-strategic timberlands, 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 2016 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.

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### 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. 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, 2017, we owned or leased under long-term agreements approximately 2.7 million acres of timberlands located in the U.S. South (1.9 million acres) and U.S. Pacific Northwest (378,000 acres). We also have a 77% ownership interest in Matariki Forestry Group, a joint venture (“New Zealand JV”), that owns or leases approximately 430,000 acres (294,000 net plantable acres) of timberlands in New Zealand.

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 leasing of properties for hunting, mineral extraction and cell towers. The New Zealand Timber segment also reflects any land or leasehold sales that occur within our New Zealand portfolio.

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

The Trading segment reflects the log trading activities that support our New Zealand operations. The Trading segment complements the New Zealand Timber segment by adding scale and achieving cost savings that directly benefit the New Zealand Timber segment. Trading also generally contributes modestly to earnings without significant investment and provides market intelligence that benefits the timber business.

### 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 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. 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 2016 Form 10-K.

### Revenue Recognition for Real Estate Sales

When developed residential or commercial land is sold, the cost of sales includes actual costs incurred and estimates of future development costs benefiting the property sold through completion. When developed land is sold, costs are allocated to each sold unit or lot based upon the relative sales value. For purposes of allocating development costs, estimates of future revenues and development costs are re-evaluated throughout the year, with adjustments being allocated prospectively to the remaining units available for sale.

Discussion of Timber Inventory and Sustainable Yield

See Item 1 — Business — Discussion of Timber Inventory and Sustainable Yield in the 2016 Form 10-K.

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## 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, 2017 and December 31, 2016:

| (acres in 000s)          | As of June 30, 2017 |            |              | As of December 31, 2016 |            |              |
|--------------------------|---------------------|------------|--------------|-------------------------|------------|--------------|
|                          | Owned               | Leased     | Total        | Owned                   | Leased     | Total        |
| <b>Southern</b>          |                     |            |              |                         |            |              |
| Alabama                  | 254                 | 24         | 278          | 284                     | 24         | 308          |
| Arkansas                 | —                   | 13         | 13           | —                       | 14         | 14           |
| Florida                  | 282                 | 102        | 384          | 281                     | 92         | 373          |
| Georgia                  | 617                 | 105        | 722          | 554                     | 107        | 661          |
| Louisiana                | 145                 | 1          | 146          | 145                     | 1          | 146          |
| Mississippi              | 67                  | —          | 67           | 67                      | —          | 67           |
| Oklahoma                 | 92                  | —          | 92           | 92                      | —          | 92           |
| South Carolina           | 18                  | —          | 18           | —                       | —          | —            |
| Tennessee                | 1                   | —          | 1            | 1                       | —          | 1            |
| Texas                    | 182                 | —          | 182          | 187                     | —          | 187          |
|                          | 1,658               | 245        | 1,903        | 1,611                   | 238        | 1,849        |
| <b>Pacific Northwest</b> |                     |            |              |                         |            |              |
| Oregon                   | 61                  | —          | 61           | 61                      | —          | 61           |
| Washington               | 316                 | 1          | 317          | 316                     | 1          | 317          |
|                          | 377                 | 1          | 378          | 377                     | 1          | 378          |
| <b>New Zealand (a)</b>   |                     |            |              |                         |            |              |
|                          | 179                 | 251        | 430          | 179                     | 254        | 433          |
| <b>Total</b>             | <b>2,214</b>        | <b>497</b> | <b>2,711</b> | <b>2,167</b>            | <b>493</b> | <b>2,660</b> |

Represents legal acres owned and leased by the New Zealand JV, in which Rayonier owns a 77% interest. As of (a) June 30, 2017, legal acres in New Zealand were comprised of 294,000 plantable acres and 136,000 non-productive acres.

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The following tables detail activity for owned and leased acres in our timberland holdings by state from December 31, 2016 to June 30, 2017:

| (acres in 000s)          | Acres Owned       |              |       |               |
|--------------------------|-------------------|--------------|-------|---------------|
|                          | December 31, 2016 | Acquisitions | Sales | June 30, 2017 |
| <b>Southern</b>          |                   |              |       |               |
| Alabama                  | 284               | —            | (30 ) | 254           |
| Florida                  | 281               | 5            | (4 )  | 282           |
| Georgia                  | 554               | 63           | —     | 617           |
| Louisiana                | 145               | —            | —     | 145           |
| Mississippi              | 67                | —            | —     | 67            |
| Oklahoma                 | 92                | —            | —     | 92            |
| South Carolina           | —                 | 18           | —     | 18            |
| Tennessee                | 1                 | —            | —     | 1             |
| Texas                    | 187               | —            | (5 )  | 182           |
|                          | 1,611             | 86           | (39 ) | 1,658         |
| <b>Pacific Northwest</b> |                   |              |       |               |
| Oregon                   | 61                | —            | —     | 61            |
| Washington               | 316               | —            | —     | 316           |
|                          | 377               | —            | —     | 377           |
| New Zealand (a)          | 179               | —            | —     | 179           |
| Total                    | 2,167             | 86           | (39 ) | 2,214         |

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

| (acres in 000s)          | Acres Leased      |            |                         |               |
|--------------------------|-------------------|------------|-------------------------|---------------|
|                          | December 31, 2016 | New Leases | Leases Sold/Expired (a) | June 30, 2017 |
| <b>Southern</b>          |                   |            |                         |               |
| Alabama                  | 24                | —          | —                       | 24            |
| Arkansas                 | 14                | —          | (1 )                    | 13            |
| Florida                  | 92                | 10         | —                       | 102           |
| Georgia                  | 107               | —          | (2 )                    | 105           |
| Louisiana                | 1                 | —          | —                       | 1             |
|                          | 238               | 10         | (3 )                    | 245           |
| <b>Pacific Northwest</b> |                   |            |                         |               |
| Washington               | 1                 | —          | —                       | 1             |
| New Zealand (b)          | 254               | 8          | (11 )                   | 251           |
| Total                    | 493               | 18         | (14 )                   | 497           |

(a) Includes acres previously under lease that have been harvested or expired.

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





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## Results of Operations

## Consolidated Results

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

|  | Three Months<br>Ended<br>June 30, |         | Six Months<br>Ended<br>June 30, |         |
|--|-----------------------------------|---------|---------------------------------|---------|
| Financial Information (in millions)                      | 2017                              | 2016    | 2017                            | 2016    |
| Sales  |                                   |         |                                 |         |
| Southern Timber  | \$30.8                            | \$29.6  | \$63.5                          | \$74.4  |
| Pacific Northwest Timber                                 | 19.4                              | 16.9    | 44.2                            | 36.2    |
| New Zealand Timber                                       | 77.2                              | 47.7    | 117.9                           | 83.8    |
| Real Estate  |                                   |         |                                 |         |
| Improved Development                                     | 0.1                               | —       | 0.1                             | 1.7     |
| Unimproved Development                                   | 2.5                               | —       | 2.5                             | 0.9     |
| Rural  | 5.5                               | 7.3     | 12.2                            | 11.0    |
| Non-Strategic / Timberlands                              | 17.5                              | 0.5     | 23.1                            | 7.6     |
| Large Dispositions                                       | —                                 | 129.5   | 42.0                            | 129.5   |
| Total Real Estate  | 25.6                              | 137.3   | 79.9                            | 150.7   |
| Trading  | 41.7                              | 30.1    | 75.7                            | 51.3    |
| Total Sales  | \$194.7                           | \$261.6 | \$381.2                         | \$396.4 |
| Operating Income (Loss)                                  |                                   |         |                                 |         |
| Southern Timber  | \$9.7                             | \$11.1  | \$23.6                          | \$26.8  |
| Pacific Northwest Timber                                 | (1.5 )                            | 1.1     | (2.4 )                          | 2.4     |
| New Zealand Timber                                       | 26.8                              | 10.0    | 37.1                            | 14.8    |
| Real Estate (a)  | 16.1                              | 105.7   | 45.8                            | 109.9   |
| Trading  | 1.1                               | 0.6     | 2.2                             | 1.0     |
| Corporate and other                                      | (5.3 )                            | (6.9 )  | (10.1 )                         | (10.3 ) |
| Operating Income   | 46.9                              | 121.6   | 96.2                            | 144.6   |
| Interest Expense, Interest Income and Other              | (8.6 )                            | (7.7 )  | (16.6 )                         | (16.5 ) |
| Income Tax Expense                                       | (7.5 )                            | (2.3 )  | (13.7 )                         | (1.5 )  |
| Net Income   | 30.8                              | 111.6   | 65.9                            | 126.6   |
| Less: Net income attributable to noncontrolling interest | 4.6                               | 1.8     | 5.9                             | 2.3     |
| Net Income Attributable to Rayonier Inc.                 | \$26.2                            | \$109.8 | \$60.0                          | \$124.3 |
| Adjusted EBITDA (b)                                      |                                   |         |                                 |         |
| Southern Timber  | \$21.6                            | \$21.7  | \$48.0                          | \$53.9  |
| Pacific Northwest Timber                                 | 5.5                               | 4.8     | 14.9                            | 10.7    |
| New Zealand Timber                                       | 41.9                              | 16.4    | 57.7                            | 27.9    |
| Real Estate  | 21.5                              | 7.7     | 30.1                            | 17.4    |
| Trading  | 1.1                               | 0.6     | 2.2                             | 1.0     |
| Corporate and Other                                      | (5.2 )                            | (6.2 )  | (9.2 )                          | (10.3 ) |
| Total Adjusted EBITDA                                    | \$86.4                            | \$45.0  | \$143.7                         | \$100.6 |

(a) The six months ended June 30, 2017 included \$28.2 million from a Large Disposition. The three and six months ended June 30, 2016 included \$101.3 million from a Large Disposition.

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



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|   | Three Months<br>Ended<br>June 30, |         | Six Months Ended<br>June 30, |         |
|---|-----------------------------------|---------|------------------------------|---------|
|   | 2017                              | 2016    | 2017                         | 2016    |
| Southern Timber Overview                        |                                   |         |                              |         |
| Sales Volume (in thousands of tons)             |                                   |         |                              |         |
| Pine Pulpwood                                   | 764                               | 795     | 1,587                        | 1,976   |
| Pine Sawtimber                                  | 520                               | 334     | 1,025                        | 862     |
| Total Pine Volume                               | 1,284                             | 1,129   | 2,612                        | 2,838   |
| Hardwood  | 73                                | 54      | 124                          | 104     |
| Total Volume                                    | 1,357                             | 1,183   | 2,736                        | 2,942   |
| Percentage Delivered Sales                      | 20                                | % 27    | % 20                         | % 25    |
| Percentage Stumpage Sales                       | 80                                | % 73    | % 80                         | % 75    |
| Net Stumpage Pricing (dollars per ton)          |                                   |         |                              |         |
| Pine Pulpwood                                   | \$15.62                           | \$18.31 | \$16.50                      | \$18.66 |
| Pine Sawtimber                                  | 25.66                             | 27.00   | 26.01                        | 26.95   |
| Weighted Average Pine                           | \$19.68                           | \$20.88 | \$20.23                      | \$21.18 |
| Hardwood  | 11.65                             | 10.90   | 11.36                        | 11.66   |
| Weighted Average Total                          | \$19.25                           | \$20.42 | \$19.83                      | \$20.83 |
| Summary Financial Data (in millions of dollars) |                                   |         |                              |         |
| Sales   | \$30.8                            | \$29.6  | \$63.5                       | \$74.4  |
| Less: Cut and Haul                              | (4.7 )                            | (5.4 )  | (9.3 )                       | (13.1 ) |
| Net Stumpage Sales                              | \$26.1                            | \$24.2  | \$54.2                       | \$61.3  |
| Operating Income                                | \$9.7                             | \$11.1  | \$23.6                       | \$26.8  |
| (+) Depreciation, depletion and amortization    | 11.9                              | 10.6    | 24.4                         | 27.1    |
| Adjusted EBITDA (a)                             | \$21.6                            | \$21.7  | \$48.0                       | \$53.9  |
| Other Data                                      |                                   |         |                              |         |
| Non-Timber Income (in millions of dollars) (b)  | \$4.4                             | \$5.3   | \$10.0                       | \$9.5   |
| Period-End Acres (in thousands)                 | 1,903                             | 1,871   | 1,903                        | 1,871   |

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

(b) Non-Timber Income is presented net of direct charges and excludes allocated overhead.

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|   | Three Months<br>Ended<br>June 30, |         | Six Months Ended<br>June 30, |         |
|---|-----------------------------------|---------|------------------------------|---------|
|   | 2017                              | 2016    | 2017                         | 2016    |
| Pacific Northwest Timber Overview               |                                   |         |                              |         |
| Sales Volume (in thousands of tons)             |                                   |         |                              |         |
| Pulpwood  | 71                                | 77      | 160                          | 167     |
| Sawtimber                                       | 204                               | 190     | 514                          | 431     |
| Total Volume                                    | 275                               | 267     | 674                          | 598     |
| Sales Volume (converted to MBF)                 |                                   |         |                              |         |
| Pulpwood  | 6,745                             | 7,304   | 15,009                       | 15,904  |
| Sawtimber                                       | 26,758                            | 25,552  | 66,216                       | 55,930  |
| Total Volume                                    | 33,503                            | 32,856  | 81,225                       | 71,834  |
| Percentage Delivered Sales                      | 99                                | % 94    | % 88                         | % 90    |
| Percentage Sawtimber Sales                      | 74                                | % 71    | % 76                         | % 72    |
| Delivered Log Pricing (in dollars per ton)      |                                   |         |                              |         |
| Pulpwood  | \$39.38                           | \$42.97 | \$39.03                      | \$43.96 |
| Sawtimber                                       | 81.93                             | 74.54   | 78.08                        | 71.00   |
| Weighted Average Log Price                      | \$70.88                           | \$65.27 | \$68.29                      | \$63.11 |
| Summary Financial Data (in millions of dollars) |                                   |         |                              |         |
| Sales   | \$19.4                            | \$16.9  | \$44.2                       | \$36.2  |
| Less: Cut and Haul                              | (9.9 )                            | (8.1 )  | (20.2 )                      | (16.8 ) |
| Net Stumpage Sales                              | \$9.5                             | \$8.8   | \$24.0                       | \$19.4  |
| Operating (Loss) Income                         | (\$1.5 )                          | \$1.1   | (\$2.4 )                     | \$2.4   |
| (+) Depreciation, depletion and amortization    | 7.0                               | 3.7     | 17.3                         | 8.3     |
| Adjusted EBITDA (a)                             | \$5.5                             | \$4.8   | \$14.9                       | \$10.7  |
| Other Data                                      |                                   |         |                              |         |
| Non-Timber Income (in millions of dollars) (b)  | \$0.9                             | \$0.8   | \$2.0                        | \$1.6   |
| Period-End Acres (in thousands)                 | 378                               | 379     | 378                          | 379     |
| Sawtimber (in dollars per MBF)                  | \$638                             | \$558   | \$623                        | \$553   |
| Estimated Percentage of Export Volume           | 25                                | % 28    | % 25                         | % 27    |

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

(b) Non-Timber Income is presented net of direct charges and excludes allocated overhead.

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|   | Three Months<br>Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|---|-----------------------------------|----------|------------------------------|----------|
|   | 2017                              | 2016     | 2017                         | 2016     |
| New Zealand Timber Overview                           |                                   |          |                              |          |
| Sales Volume (in thousands of tons)                   |                                   |          |                              |          |
| Domestic Sawtimber (Delivered)                        | 217                               | 224      | 413                          | 410      |
| Domestic Pulpwood (Delivered)                         | 104                               | 92       | 205                          | 186      |
| Export Sawtimber (Delivered)                          | 263                               | 276      | 443                          | 462      |
| Export Pulpwood (Delivered)                           | 32                                | 20       | 55                           | 39       |
| Stumpage  | —                                 | 10       | —                            | 10       |
| Total Volume  | 616                               | 621      | 1,116                        | 1,106    |
| Delivered Log Pricing (in dollars per ton)            |                                   |          |                              |          |
| Domestic Sawtimber                                    | \$79.04                           | \$71.37  | \$78.76                      | \$69.22  |
| Domestic Pulpwood                                     | \$33.31                           | \$31.80  | \$34.00                      | \$30.64  |
| Export Sawtimber                                      | \$111.05                          | \$96.11  | \$110.10                     | \$95.40  |
| Summary Financial Data (in millions of dollars)       |                                   |          |                              |          |
| Sales   | \$52.9                            | \$47.7   | \$93.6                       | \$82.0   |
| Less: Cut and Haul                                    | (19.5 )                           | (19.2 )  | (35.5 )                      | (33.8 )  |
| Less: Port and Freight Costs                          | (9.6 )                            | (7.5 )   | (15.6 )                      | (12.7 )  |
| Net Stumpage Sales                                    | \$23.8                            | \$21.1   | \$42.5                       | \$35.4   |
| Land Sales  | 24.3                              | —        | 24.3                         | 1.8      |
| Total Sales   | \$77.2                            | \$47.7   | \$117.9                      | \$83.8   |
| Operating Income                                      | \$26.8                            | \$10.0   | \$37.1                       | \$14.8   |
| (-) Non-operating expense                             | (0.4 )                            | —        | (0.3 )                       | —        |
| (+) Depreciation, depletion and amortization (a)      | 15.5                              | 6.4      | 20.8                         | 11.3     |
| (+) Non-cash cost of land sold                        | —                                 | —        | 0.1                          | 1.8      |
| Adjusted EBITDA (b)                                   | \$41.9                            | \$16.4   | \$57.7                       | \$27.9   |
| Other Data  |                                   |          |                              |          |
| Non-timber Income / Carbon credits (\$ in MMs)        | \$0.1                             | \$0.9    | \$0.2                        | \$1.0    |
| New Zealand Dollar to U.S. Dollar Exchange Rate (c)   | 0.6985                            | 0.6866   | 0.7067                       | 0.6756   |
| Net Plantable Period-End Acres (in thousands)         | 294                               | 299      | 294                          | 299      |
| Export Sawtimber (in dollars per JAS m <sup>3</sup> ) | \$129.06                          | \$111.71 | \$127.97                     | \$110.88 |
| Domestic Sawtimber (in \$NZD per tonne)               | \$124.47                          | \$114.34 | \$122.70                     | \$112.51 |

(a) The three and six months ended June 30, 2017 includes \$8.9 million of DD&A related to timberland sales.

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

(c) Represents the average period rate.

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|  | Three Months<br>Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|--|-----------------------------------|----------|------------------------------|----------|
|  | 2017                              | 2016     | 2017                         | 2016     |
| Real Estate Overview                               |                                   |          |                              |          |
| Sales (in millions of dollars)                     |                                   |          |                              |          |
| Improved Development (a)                           | \$0.1                             | —        | \$0.1                        | \$1.7    |
| Unimproved Development                             | 2.5                               | —        | 2.5                          | 0.9      |
| Rural  | 5.5                               | 7.3      | 12.2                         | 11.0     |
| Non-Strategic / Timberlands                        | 17.5                              | 0.5      | 23.1                         | 7.6      |
| Large Dispositions (b)                             | —                                 | 129.5    | 42.0                         | 129.5    |
| Total Sales  | \$25.6                            | \$137.3  | \$79.9                       | \$150.7  |
| Acres Sold   |                                   |          |                              |          |
| Improved Development (a)                           | 1                                 | —        | 1                            | 47       |
| Unimproved Development                             | 130                               | —        | 130                          | 48       |
| Rural  | 1,728                             | 2,666    | 4,012                        | 4,111    |
| Non-Strategic / Timberlands                        | 5,733                             | 252      | 9,656                        | 6,382    |
| Large Dispositions (b)                             | —                                 | 55,320   | 24,954                       | 55,320   |
| Total Acres Sold                                   | 7,592                             | 58,238   | 38,753                       | 65,908   |
| Gross Price per Acre (dollars per acre)            |                                   |          |                              |          |
| Improved Development (a)                           | \$324,427                         | —        | \$324,427                    | \$37,353 |
| Unimproved Development                             | 19,195                            | —        | 19,195                       | 18,000   |
| Rural  | 3,178                             | 2,711    | 3,049                        | 2,654    |
| Non-Strategic / Timberlands                        | 3,050                             | 2,161    | 2,390                        | 1,195    |
| Large Dispositions (b)                             | —                                 | 2,342    | 1,681                        | 2,342    |
| Weighted Average (Total) (c)                       | \$3,411                           | \$2,664  | \$2,771                      | \$1,996  |
| Weighted Average (Adjusted) (d)                    | \$3,356                           | \$2,664  | \$2,741                      | \$1,840  |
| Sales (Excluding Large Dispositions)               | \$25.6                            | \$7.8    | \$37.9                       | \$21.2   |
| Operating Income                                   | \$16.1                            | \$105.7  | \$45.8                       | \$109.9  |
| (+) Depreciation, depletion and amortization       | 2.6                               | 1.6      | 5.2                          | 4.8      |
| (+) Non-cash cost of land and improved development | 2.8                               | 1.7      | 7.3                          | 4.0      |
| (-) Large Dispositions (b)                         | —                                 | (101.3 ) | (28.2 )                      | (101.3 ) |
| Adjusted EBITDA (e)                                | \$21.5                            | \$7.7    | \$30.1                       | \$17.4   |

Reflects land with capital invested in infrastructure improvements. Sales for the three and six months ended (a) June 30, 2017 are presented net of \$0.3 million of deferred revenue adjustments due to remaining performance obligations. Price per acre is calculated on gross sales of \$0.4 million.

Large Dispositions 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. In January 2017, the Company completed a disposition of approximately 25,000 acres located in Alabama for a sale price and gain of approximately \$42.0 million and \$28.2 million, respectively. In April 2016, the Company completed a disposition of approximately 55,000 acres in Washington for a sale price and gain of approximately \$129.5 million and \$101.3 million, respectively.

(c) Excludes Large Dispositions.

(d) Excludes Improved Development and Large Dispositions.

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





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|  | Three Months<br>Ended<br>June 30, |         | Six Months<br>Ended<br>June 30, |         |
|--|-----------------------------------|---------|---------------------------------|---------|
| Capital Expenditures By Segment (in millions of dollars)   | 2017                              | 2016    | 2017                            | 2016    |
| Timber Capital Expenditures                                |                                   |         |                                 |         |
| Southern Timber  |                                   |         |                                 |         |
| Reforestation, silviculture and other capital expenditures | \$2.7                             | \$4.4   | \$5.9                           | \$7.5   |
| Property taxes   | 1.8                               | 1.7     | 4.4                             | 3.6     |
| Lease payments   | 0.7                               | 0.7     | 2.5                             | 2.7     |
| Allocated overhead   | 0.8                               | 1.1     | 1.8                             | 2.1     |
| Subtotal Southern Timber                                   | \$6.0                             | \$7.9   | \$14.6                          | \$15.9  |
| Pacific Northwest Timber                                   |                                   |         |                                 |         |
| Reforestation, silviculture and other capital expenditures | 2.0                               | 0.7     | 3.9                             | 3.0     |
| Property taxes   | 0.2                               | 0.2     | 0.4                             | 0.3     |
| Allocated overhead   | 0.5                               | 0.3     | 1.0                             | 0.7     |
| Subtotal Pacific Northwest Timber                          | \$2.7                             | \$1.2   | \$5.3                           | \$4.0   |
| New Zealand Timber   |                                   |         |                                 |         |
| Reforestation, silviculture and other capital expenditures | 2.5                               | 2.1     | 3.9                             | 3.4     |
| Property taxes   | 0.2                               | 0.2     | 0.4                             | 0.3     |
| Lease payments   | 1.4                               | 0.9     | 2.0                             | 1.3     |
| Allocated overhead   | 0.7                               | 0.6     | 1.4                             | 1.2     |
| Subtotal New Zealand Timber                                | \$4.8                             | \$3.8   | \$7.7                           | \$6.2   |
| Total Timber Segments Capital Expenditures                 | \$13.5                            | \$12.9  | \$27.6                          | \$26.1  |
| Real Estate  | 0.3                               | —       | 0.4                             | 0.1     |
| Corporate  | 1.6                               | —       | 1.8                             | —       |
| Total Capital Expenditures                                 | \$15.4                            | \$12.9  | \$29.8                          | \$26.2  |
| Timberland Acquisitions                                    |                                   |         |                                 |         |
| Southern Timber  | \$213.8                           | —       | \$214.3                         | \$14.3  |
| Pacific Northwest Timber                                   | —                                 | 262.3   | 1.5                             | 262.3   |
| New Zealand Timber   | 12.1                              | —       | 21.4                            | —       |
| Subtotal Timberland Acquisitions                           | \$225.9                           | \$262.3 | \$237.2                         | \$276.6 |
| Real Estate Development Investments                        | \$3.4                             | \$1.3   | \$5.6                           | \$3.0   |
| Rayonier Office Building                                   | \$3.0                             | \$1.0   | \$5.6                           | \$1.2   |

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The following tables summarize sales, operating income and Adjusted EBITDA variances for June 30, 2017 versus June 30, 2016 (millions of dollars):

| Sales                            | Southern<br>Timber | Pacific<br>Northwest<br>Timber | New<br>Zealand<br>Timber | Real<br>Estate  | Trading | Total    |
|----------------------------------|--------------------|--------------------------------|--------------------------|-----------------|---------|----------|
| Three Months Ended June 30, 2016 | \$29.6             | \$16.9                         | \$47.7                   | \$137.3         | \$30.1  | \$261.6  |
| Volume/Mix                       | 4.4                | 0.4                            | (1.0 )                   | 12.4            | 6.1     | 22.3     |
| Price                            | (3.2 )             | 2.1                            | 5.8                      | 5.7             | 5.5     | 15.9     |
| Foreign exchange (a)             | —                  | —                              | 0.4                      | —               | —       | 0.4      |
| Other                            | —                  | —                              | 24.3                     | (b)(129.8 )(c)— | —       | (105.5 ) |
| Three Months Ended June 30, 2017 | \$30.8             | \$19.4                         | \$77.2                   | \$25.6          | \$41.7  | \$194.7  |

(a) Net of currency hedging impact.

(b) New Zealand Timber includes \$24.3 million of timberland sales.

(c) Real Estate includes \$129.5 million of sales from a Large Disposition in 2016.

| Sales                          | Southern<br>Timber | Pacific<br>Northwest<br>Timber | New<br>Zealand<br>Timber | Real<br>Estate | Trading | Total   |
|--------------------------------|--------------------|--------------------------------|--------------------------|----------------|---------|---------|
| Six Months Ended June 30, 2016 | \$74.4             | \$36.2                         | \$83.8                   | \$150.7        | \$51.3  | \$396.4 |
| Volume/Mix                     | (5.2 )             | 4.6                            | (0.3 )                   | 6.3            | 15.1    | 20.5    |
| Price                          | (5.7 )             | 3.4                            | 10.0                     | 10.7           | 9.3     | 27.7    |
| Foreign exchange (a)           | —                  | —                              | 2.0                      | —              | —       | 2.0     |
| Other                          | —                  | —                              | 22.4                     | (b)(87.8 )(c)— | —       | (65.4 ) |
| Six Months Ended June 30, 2017 | \$63.5             | \$44.2                         | \$117.9                  | \$79.9         | \$75.7  | \$381.2 |

(a) Net of currency hedging impact.

(b) New Zealand Timber includes \$24.3 million of timberland sales in 2017, offset by \$1.8 million of timberland sales in 2016.

(c) Real Estate includes \$42.0 million of sales from Large Dispositions in 2017, offset by \$129.5 million of sales from Large Dispositions in 2016.

| Operating Income                               | Southern<br>Timber | Pacific<br>Northwest<br>Timber | New<br>Zealand<br>Timber | Real<br>Estate  | Trading | Corporate<br>and<br>Other | Total   |
|--|--------------------|--------------------------------|--------------------------|-----------------|---------|---------------------------|---------|
| Three Months Ended June 30, 2016               | \$11.1             | \$1.1                          | \$10.0                   | \$105.7         | \$0.6   | (\$6.9 )                  | \$121.6 |
| Volume/Mix                                     | 2.1                | 0.1                            | (1.2 )                   | 7.0             | —       | —                         | 8.0     |
| Price  | (1.6 )             | 0.3                            | 4.0                      | 5.7             | —       | —                         | 8.4     |
| Cost   | (1.1 )             | 0.1                            | (0.6 )                   | 0.4             | 0.5     | 1.6                       | 0.9     |
| Non-timber income                              | (0.9 )             | 0.2                            | (0.7 )                   | —               | —       | —                         | (1.4 )  |
| Foreign exchange (a)                           | —                  | —                              | 0.6                      | —               | —       | —                         | 0.6     |
| Depreciation, depletion & amortization         | 0.1                | (3.3 )                         | (0.1 )                   | 1.3             | —       | —                         | (2.0 )  |
| Non-cash cost of land and improved development | —                  | —                              | —                        | 1.3             | —       | —                         | 1.3     |
| Other  | —                  | —                              | 14.8                     | (b)(105.3 )(c)— | —       | —                         | (90.5 ) |
| Three Months Ended June 30, 2017               | \$9.7              | (\$1.5 )                       | \$26.8                   | \$16.1          | \$1.1   | (\$5.3 )                  | \$46.9  |

(a) Net of currency hedging impact.

- (b) New Zealand Timber includes \$14.8 million of income from timberland sales in Q2 2017.
- (c) Real Estate includes \$101.3 million of operating income from a Large Dispositions in 2016 and the receipt of a \$4.0 million deferred payment related to a prior land sale in 2016.

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|  | Southern<br>Timber | Pacific<br>Northwest<br>Timber | New<br>Zealand<br>Timber | Real<br>Estate | Trading | Corporate<br>and Other | Total   |
|--|--------------------|--------------------------------|--------------------------|----------------|---------|------------------------|---------|
| Operating Income                               |                    |                                |                          |                |         |                        |         |
| Six Months Ended June 30, 2016                 | \$26.8             | \$2.4                          | \$14.8                   | \$109.9        | \$1.0   | (\$10.3 )              | \$144.6 |
| Volume/Mix                                     | (2.3 )             | 0.9                            | (1.1 )                   | 3.6            | —       | —                      | 1.1     |
| Price  | (2.8 )             | 2.1                            | 7.9                      | 10.7           | —       | —                      | 17.9    |
| Cost   | 0.5                | (0.3 )                         | (0.8 )                   | 0.1            | 1.2     | 0.2                    | 0.9     |
| Non-timber income                              | 0.6                | 0.4                            | (0.7 )                   | —              | —       | —                      | 0.3     |
| Foreign exchange (a)                           | —                  | —                              | 1.7                      | —              | —       | —                      | 1.7     |
| Depreciation, depletion & amortization         | 0.8                | (7.9 )                         | (0.1 )                   | 1.0            | —       | —                      | (6.2 )  |
| Non-cash cost of land and improved development | —                  | —                              | —                        | (2.4 )         | —       | —                      | (2.4 )  |
| Other  | —                  | —                              | 15.4                     | (b)(77.1 )     | (c)—    | —                      | (61.7 ) |
| Six Months Ended June 30, 2017                 | \$23.6             | (\$2.4 )                       | \$37.1                   | \$45.8         | \$2.2   | (\$10.1 )              | \$96.2  |

(a) Net of currency hedging impact.

(b) New Zealand Timber includes \$14.8 million of income from timberland sales in 2017 and \$0.4 million from a settlement received in 2017.

Real Estate includes \$28.2 million of operating income from Large Dispositions, offset by \$101.3 million of (c)operating income from Large Dispositions in 2016 and the receipt of a \$4.0 million deferred payment related to a prior land sale in 2016.

|                                  | Southern<br>Timber | Pacific<br>Northwest<br>Timber | New<br>Zealand<br>Timber | Real<br>Estate | Trading | Corporate<br>and Other | Total  |
|----------------------------------|--------------------|--------------------------------|--------------------------|----------------|---------|------------------------|--------|
| Adjusted EBITDA (a)              |                    |                                |                          |                |         |                        |        |
| Three Months Ended June 30, 2016 | \$21.7             | \$4.8                          | \$16.4                   | \$7.7          | \$0.6   | (\$6.2 )               | \$45.0 |
| Volume/Mix                       | 3.5                | 0.1                            | (1.2 )                   | 12.0           | —       | —                      | 14.4   |
| Price                            | (1.6 )             | 0.3                            | 4.0                      | 5.7            | —       | —                      | 8.4    |
| Cost                             | (1.1 )             | 0.1                            | (0.6 )                   | 0.4            | 0.5     | 1.0                    | 0.3    |
| Non-timber income                | (0.9 )             | 0.2                            | (0.7 )                   | —              | —       | —                      | (1.4 ) |
| Foreign exchange (b)             | —                  | —                              | 0.2                      | —              | —       | —                      | 0.2    |
| Other                            | —                  | —                              | 23.8                     | (c)(4.3 )      | (d)—    | —                      | 19.5   |
| Three Months Ended June 30, 2017 | \$21.6             | \$5.5                          | \$41.9                   | \$21.5         | \$1.1   | (\$5.2 )               | \$86.4 |

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

(b) Net of currency hedging impact.

(c) New Zealand Timber includes \$24.3 million of timberland sold less cash costs of \$0.5 million in Q2 2017.

(d) Real Estate includes the receipt of a \$4.0 million deferred payment related to a prior land sale in 2016.

|                                | Southern<br>Timber | Pacific<br>Northwest<br>Timber | New<br>Zealand<br>Timber | Real<br>Estate | Trading | Corporate<br>and Other | Total   |
|--------------------------------|--------------------|--------------------------------|--------------------------|----------------|---------|------------------------|---------|
| Adjusted EBITDA (a)            |                    |                                |                          |                |         |                        |         |
| Six Months Ended June 30, 2016 | \$53.9             | \$10.7                         | \$27.9                   | \$17.4         | \$1.0   | (\$10.3 )              | \$100.6 |
| Volume/Mix                     | (4.2 )             | 2.0                            | (1.0 )                   | 6.2            | —       | —                      | 3.0     |
| Price                          | (2.8 )             | 2.1                            | 7.9                      | 10.7           | —       | —                      | 17.9    |
| Cost                           | 0.5                | (0.3 )                         | (0.8 )                   | 0.1            | 1.2     | 1.1                    | 1.8     |
| Non-timber income              | 0.6                | 0.4                            | (0.7 )                   | —              | —       | —                      | 0.3     |
| Foreign exchange (b)           | —                  | —                              | 2.0                      | —              | —       | —                      | 2.0     |
| Other                          | —                  | —                              | 22.4                     | (c)(4.3 )      | (d)—    | —                      | 18.1    |

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Six Months Ended June 30, 2017   \$48.0   \$14.9   \$57.7   \$30.1   \$2.2   (\$9.2   )   \$143.7

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

(b) Net of currency hedging impact.

(c) New Zealand Timber includes \$24.3 million of timberland sold in 2017 less cash costs of \$0.5 million and \$0.4 million of operating income from a settlement received in 2017, offset by \$1.8 million of timberland sold in 2016.

(d) Real Estate includes the receipt of a \$4.0 million deferred payment related to a prior land sale in 2016.

Table of Contents**Southern Timber**

Second quarter sales of \$30.8 million increased \$1.2 million, or 4%, versus the prior year period. Harvest volumes increased 15% to 1.36 million tons versus 1.18 million tons in the prior year period, primarily due to our recent acquisitions in Georgia and South Carolina. Average pine sawtimber stumpage prices decreased 5% to \$25.66 per ton versus \$27.00 per ton in the prior year period, while average pine pulpwood stumpage prices decreased 15% to \$15.62 per ton versus \$18.31 per ton in the prior year period. The decrease in average sawtimber and pulpwood prices was due to a combination of factors including salvage timber sales from the West Mims fire, lower demand for higher-value plylogs and overall price decreases from additional supply resulting from extended drought conditions. Overall, weighted-average stumpage prices (including hardwood) decreased 6% to \$19.25 per ton versus \$20.42 per ton in the prior year period. Operating income of \$9.7 million decreased \$1.4 million versus the prior year period due to lower weighted-average stumpage prices (\$1.6 million), costs related to the West Mims fire (\$1.1 million), higher franchise taxes (\$0.3 million) and lower non-timber income (\$0.9 million), which were partially offset by higher volumes (\$2.1 million), lower depreciation (\$0.1 million) and lower overhead and pension expense (\$0.3 million). Second quarter Adjusted EBITDA of \$21.6 million was \$0.1 million below the prior year period.

Year-to-date sales of \$63.5 million decreased \$10.9 million, or 15%, versus the prior year period. Harvest volumes decreased 7% to 2.7 million tons versus 2.9 million tons in the prior year period. The decrease in harvest volumes is largely attributable to an extraordinarily strong first quarter last year in which stumpage customers harvested volume early in the year. Average pine sawtimber stumpage prices decreased 3% to \$26.01 per ton versus \$26.95 per ton in the prior year period, while average pine pulpwood stumpage prices decreased 12% to \$16.50 per ton versus \$18.66 per ton in the prior year period. The modest decrease in average sawtimber prices was driven by lower demand in the Gulf states, while the decrease in average pulpwood prices was driven by increased supply across all regions due to dry weather conditions and reduced demand in certain regions due to mill outages. Overall, weighted-average stumpage prices (including hardwood) decreased 5% to \$19.83 per ton versus \$20.83 per ton in the prior year period. Operating income of \$23.6 million decreased \$3.2 million versus the prior year period due to lower weighted-average stumpage prices (\$2.8 million) and lower volumes (\$2.3 million), which were partially offset by lower depletion rates (\$0.8 million), higher non-timber income (\$0.6 million) and lower overhead and other costs (\$0.5 million). Year-to-date Adjusted EBITDA of \$48.0 million was \$5.9 million below the prior year period.

**Pacific Northwest Timber**

Second quarter sales of \$19.4 million increased \$2.5 million, or 15%, versus the prior year period. Harvest volumes increased 3% to 275,000 tons versus 267,000 tons in the prior year period. Average delivered sawtimber prices increased 10% to \$81.93 per ton versus \$74.54 per ton in the prior year period, while average delivered pulpwood prices decreased 8% to \$39.38 per ton versus \$42.97 per ton in the prior year period. The increase in average sawtimber prices was due to stronger export and domestic sawtimber markets as well as a favorable species mix driven by our Menasha acquisition. The decrease in average pulpwood prices was due to an increase in volume from a lower-priced region. Operating loss of \$1.5 million versus operating income of \$1.1 million in the prior year period was primarily due to higher depletion rates resulting from our Menasha acquisition (\$3.3 million), which were partially offset by higher prices (\$0.3 million), higher volumes (\$0.1 million), higher non-timber income (\$0.2 million) and lower overhead and pension expense (\$0.1 million). Second quarter Adjusted EBITDA of \$5.5 million was \$0.7 million above the prior year period.

Year-to-date sales of \$44.2 million increased \$8.0 million, or 22%, versus the prior year period. Harvest volumes increased 13% to 674,000 tons versus 598,000 tons in the prior year period. Average delivered sawtimber prices increased 10% to \$78.08 per ton versus \$71.00 per ton in the prior year period, while average delivered pulpwood prices decreased 11% to \$39.03 per ton versus \$43.96 per ton in the prior year period. The increase in average sawtimber prices was due to stronger export and domestic sawtimber markets as well as a favorable species mix. The decrease in average pulpwood prices was due to an increase in volume from a lower-priced region and an increase in wood chip residuals from lumber mills, which in turn reduced the demand for pulpwood logs. Operating loss of \$2.4 million versus operating income of \$2.4 million in the prior year period was primarily due to higher depletion rates resulting from our Menasha acquisition (\$7.9 million) and higher overhead and road maintenance costs (\$0.3 million),

which were partially offset by higher prices (\$2.1 million), higher volumes (\$0.9 million) and higher non-timber income (\$0.4 million). Year-to-date Adjusted EBITDA of \$14.9 million was \$4.2 million above the prior year period.

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## New Zealand Timber

Second quarter sales of \$77.2 million (which included timberland sales of \$24.3 million) increased \$29.5 million, or 62%, versus the prior year period. Harvest volumes decreased 1% to 616,000 tons versus 621,000 tons in the prior year period. Average delivered prices for export sawtimber increased 16% to \$111.05 per ton versus \$96.11 per ton in the prior year period, while average delivered prices for domestic sawtimber increased 11% to \$79.04 per ton versus \$71.37 per ton in the prior year period. The increase in export sawtimber prices was primarily due to stronger demand from China. The increase in domestic sawtimber prices (in U.S. dollar terms) was driven by strong demand for construction materials and a modest rise in the NZ\$/US\$ exchange rate (US\$0.70 per NZ\$1.00 versus US\$0.69 per NZ\$1.00). Excluding the impact of foreign exchange rates, domestic sawtimber prices increased 9% from the prior year period. Operating income of \$26.8 million increased \$16.8 million versus the prior year period due to higher prices (\$4.0 million), favorable foreign exchange impacts (\$0.6 million) and higher income from timberland sales (\$14.8 million), which were partially offset by volume/mix changes (\$1.2 million), lower carbon sales (\$0.7 million), higher depreciation (\$0.1 million) and higher forest management and overhead costs (\$0.6 million). Second quarter Adjusted EBITDA of \$41.9 million was \$25.5 million above the prior year period.

Year-to-date sales of \$117.9 million increased \$34.1 million, or 41%, versus the prior year period due to higher domestic and export product prices. Harvest volumes were comparable to the prior year period at 1.12 million tons. Average delivered prices for export sawtimber increased 15% to \$110.10 per ton versus \$95.40 per ton in the prior year period, while average delivered prices for domestic sawtimber increased 14% to \$78.76 per ton versus \$69.22 in the prior year period. The increase in export sawtimber prices was primarily due to stronger demand from China, while the increase in domestic sawtimber prices (in U.S. dollar terms) was driven primarily by stronger local demand for construction materials and the modest rise in the NZ\$/US\$ exchange rate (US\$0.71 per NZ versus US\$0.68 per NZ\$1.00). Excluding the impact of foreign exchange rates, domestic sawtimber prices increased 9% from the prior year period. Operating income of \$37.1 million increased \$22.3 million versus the prior year period due to higher prices (\$7.9 million), favorable foreign exchange impacts (\$1.7 million), higher income from land sales (\$14.8 million) and higher other income (\$0.6 million), which were partially offset by changes in mix (\$1.1 million), lower carbon sales (\$0.7 million), higher depreciation (\$0.1 million) and higher forest management costs (\$0.8 million). Year-to-date Adjusted EBITDA of \$57.7 million was \$29.8 million above the prior year period.

## Real Estate

Second quarter sales of \$25.6 million decreased \$111.7 million versus the prior year period, while operating income of \$16.1 million decreased \$89.6 million versus the prior year period. The prior year second quarter sales and operating income included \$129.5 million and \$101.3 million, respectively, from Large Dispositions. Sales and operating income decreased in the second quarter due to lower volumes (7,592 acres sold versus 58,238 acres sold in the prior year period), partially offset by higher weighted average prices (\$3,411 per acre versus \$2,358 per acre in the prior year period). Second quarter Adjusted EBITDA of \$21.5 million was \$13.8 million above the prior year period. Improved Development closings of \$0.4 million in the second quarter consisted of our first sale in the Wildlight development, a 1.3-acre commercial site for approximately \$324,000 per acre. Based on ongoing site development obligations, \$0.1 million was recognized as revenue in the second quarter. Unimproved Development sales of \$2.5 million consisted of a 130-acre tract in St. John's County, Florida for \$19,195 per acre. Rural sales of \$5.5 million were comprised of 1,728 acres at an average price of \$3,178 per acre. This compares to the prior year quarter of 2,666 acres at an average price of \$2,711 per acre. Non-strategic / Timberland sales of \$17.5 million were comprised of 5,733 acres at an average price of \$3,050 per acre, including a conservation sale of 1,994 acres in St. John's County, Florida for \$3,200 per acre as well as a timberland sale of 1,327 acres in Nassau County, Florida for \$4,000 per acre. This compares to the prior year quarter of 252 acres at an average price of \$2,161 per acre.

Year-to-date sales of \$79.9 million decreased \$70.8 million versus the prior year period, while operating income of \$45.8 million decreased \$64.1 million versus the prior year period. Year-to-date sales and operating income include \$42.0 million and \$28.2 million, respectively, from Large Dispositions in 2017 and \$129.5 million and \$101.3 million in the prior year period. Sales and operating income decreased in the first six months due to lower volumes (38,753 acres sold versus 65,908 acres sold in the prior year period) in addition to lower weighted average prices (\$2,069 per acre versus \$2,286 per acre in the prior year period). Year-to-date operating income also decreased due to the receipt



of a \$4.0 million deferred payment in 2016 with respect to a prior land sale. Year-to-date Adjusted EBITDA of \$30.1 million increased \$12.7 million above the prior year period.

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### Trading

Second quarter sales of \$41.7 million increased \$11.6 million versus the prior year period due to higher volumes and prices. Sales volumes increased 21% to 386,000 tons versus 320,000 tons in the prior year period due to increased volume from existing suppliers and stumpage blocks purchased from third-parties, coupled with improving export market demand. Average prices increased 15% to \$108.06 per ton versus \$93.69 per ton in the prior year period primarily due to stronger demand from China. Operating income of \$1.1 million increased \$0.5 million versus the prior year period.

Year-to-date sales of \$75.7 million increased \$24.4 million versus the prior year period due to higher volumes and prices. Sales volumes increased 29% to 708,000 tons versus 548,000 tons in the prior year period due to increased volume from existing suppliers and stumpage blocks purchased from third-parties, coupled with improving export market demand. Average prices increased 14% to \$106.86 per ton versus \$93.85 per ton in the prior year period primarily due to stronger demand from China. Operating income of \$2.2 million increased \$1.2 million versus the prior year period.

### Other Items

#### Corporate and Other Expense/Eliminations

Second quarter corporate and other operating expenses of \$5.3 million decreased \$1.6 million versus the prior year period due to lower costs related to shareholder litigation (\$0.6 million) and the prior year period transaction costs related to the Menasha acquisition (\$1.2 million), which were partially offset by higher selling, general and administrative expenses (\$0.2 million) due to increased benefit expenses. Year-to-date corporate and other operating expense of \$10.1 million decreased \$0.2 million versus the prior year period due to lower costs related to shareholder litigation (\$0.3 million) and the prior year period transaction costs related to the Menasha acquisition (\$1.2 million), which were partially offset by the prior year first quarter gain on foreign currency derivatives (\$1.2 million) and higher selling, general and administrative expenses (\$.1 million) due to increased benefit expenses. Costs related to shareholder litigation include expenses incurred as a result of the securities litigation and the shareholder derivative demands. See Note 8 — Contingencies. In addition, these costs include the costs associated with the Company's response to a subpoena it received from the SEC in November 2014. In July 2016, the Division of Enforcement of the SEC notified the Company that it had concluded its investigation into the Company.

#### Interest Expense

Second quarter interest expense of \$8.6 million increased \$0.6 million versus the prior year period. Year-to-date interest expense of \$17.0 million increased \$2.0 million versus the prior year period. The increase in second quarter and year-to-date interest expense was due to higher outstanding debt versus the prior year periods.

#### Income Tax Expense

Second quarter income tax expense of \$7.5 million increased \$5.2 million versus the prior year period. Year-to-date income tax expense of \$13.7 million increased \$12.2 million versus the prior year period. The increase in second quarter and year-to-date income tax expense versus the prior year periods was due to improved results from the New Zealand JV, which is the primary driver of income tax expense.

### Outlook

Based on our solid first half results, the timberland sale contribution from the New Zealand Timber segment, and our expectations for the balance of the year, we now anticipate full-year net income attributable to Rayonier of \$79 to \$83 million and Adjusted EBITDA of \$255 to \$270 million. In our Southern Timber segment, we expect harvest levels to be at the higher end of prior guidance based on our recent acquisitions, while near-term product pricing will continue to be impacted by additional fire salvage volume and changes in regional mix as our summer harvest shifts more heavily to the Gulf States region. In our Pacific Northwest Timber segment, we expect continued strength in sawtimber prices as export and domestic markets continue to improve. In our New Zealand Timber segment, we expect continued strong performance driven by sustained levels of demand in both domestic and export markets. In our Real Estate segment, following a strong second quarter, we expect relatively light closings in the third quarter followed by a strong fourth quarter. We are pleased to have completed our first closing in the Wildlight development and are encouraged by the growing interest in this project.



Table of Contents**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 asset dispositions.

**Summary of Liquidity and Financing Commitments**

|   | June 30, | December |
|---|----------|----------|
| (millions of dollars)                         | 2017     | 31, 2016 |
| Cash and cash equivalents                     | \$136.6  | \$85.9   |
| Total debt (a)                                | 1,068.4  | 1,065.5  |
| Shareholders' equity                          | 1,668.1  | 1,496.9  |
| Total capitalization (total debt plus equity) | 2,736.5  | 2,562.4  |
| Debt to capital ratio                         | 39 %     | 42 %     |
| Net debt to enterprise value (b)              | 20 %     | 23 %     |

(a) Total debt as of June 30, 2017 includes \$31.5 million of short-term borrowings in addition to \$1,036.9 million of long-term borrowings, gross of \$3.3 million of deferred financing costs.

(b) Enterprise value is calculated as the number of shares outstanding multiplied by the Company's share price plus net debt as of June 30, 2017 and December 31, 2016.

**Cash Flows**

The following table summarizes our cash flows from operating, investing and financing activities for the six months ended June 30, 2017 and 2016.

| (millions of dollars)        | 2017    | 2016    |
|------------------------------|---------|---------|
| Cash provided by (used for): |         |         |
| Operating activities         | \$128.3 | \$77.0  |
| Investing activities         | (175.3) | (165.2) |
| Financing activities         | 95.7    | 165.2   |

**Cash Provided by Operating Activities**

Cash provided by operating activities increased \$51.3 million primarily due to higher operating results.

**Cash Used for Investing Activities**

Cash used for investing activities increased \$10.1 million compared to 2016 primarily due to an increase in capital expenditures of \$3.6 million, an increase in real estate development investments of \$2.6 million, an increase in spending on the construction of the Company's office building of \$4.4 million and a decrease in net proceeds from Large Dispositions of \$85.0 million. These amounts were partially offset by an increase in use of restricted cash of \$41.9 million and a decrease in timberland acquisitions of \$39.4 million.

**Cash Provided by Financing Activities**

Cash provided by financing activities decreased \$69.5 million from the prior year period primarily due to a decrease in net debt issuances of \$223.8 million and an increase in dividends paid of \$1.4 million. These amounts were partially offset by an increase in equity issuances of \$155.0 million and a decrease in common shares repurchases of \$0.7 million.

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### Expected 2017 Expenditures

Capital expenditures in 2017 are expected to be between \$67 and \$70 million, excluding capital expenditures related to the office building and any strategic timberland acquisitions we may make. Capital expenditures are expected to be comprised primarily 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 2017 are expected to be between \$17 and \$20 million. Expected real estate development investments are primarily related to Wildlight, our mixed-use community development project located north of Jacksonville at the interchange of I-95 and State Road A1A.

We are currently constructing a new headquarters building located in the Wildlight development project. The new office will allow us to consolidate three existing leased offices in Jacksonville and Fernandina Beach, Florida into one location and also serve as a catalyst for the Wildlight project. Construction costs of this building incurred in 2017 are expected to be approximately \$6 to \$7 million.

Our 2017 dividend payments are expected to be approximately \$127 million assuming no change in the quarterly dividend rate of \$0.25 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 no mandatory pension contribution requirements in 2017 but may make discretionary contributions in the future. Cash income tax payments in 2017 are expected to be minimal.

### Performance and Liquidity Indicators

The discussion below is presented to enhance the reader's understanding of our operating performance, liquidity, 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 dividend distribution, repurchase of the Company's common shares, debt reduction and strategic acquisitions. We define CAD as cash provided by operating activities adjusted for capital spending (excluding timberland acquisitions and spending on the Company's office building) 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, costs related to shareholder litigation, the gain on foreign currency derivatives and Large Dispositions. Costs related to shareholder litigation include expenses incurred as a result of the securities litigation and the shareholder derivative demands. See Note 8—Contingencies. In addition, these costs include the costs associated with the Company's response to a subpoena it received from the SEC in November 2014. In July 2016, the Division of Enforcement of the SEC notified the Company that it had concluded its investigation into the Company.

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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<br>Ended<br>June 30,<br>2017 2016 |          | Six Months<br>Ended<br>June 30,<br>2017 2016 |          |
|--|--|----------|--|----------|
| Net Income to Adjusted EBITDA Reconciliation   |  |          |  |          |
| Net income                                     | \$30.8   | \$111.6  | \$65.9                                       | \$126.6  |
| Interest, net                                  | 8.2  | 7.7      | 16.3   | 16.5     |
| Income tax expense                             | 7.5  | 2.3      | 13.7   | 1.5      |
| Depreciation, depletion and amortization       | 37.1   | 22.4     | 67.9   | 51.7     |
| Non-cash cost of land and improved development | 2.8  | 1.7      | 7.4  | 5.8      |
| Costs related to shareholder litigation (a)    | —  | 0.6      | 0.7  | 1.0      |
| Gain on foreign currency derivatives (b)       | —  | —        | —  | (1.2 )   |
| Large Dispositions (c)                         | —  | (101.3 ) | (28.2 )                                      | (101.3 ) |
| Adjusted EBITDA                                | \$86.4   | \$45.0   | \$143.7                                      | \$100.6  |

(a) Costs related to shareholder litigation include expenses incurred as a result of the securities litigation and the shareholder derivative demands. See Note 8—Contingencies. In addition, these costs include the costs associated with the Company's response to a subpoena it received from the SEC in November 2014. In July 2016, the Division of Enforcement of the SEC notified the Company that it had concluded its investigation into the Company.

(b) Gain on foreign currency derivatives is the gain resulting from the foreign exchange derivatives the Company used to mitigate the risk of fluctuations in foreign exchange rates while awaiting the capital contribution to the New Zealand JV.

(c) Large Dispositions 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. In January 2017, the Company completed a disposition of approximately 25,000 acres located in Alabama for a sale price and gain of approximately \$42.0 million and \$28.2 million, respectively. In April 2016, a disposition of approximately 55,000 acres located in Washington was completed for a sales price and gain of approximately \$129.5 million and \$101.3 million, respectively.

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<br>Timber | Pacific<br>Northwest<br>Timber | New<br>Zealand<br>Timber | Real<br>Estate | Trading | Corporate<br>and<br>other | Total    |
|--|--------------------|--------------------------------|--------------------------|----------------|---------|---------------------------|----------|
| June 30, 2017                                  |                    |                                |                          |                |         |                           |          |
| Operating income (loss)                        | \$9.7              | (\$1.5 )                       | \$26.8                   | \$16.1         | \$1.1   | (\$5.3 )                  | \$46.9   |
| Non-operating expense                          | —                  | —                              | (0.4 )                   | —              | —       | —                         | (0.4 )   |
| Depreciation, depletion and amortization       | 11.9               | 7.0                            | 15.5                     | 2.6            | —       | 0.1                       | 37.1     |
| Non-cash cost of land and improved development | —                  | —                              | —                        | 2.8            | —       | —                         | 2.8      |
| Adjusted EBITDA                                | \$21.6             | \$5.5                          | \$41.9                   | \$21.5         | \$1.1   | (\$5.2 )                  | \$86.4   |
| June 30, 2016                                  |                    |                                |                          |                |         |                           |          |
| Operating income (loss)                        | \$11.1             | \$1.1                          | \$10.0                   | \$105.7        | \$0.6   | (\$6.9 )                  | \$121.6  |
| Depreciation, depletion and amortization       | 10.6               | 3.7                            | 6.4                      | 1.6            | —       | 0.1                       | 22.4     |
| Non-cash cost of land and improved development | —                  | —                              | —                        | 1.7            | —       | —                         | 1.7      |
| Costs related to shareholder litigation (a)    | —                  | —                              | —                        | —              | —       | 0.6                       | 0.6      |
| Large Dispositions (b)                         | —                  | —                              | —                        | (101.3 )       | —       | —                         | (101.3 ) |

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|                 |        |       |        |       |       |          |        |
|-----------------|--------|-------|--------|-------|-------|----------|--------|
| Adjusted EBITDA | \$21.7 | \$4.8 | \$16.4 | \$7.7 | \$0.6 | (\$6.2 ) | \$45.0 |
|-----------------|--------|-------|--------|-------|-------|----------|--------|

(a) Costs related to shareholder litigation include expenses incurred as a result of the securities litigation and the shareholder derivative demands. See Note 8—Contingencies. In addition, these costs include the costs associated with the Company's response to a subpoena it received from the SEC in November 2014. In July 2016, the Division of Enforcement of the SEC notified the Company that it had concluded its investigation into the Company.

(b) Large Dispositions 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. In April 2016, the Company completed a disposition of approximately 55,000 acres located in Washington for a sales price and gain of approximately \$129.5 million and \$101.3 million, respectively.

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| Six Months Ended                               | Southern<br>Timber | Pacific<br>Northwest<br>Timber | New<br>Zealand<br>Timber | Real<br>Estate | Trading | Corporate<br>and<br>other | Total    |
|--|--------------------|--------------------------------|--------------------------|----------------|---------|---------------------------|----------|
| June 30, 2017                                  |                    |                                |                          |                |         |                           |          |
| Operating income (loss)                        | \$23.6             | (\$2.4 )                       | \$37.1                   | \$45.8         | \$2.2   | (\$10.1 )                 | \$96.2   |
| Non-operating expense                          | —                  | —                              | (0.3 )                   | —              | —       | —                         | (0.3 )   |
| Depreciation, depletion and amortization       | 24.4               | 17.3                           | 20.8                     | 5.2            | —       | 0.2                       | 67.9     |
| Non-cash cost of land and improved development | —                  | —                              | 0.1                      | 7.3            | —       | —                         | 7.4      |
| Costs related to shareholder litigation (a)    | —                  | —                              | —                        | —              | —       | 0.7                       | 0.7      |
| Large Dispositions (b)                         | —                  | —                              | —                        | (28.2 )        | —       | —                         | (28.2 )  |
| Adjusted EBITDA                                | \$48.0             | \$14.9                         | \$57.7                   | \$30.1         | \$2.2   | (\$9.2 )                  | \$143.7  |
| June 30, 2016                                  |                    |                                |                          |                |         |                           |          |
| Operating income (loss)                        | \$26.8             | \$2.4                          | \$14.8                   | \$109.9        | \$1.0   | (\$10.3 )                 | \$144.6  |
| Depreciation, depletion and amortization       | 27.1               | 8.3                            | 11.3                     | 4.8            | —       | 0.2                       | 51.7     |
| Non-cash cost of land and improved development | —                  | —                              | 1.8                      | 4.0            | —       | —                         | 5.8      |
| Costs related to shareholder litigation (a)    | —                  | —                              | —                        | —              | —       | 1.0                       | 1.0      |
| Gain on foreign currency derivatives (c)       | —                  | —                              | —                        | —              | —       | (1.2 )                    | (1.2 )   |
| Large Dispositions (b)                         | —                  | —                              | —                        | (101.3 )       | —       | —                         | (101.3 ) |
| Adjusted EBITDA                                | \$53.9             | \$10.7                         | \$27.9                   | \$17.4         | \$1.0   | (\$10.3 )                 | \$100.6  |

(a) Costs related to shareholder litigation include expenses incurred as a result of the securities litigation and the shareholder derivative demands. See Note 8—Contingencies. In addition, these costs include the costs associated with the Company's response to a subpoena it received from the SEC in November 2014. In July 2016, the Division of Enforcement of the SEC notified the Company that it had concluded its investigation into the Company.

(b) Large Dispositions 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. In January 2017, the Company completed a disposition of approximately 25,000 acres located in Alabama for a sale price and gain of approximately \$42.0 million and \$28.2 million, respectively. In April 2016, a disposition of approximately 55,000 acres located in Washington was completed for a sales price and gain of approximately \$129.5 million and \$101.3 million, respectively.

(c) Gain on foreign currency derivatives is the gain resulting from the foreign exchange derivatives used by the Company to mitigate the risk of fluctuations in foreign exchange rates while awaiting the capital contribution to the New Zealand JV.

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

|  | Six Months<br>Ended June 30, |           |
|--|------------------------------|-----------|
|  | 2017                         | 2016      |
| Cash provided by operating activities            | \$128.3                      | \$77.0    |
| Capital expenditures (a)                         | (29.8 )                      | (26.2 )   |
| Working capital and other balance sheet changes  | (1.5 )                       | 6.4       |
| CAD  | 97.0                         | 57.2      |
| Mandatory debt repayments                        | —                            | —         |
| CAD after mandatory debt repayments              | \$97.0                       | \$57.2    |
| Cash used for investing activities               | (\$175.3)                    | (\$165.2) |
| Cash provided by (used for) financing activities | \$95.7                       | \$165.2   |

(a)



Capital expenditures exclude timberland acquisitions of \$237.2 million and \$276.6 million and spending on the Rayonier office building of \$5.6 million and \$1.2 million during the six months ended June 30, 2017 and June 30, 2016, respectively.

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## Liquidity Facilities

## 2017 Debt Activity

During the six months ended June 30, 2017, the Company made additional borrowings of \$25.0 million on the Revolving Credit Facility. A draw of \$15.0 million during the first quarter was used to repay the \$15.0 million solid waste bonds that were due in 2020 and an additional draw of \$10.0 million made in the second quarter was used to partially fund the acquisition of 91,000 acres in coastal Florida, Georgia and South Carolina. As of June 30, 2017, the Company had available borrowings of \$135.5 million under the Revolving Credit Facility, net of \$14.5 million to secure its outstanding letters of credit.

In addition, the New Zealand JV made additional borrowings and repayments of \$38.4 million on the working capital facility (the “New Zealand JV Working Capital Facility”). As of June 30, 2017, draws totaling NZ\$40.0 million remain available on the working capital facility. The New Zealand JV also paid \$7.6 million of its shareholder loan held by the non-controlling interest party during the six months ended June 30, 2017. Changes in exchange rates increased debt on a U.S. dollar basis for its shareholder loan by \$0.7 million.

## 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 certain self-insurance programs that we maintain. 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 9 — Guarantees for details on the letters of credit, surety bonds and guarantees as of June 30, 2017.

## Contractual Financial Obligations

In addition to using cash flow from operations, 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, 2017 and anticipated cash spending by period:

| Contractual Financial Obligations (in millions) | Total   | Payments Due by Period |      |       |                         |
|---|---------|------------------------|------|-------|-------------------------|
|   |         | Remaining<br>2017      | 2018 | 2019  | 2020-2021<br>Thereafter |
| Long-term debt (a)                              | \$1,037 | —                      | —    | \$50  | \$987                   |
| Current maturities of long-term debt            | 32      | 32                     | —    | —     | —                       |
| Interest payments on long-term debt (b)         | 207     | 16                     | 63   | 62    | 66                      |
| Operating leases — timberland                   | 194     | 4                      | 18   | 17    | 155                     |
| Operating leases — PP&E, offices                | 5       | 1                      | 2    | 1     | 1                       |
| Commitments — derivatives (c)                   | 42      | 3                      | 11   | 11    | 17                      |
| Commitments — other (d)                         | 2       | 2                      | —    | —     | —                       |
| Total contractual cash obligations              | \$1,519 | \$58                   | \$94 | \$141 | \$1,226                 |

(a) The book value of long-term debt, net of deferred financing costs, is currently recorded at \$1,033.6 million on the Company’s Consolidated Balance Sheet, but upon maturity the liability will be \$1,036.9 million.

(b) Projected interest payments for variable rate debt were calculated based on outstanding principal amounts and interest rates as of June 30, 2017.

(c) Commitments represent payments expected to be made on derivative financial instruments (foreign exchange contracts and interest rate swaps). See Note 11 — Derivative Financial Instruments and Hedging Activities.

(d)

Commitments include payments expected to be made on the construction of the Company's office building and Wildlight development project.

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

#### Market and Other Economic Risks

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.

As of June 30, 2017 we had \$700 million of U.S. long-term variable rate debt. Our primary interest rate exposure on variable rate debt results from changes in LIBOR. However, we use interest rate swaps to manage our exposure to interest rate movements on our term credit agreement by swapping existing borrowings from floating rates to fixed rates. The notional amount of outstanding interest rate swap contracts at June 30, 2017 was \$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 a corresponding increase/decrease of approximately \$0.5 million in interest payments and expense over a 12 month period.

The fair market value of our U.S. 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, 2017 was \$329.9 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, 2017 would result in a corresponding decrease/increase in the fair value of our long-term fixed-rate debt of approximately \$14 million.

We estimate the periodic effective interest rate on U.S. long-term fixed and variable rate debt for the second quarter was approximately 3.3% after consideration of interest rate swaps and estimated patronage payments, excluding unused commitment fees on the revolving credit facility.

The functional currency of the Company's New Zealand-based operations and New Zealand JV is the New Zealand dollar. Through these operations and our ownership in the New Zealand JV, we are exposed to foreign currency risk on cash held in foreign currencies, shareholder loan payments which are denominated 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 JV routinely enters into foreign currency exchange contracts and foreign currency option contracts to hedge a portion of the New Zealand JV's foreign exchange exposure. At June 30, 2017, the New Zealand JV had foreign currency exchange contracts representing 48% of forecasted shareholder distribution payments over the next 12 months. At June 30, 2017, the New Zealand JV also had foreign currency exchange contracts with a notional amount of \$64 million and foreign currency option contracts with a notional amount of \$68 million outstanding related to foreign export sales and ocean freight payments. The amount hedged represents 55% of forecast U.S. dollar denominated harvesting sales proceeds over the next 18 months and 35% of log trading sales proceeds over the next 3 months. At June 30, 2017, the New Zealand JV also had foreign currency exchange contracts with a notional amount of \$1 million outstanding on behalf of suppliers.

### 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, 2017.

In the quarter ended June 30, 2017, based upon the evaluation required by paragraph (d) of SEC Rule 13a-15, 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.

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## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

The information set forth in Note 8—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

In February 2016, the Board of Directors approved the repurchase of up to \$100 million of Rayonier’s common shares (the “share repurchase program”) to be made at management’s and the Board of Director’s discretion. The program has no time limit and may be suspended or discontinued at any time. There were no shares repurchased under this program in the second quarter of 2017 and there was \$99.3 million, or approximately 3,451,874 shares based on the period end closing stock price of \$28.77, available for repurchase as of June 30, 2017.

In 1996, we began a Common Share repurchase program (the “1996 anti-dilutive program”) to minimize the dilutive effect of our employee incentive stock plans on earnings per share. This program limits the number of shares that may be purchased each year to the greater of 1.5% of outstanding shares at the beginning of the year or the number of incentive shares issued to employees during the year. In October 2000, July 2003 and October 2011, our Board of Directors authorized the purchase of additional shares in the program totaling 2.1 million shares. The 1996 anti-dilutive program does not have an expiration date. There were no shares purchased under this program in the second quarter of 2017 and there were 3,778,625 shares available for purchase at June 30, 2017.

The following table provides information regarding our purchases of Rayonier common stock during the quarter ended June 30, 2017:

| Total<br>Number of<br>Period<br>Shares<br>Purchased | Average<br>Price<br>Paid per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Maximum<br>Number of<br>Shares that<br>May Yet<br>Be<br>Purchased<br>Under the<br>Plans or<br>Programs<br>(a) |
|---|---------------------------------------|--|---|
| April<br>1<br>to—<br>April<br>30                    | —                                     | —  | 7,230,498   |
| May<br>1<br>to—<br>May<br>31                        | —                                     | —  | 7,230,498   |
| June<br>1<br>to—<br>June<br>30                      | —                                     | —  | 7,230,498   |
| Total   |                                       | —  |   |

- (a) Maximum number of shares authorized to be purchased as of June 30, 2017 include 3,778,625 under the 1996 anti-dilutive program and approximately 3,451,874 under the share repurchase program.

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Item 6. Exhibits

|   |  |                    |
|---|--|--------------------|
| 10.1  | Amendment to Rayonier Investment and Savings Plan for Salaried Employees effective January 1, 2017*  | Filed herewith     |
| 31.1  | 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   | Filed herewith     |
| 31.2  | 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   | Filed herewith     |
| 32  | Certification of Periodic Financial Reports Under Section 906 of the Sarbanes-Oxley Act of 2002  | Furnished herewith |
| The following financial information from our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017, formatted in Extensible Business Reporting Language ("XBRL"), includes: (i) the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2017 and 2016; (ii) the Consolidated Balance Sheets as of June 30, 2017 and |  |                    |
| 101   | December 31, 2016; (iii) the Consolidated Statements of Shareholders' Equity for the Six Months Ended June 30, 2017 and the Years Ended December 31, 2016 and 2015; (iv) the Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016; and (v) the Notes to Consolidated Financial Statements | Filed herewith     |

\* Management contract or compensatory plan.



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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  
April Tice  
Director, Financial Services and Corporate Controller  
(Duly Authorized Officer, Principal Accounting Officer)  
Date: August 4, 2017