RAYONIER INC
Form 10-K
February 26, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012
OR

o 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
1301 RIVERPLACE BOULEVARD
JACKSONVILLE, FL 32207
(Principal Executive Office)
Telephone Number: (904) 357-9100
Securities registered pursuant to Section 12(b) of the Exchange Act,
all of which are registered on the New York Stock Exchange:
Common Shares
Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES x NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
YES o NO x
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 x NO o
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 x NO o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO x

The aggregate market value of the Common Shares of the registrant held by non-affiliates at the close of business on June 30, 2012 was $5,454,939,075 based on the closing sale price as reported on the New York Stock Exchange.

As of February 20, 2013, there were outstanding 124,671,679 Common Shares of the registrant.

Portions of the registrant’s definitive proxy statement to be filed with the Securities and Exchange Commission in connection with the 2013 annual meeting of the shareholders of the registrant scheduled to be held May 16, 2013, are incorporated by reference in Part III hereof.

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All other financial statement schedules have been omitted because they are not applicable, the required matter is not present, or the required information has been otherwise supplied in the financial statements or the notes thereto.

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PART I

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 the Consolidated Financial Statements of Rayonier Inc. included in Item 8 of this Report.

Note About Forward-Looking Statements

Certain statements in this document regarding anticipated financial outcomes including earnings guidance, if any, business and market conditions, outlook and other similar statements relating to Rayonier’s future financial and operational performance, 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," "anticipate" and other similar language. Forward-looking statements are not guarantees of future performance and undue reliance should not be placed on these statements. The risk factors contained in Item 1A — Risk Factors, among others, could cause actual results to differ materially from those expressed in forward-looking statements that are 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 further disclosures we make on related subjects in our subsequent Forms 10-Q, 10-K, 8-K and other reports to the SEC.

Item 1. BUSINESS

General

We are a leading international forest products company primarily engaged in activities associated with timberland management, the sale and entitlement of real estate, and the production and sale of high value specialty cellulose fibers and fluff pulp. We believe that Rayonier is the seventh largest private timberland owner in the U.S. We own, lease or manage approximately 2.7 million acres of timberland and real estate located in the United States and New Zealand. Included in this property is approximately 200,000 acres of high value real estate located primarily along the coastal corridor from Savannah, Georgia to Daytona Beach, Florida. We own and operate two specialty cellulose mills in the United States. In addition, we manufacture lumber in three sawmills in Georgia (Wood Products business) and engage in the trading of logs. In January 2013, we signed an agreement to sell our Wood Products business. We expect this sale to close in the first quarter of 2013.

For information on sales, operating income and identifiable assets by reportable segment and geographic region, see Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations and Note 3 — Segment and Geographical Information.

Our corporate strategy is to:

- Increase the size and quality of our timberland holdings through timberland acquisitions while selling timberlands that no longer meet our strategic or financial return requirements. In 2012, we acquired 88,000 acres of U.S. timberlands.

- Extract maximum value from our higher and better use ("HBU") properties. This includes monetizing entitled properties, achieving mega-site certification of our prime industrial and commercial properties and maintaining our rural HBU sales program for conservation, recreation and industrial uses.

- Differentiate our Performance Fibers business by developing and improving products for customer specific applications. We emphasize operational excellence to ensure quality, reliability and efficiency. A key part of our strategy is to focus our manufacturing operations on higher margin, specialty applications. In 2011, we began a $375 million to $390 million project to convert the fluff pulp line at our Jesup, Georgia mill to produce cellulose specialties products. We expect to complete this project by mid-2013.

We originated as the Rainier Pulp & Paper Company founded in Shelton, Washington in 1926. In 1937, we became "Rayonier Incorporated," a public company traded on the New York Stock Exchange ("NYSE"), until 1968 when we became a wholly-owned subsidiary of ITT Corporation ("ITT"). On February 28, 1994, Rayonier again became an independent public company after ITT distributed all of Rayonier's Common Shares to ITT stockholders. Our shares are publicly traded on the NYSE under the symbol RYN. We are a North Carolina corporation with executive offices located at 1301 Riverplace Boulevard, Jacksonville, Florida 32207. Our telephone number is (904) 357-9100.
The Company is a real estate investment trust ("REIT"). Under this structure, we are generally not required to pay federal income taxes on our earnings from timber harvest operations and other REIT-qualifying activities contingent upon meeting applicable distribution, income, asset, shareholder and other tests. The Company and its Board of Directors closely monitor

compliance with these REIT tests. As of December 31, 2012 and as of the date of the filing of this Annual Report on Form 10-K, the Company is in compliance with all REIT tests.

Our U.S. timber operations are primarily conducted by our wholly-owned REIT subsidiaries. Our non-REIT qualifying operations, which are subject to corporate-level tax, are held by our wholly-owned taxable REIT subsidiary, Rayonier TRS Holdings Inc. ("TRS"). These operations include our Performance Fibers, Wood Products and trading businesses, as well as the sale and entitlement of development HBU properties.

Forest Resources

Our Forest Resources segment owns, leases or manages approximately 2.6 million acres of timberlands, and sells standing timber (primarily at auction to third parties) and delivered logs. We also generate non-timber income from other land related activities. See chart in Item 2 — Properties for additional information.

In 2012, we acquired approximately 88,000 acres of U.S. timberlands primarily located in Texas. See Note 6 — Timberland Acquisitions for additional information about our timberland acquisitions.

Our Atlantic U.S. timberland holdings consist of approximately 1.1 million acres. Approximately two-thirds of this land supports intensively managed plantations of predominantly slash pine and loblolly pine. The other third of this land is too wet to support pine plantations, but supports productive natural stands of slash pine, cypress, black gum, water oaks, red maple, sweetgum and other commercial hardwood species.

Our Gulf States U.S. timberland holdings consist of approximately 0.7 million acres. Approximately four-fifths of this land supports pine plantations of predominantly loblolly pine. The other one-fifth of this land is too wet or too steep to support pine plantations, but supports productive natural stands of loblolly pine, water oaks, black gum, sweetgum and other commercial hardwood species.

Our Northern U.S. timberland holdings consist of approximately 0.5 million acres. Washington timberlands constitute 0.4 million acres and are primarily second and third growth western-hemlock, Douglas-fir, Sitka spruce, and western red cedar. Approximately 93 percent of the merchantable volume of the Washington timberlands is western-hemlock and Douglas-fir. A small percentage of the Washington timberlands supports natural hardwood stands of predominantly red alder. New York timberlands are almost entirely managed as multi-aged stands of Appalachian hardwood and softwood species. The predominant species are red maple, sugar maple, spruce-fir, beech, black cherry and yellow birch.

In the Atlantic and Gulf regions, rotation ages range from 21 to 28 years for pine plantations and from 35 to 60 years for natural hardwood stands. End use markets for these timberlands include pulp, paper, wood products and biomass facilities. In the Northern region, rotation ages range from 35 to 50 years in Washington and 40 to 80 years in New York, with the primary product in both states being sawtimber.

In addition, we have a 26 percent interest in a New Zealand joint venture ("JV"), which we manage. The JV owns or leases approximately 0.3 million acres of primarily radiata pine timberland.

Merchantable timber inventory is an estimate of timber volume based on the earliest economically harvestable age. Estimates are based on an inventory system that involves periodic statistical sampling. Adjustments are made on the basis of growth estimates, harvest information, environmental restrictions and market conditions. Timber located in restricted or environmentally sensitive areas and economically inaccessible swamplands is not included in the merchantable inventory shown here.

The following table sets forth the estimated volumes of merchantable timber in the U.S. by location and type, as of December 31, 2012 (in thousands of short green tons):

Location	Softwood	Hardwood	Total	%
Atlantic	23,538	10,725	34,263	46
Gulf	19,130	7,084	26,214	35
Northern	9,928	4,460	14,388	19
			74,865	100

We manage our U.S. timberlands in accordance with the requirements of the Sustainable Forestry Initiative® ("SFI") program, a comprehensive system of environmental principles, objectives and performance measures that combines the perpetual growing and harvesting of trees with the protection of wildlife, plants, soil and water quality. Through application of our site-specific silvicultural expertise and financial discipline, we manage timber in a way that optimizes site preparation, tree species selection, competition control, fertilization, timing of thinning and final harvest. We also have a genetic tree improvement program to enhance the productivity and quality of our timber and overall forest health. In addition, non-timber income opportunities associated with our timberlands such as recreational licenses and specialty forest products, as well as considerations for the future higher and better uses of the land, are integral parts of our site-specific management philosophy. All these activities are designed to maximize value while complying with SFI requirements.

Real Estate

Our Real Estate subsidiary owns approximately 0.1 million acres of land. We segregate our real estate holdings into three groups: development HBU, rural HBU (including conservation properties) and non-strategic timberlands. Development properties are predominantly located in the 11 coastal counties between Savannah, Georgia and Daytona Beach, Florida. Our strategy is to pursue and obtain entitlements for selected development properties, to sell rural properties at a premium to timberland values and to divest non-strategic timberland holdings.

Performance Fibers

We are a leading manufacturer of high value specialty cellulose fibers and absorbent materials with production facilities in Jesup, Georgia and Fernandina Beach, Florida, which have a combined annual capacity of approximately 745,000 metric tons. Production capacity represents the proven annual production capabilities of the facility under normal operating conditions with a normal product mix. These facilities manufacture more than 25 different grades of fibers. The Jesup facility can produce approximately 590,000 metric tons, or 79 percent of our total capacity, and the Fernandina Beach facility can produce approximately 155,000 metric tons, or 21 percent of our total capacity. This segment has two major product lines:

Cellulose specialties — We are a leading producer of specialty cellulose products, most of which are used in dissolving chemical applications that require a highly purified form to produce cellulose acetate and ethers that create high value, technologically demanding products. Our products are used in a wide variety of end uses such as: cigarette filters, liquid crystal display screens, acetate textile fibers, pharmaceuticals, cosmetics, photographic film, impact-resistant plastics, high-tenacity rayon yarn for tires and industrial hoses, detergents, food casings, food products, thickeners for oil well-drilling muds, lacquers, paints, printing inks and explosives. In addition, cellulose specialties include high value specialty paper applications used for decorative laminates, automotive air and oil filters, shoe innersoles, battery separators, circuit boards and filter media for the food industry.

Absorbent materials — We are a producer of fibers for absorbent hygiene products. These fibers are typically referred to as fluff fibers and are used as an absorbent medium in products such as disposable baby diapers, feminine hygiene products, incontinence pads, convalescent bed pads, industrial towels and wipes, and non-woven fabrics.

In May 2011, our Board of Directors approved a capital project to convert a fiber line at our Jesup, Georgia mill from production of absorbent materials to cellulose specialties (the "cellulose specialties expansion" or "CSE"). The cost of the project is currently estimated to range from $375 million to $390 million. The CSE will add approximately 190,000 metric tons of cellulose specialties capacity, bringing total cellulose specialties capacity to about 675,000 metric tons. Production of cellulose specialties is expected to gradually increase to capacity by 2015. Customer commitments for this additional volume exceed 85 percent. We spent $43 million and $201 million on the project in 2011 and 2012, respectively, and are on schedule to complete the CSE project by mid-2013. Upon completion of the CSE project, we will be exiting the more commodity-like absorbent materials business (about 260,000 metric tons of capacity). This expansion will help further differentiate our business as we will be able to increase our focus on high-end specialty pulp and the development of customer specific applications.

Approximately 63 percent of Performance Fibers sales are exported, primarily to customers in Asia and Europe. Approximately 96 percent of Performance Fibers sales are made directly by Rayonier personnel, with the remainder through independent sales agents. We have long-term contracts with the world’s largest manufacturers of acetate-based products and other key customers that extend through 2013 to 2017 and represent a significant majority of our high value cellulose specialties production.

Wood Products

Our Wood Products business segment manufactures and sells dimension lumber. We operate three lumber manufacturing facilities in the U.S. that produce Southern pine lumber, which is generally used for residential and industrial construction. Located in Baxley, Swainsboro and Eatonton, Georgia, the mills have a combined annual capacity of approximately 325 million board feet of lumber and 625,000 short green tons of wood chips. Production capacity represents the proven annual production capabilities of the facility under normal operating conditions with a normal product mix.

In January 2013, we announced plans to sell our Wood Products business to International Forest Products Limited for $80 million. The sale is expected to close in the first quarter of 2013.

Lumber sales are primarily made by Rayonier personnel to customers in the southeastern U.S. Approximately 64 percent of our lumber mills’ wood chip production is sold at market prices to our Jesup, Georgia Performance Fibers facility. In 2012, these purchases represented approximately 11 percent of that facility’s total wood consumption.

Other

The primary business of our Other segment is trading logs.

Discontinued Operations and Dispositions

Included in the Consolidated Balance Sheets are environmental liabilities relating to prior dispositions and discontinued operations, which include our Port Angeles, Washington Performance Fibers mill that was closed in 1997; our wholly-owned subsidiary, Southern Wood Piedmont Company ("SWP"), which ceased operations other than environmental investigation and remediation activities in 1989; and other miscellaneous assets held for disposition. See Note 15 — Liabilities for Dispositions and Discontinued Operations for additional information.

Foreign Sales and Operations

Sales from non-U.S. operations comprised approximately seven percent of consolidated 2012 sales. See Note 3 — Segment and Geographical Information for additional information.

Intellectual Property

We own numerous patents, trademarks and trade secrets, and have developed significant know-how, particularly relating to our Performance Fibers business. We intend to continue to take such steps as are necessary to protect our intellectual property, including, when appropriate, filing patent applications for inventions that are deemed important to our business operations. Our U.S. patents generally have a duration of 20 years from the date of filing.

Competition

Timber markets in our Atlantic, Gulf and Northern regions are relatively fragmented. In the Atlantic and Gulf regions, we compete with Plum Creek Timber Company, Weyerhaeuser and Timberland Investment Management Organizations such as Hancock Timber Resource Group, Resource Management Services, Forest Investment Associates and The Campbell Group, as well as numerous other large and small privately held timber companies. In the Northern region, Weyerhaeuser, Hancock Timber Resource Group, Green Diamond Resource Company, Longview Timber LLC, The Campbell Group, Port Blakely Tree Farms, Pope Resources, the State of Washington Department of Natural Resources and the Bureau of Indian Affairs are significant competitors. Other competition in the Northern region consists of log imports from Canada. In all markets, price is the principal method of competition.

In Performance Fibers, we market high purity, specialty cellulose fibers worldwide against competition from domestic and foreign producers. Major competitors include Buckeye Technologies, Borregaard, Neucel, Sappi Saiccor, Sateri Holdings and Tembec. Product performance, technical service and price are principal methods of competition. Sateri Holdings announced plans in December 2010 to expand the capacity of its specialty cellulose fiber production line in Bahia, Brazil, by 85,000 metric tons to be completed in 2013. Buckeye Technologies announced in October 2011 a project to increase high-end specialty wood pulp capacity by 42,000 metric tons at its Perry, Florida operation. The project is expected to come on-line in April 2013. The new market capacity is not expected to adversely affect the results of our Performance Fibers segment in 2013. However, it is difficult to determine how market dynamics may impact our business in 2014 and beyond.

Additionally, in Performance Fibers, we market absorbent materials against competition from domestic and foreign producers. Major competitors include Weyerhaeuser, GP Cellulose, Domtar and International Paper. Price and customer service are the principal methods of competition. We will be exiting this market once the CSE project is complete.

Our Wood Products business competes with a number of lumber producers throughout the U.S. and Canada, but particularly with sawmills throughout Georgia and Florida. Our Wood Products business represents a de minimus amount of North American capacity. Price is the principal method of competition. We will be exiting this market upon the completion of the sale of our Wood Products business.

Customers

In 2012, a group of customers under the common control of Eastman Chemical Company (and its affiliates), Nantong Cellulose, Celanese and Daicel Corporation represented approximately 21 percent, 17 percent, 14 percent and 14 percent of our Performance Fibers segment’s sales, respectively, and 15 percent, 12 percent, 10 percent and 10 percent of consolidated sales, respectively. The loss of any of these customers could have a material adverse effect on the Company and the Performance Fibers segment's results of operations.

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Seasonality

Our Wood Products segment may experience higher seasonal demand in the second and third quarters when demand for new housing typically increases. Our Forest Resources, Performance Fibers and Real Estate segments' results are normally not impacted by seasonal changes.

Environmental Matters

See Item 1A — Risk Factors, Item 3 — Legal Proceedings, Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Environmental Regulation, and Note 15 — Liabilities for Dispositions and Discontinued Operations.

Raw Materials

The manufacturing of our Performance Fibers products and lumber requires significant amounts of wood. Timber harvesting can be restricted by stringent regulatory requirements, adverse weather conditions and legal challenges from various environmental groups. The supply of timber is directly affected by price and demand fluctuations in wood products, pulp and paper markets, and weather.

Our Performance Fibers and lumber mills obtain their logs primarily through open market purchases made by our wood procurement organization, which negotiates prices and volumes with independent third party suppliers who deliver to our facilities. A limited amount of Performance Fibers log purchases are made directly from the Forest Resources segment at prevailing market prices.

Our Performance Fibers mills utilize a significant amount of chemicals, most of which are purchased under negotiated supply agreements with third parties.

Our Performance Fibers mills use a substantial amount of residual biomass to produce their own energy, but also require fuel oil and natural gas. These raw materials are subject to significant changes in prices and availability. We continually pursue reductions in usage and costs of other key raw materials, supplies and contract services at our Performance Fibers and lumber mills and do not foresee any material constraints in the near term from pricing or availability.

Research and Development

The research and development efforts of our Performance Fibers business are primarily directed at further developing existing core products and technologies, improving the quality of cellulose fiber grades, improving manufacturing efficiency and environmental controls, and reducing fossil fuel consumption.

The research and development activities of our timber operations include growth and yield modeling, genetic tree improvement and applied silvicultural programs to identify management practices that will improve financial returns from our timberlands.

Employee Relations

We currently employ approximately 1,900 people, of whom approximately 1,800 are in the United States. Approximately 900 of our hourly Performance Fibers employees are covered by collective bargaining agreements. The majority of our hourly employees are represented by one of several labor unions. We believe relations with our employees are satisfactory.

On June 30, 2012, collective bargaining agreements covering approximately 700 hourly employees at our Jesup mill expired. On October 12, 2012, an initial vote on the proposed new contract was taken and the proposal was rejected by the unions. All parties have agreed to extend the contracts while negotiations continue. While there can be no assurance, we expect to reach agreements with our unions; however, a work stoppage could have a material adverse effect on our business, results of operations and financial condition.

Availability of Reports and Other Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and amendments to those reports filed or furnished pursuant to Sections 13(a) or 14 of the Securities Exchange Act of 1934 are made available to the public free of charge in the Investor Relations section of our website www.rayonier.com, shortly after we electronically file such material with, or furnish them to, the Securities and

Exchange Commission ("SEC"). Our corporate governance guidelines and charters of all Committees of our Board of Directors are also available on our website.

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Item 1A. RISK FACTORS

Our operations are subject to a number of risks, including those listed below. When considering an investment in our securities, you should carefully read and consider these risks, together with all other information in this Report. If any of the events described in the following risk factors actually occur, our business, financial condition or operating results, as well as the market price of our securities, could be materially adversely affected.

Business and Operating Risks

The markets we operate in are subject to factors beyond our control.

The end markets for our Forest Resources, Real Estate, Performance Fibers and Wood Products are influenced by a variety of factors beyond our control. For example, the demand for real estate can be affected by availability of capital, changes in interest rates, availability and terms of financing, local economic conditions, the employment rate, new housing starts, population growth and demographics. The demand for sawtimber is primarily affected by the level of new residential and commercial construction activity. Sawtimber pricing, while recently trending upward, continues to be below historic levels. The supply of timber and logs has historically increased during favorable pricing environments, which then causes downward pressure on prices. Both our Real Estate and Forest Resources businesses have been negatively impacted by the economic downturn, primarily due to the decline in housing starts, excess supply of existing housing inventory, above-normal unemployment and the tightening of credit availability for real estate and construction related projects.

The industries in which we operate are highly competitive.

In our Performance Fibers business, we face competition from domestic and foreign producers. In addition, some manufacturers of pulp have announced plans to convert facilities for, or claimed to have already commenced production of, high purity dissolving pulps that may compete with our products. Competition may also arise from the threat of substitute products.

In our Forest Resources business, competitive pressures are primarily driven by quantity of product supply and quality of the timber offered by competitors in the domestic and export markets, each of which may impact pricing.

With respect to our Real Estate business, we compete with other owners of entitled and unentitled properties. Each property has unique attributes, but overall quantity of supply and price for residential, commercial, industrial and rural properties in the geographic areas in which we operate are the most significant competitive drivers.

In Wood Products, significant competition arises from competitive domestic producers and a variety of non-wood and engineered products and imported lumber (particularly from Canada).

Changes in energy and raw material prices could impact our operating results and financial condition.

Energy and raw material costs, such as oil, natural gas, wood and chemicals, are a significant operating expense, particularly for the Performance Fibers and Wood Products businesses. The prices of raw materials and energy can be volatile and are susceptible to rapid and substantial increases due to factors beyond our control, such as changing economic conditions, political unrest, instability in energy-producing nations, and supply and demand considerations. For example, caustic soda, a key raw material for Performance Fibers, has historically had significant price volatility. Oil and natural gas costs have also substantially increased in recent years and we have, at times, experienced limited availability of hardwood, primarily due to wet weather conditions which impact harvesting and result in increased costs for some Performance Fibers products. Increases in production costs could have a material adverse effect on our business, financial condition and results of operations. In addition, in our Forest Resources, Performance Fibers and Wood Products businesses, the rising cost of fuel, and its impact on the cost and availability of transportation for our products, both domestically and internationally, and the cost and availability of third party logging and trucking services, could have a material adverse effect on our business, financial condition and results of operations.

Changes in global economic conditions, market trends and world events could impact customer demand.

The global reach of our businesses, particularly the Performance Fibers business, timber sales for export markets from Washington and our interest in the JV, subjects us to unexpected, uncontrollable and rapidly changing events and circumstances, such as those that may result from the current volatile state of the global economic and financial market situation, in addition to those experienced in the U.S. Adverse changes in the following factors, among others, could have a negative impact on our business and results of operations:

- exposure to fluctuations in currencies other than the United States dollar;

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- regulatory, social, political, labor or economic conditions in a specific country or region; and,
- trade protection laws, policies and measures and other regulatory requirements affecting trade and investment, including loss or modification of exemptions for taxes and tariffs, imposition of new tariffs and duties and import and export licensing requirements.

Our businesses are subject to extensive environmental laws and regulations that may restrict or adversely impact our ability to conduct our business.

Environmental laws and regulations are constantly changing, and are generally becoming more restrictive. Laws, regulations and related judicial decisions, and administrative interpretations affecting our business are subject to change and new laws and regulations that may affect our business are frequently enacted. These changes may adversely affect our ability to harvest and sell timber, operate our manufacturing facilities, remediate contaminated properties and/or entitle real estate. These laws and regulations may relate to, among other things, the protection of timberlands and endangered species, timber harvesting practices, recreation and aesthetics, protection and restoration of natural resources, air and water quality, and remedial standards for contaminated property and groundwater. Over time, the complexity and stringency of these laws and regulations have increased markedly and the enforcement of these laws and regulations has intensified. Moreover, environmental policies of the current administration are in the aggregate more restrictive for industry and landowners than those of the previous administration. For example, the U.S. Environmental Protection Agency ("EPA") has pursued a number of initiatives which could, if implemented, impose additional operational and pollution control obligations on industrial facilities like those of Rayonier, especially in the area of air emissions and wastewater and stormwater control. In another example, the EPA recently issued final regulations which significantly tighten emissions limits of certain air pollutants from industrial boilers. In addition, as a result of certain recent judicial rulings and EPA initiatives, including some that would require timberland operators to obtain permits to carry out certain ordinary course forestry activities, silvicultural practices on our timberlands could be impacted in the future. Nonetheless, irrespective of any particular presidential administration, environmental laws and regulations will likely continue to become more restrictive and over time could adversely affect our operating results.

If regulatory and environmental permits are delayed, restricted or rejected, a variety of our operations could be adversely affected. In connection with a variety of operations on our properties, we are required to seek permission from government agencies in the states and countries in which we operate to perform certain activities. Any of these agencies could delay review of, or reject, any of our filings. In our Forest Resources business, any delay associated with a filing could result in a delay or restriction in replanting, thinning, insect control, fire control or harvesting, any of which could have an adverse effect on our operating results. For example, in Washington State, we are required to file a Forest Practice Application for each unit of timberland to be harvested. These applications may be denied, conditioned or restricted by the regulatory agency or appealed by other parties, including citizen groups. Appeals or actions of the regulatory agencies could delay or restrict timber harvest activities pursuant to these permits. Delays or harvest restrictions on a significant number of applications could have an adverse effect on our operating results. In our Performance Fibers and Wood Products businesses, many modifications and capital projects at our manufacturing facilities require one or more environmental permits, or amendments to existing permits. Delays in obtaining these permits could have an adverse effect on our results of operations.

Environmental groups and interested individuals may seek to delay or prevent a variety of operations. We expect that environmental groups and interested individuals will intervene with increasing frequency in the regulatory processes in the states and countries where we own, lease or manage timberlands, and operate mills. For example, in Washington State, environmental groups and interested individuals may appeal individual forest practice applications or file petitions with the Forest Practices Board to challenge the regulations under which forest practices are approved. These and other challenges could materially delay or prevent operations on our properties. Also, interveners at times may bring legal action in Florida in opposition to entitlement and change of use of timberlands to commercial, industrial or residential use. Delays or restrictions due to the intervention of environmental groups or interested individuals could adversely affect our operating results. In addition to intervention in regulatory proceedings, interested groups and individuals may file or threaten to file lawsuits that seek to prevent us from obtaining terms and conditions of proposed permits issued to us by regulatory agencies, implementing capital improvements or pursuing operating plans. Any lawsuit or even a threatened lawsuit could delay harvesting on our timberlands, impact how we operate or limit our ability to modify or invest in our mills. Among the remedies that could be enforced in a lawsuit is a judgment preventing or restricting harvesting on a portion of our timberlands, or adversely affecting the timing, projected operating benefits or cost of capital projects at our mills.

The impact of existing regulatory restrictions on future harvesting activities may be significant. Federal, state and local laws and regulations, as well as those of other countries, which are intended to protect threatened and endangered species, as well as waterways and wetlands, limit and may prevent timber harvesting, road building and other activities on our timberlands. The threatened and endangered species restrictions apply to activities that would adversely impact a protected species or significantly degrade its habitat. The size of the area subject to restriction will vary depending on the protected species at issue, the time of year and other factors, but can range from less than one to several thousand acres. A number of species that naturally live on or near

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our timberlands, including the northern spotted owl, marbled murrelet, bald eagle, several species of salmon and trout in the Northwest, and the red cockaded woodpecker, bald eagle, wood stork, Red Hills salamander and flatwoods salamander in the Southeast, are protected under the Federal Endangered Species Act or similar federal and state laws. Other species, such as the gopher tortoise are currently under review for possible protection. As we gain additional information regarding the presence of threatened or endangered species on our timberlands, or if other regulations, such as those that require buffers to protect water bodies, become more restrictive, the amount of our timberlands subject to harvest restrictions could increase.

Our Performance Fibers and Wood Products mills are subject to stringent environmental laws and regulations concerning air emissions, wastewater discharge, water usage and waste handling and disposal. Many of our operations are subject to stringent environmental laws, regulations and permits which contain conditions that govern how we operate our facilities and, in many cases, how much product we can produce. These laws, regulations and permits, now and in the future, may restrict our current production and limit our ability to increase production, and impose significant costs on our operations with respect to environmental compliance. It is expected that, overall, costs will likely increase over time as environmental laws, regulations and permit conditions become more stringent, and as the expectations of the communities in which we operate become more demanding.

We currently own or may acquire properties which may require environmental remediation or otherwise be subject to environmental and other liabilities. We currently own, or formerly operated, manufacturing facilities and discontinued operations, or may acquire timberlands and other properties, which are subject to environmental liabilities, such as remediation of soil, sediment and groundwater contamination and other existing or potential liabilities. For more detail, see Note 15 — Liabilities for Dispositions and Discontinued Operations. The cost of investigation and remediation of contaminated properties could increase operating costs and adversely affect financial results. Although we believe we currently have adequate reserves for the investigation and remediation of our properties, legal requirements relating to assessment and remediation of these properties continue to become more stringent and there can be no assurance that actual expenditures will not exceed our expectations, or that other unknown liabilities will not be discovered in the future.

Entitlement and development of real estate entail a lengthy, uncertain and costly approval process.

Entitlement and development of real estate entail extensive approval processes involving multiple regulatory jurisdictions. It is common for a project to require multiple approvals, permits and consents from federal, state and local governing and regulatory bodies. For example, in Florida, real estate projects must generally comply with the provisions of the Local Government Comprehensive Planning and Land Development Regulation Act (the "Growth Management Act") and local land use and development regulations. In addition, in Florida, development projects that exceed certain specified regulatory thresholds require approval of a comprehensive Development of Regional Impact ("DRI") application. Compliance with the Growth Management Act, local land development regulations and the DRI process is usually lengthy and costly and significant conditions can be imposed on a developer with respect to a particular project. In addition, development of properties containing delineated wetlands may require one or more permits from the federal government. Any of these issues can materially affect the cost and timing of our real estate projects.

The real estate entitlement process is frequently a political one, which involves uncertainty and often extensive negotiation and concessions in order to secure the necessary approvals and permits. A significant amount of our development property is located in counties in which local governments face challenging issues relating to growth and development, including zoning and future land use, public services, water availability, transportation and other infrastructure and funding for same, and the requirements of state law, especially in the case of Florida under the Growth Management Act and DRI process. In addition, anti-development groups are active, especially in Florida, in filing litigation to oppose particular entitlement activities and development projects, and in seeking legislation and other anti-growth limitations on real estate development activities. We expect that this type of anti-growth activity may continue in the future.

Issues affecting real estate development also include the availability of potable water for new development projects. For example, in Georgia, the Legislature enacted the Comprehensive Statewide Watershed Management Planning Act, which, among other things, created a governmental entity called the Georgia Water Council which was charged with preparing a comprehensive water management plan for the state and presenting it to the Georgia Legislature. It is unclear at this time how the plan will affect the cost and timing of real estate development along the I-95 coastal corridor in southern Georgia, where the Company has significant real estate holdings. Concerns about the availability of potable water also exists in certain Florida counties, which could impact growth.

Changes in the interpretation or enforcement of these laws, the enactment of new laws regarding the use and development of real estate, changes in the political composition of state and local governmental bodies, and the identification of new facts regarding our properties could lead to new or greater costs and delays and liabilities that could materially adversely affect our business, profitability or financial condition.

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Changes in demand for our real estate and delays in the timing of real estate transactions may affect our revenues and operating results.

A number of factors, including changes in demographics, tightening of credit, high unemployment and a slowing of commercial or residential real estate development, particularly along the I-95 coastal corridor in Florida and Georgia, could reduce the demand for our properties and negatively affect our results of operations. The decline in the housing market together with the tightening of real estate lending standards and availability had a negative effect in 2012. Although indicators of the beginning of a recovery exist, these factors are expected to continue to impact 2013 results. In addition, there are inherent uncertainties in the timing of real estate transactions that could adversely affect our operating results. Delays in the completion of transactions or the termination of potential transactions can be caused by factors beyond our control. These events have in the past and may in the future adversely affect our operating results.

The impacts of climate-related initiatives, at the international, federal and state levels, remain uncertain at this time.

There continues to be numerous international, federal and state-level initiatives and proposals to address domestic and global climate issues. Within the U.S., most of these proposals would regulate and/or tax, in one fashion or another, the production of carbon dioxide and other "greenhouse gases" to facilitate the reduction of carbon compound emissions to the atmosphere, and provide tax and other incentives to produce and use more "clean energy." In 2013, we believe the potential for climate change legislation at the federal level to be unlikely.

In late 2009, the EPA issued an "endangerment finding" under the Clear Air Act ("CAA") with respect to certain greenhouse gases, which could lead to the regulation of carbon dioxide as a criteria pollutant under the CAA and have significant ramifications for Rayonier and the industry in general. In this regard, the EPA has published various proposed regulations, which are currently subject to numerous legal challenges, affecting the operation of existing and new industrial facilities that emit carbon dioxide. In addition, as a result of the EPA's decision to regulate greenhouse gases under the CAA, the states will now have to consider them in permitting new or modified facilities.

Overall, it is likely that future legislative and regulatory activity in this area will in some way impact Rayonier, but it is unclear at this time whether such impact will be, in the aggregate, positive or negative, or material. For example, while Rayonier’s Performance Fibers mills produce greenhouses gases and utilize fossil fuels, they also generate a substantial amount of their energy from wood fiber (often referred to as "biomass"), which may be viewed more favorably than fossil fuels in future legislative and regulatory proposals, but that is uncertain at this time. However, environmental groups have generally opposed the use of biomass for energy production due to their concerns about deforestation. Our extensive timber holdings and the biomass they produce may provide opportunities for us to benefit from new legislation and regulation, especially due to the potential benefits available from carbon capture and sequestration opportunities, sale of "carbon credits" and "renewable portfolio standards" that mandate the use of non-fossil fuels by electricity generators, which could lead to increased demand for biomass products from our forests. We continue to monitor political and regulatory developments in this area, but their overall impact on Rayonier, from a cost, benefit and financial performance standpoint, remains uncertain at this time.

Investment returns on pension assets may be lower than expected or interest rates may decline, requiring us to make significant additional cash contributions to our plans.

We sponsor several defined benefit pension plans, which cover many of our salaried and hourly employees. The Federal Pension Protection Act of 2006 requires that certain capitalization levels be maintained in each of these plans. Because it is unknown what the investment return on pension assets will be in future years or what interest rates may be at any point in time, no assurances can be given that applicable law will not require us to make future material plan contributions. Any such contributions could adversely affect our financial condition. See Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Use of Estimates for additional information about these plans, including funded status.

Our joint venture partners may have interests that differ from ours and may take actions that adversely affect us.

We participate in a joint venture in New Zealand, and may enter into other joint venture projects; for example, as part of our real estate strategy. A joint venture involves potential risks such as:

- not having voting control over the joint venture;
- the venture partners at any time may have economic or business interests or goals that are inconsistent with ours;
- the venture partners may take actions contrary to our instructions or requests, or contrary to our policies or objectives with respect to the investment; and,
- the venture partners could experience financial difficulties.

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Actions by our venture partners may subject property owned by the joint venture to liabilities greater than those contemplated by the joint venture agreement or to other adverse consequences.

We may be delayed or unsuccessful in completing our cellulose specialties expansion project.

In 2011, we announced a major expansion of our Jesup, Georgia facility, whereby we plan to increase our cellulose specialties production capacity by about 190,000 tons per year. We expect to complete construction of this project and also exit the absorbent materials (i.e., fluff pulp) business in 2013. In the event that completion of the project is significantly delayed or unsuccessful, we could suffer a material adverse effect on our business, results of operations and financial condition.

We may be unsuccessful in carrying out our land acquisition strategy.

We have pursued, and intend to continue to pursue, acquisitions of timberland and real estate properties that meet our investment criteria. Our timberland and real estate acquisitions may not perform in accordance with our expectations. We anticipate financing any such acquisitions through cash from operations, borrowings under our credit facilities, the use of equity, proceeds from equity or debt offerings or proceeds from asset dispositions, or any combination thereof. The failure to identify and complete suitable timberland and real estate property acquisitions, and the failure of any acquisitions to perform to our expectations, could adversely affect our operating results.

Our failure to maintain satisfactory labor relations could have a material adverse effect on our business.

Approximately 48 percent of our work force is unionized. These workers are exclusively in our Performance Fibers business. As a result, we are required to negotiate the wages, benefits and other terms with these employees collectively. Our financial results could be adversely affected if labor negotiations were to restrict the efficiency of our operations. In addition, our inability to negotiate acceptable contracts with any of these unions as existing agreements expire could result in strikes or work stoppages by the affected workers. For example, as discussed in Item 1 - Business, our collective bargaining agreement at our Jesup, Georgia facility expired on June 30, 2012. While negotiations continue, if the unionized employees were to engage in a strike or other work stoppage, or other employees were to become unionized, we could experience a significant disruption of our operations, which could have a material adverse effect on our business, results of operations and financial condition.

Weather and other natural conditions may limit our timber harvest and sales.

Weather conditions, timber growth cycles and restrictions on access may limit harvesting of our timberlands, as may other factors, including damage by fire, insect infestation, disease, prolonged drought and natural disasters such as wind storms and hurricanes.

We do not insure against losses of timber from any causes, including fire.

The volume and value of timber that can be harvested from our timberlands may be reduced by fire, insect infestation, severe weather, disease, natural disasters and other causes beyond our control. A reduction in our timber inventory could adversely affect our financial results and cash flows. As is typical in the forestry industry, we do not maintain insurance for any loss to our timber, including losses due to these causes.

A significant portion of the timberland that we own, lease or manage is concentrated in limited geographic areas.

We own, lease or manage approximately 2.7 million acres of timberland and real estate located primarily in the United States and New Zealand. Approximately 75 percent of our timberlands are located in four states: Alabama, Florida, Georgia, and Washington. Accordingly, if the level of production from these forests substantially declines, or if the demand for timber in those regions declines, it could have a material adverse effect on our overall production levels and our revenues.

We are dependent upon attracting and retaining key personnel, the loss of whom could adversely affect our business.

We believe that our success depends, to a significant extent, upon our ability to attract and retain key senior management and operations management personnel. Our failure to recruit and retain these key personnel could adversely affect our financial condition or results of operations.

Increases in market interest rates may adversely affect the price of our common shares.

One of the factors that may influence the price of our common shares is our annual dividend yield as compared to yields on other financial instruments. Thus, an increase in market interest rates will result in higher yields on other financial instruments, which could adversely affect the price of our common shares.

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We have a significant amount of debt and the capacity to incur significant additional debt.
As of December 31, 2012, we had $1.3 billion of debt outstanding. See Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Contractual Financial Obligations for the payment schedule of our long-term debt obligations. We expect that existing cash, cash equivalents, cash provided from operations and our bank credit facilities will be sufficient to meet ongoing cash requirements. Moreover, we have the borrowing capacity to incur significant additional debt and may do so if we enter into one or more strategic, merger, acquisition or other corporate or investment opportunities, or otherwise invest capital in one or more of our businesses. However, failure to generate sufficient cash as our debt becomes due, or to renew credit lines prior to their expiration, may adversely affect our business, financial condition, operating results and cash flow.

REIT and Tax-Related Risks
If we fail to remain qualified as a REIT, we will have reduced funds available for distribution to our shareholders because our REIT income will be subject to taxation.
We intend to operate in accordance with REIT requirements pursuant to the Internal Revenue Code of 1986, as amended (the "Code"), and related U.S. Treasury regulations and administrative guidance. Qualification as a REIT involves the application of highly technical and complex provisions of the Code, which are subject to change, perhaps retroactively, and which are not within our control. We cannot assure that we will remain qualified as a REIT or that new legislation, U.S. Treasury regulations, administrative interpretations or court decisions will not significantly affect our ability to remain qualified as a REIT or the federal income tax consequences of such qualification.
We continually monitor and test our compliance with all REIT requirements. In particular, we regularly test our compliance with the REIT "asset tests," which require generally that, at the close of each calendar quarter, (1) at least 75% of the market value of our total assets must consist of REIT-qualifying interests in real property (such as timberlands), including leaseholds and options to acquire real property and leaseholds, as well as cash and cash items and certain other specified assets and (2) no more than 25% of the market value of our total assets may consist of the securities of one or more "taxable REIT subsidiaries" or other assets that are not qualifying assets for purposes of the 75% test in clause (1) above. It should be noted, however, that under the applicable REIT requirements, mere fluctuation of the relative values of a REIT's assets from one period to the next, without the occurrence of one or more specific events described in the Code and applicable REIT regulations, does not require a revaluation of those assets for purposes of the REIT asset tests.
If in any taxable year we fail to qualify as a REIT, we will not be allowed a deduction for dividends paid to shareholders in computing our taxable income and we will be subject to federal income tax on our taxable income. In addition, we will be disqualified from treatment as a REIT for the four taxable years following the year during which the qualification was lost, unless we are entitled to relief under certain provisions of the Code. As a result, our net income and the cash available for distribution to our shareholders could be reduced for up to five years or longer.
As of December 31, 2012 and as of the date of filing of this Annual Report on Form 10-K, Rayonier is in compliance with the asset tests described above. We are aware, however, that the continued growth of our Performance Fibers business, which consists of non-qualifying assets that we hold through our taxable REIT subsidiary, could raise issues with respect to future compliance with the asset tests described above. A failure to comply with the asset tests ultimately could cause us to fail to qualify as a REIT and to lose the associated benefits of REIT status, which could have a material adverse effect on our financial condition.
If we fail to remain qualified as a REIT, we may need to borrow funds or liquidate some investments or assets to pay the additional tax liability. Accordingly, cash available for distribution to our shareholders would be reduced.
The extent of our use of taxable REIT subsidiaries may affect the price of our common shares relative to the share price of other REITs.
We conduct a significant portion of our business activities through one or more taxable REIT subsidiaries. Our use of taxable REIT subsidiaries enables us to engage in non-REIT qualifying business activities such as the production and sale of performance fibers and wood products, non-passive real estate activities including dealer sale of HBU property and other real estate and the sale of logs. Taxable REIT subsidiaries are subject to corporate-level income tax.

Therefore, we pay income taxes on the income generated by our taxable REIT subsidiaries. Our use of taxable REIT subsidiaries may cause the market to value our common shares differently than the shares of other REITs, which may not use taxable REIT subsidiaries as extensively as we use them.

Our status as a REIT may affect our ability to expand our taxable REIT subsidiaries' operations.

Taxable REIT subsidiaries are limited in size based upon a REIT's real estate assets. Under the Code, no more than 25 percent of the value of the gross assets of a REIT may be comprised of securities of one or more taxable REIT subsidiaries. This limitation may affect our ability to increase the size of our taxable REIT subsidiaries' operations and, in particular, our Performance Fibers business.

Lack of shareholder ownership and transfer restrictions in our articles of incorporation may affect our ability to qualify as a REIT.

In order to qualify as a REIT, an entity cannot have five or fewer individuals who own, directly or indirectly after applying attribution of ownership rules, 50 percent or more of the value of its outstanding shares during the last six months in each calendar year. Although it is not required by law or the REIT provisions of the Code, almost all REITs have adopted ownership and transfer restrictions in their articles of incorporation or organizational documents which seek to assure compliance with that rule. While we are not in violation of the ownership rules, we do not have, nor do we have any current plans to adopt, share ownership and transfer restrictions. As such, the possibility exists that five or fewer individuals could acquire 50 percent or more of the value of our outstanding shares, which could result in our disqualification as a REIT.

We may be limited in our ability to fund shareholder distributions using cash generated from our taxable REIT subsidiaries' operations.

The ability of the REIT to receive dividends from our taxable REIT subsidiaries is limited by provisions of the Code. Specifically, at least 75 percent of a REIT's annual gross income must be derived from passive real estate rents, royalties and gains including sales of our standing timber and other types of qualifying real estate income and no more than 25 percent of our gross income may consist of dividends from our taxable REIT subsidiaries and other passive non-real estate income.

This limitation on our ability to receive dividends from our taxable REIT subsidiaries may impact our ability to fund cash distributions to our shareholders using cash flows from our taxable REIT subsidiaries. We can, however, under current law, issue stock dividends for up to 80 percent of our regular dividend distribution.

Certain of our business activities are potentially subject to prohibited transactions tax.

As a REIT, we will be subject to a 100 percent tax on any net income from "prohibited transactions." In general, prohibited transactions are sales or other dispositions of property to customers in the ordinary course of business. Sales of performance fibers and wood products which we produce and sales of logs constitute prohibited transactions. In addition, dealer sales of timberlands or other real estate constitute prohibited transactions.

We intend to avoid the 100 percent prohibited transactions tax by conducting activities that would otherwise be prohibited transactions through one or more taxable REIT subsidiaries. We may not, however, always be able to identify timberland properties that become part of our "dealer" real estate sales business. Therefore, if we sell timberlands which we incorrectly identify as property not held for sale to customers in the ordinary course of business or which subsequently become properties held for sale to customers in the ordinary course of business, we face the potential of being subject to the 100 percent prohibited transactions tax.

Our cash dividends are not guaranteed and may fluctuate.

Generally, REITs are required to distribute 90 percent of their ordinary taxable income, but not their net capital gains income. Accordingly, we do not believe that we are required to distribute material amounts of cash since substantially all of our taxable income is treated as capital gains income. However, a REIT must pay corporate level tax on its undistributed capital gains.

Our Board of Directors, in its sole discretion, determines the amount of quarterly dividends to be provided to our shareholders based on consideration of a number of factors. These factors include, but are not limited to, our results of operations, cash flow and capital requirements, economic conditions, tax considerations, borrowing capacity and other factors, including debt covenant restrictions that may impose limitations on cash payments, future acquisitions and divestitures, harvest levels, changes in the price and demand for our products and general market demand for timberlands, including those timberland properties that have higher and better uses. Consequently, our dividend levels may fluctuate.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

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Item 2. PROPERTIES

The following table details the significant properties we own, lease, or manage by reportable segment (acres in millions) at December 31, 2012:

Segment/Operations	Location	Total Acres	Fee-Owned Acres	Long-Term Leased Acres	Managed Acres
Forest Resources	Atlantic	1.1	0.8	0.3	—
	Gulf States	0.7	0.7	—	—
	Northern	0.5	0.5	—	—
	New Zealand (a)	0.3	—	—	0.3
	Total Forest Resources Acres	2.6	2.0	0.3	0.3
Real Estate	U.S.	0.1	0.1	—	—
Total Forest Resources and Real Estate Acres		2.7	2.1	0.3	0.3

		Capacity/Function	Owned/Leased
Performance Fibers	Jesup, Georgia	590,000 metric tons of pulp	Owned
	Fernandina Beach, Florida	155,000 metric tons of pulp	Owned
	Jesup, Georgia	Research Facility	Owned
Wood Products (b) (c)	Baxley, Georgia	120 million board feet of lumber	Owned
	Swainsboro, Georgia	125 million board feet of lumber	Owned
	Eatonton, Georgia	80 million board feet of lumber	Owned
Wood Chipping Facilities	Offerman, Georgia	800,000 short green tons of wood chips	Owned
	Eastman, Georgia	350,000 short green tons of wood chips	Owned
	Barnesville, Georgia	350,000 short green tons of wood chips	Owned
	Jarratt, Virginia	250,000 short green tons of wood chips	Owned
Corporate and Other	Jacksonville, Florida	Corporate Headquarters	Leased

(a) Represents acres under Rayonier management, owned by the JV, in which Rayonier has a 26 percent interest.

(b) These locations also have a combined annual production capacity of approximately 625,000 short green tons of wood chips.

(c) In January 2013, we announced plans to sell our Wood Products business to International Forest Products Limited for $80 million. The sale is expected to close in the first quarter of 2013.

Our manufacturing facilities are maintained through ongoing capital investments, regular maintenance and equipment upgrades. During 2012, our Performance Fibers manufacturing facilities produced at or near capacity levels for most of the year.

Item 3. LEGAL PROCEEDINGS

The Company has been named as a defendant in various lawsuits and claims arising in the normal course of business. While we have procured reasonable and customary insurance covering risks normally occurring in connection with our businesses, we have in certain cases retained some risk through the operation of self-insurance, primarily in the areas of workers’ compensation, property insurance and general liability. In our opinion, these other lawsuits and claims, both individually and in the aggregate, are not expected to have a material adverse effect on our financial position, results of operations, or cash flow. In addition, see the Subsequent Event referenced in Note 16 — Contingencies, which is incorporated herein by reference.

For further information on environmental issues, see Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Environmental Regulation, Note 15 — Liabilities for Dispositions and Discontinued Operations and Note 16 — Contingencies.

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Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Prices of our Common Shares; Dividends

The table below reflects, for the quarters indicated, the dividends declared per share and the range of market prices of our Common Shares as reported in the consolidated transaction reporting system of the NYSE, the only exchange on which our shares are listed, under the trading symbol RYN.

	High	Low	Dividends
2012			
Fourth Quarter	$51.86	$47.45	$0.44
Third Quarter	$51.87	$44.82	$0.44
Second Quarter	$46.04	$41.33	$0.40
First Quarter	$47.56	$43.38	$0.40
2011			
Fourth Quarter	$45.28	$34.68	$0.40
Third Quarter	$45.37	$35.34	$0.40
Second Quarter	$44.88	$39.64	$0.36
First Quarter	$41.81	$35.28	$0.36

On February 26, 2013, the Company announced a first quarter dividend of 44 cents per share payable March 28, 2013, to shareholders of record on March 14, 2013. There were approximately 7,914 shareholders of record of our Common Shares on February 20, 2013.

Issuer Repurchases

In 1996, we began a Common Share repurchase program (the "anti-dilutive program") to minimize the dilutive effect on earnings per share of our employee incentive stock plans. This program limits the number of shares that may be purchased each year to the greater of 1.5 percent 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 totaling 2.1 million. These shares were authorized separately from the anti-dilutive program, and do not have expiration dates. In 2012, there were no shares repurchased under these plans. As of December 31, 2012, there were 3,765,587 shares available for repurchase.

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Stock Performance Graph

The following graph compares the performance of Rayonier’s Common Shares (assuming reinvestment of dividends) with a broad-based market index (Standard & Poor’s ("S&P") 500), and two industry-specific indices (the Financial Times Stock Exchange ("FTSE") National Association of Real Estate Investment Trusts ("NAREIT") All Equity REITs Index and the S&P 1500 Paper and Forest Products Index).

The table and related information shall not be deemed to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

The data in the following table was used to create the above graph as of December 31:

	2007	2008	2009	2010	2011	2012
Rayonier Inc.	$100	$70	$99	$129	$171	$206
S&P 500®	$100	$63	$80	$92	$94	$109
FTSE NAREIT All Equity REITs	$100	$62	$80	$102	$110	$132
S&P© 1500 Paper & Forest Products Index	$100	$41	$81	$88	$96	$126

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Item 6. SELECTED FINANCIAL DATA

The following financial data should be read in conjunction with our Consolidated Financial Statements.

	At or For the Years Ended December 31,				
	2012	2011	2010	2009	2008
	(dollar amounts in millions, except per share data)				
Profitability:					
Sales	$1,571	$1,489	$1,315	$1,169	$1,271
Operating income (a)	411	356	282	410	226
Net income (b)	279	276	218	313	149
Diluted earnings per common share	2.17	2.20	1.79	2.60	1.25
Financial Condition:					
Total assets	$3,123	$2,569	$2,364	$2,253	$2,082
Total debt (c)	1,270	847	768	700	747
Shareholders' equity	1,438	1,323	1,252	1,146	939
Shareholders' equity — per share	11.66	10.84	10.34	9.61	7.94
Cash Flows:					
Cash provided by operating activities (d)	$446	$432	$495	$307	$340
Cash used for investing activities					
Capital expenditures	$158	$145	$138	$92	$105
Purchase of timberlands and other (c)	107	321	5	—	234
Jesup mill cellulose specialties expansion	201	43	—	—	—
Other	7	(20)	—	1	(9)
Total cash used for investing activities	$473	$489	$143	$93	$330
Cash (provided by) used for financing activities	(229)	215	78	202	128
Depreciation, depletion and amortization	149	136	143	158	168
Cash dividends paid	207	185	164	158	157
Dividends paid — per share	$1.68	$1.52	$1.36	$1.33	$1.33
Non-GAAP Financial Measures:					
EBITDA (e)					
Forest Resources	$121	$110	$92	$77	$116
Real Estate	40	59	75	80	101
Performance Fibers	420	354	272	242	205
Wood Products	13	1	5	(6)	(2)
Other Operations	—	1	1	(3)	3
Corporate and other	(34)	(33)	(20)	178	(28)
Total EBITDA (a)	$560	$492	$425	$568	$395
Debt to EBITDA	2.3 to 1	1.7 to 1	1.8 to 1	1.2 to 1	1.9 to 1
Performance Ratios (%):					
Operating income to sales	26	24	21	35	18
Return on equity (f)	20	21	18	30	15
Return on capital (f)	11	13	11	18	9
Debt to capital	47	39	38	38	44
Other:					
Timberland and real estate acres — owned, leased, or managed, in millions of acres	2.7	2.7	2.4	2.5	2.6

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	For the Years Ended December 31,				
	2012	2011	2010	2009	2008
Selected Operating Data:					
Forest Resources					
Sales volume (thousands of short green tons)					
Atlantic	3,310	3,406	3,571	4,532	4,452
Gulf States	2,011	1,335	1,359	1,726	2,167
Northern	1,947	1,665	1,369	1,402	1,971
Total	7,268	6,406	6,299	7,660	8,590
Real Estate—acres sold					
Development	261	606	472	789	501
Rural	16,237	14,821	15,868	15,628	15,845
Non-Strategic Timberlands	14,425	12,191	44,556	53,703	49,801
Total Acres Sold	30,923	27,618	60,896	70,120	66,147
Performance Fibers					
Sales volume (thousands of metric tons)					
Cellulose specialties	503	504	480	464	471
Absorbent materials	214	227	238	270	253
Total	717	731	718	734	724
Wood Products					
Lumber sales volume — in millions of board feet	287	264	243	224	321

(a) The 2011 results included a $7 million increase in a disposition reserve. The 2010 results included a gain of $12 million from the sale of a portion of the Company's interest in its JV. The 2009 results included income of $205 million related to the Alternative Fuel Mixture Credit ("AFMC").

(b) The 2011 results included a benefit of $16 million for the reversal of a reserve related to the taxability of the AFMC. The 2010 results included a tax benefit of $24 million for the Cellulosic Biofuel Producer Credit ("CBPC") and a gain of $12 million from the sale of a portion of the Company's interest in its JV. The 2009 results included income of $193 million related to the AFMC.

(c) Total timberland acquisitions for 2011 of $426 million included $105 million of notes assumed.

(d) The 2010 results included a cash refund from the Internal Revenue Service ("IRS") of $189 million related to the AFMC.

(e) EBITDA is defined as earnings before interest, taxes, depreciation, depletion and amortization. EBITDA is a non-GAAP valuation measure used by our Chief Operating Decision Maker, existing shareholders and potential shareholders to measure how the Company is performing relative to the assets under management. We reconcile EBITDA to Net Income for the Consolidated Company and Operating Income for the Segments, as those are the nearest GAAP measure for each. See the following page for a reconciliation of Operating Income to EBITDA in total and by segment. See Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations - Performance and Liquidity Indicators for a reconciliation of Net Income to EBITDA.

(f) Return on equity is calculated by dividing net income by the average of the opening (1/1/XX) and ending (12/31/XX) shareholders' equity for each period presented. Return on capital is calculated by dividing net income by the sum of average shareholders' equity and average outstanding debt.

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Reconciliation of Operating Income (Loss) by Segment to EBITDA by Segment
(dollars in millions)

	Forest Resources	Real Estate	Performance Fibers	Wood Products	Other	Corporate and other	Total
2012							
Operating income	$46	$32	$359	$10	$—	$(36)	$411
Add: Depreciation, depletion and amortization	75	8	61	3	—	2	149
EBITDA	$121	$40	$420	$13	$—	$(34)	$560
2011							
Operating income (loss) (a)	$47	$47	$298	$(2)	$1	$(35)	$356
Add: Depreciation, depletion and amortization	63	12	56	3	—	2	136
EBITDA	$110	$59	$354	$1	$1	$(33)	$492
2010							
Operating income (b)	$33	$53	$214	$2	$1	$(21)	$282
Add: Depreciation, depletion and amortization	59	22	58	3	—	1	143
EBITDA	$92	$75	$272	$5	$1	$(20)	$425
2009							
Operating income (loss) (c)	$7	$56	$184	$(11)	$(3)	$177	$410
Add: Depreciation, depletion and amortization	70	24	58	5	—	1	158
EBITDA	$77	$80	$242	$(6)	$(3)	$178	$568
2008							
Operating income (loss)	$31	$80	$149	$(7)	$3	$(30)	$226
Add: Depreciation, depletion and amortization	85	21	56	5	—	2	169
EBITDA	$116	$101	$205	$(2)	$3	$(28)	$395

(a) Corporate and other included a $7 million increase in a disposition reserve. See Note 15 — Liabilities for Dispositions and Discontinued Operations for additional information.

(b) Corporate and other included a gain of $12 million from the sale of a portion of the Company's interest in the JV. See Note 5 — Joint Venture Investment for additional information.

(c) Corporate and other included $205 million related to the AFMC. See Note 8 — Income Taxes — Alternative Fuel Mixture Credit("AFMC") and Cellulosic Biofuel Producer Credit ("CBPC") for additional information.

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Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Summary

Our revenues, operating income and cash flows are primarily derived from three core business segments: Forest Resources, Real Estate and Performance Fibers. We own or lease (under long-term agreements) approximately 2.4 million acres of timberland and real estate in Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, New York, Oklahoma, Texas and Washington. We also manage and have a 26 percent interest in a joint venture with 0.3 million acres of timberland in New Zealand. We believe we are the seventh largest private landowner in the United States. Our Real Estate business seeks to maximize the value of our properties which are more valuable for development, recreational or conservation uses than for growing timber, and sell our non-strategic timberland. Our Performance Fibers business has been a supplier of premier cellulose specialty grades of pulp for over eighty-five years and we are on schedule to complete the cellulose specialties expansion ("CSE") at our Jesup, Georgia mill in mid-2013.

We have consistently generated strong cash flows and operating results by focusing on the following critical financial measures: segment operating income and EBITDA, cash available for distribution in total and on a per-share basis, debt to EBITDA ratio, debt to capital ratio, return on equity, return on fair market value (Forest Resources and Real Estate) and return on capital employed (Performance Fibers). Key non-financial measures include safety and environmental performance, quality, production as a percent of capacity and various yield statistics.

Our focus is on cash generation, effective allocation of capital and maximizing returns for shareholders. Our strategy consists of the following key elements:

- Increase the size and quality of our timberland holdings through timberland acquisitions while selling timberland that no longer meets our strategic or financial return requirements. This strategy, which requires a disciplined approach and rigorous adherence to strategic and financial metrics, can result in significant year-to-year variation in timberland acquisitions and divestitures. For example, we acquired 88,000 acres of timberland in 2012, 308,000 acres in 2011, 3,000 acres in 2010, none in 2009, and 110,000 acres in 2008. We sold approximately 14,000, 12,000 and 45,000 acres of non-strategic timberland in 2012, 2011 and 2010, respectively.
- Extract maximum value from our HBU properties. In prior years our focus on development properties was to obtain entitlements. Our entitlement efforts are largely complete as we have approximately 39,000 acres entitled in Florida and Georgia. We now will continue to work on monetizing these properties. For our prime industrial and commercial properties, we have focused on mega-site certification. In 2012 we achieved certification of 1,400 acres in Bryan County, GA as development-ready for large industrial or commercial uses. We have also made significant progress on certification of an 1,800 acre industrial site in Nassau County, FL. We will continue our rural HBU program of sales for conservation, recreation and industrial uses. Our primary markets are in our Southern U.S. holdings.
- Maintain our global leadership in high purity cellulose specialties through investments to increase capacity, and improve product quality and technical expertise. In May 2011, our Board of Directors approved the CSE to convert a fiber line at our Jesup, Georgia mill from production of absorbent materials to cellulose specialties. The CSE will add approximately 190,000 metric tons of cellulose specialties capacity, bringing total cellulose specialties capacity to about 675,000 metric tons. Production of cellulose specialties is expected to gradually increase to capacity by 2015. Customer commitments for the additional volume exceed 85 percent. Upon completion of this $375 million to $390 million project, we will be exiting the more commodity-like absorbent materials business (estimated 260,000 metric tons of capacity). This expansion will help further differentiate our business as we will be able to increase our focus on high-end specialty pulp and the development of customer specific applications. The project remains on schedule for a mid-2013 start-up.

As part of our strategy to focus only on specialty manufacturing, we agreed to sell our Wood Products business for $80 million. This sale is expected to close in the first quarter of 2013.

Management and our Board of Directors have developed a long-range planning process for the growth of our three core businesses. Our long-range planning process incorporates strategic factors such as allocation of capital, market forces and risks, access to capital, the competitive landscape and continued compliance with REIT requirements (particularly in view of the continued growth of our Performance Fibers business). We are committed to having an unencumbered approach to grow each of our three core businesses. Any actions we may take in the future with respect to changing strategic factors will be focused on ensuring each of our businesses can take advantage of growth opportunities while maximizing value for our shareholders.

We continuously evaluate our capital structure. Our year-end debt-to-capital ratio was 47 percent and our debt-to-EBITDA ratio was 2.3 times, while our net debt-to-EBITDA ratio was 1.8 times. We believe that a debt-to-EBITDA ratio of up to three times is appropriate to keep our weighted-average cost of capital low while maintaining an investment grade debt rating as well as retaining the flexibility to actively pursue growth opportunities.

We have historically maintained conservative leverage and believe in keeping ample liquidity and financial flexibility. Maintaining an investment grade debt rating has been a key element of this overall financial strategy as it historically allowed access to corporate debt markets even in difficult economic conditions. Our activity in capital markets the past year included the following:

- In March 2012, we issued $325 million of 3.75% Senior Notes due 2022. Approximately $150 million of the proceeds from these notes were used to repay borrowings under our revolving credit facility.
- The 3.75% Senior Exchangeable Notes matured in October 2012 and the outstanding principal balance of $300 million was paid in cash, financed through borrowings on the Company's revolving credit facility.
- In October 2012, we amended the revolving credit facility to take advantage of better pricing, improve covenants and change the debt ceiling calculation to provide additional borrowing capacity. The April 2016 expiration date was not changed.
- In December 2012, the Company entered into a $640 million term credit agreement, which allows borrowings up to $640 million through December 2017 under a maximum of five advances. At closing, TRS borrowed $300 million and used the proceeds to pay down borrowings on the revolving credit facility, leaving $340 million of available capacity under the term credit agreement.

We had $171 million of available borrowing capacity on the amended revolving credit facility as of December 31, 2012. See Note 11 — Debt for additional information on these transactions.

We maintain four qualified defined benefit plans and one unfunded plan to provide benefits in excess of amounts allowable in qualified plans under current tax law. At December 31, 2012, our qualified plans were underfunded $98 million versus $86 million at December 31, 2011 primarily due to a decrease in the discount rate from 4.20 percent to 3.70 percent. Our unfunded plan's liabilities increased from $31 million at December 31, 2011 to $35 million at December 31, 2012, also due to the decline in the discount rate. Although we have no pension contribution requirements in 2013, we may make discretionary pension contributions.

Our strategic capital is expected to be allocated primarily to our Performance Fibers segment for completion of the Jesup mill CSE and to the Forest Resources segment for timberland acquisitions. We do not have any debt repayment requirements in 2013 but may incur additional debt in conjunction with strategic opportunities that would cause us to exceed the debt-to-capital ratio mentioned above.

In 2012, our annual dividend was $1.68 per share, reflecting a third quarter increase in the quarterly dividend from $0.40 per share to $0.44 per share. Our 2013 dividend payments are expected to total $223 million assuming no change in the current rate.

Overall, we believe we have adequate liquidity and sources of capital to run our businesses efficiently and effectively and to maximize the value of assets under management. We expect cash flow from operations, proceeds from the Wood Products sale and debt available under our term credit agreement to adequately cover planned capital expenditures (including strategic outlays), interest expense and dividends in 2013.

Operational Strategies

Timber is sold primarily through an auction process, although it is also marketed through log supply agreements (primarily in the Northern region). We operate Forest Resources as a stand-alone business, requiring our Performance Fibers and lumber mills to compete with third-party bidders for timber, primarily at auction. This promotes realizing market value and generating a true measure of fair value returns in Forest Resources while minimizing the possibility of our manufacturing facilities being subsidized with below-market cost wood. We focus on optimizing Forest Resources returns by continually improving productivity and yields beginning with genetically superior seedlings from our own nurseries and through advanced silvicultural practices which take into account soil, climate and biological considerations. We also actively pursue other non-timber sources of income, primarily hunting and other recreational licenses. Finally, we evaluate timberland acquisitions and pursue those that meet various financial and strategic criteria.

A significant portion of our acreage is more valuable for development, recreational or conservation purposes than for growing timber. To maximize the value of our development properties, our strategy has been to engage in value-added entitlement activities versus selling real estate in bulk without entitlements. Our entitlement efforts are largely complete as we now have approximately 7,900 acres of entitled land in Georgia and 31,200 acres of entitled land in Florida. We will now begin to actively market these properties in order to monetize them. Additionally, in 2012 we continued our strategy of selling non-strategic timberland holdings, which enables us to redeploy capital to higher returning assets.

In Performance Fibers, our focus is to differentiate our business by developing and improving products for customer specific applications and to improve our position as a premier supplier of cellulose specialties. In 2012, cellulose specialties accounted for

70 percent of our sales volume, with the balance in absorbent materials consisting primarily of fluff pulp. We are a market leader in cellulose specialties, utilizing our considerable technical applications expertise to customize products to exacting customer specifications, which allows differentiation from most competitors. Fluff pulp is a semi-commodity with limited opportunity for differentiation other than by price and customer service. There are a number of much larger companies in the fluff pulp market and we are not a market leader. These factors were major considerations in our decision to proceed with the CSE project and exit the fluff market. Cost control is a critical element to remaining competitive in the Performance Fibers markets. The keys to success are operating continuously, safely, and efficiently while closely managing raw material and conversion costs. Capital expenditures typically are directed toward cost reduction, product enhancements, environmental requirements and efficiency projects.

In January 2013, we reached an agreement to sell our Wood Products business consisting of three sawmills. The sale is expected to close in the first quarter of 2013.

Our capital expenditures totaled $158 million in 2012, excluding the CSE and strategic acquisitions. For 2013, non-strategic capital expenditures are expected to range from $140 million to $145 million and will be invested primarily in Performance Fibers on cost reduction and efficiency projects and in silvicultural investments in our timberlands. In 2013, spending is expected to decrease from the prior year primarily due to the completion of a number of projects at our Fernandina mill at the end of 2012 and the first half of 2013. We expect 2013 spending on completion of the CSE to range between $130 million and $145 million.

Industry and Market Conditions

In 2012, demand for pulpwood was strong in the Gulf States and Atlantic regions as pulp mills continued to operate at full capacity and demand for bioenergy continued. The market was impacted by a decreased supply of pulpwood in the Gulf States with poor logging conditions due to wet weather. Domestic demand for sawtimber gained strength due to slight improvements in the housing market. Export sawtimber markets in the Pacific Northwest region showed continued weakness during the first half of the year primarily due to reduced Chinese demand for logs with some price recovery exhibited in the fourth quarter. We anticipate Chinese demand for logs will continue to strengthen during 2013. Overall, we expect 2013 timber demand and pricing to exceed 2012 levels as general economic conditions improve in the U.S. and Chinese demand returns.

In Real Estate, we expect the demand for development property to slowly return with the modestly improving housing market and overall economic climate. However, there are indications of increasing development interest in some local markets.

In Performance Fibers, demand remains strong for our cellulose specialties fibers. Sales are typically made under multi-year contracts, which establish target volumes at the beginning of each year and buffer some of the changes in supply and demand typically seen in worldwide commodity pulp and paper markets. We have long-term contracts with the world's largest manufacturers of acetate-based products and other key customers that extend through 2013 to 2017 and represent a significant majority of our high value cellulose specialties production. Our recognized technical and market leadership has allowed us to maintain strong pricing across our cellulose specialties product lines.

Absorbent materials prices declined during 2012 as market conditions weakened. We expect average 2013 prices to be below 2012. Sales of absorbent materials are typically made with an annual volume agreement that allows price to move with the market during the year. During 2013, we will exit this market when we complete the CSE project.

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 to disclose contingent assets and liabilities in our Annual Report on Form 10-K. 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.

Merchantable inventory and depletion costs as determined by forestry timber harvest models

Significant assumptions and estimates are used in the recording of timberland inventory cost and depletion. Merchantable standing timber inventory is estimated by our land information services group annually, using industry-standard computer software. The inventory calculation takes into account growth, in-growth (annual transfer of oldest pre-merchantable age class into merchantable inventory), timberland sales and the annual harvest specific to each business unit. The age at which timber is considered merchantable is reviewed periodically and updated for changing harvest practices, future harvest age profiles and biological growth factors.

An annual depletion rate is established for each particular region by dividing merchantable inventory book cost by standing merchantable inventory. Pre-merchantable records are maintained for each planted year age class, recording acres planted, stems per acre and costs of planting and tending. Changes in the assumptions and/or estimations used in these calculations may affect our timber inventory and depletion costs. Factors that can impact timber volume include weather changes, losses due to natural causes, differences in actual versus estimated growth rates and changes in the age when timber is considered merchantable. A

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three percent company-wide change in estimated standing merchantable inventory would cause 2012 depletion expense to change by approximately $2 million.

Acquisitions of timberland can also affect the depletion rate. Upon the acquisition of timberland, we make a determination on whether to combine the newly acquired merchantable timber with an existing depletion pool or to create a new separate pool. The determination is based on the geographic location of the new timber, the customers/markets that will be served and species mix. In the fourth quarter of 2012, we acquired an additional 62,600 acres in the Gulf States region. Although 2012 depletion expense was not significantly impacted, we anticipate 2013 depletion to change by approximately $0.5 million. In 2011, we acquired approximately 308,000 acres of timberland mainly located in the Gulf States region resulting in a higher depletion rate. The acquisition did not significantly impact 2011 depletion expense but increased 2012 depletion expense by $2.2 million.

Depreciation and impairment of long-lived assets

Depreciation expense is computed using the units-of-production method for the Performance Fibers plant and equipment and the straight-line method on all other property, plant and equipment over the useful economic lives of the assets involved. We believe that these depreciation methods are the most appropriate under the circumstances as they most closely match revenues with expenses versus other generally accepted accounting methods. Long-lived assets are periodically reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Cash flows used in such impairment analyses are based on long-range plan projections, which take into account recent sales and cost data as well as macroeconomic drivers such as customer demand and industry capacity. The physical life of equipment, however, may be shortened by economic obsolescence caused by environmental regulation, competition or other causes.

Environmental costs associated with dispositions and discontinued operations

At December 31, 2012, we had $82 million of accrued liabilities for environmental costs relating to past dispositions and discontinued operations. Numerous cost assumptions are used in estimating these obligations. Factors affecting these estimates include changes in the nature or extent of contamination, changes in the content or volume of the material discharged or treated in connection with one or more impacted sites, requirements to perform additional or different assessment or remediation, changes in technology that may lead to additional or different environmental remediation strategies, approaches and workplans, discovery of additional or unanticipated contaminated soil, groundwater or sediment on or off-site, changes in remedy selection, changes in law or interpretation of existing law and the outcome of negotiations with governmental agencies or non-governmental parties. We periodically review our environmental liabilities and also engage third-party consultants to assess our ongoing remediation of contaminated sites. A significant change in any of the estimates could have a material effect on the results of our operations. Typically, these cost estimates do not vary significantly on a quarter to quarter basis, although there can be no assurance that such a variance will not occur in the future. In 2012 and 2011, we increased the liability by $1 million and $7 million, respectively. See Note 15 — Liabilities for Dispositions and Discontinued Operations for additional information.

Determining the adequacy of pension and other postretirement benefit assets and liabilities

We have four qualified benefit plans which cover most of our U.S. workforce and an unfunded plan to provide benefits in excess of amounts allowable under current tax law to certain participants in the qualified plans. All plans are currently closed to new participants. Pension expense for all plans was $19 million in 2012. Numerous estimates and assumptions are required to determine the proper amount of pension and postretirement liabilities and annual expense to record in our financial statements. The key assumptions include discount rate, return on assets, salary increases, health care cost trends, mortality rates, longevity and service lives of employees. Although there is authoritative guidance on how to select most of these assumptions, we exercise some degree of judgment when selecting these assumptions based on input from our actuary. Different assumptions, as well as actual versus expected results, would change the periodic benefit cost and funded status of the benefit plans recognized in the financial statements.

In determining pension expense in 2012, a $25 million return was assumed based on an expected long-term rate of return of 8.5 percent. The actual return for 2012 was a gain of $42 million, or 14 percent. Our long-term return assumption was established based on historical long-term rates of return on broad equity and bond indices, discussions with our actuary and investment advisors and consideration of the actual annualized rate of return from 1994 (the date of our spin-off from ITT Corporation) through 2012. At the end of 2012, we reviewed this assumption for reasonableness and determined that the 2012 long-term rate of return assumption should remain at 8.5 percent. At December 31, 2012, our asset mix consisted of 66 percent equities, 31 percent bonds and three percent real estate equity funds. We do not expect this mix to change materially in the near future.

In determining future pension obligations, we select a discount rate based on information supplied by our actuary. The actuarial rates are developed by models which incorporate high quality (AA rated), long-term corporate bond rates into their calculations. The discount rate decreased from 4.20 percent at December 31, 2011 to 3.70 percent at December 31, 2012.

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The Company's pension plans were underfunded by $134 million at December 31, 2012, a $16 million decrease in funding status from December 31, 2011 due primarily to the decreased discount rate. We had no mandatory pension contributions and did not make discretionary contributions to our qualified pension plans in 2012 or 2011. We made discretionary contributions of $50 million in 2010. Future requirements will vary depending on actual investment performance, changes in valuation assumptions, interest rates and requirements under the Pension Protection Act. See Note 20 — Employee Benefit Plans for additional information.

In 2013, we expect pension expense to be slightly above 2012 due to an increase in the amortization of actuarial losses resulting from a decrease in the discount rate. Future pension expense will be impacted by many factors including actual investment performance, changes in discount rates, timing of contributions and other employee related matters. The sensitivity of pension expense and projected benefit obligation to changes in economic assumptions is highlighted below:

	Impact on:	
Change in Assumption	Pension Expense	Projected Benefit Obligation
25 bp decrease in discount rate	+ 1.5 million	+ 15.8 million
25 bp increase in discount rate	- 1.5 million	- 14.9 million
25 bp decrease in long-term return on assets	+ 0.7 million	
25 bp increase in long-term return on assets	- 0.7 million	

Realizability of both recorded and unrecorded tax assets and tax liabilities

As a REIT, our Forest Resources operations are generally not subject to income taxation. As such, our income taxes can vary significantly based on the mix of income between our REIT and TRS businesses, thereby impacting our effective tax rate and the amount of taxes paid during fiscal periods. Therefore, our projection of estimated income tax for the year and our provision for quarterly income taxes, in accordance with generally accepted accounting principles, may have significant variability. Similarly, the assessment of the ability to realize certain deferred tax assets, or estimate deferred tax liabilities, may be subjective.

We have recorded certain deferred tax assets that we believe will be realized in future periods. These assets are reviewed periodically in order to assess their realizability. This review requires us to make assumptions and estimates about future profitability affecting the realization of these tax benefits. If the review indicates that the realizability may be less than likely, a valuation allowance is recorded at that time.

Our income tax returns are subject to examination by U.S. federal, state, and foreign taxing authorities. In evaluating the tax benefits associated with various tax filing positions, we record a tax benefit for an uncertain tax position if it is more-likely-than-not to be realized upon ultimate settlement of the issue. We record a liability for an uncertain tax position that does not meet this criterion. The liabilities for unrecognized tax benefits are adjusted in the period in which it is determined the issue is settled with the taxing authorities, the statute of limitations expires for the relevant taxing authority to examine the tax position or when new facts or information becomes available. See Note 8 — Income Taxes for additional information about our unrecognized tax benefits.

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Summary of our results of operations for the three years ended December 31:

Financial Information (in millions)	2012	2011	2010
Sales			
Forest Resources			
Atlantic	$64	$71	$72
Gulf States	45	31	29
Northern	110	102	67
New Zealand	11	11	9
Total Forest Resources	230	215	177
Real Estate			
Development	2	4	3
Rural	39	33	28
Non-Strategic Timberlands	16	34	65
Total Real Estate	57	71	96
Performance Fibers			
Cellulose specialties	935	824	686
Absorbent materials	158	196	195
Total Performance Fibers	1,093	1,020	881
Wood Products	88	68	68
Other Operations	105	122	102
Intersegment Eliminations	(2)	(7)	(9)
Total Sales	$1,571	$1,489	$1,315
Operating Income (Loss)			
Forest Resources	$46	$47	$33
Real Estate	32	47	53
Performance Fibers	359	298	214
Wood Products	10	(2)	2
Other Operations	—	1	1
Corporate and other (a)	(36)	(35)	(21)
Operating Income	411	356	282
Interest Expense	(45)	(51)	(50)
Interest/Other Income	1	1	1
Income Tax Expense (b)	(88)	(30)	(15)
Net Income	$279	$276	$218

(a) The 2011 results included a $7 million increase in a disposition reserve. See Note 15 — Liabilities for Dispositions and Discontinued Operations for additional information. The 2010 results included a gain of $12 million from the sale of a portion of the Company's interest in the JV. See Note 5 — Joint Venture Investment for additional information.

(b) The 2011 results included a benefit of $16 million from the reversal of a reserve related to the taxability of the AFMC. The 2010 results included a tax benefit of $24 million for the CBPC. See Note 8 — Income Taxes for additional information.

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Results of Operations, 2012 versus 2011
Forest Resources

Sales (in millions)	2011	Changes Attributable to: Price	Volume/ Mix/Other	2012
Atlantic	$71	$4	$(11)	$64
Gulf States	31	—	14	45
Northern	102	(13)	21	110
New Zealand	11	—	—	11
Total Sales	$215	$(9)	$24	$230

Operating Income (in millions)	2011	Changes Attributable to: Price	Volume/ Mix	Cost/Other	2012
Atlantic	$11	$4	$(1)	$3	$17
Gulf States	2	—	3	1	6
Northern	29	(13)	8	(3)	21
New Zealand/Other	5	—	—	(3)	2
Total Operating Income	$47	$(9)	$10	$(2)	$46

The Atlantic region's sales decreased from the prior year, primarily due to lower volumes as 2011 results included fire salvage timber. The decline in volume was partially offset by a 12 percent increase in 2012 pine stumpage prices as 2011 prices were negatively impacted by the fire salvage timber. Operating income improved from 2011 due to higher sales prices and non-timber income. The 2011 results also included approximately $2 million of write-downs from forest fires.

The Gulf States' sales and operating income increased from 2011 as volumes rose 51 percent, primarily due to the integration of the 2011 timberland acquisitions and higher non-timber income.

In the Northern region, sales increased from the prior year primarily due to higher volumes of delivered wood in the Northwest. However, operating income decreased primarily due to an eight percent decrease in price as a result of weaker Asian demand and higher logging and transportation costs.

The New Zealand sales represent timberland management fees for services provided to the JV, Matariki Forestry Group ("Matariki"). The operating income primarily represents the JV's equity earnings which decreased from 2011 mainly due to weaker Asian demand and lower carbon credit sales.

Real Estate

Our real estate holdings are primarily in the southeastern U.S. We segregate these real estate holdings into three groups: development HBU, rural HBU and non-strategic timberlands. Our strategy is to extract maximum value from our HBU properties while selling non-strategic holdings to allow reinvestment in more strategic properties.

Sales (in millions)	2011	Changes Attributable to: Price	Volume/ Mix	2012
Development	$4	$—	$(2)	$2
Rural	33	2	4	39
Non-Strategic Timberlands	34	(23)	5	16
Total Sales	$71	$(21)	$7	$57

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Operating Income (in millions)	2011	Changes Attributable to: Price	Volume/ Mix	Cost/Other	2012
Total Operating Income	$47	$(21)	$5	$1	$32

As expected, 2012 sales and operating income decreased from prior year as 2011 results included a 6,300 acre non-strategic sale at $3,995 per acre and a $6 million property tax settlement covering several prior years. The lower 2012 results were partially offset by higher rural HBU volume and prices of ten percent and six percent, respectively.

Performance Fibers

Sales (in millions)	2011	Changes Attributable to: Price	Volume/ Mix	2012
Cellulose specialties	$824	$112	$(1)	$935
Absorbent materials	196	(26)	(12)	158
Total Sales	$1,020	$86	$(13)	$1,093

Cellulose specialties sales improved as prices increased 14 percent from the prior year due to continued strong demand. Absorbent materials prices declined 15 percent due to market weakness, while volumes were six percent lower due to a production shift to cellulose specialties.

Operating Income (in millions)	2011	Changes Attributable to: Price	Volume/ Mix	Cost/Other	2012
Total Operating Income	$298	$86	$(3)	$(22)	$359

In 2012, operating income improved from the prior year as higher cellulose specialties prices more than offset increased wood, chemical and labor costs. The 2011 results were also negatively impacted by a $6 million write-off related to process equipment changes needed for the CSE project.

We are on schedule to complete the CSE project in mid-2013. The cost of the project is expected to exceed our initial engineering estimate of $300 million by approximately 25 percent to 30 percent. This change is primarily due to underestimates of the cost required for certain elements of the project, labor costs incurred to hold schedule and scope changes necessitated after the detailed engineering was completed. Despite the increased cost on this large, complex and fast-track project, we expect the internal rate of return on the project to be within the initial 17 percent to 20 percent range as the current and projected future price differential between cellulose specialties and absorbent materials has widened.

Upon completion of the CSE, we will undergo a phase-in period to complete customer qualifications. As such, 2013 will be a transition year for Performance Fibers with an expected five to ten percent decrease in operating income compared to our record 2012 results. After the phase-in period, we will be exiting the more commodity-like absorbent materials business and transitioning to producing only cellulose specialties. When this occurs, we anticipate total sales and operating income to increase as we expect the higher prices received on the additional cellulose specialties volumes to more than offset expected cost increases of approximately 11 percent and the net 70,000 metric ton reduction in overall production capacity. For the year ended December 31, 2012, our cellulose specialties average sales price of $1,859 per metric ton was $1,139 above our absorbent materials average sales price per metric ton. We expect our costs to increase during the CSE phase-in due to higher conversion costs and depreciation.

Wood Products

Sales (in millions)	2011	Changes Attributable to: Price	Volume	2012
Total Sales	$68	$14	$6	$88

Operating (Loss) Income (in millions)	2011	Changes Attributable to: Price	Volume/Cost	2012
Total Operating (Loss) Income	$(2)	$14	$(2)	$10

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Sales and operating income increased over the prior year by $20 million and $12 million, respectively, primarily due to higher prices. In January 2013, we announced the sale of the Wood Products business for $80 million, which is expected to close in the first quarter of 2013 and result in an after-tax gain of approximately $40 million.

Other Operations

Sales declined from 2011 as weakened export demand resulted in lower log trading volumes and prices. The decrease in operating income was also due to unfavorable foreign exchange rates.

Corporate and Other Expense/Eliminations

The 2011 results include a $7 million increase in a disposition reserve, discussed at Note 15 — Liabilities for Dispositions and Discontinued Operations. Excluding this special item, 2012 corporate and other expenses increased primarily due to higher benefit and business development costs.

Interest Expense and Interest/Other Income

Interest expense was $6 million below the prior year due to higher capitalized interest on the CSE project and lower borrowing rates. Interest/other income was comparable to the prior year.

Income Tax Expense

The full year effective tax rate was 24.1 percent compared to 9.9 percent in 2011 primarily due to several non-routine tax items. Excluding these items, the 2012 effective tax rate was 27.9 percent, up from 24.6 percent in the prior year. The higher 2012 rate was due to proportionately higher earnings from the TRS. See Note 8 — Income Taxes for additional information regarding the provision for income taxes and the non-routine tax items.

Outlook for 2013

In Forest Resources, we expect an improving housing market and strengthening Asian exports to drive higher sawlog demand and prices. In Real Estate, we anticipate a significantly improved year driven by higher demand for our non-strategic properties and continued solid interest for our rural recreational and conservation properties. In Performance Fibers, 2013 will be a transition year as we bring the CSE project online, begin qualifying our new cellulose specialties product with customers and exit the absorbent materials business. However, we again expect strong results from this business, although below last year's record results, primarily due to additional costs and lower volumes from the CSE transition, and weaker absorbent materials prices. Overall, excluding the impact of the sale of our Wood Products business, we expect operating income and earnings per share ("EPS") will be slightly above 2012, and that CAD will increase by five to ten percent.

Our 2013 outlook is subject to a number of variables and uncertainties, including those discussed at Item 1A — Risk Factors.

Results of Operations, 2011 versus 2010

Forest Resources

Effective first quarter 2011, we reorganized our United States timber operations from the Eastern and Western regions into the Atlantic (Florida and Georgia), Gulf States (Alabama, Arkansas, Louisiana, Mississippi, Oklahoma and Texas) and Northern (New York and Washington) regions. Additionally, we renamed the Timber segment, Forest Resources. All prior periods presented have been restated to conform to this new structure.

Sales (in millions)	2010	Changes Attributable to: Price	Volume/ Mix/Other	2011
Atlantic	$72	$—	$(1)	$71
Gulf States	29	1	1	31
Northern	67	25	10	102
New Zealand	9	—	2	11
Total Sales	$177	$26	$12	$215

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Operating Income (in millions)	2010	Changes Attributable to: Price	Volume/ Mix	Cost/Other	2011
Atlantic	$17	$—	$(1)	$(5)	$11
Gulf States	9	1	(1)	(7)	2
Northern	7	25	6	(9)	29
New Zealand/Other	—	—	—	5	5
Total Operating Income	$33	$26	$4	$(16)	$47

The Atlantic region's sales and operating income decreased from the prior year as volumes declined five percent reflecting lower sawlog demand and the region recognized $2 million of fire losses.
The Gulf States' sales increased while operating income declined from 2010 primarily due to a geographic mix shift from Alabama (which has lower cost timber) to Texas and Arkansas. Additionally, the markets softened as supply increased due to dry weather and forest fires. The Gulf States' results also reflect $1 million of fire losses.
In the Northern region, sales and operating income increased from the prior year primarily due to strong export demand from Asian markets. Price and volume increases of 25 percent and 22 percent, respectively, were partially offset by higher logging and transportation costs.
The New Zealand sales represent timberland management fees for services provided to the Matariki JV. The operating income primarily represents equity earnings related to the JV's activities which have increased from 2010 mainly due to higher export prices and the sale of carbon credits.
Real Estate

Sales (in millions)	2010	Changes Attributable to: Price	Volume/ Mix	2011
Development	$3	$1	$—	$4
Rural	28	7	(2)	33
Non-Strategic Timberlands	65	16	(47)	34
Total Sales	$96	$24	$(49)	$71

Operating Income (in millions)	2010	Changes Attributable to: Price	Volume/ Mix	Cost/Other	2011
Total Operating Income	$53	$24	$(29)	$(1)	$47

Full year sales and operating income were $25 million and $6 million below 2010, respectively, primarily reflecting 32,365, or 73 percent, fewer non-strategic timberland acres sold. This decline was partially offset by improved results in rural HBU sales. While rural HBU volumes declined by 1,047 acres, or seven percent, prices increased by 29 percent mainly due to site specific characteristics. Operating income in 2011 also benefited from a $6 million property tax settlement covering years 2005 through 2010; however, this benefit was offset by higher costs due to property mix.
Performance Fibers

Sales (in millions)	2010	Changes Attributable to: Price	Volume/ Mix	2011
Cellulose specialties	$686	$105	$33	$824
Absorbent materials	195	10	(9)	196
Total Sales	$881	$115	$24	$1,020

Cellulose specialties sales improved as prices and volumes increased 15 percent and five percent from the prior year, respectively, reflecting strong demand and a production shift from absorbent materials to cellulose specialties.

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Absorbent materials sales were relatively consistent with 2010 as a six percent increase in prices, primarily from higher prices in the first half of the year, offset a five percent decline in sales volumes from the production shift previously discussed.

Operating Income (in millions)	2010	Changes Attributable to: Price	Volume/ Mix	Cost/Other	2011
Total Operating Income	$214	$115	$9	$(40)	$298

In 2011, operating income improved from 2010 as increased cellulose specialties sales and absorbent materials prices more than offset higher input and transportation costs. The 2011 results were also negatively impacted by a $6 million write-off related to process equipment changes needed for the CSE project.

Wood Products

Sales (in millions)	2010	Changes Attributable to: Price	Volume	2011
Total Sales	$68	$(6)	$6	$68

Operating Income (Loss) (in millions)	2010	Changes Attributable to: Price	Costs	2011
Total Operating Income (Loss)	$2	$(6)	$2	$(2)

Sales in 2011 were consistent with the prior year while operating income decreased reflecting an eight percent decline in price due to weak market conditions, partially offset by an eight percent increase in sales volumes mainly due to higher production. Our sawmills continue to produce at a reduced capacity due to a weak housing market.

Other Operations

Sales improved from 2010 primarily due to higher export demand; however, operating income was consistent with the prior year reflecting low margins.

Corporate and Other Expense/Eliminations

The 2011 results include a $7 million increase in a disposition reserve. See Note 15 — Liabilities for Dispositions and Discontinued Operations for additional information. The 2010 results include a first quarter gain of $12 million from the sale of a portion of the Company's interest in the JV. See Note 5 — Joint Venture Investment for additional information. Excluding these special items, corporate and other expenses were $4 million below the prior year as 2010 included a $3 million accrual for closed facilities.

Interest Expense and Interest/Other Income

Interest expense and interest/other income were comparable to the prior year.

Income Tax Expense

The full year effective tax rate was 9.9 percent compared to 6.5 percent in 2010. Excluding non-routine items, the effective tax rate was 24.6 percent, up from 18.2 percent in 2010. The higher rate in 2011 was due to proportionately higher earnings from the TRS. See Note 8 — Income Taxes for additional information regarding the provision for income taxes and the non-routine tax items.

Liquidity and Capital Resources

Our operations have generally produced consistent cash flows and required limited capital resources. Short-term borrowings have helped fund cyclicality and seasonality in working capital needs and long-term debt has been used to fund major acquisitions and strategic projects.

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Summary of Liquidity and Financing Commitments (in millions of dollars)

	As of December 31,		
	2012	2011	2010
Cash and cash equivalents	$281	$79	$349
Total debt	1,270	847	768
Shareholders’ equity	1,438	1,323	1,252
Total capitalization (total debt plus equity)	2,708	2,170	2,020
Debt to capital ratio	47 %	39 %	38 %

Our 2012 total debt and debt-to-capital ratio increased from 2011 primarily due to the CSE expansion, timberland acquisitions and the timing of borrowings. See Note 11 — Debt for additional information.

Cash Flows

The following table summarizes our cash flows from operating, investing and financing activities for each of the past three years ended December 31 (in millions of dollars):

	2012	2011	2010
Total cash provided by (used for):			
Operating activities	$446	$432	$495
Investing activities	(473)	(489)	(143)
Financing activities	229	(215)	(78)
Effect of exchange rate changes on cash	—	1	—
Increase (decrease) in cash and cash equivalents	$202	$(271)	$274

Cash Provided by Operating Activities

Cash provided by operating activities in 2012 increased from the prior year primarily due to favorable operating results in our Performance Fibers segment partially offset by higher cash taxes as 2011 benefited from several non-routine tax items.

Cash provided by operating activities in 2011 decreased from the prior year as 2010 included a $189 million refund related to the AFMC. Excluding the impact of this receipt, cash provided by operating activities increased $126 million primarily due to higher earnings in our Performance Fibers segment and a $50 million decrease in pension contributions.

Cash Used for Investing Activities

Cash used for investing activities decreased in 2012 as 2011 included $321 million in strategic timberland acquisitions compared to $107 million in 2012. This decrease was partially offset by a $158 million increase in spending on the CSE project, a $19 million increase in restricted cash due to the timing of like-kind exchanges and a $13 million increase in non-strategic capital expenditures.

Cash used for investing activities in 2011 rose from 2010 primarily due to an increase in strategic capital which included $321 million for timberland acquisitions and $43 million for the Jesup mill CSE. This was partially offset by changes in restricted cash due to the timing of like-kind exchange transactions.

Cash Provided by (Used for) Financing Activities

Cash provided by financing activities in 2012 increased from the prior year as 2012 included net debt borrowings of $416 million, compared to net repayments of $39 million in 2011. Additionally, proceeds on stock options exercised increased $12 million. These cash inflows were partially offset by a $21 million increase in dividends paid as annual dividends per share rose 11 percent during 2012.

Cash used for financing activities in 2011 increased from 2010 as 2011 included net debt repayments of $39 million, while 2010 included net borrowings of $60 million. Additionally, dividends paid increased $22 million as dividends per share rose 12 percent over the 2010 amount and proceeds on stock options exercised decreased $13 million.

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Expected 2013 Expenditures

Capital expenditures in 2013 are forecasted to be between $140 million and $145 million, excluding strategic timberland acquisitions and the CSE. We expect 2013 spending on completion of the CSE to range between $130 million and $145 million. Our 2013 dividend payments are expected to increase from $207 million to $223 million assuming no change in the quarterly dividend rate of $0.44 per share.

We made no discretionary pension contributions in 2012 or 2011. We have no mandatory pension contributions in 2013 but may make discretionary contributions. Cash payments for income taxes in 2013 are anticipated to be between $65 million and $70 million, excluding taxes related to the gain on the Wood Products sale. Expenditures for environmental costs related to our dispositions and discontinued operations are expected to be $8 million. See Note 15 — Liabilities for Dispositions and Discontinued Operations for further information.

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: Earnings before Interest, Taxes, Depreciation, Depletion and Amortization ("EBITDA"), and Adjusted Cash Available for Distribution ("Adjusted CAD"). These measures are not defined by Generally Accepted Accounting Principles ("GAAP") and the discussion of EBITDA and Adjusted CAD is not intended to conflict with or change any of the GAAP disclosures described above. Management considers these measures to be important to estimate the enterprise and shareholder values of the Company as a whole and of its core segments, and for allocating capital resources. In addition, analysts, investors and creditors use these measures when analyzing our operating performance, financial condition and cash generating ability. Management uses EBITDA as a performance measure and Adjusted CAD as a liquidity measure. EBITDA is defined by the Securities and Exchange Commission. Adjusted CAD as defined, however, may not be comparable to similarly titled measures reported by other companies.

Below is a reconciliation of Net Income to EBITDA and a table of EBITDA by segment for the five years ended December 31 (in millions of dollars):

	2012	2011	2010	2009	2008
Net Income to EBITDA Reconciliation					
Net Income	$279	$276	$218	$313	$149
Income tax expense	88	30	15	46	29
Interest, net	44	50	49	51	49
Depreciation, depletion and amortization	149	136	143	158	168
EBITDA (a)	$560	$492	$425	$568	$395

	2012	2011	2010	2009	2008
EBITDA by Segment					
Forest Resources	$121	$110	$92	$77	$116
Real Estate	40	59	75	80	101
Performance Fibers	420	354	272	242	205
Wood Products	13	1	5	(6)	(2)
Other Operations	—	1	1	(3)	3
Corporate and other (a)	(34)	(33)	(20)	178	(28)
EBITDA	$560	$492	$425	$568	$395

(a) The results for 2011 included a $7 million increase in a disposition reserve. The results for 2010 included a gain of $12 million from the sale of a portion of the Company's interest in the JV. The results for 2009 included $205 million related to the AFMC.

Excluding special items noted in the footnote above, 2012 EBITDA was $61 million above prior year primarily due to higher operating results in our Performance Fibers segment. Excluding special items noted in the footnote above, 2011 EBITDA was $86 million above 2010 primarily due to higher operating results in our Performance Fibers Segment.

See Item 6 — Selected Financial Data for a reconciliation of EBITDA to Operating Income by segment.
Adjusted CAD is a non-GAAP measure of cash generated during a period which 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, the change in committed cash, and other items which include cash provided by discontinued operations, proceeds from matured energy forward contracts, excess tax benefits on stock-based compensation

and the change in capital expenditures purchased on account. Committed cash represents outstanding checks that have been drawn on our zero balance bank accounts but have not been paid. In compliance with SEC requirements for non-GAAP measures, we reduce CAD by mandatory debt repayments which results in the measure entitled "Adjusted CAD."

Below is a reconciliation of Cash Provided by Operating Activities to Adjusted CAD for the five years ended December 31 (in millions):

	2012	2011	2010	2009	2008
Cash provided by operating activities	$446	$432	$495	$307	$340
Capital expenditures (a)	(158)	(145)	(138)	(92)	(105)
LKE tax benefits on third-party real estate sales (b)	—	—	—	—	(12)
Change in committed cash	6	(6)	12	17	(10)
Excess tax benefits on stock-based compensation	8	6	5	3	3
Other	2	—	10	(2)	—
CAD	304	287	384	233	216
Mandatory debt repayments	(323)	(93)	(1)	(123)	(24)
Adjusted CAD	$(19)	$194	$383	$110	$192
Cash used for investing activities	$(473)	$(489)	$(143)	$(93)	$(330)
Cash provided by (used for) financing activities	$229	$(215)	$(78)	$(202)	$(128)

(a) Capital expenditures exclude strategic capital. For the year ended December 31, 2012, strategic capital totaled $201 million for the Jesup mill CSE and $107 million for timberland acquisitions. For the year ended December 31, 2011, strategic capital totaled $43 million for the Jesup mill CSE and $426 million for timberland acquisitions (including $105 million of assumed notes).

(b) Represents income taxes which would have been paid had the Company not completed third-party like-kind exchange ("LKE") transactions.

Adjusted CAD decreased in 2012 due to the refinancing of $300 million of Senior Exchangeable Notes and $23 million of solid waste bonds that matured, partially offset by higher operating results and the change in committed cash. Adjusted CAD was lower in 2011 compared to 2010 due to the receipt of $189 million in 2010 related to the AFMC. Excluding this amount, 2011 adjusted CAD was consistent with 2010 results as higher 2011 earnings were offset by the $93 million repayment of an installment note due in 2011. Adjusted CAD generated in any period is not necessarily indicative of the amounts that may be generated in future periods.

Liquidity Facilities

In April 2011, the Company entered into a five-year $300 million unsecured revolving credit facility, which was increased to $450 million in August 2011. During October 2012, we amended this revolving credit facility to take advantage of better pricing, improve covenants and change the debt ceiling calculation to provide additional borrowing capacity. As a result of the amendment, the borrowing rate decreased from LIBOR plus 105 basis points to LIBOR plus 97.5 basis points. The facility fee decreased 5 points from 20 basis points to 15 basis points. The Company had $171 million of available borrowing capacity under the revolving credit facility as of December 31, 2012.

In March 2012, we issued $325 million of 3.75% Senior Notes due 2022. Approximately $150 million of the proceeds from these notes were used to pay down the revolving credit facility.

The 3.75% Senior Exchangeable Notes matured in October 2012 and the principal balance of $300 million was paid in cash, financed through borrowings on the Company's revolving credit facility. The exchangeable note hedges also matured and the associated shares were used to pay the excess exchange value of 2,221,056 shares of Rayonier stock. As a result, there was no impact on the number of shares outstanding. Warrants sold in conjunction with the issuance of these notes and hedges remain outstanding and have maturity dates in first quarter 2013. We expect to settle the warrants in shares.

In December 2012, the Company entered into a $640 million senior unsecured term credit agreement with banks in the farm credit system, which is a network of cooperatives. The agreement matures in December 2019 and has a delayed draw feature that allows borrowings up to $640 million through December 2017 using a maximum of five advances. The periodic interest rate on the term credit agreement is LIBOR plus 150 basis points with an unused commitment fee of 15 basis points. The Company expects to receive annual patronage refunds, which are profit distributions made by a cooperative to its member-users based on the quantity or value of business done with the member-user. The Company expects the effective interest rate to approximate LIBOR plus 100 basis points after consideration of the cash patronage refunds. At closing, TRS borrowed $300 million under the term credit

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agreement and used the proceeds to pay down its outstanding borrowings under the Company's existing revolving credit facility.

As of December 31, 2012, our $172.5 million 4.50% Senior Exchangeable Notes due 2015 became exchangeable at the option of the holders for the calendar quarter ending March 31, 2013. Per the indenture governing these notes, in order for the notes to become exchangeable, the Company's stock price must exceed 130 percent of the exchange price for 20 trading days in a period of 30 consecutive trading days as of the last day of the quarter. If the note holders exercise their option prior to March 31, 2013, the Company intends to repay the principal of the notes with cash on hand or by accessing its revolving credit facility. Any excess exchange value will be settled at the option of the Company in either cash or stock of Rayonier.

See Note 11 — Debt for additional information on these agreements and other outstanding debt, as well as for information on covenants which must be met in connection with our installment note, mortgage notes, senior notes, term credit agreement and the revolving credit facility.

Both our ability to obtain financing and the related costs of borrowing are affected by our credit ratings, which are periodically reviewed by the rating agencies. In February 2012, Moody's Investors Service raised our senior unsecured rating to "Baa1" from "Baa2" and revised our outlook to "Stable" from "Positive." In February 2011, Standard & Poor's Ratings Services raised its ratings on Rayonier, including our corporate credit rating, to "BBB+" from "BBB" while maintaining a "Stable" outlook.

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 17 — Guarantees for further discussion.

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 Balance Sheet, while others are required to be disclosed in the Notes to Consolidated Financial Statements and Management’s Discussion and Analysis.

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The following table aggregates our contractual financial obligations as of December 31, 2012 and anticipated cash spending by period:

Contractual Financial Obligations (in millions)	Total	Payments Due by Period 2013	2014-2015	2016-2017	Thereafter
Long-term debt (a)	$1,124	$—	$285	$199	$640
Current maturities of long-term debt	150	150	—	—	—
Interest payments on long-term debt (b)	226	42	75	43	66
Operating leases — timberland (c)	84	8	14	14	48
Environmental obligations (d)	31	16	15	—	—
Postretirement obligations (e)	35	3	6	7	19
Operating leases — PP&E, offices	14	4	5	3	2
Uncertain tax positions (f)	—	—	—	—	—
Purchase obligations	2	2	—	—	—
Total contractual cash obligations	$1,666	$225	$400	$266	$775

(a) The book value of our long-term debt is currently recorded at $1.120 billion on the Company's consolidated balance sheet, but upon maturity the liability will be $1.124 billion.

(b) Projected interest payments for variable-rate debt were calculated based on outstanding principal amounts and interest rates as of December 31, 2012.

(c) The majority of timberland leases are subject to changes in either the Consumer Price Index or the Producer Price Index.

(d) These obligations relate to the Jesup mill 2008 consent order which was amended in 2011 for the CSE. See Environmental Regulation below for additional information on the Jesup mill consent order.

(e) The amounts represent an estimate of our projected payments related to our unfunded excess pension plan and our postretirement medical and life insurance plans for the next ten years. See Note 20 — Employee Benefit Plans for additional information.

(f) The settlement date is unknown for approximately $7 million of uncertain tax positions. This amount has been excluded from the table above. See Note 8 — Income Taxes for additional information on uncertain tax positions.

In February 2012, we filed a universal shelf registration giving us the ability to issue and sell an indeterminate amount of various types of debt and equity securities. In March 2012, we issued $325 million of 3.75% Senior Notes due 2022 under the universal shelf registration statement. In May 2004, we completed a Form S-4 acquisition shelf registration to offer and issue 7.0 million common shares for the acquisition of other businesses, assets or properties. As of December 31, 2012, no common shares have been offered or issued under the Form S-4 shelf registration.

New Accounting Standards

See Note 2 — Summary of Significant Accounting Policies for a discussion of recently issued accounting pronouncements that may affect our financial results and disclosures in future periods.

Environmental Regulation

Rayonier is subject to stringent environmental laws and regulations concerning air emissions, wastewater discharges, waste handling and disposal, and assessment and remediation of environmental contamination. Such environmental laws and regulations include the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act of 1980 and similar state laws and regulations. Management closely monitors its environmental responsibilities and believes we are in substantial compliance with current environmental requirements. In addition to ongoing compliance with laws and regulations, our facilities operate in accordance with various permits, which are issued by state and federal environmental agencies. Many of these permits impose operating conditions on the Company which require significant expenditures to ensure compliance. Upon renewal and renegotiation of these permits, the issuing agencies often seek to impose new or additional conditions in response to new environmental laws and regulations, or more stringent interpretations of existing laws and regulations. In addition, under many federal environmental laws, private citizens and organizations, such as environmental advocacy groups, have the right to legally challenge permitting and other decisions made by regulatory agencies.

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During 2012, 2011 and 2010, we spent the following for capital projects related to environmental compliance for ongoing operations:

(in millions)	2012	2011	2010
Jesup mill consent order (a)	$25	$3	$18
CSE (b)	16	5	—
Other (c)	12	10	5
Total	$53	$18	$23

(a) Includes spending related to a 2008 Jesup mill consent order in which we agreed to implement certain capital improvements relating to the mill's wastewater treatment. This consent order was amended in 2011 in connection with the CSE. Capital spending related to the consent order is expected to approximate $31 million over the next three years.

(b) Environmental compliance expenditures are included in estimated costs to complete the CSE. During 2013, CSE-related environmental compliance spending is expected to approximate $17 million.

(c) Includes spending for improvements to our manufacturing process and pollution control systems that will comply with the requirements of new or renewed air emission and water discharge permits, and other required improvements for our Performance Fibers mills. Other capital spending related to environmental compliance is expected to approximate $8 million in 2013.

Our discontinued operations with historical environmental contamination are subject to a number of federal, state and local laws. For example, former operations at the SWP wood treating sites used preservative formulations consisting primarily of creosote, pentachlorophenol and chromated-copper arsenate. Investigations performed at the SWP sites over the years have identified releases to soils, groundwater and sediments containing free product and constituents or derivatives of these formulations including, but not limited to, all or some combination of petroleum products, metals (e.g., arsenic, chromium) and/or organics (e.g., volatile organic compounds, phenols, polycyclic aromatic hydrocarbons, dioxins and furans). As it has for many years, SWP continues to actively work with federal and state environmental agencies to undertake appropriate steps to investigate and remediate these sites in accordance with applicable laws. As these requirements change over time, they may mandate more stringent levels of soil and groundwater investigation, remediation and monitoring. While we believe that our current estimates are adequate, new information revealed by additional investigation and assessment, decisions of governmental agencies and future changes to these legal requirements, among other things, could adversely affect the cost and timing of our activities on these sites.

Many of our operations are subject to constantly changing environmental requirements which are often the result of legislation, regulation, litigation and negotiation. For additional information see Item 1A — Risk Factors for a discussion of the potential impact of environmental laws and regulations, including climate-related initiatives, on our businesses.

It is the opinion of management that substantial expenditures will be required over the next ten years in the area of environmental compliance. In particular, we expect significant expenditures will be required as a result of an EPA regulation issued in 2012 which tightens emissions limits of certain air pollutants from industrial boilers. We are currently reviewing alternatives related to compliance at our Performance Fibers mills. We estimate the cost of compliance may range from $24 million to $60 million. See Note 15 — Liabilities for Dispositions and Discontinued Operations, for additional information regarding the Company's environmental liabilities.

Item 7A. 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.

Cyclical pricing of commodity market paper pulp is one of the factors which influences Performance Fibers' prices in the absorbent materials product line. However, as a non-integrated producer of absorbent materials, primarily fluff pulp, for non-papermaking end uses, our absorbent material pricing tends to lag (on both the upturn and downturn) commodity paper pulp prices with pricing adjustments that are less severe. Our cellulose specialty products' prices are based on market supply and demand and are not correlated to commodity paper pulp prices. In addition, a significant majority of our cellulose specialty products are under long-term volume contracts that extend through 2013 to 2017.
The fair market value of our long-term fixed interest rate debt is subject to interest rate risk. However, we intend to hold most

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of our debt until maturity. The estimated fair value of our fixed-rate debt at December 31, 2012 was $810 million compared to $680 million in carrying value. We use interest rates of debt with similar terms and maturities to estimate the fair value of our debt. Our percentage of debt with fixed interest rates was 54 percent as of December 31, 2012. 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 December 31, 2012 would result in a corresponding decrease/increase in the fair value of our fixed-rate debt of approximately $41 million.

We periodically enter into commodity forward contracts to fix some of our fuel oil and natural gas costs. The forward contracts partially mitigate the risk of a change in Performance Fibers margins resulting from an increase or decrease in these energy costs. At December 31, 2012, we had no fuel oil or natural gas contracts outstanding.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Financial Statements on page ii.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

As previously disclosed in the Company's Current Report on Form 8-K filed on May 23, 2012, our Audit Committee approved the engagement of Ernst & Young LLP as our independent registered public accounting firm effective May 22, 2012. There were no disagreements or reportable events related to the change in accountants requiring disclosure under Item 304(b) of Regulation S-K.

Item 9A. 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 that information required to be disclosed by the Company in reports filed under the Exchange Act, such as this annual report on Form 10-K, is (1) recorded, processed, summarized and reported 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 annual report on Form 10-K, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that the design and operation of the disclosure controls and procedures were effective as of December 31, 2012.

Internal Control Over Financial Reporting

With regard to the Company’s internal control over financial reporting as defined in paragraph (f) of Rule 13a-15(f), see Management’s Report on Internal Control over Financial Reporting on page F-1, followed by the Report of Independent Registered Public Accounting Firm on pages F-2 through F-4, included in Item 8 — Financial Statements and Supplementary Data of this annual report on Form 10-K.

In the quarter ended December 31, 2012, based upon the evaluation required by paragraph (d) of 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.

Item 9B. OTHER INFORMATION

Not applicable.

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PART III

Certain information required by Part III is incorporated by reference from the Company’s definitive Proxy Statement to be filed with the SEC in connection with the solicitation of proxies for the Company’s 2013 Annual Meeting of Stockholders (the “Proxy Statement”). We will make the Proxy Statement available on our website at www.rayonier.com as soon as it is filed with the SEC.

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item with respect to directors, executive officers and corporate governance is incorporated by reference from the sections entitled "Election of Directors," "Corporate Governance," "Executive Officers" and "Report of the Audit Committee" in the Proxy Statement. The information required by this Item with respect to disclosure of any known late filing or failure by an insider to file a report required by Section 16 of the Exchange Act is incorporated by reference to the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

Our Standard of Ethics and Code of Corporate Conduct, which is applicable to our principal executive officer and financial and accounting officer, is available on our website, www.rayonier.com. Any amendments to or waivers of the Standard of Ethics and Code of Corporate Conduct will also be disclosed on our website.

Item 11. EXECUTIVE COMPENSATION

The information called for by Item 11 is incorporated herein by reference from the section and subsections entitled "Compensation Discussion and Analysis," "Summary Compensation Table," "Grants of Plan-Based Awards," "Outstanding Equity Awards at Fiscal Year-End," "Option Exercises and Stock Vested," "Pension Benefits," "Nonqualified Deferred Compensation," "Potential Payments Upon Termination or Change in Control," "Director Compensation," "Corporate Governance — Compensation Committee Interlocks and Insider Participation; Processes and Procedures" and "Compensation Discussion and Analysis — Report of the Compensation and Management Development Committee" in the Proxy Statement.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information called for by Item 12 is incorporated herein by reference from the sections entitled "Share Ownership of Certain Beneficial Owners," "Share Ownership of Directors and Executive Officers" and "Equity Compensation Plan Information" in the Proxy Statement.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information called for by Item 13 is incorporated herein by reference from the section and subsections entitled "Election of Directors," "Corporate Governance — Director Independence" and "Corporate Governance — Related Person Transactions" in the Proxy Statement.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for by Item 14 is incorporated herein by reference from the subsection entitled "Report of the Audit Committee — Information Regarding Independent Registered Public Accounting Firm" in the Proxy Statement.

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PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as a part of this report:

(1) See Index to Financial Statements on page ii for a list of the financial statements filed as part of this report.

(2) See Schedule II — Valuation and Qualifying Accounts. All other financial statement schedules have been omitted because they are not applicable, the required matter is not present or the required information has otherwise been supplied in the financial statements or the notes thereto.

(3) See Exhibit Index for a list of the exhibits filed or incorporated herein as part of this report. Exhibits that are incorporated by reference to documents filed previously by the Company under the Securities Exchange Act of 1934, as amended, are filed with the SEC under File No. 1-6780.

(b) Exhibits:

See Item 15 (a)(3).

(c) Financial Statement Schedules:

See Item 15 (a)(2).

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To Our Shareholders:

The management of Rayonier Inc. and its subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Our system of internal controls over financial reporting is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of the financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of the inherent limitations of internal control over financial reporting, misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Rayonier Inc.'s management, under the supervision of the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, we used the framework included in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the criteria set forth in Internal Control — Integrated Framework, management concluded that our internal control over financial reporting was effective as of December 31, 2012.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements, has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2012. The report on the Company's internal control over financial reporting as of December 31, 2012, is on page F-3.

RAYONIER INC.

By: /s/ PAUL G. BOYNTON
Paul G. Boynton
Chairman of the Board, President and Chief Executive Officer
February 26, 2013

By: /s/ HANS E. VANDEN NOORT
Hans E. Vanden Noort
Senior Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
February 26, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Rayonier Inc.

We have audited the accompanying consolidated balance sheet of Rayonier Inc and subsidiaries (the “Company”) as of December 31, 2012, and the related consolidated statements of income and comprehensive income, and cash flows for the year then ended. Our audit also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2012, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Certified Public Accountants

Jacksonville, Florida
February 26, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Rayonier Inc.

We have audited Rayonier Inc. and subsidiaries' (the “Company”) internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2012 and the related consolidated statements of income and comprehensive income, and cash flows for the year then ended of the Company and our report dated February 26, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Certified Public Accountants

Jacksonville, Florida

February 26, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Rayonier Inc.
Jacksonville, Florida

We have audited the accompanying consolidated balance sheets of Rayonier Inc. and subsidiaries (the "Company") as of December 31, 2011, and the related consolidated statements of income and comprehensive income and cash flows for each of the two years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15 for the years ended December 31, 2011 and 2010. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Rayonier Inc. and subsidiaries as of December 31, 2011, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP
Certified Public Accountants

Jacksonville, FL
February 27, 2012 (February 26, 2013 as it relates to Notes 4, 20 and 22)

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RAYONIER INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the Years Ended December 31,
(Thousands of dollars, except per share data)

	2012	2011	2010
SALES	$1,571,000	$1,488,642	$1,315,233
Costs and Expenses			
Cost of sales	1,104,805	1,073,732	990,099
Selling and general expenses	68,397	66,541	67,102
Other operating income, net (Note 14)	(13,103)	(3,829)	(10,519)
	1,160,099	1,136,444	1,046,682
Equity in income of New Zealand joint venture	550	4,088	1,033
OPERATING INCOME BEFORE GAIN ON SALE OF A PORTION OF INTEREST IN NEW ZEALAND JOINT VENTURE	411,451	356,286	269,584
Gain on sale of a portion of interest in New Zealand joint venture (Note 5)	—	—	12,367
OPERATING INCOME	411,451	356,286	281,951
Interest expense	(44,981)	(50,775)	(50,463)
Interest and miscellaneous income, net	606	851	1,315
INCOME BEFORE INCOME TAXES	367,076	306,362	232,803
Income tax expense	(88,391)	(30,357)	(15,217)
NET INCOME	278,685	276,005	217,586
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation adjustment	4,352	3,546	4,162
New Zealand joint venture cash flow hedges	213	(2,373)	837
(Loss) gain from pension and postretirement plans, net of income tax (expense) benefit of ($339), $20,665 and $1,570	(496)	(46,263)	6,385
Total other comprehensive income (loss)	$4,069	$(45,090)	$11,384
COMPREHENSIVE INCOME	$282,754	$230,915	$228,970
EARNINGS PER COMMON SHARE			
Basic earnings per share	$2.27	$2.27	$1.81
Diluted earnings per share	$2.17	$2.20	$1.79
Dividends per share	$1.68	$1.52	$1.36

See Notes to Consolidated Financial Statements.

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RAYONIER INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31,
(Thousands of dollars)

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$280,596	$78,603
Accounts receivable, less allowance for doubtful accounts of $417 and $399	100,359	95,008
Inventory (Note 10)	127,966	121,998
Prepaid and other current assets	57,353	48,893
Total current assets	566,274	344,502
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION	1,573,309	1,503,711
PROPERTY, PLANT AND EQUIPMENT		
Land	27,383	26,917
Buildings	147,445	140,269
Machinery and equipment	1,444,012	1,355,897
Construction in progress	268,459	96,097
Total property, plant and equipment, gross	1,887,299	1,619,180
Less—accumulated depreciation	(1,180,261)	(1,157,628)
Total property, plant and equipment, net	707,038	461,552
INVESTMENT IN JOINT VENTURE (Note 5)	72,419	69,219
OTHER ASSETS	203,911	190,364
TOTAL ASSETS	$3,122,951	$2,569,348
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$70,381	$72,873
Current maturities of long-term debt (Note 11)	150,000	28,110
Accrued taxes	13,824	5,223
Accrued payroll and benefits	28,068	26,846
Accrued interest	7,956	7,044
Accrued customer incentives	10,849	10,369
Other current liabilities	18,640	17,855
Current liabilities for dispositions and discontinued operations (Note 15)	8,105	9,931
Total current liabilities	307,823	178,251
LONG-TERM DEBT (Note 11)	1,120,052	819,229
NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS (Note 15)	73,590	80,893
PENSION AND OTHER POSTRETIREMENT BENEFITS (Note 20)	159,582	140,623
OTHER NON-CURRENT LIABILITIES	23,900	27,279
COMMITMENTS AND CONTINGENCIES (Notes 16, 17 and 18)		
SHAREHOLDERS' EQUITY		
Common Shares, 480,000,000 and 240,000,000 shares authorized, 123,332,444 and 122,035,177 shares issued and outstanding	670,749	630,286
Retained earnings	876,634	806,235
Accumulated other comprehensive loss	(109,379)	(113,448)
TOTAL SHAREHOLDERS' EQUITY	1,438,004	1,323,073

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$3,122,951	$2,569,348

See Notes to Consolidated Financial Statements.

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RAYONIER INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31,
(Thousands of dollars)

	2012	2011	2010
OPERATING ACTIVITIES			
Net income	$278,685	$276,005	$217,586
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation, depletion and amortization	148,718	135,742	143,406
Non-cash cost of real estate sold	4,746	4,329	6,692
Stock-based incentive compensation expense	15,116	16,181	15,223
Gain on sale of a portion of interest in the New Zealand joint venture	—	—	(11,545)
Amortization of debt discount/premium	6,323	8,654	8,160
Deferred income taxes	3,505	2,498	14,936
Amortization of losses from pension and postretirement plans	19,493	12,369	6,135
Non-cash adjustments to unrecognized tax benefit liability	—	(16,000)	4,723
Other	(2,880)	5,184	(237)
Changes in operating assets and liabilities:			
Receivables	(4,248)	(12,011)	20,774
Inventories	(10,649)	(3,868)	(27,693)
Accounts payable	(7,967)	6,347	(4,606)
Income tax and alternative fuel mixture credit receivable/payable	2,248	19,788	170,845
All other operating activities	2,750	(13,739)	(60,377)
Expenditures for dispositions and discontinued operations	(9,926)	(9,209)	(8,632)
CASH PROVIDED BY OPERATING ACTIVITIES	445,914	432,270	495,390
INVESTING ACTIVITIES			
Capital expenditures	(157,562)	(144,522)	(138,449)
Purchase of timberlands	(106,536)	(320,899)	(5,360)
Jesup mill cellulose specialties expansion	(201,359)	(42,894)	—
Change in restricted cash	(10,559)	8,323	(8,231)
Other	3,115	11,378	9,384
CASH USED FOR INVESTING ACTIVITIES	(472,901)	(488,614)	(142,656)
FINANCING ACTIVITIES			
Issuance of debt (Note 11)	1,230,000	460,000	157,000
Repayment of debt	(813,610)	(499,057)	(96,650)
Dividends paid	(206,583)	(185,272)	(163,673)
Proceeds from the issuance of common shares	25,495	13,451	26,314
Excess tax benefits on stock-based compensation	7,635	5,681	5,411
Debt issuance costs	(6,135)	(2,027)	(561)
Repurchase of common shares	(7,783)	(7,909)	(6,028)
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	229,019	(215,133)	(78,187)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(39)	617	(48)
CASH AND CASH EQUIVALENTS			
Change in cash and cash equivalents	201,993	(270,860)	274,499
Balance, beginning of year	78,603	349,463	74,964
Balance, end of year	$280,596	$78,603	$349,463

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year:			
Interest	$34,956	$38,223	$39,991
Income taxes	$74,745	$17,509	$11,776
Non-cash investing and financing activity:			
Acquisition of timberlands (Note 6)	$—	$105,000	$—
Assumption of loan (Note 11)	$—	$105,000	$—
Capital assets purchased on account	$25,926	$20,866	$12,388

See Notes to Consolidated Financial Statements.

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

1. NATURE OF BUSINESS OPERATIONS

Rayonier Inc., including its consolidated subsidiaries, ("Rayonier" or "the Company") is a leading international forest products company primarily engaged in timberland management, the sale of real estate, and the production and sale of high value specialty cellulose fibers and fluff pulp. The Company owns, leases or manages approximately 2.7 million acres of timberland and real estate located in the United States and New Zealand. Included in this property is over 0.2 million acres of high value real estate located primarily along the coastal region from Savannah, Georgia to Daytona Beach, Florida, which is referred to as the "coastal corridor." The Company owns and operates two specialty cellulose fibers mills in the United States. In addition, the Company manufactures lumber in three sawmills (Wood Products business) in Georgia and engages in the trading of logs.

Rayonier operates in four reportable business segments: Forest Resources, Real Estate, Performance Fibers, and Wood Products. See Note 3 — Segment and Geographical Information for further discussion.

The Company is a real estate investment trust ("REIT"). The Company is generally not required to pay federal income taxes on its U.S. timber harvest earnings and other REIT operations contingent upon meeting applicable distribution, income, asset, shareholder and other tests. The U.S. timber operations are primarily conducted by the Company's wholly-owned REIT subsidiaries. Non-REIT qualifying and certain foreign operations, which are subject to corporate-level tax on earnings, are operated by our wholly-owned taxable subsidiary, Rayonier TRS Holdings Inc. ("TRS"). These operations include the Performance Fibers, Wood Products and trading businesses, as well as the Real Estate segment's entitlement and sale of higher and better use ("HBU") properties.

Forest Resources

The Company's Forest Resources segment owns, leases or manages approximately 2.6 million acres of timberlands located in the U.S. and New Zealand. The Forest Resources segment conducts activities that relate to the harvesting of timber in addition to managing timberlands and selling timber and logs to third parties. Forest Resources acquired approximately 88,000 acres of U.S. timberlands in 2012 and 308,000 acres in 2011.

Real Estate

Rayonier invests in timberlands seeking to maximize its total return from a full cycle of ownership, including selling portions of its asset base to capture the appreciated value. An increasing portion of Rayonier's acreage has become more valuable for development, recreational or conservation purposes than for growing timber. The Company's real estate subsidiary, TerraPointe LLC, owns approximately 0.1 million acres.

Performance Fibers

Rayonier is a manufacturer of high-performance cellulose fibers with two production facilities in Jesup, Georgia and Fernandina Beach, Florida, which have a combined annual capacity of approximately 745,000 metric tons. These fiber products are sold throughout the world to companies that produce a wide variety of products, including cigarette filters, foods, pharmaceuticals, textiles, electronics and various industrial applications. Approximately 63 percent of performance fiber sales are to export customers, primarily in Asia and Europe.

Cellulose specialties—Rayonier is a producer of specialty cellulose products, most of which are used in dissolving chemical applications that require a highly purified form of cellulose fiber. The Company concentrates on producing the most high-value, technologically-demanding forms of cellulose specialty products, such as cellulose acetate and high purity cellulose ethers, and is a leading supplier of these products.

Absorbent materials—Rayonier is a producer of fibers for absorbent hygiene products. These fibers are typically referred to as fluff fibers and are used as an absorbent medium in products such as disposable baby diapers, feminine hygiene products, incontinence pads, convalescent bed pads, industrial towels and wipes and non-woven fabrics.

In 2011, Rayonier began a capital project, the Cellulose Specialties Expansion ("CSE"), to convert a fiber line at the Jesup, Georgia mill from absorbent materials to cellulose specialties. The CSE will add approximately 190,000 metric tons of cellulose specialties capacity, bringing total cellulose specialties capacity to about 675,000 metric tons.

Production of cellulose specialties is expected to gradually increase to capacity by 2015. Upon completion in mid-2013, the Company will be exiting the absorbent materials business (about 260,000 metric ton capacity).

Wood Products

The Company operates and sells dimension lumber products through three lumber manufacturing facilities in the southeastern U.S.

Other

Rayonier operates log trading businesses in the northwest U.S. and New Zealand.

Subsequent Event

In January 2013, the Company announced that it reached an agreement to sell all of the assets of its Wood Products business to International Forest Products Limited for $80 million. The sale is expected to close in the first quarter of 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Rayonier and its subsidiaries, in which it has a majority ownership or controlling interest. All intercompany balances and transactions are eliminated. For income tax purposes, the Company files two U.S. federal income tax returns, one for REIT operations and a consolidated filing for TRS operations, as well as numerous state, local and foreign income tax returns.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and to disclose contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. There are risks inherent in estimating and therefore actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include time deposits with original maturities of three months or less.

Inventory

Inventories are valued at the lower of cost or market. The costs of manufactured performance fibers are determined on the first-in, first-out basis. Other products are valued on an average cost basis. Inventory costs include material, labor and manufacturing overhead. Physical counts of inventories are taken at least annually. The need for a provision for estimated losses from obsolete, excess or slow-moving inventories is reviewed periodically.

HBU real estate properties that are expected to be sold within one year are included in inventory, while properties that are expected to be sold after one year are included in "Other assets."

Equity Method Investments

The Company accounts for its 26 percent interest in its joint venture ("JV") in accordance with generally accepted accounting principles under the equity method of accounting. Rayonier does not have a controlling financial interest but exerts significant influence over the JV’s operating policies as manager of the JV.

Timber

Timber is stated at the lower of cost or market value. Costs relating to acquiring, planting and growing timber including real estate taxes, lease rental payments, site preparation and direct support costs relating to facilities, vehicles and supplies are capitalized. Payroll costs are capitalized only for time spent on these activities, while interest or any other soft costs aside from those mentioned above are not capitalized. Such accumulated costs attributed to merchantable timber are charged to cost of goods sold (depletion) at the time the timber is harvested or when the underlying timberland is sold based on the relationship of timber sold to the estimated volume of currently merchantable timber. Upon the acquisition of timberland, the Company makes a determination on whether to combine the newly acquired merchantable timber with an existing depletion pool or to create a new, separate pool. This determination is based on the geographic location of the new timber, the customers/markets that will be served and the species

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

mix. If the acquisition is similar, the cost of the acquired timber is combined into an existing depletion pool and a new depletion rate is calculated for the pool. This determination and depletion rate adjustment normally occurs in the quarter following the acquisition, concurrent with the harvesting of the acquired timber.

Property, Plant, Equipment and Depreciation

Property, plant and equipment additions are recorded at cost, including applicable freight, taxes, interest, construction and installation costs. Pulp mill assets are depreciated using the units-of-production method. The Company depreciates its non-production Performance Fiber assets, including office, lab and transportation equipment, using the straight-line depreciation method over 3 to 25 years. In addition, all of the assets at the Company’s sawmills are depreciated using the straight-line method over 3 to 15 years. Buildings and land improvements are depreciated using the straight-line method over 15 to 35 years and 5 to 30 years, respectively.

Gains and losses on the retirement of assets are included in operating income. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets that are held and used is measured by net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value exceeds the fair value of the assets, which is based on a discounted cash flow model. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A three-level hierarchy that prioritizes the inputs used to measure fair value was established 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, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

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. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Foreign Currency Translation

The functional currency of the Company’s New Zealand-based operations and its JV investment is the New Zealand dollar. All assets and liabilities are translated into U.S. dollars at the exchange rate in effect at the respective balance sheet dates with the resulting translation gain or loss recorded as a separate component of Accumulated Other Comprehensive Income/(Loss), ("AOCI"), within Shareholders’ Equity.

Financial Instruments

The Company is exposed to various market risks, including changes in interest rates and commodity prices. The Company’s objective is to partially mitigate the economic impact of these market risks. Derivatives are used, as noted below, in accordance with policies and procedures approved by the Audit Committee of the Board of Directors and are managed by a senior executive committee, whose responsibilities include initiating, managing and monitoring resulting exposures. The Company does not enter into such financial instruments for trading or speculative purposes. Derivative financial instruments such as commodity swap agreements are recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. Transactions that provide for the forward purchase or sale of raw materials are not included in the financial statements until physical delivery of the product, as these transactions are done in the normal course of business and qualify for the normal purchases and sales scope exception provided under generally accepted accounting principles.

The Company periodically enters into commodity forward contracts to fix some of its fuel oil and natural gas costs at its Performance Fibers mills. The forward contracts partially mitigate the risk of a change in Performance Fibers margins resulting from an increase or decrease in fuel oil and natural gas prices. The Company’s commodity agreements do not qualify for hedge accounting and are marked to market. Gains or losses resulting from the valuation are recorded in "Other operating income, net."

Revenue Recognition

The Company generally recognizes revenues when the following criteria are met: (i) persuasive evidence of an agreement exists, (ii) delivery has occurred, (iii) the Company’s price to the buyer is fixed and determinable, and (iv) collectibility is reasonably assured.

Revenue from the sale of timber is recorded when title passes to the buyer. Timber sales are either sales of delivered logs or stumpage sales. Stumpage sales in the Atlantic, Gulf States and Northern regions are primarily made on a pay-as-cut basis. These contracts generally require a minimum 15 percent initial payment and title and risk of loss are transferred when the timber is cut. Sales of delivered logs generally do not require an initial payment and are made to third-party customers on open credit terms.

Real estate sales are recorded when title passes, full payment or a minimum down payment of 25 percent is received and full collectibility is assured. If a down payment of less than 25 percent is received at closing or if full collectibility is not reasonably assured, the Company typically records revenue based on the installment method or cost recovery method.

Revenue from domestic sales of Performance Fibers products is recorded when title passes which, depending on the contract, is either at time of shipment or when the customer receives goods. Foreign sales of Performance Fibers products are recorded when the customer or agent receives the goods and title passes.

Lumber sales are recorded when the goods are shipped and title passes.

The Company’s Other segment includes log trading sales. Revenue is recorded when the goods are received by the customer and title passes.

Environmental Costs

Rayonier expenses environmental costs related to ongoing businesses resulting from current operations. Expenditures that meaningfully extend the life or increase the efficiency of operating assets are capitalized.

The Company has established liabilities to assess, remediate and monitor sites related to dispositions or discontinued operations from which no current or future benefit is discernible. These obligations are established based on payments over the next 20 years and require significant estimates to determine the proper amount at any point in time. Generally, monitoring expense obligations are fixed once remediation projects are at or near completion. The projected period, from 2013 through 2032, reflects the time in which potential future costs are both estimable and probable. As new information becomes available, these cost estimates are updated and the Company adjusts its recorded liabilities appropriately. Environmental liabilities are accounted for on an undiscounted basis and are reflected in current and non-current "Liabilities for dispositions and discontinued operations" in the Consolidated Balance Sheets.

Employee Benefit Plans

The determination of expense and funding requirements for Rayonier's four defined benefit pension plans, its unfunded excess pension plan and its postretirement health care and life insurance plans are largely based on a number of actuarial assumptions. The key assumptions include discount rate, return on assets, salary increases, health care cost trends, mortality rates, longevity and service lives of employees. See Note 20 — Employee Benefit Plans for assumptions used to determine benefit obligations, the net periodic benefit cost and health care cost trend rates for the year ending December 31, 2012.

Periodic pension and other postretirement expense is included in "Cost of sales" and "Selling and general expenses" in the Consolidated Statements of Income and Comprehensive Income. At December 31, 2012 and 2011 all pension plans were in a liability position due to an underfunded status. The estimated amount to be paid in the next 12 months is recorded in "Accrued payroll and benefits" on the Consolidated Balance Sheets, with the remainder recorded as a long-term liability in "Pension and other postretirement benefits". Changes in the funded status of the Company's plans are recorded through comprehensive income (loss) in the year in which the changes occur. See Note 20 — Employee Benefit Plans for additional information.

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Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, operating loss carryforwards and tax credit carryforwards. Deferred tax assets and liabilities are measured pursuant to tax laws using rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The Company recognizes the effect of a change in income tax rates on deferred tax assets and liabilities in the Consolidated Statements of Income and Comprehensive Income in the period that includes the enactment date of the rate change. The Company records a valuation allowance to reduce the carrying amounts of deferred tax assets if it is more likely than not that such deferred tax assets will not be realized.

In determining the provision for income taxes, the Company computes an annual effective income tax rate based on annual income by legal entity, permanent differences between book and tax, and statutory income tax rates by jurisdiction. Inherent in the effective tax rate is an assessment of the ultimate outcome of uncertain tax positions. The Company adjusts its annual effective tax rate as additional information on outcomes or events becomes available. Discrete items such as taxing authority examination findings or legislative changes are recognized in the period in which they occur.

The Company’s income tax returns are subject to audit by U.S. federal, state and foreign taxing authorities. In evaluating the tax benefits associated with various tax filing positions, the Company records a tax benefit for an uncertain tax position if it is more-likely-than-not to be realized upon ultimate settlement of the issue. The Company records a liability for an uncertain tax position that does not meet this criterion. The Company adjusts its liabilities for unrecognized tax benefits in the period in which it is determined the issue is settled with the taxing authorities, the statute of limitations expires for the relevant taxing authority to examine the tax position or when new facts or information becomes available. Liabilities for unrecognized tax benefits are included in "Other current liabilities" and "Other non-current liabilities" in the Company’s Consolidated Balance Sheets. See Note 8 — Income Taxes for additional information.

Reclassifications

Certain 2011 and 2010 amounts have been reclassified to conform with the current year presentation.

New or Recently Adopted Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards. This guidance changes certain fair value measurement principles, enhances the disclosure requirements for level 3 fair value measurements and requires the classification of all assets and liabilities measured at fair value in the fair value hierarchy, including those assets and liabilities which are not recorded at fair value but for which fair value is disclosed. The standard was effective for Rayonier's first quarter 2012 Form 10-Q filing and was applied prospectively. See Note 4 — Fair Value Measurements for our disclosures required under this guidance.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Presentation of Comprehensive Income. This standard eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. An entity can elect to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. Each component of net income and each component of other comprehensive income, together with totals for comprehensive income and its two parts - net income and other comprehensive income, would need to be displayed under either alternative. The statements would need to be presented with equal prominence as the other primary financial statements. The standard was effective for Rayonier's first quarter 2012 Form 10-Q filing. Since Rayonier reports a consolidated statement of income and comprehensive income for each reporting period, the Company's application of this guidance had no effect on the accompanying consolidated financial statements.

In February 2013, the FASB issued Accounting Standards Update No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This standard requires reporting, in one place, information about reclassifications out of AOCI by component. An entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount is reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified to net income in their entirety, an entity is required to cross-reference to other currently required disclosures that provide additional detail about those amounts. The information required by this standard must be presented in one place, either parenthetically on the face of the financial statements by income statement line item or in a note. This standard will be effective for Rayonier's first quarter 2013 Form 10-Q filing. The Company

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is currently evaluating the impact of this pronouncement on its consolidated financial statements.

3. SEGMENT AND GEOGRAPHICAL INFORMATION

Rayonier operates in four reportable business segments: Forest Resources, Real Estate, Performance Fibers, and Wood Products. Forest Resources sales include all activities that relate to the harvesting of timber. Real Estate sales include all property sales, including those designated as HBU. The assets of the Real Estate segment include HBU property held by the Company's real estate subsidiary, TerraPointe LLC. The Performance Fibers segment includes two major product lines, cellulose specialties and absorbent materials. The Wood Products segment is comprised of lumber operations. See Note 1 — Nature of Business Operations — Subsequent Event for additional information regarding the Wood Products segment. The Company's remaining operations include harvesting and selling timber acquired from third parties (log trading). These operations are reported in "Other Operations." Sales between operating segments are made based on fair market value, and intercompany sales, purchases and profits (losses) are eliminated in consolidation. The Company evaluates financial performance based on the operating income of the segments. Operating income (loss) as presented in the Consolidated Statements of Income and Comprehensive Income is equal to segment income (loss). 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.

Four customers in the Performance Fibers segment represented 15 percent, 12 percent, 10 percent and 10 percent of the Company's consolidated sales in 2012, respectively. Three customers in the Performance Fibers segment represented 15 percent, 11 percent and 11 percent of the Company's consolidated sales in 2011, respectively, and two customers in the Performance Fibers segment represented 14 percent and 10 percent of the Company's consolidated sales in 2010.

Segment information for each of the three years ended December 31, 2012 follows (in millions of dollars):

	Sales		
	2012	2011	2010
Forest Resources	$230	$215	$177
Real Estate	57	71	96
Performance Fibers	1,093	1,020	881
Wood Products	88	68	68
Other Operations	105	122	102
Intersegment Eliminations (a)	(2)	(7)	(9)
Total	$1,571	$1,489	$1,315

(a) Intersegment eliminations reflect sales from our Forest Resources segment to our Performance Fibers segment.

	Operating Income/(Loss)		
	2012	2011	2010
Forest Resources	$46	$47	$33
Real Estate	32	47	53
Performance Fibers	359	298	214
Wood Products	10	(2)	2
Other Operations	—	1	1
Corporate and other (a)	(36)	(35)	(21)
Total	$411	$356	$282

(a)

2011 included a $7 million increase in a disposition reserve. 2010 included a $12 million gain from the sale of a portion of the Company's interest in the JV. See Note 15 — Liabilities for Dispositions and Discontinued Operations and Note 5 — Joint Venture Investment.

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	Gross Capital Expenditures		
	2012	2011	2010
Forest Resources (a)	$156	$468	$41
Performance Fibers (b)	309	140	98
Wood Products	2	3	1
Corporate and other	1	2	4
Total assets acquired	$468	$613	$144
Less: Assumption of loan for timberlands acquisition	—	(105)	—
Total capital expenditures	$468	$508	$144

(a) Includes strategic timberland acquisitions of $107 million, $426 million (including assumption of a $105 million loan) and $5 million in 2012, 2011 and 2010, respectively.

(b) Includes $201 million and $43 million of strategic capital expenditures related to the Jesup mill CSE in 2012 and 2011, respectively.

	Depreciation, Depletion and Amortization		
	2012	2011	2010
Forest Resources	$75	$63	$59
Real Estate	8	12	22
Performance Fibers	61	56	58
Wood Products	3	3	3
Corporate and other	2	2	1
Total	$149	$136	$143

	Identifiable Assets	
	2012	2011
Forest Resources	$1,690	$1,604
Real Estate	113	103
Performance Fibers	902	646
Wood Products	18	21
Other Operations	23	25
Corporate and other	377	170
Total	$3,123	$2,569

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	Sales by Product Line		
	2012	2011	2010
Forest Resources	$230	$215	$177
Real Estate			
Development	2	4	3
Rural	39	33	28
Non-Strategic Timberlands	16	34	65
Total Real Estate	57	71	96
Performance Fibers			
Cellulose specialties	935	824	686
Absorbent materials	158	196	195
Total Performance Fibers	1,093	1,020	881
Wood Products	88	68	68
Other	103	115	93
Total Sales	$1,571	$1,489	$1,315

	Geographical Operating Information							
	Sales			Operating Income			Identifiable Assets	
	2012	2011	2010	2012	2011	2010	2012	2011
United States	$1,467	$1,378	$1,228	$409	$350	$268	$3,022	$2,473
New Zealand	104	111	87	2	6	14	101	95
All other	—	—	—	—	—	—	—	1
Total	$1,571	$1,489	$1,315	$411	$356	$282	$3,123	$2,569

	Sales by Destination					
	2012	%	2011	%	2010	%
United States	$778	50	$737	49	$693	53
China	281	18	277	19	213	16
Europe	182	12	173	12	152	12
Japan	170	11	159	11	129	10
Other Asia	68	4	55	4	49	4
Latin America	53	3	36	2	35	3
New Zealand	18	1	22	1	17	1
Canada	4	—	9	1	10	1
All other	17	1	21	1	17	—
Total Sales	$1,571	100	$1,489	100	$1,315	100

The majority of sales to foreign countries are denominated in U.S. dollars.

4. 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.

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The following table presents the carrying amount and estimated fair values of financial instruments held by the Company at December 31, 2012 and 2011, using market information and what the Company believes to be appropriate valuation methodologies under generally accepted accounting principles:

Asset (liability)	2012 Carrying Amount	2012 Fair Value Level 1	2012 Fair Value Level 2	2011 Carrying Amount	2011 Fair Value Level 1	2011 Fair Value Level 2
Cash and cash equivalents	$280,596	$280,596	$—	$78,603	$78,603	$—
Restricted cash (a)	10,559	10,559	—	—	—	—
Current maturities of long-term debt	(150,000)	—	(150,000)	(28,110)	—	(29,319)
Long-term debt	(1,120,052)	—	(1,250,341)	(819,229)	—	(994,851)

(a) Restricted cash is recorded in "Other Assets" and represents the proceeds from like-kind exchange ("LKE") sales deposited with a third-party intermediary.

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.

Variable Interest Entity

Rayonier holds a variable interest in a bankruptcy-remote, limited liability subsidiary ("special-purpose entity") which was created in 2004 when Rayonier monetized a $25.0 million installment note and letter of credit received in connection with a timberland sale. The Company contributed the note and a letter of credit to the special-purpose entity and using the installment note and letter of credit as collateral, the special-purpose entity issued $22.6 million of 15-year Senior Secured Notes and remitted cash of $22.6 million to the Company. There are no restrictions that relate to the transferred financial assets. Rayonier maintains a $2.6 million interest in the entity and receives immaterial cash payments equal to the excess of interest received on the installment note over the interest paid on the Senior Secured Notes. The Company's interest is recorded at fair value and is included in "Other Assets" in the Consolidated Balance Sheets. During the years ended December 31, 2012, 2011 and 2010, de minimus fair value adjustments were recorded. In addition, the Company calculated and recorded a de minimus guarantee liability to reflect its obligation of up to $2.3 million under a make-whole agreement pursuant to which it guaranteed certain obligations of the entity. This guarantee obligation is also collateralized by the letter of credit. The Company's interest in the entity, together with the make-whole agreement, represents the maximum exposure to loss as a result of the Company's involvement with the special-purpose entity. Upon maturity of the Senior Secured Notes in 2019 and termination of the special-purpose entity, Rayonier will receive the remaining $2.6 million of cash. The Company determined, based upon an analysis under the variable interest entity guidance, that it does not have the power to direct activities that most significantly impact the entity's economic success. Therefore, Rayonier is not the primary beneficiary and is not required to consolidate the entity.

Assets measured at fair value on a recurring basis are summarized below:

Asset	Carrying Value at December 31, 2012	Level 2	Carrying Value at December 31, 2011	Level 2
Investment in special-purpose entity	$2,671	$2,671	$2,690	$2,690

The fair value of the investment in the special-purpose entity is determined by summing the discounted value of future principal and interest payments that Rayonier will receive from the special-purpose entity. The interest rate of a similar instrument is used to determine the discounted value of the payments.

5. JOINT VENTURE INVESTMENT

The Company holds a 26 percent interest in Matariki Forestry Group ("Matariki"), a JV that owns or leases approximately 0.3 million acres of New Zealand timberlands. In addition to the investment, Rayonier New Zealand Limited ("RNZ"), a wholly-

owned subsidiary of Rayonier Inc., serves as the manager of the JV forests and operates a log trading business.
In February 2010, the JV sold a 35 percent interest in the JV to a new investor for NZ$167 million. Matariki issued new shares to the investor and used all the proceeds to pay down a portion of its outstanding NZ$367 million debt. Upon closing, Rayonier's ownership interest in Matariki declined from 40 percent to 26 percent. As a result of this transaction, results for 2010 include a gain of $11.5 million, net of $0.9 million in tax, or $0.09 per diluted share.
Rayonier's investment in the JV is accounted for using the equity method of accounting. Income from the JV is reported in the Forest Resources segment as operating income since the Company manages the forests and its JV interest is an extension of the Company's operations. A portion of Rayonier's equity method investment is recorded at historical cost which generates a difference between the book value of the Company's investment and its proportionate share of the JV's net assets. The difference represents the Company's unrecognized gain from RNZ's sale of timberlands to the JV in 2005. The deferred gain is recognized on a straight-line basis over the estimated number of years the JV expects to harvest the timberlands.

6. TIMBERLAND ACQUISITIONS
In December 2012, the Company acquired approximately 63,000 acres of timberland in Texas for $88 million. The acquisition was funded with $30 million in borrowings on the Company's existing revolving credit facility and cash on hand. The acquisition was accounted for as an asset purchase.
In three separate transactions throughout 2012, Rayonier purchased 25,000 acres of timberland located in Alabama, Florida and Texas for $19 million. These acquisitions were funded with cash on hand and were accounted for as asset purchases.
During the fourth quarter of 2011, Rayonier acquired approximately 250,000 acres of timberland primarily located in Mississippi, Louisiana, Oklahoma and Alabama for $332 million. The acquisition was funded with $107 million in cash on hand, $120 million in borrowings from the Company's existing revolving credit facility and the assumption of $105 million of the seller's existing debt. See Note 11 — Debt for additional information on the notes assumed. The acquisition was accounted for as an asset purchase.
In five separate transactions throughout 2011, Rayonier purchased 58,000 acres located in Florida, Georgia and Louisiana for $94 million. These acquisitions were funded with cash on hand or through the revolving credit facility and were accounted for as asset purchases.

7. OTHER ASSETS
Included in Other Assets are non-current prepaid and deferred income taxes, restricted cash, HBU real estate not expected to be sold within the next 12 months, manufacturing and maintenance supplies not expected to be utilized within the next 12 months, and other deferred expenses including debt issuance and capitalized software costs.

In order to qualify for 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 that the LKE purchases are not completed, the proceeds are returned to the Company after 180 days and reclassified as available cash. As of December 31, 2012 and 2011, the Company had $10.6 million and $0, respectively, of proceeds from real estate sales classified as restricted cash in Other Assets, which were deposited with an LKE intermediary.
Debt issuance costs are capitalized and amortized to interest expense over the term of the debt to which they relate using a method that approximates the interest method. At December 31, 2012 and 2011, capitalized debt issuance costs were $9.3 million and $5.9 million, respectively. Software costs are capitalized and amortized over a period not exceeding five years using the straight-line method. At December 31, 2012 and 2011, capitalized software costs were $8.2 million and $8.6 million, respectively.

8. INCOME TAXES

In general, only the taxable REIT subsidiaries, whose businesses include the Company's non-REIT qualified activities, are subject to corporate income taxes. However, the Company is subject to U.S. federal corporate income tax on built-in gains (the excess of fair market value over tax basis for property held upon REIT election at January 1, 2004) on taxable sales of such property during calendar years 2004 through 2010. In 2011, the law provided a built-in gains tax holiday. In 2013, the law provided a built-in gains tax holiday for 2012 (retroactive) and 2013 which will impact the Company's 2013 tax provision. Accordingly, the provision for corporate income taxes relates principally to current and deferred taxes on TRS income and certain property sales.

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Like-Kind Exchanges

Under current tax law, the built-in gain tax from the sale of REIT property can be deferred and eliminated if sale proceeds from "relinquished" properties are reinvested in similar property consistent with the LKE requirements of the U.S. Internal Revenue Code, as long as the "replacement" property is owned through the end of the built-in gain period (10-year period which began on January 1, 2004). The LKE requirements do not restrict the Company’s ability to harvest timber on a pay-as-cut basis from such replacement property during the built-in gain period.

Alternative Fuel Mixture Credit ("AFMC") and Cellulosic Biofuel Producer Credit ("CBPC")

The U.S. Internal Revenue Code allowed two credits for taxpayers that produced and used an alternative fuel in the operation of their business through December 31, 2009. The AFMC was a $0.50 per gallon refundable excise tax credit (which is not taxable), while the CBPC was a $1.01 per gallon credit that is nonrefundable, taxable and has limitations based on an entity's tax liability. Rayonier produces and uses an alternative fuel ("black liquor") at its Jesup, Georgia and Fernandina Beach, Florida performance fibers mills, which qualified for both credits. Rayonier claimed the AFMC on its 2009 income tax return, and accordingly, recognized $205.2 million of income, net of associated expenses, for black liquor produced and used.

In October 2010, the Internal Revenue Service ("IRS") issued clarification that both the AFMC and CBPC can be claimed in the same taxable year for different volumes of black liquor. As a result, the 2010 Consolidated Statement of Income and Comprehensive Income includes a tax credit of $24.3 million recorded in "income tax expense" for black liquor produced and used in 2009, which was not eligible for the AFMC. In 2012 and 2011, management approved exchanges of black liquor gallons previously claimed under the AFMC for the CBPC. The net tax benefit from these exchanges was $12.2 million and $5.8 million, respectively.

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Provision for Income Taxes
The (provision for)/benefit from income taxes consisted of the following:

	2012	2011	2010
Current			
U.S. federal	$(80,029)	$(26,893)	$973
State	(4,569)	(624)	(12)
Foreign	(288)	(342)	(1,242)
	(84,886)	(27,859)	(281)
Deferred			
U.S. federal	(2,598)	(2,079)	(14,554)
State	(595)	(1,066)	(1,283)
Foreign	(55)	(32)	69
	(3,248)	(3,177)	(15,768)
Changes in valuation allowance	(257)	679	832
Total	$(88,391)	$(30,357)	$(15,217)